



# MANAGEMENT INFORMATION CIRCULAR

AND NOTICE OF ANNUAL  
MEETING OF SHAREHOLDERS

APRIL 23, 2014



March 11, 2014

Dear Shareholder:

On behalf of the Board of Directors and Management of Canadian National Railway Company (the “**Company**”), we cordially invite you to attend the annual meeting of shareholders that will be held this year at The Westin Bayshore, Bayshore Grand Ballroom, 1601 Bayshore Drive, Vancouver, British Columbia (Canada), on Wednesday, April 23, 2014, at 9:00 a.m. (Pacific Daylight Time).

This management information circular (the “**Information Circular**”) describes the business to be conducted at the meeting and provides information on executive compensation and CN’s governance practices. In addition to these items, we will discuss at the meeting highlights of our 2013 performance and our plans for the future. You will have the opportunity to meet and interact with your directors and the senior officers of the Company.

Your participation in the affairs of the Company is important to us. If you are unable to attend in person, we encourage you to complete and return the enclosed proxy form or voting instruction form in the envelope provided for this purpose so that your views can be represented. Also, it is possible for you to vote over the internet by following the instructions on the enclosed forms. Even if you plan to attend the meeting, you may find it convenient to express your views in advance by completing and returning the proxy form or voting instruction form or by voting over the internet.

If your shares are not registered in your name but are held in the name of a nominee, you may wish to consult the information on page 5 of the Information Circular with respect to how to vote your shares.

A live webcast of the meeting will be available on the Company’s website at [www.cn.ca](http://www.cn.ca).

We look forward to seeing you at the meeting.

Sincerely,

Handwritten signature of David G.A. McLean in black ink.

**David G.A. McLean**  
CHAIRMAN OF THE BOARD

Handwritten signature of Claude Mongeau in black ink.

**Claude Mongeau**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER



## **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**Our annual meeting of holders of common shares  
will be held at**

**The Westin Bayshore  
Bayshore Grand Ballroom  
1601 Bayshore Drive  
Vancouver, British Columbia, Canada**

**on Wednesday, April 23, 2014, at 9:00 a.m.  
(Pacific Daylight Time) for the purposes of:**

- 1.** receiving the consolidated financial statements for the year ended December 31, 2013, and the auditors' reports thereon;
- 2.** electing the directors;
- 3.** appointing the auditors;
- 4.** considering and approving, in an advisory, non-binding capacity, a resolution (the full text of which is set out on page 6 of the accompanying management information circular) accepting the Company's approach to executive compensation as disclosed in the Statement of Executive Compensation section of the accompanying management information circular; and
- 5.** transacting such other business as may properly be brought before the Meeting or any adjournment or postponement thereof.

The directors have fixed March 6, 2014 as the Record Date for the determination of the holders of common shares entitled to receive notice of the Meeting.

**By order of the Board of Directors**

A handwritten signature in black ink that reads "Sean Finn".

Sean Finn  
EXECUTIVE VICE-PRESIDENT  
CORPORATE SERVICES AND CHIEF LEGAL OFFICER  
AND CORPORATE SECRETARY

March 11, 2014  
Montréal, Quebec

## INFORMATION CIRCULAR

This Information Circular is provided in connection with the solicitation of proxies by management of Canadian National Railway Company for use at the annual meeting of its shareholders or at any adjournment or postponement thereof (the "Meeting"). In this document "you" and "your" refer to the shareholders of, and "CN", the "Company" or "we", "us", "our" refer to, Canadian National Railway Company. The Meeting will be held on Wednesday, April 23, 2014, at 9:00 a.m. (Pacific Daylight Time) for the purposes set forth in the foregoing Notice of Meeting. The information contained herein is given as at February 28, 2014, except as indicated otherwise.

**IMPORTANT** — If you are not able to attend the Meeting, please exercise your right to vote by signing the enclosed form of proxy or voting instruction form and, in the case of registered shareholders and holders of Employee Shares (as such term is defined in this Information Circular) by returning it to Computershare Trust Company of Canada in the enclosed envelope, or by voting over the internet no later than 5:00 p.m. (Eastern Daylight Time) on April 22, 2014, or, if the Meeting is adjourned or postponed, by no later than 5:00 p.m. (Eastern Daylight Time) on the business day prior to the day fixed for the adjourned or postponed meeting. If you are a non-registered shareholder, reference is made to the section entitled "How do I vote if I am a non-registered shareholder?" on page 5 of this Information Circular.

## WHAT'S INSIDE

### 3 QUESTIONS AND ANSWERS

- 3 Voting and Proxies

### 6 BUSINESS OF THE MEETING

- 6 Financial Statements
- 6 Election of Directors
- 6 Appointment of Auditors
- 6 Advisory Vote on Executive Compensation

### 7 NOMINEES FOR ELECTION TO THE BOARD

- 7 Description of Nominees
- 15 Board of Directors Compensation
- 19 Board and Committee Attendance
- 20 Additional Disclosure Relating to Directors

### 21 STATEMENT OF CORPORATE GOVERNANCE PRACTICES

- 21 General
- 21 Code of Business Conduct
- 22 Independence of Directors
- 22 Independent Chairman of the Board
- 23 Position Descriptions
- 23 Election of Directors
- 23 Committees of the Board
- 25 Board and Committee Meetings
- 25 Director Selection
- 28 Board Performance Assessment
- 29 Board Compensation
- 29 Director Orientation and Continuing Education
- 31 Audit Committee Disclosure

### 35 STATEMENT OF EXECUTIVE COMPENSATION

- 35 Letter to Shareholders
- 37 Human Resources and Compensation Committee

### 40 COMPENSATION DISCUSSION AND ANALYSIS

- 40 Executive Summary
- 59 Summary Compensation Table
- 62 Incentive Plan Awards
- 67 Employment Arrangements
- 67 Pension Plan Benefits
- 70 Termination and Change of Control Benefits
- 71 Currency Exchange Information

### 72 OTHER INFORMATION

- 72 Securities Authorized For Issuance Under Equity Compensation Plans
- 72 Indebtedness of Directors and Executive Officers
- 72 Interest of Informed Persons and Others in Material Transactions
- 72 Shareholder Proposals Deadline
- 72 Availability of Documents
- 72 Approval

### 73 SCHEDULE "A" – MANDATE OF THE BOARD

### 75 SCHEDULE "B" – REPORTS OF THE COMMITTEES

- 75 Report of the Audit Committee
- 76 Report of the Finance Committee
- 77 Report of the Corporate Governance and Nominating Committee
- 78 Report of the Human Resources and Compensation Committee
- 79 Report of the Environment, Safety and Security Committee
- 79 Report of the Strategic Planning Committee
- 80 Report of the Investment Committee of CN's Pension Trust Funds
- 80 Report of the Donations and Sponsorships Committee

### 81 SCHEDULE "C" – SHAREHOLDER PROPOSAL (WITHDRAWN)

# QUESTIONS AND ANSWERS

## Voting and Proxies

The following questions and answers provide guidance on how to vote your shares.

### *Who can vote?*

Shareholders who are registered as at the close of business on March 6, 2014 (the "Record Date"), will be entitled to vote at the Meeting or at any adjournment or postponement thereof, either in person or by proxy.

As of the close of business on February 28, 2014, the Company had 826,722,529 common shares without par value outstanding. Subject to the voting restrictions described below, each common share carries the right to one vote.

On October 22, 2013, the Board of Directors of the Company approved a two-for-one common stock split which was effected in the form of a stock dividend of one additional common share of CN for each share outstanding, which was paid on November 29, 2013, to shareholders of record on November 15, 2013. Unless otherwise indicated, information relating to the Company's securities (including common shares, stock options and share units) has been adjusted to reflect the common stock split and is presented herein on a post-split basis.

To the knowledge of the Directors and senior officers of the Company, based on the most recent publicly available information, the only person who beneficially owns, or directly or indirectly, exercises control or direction over, shares carrying 10% or more of the voting rights attached to any class of shares of the Company is Mr. William H. Gates, III. Mr. Gates is the sole member of Cascade Investment, L.L.C. ("Cascade"). Cascade held 86,324,874 common shares of the Company as of February 28, 2014, representing 10.4% of the outstanding common shares of the Company. In addition, Mr. Gates is a co-trustee of the Bill & Melinda Gates Foundation Trust, which held 17,126,874 common shares of the Company as of February 28, 2014, representing 2.1% of the outstanding common shares of the Company. Hence, as of February 28, 2014, Mr. Gates is deemed to have control or direction over 103,451,748 common shares, representing 12.5% of the outstanding common shares of the Company.

### *What will I be voting on?*

Shareholders will be voting (i) to elect directors of the Company, (ii) to appoint KPMG LLP as auditors of the Company, and (iii) in an advisory, non-binding capacity, on the approach to executive compensation disclosed in the Statement of Executive Compensation section of this Information Circular. Our Board of Directors and our Management are recommending that shareholders vote FOR items (i), (ii) and (iii).

### *How will these matters be decided at the Meeting?*

A simple majority of the votes cast, in person or by proxy, will constitute approval of these matters.

### *Who is soliciting my proxy?*

Management of the Company is soliciting your proxy. The solicitation is being made primarily by mail, but our directors, officers or employees may also solicit proxies at a nominal cost to the Company. The Company has retained and will pay for the services of Georgeson Shareholder Communications Canada Inc., for the solicitation of proxies in Canada and the United States, at an aggregate cost estimated to be C\$30,000 plus additional costs relating to out-of-pocket expenses.

### *Who can I call with questions?*

If you have questions about the information contained in this Information Circular or require assistance in completing your form of proxy, please call Georgeson Shareholder Communications Canada Inc., the Company's proxy solicitation agent, toll-free at 1-866-656-4118 or by e-mail at [askus@georgeson.com](mailto:askus@georgeson.com).

### *How can I contact the transfer agent?*

You can contact the transfer agent either by mail at Computershare Trust Company of Canada, 100 University Ave., 8th Floor, Toronto (Ontario) M5J 2Y1, by telephone at 1-800-564-6253, by fax at 1-888-453-0330 or by internet at [www.investorcentre.com/service](http://www.investorcentre.com/service), ou en français: [www.centredesinvestisseurs.com/service](http://www.centredesinvestisseurs.com/service).

### *How do I vote?*

If you are eligible to vote and your common shares are registered in your name, you can vote your common shares in person at the Meeting or by proxy, as explained below. If your common shares are held in the name of a nominee, please see the instructions below under "How do I vote if I am a non-registered shareholder?".

### *What are the voting restrictions?*

Our articles of incorporation, as amended, provide that no person, together with his or her associates, shall hold, beneficially own or control, directly or indirectly, voting shares to which are attached more than 15% in the aggregate of the votes attached to all our voting shares that may ordinarily be cast to elect directors of the Company. In addition, where the total number of voting shares held, beneficially owned or controlled, directly or indirectly, by any one person together with his or her associates exceeds such 15% maximum, no person shall, in person or by proxy, exercise the voting rights attached to the voting shares held, beneficially owned or controlled, directly or indirectly, by such person or his or her associates.

## How do I vote if I am a registered shareholder?

### 1. VOTING BY PROXY

You are a registered shareholder if your name appears on your share certificate or Direct Registration (DRS) advice. If this is the case, you may appoint someone else to vote for you as your proxy holder by using the enclosed form of proxy. The persons currently named as proxies in such form of proxy are the Board Chair and the President and Chief Executive Officer of the Company. However, you have the right to appoint any other person or company (who need not be a shareholder) to attend and act on your behalf at the Meeting. That right may be exercised by writing the name of such person or company in the blank space provided in the form of proxy or by completing another proper form of proxy. Make sure that the person you appoint is aware that he or she is appointed and that this person attends the Meeting.

- **How can I send my form of proxy?**

You can either return a duly completed and executed form of proxy to the transfer agent and registrar for the Company's common shares, Computershare Trust Company of Canada, in the envelope provided, or you can vote by phone or over the internet by following the instructions on the form of proxy.

- **What is the deadline for receiving the form of proxy?**

The deadline for receiving duly completed forms of proxy or a vote over the internet is 5:00 p.m. (Eastern Daylight Time) on April 22, 2014, or if the Meeting is adjourned or postponed, by no later than 5:00 p.m. (Eastern Daylight Time) on the business day prior to the day fixed for the adjourned or postponed meeting.

- **How will my common shares be voted if I give my proxy?**

Your common shares will be voted or withheld from voting in accordance with your instructions indicated on the proxy. If no instructions are indicated, your common shares represented by proxies in favour of the Board Chair or the President and Chief Executive Officer will be voted as follows:

FOR the election of Management's nominees as directors,

FOR the appointment of KPMG LLP as auditors,

FOR, in an advisory, non-binding capacity, the approach to executive compensation disclosed in the Statement of Executive Compensation section of this Information Circular,

and at the discretion of the proxy holder in respect of amendments to any of the foregoing matters or on such other business as may properly be brought before the Meeting. Should any nominee named herein for election as a director become unable to accept nomination for election, it is intended that the person acting under proxy in favour of Management will vote for the election in his or her stead of such other person as management of the Company may recommend. Management has no reason to believe that any of the nominees for election as directors will be unable to serve if elected to office and Management is not aware of any amendment or other business likely to be brought before the Meeting.

- **If I change my mind, how can I revoke my proxy?**

You may revoke your proxy at any time by an instrument in writing (which includes another form of proxy with a later date) executed by you, or by your attorney (duly authorized in writing), and (i) deposited with the Corporate Secretary of the Company at the registered office of the Company (935 de La Gauchetière Street West, Montréal, Quebec, Canada, H3B 2M9) at any time up to and including 5:00 p.m. (Eastern Daylight Time) on the last business day preceding the day of the Meeting or any adjournment or postponement thereof, or (ii) filed with the chair of the Meeting on the day of the Meeting or any adjournment or postponement thereof, or in any other manner permitted by law or in the case of a vote over the internet, by way of a subsequent internet vote.

### 2. VOTING IN PERSON

If you wish to vote in person, you may present yourself to a representative of Computershare Trust Company of Canada at the registration table. Your vote will be taken and counted at the Meeting. If you wish to vote in person at the Meeting, do not complete or return the form of proxy.

### ***How do I vote if I am a non-registered shareholder?***

If your common shares are not registered in your name and are held in the name of a nominee such as a trustee, financial institution or securities broker, you are a “non-registered shareholder”. If your common shares are listed in an account statement provided to you by your broker, those common shares will, in all likelihood, not be registered in your name. Such common shares will more likely be registered under the name of your broker or an agent of that broker. Without specific instructions, brokers and their agents or nominees are prohibited from voting shares for the broker’s client. If you are a non-registered shareholder, there are two ways you can vote your common shares, as listed below:

#### **1. GIVING YOUR VOTING INSTRUCTIONS**

Applicable securities laws require your nominee to seek voting instructions from you in advance of the Meeting. Accordingly, you will receive or have already received from your nominee a request for voting instructions for the number of common shares you hold. Every nominee has its own mailing procedures and provides its own signature and return instructions, which should be carefully followed by non-registered shareholders to ensure that their common shares are voted at the Meeting.

#### **2. VOTING IN PERSON**

However, if you wish to vote in person at the Meeting, insert your own name in the space provided on the request for voting instructions provided by your nominee to appoint yourself as proxy holder and follow the signature and return instructions of your nominee. Non-registered shareholders who appoint themselves as proxy holders should present themselves at the Meeting to a representative of Computershare Trust Company of Canada. Do not otherwise complete the request for voting instructions sent to you as you will be voting at the Meeting.

Non registered shareholders are either “objecting beneficial owners” or “OBOs” who object that intermediaries disclose information about their ownership in the Company, or “non-objecting beneficial owners” or “NOBOs”, who do not object to such disclosure. The Company pays intermediaries to send proxy-related materials to OBOs and NOBOs.

### ***How do I vote if I own Employee Shares?***

Common shares purchased by employees of the Company under its Canadian and U.S. Employee Share Investment Plans and its Union and Management Savings Plans for U.S. Operations (the “Plans”), are known as “Employee Shares”. Employee Shares remain registered in the name of the Plans’ Custodian (the “Custodian”), unless the employees have withdrawn their common shares from the Plans in accordance with their provisions.

Voting rights attached to the Employee Shares that are registered in the name of the Custodian can be exercised by employees, or their attorneys authorized in writing, by indicating on the enclosed voting instruction form the necessary directions to the Custodian or any other person or company (who need not be a shareholder) as to how they wish their Employee Shares to be voted at the Meeting. Beneficial owners of Employee Shares may also give such voting instructions by telephone or over the internet. The Employee Shares will be voted pursuant to the directions of the beneficial owner. If no choice is specified for an item, the Employee Shares will be voted in accordance with Management’s recommendations mentioned above and at the discretion of the Custodian or such other person indicated, in respect of amendments to the items mentioned on the enclosed voting instruction form or on such other business as may properly be brought before the Meeting. Only Employee Shares in respect of which a voting instruction form has been signed and returned (or in respect of which the employee has given voting instructions by telephone or over the internet) will be voted. If you wish to vote Employee Shares in person at the Meeting, refer to paragraph 2 of the section entitled “How do I vote if I am a non-registered shareholder?”

A holder of Employee Shares may revoke his or her directions, as indicated on a voting instruction form, at any time by an instrument in writing executed by the holder of Employee Shares, or by the holder’s attorney duly authorized in writing, provided such written instrument indicating the holder’s intention to revoke is (i) deposited with the Corporate Secretary of CN at the registered office of CN at any time up to and including 5:00 p.m. (Eastern Daylight Time) on the last business day preceding the day of the Meeting or any adjournment or postponement thereof, or (ii) filed with the chair of the Meeting on the day of the Meeting or any adjournment or postponement thereof, or in any other manner permitted by law, or in the case of directions given by telephone or over the internet, by way of subsequent telephone or internet directions.

The voting instruction form must be used only with respect to Employee Shares. In the event that an employee holds common shares outside the Plans, he or she must also complete the enclosed form of proxy with respect to such additional common shares. No form of proxy is to be completed with respect to Employee Shares.

# BUSINESS OF THE MEETING

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## Financial Statements

Our consolidated financial statements for the year ended December 31, 2013, together with the auditors' reports thereon, are included in the 2013 Annual Report of the Company, available on our website at [www.cn.ca](http://www.cn.ca), on SEDAR at [www.sedar.com](http://www.sedar.com), in the Company's annual report on Form 40-F available on EDGAR at [www.sec.gov](http://www.sec.gov), and in print, free of charge, to any shareholder who requests copies by contacting our Corporate Secretary at (514) 399-7091 or Investor Relations at (514) 399-0052.

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## Election of Directors

Our articles of incorporation, as amended, provide that our Board of Directors shall consist of a minimum of seven and a maximum of 21 directors (hereinafter the "Board" or "Board of Directors"). Pursuant to a resolution of the Board of Directors, 13 persons are to be elected as directors for the current year, each to hold office until the next annual meeting of shareholders or until such person's successor is elected or appointed.

The term of office of each of the present directors expires at the close of the Meeting. **The persons named in the section entitled "Nominees for Election to the Board — Description of Nominees" will be presented for election at the Meeting as Management's nominees.** All of the nominees proposed for election as directors are currently directors of the Company, except for Mr. Kevin G. Lynch, Mr. Robert L. Phillips and Ms. Laura Stein, whom are being proposed for election at the Meeting. Mr. Michael R. Armellino, Mr. Hugh J. Bolton and Mr. David G.A. McLean are not standing for re-election at the Meeting. All persons nominated were recommended to the Board of Directors by the Corporate Governance and Nominating Committee. Information relating to Messrs. Armellino, Bolton and McLean does not appear below along with the information regarding the 13 proposed nominees for election as directors of the Company. Nevertheless, because Messrs. Armellino, Bolton and McLean acted as directors up to the Meeting, information concerning them appears in the other sections of this Information Circular that pertain to the members of the Board.

Unless authority is withheld, the persons designated in the accompanying form of proxy or voting instruction form intend to vote FOR the election of the persons named in the section entitled "Nominees for Election to the Board — Description of Nominees". These nominees are, in the opinion of the Board of Directors and Management, well qualified to act as directors of the Company for the ensuing year and have confirmed their willingness to serve as directors. The Board of Directors and Management do not contemplate that any of these nominees will be unable to serve as a director, but should that occur for any reason before the Meeting, the persons designated in the accompanying form of proxy or voting instruction form reserve the right to vote for another nominee at their discretion unless the shareholder who has given such proxy or voting instruction form has directed that the common shares be withheld from voting on the election of any of the directors.

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## Appointment of Auditors

The Board of Directors and the Audit Committee recommend that KPMG LLP be appointed to serve as our auditors until the next annual meeting of shareholders. **Unless authority is withheld, the persons designated in the accompanying form of proxy or voting instruction form intend to vote FOR the appointment of KPMG LLP as auditors of the Company to hold office until the next annual meeting of shareholders.**

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## Advisory Vote on Executive Compensation

Similarly to last year, the Company is again providing its shareholders with an opportunity to cast at its annual meeting an advisory vote on the Company's approach to executive compensation, as disclosed in the Statement of Executive Compensation section of this Information Circular. Such section describes the role of the Human Resources and Compensation Committee in overseeing compensation of executives and ensuring that it is linked to the Company's three-year business plan. The section also describes the Company's executive compensation principles, the structure of the compensation plans for executives, and the alignment of such plans with the interests of our shareholders.

**The Board of Directors recommends that shareholders vote FOR the resolution set out below and, unless otherwise instructed, the persons designated in the form of proxy intend to vote FOR the following resolution:**

"RESOLVED that, on an advisory basis and not to diminish the role and responsibilities of the Board of Directors, the shareholders accept the approach to executive compensation disclosed in the section entitled "Statement of Executive Compensation" of the Information Circular of the Company dated March 11, 2014."

The Board of Directors has adopted a policy to the effect that, if a majority of the shares represented in person or by proxy at the meeting are voted against the above non-binding advisory resolution, the Board Chair or the Chair of the Human Resources and Compensation Committee will oversee a process to engage with shareholders with a view to giving them the opportunity to express their specific concerns. The Board of Directors and the Human Resources and Compensation Committee will consider the results of this process and, if appropriate, review the Company's approach to executive compensation in the context of shareholders' specific concerns.

# NOMINEES FOR ELECTION TO THE BOARD

## Description of Nominees

The following tables set out information as of February 28, 2014, unless otherwise indicated, regarding the nominees for election as directors. All nominees, other than Mr. Kevin G. Lynch, Mr. Robert L. Phillips and Ms. Laura Stein, are current directors of the Company.

	<p><b>A. CHARLES BAILLIE, O.C., LL.D.</b></p> <p>AGE: 74<sup>(1)</sup>  TORONTO, ONTARIO, CANADA  DIRECTOR SINCE: APRIL 15, 2003  INDEPENDENT</p>	<p>Mr. Baillie retired as chair of The Toronto-Dominion Bank in April 2003, and as Chief Executive Officer in December 2002 after a career at the bank that spanned five decades. Mr. Baillie is chair of the board of directors of Alberta Investment Management Corporation (AIMCo) and is also a director of George Weston Limited and TELUS Corporation. Mr. Baillie is a past chairman of the Canadian Council of Chief Executives and Chancellor Emeritus of Queen's University. He has been heavily involved in the arts for many years and is currently Honorary Chair of the Art Gallery of Ontario. He is president of Authors at Harbourfront, on the national board of directors of the Royal Conservatory of Music, the Luminato Festival and on the Advisory Council of Canada's History Society. He was appointed an Officer of the Order of Canada in 2006 and inducted into the Canadian Business Hall of Fame in 2008. Mr. Baillie holds an Honorary Doctorate from Queen's University, and is a Fellow of the Institute of Canadian Bankers and of the Royal Conservatory of Music. Mr. Baillie holds an Honours B.A. in Political Science and Economics from the University of Toronto and an MBA from Harvard Business School.</p>
<b>SECURITIES HELD</b>		
COMMON SHARES OWNED OR CONTROLLED <sup>(2)</sup>		
Value at Risk	C\$20,429,969 <sup>(3)</sup>	
February 2014	326,566 <sup>(6)</sup>	
February 2013	317,418 <sup>(7)</sup>	
<b>MEMBER OF</b>	<b>ATTENDANCE</b>	<b>OTHER PUBLIC BOARDS DURING PAST 5 YEARS</b>
Board	100%	George Weston Limited (2003-present)
Finance Committee (Chair)	100%	TELUS Corporation (2003-present)
Corporate Governance & Nominating Committee	100%	
Human Resources and Compensation Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)</sup>	100%	
Strategic Planning Committee	100%	
2013 votes in favour	98.93%	



**DONALD J. CARTY,  
O.C., LL.D.**

AGE: 67<sup>(1)</sup>  
DALLAS, TEXAS, U.S.A.  
DIRECTOR SINCE: JANUARY 1, 2011  
INDEPENDENT

Mr. Carty retired as Vice-Chairman and Chief Financial Officer of Dell, Inc. (computer manufacturer) a position he assumed from January 2007 until June 2008 and as Chairman and CEO of AMR Corporation and American Airlines in 2003, after 30 years in the airline business, where he previously served as President and Executive Vice-President of Finance & Planning of AMR Airline Group and American Airlines. He was President and CEO of CP Air from 1985 to 1987.

In the voluntary sector, Mr. Carty is on the Executive Board of the SMU Cox School of Business. He is a former Chairman of Big Brothers Big Sisters of America. In 1999, Board Alert named Mr. Carty one of the year's Outstanding Directors. He was named an Officer of the Order of Canada in 2003.

Mr. Carty serves on the boards of Talisman Energy Inc. and is Chairman of Virgin America Airlines Inc., Porter Airlines, Inc. and Research Now Group, Inc.

Mr. Carty holds a B.A. and an Honorary Doctor of Laws from Queen's University and a MBA from the Harvard Business School.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$2,428,422 <sup>(3)</sup>
February 2014	38,785 <sup>(6)</sup>
February 2013	34,654 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	Talisman Energy Inc. (2009-present)
Audit Committee	100%	Gluskin, Sheff & Associates Inc. (2006-2013)
Corporate Governance and Nominating Committee	100%	Barrick Gold Corporation (2006-2013)
Finance Committee	100%	Dell, Inc. (1992-2013)
Investment Committee of CN's Pension Trust Funds <sup>(5)(8)</sup>	100%	Hawaiian Holdings, Inc. (2004-2011)
Strategic Planning Committee	100%	
2013 votes in favour	98.48%	



**AMBASSADOR  
GORDON D. GIFFIN**

AGE: 64<sup>(1)</sup>  
ATLANTA, GEORGIA, U.S.A.  
DIRECTOR SINCE: MAY 1, 2001  
INDEPENDENT

Mr. Giffin is Senior Partner of the law firm of McKenna Long & Aldridge, where he maintains offices in Washington, D.C. and Atlanta. His practice focuses on international transactions and trade matters and public policy. He has been engaged in the practice of law or government service for more than thirty years. Mr. Giffin was United States Ambassador to Canada from 1997 to 2001.

Mr. Giffin is a member of the Board of Trustees of the Jimmy Carter Presidential Center and the board of directors of the Canada-US Fulbright Program.

Mr. Giffin serves on the Board of Counsellors of McLarty Global. He is chairman of the board of Friends of the National Arts Centre. Mr. Giffin is also chair of the board of TransAlta Corporation and a director of Just Energy Group Inc., the Canadian Imperial Bank of Commerce, Canadian Natural Resources Limited and Element Financial Corporation. Mr. Giffin holds a B.A. from Duke University and a J.D. from Emory University School of Law.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$5,239,531 <sup>(3)</sup>
February 2014	83,682 <sup>(6)</sup>
February 2013	79,728 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	Element Financial Corporation (2013-present)
Human Resources and Compensation Committee (Chair) <sup>(9)</sup>	100%	Just Energy Group Inc. (2006-present)
Audit Committee <sup>(9)</sup>	100%	Canadian Natural Resources Limited (2002-present)
Donations and Sponsorships Committee <sup>(5)</sup>	100%	TransAlta Corporation (2002-present)
Environment, Safety and Security Committee	100%	Canadian Imperial Bank of Commerce (2001-present)
Finance Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)</sup>	100%	
Strategic Planning Committee	100%	
2013 votes in favour	98.43%	



**EDITH E. HOLIDAY**

AGE: 62<sup>(1)</sup>  
 PALM BEACH COUNTY,  
 FLORIDA, U.S.A.  
 DIRECTOR SINCE: JUNE 1, 2001  
 INDEPENDENT

Ms. Holiday is a Corporate Director and Trustee and a former General Counsel, United States Treasury Department and former Secretary of the Cabinet, The White House.

Ms. Holiday is a director of Hess Corporation, RTI International Metals, Inc. and White Mountains Insurance Group, Ltd. She is also a director or trustee of various investment companies of the Franklin Templeton Group of Funds. From 1994 to 2013, Ms. Holiday was a director of H.J. Heinz Company.

She is the recipient of the Direct Women's 2009 Sandra Day O'Connor Board Excellence Award, which honours women who have served with distinction on the board of a public company and advanced the value of diversity in the workplace.

Ms. Holiday holds a B.S. and a J.D. from the University of Florida, and she is admitted to the bars of the states of Florida, Georgia and the District of Columbia.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$6,160,434 <sup>(3)</sup>
February 2014	98,390 <sup>(6)</sup>
February 2013	94,750 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	White Mountains Insurance Group, Ltd. (2004-present)
Corporate Governance and Nominating Committee	100%	RTI International Metals, Inc. (1999-present)
Finance Committee	100%	Franklin Templeton Group of Funds (various companies) (1996-present)
Human Resources and Compensation Committee	100%	Hess Corporation (1993-present)
Investment Committee of CN's Pension Trust Funds <sup>(5)</sup>	100%	H.J. Heinz Company (1994-2013)
Strategic Planning Committee	100%	
<b>2013 votes in favour</b>	<b>98.23%</b>	



**V. MAUREEN  
 KEMPSTON DARKES,  
 O.C., D. COMM., LL.D.**

AGE: 65<sup>(1)</sup>  
 LAUDERDALE-BY-THE-SEA,  
 FLORIDA, U.S.A.  
 DIRECTOR SINCE: MARCH 29, 1995  
 INDEPENDENT

Ms. Kempston Darkes is the retired Group Vice-President and President Latin America, Africa and Middle East, General Motors Corporation. In 2009 she ended a 35-year career at GM during which she attained the highest operating post ever held by a woman at GM. From 1994 to 2001, she was President and General Manager of General Motors of Canada Limited and Vice-President of General Motors Corporation.

She is an Officer of the Order of Canada, a member of the Order of Ontario and was ranked by Fortune magazine in 2009 as the 12th Most Powerful Woman in International Business and amongst the top 100 most powerful women in Canada in 2012. In 2006, she was the recipient of the Governor General of Canada's Persons Award and was inducted as a fellow of the Institute of Corporate Directors in 2011. She has also been appointed by the Government of Canada to the Science, Technology and Innovation Council.

Ms. Kempston Darkes is also a director of Brookfield Asset Management Inc., Irving Oil Co. Ltd., Enbridge Inc. and Balfour Beatty Plc.

Ms. Kempston Darkes holds a B.A. in history and political science from Victoria University in the University of Toronto and an LL.B. from the University of Toronto Faculty of Law.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$11,008,621 <sup>(3)</sup>
February 2014	175,969 <sup>(6)</sup>
February 2013	171,950 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	Balfour Beatty Plc. (2012-present)
Environment, Safety and Security Committee (Chair)	100%	Enbridge Inc. (2010-present)
Audit Committee	100%	Brookfield Asset Management Inc. (2008-present)
Human Resources and Compensation Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)</sup>	100%	
Strategic Planning Committee	100%	
<b>2013 votes in favour</b>	<b>97.10%</b>	



**THE HON. DENIS LOSIER,  
P.C., LL.D., C.M.**

AGE: 61<sup>(1)</sup>  
 CAPE PELE,  
 NEW BRUNSWICK, CANADA  
 DIRECTOR SINCE: OCTOBER 25, 1994  
 INDEPENDENT

Mr. Losier is the retired President and Chief Executive Officer of Assumption Life (life insurance company). Between 1989 and 1994, Mr. Losier held various cabinet level positions with the government of the Province of New Brunswick, including Minister of Fisheries and Aquaculture and Minister of Economic Development and Tourism.

Mr. Losier was co-chair of the University of Moncton's Excellence Campaign. In 2008, he was named a member of the Security Intelligence Review Committee of Canada, and, as such, became a member of the Privy Council. He is a member of the New Brunswick Business Council and a director of Canadian Blood Services, Enbridge Gas New Brunswick and Plazacorp Retail Properties Ltd. He also chairs the board of directors of Invest N.B. Mr. Losier was appointed a Member of the Order of Canada in 2011.

Mr. Losier holds a Bachelor of Economics from the University of Moncton and a Masters of Economics from the University of Western Ontario. Mr. Losier was awarded an Honorary Doctorate Degree in Business Administration from the University of Moncton.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$17,775,611 <sup>(3)</sup>
February 2014	284,137 <sup>(6)</sup>
February 2013	277,746 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	Plazacorp Retail Properties Ltd. (2007-present)
Audit Committee (Chair)	100%	XL-ID Solutions Inc. (formerly, Excellium Inc.) (2013)
Corporate Governance and Nominating Committee <sup>(10)</sup>	100%	NAV CANADA (2004-2013)
Donations and Sponsorships Committee <sup>(5)</sup>	100%	
Environment, Safety and Security Committee	100%	
Human Resources and Compensation Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)(10)</sup>	100%	
Strategic Planning Committee	100%	
<b>2013 votes in favour</b>	<b>98.77%</b>	



**THE HON.  
EDWARD C. LUMLEY,  
P.C., LL.D.**

AGE: 74<sup>(1)</sup>  
 SOUTH LANCASTER,  
 ONTARIO, CANADA  
 DIRECTOR SINCE: JULY 4, 1996  
 INDEPENDENT

Mr. Lumley has been Vice-Chairman of BMO Capital Markets (investment bank) and its predecessor companies since 1991. From 1986 to 1991, he served as chair of Noranda Manufacturing Group Inc.

Following a successful entrepreneurial career, Mr. Lumley was elected a Member of Parliament for Stormont-Dundas from 1974 to 1984, during which time he held various cabinet portfolios in the Government of Canada such as Industry, International Trade, Regional Economic Development, Communication and Science & Technology. During this period, he was responsible to Parliament for numerous Crown Corporations, Boards and Commissions. Mr. Lumley is Chancellor of the University of Windsor, a director of Bell Canada Enterprises, the Chairman of ECL Associates, a member of the Advisory Board of Mercedes Benz Canada and a member of the Advisory Counsel of Partners in Progress. Mr. Lumley graduated with a Bachelor of Commerce from the University of Windsor.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$13,171,382 <sup>(3)</sup>
February 2014	210,540 <sup>(6)</sup>
February 2013	205,902 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	BCE Inc. (2003-present)
Investment Committee of CN's Pension Trust Funds (Chair) <sup>(5)</sup>	100%	Dollar Thrifty Automotive Group, Inc. (1997-2012)
Corporate Governance and Nominating Committee	100%	
Finance Committee	100%	
Human Resources and Compensation Committee	100%	
Strategic Planning Committee	100%	
<b>2013 votes in favour</b>	<b>97.20%</b>	



**KEVIN G. LYNCH,  
P.C., O.C., PH.D., LL.D.**

AGE: 63<sup>(1)</sup>  
OTTAWA, ONTARIO, CANADA  
NOMINEE AS A DIRECTOR  
INDEPENDENT

Dr. Lynch is Vice-Chair, BMO Financial Group. In this role, Dr. Lynch is a key strategic advisor to senior management. He represents BMO in domestic and international markets.

Prior to joining BMO, Dr. Lynch built a distinguished career in the Government of Canada. Before his retirement in 2009, he served as Clerk of the Privy Council, Secretary to the Cabinet, and Head of the Public Service of Canada. Dr. Lynch began his public service career at the Bank of Canada in 1976 and has held a number of senior positions in the Government of Canada. These included the post of Deputy Minister of Industry, from 1995 to 2000, and Deputy Minister of Finance, from 2000 to 2004. From 2004 to 2006, he served as Executive Director (for the Canadian, Irish and Caribbean constituency) at the International Monetary Fund in Washington, D.C.

He is also Chair of the Board of Governors of the University of Waterloo, the Chancellor of King's University and serves on several other boards, including those of the Asia Pacific Foundation, the Gairdner Foundation, the Perimeter Institute, the Ditchley Foundation, and the Shannon School of Business at Cape Breton University.

Dr. Lynch was made a Member of the Queen's Privy Council for Canada in 2009, and an Officer of the Order of Canada in 2011. He has been awarded the Distinguished Alumni Award from McMaster University and the Queen's Golden Jubilee Medal.

Dr. Lynch earned his master's in Economics from the University of Manchester and a doctorate in Economics from McMaster University.

SECURITIES HELD		ATTENDANCE		OTHER PUBLIC BOARDS DURING PAST 5 YEARS	
COMMON SHARES OWNED OR CONTROLLED <sup>(2)</sup>		NIL			
February 2014				Empire Company Limited (Sobey's)	(2013-present)
				CNOOC Limited	(2014-present)
MEMBER OF		ATTENDANCE		OTHER PUBLIC BOARDS DURING PAST 5 YEARS	
New Board nominee, not currently a director					



**CLAUDE MONGEAU**

AGE: 52<sup>(1)</sup>  
MONTRÉAL, QUEBEC, CANADA  
DIRECTOR SINCE: OCTOBER 20, 2009  
NOT INDEPENDENT

Mr. Mongeau became President and Chief Executive Officer of the Company on January 1, 2010. In 2000, he was appointed Executive Vice-President and Chief Financial Officer of the Company and held such position until June 1, 2009. Prior to this, he held the positions of Vice-President, Strategic and Financial Planning and Assistant Vice-President, Corporate Development upon joining the Company in 1994. In 2005, he was selected Canada's CFO of the Year by an independent committee of prominent Canadian business leaders.

Prior to joining CN, Mr. Mongeau was a partner with Secor Group, a Montréal-based management consulting firm. He also worked in the business development unit of Imasco Inc. and as a consultant at Bain & Company.

Mr. Mongeau is also a director of SNC-Lavalin Group Inc. Mr. Mongeau holds an MBA from McGill University.

SECURITIES HELD		ATTENDANCE		OTHER PUBLIC BOARDS DURING PAST 5 YEARS	
COMMON SHARES OWNED OR CONTROLLED <sup>(2)</sup>		STOCK OPTIONS HELD <sup>(4)</sup>			
Value at Risk	C\$29,402,074 <sup>(3)</sup>	February 2014	1,738,000	SNC-Lavalin Group Inc.	(2003-present)
February 2014	469,982	February 2013	1,558,000	Nortel Networks	(2006-2009)
February 2013	461,144				
MEMBER OF		ATTENDANCE		OTHER PUBLIC BOARDS DURING PAST 5 YEARS	
Board		100%			
Donations and Sponsorships Committee (Chair) <sup>(5)</sup>		100%			
Investment Committee of CN's Pension Trust Funds <sup>(5)(11)</sup>		100%			
Strategic Planning Committee		100%			
2013 votes in favour		99.19%			



**JAMES E. O'CONNOR**

AGE: 64<sup>(1)</sup>  
 FORT LAUDERDALE, FLORIDA, U.S.A.  
 DIRECTOR SINCE: APRIL 27, 2011  
 INDEPENDENT

Mr. O'Connor is the retired chair of the board of directors of Republic Services, Inc., a leading provider of non-hazardous solid waste collection, recycling and disposal services in the United States. From 1998 to 2011, Mr. O'Connor was chair and Chief Executive Officer of Republic Services, Inc. Prior to 1998, he had held various management positions at Waste Management, Inc.

In 2001, Mr. O'Connor was the recipient of the Ellis Island Medal of Honor from the National Ethnic Coalition of Organizations (NECO) which rewards Americans who exemplify outstanding qualities in both their personal and professional lives, while continuing to preserve the richness of their particular heritage. He was named to the list of America's Best CEOs each year, between 2005 and 2010. In 2011, Mr. O'Connor was named to the Institutional Investors' All American Executive Team. He is also active in many community causes, especially those that benefit children. Mr. O'Connor has served on the board of directors of the SOS Children's Village. He also currently serves on the board of directors of the South Florida P.G.A. of America and Clean Energy Fuels Corp. Mr. O'Connor holds a Bachelor of Science in Commerce (concentration in accounting) from DePaul University.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$1,168,848 <sup>(3)</sup>
February 2014	18,668
February 2013	15,418

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board	100%	Clean Energy Fuels Corp. (2011-present)
Audit Committee	100%	Republic Services, Inc. (1998-2011)
Environment, Safety & Security Committee	100%	
Finance Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)(12)</sup>	100%	
Strategic Planning Committee	100%	
2013 votes in favour	99.29%	



**ROBERT PACE, D. COMM.**

AGE: 59<sup>(1)</sup>  
 SEABRIGHT, NOVA SCOTIA, CANADA  
 DIRECTOR SINCE: OCTOBER 25, 1994  
 INDEPENDENT

Mr. Pace is President and Chief Executive Officer, The Pace Group (radio broadcasting, real estate and environmental services).

Mr. Pace began his career as a lawyer in Halifax and worked as Atlantic Canada Advisor to the Prime Minister of Canada.

Mr. Pace is a director of High Liner Foods Incorporated and Hydro One Inc. He is also chairman of the Walter Gordon Foundation and former director of the Asia Pacific Foundation and the Atlantic Salmon Federation.

Mr. Pace holds an MBA and an LL.B from Dalhousie University.

**SECURITIES HELD**

COMMON SHARES OWNED OR CONTROLLED<sup>(2)</sup>

Value at Risk	C\$18,075,211 <sup>(3)</sup>
February 2014	288,926 <sup>(6)</sup>
February 2013	284,144 <sup>(7)</sup>

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
Board (Vice-Chair) <sup>(13)</sup>	100%	Hydro One Inc. (2007-present)
Audit Committee	100%	High Liner Foods Incorporated (1998-present)
Corporate Governance and Nominating Committee	100%	Overland Realty Limited (2006-2010)
Donations and Sponsorships Committee <sup>(5)(13)</sup>	100%	
Human Resources and Compensation Committee	100%	
Investment Committee of CN's Pension Trust Funds <sup>(5)</sup>	100%	
Strategic Planning Committee	100%	
2013 votes in favour	96.96%	



**ROBERT L. PHILLIPS**

AGE: 63<sup>(1)</sup>  
 WEST VANCOUVER,  
 BRITISH COLUMBIA, CANADA  
 NOMINEE AS A DIRECTOR  
 INDEPENDENT

Mr. Phillips is the President of R.L. Phillips Investments Inc. and was previously President and Chief Executive Officer and director of British Columbia Railway Company Limited from 2001 to 2004. Mr. Phillips was Executive Vice-President, Business Development and Strategy for MacMillan Bloedel Ltd. and, before that, held the position of Chief Executive Officer at PTI Group and Drecto Energy Services Limited. He also enjoyed a prestigious career as a corporate lawyer and was appointed to the Queen's Counsel in Alberta in 1991.

Mr. Phillips is currently a director of Canadian Western Bank, MacDonald Dettwiler & Associates Ltd. (Chairman), West Fraser Timber Co. Ltd. (Lead Director), and Precision Drilling Corporation (Chairman). He is also a director of Epcor Utilities Inc. and Axia NetMedia Corporation but will not be standing for re-election in 2014 on the boards of such companies. His past directorships include Capital Power Corporation, Drecto Energy Services Ltd., PTI Group Inc., National-Oilwell Inc., Weldwood of Canada Ltd., Enserco Energy Service Company Inc., Terra Vest Income Fund, Tree Island Wire Income Fund and Boston Pizza Royalties Income Fund.

Mr. Phillips has also served as a director of the Canadian Chamber of Commerce, as a member of the Alberta Economic Development Authority (AEDA) and as a director of the Export and Trade Committee of the AEDA. Mr. Phillips received his Bachelor of Laws (Gold Medalist), and Bachelor of Science, Chemical Engineering (Hons) from the University of Alberta.

SECURITIES HELD	
COMMON SHARES OWNED OR CONTROLLED <sup>(2)</sup>	
February 2014	4,125

MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
New Board nominee, not currently a director		Canadian Western Bank (2001-present) MacDonald Dettwiler & Associates (2003-present) West Fraser Timber Co. Ltd (2005-present) Precision Drilling Corporation (2004-present) Axia NetMedia Corporation* (2000-2014) Epcor Utilities Inc.* (2005-2014) Capital Power Corporation (2009-2013) Terra Vest Income Fund (2004-2012)

\*Term ends May 2014 and will not stand for re-election



**LAURA STEIN**

AGE: 52<sup>(1)</sup>  
 LAFAYETTE, CALIFORNIA, U.S.A.  
 NOMINEE AS A DIRECTOR  
 INDEPENDENT

Ms. Stein is the Senior Vice-President, General Counsel of The Clorox Company since 2005, where she serves on the executive committee, sponsors the women’s employee resource group, co-sponsors the company’s corporate responsibility and enterprise risk management programs, and works closely with the company’s board of directors on governance matters. From 2000-2005, Ms. Stein was Senior Vice-President, General Counsel of the H.J. Heinz Company. She was also previously a corporate lawyer with Morrison & Foerster in San Francisco and Hong Kong.

Ms. Stein is a director of Franklin Resources, Inc. and a former director of Nash Finch Company.

She also serves on the boards of several not-for-profit organizations, including Corporate Pro Bono, Equal Justice Works, the Leadership Council on Legal Diversity and the Association of General Counsel. Previously, Ms. Stein was chair of the Association of Corporate Counsel, co-chair of the General Counsel Committee of the ABA Business Law Section and a director of the Pittsburgh Ballet Theater.

Ms. Stein has received the Margaret Brent Award, the American Bar Association’s highest award for women lawyers; the Sandra Day O’Connor Board Excellence Award; and the Corporate Board Member America’s Top General Counsel Recognition Award. The National Association of Corporate Directors included her in the 2011 NACD Directorship 100 list of the most influential leaders in the boardroom and corporate governance community.

Ms. Stein received her J.D. from Harvard Law School, and is a graduate of Dartmouth College where she earned an undergraduate and master’s degrees.

SECURITIES HELD		
COMMON SHARES OWNED OR CONTROLLED <sup>(2)</sup>		
February 2014		NIL
MEMBER OF	ATTENDANCE	OTHER PUBLIC BOARDS DURING PAST 5 YEARS
New Board nominee, not currently a director		Franklin Resources Inc. (2005-present)

- (1) The age of the directors is provided as at April 23, 2014, the date of the Meeting.
- (2) The information regarding common shares beneficially owned, controlled or directed has been furnished by the respective nominees individually and includes Directors Restricted Share Units (“DRSUs”) elected as compensation by directors, as well as Deferred Share Units (“DSUs”) under the Company’s Voluntary Incentive Deferral Plan (“VIDP”) in the case of Claude Mongeau, but does not include common shares under stock options. The VIDP provides eligible senior management employees the opportunity to elect to receive their annual incentive bonus payment and other eligible incentive payments in DSUs payable in cash upon retirement or termination of employment. The number of DSUs received by each participant is established using the average closing price for the 20 trading days prior to and including the date of the incentive payment. For each participant, the Company will grant a further 25% (Company match) of the amount elected in DSUs, which will vest over a period of four years. The election to receive eligible incentive payments in DSUs is no longer available to a participant when the value of the participant’s vested DSUs is sufficient to meet the Company’s stock ownership guidelines. The value of each participant’s DSUs is payable in cash at the time of cessation of employment. For further details on the VIDP, please see the Deferred Compensation Plans section of this Information Circular.
- (3) The Value at Risk represents the total value of common shares and DRSUs (or DSUs for Mr. Mongeau) which total value is based on the February 28, 2014 closing price of the common shares on the Toronto Stock Exchange (C\$62.56) or the New York Stock Exchange (US\$56.54) for Donald J. Carty, Ambassador Gordon D. Giffin, Edith E. Holiday and James E. O’Connor using the closing exchange rate (US\$1.00 = C\$1.1074) on the same date.
- (4) The information regarding stock options comprises the stock options granted to Mr. Mongeau under the Management Long-Term Incentive Plan. For further details on the plan, please see “Statement of Executive Compensation — Management Long-Term Incentive Plan”.
- (5) The Donations and Sponsorships Committee and the Investment Committee of CN’s Pension Trust Funds are mixed committees composed of both members of the Board of Directors as well as officers of the Company.
- (6) Includes DRSUs as at February 28, 2014, in the following amounts: A. Charles Baillie: 119,166; Donald J. Carty: 18,785; Ambassador Gordon D. Giffin: 43,564; Edith E. Holiday: 25,049; V. Maureen Kempston Darkes: 51,379; The Hon. Denis Losier: 99,883; The Hon. Edward C. Lumley: 85,170; and Robert Pace: 97,211. Pursuant to the terms of the DRSUs, directors or their estates can only access their DRSUs upon retirement, resignation or death.
- (7) Includes DRSUs as at February 28, 2013 in the following amounts: A. Charles Baillie: 113,218; Donald J. Carty: 14,654; Ambassador Gordon D. Giffin: 41,900; Edith E. Holiday: 23,034; V. Maureen Kempston Darkes: 50,560; The Hon. Denis Losier: 95,056; The Hon. Edward C. Lumley: 87,782; and Robert Pace: 95,662. Pursuant to the terms of the DRSUs, directors or their estates can only access their DRSUs upon retirement, resignation or death.
- (8) Donald J. Carty became member of the Investment Committee of CN’s Pension Trust Funds on April 23, 2013.
- (9) Ambassador Gordon D. Giffin became Chair of the Human Resources and Compensation Committee and member of the Audit Committee on April 23, 2013.
- (10) The Hon. Denis Losier became member of the Corporate Governance and Nominating Committee and of the Investment Committee of CN’s Pension Trust Funds on April 23, 2013.
- (11) Claude Mongeau became member of the Investment Committee of CN’s Pension Trust Funds on April 23, 2013.
- (12) James E. O’Connor became member of the Investment Committee of CN’s Pension Trust Funds on April 23, 2013.
- (13) Robert Pace became Vice-Chair of the Board and member of the Donations and Sponsorships Committee on April 23, 2013.

## Board of Directors Compensation

The directors of the Company play a central role in enhancing shareholder value. As indicated under “Nominees for Election to the Board — Board of Directors Compensation — Share Ownership” on pages 17 and 18, the directors have a substantial investment in the Company. In addition, approximately 63% of the total annual remuneration of the non-executive directors for 2013 was in the form of common shares or Directors Restricted Share Units (“DRSUs”). Subject to the Minimum Shareholding Requirement as defined on page 17 of this Information Circular, directors may elect to receive all or part of their director, committee member, Board Chair, Vice-Chair and Committee Chair cash retainers either in cash, common shares of the Company purchased on the open market or DRSUs. They may also elect to receive their common share grant retainer in DRSUs. Each DRSU entitles the beneficiary thereof to receive upon resignation, retirement or death, one common share of the Company purchased on the open market, plus additional DRSUs reflecting dividend equivalents.

CN’s compensation program is designed to attract and retain the most qualified people to serve on CN’s Board and Board Committees and takes into account the risks and responsibilities of being an effective director. To reflect the Company’s extensive operations in the United States, six of the non-executive director nominees are United States residents and the compensation of the non-executive directors of the Company tends to be comparable to that of large U.S.-based companies.

Beginning in 2011, it was determined that the annual share grant portion of the Director and Board Chair retainers would no longer be comprised of a fixed number of shares and would be replaced with a common share grant valued at US\$175,000 for directors, and a common share grant valued at US\$350,000 for the Board Chair. This approach provides greater consistency in total director compensation while keeping the alignment with shareholders’ interest. The change resulted in a year-over-year reduction of 21% in average total compensation for CN directors and 36% for the Board Chair when comparing 2011 to 2010 compensation. Committee member and Committee Chair retainers remained unchanged at US\$3,500 for Committee Members and US\$15,000 for Committee Chairs, except for the Chairs of the Audit and the Human Resources and Compensation Committees who received a Committee Chair retainer of US\$25,000. Committee Chairs no longer received a separate Committee Member retainer for the Committees they chair. Moreover, the Board Chair did not receive an additional Director retainer, nor Committee Chair or Committee Member retainers. All other aspects of director compensation remain unchanged from prior years: Directors receive a cash retainer amount of US\$15,000 and US\$120,000 for the Board Chair. Directors and the Board Chair also received Board Meeting, Committee Meeting and Travel Attendance fees of US\$1,500. In 2013, Mr. Robert Pace was appointed Vice-Chair and received a Vice-Chair retainer of US\$25,000.

The compensation structure and level for CN’s directors was recommended by the Corporate Governance and Nominating Committee and approved by the Board in 2013, and is reviewed annually against best practices and director compensation trends in North America, including those of other Class I Railroads.

In consideration for serving on the Board of Directors in 2013, CN’s directors were compensated as indicated in the table below:

TYPE OF FEE	AMOUNT
Board Chair Cash Retainer <sup>(1)</sup>	US\$120,000 <sup>(2)</sup>
Board Chair Share Grant Retainer	US\$350,000 <sup>(2)</sup>
Board Vice-Chair Cash Retainer	US\$25,000 <sup>(2)</sup>
Board Vice-Chair Share Grant Retainer	US\$175,000 <sup>(2)</sup>
Director Cash Retainer <sup>(3)</sup>	US\$15,000 <sup>(2)</sup>
Director Share Grant Retainer	US\$175,000 <sup>(2)</sup>
Committee Chair Retainers	
Audit and Human Resources and Compensation Committees	US\$25,000 <sup>(2)</sup>
Other Committees	US\$15,000 <sup>(2)</sup>
Committee Member Retainer	US\$3,500 <sup>(2)</sup>
Board Meeting Attendance Fee	US\$1,500
Committee Meeting Attendance Fee	US\$1,500
Travel Attendance Fee	US\$1,500

- (1) The Board Chair receives no additional Director Retainer nor Committee Chair or Committee Member Retainer.
- (2) Directors (including Board Chair and Board Vice-Chair) may choose to receive all or part of their cash retainer in common shares or DRSUs and their common share grant retainer can also be received in DRSUs. The common shares are purchased on the open market.
- (3) Mr. Mongeau does not receive any compensation for serving as director of the Company. Mr. Mongeau’s compensation for serving as CEO of the Company is described in detail in the Statement of Executive Compensation Section.

The table below reflects in detail the compensation earned by non-executive directors in the 12-month period ended December 31, 2013.

NAME OF DIRECTOR	FEES EARNED				SHARE-BASED AWARDS <sup>(3)</sup> (C\$)	ALL OTHER COMPENSATION <sup>(4)</sup> (C\$)	TOTAL (C\$)	PERCENTAGE OF TOTAL FEES RECEIVED IN COMMON SHARES AND/OR DRSUs <sup>(6)</sup>
	DIRECTOR BOARD VICE-CHAIR AND BOARD CHAIR RETAINER (C\$) <sup>(1)</sup>	COMMITTEE CHAIR RETAINER (C\$) <sup>(1)</sup>	COMMITTEE MEMBER RETAINER (C\$) <sup>(1)</sup>	BOARD AND COMMITTEE ATTENDANCE AND TRAVEL FEES <sup>(1)(2)</sup> (C\$)				
Michael R. Armellino	15,449	15,449	18,023	74,153	175,508	1,545	300,127	58%
A. Charles Baillie	15,044	15,044	14,041	64,884	175,508	1,545	286,066	77%
Hugh J. Bolton	15,449	15,449	14,419	64,884	175,508	1,545	287,254	61%
Donald J. Carty	15,044	–	16,381	64,884	175,508	6,179	277,996	74%
Ambassador Gordon D. Giffin	15,449	17,165	16,822	69,518	175,508	3,090	297,552	59%
Edith E. Holiday	15,449	–	18,023	64,884	175,508	1,545	275,409	64%
V. Maureen Kempston Darkes	15,449	15,449	14,419	66,429	175,508	1,545	288,799	61%
The Hon. Denis Losier	15,449	25,748	15,620	74,153	175,508	3,090	309,568	57%
The Hon. Edward C. Lumley	15,449	15,449	14,419	64,884	175,508	1,545	287,254	61%
David G.A. McLean	123,588	–	–	71,063	351,015	3,691 <sup>(5)</sup>	549,357	64%
James E. O'Connor	15,449	–	16,822	66,429	175,508	6,179	280,387	63%
Robert Pace <sup>(7)</sup>	15,449	25,748	16,822	69,518	175,508	3,090	306,135	57%
<b>TOTAL</b>	<b>292,717</b>	<b>145,501</b>	<b>175,811</b>	<b>815,683</b>	<b>2,281,603</b>	<b>34,589</b>	<b>3,745,904</b>	<b>63%</b>

- (1) All directors earned compensation in U.S. currency. Compensation received in cash was converted to Canadian dollars using the average rate of exchange of the Bank of Canada for 2013 (US\$1.00 = C\$1.0299). Compensation elected to be received in common shares or DRSUs was converted to Canadian dollars using the closing rate of exchange of the Bank of Canada (US\$1.00 = C\$1.0029), on the purchase day (January 24, 2013). In addition to the common shares or DRSUs received by the directors, the Board Vice-Chair, and the Board Chair, as described in note (3) below, the directors, the Board Vice-Chair and the Board Chair may choose to receive all or part of their cash retainers in common shares or DRSUs. The following directors made such election with respect to the amounts set forth beside their names: A. Charles Baillie (C\$44,129) and Donald J. Carty (C\$31,425). The amount of cash retainers elected to be received in common shares or DRSUs is included in these columns.
- (2) Includes travel fees which amounted to a total of C\$148,306, in aggregate, for all directors.
- (3) Represents a common share grant valued at US\$175,000 received by each non-executive director as part of the Director Retainer, US\$175,000 for the Board Vice-Chair as part of the Board Vice-Chair Retainer, and US\$350,000 for the Board Chair as part of the Board Chair Retainer. Such values were converted to Canadian dollars using the closing rate of exchange of the Bank of Canada (US\$1.00 = C\$1.0029) on January 24, 2013.
- (4) Such values represent committee attendance fees received in cash for attendance to meetings of board committees of which they were not members. Such values were converted to Canadian dollars using the average rate of exchange of the Bank of Canada for 2013 (US\$1.00 = C\$1.0299).
- (5) Includes the value for 2013 of insurance premiums for accidental death and dismemberment insurance as well as 2013 medical and dental coverage for David G.A. McLean in Canada and the U.S. The total cost to the Company for such benefits is equal to C\$2,146.
- (6) This percentage is calculated by dividing the aggregate of the cash retainer elected by non-executive directors to be received in common shares or DRSUs described in note (1) above and the value provided under the share-based awards column, by the value provided under the total column.
- (7) Robert Pace became Vice-Chair of the Board and stepped down as Chair of the Human Resources and Compensation Committee on April 23, 2013.

## Outstanding Share-based Awards

The table below reflects all awards outstanding as at December 31, 2013 with respect to non-executive directors.

NAME OF DIRECTOR	SHARE-BASED AWARDS <sup>(1)</sup>	
	NUMBER OF SHARES OR UNITS OF SHARES THAT HAVE NOT VESTED (#)	MARKET OR PAYOUT VALUE OF SHARE-BASED AWARDS THAT HAVE NOT VESTED <sup>(2)</sup> (C\$)
Michael R. Armellino	-	-
A. Charles Baillie	115,051	6,967,489
Hugh J. Bolton	90,870	5,503,087
Donald J. Carty	14,891	903,087
Ambassador Gordon D. Giffin	42,578	2,582,205
Edith E. Holiday	23,407	1,419,552
V. Maureen Kempston Darkes	51,379	3,111,512
The Hon. Denis Losier	96,595	5,849,793
The Hon. Edward C. Lumley	87,170	5,279,015
David G.A. McLean	178,403	10,804,086
James E. O'Connor	-	-
Robert Pace	97,211	5,887,098

(1) Shows information regarding DRSUs held by non-executive directors as of December 31, 2013. The directors may choose to receive all or part of their cash retainers in common shares or DRSUs and their common share retainer can also be received in DRSUs. Pursuant to the terms of the DRSUs, directors or their estates can only access their DRSUs upon retirement or resignation from the Company's Board, or death.

(2) The value of outstanding DRSUs is based on the closing price of the common shares on December 31, 2013, on the Toronto Stock Exchange (C\$60.56) or the New York Stock Exchange (US\$57.02) for Donald J. Carty, Ambassador Gordon D. Giffin and Edith E. Holiday, using the December 31, 2013 closing rate exchange of the Bank of Canada (US\$1.00 = C\$1.0636).

## Share Ownership

The Board has adopted a guideline stating that each non-executive director should own, within five years of joining the Board, common shares, DRSUs or similar share equivalents of CN, if any, with a value of at least the higher of: (i) C\$500,000, or (ii) three times the aggregate of the annual Director Retainer in cash and the annual common share or DRSU grant (and for the Board Chair, the aggregate of the Board Chair annual retainer in cash and the annual common share or DRSU grant) (the "Minimum Shareholding Requirement"). Each non-executive director shall continue to hold such value throughout his or her tenure as a director and the common shares, DRSUs or similar share equivalent of CN held to comply with the Minimum Shareholding Requirement shall not be the object of specific monetization procedures or other hedging procedures to reduce the exposure related to his or her holding. The aforementioned target was increased from C\$250,000 to C\$500,000 on March 8, 2011.

Each non-executive director is required to receive at least 50% of his or her annual Director, committee, Board Chair and Committee Chair cash retainers in common shares or DRSUs of CN and may elect to receive up to 100% of such retainers in common shares or DRSUs of CN until his or her Minimum Shareholding Requirement is met. Once the Minimum Shareholding Requirement is met, directors may elect to receive up to 100% of such retainers in common shares or DRSUs of CN. As of the date hereof, the average value of common shares (including DRSUs) of the Company owned by non-executive directors is approximately C\$11.7 million (based on the February 28, 2014, closing price of the common shares of the Company on the Toronto Stock Exchange (C\$62.56), or the New York Stock Exchange (US\$56.54) for U.S. directors).

The following table provides information on the number and the value of common shares and DRSUs owned by the Company's current directors as at February 28, 2014, and the amount needed to meet the Minimum Shareholding Requirement.

DIRECTOR	YEAR <sup>(1)</sup>	NUMBER OF COMMON SHARES OWNED, CONTROLLED OR DIRECTED	NUMBER OF DRSUs HELD <sup>(2)</sup>	TOTAL NUMBER OF COMMON SHARES OWNED, CONTROLLED OR DIRECTED AND DRSUs	GUIDELINE MET <sup>(3)</sup> OR INVESTMENT REQUIRED TO MEET GUIDELINE (C\$)	TOTAL VALUE OF COMMON SHARES AND DRSUs (VALUE AT RISK) <sup>(3)</sup> (C\$)	VALUE AT RISK AS MULTIPLE OF SHAREHOLDING REQUIREMENT
Michael R. Armellino	2014	236,742	–	236,742	✓	14,822,984	23
	2013	235,652	–	235,652			
	Variation	1,090	–	1,090			
A. Charles Baillie	2014	207,400	119,166	326,566	✓	20,429,969	32
	2013	204,200	113,218	317,418			
	Variation	3,200	5,948	9,148			
Hugh J. Bolton	2014	11,131	90,870	102,001	✓	6,381,183	10
	2013	10,052	89,422	99,474			
	Variation	1,079	1,448	2,527			
Donald J. Carty	2014	20,000	18,785	38,785	✓	2,428,422	4
	2013	20,000	14,654	34,654			
	Variation	–	4,131	4,131			
Ambassador Gordon D. Giffin	2014	40,118	43,564	83,682	✓	5,239,531	8
	2013	37,828	41,900	79,728			
	Variation	2,290	1,664	3,954			
Edith E. Holiday	2014	73,341	25,049	98,390	✓	6,160,434	10
	2013	71,716	23,034	94,750			
	Variation	1,625	2,015	3,640			
V. Maureen Kempston Darkes	2014	124,590	51,379	175,969	✓	11,008,621	17
	2013	121,390	50,560	171,950			
	Variation	3,200	819	4,019			
The Hon. Denis Losier	2014	184,254	99,883	284,137	✓	17,775,611	28
	2013	182,690	95,056	277,746			
	Variation	1,564	4,827	6,391			
The Hon. Edward C. Lumley	2014	123,370	87,170	210,540	✓	13,171,382	21
	2013	120,120	85,782	205,902			
	Variation	3,250	1,388	4,638			
David G.A. McLean	2014	202,170	178,403	380,573	✓	23,808,647	15
	2013	219,038	175,560	394,598			
	Variation	-16,868	2,843	-14,025			
Claude Mongeau	2014	64,496	405,486	469,982	N/A	29,402,074	N/A
	2013	62,114	399,030	461,144			
	Variation	2,382	6,456	8,838			
James E. O'Connor	2014	18,668	–	18,668	✓	1,168,848	2
	2013	15,418	–	15,418			
	Variation	3,250	–	3,250			
Robert Pace	2014	191,715	97,211	288,926	✓	18,075,211	29
	2013	188,482	95,662	284,144			
	Variation	3,233	1,549	4,782			

- (1) The number of common shares and DRSUs held by each director for 2014 is set out as at February 28, 2014, and for 2013 is set out as at February 28, 2013.
- (2) Includes DRSUs elected as part of directors compensation and DSUs under the Company's VIDP held by Claude Mongeau.
- (3) The total value is based on the February 28, 2014 closing price of the common shares on the Toronto Stock Exchange (C\$62.56) or the New York Stock Exchange (US\$56.54) for Michael R. Armellino, Donald J. Carty, Ambassador Gordon D. Giffin, Edith E. Holiday and James E. O'Connor, using the closing exchange rate (US\$1.00 = C\$1.1074) on the same date.

## Board and Committee Attendance

The tables below show the record of attendance by director at meetings of the Board and its committees, as well as the number of Board and Board committee meetings held during the 12-month period ended December 31, 2013.

DIRECTOR <sup>(1)</sup>	NUMBER AND % OF MEETINGS ATTENDED										
	BOARD	AUDIT COMMITTEE	CORPORATE GOVERNANCE AND NOMINATING COMMITTEE	DONATIONS AND SPONSORSHIPS COMMITTEE	ENVIRONMENT, SAFETY AND SECURITY COMMITTEE	FINANCE COMMITTEE	HUMAN RESOURCES AND COMPENSATION COMMITTEE	INVESTMENT COMMITTEE OF CN'S PENSION TRUST FUNDS	STRATEGIC PLANNING COMMITTEE	COMMITTEES (TOTAL)	OVERALL ATTENDANCE
Michael R. Armellino <sup>(8)</sup>	12/12 (100%)	–	5/5 (Chair)	–	5/5	6/6	5/5	4/4	3/3	28/28 (100%)	40/40 (100%)
A. Charles Baillie	12/12 (100%)	–	5/5	–	–	6/6 (Chair)	5/5	4/4	3/3	23/23 (100%)	35/35 (100%)
Hugh J. Bolton <sup>(8)</sup>	12/12 (100%)	5/5	–	–	5/5	–	5/5	4/4	3/3 (Chair)	22/22 (100%)	34/34 (100%)
Donald J. Carty <sup>(2)</sup>	12/12 (100%)	5/5	5/5	–	–	6/6	–	3/3	3/3	22/22 (100%)	34/34 (100%)
Ambassador Gordon D. Giffin <sup>(3)</sup>	12/12 (100%)	2/2	–	3/3	5/5	6/6	3/3 (Chair)	4/4	3/3	26/26 (100%)	38/38 (100%)
Edith E. Holiday	12/12 (100%)	–	5/5	–	–	6/6	5/5	4/4	3/3	23/23 (100%)	35/35 (100%)
V. Maureen Kempston Darkes	12/12 (100%)	5/5	–	–	5/5 (Chair)	–	5/5	4/4	3/3	22/22 (100%)	34/34 (100%)
The Hon. Denis Losier <sup>(4)</sup>	12/12 (100%)	5/5 (Chair)	3/3	3/3	5/5	–	5/5	3/3	3/3	27/27 (100%)	39/39 (100%)
The Hon. Edward C. Lumley	12/12 (100%)	–	5/5	–	–	6/6	5/5	4/4 (Chair)	3/3	23/23 (100%)	35/35 (100%)
David G.A. McLean <sup>(8)</sup>	12/12 (100%)	–	5/5	3/3	–	6/6	5/5	4/4	3/3	26/26 (100%)	38/38 (100%)
Claude Mongeau <sup>(5)</sup>	12/12 (100%)	–	–	3/3 (Chair)	–	–	–	3/3	3/3	9/9 (100%)	21/21 (100%)
James E. O'Connor <sup>(6)</sup>	12/12 (100%)	5/5	–	–	5/5	6/6	–	3/3	3/3	22/22 (100%)	34/34 (100%)
Robert Pace <sup>(7)</sup>	12/12 (100%)	5/5	5/5	2/2	–	–	5/5	4/4	3/3	24/24 (100%)	36/36 (100%)

- (1) In addition to committee members, all non-executive board members attended on a non-voting basis the January, June and December 2013 meetings of the Human Resources and Compensation Committee. The following directors who did not sit on the Investment Committee of CN Pension Trust Funds attended the January meeting on a non-voting basis: Donald J. Carty and James E. O'Connor. In addition to committee members, the Hon. Denis Losier attended on a non-voting basis two meetings of the Corporate Governance and Nominating Committee. In addition to committee members, Robert Pace attended on a non-voting basis one meeting of the Donations and Sponsorships Committee and one meeting of the Environment, Safety and Security Committee.
- (2) Donald J. Carty became member of the Investment Committee of CN's Pension Trust Funds on April 23, 2013.
- (3) Ambassador Gordon D. Giffin became Chair of the Human Resources and Compensation Committee and member of the Audit Committee on April 23, 2013.
- (4) The Hon. Denis Losier became member of the Corporate Governance and Nominating Committee and of the Investment Committee of CN's Pension Trust Funds on April 23, 2013.
- (5) In addition to committee members, Claude Mongeau attended five Audit Committee meetings, four Corporate Governance and Nominating Committee meetings, five Environment, Safety and Security Committee meetings, six Finance Committee meetings and five Human Resources and Compensation Committee meetings on a non-voting basis.
- (6) James E. O'Connor became member of the Investment Committee of CN's Pension Trust Funds on April 23, 2013.
- (7) Robert Pace became Vice-Chair of the Board and member of the Donations and Sponsorships Committee and stepped down as Chair of the Human Resources and Compensation Committee on April 23, 2013.
- (8) Messrs. Armellino, Bolton and McLean will not seek re-election as directors at the Meeting.

BOARD AND BOARD COMMITTEE MEETINGS	NUMBER OF MEETINGS HELD IN 2013
Board	12
Audit Committee	5
Corporate Governance and Nominating Committee	5
Donations and Sponsorships Committee	3
Environment, Safety and Security Committee	5
Finance Committee	6
Human Resources and Compensation Committee	5
Investment Committee of CN's Pension Trust Funds	4
Strategic Planning Committee	3

## Additional Disclosure Relating to Directors

As of the date hereof, to the knowledge of the Company and based upon information provided to it by the nominees for election to the Board of Directors, no such nominee is or has been, in the last 10 years, a director or executive officer of any company that, while such person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for the following:

- (i) Mr. Baillie, a director of the Company, was a director of Dana Corporation which filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on March 3, 2006. Dana's European, South American, Asian-Pacific, Canadian and Mexican subsidiaries are not included in the Chapter 11 filing. Dana Corporation successfully emerged from Chapter 11 reorganization in February 2008. Mr. Baillie is no longer a director of Dana Corporation;
- (ii) Mr. Mongeau, a director and the President and Chief Executive Officer of the Company, became a director of Nortel Networks Corporation ("NNC") and Nortel Networks Limited ("NNL") on June 29, 2006. On January 14, 2009, NNC, NNL and certain other Canadian subsidiaries initiated creditor protection proceedings under the CCAA in Canada. Certain U.S. subsidiaries filed voluntary petitions in the United States under Chapter 11 of the U.S. Bankruptcy Code, and certain Europe, Middle East and Africa subsidiaries made consequential filings in Europe and the Middle East. Mr. Mongeau resigned as a director of NNC and NNL effective August 10, 2009;
- (iii) Ms. Kempston Darkes, a director of the Company, was an officer of General Motors Corporation ("GM") when GM filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code on June 1, 2009. None of the operations for which she was directly responsible in Latin America, Africa and the Middle East were included in the bankruptcy filing. GM emerged from bankruptcy protection on July 10, 2009 in a reorganization in which a new entity acquired GM's most valuable assets. Ms. Kempston Darkes retired as a GM officer on December 1, 2009;
- (iv) Mr. Giffin, a director of the Company, was a director of AbitibiBowater Inc. until January 22, 2009. AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions in the United States under Chapter 11 of the U.S. Bankruptcy Code on April 16, 2009. AbitibiBowater Inc. and certain of its Canadian subsidiaries filed for creditor protection under the CCAA in Canada on April 17, 2009. Mr. Giffin is no longer a director of AbitibiBowater Inc.;
- (v) Mr. Losier, a director of the Company, was a director of XL-ID Solutions Inc. (formerly, Excellium Inc.) ("XL-ID") from July 23, 2013 to August 29, 2013. On January 3, 2014, XL-ID announced that it had submitted a proposal to its creditors under the *Bankruptcy and Insolvency Act* (Canada). On February 13, 2014, XL-ID announced that it had received a final order from the Superior Court of Quebec approving the proposal approved by its creditors.

# STATEMENT OF CORPORATE GOVERNANCE PRACTICES

## General

We are committed to adhering to the highest standards of corporate governance and our corporate governance practices were designed in a manner consistent with this objective. The role, specific mandate and functioning rules of the Board of Directors and of each of its committees are set forth in our Corporate Governance Manual which was formally approved by the Board of Directors on January 21, 2003, and last amended on March 11, 2014. Our Corporate Governance Manual is available on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance. It is revised regularly with a view to continually improving our practices by assessing their effectiveness and comparing them with evolving practices, changing circumstances and our needs. Our Corporate Governance Manual forms part of the documentation given to all persons elected or appointed to the Board of Directors.

As a Canadian reporting issuer with securities listed on the Toronto Stock Exchange (“TSX”) and the New York Stock Exchange (“NYSE”), our corporate governance practices comply with applicable rules adopted by the Canadian Securities Administrators (the “CSA”), applicable provisions of the U.S. *Sarbanes-Oxley Act* of 2002 (the “*Sarbanes-Oxley Act*”) and related rules of the U.S. Securities and Exchange Commission (“SEC”). We are exempted from complying with many of the NYSE corporate governance rules, provided that we comply with Canadian governance requirements. Except as summarized on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance, our governance practices comply with the NYSE corporate governance rules in all significant respects.

The CSA adopted, in June 2005, National Instrument 58-101—Disclosure of Corporate Governance Practices (as amended from time to time, the “*Disclosure Instrument*”) and National Policy 58-201—Corporate Governance Guidelines (as amended from time to time, the “*Governance Policy*”). The *Governance Policy* provides guidance on governance practices to Canadian issuers, while the *Disclosure Instrument* requires issuers to make the prescribed disclosure regarding their own governance practices. The Company believes that its corporate governance practices meet and exceed the requirements of the *Disclosure Instrument* and the *Governance Policy*. The text and footnotes set forth hereunder refer to the items of the *Disclosure Instrument* as well as to the guidelines of the *Governance Policy*, where applicable. The Company also refers, where appropriate, to the NYSE Corporate Governance Standards (the “*NYSE Standards*”).

The Board of Directors is of the opinion that the Company’s corporate governance practices are well designed to assist the Company in achieving its principal corporate objective, which is the enhancement of shareholder value. The mandate of the Board is set out in Schedule “A” to this Information Circular<sup>(1)</sup>. The Board of Directors has approved the disclosure of the Company’s governance practices described below, on the recommendation of the Corporate Governance and Nominating Committee.

## Code of Business Conduct<sup>(2)</sup>

In 2008, the Board of Directors reviewed and updated its Code of Business Conduct to ensure that it is consistent with current industry trends and standards; clearly communicates CN’s organizational mission, values, and principles; and, most importantly, serves as a ready reference guide for employees to support everyday decision making. The Code is applicable to directors, officers and employees of CN. It addresses many important matters, including conflict of interest, protection and proper use of corporate assets and opportunities, confidentiality of corporate information, fair dealing, compliance with laws and reporting of any illegal or unethical behaviour. No waiver has ever been granted to a director or executive officer in connection therewith. With a view to continually improving our practices and reflecting evolving legal requirements, the Code was again reviewed and updated, and distributed to all CN employees in 2012. The updated version of the Code is available on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance and in print to any shareholder who requests copies by contacting our Corporate Secretary. The Code has also been filed with the Canadian and U.S. securities regulatory authorities.

**THE ROLE, MANDATE AND RULES OF THE BOARD OF DIRECTORS AND OF ITS COMMITTEES ARE SET FORTH IN OUR CORPORATE GOVERNANCE MANUAL, WHICH IS AVAILABLE ON OUR WEBSITE.**

The Board, through its Corporate Governance and Nominating Committee, reviews, monitors and oversees the disclosure relating to the Company’s Code of Business Conduct. Each year, Management reports to such committee on the implementation of the Code within the organization and on any material contravention of the Code by employees of the Company.

The Board requests that every director disclose any direct or indirect interest he or she has in any organization, business or association, which could place the director in a conflict of interest. Every year, a questionnaire is sent to each director to ensure that the director is in no such conflict that has not been disclosed. Should there be a discussion or decision relating to an organization, business or association in which a director has an interest, the Board will request that such director not participate or vote in any such discussion or decision.

(1) Form 58-101F1 of the *Disclosure Instrument* (“**Form 58-101F1**”), section 2; *Governance Policy*, section 3.4.

(2) Form 58-101F1, section 5; *Governance Policy*, sections 3.8 and 3.9.

The Company believes that ethical business conduct is an important part of its success. Hence, the mandate of the Board attached as Schedule "A" to this Information Circular states that the Board has the responsibility for overseeing Management in the competent and ethical operation of the Company. As part of the Company's Code of Business Conduct, employees are also required to avoid outside interests that may impair or appear to impair the effective performance of their responsibilities to the Company and be fair and impartial in all dealings with customers, suppliers and partners. A key person in the implementation of the Company's Code of Business Conduct is CN's Ombudsman, who presents reports to the Corporate Governance and Nominating Committee. The office of the Ombudsman offers a confidential, neutral and informal avenue which facilitates fair and equitable resolutions to concerns arising within the Company.

The Board of Directors also adopted procedures allowing interested parties (i) to submit accounting and auditing complaints or concerns to us and (ii) to communicate directly with the Chairman, who presides over all non-executive director sessions. These procedures are described on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance. The Code of Business Conduct provides that concerns of employees regarding any potential or real wrongdoing in terms of accounting or auditing matters may be submitted confidentially through CN's Hot Line.

### Independence of Directors<sup>(1)</sup>

To better align the interests of the Board of Directors with those of our shareholders, all of the nominees for election to the Board of Directors, except our President and Chief Executive Officer, are independent. In determining whether a director is an independent director, the Board of Directors applies the standards developed by the Canadian securities regulatory authorities, the NYSE and the additional standards adopted by the Board. These standards are set out in CN's Corporate Governance Manual which is available on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance.

**THE BOARD OF DIRECTORS HAS ADOPTED PROCEDURES ALLOWING INTERESTED PARTIES TO COMMUNICATE DIRECTLY WITH THE CHAIRMAN.**

As shown in the following table, 12 of the 13 nominees for election to the Board of Directors are independent:

NAME	INDEPENDENCE STATUS		REASON FOR NON-INDEPENDENCE STATUS
	INDEPENDENT	NOT INDEPENDENT	
A. Charles Baillie	✓		
Donald J. Carty	✓		
Ambassador Gordon D. Giffin	✓		
Edith E. Holiday	✓		
V. Maureen Kempston Darkes	✓		
The Hon. Denis Losier	✓		
The Hon. Edward C. Lumley	✓		
Kevin G. Lynch	✓		
Claude Mongeau		✓	President and Chief Executive Officer of the Company
James E. O'Connor	✓		
Robert Pace	✓		
Robert L. Phillips	✓		
Laura Stein	✓		

### Independent Chairman of the Board<sup>(2)</sup>

The Company's Board has been led by a non-executive Chairman since it became public in 1995 and we believe that the separation of the positions of President and Chief Executive Officer and Chairman contributes to allowing the Board to function independently of Management. Hence, our Corporate Governance Manual provides that the Board Chair must be an independent director who is designated by the Board.

Mr. David G.A. McLean is the independent Board Chair. The Corporate Governance Manual describes the responsibilities of the Chairman. The key role of

**12 OF THE 13 NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS ARE INDEPENDENT.**

the Board Chair is to take all reasonable measures to ensure that the Board (i) has structures and procedures in place to enable it to function independently of Management, (ii) carries out its responsibilities effectively and (iii) clearly understands and respects the boundaries between the responsibilities of the Board and those of Management. Mr. McLean is not seeking re-election as director at the Meeting, after serving on the Board since August 31, 1994.

(1) Form 58-101F1, sections 1(a), (b) and (c); Governance Policy, section 3.1.

(2) Form 58-101F1, section 1(f); Governance Policy, section 3.2

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## Position Descriptions<sup>(1)</sup>

Our Corporate Governance Manual includes position descriptions for the Board Chair and the Committee Chairs, as well as a position description for the President and Chief Executive Officer of the Company.

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## Election of Directors

The Board of Directors has adopted a policy which is part of our Corporate Governance Manual, to the effect that a nominee for election as a director of the Company who receives a greater number of votes “withheld” than votes “for”, with respect to the election of directors by shareholders, will be expected to offer to tender his or her resignation to the Chairman promptly following the meeting of shareholders at which the director is elected. The Corporate Governance and Nominating Committee will consider such offer and make a recommendation to the Board of Directors whether to accept it or not. The Board of Directors will make its decision and announce it in a press release within 90 days following the meeting of shareholders. The director who offered to tender his or her resignation should not be part of any committee or Board of Directors deliberations pertaining to the resignation offer. This policy only applies in circumstances involving an uncontested election of directors. An “uncontested election of directors” means that the number of director nominees is the same as the number of directors to be elected to the Board and that no proxy material is circulated in support of one or more nominees who are not part of the candidates supported by the Board of Directors.

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**THE BOARD OF DIRECTORS HAS ADOPTED A MAJORITY VOTING POLICY.**

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## Committees of the Board<sup>(2)</sup>

Given our size, the nature and geographical scope of our activities and the great number of laws and regulations to which we are subject, the Board of Directors has subdivided its supervision mandate into six areas and has established committees that have certain responsibilities for such areas. These committees are the Audit Committee, the Finance Committee, the Corporate Governance and Nominating Committee, the Human Resources and Compensation Committee, the Environment, Safety and Security Committee and the Strategic Planning Committee and their charters are available as part of CN’s Corporate Governance Manual. The Board of Directors also established the Investment Committee of CN’s Pension

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**SCHEDULE “B” TO THIS INFORMATION CIRCULAR PROVIDES REPORTS ON THE ACTIVITIES OF EACH BOARD COMMITTEE.**

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Trust Funds and the Donations and Sponsorships Committee, which are mixed committees composed of members of the Board of Directors as well as officers of the Company. All committees report to the Board of Directors and, subject to certain limited exceptions, there are no standing delegations of the Board of Directors’ decision-making authority to committees.

The following is a brief summary of the mandate of each committee of the Board of Directors.

### *Audit Committee*

The Audit Committee has the responsibility of overseeing the Company’s financial reporting, monitoring risk management, internal controls and internal and external auditors. The mandate of the Audit Committee is further described in the section entitled “Statement of Corporate Governance Practices — Audit Committee Disclosure” at page 31 of this Information Circular and in the charter of such committee which is included in our Corporate Governance Manual.

### *Finance Committee*

The Finance Committee has the responsibility of overseeing the Company’s financial policies, reviewing financings and authorizing, approving and recommending certain financial activities. As part of these responsibilities, the Finance Committee provides oversight with respect to our capital structure, cash flows and key financial ratios, reviews the opportunities and parameters for debt or equity financing, reviews financing documents and, within the scope of its authority levels established by the Board, may authorize the borrowing of money, the issuing of debt securities or the engaging in other forms of financing, or makes recommendations to the Board thereon. The responsibilities, powers and operation of the Finance Committee are further described in the charter of such committee which is included in our Corporate Governance Manual.

### *Corporate Governance and Nominating Committee*

The Corporate Governance and Nominating Committee has the responsibility of monitoring the composition of the Board of Directors and its committees and overseeing corporate governance matters. As part of its responsibilities, the Corporate Governance and Nominating Committee develops, reviews and monitors criteria for selecting directors, including required or desired competencies and skills to improve the Board of Directors and, in consultation with the Board Chair, identifies candidates qualified to become Board members.<sup>(3)</sup>

(1) Form 58-101F1, sections 3(a) and (b); Governance Policy, section 3.5.

(2) Form 58-101F1, section 8.

(3) Governance Policy, section 3.13.

This Committee reviews the corporate governance guidelines applicable to the Company, recommends any change that should be made thereto and monitors the disclosure of its practices. The responsibilities, powers and operation of the Corporate Governance and Nominating Committee are further described in the charter of such committee which is included in our Corporate Governance Manual.<sup>(1)</sup>

The charter of the Corporate Governance and Nominating Committee provides that such committee must be composed solely of independent directors. As at February 28, 2014, all members of the Corporate Governance and Nominating Committee are independent.<sup>(2)</sup>

### **Human Resources and Compensation Committee**

The Human Resources and Compensation Committee has the responsibility of monitoring executive management's performance assessment and succession planning. This Committee also has the mandate to review human resources practices by ensuring, amongst other things, that appropriate human resources systems are in place so that the Company can attract, motivate and retain the quality of personnel required to meet its business objectives. The mandate of the Human Resources and Compensation Committee is further described in the section entitled "Statement of Executive Compensation — Human Resources and Compensation Committee" at page 37 of this Information Circular and in the charter of such committee which is included in our Corporate Governance Manual. The Human Resources and Compensation Committee must be composed solely of independent directors. As at February 28, 2014, all members of the Human Resources and Compensation Committee are independent.<sup>(3)</sup>

The Board has adopted a policy, which is included in our Corporate Governance Manual, that no more than one in three members of the Human Resources and Compensation Committee shall be a sitting CEO of another company, at least one member shall be experienced in executive compensation, and the President and CEO of the Company shall be excluded from the Committee member selection process.

Reference is also made to the subsection entitled "Statement of Executive Compensation — Human Resources and Compensation Committee — Executive Compensation Consultants" at page 39 of this Information Circular for disclosure in respect of executive compensation consultants.<sup>(4)</sup>

### **Environment, Safety and Security Committee**

The Environment, Safety and Security Committee has the responsibility, amongst other things, of overseeing the development and implementation of environmental, safety and security policies, assessing environmental, safety and security practices, and reviewing the Company's business plan to ascertain whether environmental, safety and security issues are adequately taken into consideration. The responsibilities, powers and operation of the Environment, Safety and Security Committee are further described in the charter of such committee which is included in our Corporate Governance Manual.

### **Strategic Planning Committee**

The Strategic Planning Committee, which is composed of all of the Company's Board Members, focuses on financial and strategic issues, including the review of the key assumptions, as well as the economic, business, regulatory and competitive conditions underlying the Company's business plan. It also reviews, with the President and Chief Executive Officer and other appropriate executive officers, the Company's business plan and capital budget prior to their formal approval by the Board of Directors. The responsibilities, powers and operation of the Strategic Planning Committee are further described in the charter of such committee which is included in our Corporate Governance Manual.

### **Investment Committee of CN's Pension Trust Funds**

The Investment Committee of CN's Pension Trust Funds, which is a mixed committee composed of directors and officers, has the responsibility, amongst other things, of reviewing the activities of the CN Investment Division, reviewing and approving the CN Investment Incentive Plan and award payouts thereunder, advising the CN Investment Division on investment of assets of CN's Pension Trust Funds and approving certain of the investments made by CN's Pension Trust Funds. The responsibilities, powers and operation of the Investment Committee of CN's Pension Trust Funds are further described in the charter of such committee which is included in our Corporate Governance Manual.

### **Donations and Sponsorships Committee**

The Donations and Sponsorships Committee, which is a mixed committee composed of directors and officers, has the responsibility, amongst other things, of developing a donations and sponsorships strategy and for reviewing and approving donation and sponsorship requests. The responsibilities, powers and operation of the Donations and Sponsorships Committee are further described in the charter of such committee which is included in our Corporate Governance Manual.

(1) Form 58-101F1, section 6(c); Governance Policy, section 3.11.

(2) Form 58-101F1, section 6(b); Governance Policy, section 3.10. The NYSE Standards state that a board should appoint a nominating committee composed entirely of independent directors and that such committee should have a written charter. The Board has adopted a written mandate for the Corporate Governance and Nominating Committee pursuant to which such committee must be composed solely of independent directors.

(3) Form 58-101F1, sections 7(a), (b) and (c) and Governance Policy, sections 3.15, 3.16 and 3.17 (regarding officers). The NYSE Standards state that the CEO's compensation should be determined by the corporation's compensation committee or by all independent directors of the corporation. Our Corporate Governance Manual provides that the CEO's compensation is determined by the Company's independent directors only. The NYSE Standards state that a board should appoint a compensation committee composed entirely of independent directors and that such committee should have a written charter. The Board has adopted a written mandate for the Human Resources and Compensation Committee pursuant to which such committee must be composed solely of independent directors.

(4) Form 58-101F1, section 7(d)

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## Board and Committee Meetings

### Process

The Board Chair, in collaboration with the Corporate Secretary, has the responsibility of establishing a schedule for the meetings of the Board of Directors and its committees. During this process, the Corporate Secretary, in collaboration with the Board and Committee Chairs and the appropriate executive officers, establishes Board and committee working plans for the year. We believe that proceeding in this manner

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**BOARD AND COMMITTEE WORKING PLANS ARE ESTABLISHED FOR THE YEAR.**

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helps in the preparation of in-depth presentations conducive to meaningful information sessions and discussions while allowing Management to plan ahead. If, during the course of the year, events or circumstances require Board or committee action or consideration, additional meetings are called. The total number of meetings and the attendance record for each director for all board and committee meetings held during the course of 2013 are set out in the section entitled “Nominees for Election to the Board — Board and Committee Attendance” of this Information Circular.<sup>(1)</sup>

Communication regularly takes place between the Board Chair and the President and Chief Executive Officer and, through the Office of the Corporate Secretary, between executive officers having responsibilities for matters placed under the supervision of particular committees and the Chairs of such committees. This open communication ensures that all meaningful information concerning the affairs and progress of the Company are transmitted to those members of the Board of Directors or committees having special supervisory responsibilities.

### In Camera Meetings

The independent Board members meet before or after every regular in-person meeting of the Board of Directors in *in camera* sessions, without the presence of Management and under the chairmanship of the Board Chair. During the financial year ended December 31, 2013, there were 12 *in camera* sessions that were attended exclusively by non-executive directors.<sup>(2)</sup>

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**IN CAMERA SESSIONS ARE HELD BY INDEPENDENT BOARD MEMBERS AT EVERY REGULAR IN-PERSON MEETING OF THE BOARD OF DIRECTORS.**

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## Director Selection<sup>(3)</sup>

### Review of Credentials

In consultation with the Board Chair, the Corporate Governance and Nominating Committee annually reviews the credentials of nominees for election or re-election as members of the Board of Directors. It considers their qualifications, the validity of the credentials underlying each nomination, and, for nominees who are already directors of the Company, an evaluation of their effectiveness and performance as members of the Board of Directors, including

their attendance at Board and committee meetings. Board and board committee members are expected to attend all meetings. As stated in our Corporate Governance Manual, any director who has attended less than 75% of meetings of the board or meetings of committees on which they sit, for more than two consecutive years, without a valid reason for the absences, will not be renominated. The Corporate Governance and Nominating Committee monitors and is constantly on the lookout for new candidates for nomination to the Board of Directors and is mindful of the mandatory retirement dates of current directors.

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**ANY DIRECTOR WHO HAS ATTENDED LESS THAN 75% OF BOARD OR COMMITTEE MEETINGS FOR MORE THAN TWO YEARS WITHOUT A VALID REASON WILL NOT BE RENOMINATED.**

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### Competency Matrix

The Corporate Governance and Nominating Committee, together with the Board Chair, is responsible for determining the needs of the Board in the long term and identifying new candidates to stand as nominees for election or appointment as directors. In 2012 and 2013, the Corporate Governance and Nominating Committee and the Board Chair focused on board renewal and succession in light of upcoming director retirements, with a view to expanding and completing the Board’s overall expertise in certain areas. The Board Chair and the Corporate Governance and Nominating Committee have engaged in an in-depth succession planning process. Board renewal and succession was a standing item at every meeting of the Corporate Governance and Nominating Committee. In proposing the list of Board nominees, the Board of Directors is guided by the process described in our Corporate Governance Manual. As part of the process, the Board Chair, in consultation with the Corporate Governance and Nominating Committee, develops a competency matrix based on knowledge areas, types of expertise and geographical representation and identifies any gaps to be addressed in the director nomination process. The Board ensures that the skill set developed by directors, through their business expertise and experience, meets the needs of the Board. The Board also takes into consideration the representativity, both in terms of experience and geographical location, of each candidate to the Board, as well as his or her independence, qualifications, financial acumen, business judgment and board dynamics. This competency matrix is reviewed regularly by the Board Chair with Board members, and is updated as may be required.

In 2013, the Corporate Governance and Nominating Committee examined its competency matrix in light of upcoming director retirements, with a view to expanding the Board’s overall experience and expertise and filling any gaps so that the longer term needs of the board are met. The Committee developed a set of criteria for Board membership that focused particularly on diversity, including diversity of gender, background and skills for the Board.

(1) Form 58-101F1, section 1(g).

(2) Form 58-101F1, section 1(e); Governance Policy, section 3.3.

(3) Form 58-101F1, section 6(a); Governance Policy, sections 3.12, 3.13 and 3.14.

In the process of searching for qualified persons to serve on the Board, the Corporate Governance and Nominating Committee strived for the inclusion of diverse groups, knowledge, and viewpoints. To accomplish this, the Corporate Governance and Nominating Committee also retained an executive search firm to help meet the Board’s diversity objective.

This sustained and rigorous process in which CN attracts and recruits new members to its board ultimately brings new perspectives and energy to the Board.

The following table identifies some of the current skills and other factors considered as part of the competency matrix developed by the Board Chair and the Corporate Governance and Nominating Committee, along with identification of each nominee for election to the Board of Directors possessing each skill:

	SALES/ MARKETING	FINANCE	ACCOUNTING	LEGAL	STRATEGY	HUMAN RESOURCES	ENGINEERING/ ENVIRONMENT	KNOWLEDGE OF TRANSPORT INDUSTRY/ SAFETY	PUBLIC POLICY
A. Charles Baillie	✓	✓	✓		✓	✓		✓	✓
Donald J. Carty	✓	✓	✓		✓	✓	✓	✓	✓
Ambassador Gordon D. Giffin	✓	✓	✓	✓	✓	✓		✓	✓
Edith E. Holiday	✓	✓		✓	✓	✓		✓	✓
V. Maureen Kempston Darkes	✓	✓	✓	✓	✓	✓	✓	✓	✓
The Hon. Denis Losier	✓	✓	✓		✓	✓		✓	✓
The Hon. Edward C. Lumley	✓	✓	✓		✓	✓		✓	✓
Kevin G. Lynch	✓	✓			✓	✓			✓
Claude Mongeau	✓	✓	✓		✓	✓	✓	✓	✓
James E. O’Connor	✓	✓	✓		✓	✓	✓	✓	✓
Robert Pace	✓	✓	✓	✓	✓	✓	✓	✓	✓
Robert L. Phillips	✓	✓		✓	✓	✓	✓	✓	✓
Laura Stein	✓	✓		✓	✓	✓	✓	✓	✓

The Board has developed an evergreen list which is updated on a regular basis. Prior to nominating a new director for election or appointment, the Board Chair and the Chief Executive Officer meet with the candidate to discuss his or her interest and willingness to serve on CN’s Board, potential conflicts of interest, and his or her ability to devote sufficient time and energy to the Board of Directors.

### **Board Diversity**

In an increasingly complex global marketplace, the ability to draw on a wide range of viewpoints, backgrounds, skills, and experience is critical to the Company’s success. Further, director and nominee diversity helps to ensure that a wide-variety of different perspectives are brought to bear on issues, while enhancing the likelihood that proposed solutions will be nuanced and comprehensive. The Board believes that diversity is an important attribute of a well-functioning board. In selecting qualified candidates to serve as directors of the Company, a wide-range of matters of diversity are considered, including race, gender, ethnicity, culture, and geography and measures ensuring that the Board, as a whole, reflects a range of viewpoints, backgrounds, skills, experience and expertise.

The Corporate Governance and Nominating Committee has developed a set of criteria for Board membership that strives to attain a diversity of background and skills for the Board. The

Corporate Governance and Nominating Committee has also created a search protocol that seeks qualified Board candidates from, among other areas, the traditional corporate environment, government, academia, private enterprise, non-profit organizations, and professions such as accounting, human resources, and legal services.

In the process of searching for qualified persons to serve on the Board, the Corporate Governance and Nominating Committee strives for the inclusion of diverse groups, knowledge, and viewpoints. To accomplish this, the Corporate Governance and Nominating Committee may retain an executive search firm to help meet the Board’s diversity objective. In connection with its efforts to create and maintain a diverse Board, the Corporate Governance and Nominating Committee has:

- developed recruitment protocols that seek to include diverse candidates in any director search. These protocols take into account that qualified candidates may be found in a broad array of organizations, including academic institutions, privately held businesses, nonprofit organizations, and trade associations, in addition to the traditional candidate pool of corporate directors and officers;

- strived to use, to their fullest potential, the current network of organizations and trade groups that may help identify diverse candidates; and
- periodically reviewed director recruitment and selection protocols so that diversity remains a component of any director search.

The Corporate Governance and Nominating Committee has reviewed the selection process and ensured that women and minorities were included in the slate of candidates.

### **Common Directorships**

With a view to further strengthen directors' independence, the Board has adopted a policy pursuant to which a director shall not accept the invitation to join an outside board on which a director of CN already sits without previously obtaining the approval of the Corporate Governance and Nominating Committee. In addition, the Board has adopted a policy, which is included in our Corporate Governance Manual, to the effect that no more than two of the Company's directors should generally serve on the same outside board or outside board committee.

As of February 28, 2014, no members of our Board of Directors served together on the boards of other public companies.

### **Number of Directorships**

CN recognizes that Board membership requires a significant dedication of time. As a result, the number of boards on which an individual can serve is necessarily limited. With a view to taking reasonable steps to ensure the ability of each candidate to make the commitment of time necessary to be a director of CN, the Board will apply the following guidelines when considering candidates to become directors of CN:

- for candidates that are chief executive officers or other senior executives of public corporations, the Board will prefer individuals who hold no more than two (2) public corporation directorships (excluding CN's Board) in addition to membership on the board of the corporation at which an individual is employed;
- for candidates that have a full-time employment with non-public corporations or other entities and for full-time employees of public corporations (other than chief executive officers or senior executives of such public corporations), the Board will prefer individuals who hold no more than four (4) public corporation directorships (excluding CN's Board) in addition to membership on the board of the corporation at which an individual is employed; and
- for other candidates, the Board will prefer individuals who hold no more than five (5) public corporation directorships (excluding CN's Board).

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**NO BOARD MEMBERS  
SIT TOGETHER ON THE  
BOARD OF ANOTHER  
PUBLIC COMPANY.**

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Directors are expected to provide the Board Chair with information as to all boards of directors that they sit on or that they have been asked to join so as to allow the Board to determine whether it is appropriate for such director to continue to serve as a member of the Board or of a Board Committee. The Corporate Governance and Nominating Committee and the Board Chair will apply Board nominee selection criteria, including directors' past contributions to the Board and availability to devote sufficient time to fulfill their responsibilities, prior to recommending directors for re-election for another term.

The biographies on pages 7 to 14 of this Information Circular identify the other reporting issuers of which each nominee is a director.<sup>(1)</sup>

### **Evergreen List**

In order to assist the Corporate Governance and Nominating Committee and the Board Chair in recommending candidates to become directors of CN, the Corporate Governance and Nominating Committee has constituted, together with the Board Chair, a list of potential Board candidates, which it updates from time to time.

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**AN EVERGREEN LIST  
OF POTENTIAL BOARD  
CANDIDATES IS  
MAINTAINED AND UPDATED  
FROM TIME TO TIME.**

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### **Retirement from the Board**

The Board has adopted a policy on the mandatory retirement age for directors whereby a director would not, unless otherwise determined by the Board, in its discretion, be nominated for re-election at the annual meeting of shareholders following his or her seventy-fifth birthday. In addition, directors are expected to inform the Board Chair of any major change in their principal occupation so that the Board will have the opportunity to decide the appropriateness of such director's continuance as a member of the Board or of a Board committee. The Board of Directors has not deemed it appropriate or necessary to limit the number of terms a director may serve on the Board, except as set out below.

### **Board Tenure and Term Limits**

The Board has also adopted a new policy, which is part of CN's Corporate Governance Manual, to the effect that the Board Chair and the Committee Chair tenure would be subject to term limits. The Board of Directors is of the view that CN's policy on Chair term limits, together with its policy on mandatory retirement age, establishes a mechanism that ensures Board Chair and Committee Chair renewal, provides a fresh perspective in the boardroom and improves the Board's ability to plan its composition over a longer period of time.

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**OUR POLICY ON TERM  
LIMITS, TOGETHER WITH OUR  
POLICY ON MANDATORY  
RETIREMENT AGE, ENSURES  
A FRESH PERSPECTIVE IN  
THE BOARDROOM.**

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- Effective as of April 23, 2014, but without regard to past service, CN's Board Chair will serve for a term of five (5) years,

(1) Form 58-101F1, section 6(a); Governance Policy, sections 3.12, 3.13 and 3.14

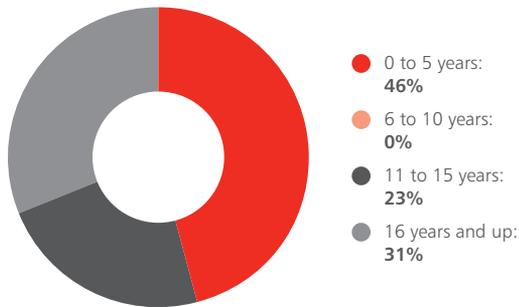
renewable for one further three (3) year term, subject to the discretion of the Board of Directors to further extend the term, if deemed appropriate. At the end of the term(s) as Board Chair, the departing Board Chair would not stand for election as a Director of CN at the next annual shareholders' meeting. The above term(s) for the Board Chair would remain subject to the mandatory retirement age limit of 75 years of age.

- Effective as of April 23, 2014, but without regard to past service, Committee Chairs will serve for a term of three (3) years, renewable for one further two (2) year term, subject to the discretion of the Board of Directors to further extend the term, if deemed appropriate.

In each of the above instances, the election or appointment of the CN Board Chair or Committee Chairs, respectively, remains subject to annual review and election/appointment.

The Board retains its discretion to extend the above term limits, which will preserve its ability to deal with special circumstances warranting the extension of the mandate.

The following chart shows the tenure of the Company's Board as of April 23, 2014:



Please refer to the biographies on pages 7 to 14 for details regarding length of Board tenure of each nominee for election as directors.

### Director Emeritus

The Board of Directors confers, from time to time, the honorary status of Director Emeritus to retiring or former directors who have made significant contributions to the Board through long and distinguished service and accomplishments. Currently, lifetime emeritus status has been bestowed upon Purdy Crawford, Raymond Cyr, James K. Gray and Cedric Ritchie.

Directors Emeritus are invited to attend the annual meeting of shareholders and certain Company or Board events taking place in their geographic area of residence and are reimbursed for reasonable travel and other out-of-pocket expenses in connection with attendance at such events.

## Board Performance Assessment<sup>(1)</sup>

### Process

The Board of Directors has implemented, and reviews, from time to time, a comprehensive process to annually assess its effectiveness, the effectiveness of its committees, the Board Chair, the Committee Chairs and individual directors. This process is under the supervision of the Corporate Governance and Nominating Committee and the Board Chair and is comprised of the following steps:

**THE BOARD HAS IMPLEMENTED A COMPREHENSIVE ASSESSMENT PROCESS.**

- The following questionnaires are prepared by the Office of the Corporate Secretary and approved by the Corporate Governance and Nominating Committee and the Board Chair, taking into account current issues, the findings of previous years and input from the Board of Directors:
  - Board and committee performance evaluation questionnaires, including a self-assessment by individual directors;
  - a Board Chair evaluation questionnaire; and
  - Committee Chair evaluation questionnaires.
- Each questionnaire is then sent to every director and a complete set of the responses is forwarded to the Board Chair, except for the responses to the evaluation questionnaire relating to the Board Chair, which is forwarded directly to each of the Chairs of the Audit Committee and the Human Resources and Compensation Committee.
- Following receipt of the completed questionnaires, the Board Chair contacts every director and conducts open and confidential one-on-one meetings. The purpose of these meetings is to discuss the answers received from and in respect of each director, to take into account of any comments which the director may have and to review the self-evaluation of each director. One of the Audit Committee or Human Resources and Compensation Committee Chairs also discusses individually with each director his or her responses and comments on the Board Chair evaluation questionnaire.
- Reports are then made by the Board Chair and the Audit Committee and Human Resources and Compensation Committee Chairs to the Board of Directors, with suggestions to improve the effectiveness of the Board of Directors, Board committees, Board and Committee Chairs, and separately to individual directors in respect of their personal performance.
- The Board Chair and Committee Chairs take into consideration the overall results and suggestions derived from the annual Board performance assessment in order to improve the functioning and activities of the Board and Board committees.

(1) Form 58-101F1, section 9; Governance Policy, section 3.18.

### **Independent Advisor**

In addition to the above-mentioned process, the Board may, from time to time, hire an independent advisor to assist the Board of Directors in independently assessing the performance of the Board of Directors, Board committees, Board and Committee Chairs and individual directors.

### **Peer Assessment**

The Board Chair leads on an annual basis a peer review process through one-on-one meetings with each individual director. The Corporate Governance and Nominating Committee also considers on an annual basis the appropriateness of conducting a peer assessment through an independent advisor. In 2007, the Corporate Governance and Nominating Committee and the Board carried out an individual director peer assessment with the assistance of an independent advisor. The process involved peer assessment questionnaires which were completed by each director and forwarded directly and confidentially to the advisor. Responses were then consolidated in an individual director report and distributed by the advisor directly to each director, as well as to the Board Chair, and a report was made by the Board Chair to the Board of Directors. In 2013, no such assessment was deemed necessary in light of the annual peer review process led by the Board Chair.

The Board performance assessment process is further described in CN's Corporate Governance Manual which is available on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance.

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## **Board Compensation**

The Corporate Governance and Nominating Committee annually reviews with the Board Chair and makes recommendations to the Board on the adequacy and form of compensation for non-executive directors, taking reasonable steps to ensure such compensation realistically reflects the responsibilities and risk involved, without compromising a director's independence. See the section entitled "Nominees for Election to the Board — Board of Directors Compensation" of this Information Circular for additional information on compensation received by directors in 2013.<sup>(1)</sup>

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## **Director Orientation and Continuing Education<sup>(2)</sup>**

### **Orientation**

Our orientation program includes presentations by the Company's officers on CN's organizational structure and the nature and operation of its business, a review with the Board Chair of the methods of operation and the roles of the Board and its committees, a discussion on the contribution individual directors are expected to make and access to appropriate information or outside resources as required. New directors are provided with the following: a Directors' handbook containing corporate and other information required to familiarize themselves with the Company, its organization and operations and CN's key corporate governance and public disclosure documents, including CN's Corporate Governance Manual and board and committee charters; information regarding the review process for the Board, its committees and their chairs, and individual directors; CN's important policies and procedures, including CN's Code of Business Conduct; and organizational charts and other business orientation materials, including CN's Fact Book, sustainability and safety brochures, financial statements and regulatory information.

### **Continuing Education**

The Board Chair arranges for Board members to have access to education and information on an ongoing basis pertaining to Board effectiveness and the best practices associated with successful boards, briefings on factors or emerging trends that may be relevant to the Company's business strategy and other material as deemed appropriate by the Board Chair. The Company also makes available, at its cost, a host of educational programs provided by leading institutions. We encourage directors to attend seminars and other educational programs and to report back to the Board on the quality of such programs. Educational reading materials on corporate governance and other topics are also included in the materials provided to the Board in advance of meetings.

(1) Form 58-101F1, section 7(a) and Governance Policy, section 3.17(b) (regarding directors).

(2) Form 58-101F1, sections 4(a) and (b); Governance Policy, sections 3.6 and 3.7.

In 2013, Board members were provided with educational reading materials and presentations on a variety of matters and topics, including corporate governance, executive compensation, executive succession planning, key accounting considerations, financial strategy, risk management and disclosure, and Canadian and U.S. securities law developments. The Board regularly received updates and reports by CN's internal counsel on regulatory matters of importance and emerging issues of significance, such as safety and risk mitigation, to CN and the railway industry.

Directors also interacted with executive and senior management at every board meeting and received regular and extensive presentations on matters of strategic importance to the Company's business, including presentations on its customer engagement initiatives, safety, stakeholder and community outreach initiatives, business growth strategy, operating plans, supply chain strategy, car management, its sustainability initiatives and regulatory matters relevant to the business of the Company.

The table below lists seminars and courses by external providers, as well as dedicated internal sessions and presentations on key CN subject matters, that the directors of the Company attended in 2013 and early 2014.

SUBJECT MATTER/TOPIC PRESENTED	PRESENTED/HOSTED BY	ATTENDED BY
SAFETY <ul style="list-style-type: none"> <li>Structured Safety Engagement Plan</li> </ul>	CN Corporate Services CN Operations	All directors
CUSTOMER RELATIONS <ul style="list-style-type: none"> <li>CustomerFIRST Initiatives</li> <li>Supply Chain Monitoring Tools</li> <li>Customer Survey</li> <li>Balancing Operational and Service Excellence</li> </ul>	CN Marketing CN Operations	All directors Strategic Planning Committee Members
MARKETING <ul style="list-style-type: none"> <li>Grain Business</li> <li>Export Supply Chain</li> <li>Energy Sector</li> </ul>	CN Marketing CN Network Strategies	All directors Strategic Planning Committee Members
FINANCE <ul style="list-style-type: none"> <li>Framework for Shareholder Distributions</li> <li>KPMG Training Session</li> </ul>	Citibank, External Auditors KPMG CN Accounting	Finance Committee Members Audit Committee Members
SUSTAINABILITY <ul style="list-style-type: none"> <li>Environmental Stewardship</li> <li>Workforce Renewal and Training Excellence</li> </ul>	Downstream Consulting at IHS/Purvin & Gertz CN Corporate Services CN Operations CN Human Resources	All directors
TECHNOLOGY <ul style="list-style-type: none"> <li>Business Intelligence</li> <li>Enhanced Risk Mitigation Through Process and Technology</li> </ul>	CN Information Technology CN Operations	All directors

Moreover, the directors have, from time to time, been provided with first-hand opportunities to visit certain sites where CN is making significant investments, such as the intermodal terminals in Prince George and at the Port of Prince Rupert. They have also visited certain CN main yards, as well as our Information Technology command center, Kirk Yard and the EJ&E properties in the United States. During such events, the Board had the opportunity to interact with CN officers to gain a full appreciation of such strategic projects and to learn more about CN's overall operations. Directors also attend community dinners and other company events throughout the year.

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**DIRECTORS INTERACT WITH MANAGEMENT AND RECEIVE REGULAR PRESENTATIONS ON MATTERS OF STRATEGIC IMPORTANCE.**

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## Audit Committee Disclosure

National Instrument 52-110 — Audit Committees (“NI 52-110”) of the CSA requires issuers to include the charter of their audit committee and disclose information with respect to the composition, education and experience of the members of their audit committees, as well as all fees paid to external auditors in their annual information form. We comply with the requirements regarding composition and responsibilities, as summarized hereinafter, and we refer you to Schedule “A” of our Annual Information Form available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance/Board Committees with regards to the charter of our Audit Committee.<sup>(1)</sup>

### Composition of the Audit Committee

The Audit Committee is composed of seven independent directors, namely, The Hon. Denis Losier, Chair of the Committee, Hugh J. Bolton, Donald J. Carty, Ambassador Gordon D. Giffin, V. Maureen Kempston Darkes, James E. O’Connor, and Robert Pace. Mr. Bolton will not seek re-election as director at the Meeting, after serving on the Board since 2003. The Chair of the Human Resources and Compensation Committee, Mr. Giffin, is necessarily a member of the Audit Committee, as provided for in the Corporate Governance Manual. No member of the Audit Committee receives, other than in his or her capacity as a director or member of a Board committee, directly or indirectly, any fee from the Company or any subsidiary of the Company, nor is an affiliated person of the Company, or any subsidiary of the Company.<sup>(2)</sup>

### MANDATE OF THE AUDIT COMMITTEE

As further described below, the Audit Committee’s responsibilities can be divided into four categories:

- overseeing financial reporting;
- monitoring risk management and internal controls;
- monitoring internal auditors; and
- monitoring external auditors.

### OVERSEEING FINANCIAL REPORTING

The mandate of the Audit Committee provides that the committee is responsible for reviewing, with Management and the external auditors, the annual and quarterly financial statements of the Company and accompanying information, including the Company’s MD&A disclosure and earnings press releases, prior to their release, filing and distribution. The mandate also provides that the committee should review the procedures in place for the review of the Company’s disclosure of financial information extracted or derived from the Company’s financial statements and periodically assess the adequacy of those procedures.<sup>(3)</sup>

The Audit Committee is also responsible for reviewing the financial information contained in the annual information form and other reports or documents, financial or otherwise, requiring Board approval.

Furthermore, the Audit Committee is in charge of reviewing the results of the external audit, any significant problems encountered in performing the audit, and Management’s response and/or action plan related to any issue identified by the external auditors and any significant recommendations relating thereto.

### MONITORING RISK MANAGEMENT AND INTERNAL CONTROLS

The Audit Committee is responsible for receiving periodically Management’s report assessing the adequacy and effectiveness of CN’s disclosure controls and procedures and systems of internal control. The mandate of the Audit Committee also provides that the committee must review CN’s risk assessment and risk management policies.

The Audit Committee is also responsible for assisting the Board with the oversight of CN’s compliance with applicable legal and regulatory requirements.

Additionally, the mandate of the Audit Committee provides that the committee must establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters or employee concerns regarding accounting or auditing matters, while insuring confidentiality and anonymity. CN has adopted such procedures. Please refer to the Corporate Governance section of our website at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance for more details on these procedures.<sup>(4)</sup>

### MONITORING INTERNAL AUDITORS

The Audit Committee is responsible for ensuring that the Chief Internal Auditor reports directly to the Audit Committee, and for regularly monitoring the internal audit function’s performance, its responsibilities, staffing, budget and the compensation of its members. It further annually reviews the internal audit plan and ensures that the internal auditors are accountable to the Audit Committee.

(1) NI 52-110, section 2.3, subsection 1.

(2) NI 52-110, section 3.1, subsections 1, 2 and 3. The NYSE Standards and the applicable rules of the SEC require that in order to be considered independent, a member of the Audit Committee should not, other than in his or her capacity as a director or member of a board committee and in other limited circumstances, accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any subsidiary of the Company nor be an affiliated person of the Company or any subsidiary of the Company. All members of the Audit Committee are independent pursuant to such definition.

(3) NI 52-110, section 2.3, subsections 5 and 6.

(4) NI 52-110, section 2.3, subsection 7.

## MONITORING EXTERNAL AUDITORS

The mandate of the Audit Committee states that the committee is responsible for recommending the retention and, if appropriate, the removal of external auditors, evaluating and remunerating them, and monitoring their qualifications, performance and independence.<sup>(1)</sup>

The Audit Committee is also in charge of approving and overseeing the disclosure of all audit, review and attestation services provided by the external auditors, determining which non-audit services the external auditors are prohibited from providing, and pre-approving and overseeing the disclosure of permitted non-audit services by the external auditors.<sup>(2)</sup>

The Audit Committee is responsible for overseeing the external auditors and discussing with them the quality and not just the acceptability of the Company's accounting principles, including any material written communications between the Company and the external auditors (including disagreements, if any, with Management and the resolution thereof).<sup>(3)</sup>

The Audit Committee also reviews at least annually, the formal written statement from the external auditors stating all relationships the external auditors have with CN and confirming their independence.

The mandate of the Audit Committee also provides that the committee is responsible for reviewing hiring policies for employees or former employees of the Company's firm of external auditors.<sup>(4)</sup>

Furthermore, the mandate of the Audit Committee states that the Audit Committee may retain independent advisors to help it carry out its responsibilities, including fixing such advisors' fees and retention terms, subject to advising the Board Chair. The committee makes arrangements for the appropriate funding for payment of the external auditors and any advisors retained by it. Pursuant to its charter, the Audit Committee also has direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The internal and external auditors must meet separately with the Audit Committee, without Management, twice a year, and more frequently as required.<sup>(5)</sup>

The Audit Committee met five (5) times in 2013 and held *in camera* sessions at each meeting. The report of the Audit Committee, set forth in Schedule "B" to this Information Circular, outlines the major subject areas reviewed by the committee during the year, in compliance with its mandate.

## Audit Committee Report Regarding Internal Control Over Financial Reporting

The Audit Committee received periodically Management's report assessing the adequacy and effectiveness of our disclosure controls and procedures and systems of internal control in respect of the 2013 fiscal year. The Company's external auditors, KPMG LLP, are responsible for performing an independent audit of our consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board ("PCAOB") in the U.S., and an independent audit of the effectiveness of internal controls over financial reporting, in accordance with the standards of the PCAOB. These audits serve as a basis for KPMG LLP's opinions addressing whether the consolidated financial statements fairly present our financial position, results of operations, and cash flows in conformity with U.S. Generally Accepted Accounting Principles.

The Audit Committee has discussed with KPMG LLP the matters required to be discussed by the PCAOB Auditing Standards No. 16 (Communication With Audit Committees) and Chartered Professional Accountants of Canada ("CPA") Handbook – Assurance Section 260 (Communications With Those Charged With Governance) including matters relating to the conduct of the audit of our financial statements and the assessment of the effectiveness of our internal control over financial reporting under section 404 of the *Sarbanes-Oxley Act*.

KPMG LLP provided the Committee with written disclosures and the letter required by Rule 3526 of the PCAOB. The Audit Committee has discussed with KPMG LLP the firm's independence from the Company. A formal written statement describing all relationships between KPMG LLP and the Company was remitted to the Audit Committee and it includes a written confirmation that KPMG LLP are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation and are independent public accountants with respect to the Company within the meaning of all relevant U.S. professional and regulatory standards, including the independence rules adopted by the SEC pursuant to the *Sarbanes-Oxley Act*, and Rule 3520 of the PCAOB.

Based on this review and these discussions, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be filed with Canadian securities regulators and included in the Company's Annual Report on Form 40-F for the year ended December 31, 2013 filed with the SEC.

(1) NI 52-110, section 2.3, subsection 2.

(2) NI 52-110, section 2.3, subsection 4.

(3) NI 52-110, section 2.3, subsection 3.

(4) NI 52-110, section 2.3, subsection 8.

(5) NI 52-110, section 4.1.

## Education and Relevant Experience of the Audit Committee Members

The Board of Directors believes that the composition of the Audit Committee reflects a high level of financial literacy and experience. As required in the charter of the Audit Committee, all members of the Audit Committee are financially literate, as such terms are defined under Canadian securities laws and regulations<sup>(1)</sup> and the NYSE Standards, and several members of the committee meet all criteria to be designated as “audit committee financial expert” under the rules of the SEC. The Board has made such determination based on the education and experience of each committee member.

In determining if a director is an “audit committee financial expert”, the Board considers if the director is a person who has: (a) an understanding of generally accepted accounting principles and financial statements; (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements, or experience actively supervising one or more persons engaged in such activities; (d) an understanding of internal controls and procedures for financial reporting; and (e) an understanding of audit committee functions.

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**ALL MEMBERS OF THE  
AUDIT COMMITTEE ARE  
FINANCIALLY LITERATE  
AND SEVERAL MEMBERS  
ARE AUDIT COMMITTEE  
FINANCIAL EXPERTS.**

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The following is a description of the education and experience of each member of the Audit Committee as of the date of this Information Circular that is relevant to the performance of his/her responsibilities as a member of the committee:

Mr. Bolton is the chairman of the board of directors of EPCOR Utilities Inc. and former chair of Matrikon Inc. Mr. Bolton is a director and member of the audit committees of TD Bank Financial Group, Teck Resources Limited and WestJet Airlines Ltd. and a director of Capital Power Corporation. From 1992 to 1997, Mr. Bolton was chair and Chief Executive Partner of Coopers & Lybrand Canada (now PricewaterhouseCoopers). Mr. Bolton was a partner of Coopers & Lybrand for 34 years and a public accountant and auditor with that firm for 40 years. He is a Chartered Accountant and a fellow of the Alberta Institute of Chartered Accountants. Mr. Bolton holds a B.A. in economics from the University of Alberta. Mr. Bolton is a member of four audit committees of public companies including CN. The Board has determined that such service in no way impaired Mr. Bolton’s ability to effectively serve on the Audit Committee of the Company. Mr. Bolton is not standing for re-election at the Meeting.

Mr. Carty is the retired Vice-Chairman and Chief Financial Officer of Dell, Inc., a position he assumed from January 2007 until June 2008. Before joining Dell, Mr. Carty retired in June 2003 as Chairman and CEO of AMR Corporation and American Airlines. He had previously served as President, Executive Vice-President – Finance and Planning and Senior Vice-President and Controller of AMR Airline Group and American Airlines. He was President and CEO of CP Air from 1985 to 1987. Mr. Carty is chairman of Virgin America Airlines Inc., Porter Airlines Inc. and Research Now Group, Inc. and is serving as a director and member of the audit committee of Talisman Energy Inc. Mr. Carty holds a Master of Business Administration from the Harvard Business School.

Ambassador Giffin is a Senior Partner of the law firm of McKenna Long & Aldridge, where he maintains offices in Washington, D.C. and Atlanta. His practice focuses on international transactions and trade matters and public policy. He has been engaged in the practice of law or government service for more than thirty years. Mr. Giffin was United States Ambassador to Canada from 1997 to 2001. Mr. Giffin is a member of the board of trustees of the Jimmy Carter Presidential Center and the board of directors of the Canada-US Fulbright Program. Mr. Giffin serves on the Board of Counsellors of McLarty Global. Mr. Giffin is also chair of the board of TransAlta Corporation and a director of the Canadian Imperial Bank of Commerce. He is a director and a member of the audit committee of Canadian Natural Resources Limited and a director of Element Financial Corporation and Just Energy Group Inc. Mr. Giffin holds a B.A. from Duke University and a J.D. from Emory University School of Law in Atlanta, Georgia.

Ms. Kempston Darkes is the retired Group Vice-President and President Latin America, Africa and Middle East, General Motors Corporation. In 2009 she ended a 35-year career at GM during which she attained the highest operating post ever held by a woman at GM. From 1994 to 2001, she was President and General Manager of General Motors of Canada Limited and Vice-President of General Motors Corporation. Ms. Kempston Darkes is also a director of Enbridge Inc., a director and chair of the audit committee of Irving Oil Co. Ltd, a director and chair of the risk management committee of Brookfield Asset Management Inc., and a director and chair of the business practices committee of Balfour Beatty Plc. Ms. Kempston Darkes holds a Bachelor of Arts in history and political science from Victoria University at the University of Toronto and a Bachelor of Law degree from the University of Toronto Faculty of Law.

(1) NI 52-110, section 3.1, subsection 4.

Mr. Losier, Chairman of the Audit Committee, is the retired President and Chief Executive Officer, Assumption Life. Mr. Losier held various cabinet level positions with the government of the Province of New Brunswick, from 1989 to 1994, including Minister of Fisheries and Aquaculture and Minister of Economic Development and Tourism. He is the chair of Invest N.B. and a director and member of the audit committee of Plazacorp Retail Properties Ltd., and he is also a director of Enbridge Gas New Brunswick Limited Partnership. Mr. Losier holds a Masters of Economics from the University of Western Ontario.

Mr. O'Connor is the retired chair of the board of directors of Republic Services, Inc., a leading provider of non-hazardous solid waste collection, recycling and disposal services in the United States. From 1998 to 2011, Mr. O'Connor was chair and Chief Executive Officer of Republic Services, Inc. Prior to 1998, he had held various management positions at Waste Management, Inc. He was named to the list of America's Best CEOs each year between 2005 and 2010. In 2011, Mr. O'Connor was named to the Institutional Investors' All American Executive Team. He is a director of Clean Energy Fuels Corp. and holds a Bachelor of Science in Commerce (concentration in accounting) from DePaul University.

Mr. Pace is the President and Chief Executive Officer, The Pace Group. Mr. Pace is also a member of the board of directors of Maritime Broadcasting Systems Inc., High Liner Foods Incorporated and Hydro One Inc. Mr. Pace holds an MBA and an LL.B Law Degree from Dalhousie University in Halifax, Nova Scotia, and has more than 25 years of business experience.

### Auditors Fees

KPMG LLP has served as the Company's auditors since 1992. For the years ended December 31, 2013 and 2012, the fees for audit, audit-related, tax and all other services provided to the Company by KPMG LLP were the following:

FEES (IN THOUSANDS)	2013 (C\$)	2012 (C\$)
Audit	2,608	2,574
Audit-Related	1,249	1,033
Tax	834	904
All Other	131	-
<b>TOTAL FEES</b>	<b>4,822</b>	<b>4,511</b>

Pursuant to the terms of its charter, the Audit Committee approves all audit and audit-related services, audit engagement fees and terms and all non-audit engagements provided by the independent auditor. The Audit Committee pre-approved all the services performed by our independent auditors for audit-related and non-audit related services for the years ended December 31, 2013 and 2012.

The nature of the services under each category is described below.

#### AUDIT FEES

Consist of fees incurred for professional services rendered by the auditors in relation to the audit of the Company's consolidated annual financial statements and those of its subsidiaries, and the audit relating to the Company's internal control over financial reporting.

#### AUDIT-RELATED FEES

Audit-related fees were incurred for professional services rendered by the auditors in relation to the audit of the financial statements for the Company's pension plans, and for attestation services in connection with reports required by statute or regulation and due diligence and other services, including comfort letters, in connection with the issuance of securities.

#### TAX FEES

Consist of fees incurred for consultations on cross-border tax implications for employees and tax compliance.

#### ALL OTHER FEES

Consist primarily of fees incurred for services related to Information Technology.

#### NON-AUDIT SERVICES

The mandate of the Audit Committee provides that the Audit Committee determines which non-audit services the external auditors are prohibited from providing, approves audit services and pre-approves permitted non-audit services to be provided by the external auditors. CN's Audit Committee and the Board of Directors have adopted resolutions prohibiting the Company from engaging KPMG LLP to provide certain non-audit services to the Company and its subsidiaries, including bookkeeping or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions, or contribution in-kind reports, actuarial services, internal audit outsourcing services, management functions or human resources functions, broker or dealer, investment adviser, or investment banking services and legal services and expert services unrelated to the audit. Pursuant to such resolutions, the Company may engage KPMG LLP to provide non-audit services, including tax services, other than the prohibited services listed above, but only if the services have specifically been pre-approved by the Audit Committee.<sup>(1)</sup>

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**THE EXTERNAL AUDITORS  
ARE PROHIBITED FROM  
PROVIDING CERTAIN  
NON-AUDIT SERVICES.**

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(1) NI 52-110, section 3.1, subsection 4.

# STATEMENT OF EXECUTIVE COMPENSATION

## Dear Shareholder,

CN has once again delivered solid financial results in 2013. The Company continued to advance its agenda of supply-chain collaboration with its sights set on becoming a true supply-chain enabler. The Company sees value for its customers and ultimately its shareholders in approaching its business from an end-to-end perspective, with a clear view of the steps in between. This approach constitutes a new paradigm that we believe drives improved supply-chain efficiencies; breaks down silos and encourages meaningful communication and problem-solving; and helps position CN customers to achieve greater competitiveness within their own markets while simultaneously supporting CN's growth and success.

CN is committed to maintaining its industry leading position by balancing operational and service excellence, delivering superior growth at low incremental cost, building a solid team of railroaders and actively engaging stakeholders. CN's long-term success is dependent on the Company's efforts to strive for continuous improvements in the safety of its operations. The long-term improvement in CN's safety record is being driven by major investments in infrastructure, rigorous track and train inspection, as well as a solid focus on employee training and safety awareness.

The Company also recognizes that long-term success is connected to a sustainable future. CN is an engaged corporate citizen, committed to the safety of our employees, the public and the environment, creating value for customers as they compete in global markets. CN is dedicated to building stronger communities and providing a great place to work. As members of the Human Resources and Compensation Committee (the "Committee"), we are proud to present you with the 2013 Statement of Executive Compensation.

## **2013 Financial Performance and Executive Compensation**

The objective of CN's executive compensation package is to attract, engage and retain top talent by providing market competitive compensation that is aligned with our business strategy and shareholder interests. In aggregate, approximately 80% of Named Executive Officers' ("NEOs") target total direct compensation was directly linked to the Company's performance. The variable compensation components of the executive compensation package are designed to provide executives with realized pay that exceeds targets when superior financial results are delivered.

In 2013, CN produced commendable financial results with record revenue generation and continued to lead the industry with an operating ratio of 63.4%. CN's share price appreciated by 34.1% in Canada, thus increasing the market capitalization of the Company by C\$11.6B. Over the past three years, CN's share price has increased by 82.5% in Canada, in comparison to a 1.3% increase of the S&P/TSX Composite Index. At the end of 2013, CN was ranked as the fifth largest Company listed on the TSX as determined by market capitalization.

## **Disciplined Approach to Compensation**

CN's executive compensation policy was realigned in 2010, the year in which Claude Mongeau became CEO of the Company, to position total direct compensation between the median and the 60th percentile of the executives' respective comparator group rather than the 75th percentile, as was CN's practice prior to 2010. Since 2010, changes in CN's executive team have provided the opportunity to rapidly align compensation to the executive compensation policy. CN's disciplined approach to compensation has resulted in an overall aggregate positioning of all executives' total direct compensation at close to the median of their comparator group as reported by Towers Watson, Management's external executive compensation consultant, in December 2013.

In October 2013, the Committee performed a comprehensive review of CN's executive compensation program and concluded that the current program is well aligned with shareholder interests and supports the Company's business strategy. As a result of the review, the Committee approved a change to bonus targets for CN's four Executive Vice-Presidents from 70% to 80% of base salary effective January 1, 2014, to better align with the comparators for these positions. Concurrent to these changes, the base salaries of these Executive Vice-Presidents will not be adjusted in 2014, thus increasing the proportion of variable pay for these executives.

Also in October 2013, the Committee requested that Hugessen Consulting ("Hugessen"), the Committee's independent executive compensation consultant, perform a Three-Year Lookback Pay-for-Performance Analysis covering the years 2010 to 2012 for CN and its Class 1 Railroad pay comparator group. Hugessen concluded that CN's total realized compensation for its top five NEOs is well aligned with CN's performance level, as measured by both cumulative shareholder value creation and cumulative Total Shareholder Return.

### **Compensation Risk Mitigation**

CN's compensation program is designed to encourage appropriate behaviours and includes appropriate risk mitigation mechanisms. In 2013, following a review of the Company's compensation program, policies and practices, Towers Watson once again concluded that "overall, there does not appear to be significant risks arising from CN's compensation programs that are reasonably likely to have a material adverse effect on the Company". At its December 2013 meeting, the Committee reviewed the Towers Watson risk assessment report and strongly supports its conclusions. In its own assessment, the Committee has determined that proper risk mitigation features are in place within the Company's compensation program.

### **Conclusion**

CN is committed to transparency and clarity of information in its disclosure. We believe that CN's executive compensation program, as detailed in the following pages, is well-aligned with shareholder interests, is competitive when compared to CN's compensation comparator group, supports the Company's business strategy, and helps mitigate risk. We encourage you to cast your advisory "Say on Pay" vote and we hope that the following information will assist you in making your decision. The new Chair of the Committee, Ambassador Gordon D. Giffin, will be available to answer compensation-related questions at the annual meeting of shareholders in Vancouver on April 23, 2014.



**Gordon D. Giffin**

COMMITTEE CHAIR  
ON BEHALF OF THE MEMBERS OF  
THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

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## Human Resources and Compensation Committee

### *Composition of the Human Resources and Compensation Committee*

The Human Resources and Compensation Committee is comprised of ten independent directors. Committee members at year-end in 2013 were Gordon D. Giffin, Chair of the Committee, Michael R. Armellino, A. Charles Baillie, Hugh J. Bolton, Edith E. Holiday, V. Maureen Kempston Darkes, Denis Losier, Edward C. Lumley, David G.A. McLean and Robert Pace. Denis Losier (Audit Chair), Hugh J. Bolton, Gordon D. Giffin, V. Maureen Kempston Darkes and Robert Pace are also members of the Audit Committee. This overlap effectively provides a link between the two committees' risk oversight responsibilities.

The following is a description of the education, skills and experience of each member of the Committee as at the date of this Information Circular that are relevant to the performance of his/her responsibilities as a member of the Committee, including skills and experience enabling the Committee to make decisions on the suitability of the Company's compensation policies and practices:

- Mr. Armellino is a retired Partner from The Goldman Sachs Group, LP. From 1991 to 1994, Mr. Armellino was chair and Chief Executive Officer of Goldman Sachs Asset Management. As such, he managed approximately 400 people and was responsible for the implementation of incentive programs. Prior to 1991, he held various positions at Goldman, Sachs & Co., including Partner in Charge of Research. Mr. Armellino has strong leadership and succession planning experience. Mr. Armellino is not standing for re-election at the Meeting.
- Mr. Baillie is the retired chair and Chief Executive Officer of The Toronto-Dominion Bank. As Chief Executive Officer, the head of the human resources department reported directly to his office. Mr. Baillie is chair of the human resources and compensation committee of TELUS Corporation and chair of the board of directors of Alberta Investment Management Corporation (AIMCo). He has also served on the human resources committees of various other public companies.
- Mr. Bolton is the chairman of the board of directors of EPCOR Utilities Inc. and sits *ex officio* on its human resources and compensation committee. Mr. Bolton has extensive experience serving as a board member for different companies such as Matrikon Inc., Teck Resources Limited, WestJet Airlines Ltd., Capital Power Corporation and TD Bank Financial Group. From 1992 to 1997, Mr. Bolton was chairman and Chief Executive Partner of Coopers & Lybrand Canada (now PricewaterhouseCoopers). During that period, Mr. Bolton was responsible for the compensation and supervision of all Coopers & Lybrand Canada senior partners. Mr. Bolton is not standing for re-election at the Meeting.
- Ms. Holiday has extensive experience serving as a board member for different companies such as Hess Corporation, RTI International Metals, Inc. and White Mountains Insurance Group, Ltd. and has served on the board of H.J. Heinz Company. As General Counsel at the United States Treasury Department and as Secretary of the Cabinet at The White House, Ms. Holiday was in charge of the supervision of approximately 2,200 lawyers.
- Mr. Giffin is Senior Partner of the law firm of McKenna Long & Aldridge, where he maintains offices in Washington, D.C. and Atlanta. His practice focuses on international transactions and trade matters and public policy. He has been engaged in the practice of law or government service for more than thirty years. Mr. Giffin was United States Ambassador to Canada from August 1997 to April 2001 and had responsibility for personnel matters. Mr. Giffin serves as chair of the board of TransAlta Corporation, as a member of the Management resources and Compensation Committee of the Canadian Imperial Bank of Commerce and as a member of the Governance and Compensation Committee of Element Financial Corporation.
- Ms. Kempston Darkes was Group Vice-President of General Motors Corporation. She was responsible for supervising human resources and compensation activities. As President Latin America, Africa and Middle East of General Motors Corporation and as President of General Motors of Canada Limited, Mrs. Kempston Darkes supervised the senior head of human resources, who reported directly to her office. Ms. Kempston Darkes serves on various compensation and human resources committees, including at Balfour Beatty Plc., Brookfield Asset Management Inc., Irving Oil Co. Ltd. and Enbridge Inc.
- Mr. Losier was the President and Chief Executive Officer, Assumption Life. As Chief Executive Officer, the Vice-President of Human Resources reported directly to Mr. Losier. Mr. Losier has worked with consultants to assess Assumption Life's human resources practices and benefits and to measure the competitiveness of its executive compensation policies and practices. In addition, Mr. Losier gained human resources experience by actively participating and developing a leadership succession and development plan in anticipation of his retirement as Chief Executive Officer of Assumption Life. Mr. Losier has also been involved in succession planning for other publicly traded companies.
- Mr. Lumley was a Member of Parliament from 1974 to 1984, during which time he held various cabinet portfolios in the Government of Canada. As Minister of the Crown for six cabinet portfolios, he was responsible for many Crown corporations employing thousands of employees. Mr. Lumley has served on the human resources committee of nine public companies and chaired six of them over the years. As chairman of Noranda Manufacturing Group of Companies he was responsible for eight individual operating companies.
- Mr. McLean is chair and former Chief Executive Officer of The McLean Group. As Chief Executive Officer, the human resources executive reported directly to him. Mr. McLean has

acquired extensive experience dealing with human resources issues from his office as chair of The McLean Group and as member of the human resources and compensation committee for 18 years. For many years, Mr. McLean was also chair and director of Concord Pacific Group Inc., a real estate company, where he acquired experience with respect to human resources and executive compensation policies and practices. Mr. McLean is not standing for re-election at the meeting.

- Mr. Pace is the President and Chief Executive Officer of The Pace Group and human resources officers within the Group report directly to him. Mr. Pace has more than 25 years of business experience. Mr. Pace is also a member of the human resources committee of High Liner Foods Incorporated and Hydro One Inc. In November 2011, Mr. Pace attended a Harvard Business School course on compensation entitled *Compensation Committees: New Challenges, New Solutions*, in order to update his existing knowledge related to executive compensation trends and changes to disclosure rules. Between 2005 and 2013, Mr. Pace has been Chair of CN's Human Resources and Compensation Committee. Mr. Pace is the Vice-Chair of the Company and was Chair of the Committee from 2005 to 2013.

The following table summarizes the Committee members' human resources and compensation-related experience:

AREA OF EXPERIENCE	NUMBER OF COMMITTEE MEMBERS WITH VERY STRONG OR STRONG EXPERIENCE	
Membership on HR committees	8/9	89%
Organizational exposure to the HR function	9/9	100%
Leadership and succession planning, talent development	9/9	100%
Approval of employment contracts	7/9	78%
Development/oversight of incentive programs	7/9	78%
Oversight of stress-testing of incentive programs vs. business/operating performance	8/9	89%
Pension plan administration/oversight	7/9	78%
Interpretation and application of regulatory requirements related to compensation policies and practices	9/9	100%
Engagement with investors and investor representatives on compensation issues	6/9	67%
Oversight of financial analysis related to compensation policies and practices	9/9	100%
Exposure to market analysis related to compensation policies and practices	8/9	89%
Drafting or review of contracts and other legal materials related to compensation policies and practices	6/9	67%
Oversight of labour matters	7/9	78%

### **Mandate of the Human Resources and Compensation Committee**

The Committee's responsibilities include:

- ensuring that appropriate mechanisms are in place regarding succession planning for the executive management positions, including that of the President and Chief Executive Officer;
- reviewing executive management's performance assessment;
- reviewing leadership and talent management for the Company's key positions;
- overseeing the identification and management of risks associated with CN's compensation policies and practices and reviewing disclosure on: (i) the role of the Committee in that respect; (ii) any practices that CN uses to identify and mitigate such risks and (iii) any identified risk arising from CN's compensation policies and practices that is reasonably likely to have a material adverse effect on CN;
- overseeing the selection of any benchmark group used in determining compensation or any element of compensation and reviewing disclosure on such group;
- retaining outside advisors to assist it in the performance of its functions and responsibilities, including compensation consultants, independent legal counsel or other independent advisors and overseeing their work;
- evaluate the independence of compensation consultants in accordance with applicable NYSE listing standards or other applicable laws, rules or regulations;
- recommending to the Board of Directors executive management's compensation; and
- reviewing human resources practices by ensuring, among other things, that appropriate human resources systems are in place to allow the Company to attract, motivate and retain the quality of personnel required to meet its business objectives.

The Committee's full charter is available as part of CN's Corporate Governance Manual at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/ Governance.

The Committee met five times in 2013 and held *in camera* sessions during each meeting. The report of the Committee, set forth in Schedule "B" to this Information Circular, outlines the major subject areas reviewed by the Committee during the year.

## Talent Management and Employee Engagement

In 2013, the Committee oversaw actions aimed at further refining the Company's Talent Management strategies, in order to attract, onboard, connect with, and develop railroaders who have the right fit and skills for CN's jobs.

To address recruitment challenges in the more competitive Western Canada job markets, career opportunities were promoted not only locally, but also throughout Eastern Canada as part of CN's *Go West* campaign. In 2013, CN attracted over 50,000 candidates which facilitated the hiring of 2,617 new railroaders.

Through its Onboarding Program, CN continues to provide newly hired railroaders with a proper integration into the Company, by equipping them with tools and knowledge to work safely and efficiently and to feel connected to the business. The Company works to sustain meaningful connections with its people through the diverse range of programs it has in place. Employees' involvement in these programs also helps drive CN's strategic agenda, whether its CN Ambassadors helping recruit the next generation of railroaders, EcoChampions supporting the Company's sustainability efforts, Wellness Champions promoting healthy life habits, or railroaders in the Community engaged in the communities where CN operates. The fact that approximately 80% of employees are CN shareholders is another testament to their engagement in the Company's success.

These efforts to create and maintain a workplace that is fulfilling and engaging have been recognized externally as well, with CN being named one of Canada's Top 100 Employers for 2014 and GI Jobs' Top military-friendly employers in the US. This year also marked the launch of LEAD, a multi-year leadership program designed to foster and support a culture of engagement for performance across different levels of management. Classes bring together employees from many different functions and work locations, to encourage a collaborative mindset where best practices and experiences are shared among colleagues facing similar business realities.

As CN completed its annual Talent Review, 2013 was also a year of continued focus on the identification and development of key talent for short and longer term succession. Over 50 review sessions were conducted with business leaders across the Company, including presentations by EVPs to the CEO. Customized development plans were then built for railroaders identified as key talent. Functional talent reviews were subsequently presented to the Board, and the Committee is confident that solid leadership development and succession plans are in place. The Committee is also pleased with the significant training efforts to deliver the Railroader Certification Program to hundreds of Canadian managers, and for the first time to U.S. managers, to obtain (or maintain) their CN Conductor qualifications.

The Committee is satisfied that, under Mr. Mongeau's continued leadership, the proper human resources strategies are in place to attract and retain talented and engaged employees to ensure the Company's ongoing success.

## Executive and Board Compensation Consultants

Management retains consulting firms to assist in determining compensation for its Officers. In 2013, Management retained the services of Towers Watson to provide market information, survey results and trends, as well as external opinions on various executive compensation matters. In 2013, Management was invoiced approximately C\$207,500 by Towers Watson for these services.

The Committee also independently retains, from time to time, the services of executive compensation consultants to provide advice on compensation recommendations that are presented for Committee approval. Since October 2007, the Committee has retained the services of Hugessen Consulting for that purpose. The Committee mandated Hugessen to review and provide advice directly to the Committee on executive compensation recommendations and related questions. In aggregate, the fees invoiced by Hugessen in 2013 totalled approximately C\$131,700. The Committee has also reviewed Hugessen's independence and evaluated their performance for 2013. The Committee is satisfied with the advice received from Hugessen and that such advice is objective and independent. Hugessen also meets the independence requirements of the NYSE Listing Standards and confirmed that on an annualized basis, the amount of fees received by the firm from CN represents less than 5% of the total fees of Hugessen.

Since 2007, the Board of Directors has adopted a policy to the effect that the Chair of the Committee shall pre-approve all non-compensation services provided to the Company by the consultant retained by the Committee to perform compensation-related services. Pursuant to an understanding between the Committee and Hugessen, the latter has agreed not to perform any work for Management. During 2013, the only services performed by Hugessen were compensation-related services provided directly to the Committee.

TYPE OF FEE (BEFORE TAX)	SERVICES RENDERED IN 2012 (C\$)	SERVICES RENDERED IN 2013 (C\$)	PERCENTAGE OF TOTAL FEES FOR SERVICES RENDERED IN 2013 (%)
Executive Compensation-Related Fees	63,500	131,700	100
All Other Fees	0	0	0

# COMPENSATION DISCUSSION AND ANALYSIS

## Executive Summary

### NAMED EXECUTIVE OFFICERS

Effective February 19, 2013, the Board of Directors approved the appointment of Jim Vena, previously Senior Vice-President, Operations (Southern Region), to Executive Vice-President and Chief Operating Officer of CN, following Keith E. Creel's resignation from the role effective February 4, 2013. The remainder of the team of NEOs remained unchanged: Claude Mongeau as President and Chief Executive Officer ("CEO") of the Company, Luc Jobin as Executive Vice-President and Chief Financial Officer, Jean-Jacques Ruest as Executive Vice-President and Chief Marketing Officer and Sean Finn as Executive Vice-President Corporate Services and Chief Legal Officer.

### COMPENSATION FRAMEWORK AND POLICY

The Company follows a comprehensive executive compensation program for NEOs which includes: i) base salary; ii) annual incentive bonus; iii) long-term incentives; iv) pension benefits; and v) executive perquisites. The first three elements define total direct compensation. The objective of CN's compensation program is to attract, retain and engage top talent by ensuring that there is a clear link between the Company's long-term strategy, its business plan and executive rewards.

Decisions on how much to pay the NEOs and all other executives in terms of total direct compensation are based on the Company's executive compensation policy. The policy aims to position total direct compensation between the median and the 60th percentile of the executives' respective comparator groups. For the NEOs, the comparator group consists of select Class I Railroads (Union Pacific Corporation, CSX Corporation, Norfolk Southern Corporation and Canadian Pacific Railway Limited). For all other executives, the comparator group has been adjusted in 2013 to better reflect CN's increased revenue level and is comprised of a broad sample of U.S. organizations that participate in Towers Watson's proprietary database, the "U.S. Industrial". Data points for the latter comparator group are provided from organizations in the U.S. Industrial sample with revenues between US\$6 billion and US\$15 billion. CN generated revenues of C\$10.575B in 2013. For executives in group or division level positions, a total sample of the U.S. Industrial organizations is used, with revenue ranges aligned to reflect the scope of the role of the respective CN executive. More information on the comparator groups can be found on page 43.

In October 2013, following a Three-Year Lookback Pay-for-Performance Analysis, Hugessen, the Committee's independent executive compensation consultant, concluded that CN's total realized compensation for its top five NEOs is well aligned with CN's performance level, as measured by both cumulative shareholder value creation and cumulative Total Shareholder Return. In December 2013, as part of the annual compensation review process, Management requested that its external executive compensation advisor provide an assessment of how total direct compensation offered to all executives during the year compared against that

of the respective comparator groups. Towers Watson reported that the overall aggregate positioning of all executives' total direct compensation was close to the median of the comparator group.

### DECISION PROCESS

The compensation of the NEOs, other than that of the CEO, is recommended by the CEO and reviewed and approved by the Committee. The compensation of the CEO is recommended by the Committee and approved by the independent members of the Board of Directors. The CEO serves at the will of the Board. Neither the CEO nor the other NEOs have an employment contract. For a discussion on the compensation of the CEO, please see section entitled "President and Chief Executive Officer Compensation" on page 54.

### 2013 BASE SALARY INCREASES

As part of the NEOs' annual compensation review, base salaries were set with reference to the median of the Class I Railroads comparator group. Salary increases reflect market competitiveness, economic outlook, leadership abilities, retention considerations and succession plans. The base salary for Mr. Vena was set near the median of his comparator group and the salary increases provided to the rest of the NEOs' reflect current relative positioning against market, while also being in line with the proposed increases for the Company's overall management population. For more information on base salaries, please refer to page 46.

### 2013 ANNUAL BONUS RESULTS

As in prior years, Mr. Mongeau's target bonus in 2013 was 120% of base salary, and the other NEOs' target bonus was set at 70% of base salary. Corporate performance accounted for 70% of the annual incentive bonus and was measured against challenging targets for revenues, operating income, diluted earnings per share, return on invested capital, and free cash flow. The Board is of the view that its chosen corporate performance objectives are appropriate for a capital-intensive business like CN's. Overall corporate performance for 2013 was solid, with financial results exceeding base targets for four of the five corporate performance objectives. Consequently, the Board of Directors assessed the performance of the Company at "partially exceeds", resulting in a corporate bonus factor of 113% (or 126% for NEOs and approximately 195 other executives and senior management employees), as set out in the plan rules. The table showing the 2013 corporate performance objectives, as approved by the Board of Directors in January 2013, and the 2013 results as reported by the Company, can be found on page 48. The remaining 30% of the annual incentive bonus was based on individual performance that considered the strategic and operational priorities related to each NEO's function.

The ratings related to the individual component of the bonus for the NEOs was also reviewed by the Committee resulting in an individual bonus factor of 120% on average for this group. Their performance rating, along with the corporate bonus factor, served as the basis for calculating the annual incentive bonus payouts set out in the Summary Compensation Table under the column Non-equity incentive plan compensation — Annual incentive plans on page 59.

Since May 1, 2012, executives, including the NEOs, and senior management employees (a total of approximately 200 employees), are required to provide the Company with a six-month notice period prior to retirement, in order to maintain their eligibility for accrued and future bonuses under the Annual Incentive Bonus Plan (“AIBP”).

Beginning in 2014, the target bonus of the NEOs other than the CEO will be increased to 80% to better align with the comparators for these positions. Concurrent with this change, the base salaries of such NEOs’ will not be adjusted in 2014, thus increasing the proportion of variable compensation for these executives.

### 2013 LONG-TERM INCENTIVES

To align with short- and long-term business performance and shareholder value creation, long-term incentives consist of a combination of conventional stock options and Performance Share Units (“PSUs”). The Company has decided to rename its outstanding performance-based Restricted Share Units as “Performance Share Units” to better reflect the performance criteria inherent in this long-term incentive vehicle. PSUs require the achievement of solid return on investment capital performance and payouts only occur if the share price at time of vesting has increased from the time of grant to ensure that management is rewarded only when shareholder value is created.

In determining the appropriate long-term incentive fair value granted to NEOs, the Committee considered external market data, as well as other factors such as individual performance, retention risk and succession plans, as well as the Company’s compensation philosophy. Long-term incentive fair values for NEOs were determined with reference to the 60th percentile of the Class I Railroads comparator group.

The payout of the PSUs granted in 2013 to NEOs is subject to a three-year average return on invested capital target for the period ending on December 31, 2015. The table summarizing the performance objectives and payout condition of the 2013 performance share unit award can be found on page 50.

The stock options granted in 2013 are conventional and vest over four years at a rate of 25% at each anniversary date. Stock options have a 10-year term.

### 2011 PERFORMANCE SHARE UNITS AWARD PAYOUT

The Committee reviewed the vesting of the 2011 PSUs against the performance targets. The Company achieved a three-year average return on invested capital to December 31, 2013 of 15.88%, exceeding the 13% target set in 2011. This outcome resulted in a performance vesting factor of 150% of the PSUs awarded in 2011, in accordance with the plan rules. As the minimum average closing share price condition was also met, payout under the plan occurred in February 2014, provided other conditions of the award agreements were complied with.

The table illustrating the 2011 PSU performance objectives and results can be found on page 50.

### RISK MITIGATION IN OUR COMPENSATION PROGRAM

The Company has a formalized compensation philosophy to guide compensation program design and decisions. Many of the characteristics inherent in the Company’s executive compensation program encourage the right behaviours, thus mitigating risks and aligning long-term results with shareholder interests. The following are examples of such characteristics:

- Appropriate balance between fixed and variable pay, as well as short- and long-term incentives;
- Multiple performance metrics are to be met or exceeded in the AIBP;
- Incentive payout opportunities are capped and do not have a guaranteed minimum payout;
- Can not engage in hedging activity or in any form of transactions in publicly traded options on CN securities;
- Executive compensation clawback policy is in place;
- Stock ownership guidelines apply to executives and senior management employees (approximately 200 individuals);
- The Committee retains the services of an independent executive compensation consultant.

A complete list and description of these risk-mitigating features is available on pages 52 and 53.

In December 2013, following a review of the Company’s Compensation Program, policies and practices, Towers Watson concluded again this year that “overall, there does not appear to be significant risks arising from CN’s compensation programs that are reasonably likely to have a material adverse effect on the Company”. The Committee strongly supports the conclusions from Towers Watson’s risk assessment report and in its own assessment determined that proper risk mitigation features are in place within the Company’s compensation program.

### NON-COMPETE, NON-SOLICITATION AND NON-DISCLOSURE

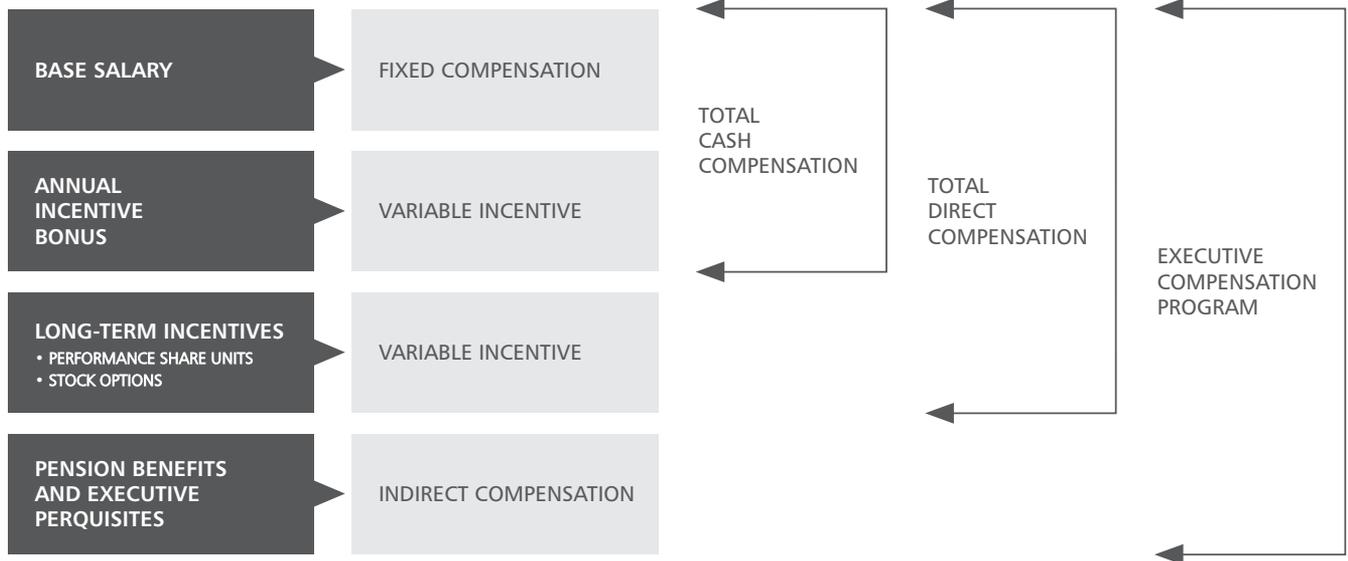
The railroad industry operates in a highly competitive market and CN has undergone a transformational journey to be an industry leader. In recent years, the Company has continued to improve its efforts to protect itself and its confidential information. The Company’s long-term incentive award agreements, as well as its non-registered pension plans, therefore contain non-compete, non-solicitation, non-disclosure of confidential information and other restrictive clauses (the “Conditions”). Payout under the long-term incentive plans or the non-registered pension plans is subject to current or former employees complying with these Conditions. Further details related to CN’s non-compete and non-solicitation provisions are available on page 52.

As a result of Mr. Creel’s decision to resign from CN and join Canadian Pacific Railway Limited on February 4, 2013, compensation amounts subject to non-compete, non-solicitation and other terms of applicable plans and award agreements were forfeited and as at February 4, 2013, had an approximate value of C\$20 million. More precisely, Mr. Creel forfeited his 2010, 2011 and 2012 PSUs, his 2009, 2010, 2011 and 2012 unexercised stock options, as well as a portion of his non-registered pension plans and arrangements.

### Executive Compensation Program Objectives

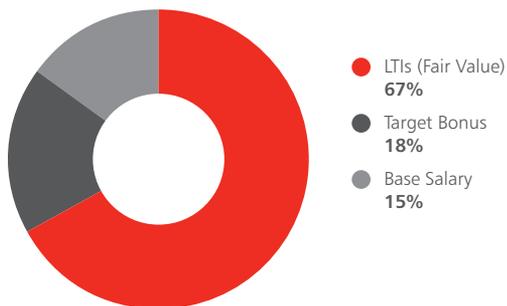
The Company's executive compensation program and policies are designed to ensure that there is a clear link between the Company's long-term strategy, its business plan and executive rewards, thus encouraging appropriate behaviours. A significant proportion of executive incentive remuneration is therefore tied to key corporate objectives that play a pivotal role in driving the organization's short- and long-term profitability and return to shareholders. The executive compensation program is also designed to be competitive, in order to attract, retain and motivate outstanding executive talent.

The executive compensation program is comprised of five elements: i) base salary; ii) annual incentive bonus; iii) long-term incentives; iv) pension benefits; and v) executive perquisites. The combination of base salary, annual incentive bonus and long-term incentives defines the total direct compensation offering, which is weighted towards variable, "pay-for-performance" elements.

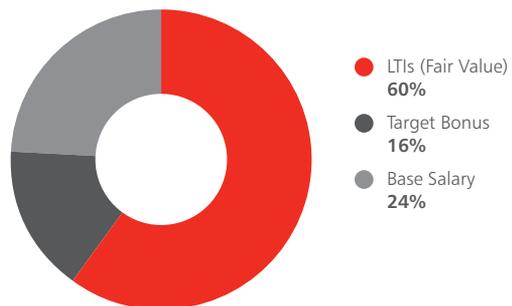


The following charts provide information on the CEO's 2013 compensation mix (at target), as well as that of the other NEOs (on average), and clearly illustrate that a significant component of their compensation is "at risk":

CEO's 2013 Compensation Mix



All Other NEOs' 2013 Compensation Mix (Average)



## Compensation Policy

### THE COMPANY'S EXECUTIVE COMPENSATION POLICY

Prior to 2010, the executive compensation policy aimed to position total direct compensation at the 75th percentile of the executives' respective comparator groups. Concurrent with the appointment of Claude Mongeau as President and CEO in January 2010, the policy was revised to target total direct compensation between the median and 60th percentile of the executives' respective comparator groups. This reduction in market positioning from the 75th percentile was determined to be competitive after a thorough review of the structure, levels and practices of remuneration in the railroad industry. In order to achieve the objectives of this revised policy, base salaries and target annual bonuses are set with reference to the median level of the respective comparator group, whereas the grant date fair value of long-term incentives is set with reference to the 60th percentile. The Committee believes that the compensation policy and its principles provide for competitive and reasonable compensation levels.

### BENCHMARKING USING COMPARATOR GROUPS

The median and 60th percentile competitive pay levels are determined using comparator groups, which have been carefully reviewed and endorsed by the Committee as being appropriate for the level and nature of the benchmarked positions. In determining compensation for the NEOs, the Company considers a comparator group of North American companies that are comparable in size and with whom the Company competes for executive talent. In 2013, the comparator group for the NEOs was the following Class I Railroads: Union Pacific Corporation, CSX Corporation, Norfolk Southern Corporation and Canadian Pacific Railway Limited. The Committee also considers data from a secondary reference point for purposes of verifying the alignment with general compensation trends, but not for direct benchmarking purposes, given the direct comparability of the above-mentioned Class I Railroads. The use of the comparator group to benchmark pay levels for all executives, other than the NEOs, serves as this secondary reference point, as described below.

The comparator group for all executives other than the NEOs has been adjusted in 2013 to accurately reflect the size of CN's revenues. The comparator group used for benchmarking purposes is a broad sample of U.S. organizations that participate in Towers Watson's proprietary database. Data points are provided from organizations in the U.S. Industrial sample with revenues between US\$6 billion and US\$15 billion. CN generated revenues of C\$10.575B in 2013. For executives in group or division level positions, a total sample of the U.S. Industrial organizations is used, with revenue ranges aligned to reflect the scope of the role of the respective CN executive.

The table below shows CN's positioning relative to the primary comparator group for NEOs. Data is as of December 31, 2013.

COMPARATOR GROUP	REVENUE (MILLIONS)	NET INCOME (MILLIONS)	MARKET CAPITALIZATION (MILLIONS)	AVERAGE NUMBER OF EMPLOYEES (THOUSANDS)
Union Pacific Corporation	US\$ 21,963	US\$ 4,388	US\$ 77,400	46,445
CSX Corporation	US\$ 12,026	US\$ 1,864	US\$ 29,200	31,254
Norfolk Southern Corporation	US\$ 11,245	US\$ 1,910	US\$ 28,700	29,698
Canadian Pacific Railway	C\$ 6,133	C\$ 875	C\$ 26,500	15,011
<b>Average</b>	<b>C\$ 13,561<sup>(1)</sup></b>	<b>C\$ 2,389<sup>(1)</sup></b>	<b>C\$ 42,601<sup>(1)</sup></b>	<b>30,602</b>
Canadian National Railway Company	C\$ 10,575	C\$ 2,612	C\$ 50,600	23,705
<b>Rank</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>4</b>

(1) Values were converted in Canadian dollars using the December 31, 2013 exchange rate of US\$1.00 = C\$1.0636.

## COMPENSATION DECISIONS AND PROCESS

The Committee normally reviews the base salaries of executives in January each year, by taking into consideration median comparator group practices, economic outlook, leadership abilities, retention considerations and succession plans.

The Committee reviews and recommends for approval by the Board of Directors the performance targets related to both the AIBP and the PSUs. These targets are derived from CN's annual business plan, which is prepared by Management and reviewed with the full Board during the Strategic Planning Committee meetings. The business planning process is an extensive one, during which Management examines with the directors the economic, business, regulatory and competitive conditions which affect or can be expected to affect CN's business in the following three-year period. Throughout the year, members of the Committee are provided with updates related to the Company's performance against targets. The Committee and the Board also have open access to senior management throughout the year, should they wish to discuss specific business issues or seek clarification. The Board and the Committee are therefore confident that they have detailed visibility of the Company's financial performance and that they are appropriately equipped to recommend executive compensation decisions. Finally, throughout the annual executive compensation review process, the Committee also receives and considers advice from its independent compensation consultant, Hugessen.

The annual grant of PSUs and stock options to NEOs and other eligible employees is reviewed and approved at the meetings of the Committee and the Board of Directors which take place each year in January. In determining the appropriate long-term incentive fair value granted to each NEO, the Committee considered external market data, as discussed in the "Benchmarking Using Comparator Groups" section, as well as other factors such as individual performance, leadership and talent retention. Long-term incentive fair values for NEOs were determined with reference to the 60th percentile of the Class I Railroads comparator group. The fair value of the PSUs granted to NEOs is approximately equivalent to that of stock options granted, except in the case of the CEO, due to the 20% limitation on the number of stock options that can be awarded to any one individual, in a particular year, pursuant to the terms of the Management Long-Term Incentive Plan (please refer to page 65 for a description of the plan).

The compensation of the NEOs, other than that of the CEO, is recommended by the CEO and reviewed and approved by the Committee. The compensation of the CEO is recommended by the Committee and approved by the independent members of the Board of Directors.

## COMPONENTS OF THE EXECUTIVE COMPENSATION PROGRAM

The following table summarizes the components of the Company's executive compensation program, which is driven by the executive compensation policy and weighted towards variable, "pay-for-performance" elements. Each component is then further detailed in this section.

COMPONENT	DESIGN SUMMARY	FORM	OPPORTUNITY	RISK-MITIGATING ELEMENTS	OBJECTIVES AND RATIONALE
Base Salary	<ul style="list-style-type: none"> <li>Fixed rate of pay</li> <li>Individual salary recommendations based on competitive assessment and economic outlook, leadership, retention and succession considerations</li> <li>Performance period: annual</li> </ul>	<ul style="list-style-type: none"> <li>Cash</li> </ul>	<ul style="list-style-type: none"> <li>Set with reference to the median of the respective comparator group</li> </ul>	<ul style="list-style-type: none"> <li>Provides for a balanced mix of pay components (fixed vs. variable)</li> <li>Use of external advisor and peer group analysis</li> </ul>	<ul style="list-style-type: none"> <li>Provide competitive level of fixed compensation</li> <li>Recognize sustained individual performance</li> <li>Reflect increase in role responsibility and/or growth in role</li> </ul>
Annual Incentive Bonus	<ul style="list-style-type: none"> <li>Annual awards based on achievement of five pre-determined corporate performance objectives (70%) and individual performance (30%)</li> <li>Approximately 4,700 management employees are eligible</li> <li>Performance period: 1 year</li> </ul>	<ul style="list-style-type: none"> <li>Cash-based performance pay</li> </ul>	<ul style="list-style-type: none"> <li>Target is 120% of base salary for the CEO and 70% for the other NEOs. Maximum payout is limited to 2.0 times the target</li> <li>For other eligible management employees, target is based on grade level with a maximum payout limited to 1.5 or 2.0 times the target</li> </ul>	<ul style="list-style-type: none"> <li>Use of multiple performance metrics</li> <li>Plan targets reviewed and approved annually based on in-depth review of annual business plan</li> <li>Payouts are capped</li> <li>No guaranteed minimum payout</li> <li>Payouts subject to a clawback policy</li> </ul>	<ul style="list-style-type: none"> <li>Reward the achievement of a balanced set of annual corporate performance objectives</li> <li>Reward the achievement of personal objectives aligned with each employee's area of responsibility and role in realizing operating results</li> <li>Drive superior corporate and individual performance</li> </ul>
Long-Term Incentives	<p>Performance Share Units (PSUs)</p> <ul style="list-style-type: none"> <li>Performance vesting subject to the attainment of 3-year average return on invested capital targets</li> <li>Payout conditional on the attainment of a minimum share price during the last three months of the plan period</li> <li>Employees must remain in active and continuous service until the last day of the year in which the grant was made to be eligible for payout</li> <li>Performance period: 3 years</li> </ul> <p>Stock options</p> <ul style="list-style-type: none"> <li>Conventional stock options that vest over 4 years at a rate of 25% per year</li> <li>Grant is approximately of equal value to the Performance Share Units (except for the CEO who receives a different proportion due to the 20% limitation under the Management Long-Term Incentive Plan)</li> <li>Employees must remain in active and continuous service until the last day of the year in which the grant was made to be eligible for payout</li> <li>Performance period: 4-year vesting, 10-year term</li> </ul>	<ul style="list-style-type: none"> <li>Performance-based share units payable in cash</li> </ul>	<ul style="list-style-type: none"> <li>Long-term incentive grant date fair value determined with reference to the 60th percentile of the respective comparator group for NEOs and executives</li> <li>PSU performance vesting factor capped at 150%</li> </ul>	<ul style="list-style-type: none"> <li>Significant weighting towards long-term incentive compensation</li> <li>Overlapping multi-year performance periods</li> <li>Mix of financial and market measures</li> <li>PSU payouts are capped and there is no minimum guaranteed payout</li> <li>Payouts subject to a clawback policy</li> </ul>	<ul style="list-style-type: none"> <li>Align management interests with shareholder value growth</li> <li>Reward the achievement of sustained financial performance</li> <li>Contribute to retention of key talent</li> <li>Recognize individual contribution and potential</li> </ul>

COMPONENT	DESIGN SUMMARY	FORM	OPPORTUNITY	RISK-MITIGATING ELEMENTS	OBJECTIVES AND RATIONALE
Pension Benefits	<p>Canadian Pension Plans</p> <ul style="list-style-type: none"> <li>Defined Benefit Plan: Benefits payable calculated as a percentage of the five-year highest average earnings multiplied by pensionable service</li> <li>Pensionable service period for most defined benefit plans: Maximum of 35 years</li> <li>Defined Contribution Plan: Benefits based on the participant's required contributions and on Company-matched contributions</li> <li>Non-registered plans: Supplement to the registered plans and provide benefits in excess of the Canadian Income Tax Act limits</li> </ul> <p>U.S. Pension Plans</p> <ul style="list-style-type: none"> <li>Defined Benefit Plan: Benefits payable calculated as a percentage of the five-year highest average earnings (out of the last 10 years) multiplied by credited service</li> <li>Maximum of 35 years of credited service for most defined benefit plans</li> <li>Savings Plan: 401(k) benefits based on the participant's voluntary contributions and 50% matching by the Company, limited to 3% of base pay</li> <li>Defined Contribution Feature: Additional benefits included in the Savings Plan based on Company contributions equal to 3.5% of base pay</li> <li>Non-registered plans: Supplement to the registered plans and provide benefits in excess of IRS and Railroad Retirement Board limits</li> </ul>	<ul style="list-style-type: none"> <li>Cash payments following retirement</li> </ul>	<ul style="list-style-type: none"> <li>Non-registered plans restricted to executives and senior management employees</li> <li>Most retirement benefits for executives and senior management employees are calculated using base salary and annual bonus (up to target levels)</li> </ul>	<ul style="list-style-type: none"> <li>Annual retirement benefits to CEO from non-registered plan capped at US\$1M</li> </ul>	<ul style="list-style-type: none"> <li>Provide an effective and attractive executive compensation program</li> </ul>
Executive Perquisites	<ul style="list-style-type: none"> <li>Healthcare and life insurance benefits, annual executive physical exam, club membership, company-leased vehicle, parking, financial counselling and tax services</li> </ul>	<ul style="list-style-type: none"> <li>Non-cash perquisites</li> </ul>	<ul style="list-style-type: none"> <li>Competitive</li> </ul>	<ul style="list-style-type: none"> <li>No tax gross-ups on such perquisites</li> <li>Use of corporate aircraft restricted to business-related purposes</li> </ul>	

### Base Salary

The Committee normally reviews the base salaries of executives in January each year, by taking into consideration median comparator group practices, economic outlook, leadership abilities, retention considerations and succession plans. The current comparator group for the NEOs comprises Class I Railroads of comparable size and scope, namely Union Pacific Corporation, CSX Corporation, Norfolk Southern Corporation and Canadian Pacific Railway Limited. The base salaries of NEOs are paid in U.S. dollars in order to provide for a more meaningful and precise comparison with U.S. denominated salaries of incumbents in equivalent positions within the comparator group.

In 2013, the salary increases provided to all NEOs were in line with expected market increases and support the NEOs' growth in their continuing roles and current relative positioning against market. The salary increases provided were also in line with the proposed increases for the Company's overall management population. Mr. Mongeau's base salary was therefore increased

from US\$1,000,000 to US\$1,025,000 (+2.5%), Mr. Jobin's from US\$575,000 to US\$600,000 (+4.3%), Mr. Ruest's from US\$540,000 to US\$560,000 (+3.7%) and Mr. Finn's from US\$513,000 to US\$528,000 (+2.9%). Mr. Vena was appointed Executive Vice-President and Chief Operating Officer on February 19, 2013. His base salary was set at US\$560,000 near the median of his comparator group. While NEO base salaries are paid in U.S. dollars, the Summary Compensation Table on page 59 reports the amounts in Canadian dollars, as required by the disclosure rules issued by the Canadian Securities Administrators.

## Annual Incentive Bonus Plan

In addition to the NEOs, approximately 4,700 management employees are eligible to participate in an annual performance-based bonus plan. Under the Company's AIBP, minimum, target and maximum payouts, expressed as a percentage (%) of base salary, are as follows for the CEO, the other NEOs, the Senior Vice-Presidents and Vice-Presidents:

POSITION	MINIMUM	TARGET <sup>(1)</sup>	MAXIMUM <sup>(1)</sup>
CEO	0%	120%	240%
Other NEOs	0%	70% <sup>(2)</sup>	140% <sup>(2)</sup>
Senior Vice-Presidents	0%	65%	130%
Vice-Presidents	0%	50/60%	100/120%

(1) As a percentage of base salary as at December 31, 2013.

(2) Target and maximum bonus opportunities for the NEOs other than the CEO will be set at 80% and 160% respectively in 2014.

The bonus payout received under the AIBP depends on the achievement of both corporate (70%) and individual (30%) objectives. This design reflects the Company's view that any short-term incentive should be tied both to the overall performance of the Company and to those areas of its business that each employee can influence directly.

For 2013, the AIBP was comprised of the following components:

- 1. Corporate financial performance:** 70% of the bonus was linked to the achievement of a balanced set of objectives that contribute to the Company's long-term financial growth and profitability. The Committee ensures that performance goals and conditions are directly aligned with the achievement of the Company's corporate objectives as set out in the Company's business plan, which is recommended by the Strategic Planning Committee and reviewed and approved by the Board of Directors. CN's business planning process is an extensive one, during which Management examines with the Board of Directors, the economic, business, regulatory and competitive conditions which affect or can be expected

to affect the Company's business in the following three-year period. Such items are then taken into account in establishing the Company's targets under the AIBP. In addition, in setting the AIBP targets for the upcoming year, the Company generally excludes items from the prior year that did not necessarily arise as part of the normal business of the Company, which can impact the comparability of the Company's year-over-year financial performance and the Company's current year targets in relation to the prior year's results. In 2013, the Board of Directors assessed the Company's performance against targets for revenues, operating income, diluted earnings per share, free cash flow and one-year return on invested capital ("ROIC"). These measures were selected because they are quantifiable measures that play a key role in driving the organization's profitability and return to shareholders. Additionally, the Board is of the view that its chosen corporate objectives are appropriate for a capital-intensive business like CN's. The 2013 targets were approved by the Board of Directors in January 2013 based on the Company's business and financial outlook at that time.

Under the terms of the AIBP, a maximum corporate performance factor of 150% (or 200% for NEOs and approximately 200 other executives and senior management employees) can be applied to an eligible employee's annual bonus payout when financial results exceed all five corporate performance objectives.

### PERFORMANCE OBJECTIVES AND RESULTS – 2013 ANNUAL INCENTIVE BONUS PLAN

In January 2013, the performance targets were set assuming an exchange rate of US\$1.00 = C\$1.00. During the year, the actual exchange rate was US\$1.00 = C\$1.0299. The Company's revenue targets were therefore adjusted to take into consideration the foreign exchange and difference between actual and forecasted oil and diesel prices with respect to the Company's fuel surcharges. The following table therefore compares the 2013 adjusted performance targets with the actual 2013 results as reported by the Company.

IN MILLIONS (EXCEPT PER SHARE DATA)	WEIGHT	CORPORATE OBJECTIVES AS OF JANUARY 1, 2013 <sup>(1)</sup>		CORPORATE OBJECTIVES AS ADJUSTED <sup>(2)</sup>		2013 RESULTS <sup>(2)</sup> (C\$)	PERFORMANCE ASSESSMENT
		BASE (C\$)	STRETCH (C\$)	BASE (C\$)	STRETCH (C\$)		
Revenues	25%	10,541	10,716	10,770 <sup>(3)</sup>	10,945 <sup>(3)</sup>	10,575	Does not meet
Operating Income	25%	3,805	3,930	3,867	3,992	3,873	Partially exceeds
Diluted Earnings Per Share <sup>(4)</sup>	15%	2.90	3.02	2.95	3.07	3.09	Exceeds
Free Cash Flow <sup>(5)</sup>	20%	750	850	770	870	918	Exceeds
ROIC <sup>(6)</sup>	15%	15.8%	16.4%	15.8%	16.4%	16.5%	Exceeds

(1) Corporate objectives assume an exchange rate of US\$1.00 = C\$1.00.

(2) Corporate objectives and results reflect an actual exchange rate of US\$1.00 = C\$1.0299.

(3) Revenues target has been adjusted to reflect actual fuel surcharges invoiced to clients based on actual oil and diesel prices in 2013.

(4) Diluted Earnings Per Share expressed on a post-split basis.

(5) Free cash flow does not have any standardized meaning prescribed by Generally Accepted Accounting Principles (GAAP) and may, therefore, not be comparable to similar measures presented by other companies. The Company believes that free cash flow is a useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends. Beginning with the fourth quarter of 2013, the Company has redefined its free cash flow measure as the difference between net cash provided by operating activities and net cash used in investing activities; adjusted for changes in restricted cash and cash equivalents and the impact of major acquisitions, if any.

(6) ROIC measures the Company's efficiency in the use of its capital funds and is viewed as a key measure of long-term value generation to its shareholders. ROIC is generally calculated as net income before interest expense, divided by the total of the average net indebtedness and the average shareholders' equity, and may, in certain instances, be adjusted for certain items as determined by the Committee.

As a result of the Company's focus on operational and service excellence, systematic deployment of supply chain collaboration and solid execution, CN's 2013 growth continued to outpace that of the overall economy, generating the highest volumes and earnings in Company history.

The Company continued to produce commendable free cash flow, supported in part by the monetization of underutilized assets. The Company reinvested in the business, with 2013 capital spending of C\$2.0 billion. In 2013, in anticipation of its future funding requirements, the Company made voluntary pension contributions of C\$100 million in excess of the required contributions to strengthen the financial position of its main pension plan, the CN Pension Plan. These voluntary pension contributions can be treated as a prepayment against CN's future required special solvency payments.

At the same time, the Company maintained its commitment to creating shareholder value. In 2013, the Company increased its dividend by 15% versus the prior year and repurchased 27.6 million shares, returning over C\$2 billion to shareholders.

For 2013, after considering the financial results against established corporate objectives, the Board of Directors assessed the corporate performance at "partially exceeds", allowing for a corporate performance factor of 113% (or 126% for NEOs and approximately 195 other executives and senior management employees).

**2. Individual performance:** 30% of the bonus was based on personal business-oriented goals that considered the strategic and operational priorities related to each executive's respective function, with a strong overall focus on: balancing operational and service excellence, delivering superior growth, opening new markets with breakthrough opportunities, deepening employee engagement and stakeholder engagement. The individual performance factor can range from 0% to 200% for NEOs and for approximately 195 other executives and senior management employees. For all other eligible management employees, the performance factor can range from 0% to 150%. The individual performance factor for the CEO is based on an individual assessment reviewed and approved by the Committee.

In 2013, the individual objectives of the NEOs included both quantitative measures and qualitative strategic and operational considerations related to their function. At year-end, the CEO reviewed the performance of the other NEOs, taking into consideration their achievements against their pre-determined individual objectives and determined their individual performance rating, subject to Committee review and approval. The Committee then reviewed and reflected on each NEO's, other than the CEO's, individual achievements against goals, as well as their overall leadership in meeting their function's objectives. For 2013, taking into account the recommendations of the CEO, the Committee determined that the NEOs had met their personal objectives and approved each of their individual performance ratings, which translates to the performance factor to be applied to the calculation of their bonus payout. In 2013, the average individual performance factor for the NEOs, including the CEO, was 120%.

Any annual incentive bonus payout under the individual component is conditional upon a payout being declared under the corporate component. In addition, should corporate performance be assessed at “partially meets” (i.e. a corporate performance factor below 100%), the individual performance factor will be prorated to the same level.

The following formula illustrates how an eligible management employee’s annual base salary (as at December 31, 2013), target payout (expressed as a percentage of base salary), corporate and individual performance factors interact in the determination of the actual annual bonus payout:

ANNUAL BASE SALARY	×	TARGET PAYOUT	×	70%	×	CORPORATE PERFORMANCE FACTOR
+						
ANNUAL BASE SALARY	×	TARGET PAYOUT	×	30%	×	INDIVIDUAL PERFORMANCE FACTOR
						×
						CORPORATE PERFORMANCE FACTOR WHEN BELOW 100%

In 2013, the average payout for the NEOs, including the CEO, was 124% of target payout. The actual payouts are reported in the Summary Compensation Table on page 59, under the column Non-equity incentive plan compensation — Annual incentive plans.

Effective May 1, 2012, executives, including the NEOs, and senior management employees (a total of 200 employees), are required to provide the Company with a six-month notice period prior to retirement. This measure was instituted to allow for improved succession planning and to maximize the effectiveness of transitions. Employees who fail to provide such notice forfeit any accrued and future bonus under the AIBP, save for specific and exceptional circumstances.

### LONG-TERM INCENTIVES

The Board of Directors considers a number of factors to assess the Company’s long-term incentive strategy. Factors considered include the balance between long-term value creation and shareholder wealth protection, executive stock ownership position versus stock option holdings, executive retention risk, as well as the dilution impact of the different long-term incentive vehicles. Since 2005, the Board of Directors has elected to grant a combination of stock options and PSUs to NEOs, as well as to designated executives and senior management employees. The stock options and PSUs granted are of approximately equal value for all eligible employees, except for the CEO. The CEO’s long-term incentive (“LTI”) award has a smaller relative weight in stock option value, due to the 20% limitation on the number of stock options that can be awarded to any one individual in a particular year, pursuant to the terms of the Management Long-Term Incentive Plan (please refer to page 65 for a description of the plan).

The annual grant of PSUs and stock options to NEOs and other eligible employees is reviewed and approved at the meetings of the Committee and the Board of Directors which take place each year in January. In order to determine each NEO’s LTI award, the Committee takes into consideration individual performance, retention risk and succession plans, as well as the Company’s compensation philosophy and the value of LTIs granted over the last three years by the Class I Railroads included in the comparator group (please refer to section “Benchmarking Using Comparator Groups” on page 43). The Committee does not take into account previous executive grants when setting the individual awards, as the LTI plans are inherently performance-based.

The effective grant date is the first day open for trading under the Company’s Insider Trading Policy, following the publication of the Company’s financial results for the previous year. Based on this approach, the effective grant date is generally the second trading day following the public release of the Company’s financial results. The exercise price of the stock options granted is equal to the closing price of the Company’s common shares on the TSX or the NYSE on the grant date.

Since 2011, a “one-year minimum active service” condition has been included in the stock options and PSU award agreements, in order to encourage retention of key talent approaching retirement. In other words, should an executive, including NEOs, or other management employee retire in the year of the award agreement, PSUs and stock options awarded pursuant to that agreement will be forfeited.

### PERFORMANCE SHARE UNITS: 2013 AWARD

The Share Units Plan was approved by the Board of Directors in 2004. The objective of the Share Units Plan is to enhance the Company’s ability to attract and retain talented employees and to provide alignment of interests between such employees and the shareholders of the Company. PSUs awarded are generally scheduled for payout after three years and the performance vesting factor is determined in relation to the achievement of a target related to the Company’s average ROIC over the plan period. In 2013, the average ROIC objective applied to the three-year period ending on December 31, 2015. The ROIC for each of the applicable plan years is generally calculated as net income before interest expense, divided by the total of the Company’s average net indebtedness and the average shareholders’ equity, and may, in certain instances, be adjusted for certain items as determined by the Committee. ROIC measures the Company’s efficiency in the use of its capital funds and is viewed as a key measure of long-term value generation to its shareholders. ROIC is also used as one of the five corporate performance measures under the AIBP, given its importance as a financial measure for a capital-intensive business like CN’s and the differing time periods for the AIBP (annual) and the Share Units Plan (3 years). The measurement of ROIC on an annual (AIBP) and on a three-year average (PSUs) basis enables CN to provide the appropriate balance between short-term and mid-term results.

The PSU payout is also conditional upon meeting a minimum average closing share price during the last three months of 2015.

The PSUs granted in 2013 to NEOs and other designated employees are subject to the attainment of the performance criteria presented in the table below:

#### PERFORMANCE OBJECTIVES – PERFORMANCE SHARE UNITS – 2013 AWARD

	OBJECTIVE	PERFORMANCE VESTING FACTOR <sup>(1)</sup>
Performance Objective: Average ROIC for the three-year period ending on December 31, 2015	Below 13.5% 13.5% 14.5% 15.5% 16.5% and above	0% 50% 100% 125% 150%
Payout Condition: Minimum average closing share price for the last three months of 2015	C\$45.05 on the TSX or US\$45.51 on the NYSE	

(1) Interpolation applies between objectives.

If the performance criteria are met, the payout, made in the currency of the recipient's salary, will be calculated as follows:

NUMBER OF 2013 PSUs AWARDED	×	PERFORMANCE VESTING FACTOR	×	20-DAY AVERAGE CLOSING SHARE PRICE ON JANUARY 31, 2016
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The grant date fair value of the PSUs awarded to each NEO in 2013 is included in the Summary Compensation Table on page 59, under the Share-Based Awards column.

#### PERFORMANCE SHARE UNITS: 2011 AWARD PAYOUT

The PSUs awarded in 2011 to NEOs and other designated employees vested based on the achievement of an average ROIC for the three-year period ending on December 31, 2013. Over the past three years, CN's share price has increased by 82.5% in Canada, in comparison to a 1.3% increase of the S&P/TSX Composite Index. In addition, the Company's market capitalization in Canada has increased by nearly C\$20 billion during this same period. The Company's superior performance therefore led to the achievement of a three-year average ROIC of 15.88%, exceeding the 13.0% target, and resulting in a performance vesting factor of 150%. As the minimum average closing share price condition was also met, payout occurred in February 2014 in accordance with the Share Units Plan and the 2011 award agreement.

#### PERFORMANCE OBJECTIVES AND RESULTS – PERFORMANCE SHARE UNITS – 2011 AWARD

	OBJECTIVE	PERFORMANCE VESTING FACTOR <sup>(1)</sup>	RESULTS
Performance Objective: Average ROIC for the three-year period ending on December 31, 2013	Below 12.0% 12.0% 13.0% 14.0% 15.0% and above	0% 50% 100% 125% 150%	15.88%
Payout Condition: Minimum average closing share price for the last three months of 2013	C\$33.60 on the TSX or US\$33.35 on the NYSE		C\$57.75 US\$55.00

(1) Interpolation applies between objectives.

The value vested during the year for each NEO is included in the table Incentive Plan Awards — Value Vested or Earned During the Year, under the Share-Based Awards — Value Vested During the Year column on page 64.

#### STOCK OPTIONS

Stock options were granted in 2013 to NEOs and other designated employees pursuant to the Management Long-Term Incentive Plan (the "Plan"). Please refer to page 65 for details of the Plan. The stock options granted in 2013 are conventional, vest over four years at a rate of 25% at each anniversary date and have a 10-year term. Grants were made in the currency of the recipient's salary.

Stock options are granted with the objective of rewarding NEOs and other designated employees for creating sustainable, long-term shareholder value. If the share price increases between the grant date and the vesting date, stock options will have a realizable value. Gains are realized once the stock options are exercised. The gain will be equivalent to the difference between the share price on the date of exercise and the grant date share price, multiplied by the number of stock options exercised.

The grant date fair value of the stock options awarded to NEOs in 2013 is included in the Summary Compensation Table on page 59, under the Option-Based Awards column.

#### EXECUTIVE PERQUISITES

NEOs are eligible to receive perquisites and personal benefits in accordance with the Company's policies and in line with general market practices. These typically include the use of a company-leased vehicle, parking, financial counselling and tax services, club membership, certain healthcare benefits and life insurance and an annual executive physical exam. Other executives and senior management employees are also eligible to receive select perquisites; the type and value of the perquisites are generally determined by the grade of the employee's position. Following the review of CN's personal-use vehicle policy in 2012 and in line with the Company's commitment

to operate responsibly, an eco-friendly component was introduced to limit the selection of vehicles based on their fuel consumption rating. Additionally, since 2010, all executives must comply with the aircraft utilisation policy which restricts the usage of the corporate aircraft to business-related purposes only, save for exceptional circumstances and provided all incremental costs are fully reimbursed. Since January 2010, tax gross-ups on the value of certain executive perquisites have also been eliminated.

#### EMPLOYEE SHARE INVESTMENT PLAN

The Employee Share Investment Plan (“ESIP”), available to all Company employees, provides the opportunity to participate in CN’s ownership through the purchase of voting shares on the open market via payroll deductions. Employees may contribute between 1% and 10% of their gross base salary to the ESIP every pay period. The Company provides a 35% match on the first 6% of employee contributions. Both employee and employer contributions vest immediately. Approximately 80% of CN’s employees are shareholders of the Company through participation in the ESIP, and in 2013, all NEOs participated in the ESIP.

The value of the Company match received by NEOs in 2013 under the ESIP is indicated in the Details of the All Other Compensation Amounts table on page 61.

### Other Key Compensation Policies of the Company

#### STOCK OWNERSHIP

The Committee strongly supports stock ownership by executives. In 1999, the Company introduced stock ownership guidelines that require a minimum level of stock ownership, set as a multiple of base salary, to be achieved within a five-year period to align the interests of executives with those of shareholders. In 2002, the application of the guidelines was broadened and, as at December 31, 2013, includes a total of approximately 200 executives and senior management employees. Once executives and senior management employees have met their initial shareholding requirements, they are required to maintain compliance, which is reported annually to the Committee. Stock ownership guidelines can be met through the holding of common shares and vested deferred share units under the Company’s Voluntary Incentive Deferral Plan (“VIDP”). Stock options (vested or unvested) and unvested equity grants do not count towards the minimum level of stock ownership. Stock ownership requirements are as follows:

	GUIDELINES
President and CEO	5 times base salary
Executive and Senior Vice-Presidents	3 times base salary
Vice-Presidents	1.5 to 2 times base salary
Senior Management	1 times base salary

The CEO is also required to maintain his stock ownership guideline level until one year after retirement. As at December 31, 2013, all NEOs exceeded their share ownership requirements.

#### STOCK OWNERSHIP STATUS AS AT DECEMBER 31, 2013

NAMED EXECUTIVE OFFICER	NUMBER OF SHARES HELD <sup>(1)</sup>	VALUE OF HOLDINGS <sup>(2)</sup> (C\$)	VALUE REQUIRED TO MEET GUIDELINES <sup>(3)</sup> (C\$)	HOLDINGS AS A MULTIPLE OF BASE SALARY <sup>(3)</sup>
Claude Mongeau	469,564	28,436,797	5,278,238	26.9x
Luc Jobin	56,030	3,393,188	1,853,820	5.5x
Jim Vena	57,210	3,464,643	1,730,232	6.0x
Jean-Jacques Ruest	182,969	11,080,615	1,730,232	19.2x
Sean Finn	76,623	4,640,263	1,631,362	8.5x

- (1) Common shares and/or vested deferred share units as at December 31, 2013.
- (2) Value is based on the closing share price of the common shares on December 31, 2013 on the TSX (C\$60.56), or the fair market value at the time of purchase if greater.
- (3) US\$ salaries were converted to Canadian dollars using the average rate during the year (US\$1.00 = C\$1.0299).

#### ANTI-HEDGING POLICY

Under the Company’s Insider Trading Policy, no directors, officers or employees can engage in hedging activity or in any form of transactions in publicly traded options on CN securities. This relates to all forms of derivatives, including “puts” and “calls”.

#### CHANGE OF CONTROL PROVISIONS

The Management Long-Term Incentive Plan and the Share Units Plan were amended effective March 4, 2008 to include “double trigger provisions”. Pursuant to such provisions, the vesting of non-performance stock options or PSUs awarded after that date and held by a participant would not accelerate upon a Change of Control, unless the participant is terminated without cause or resigns for good reason. A Change of Control means any of the following events:

- a) in the event the ownership restrictions in the *CN Commercialization Act* are repealed, a formal bid for a majority of the Company’s outstanding common shares;
- b) approval by the Company’s shareholders of an amalgamation, merger or consolidation of the Company with or into another corporation, unless the definitive agreement of such transaction provides that at least 51% of the directors of the surviving or resulting corporation immediately after the transaction are the individuals who, at the time of such transaction, constitute the Board and that, in fact, these individuals continue to constitute at least 51% of the board of directors of the surviving or resulting corporation during a period of two consecutive years; or
- c) approval by the Company’s shareholders of a plan of liquidation or dissolution of the Company.

The amended provisions state that acceleration of vesting would not occur if a proper substitute to the original stock options or share units is granted to the participant. If such substitute is granted and a participant is terminated without cause or submits a resignation for good reason within 24 calendar months after a Change of Control, all outstanding substitute stock options or share units which are not then exercisable shall vest and become exercisable or payable in full upon such termination or resignation. Substitute stock options that are vested and exercisable shall remain exercisable for a period of 24 calendar months from the date of such termination or resignation and units shall be paid within 30 days. These amended provisions only affect grants made after March 4, 2008, and discretion is left to the Board of Directors to take into account special circumstances. The definition of a resignation for good reason is included in the Termination and Change of Control Benefits table on page 70.

#### **NON-COMPETE / NON-SOLICITATION PROVISIONS**

On January 22, 2009, the Board of Directors approved the inclusion of non-compete and non-solicitation provisions to the PSU and stock option award agreements to be executed in the future with the CEO, executive vice-presidents and senior vice-presidents. Hence, the PSUs and stock options granted to such individuals after January 22, 2009, including the 2009 awards, are subject to cancellation if the recipients fail to comply with certain commitments for a two-year period following termination of employment. Those commitments prohibit:

- a) the use of confidential CN information for any purpose other than performing his or her duties with CN;
- b) engaging in any business that competes with CN;
- c) soliciting, accepting the business of a customer, client, supplier or distributor of CN or hiring or engaging employees of CN;
- d) taking advantage or profit from any business opportunity of which they became aware in the course of employment with CN; and
- e) taking any action as a result of which relations between CN and its consultants, customers, clients, suppliers, distributors, employees or others may be impaired or which might otherwise be detrimental to the business interests or reputation of CN.

Non-compete and non-solicitation provisions are now included in the PSU and stock option award agreements for all executives and other management employees. Similarly, in 2010, the Board of Directors approved the inclusion of non-compete and non-solicitation provisions to certain supplemental retirement plans and arrangements. Such provisions were also harmonized in 2010 and 2011 across the non-registered pension plans that apply to all executives and senior management employees.

#### **EXECUTIVE COMPENSATION CLAWBACK**

In March 2008, the Board of Directors adopted an executive compensation clawback policy concerning future awards made under the Company's annual and long-term incentive plans. Under this policy, which applies to all executives, the Board may, in its sole discretion, to the full extent permitted by governing laws and to the extent it determines that it is in the Company's best interest to do so, require reimbursement of all or a portion of annual and long-term incentive compensation received by an executive. The Board of Directors may seek reimbursement of full or partial compensation from an executive or former executive officer in situations where:

- a) the amount of incentive compensation received by the executive or former executive officer was calculated based upon, or contingent on, the achievement of certain financial results that were subsequently the subject of or affected by a restatement of all or a portion of the Company's financial statements;
- b) the executive officer engaged in gross negligence, intentional misconduct or fraud that caused or partially caused the need for the restatement; and
- c) the incentive compensation payment received would have been lower had the financial results been properly reported.

#### **RISK MITIGATION IN OUR COMPENSATION PROGRAM**

One of the Company's fundamental goals is to create sustained shareholder value. In order to support this objective, the Committee focuses on developing and recommending an executive compensation philosophy and program that align with the Company's business strategy, emphasize pay-for-performance, and encourage the right behaviours. Hence, many characteristics of the Company's executive compensation program serve to mitigate risk and emphasize the importance of longer-term value creation:

##### **Structured Process**

- An annual review of the performance measures under the Company's AIBP and Share Units Plan takes place to ensure their continued relevance.
- The Committee completes a formal assessment of performance each year, and can then use discretion to increase or decrease any compensation awards if it deems appropriate based on market factors or other extenuating circumstances.

##### **Balanced Program**

- The compensation program appropriately balances fixed and variable pay, as well as short-term and long-term incentives (in aggregate, approximately 80% of NEOs' target total direct compensation was directly linked to the Company's performance).

- The corporate component of the AIBP includes five performance metrics that are appropriately balanced between “top-line” measures and “bottom-line” measures, thus diversifying the risk associated with the use of any single performance metric (please refer to section “Annual Incentive Bonus Plan” on page 47 for more information).
- There are multi-year, overlapping performance periods for the PSUs and stock options, which encourages consistent, long-term behaviour.
- The LTI awards, which constitute a significant portion of NEO compensation, vest over a 3- or 4-year period, motivating executives to create longer-term value.
- The performance measures used within the Share Units Plan reflect an appropriate balance between financial and share price metrics.
- The use of the same performance criteria (ROIC) for the AIBP (one year) and PSUs (three-year average) ensures balance between short- and long-term performance sustainability on key capital investment expenditures.
- Commencing at various dates, for executives and senior management employees, the payout of LTI awards and the payment of retirement benefits under the Company’s non-registered pension plans, are conditional on compliance with the conditions of their benefit plans, award or employment agreements, including but not limited to non-compete, non-solicitation, non-disclosure of confidential information and other restrictive covenants (please refer to section “Non-Compete/Non-Solicitation Provisions” on page 52 for more information).

#### Independent Advice

- Management retains the services of an external executive compensation consultant to assist in the determination of compensation for its Officers. The Committee retains the services of an independent executive compensation consultant to provide advice on compensation recommendations that are presented for Committee approval.

In 2011, Towers Watson was mandated to review the Company’s compensation program, policies and practices and assess any potential risk implications. Towers Watson concluded that “there does not appear to be significant risks arising from CN’s compensation programs that are reasonably likely to have a material adverse effect on the company”. The Committee played an active role in reviewing the Risk Assessment report and in discussing the improvement actions suggested by Towers Watson. As a result, the Committee requested that Management perform more extensive stress-testing on future LTI awards, to validate that programs are aligned with CN’s pay-for-performance principles. Since 2012, stress-testing exercises were performed on the NEOs’ LTI grants proposed by human resources management and the results were presented to the Committee for their consideration prior to the Committee and the Board approving such grants. In 2012 and 2013, CN requested that Towers Watson review the actions taken by CN since the 2011 Risk Assessment and comment on any potential risks.

In December 2013, Towers Watson considered the actions taken by CN and once again confirmed that “overall, there do not appear to be significant risks arising from CN’s compensation programs that are reasonably likely to have a material adverse effect on the Company”. The Committee strongly supports the conclusions from Towers Watson’s risk assessment report and in its own assessment determined that proper risk mitigation features are in place within the Company’s compensation program.

Throughout the year, the Committee plays an important oversight role related to the identification and management of risks associated with CN’s compensation policies and practices. For example, *in camera* sessions, restricted to members of the Committee, are held at the start of each of the Committee meetings to allow for discussion regarding any compensation or risk-related issue. The Committee also believes in the benefits of a certain level of overlapping membership between the Audit and the Human Resources and Compensation Committees, particularly with regard to risk

#### Fixed Limits on Variable Compensation

- The AIBP and the Share Units Plan are designed to include the possibility of a zero payout, as well as a pre-defined maximum.
- Annual retirement benefits to the CEO from the non-registered pension plan are capped.

#### Protection Mechanisms

- The Company’s executive compensation clawback policy allows the Board, in certain situations, to request the full or partial reimbursement of annual and long-term incentive awards received by executives (please refer to section “Executive Compensation Clawback” on page 52 for more information).
- The NEOs are not governed by employment contracts and the long-term incentive plans include “double-trigger provisions”, such that the vesting of LTI awards would generally not accelerate upon a Change in Control.
- Under the Company’s Insider Trading Policy, directors, executives and employees are prohibited from engaging in hedging activities against CN securities.
- In order to further align their interests with those of shareholders, executives and senior management employees (approximately 200 individuals) are required to meet specific stock ownership guidelines. In addition, the CEO must maintain his stock ownership level for one year after retirement (please refer to section “Stock Ownership” on page 51 for more information).

monitoring. As such, Denis Losier, Chair of the Audit Committee, is a member of the Human Resources and Compensation Committee and Gordon D. Giffin, Chair of the Human Resources and Compensation Committee, is a member of the Audit Committee. This overlap effectively provides a link between the two committees' risk oversight responsibilities.

## **President and Chief Executive Officer Compensation**

### **CLAUDE MONGEAU, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Mr. Mongeau became President and Chief Executive Officer of CN on January 1, 2010. He joined CN in May 1994 and has held the positions of Assistant Vice-President Corporate Development, and Vice-President, Strategic and Financial Planning. He was appointed Executive Vice-President and Chief Financial Officer in October 2000.

As President and CEO, Mr. Mongeau is responsible for providing leadership and vision for CN, as well as achieving strategic and operational goals that will build long-term shareholder value. More details on his role are available in the Company's Corporate Governance Manual, available at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance.

### **COMPENSATION**

The CEO's annual compensation takes into account factors such as competitive positioning against market, economic outlook, and leadership abilities. The CEO's comparator group consists of the following Class I Railroads: Union Pacific Corporation, CSX Corporation, Norfolk Southern Corporation and Canadian Pacific Railway Limited. Mr. Mongeau's annual compensation is recommended by the Committee and approved by the independent members of the Board of Directors. The CEO serves at the will of the Board and does not have an employment contract.

### **BASE SALARY**

In 2013, Mr. Mongeau's base salary was increased from US\$1,000,000 to US\$1,025,000 (C\$1,055,648), to recognize the CEO's growth in his continuing role and to maintain his competitive position against market.

### **ANNUAL INCENTIVE BONUS PLAN**

As in prior years, Mr. Mongeau's target bonus for 2013 was 120% of his base salary. As is the case for other management participants in the AIBP, 70% of the bonus payout is based on corporate performance and 30% is based on individual performance.

After considering the 2013 financial results against the established corporate objectives, the Board of Directors assessed the corporate performance as "partially exceeds", allowing for a corporate performance factor of 126% for the CEO.

The individual objectives of the CEO are measured against the goals, objectives and standards approved annually by the Committee and the Board. The individual goals set at the beginning of 2013 included elements covering performance in the following areas: balancing operational and service excellence (20%); delivering superior growth (20%); opening new markets with breakthrough opportunities (20%); deepening employee engagement throughout the workforce (20%); and building on our momentum with key stakeholders (20%). Following a review of the CEO's performance against objectives, the Committee determined that the CEO had partially exceeded his overall individual performance objectives and recommended to the Board the approval of the CEO's annual incentive bonus payout of US\$1,546,110 (C\$1,644,443).

### **BALANCING OPERATIONAL AND SERVICE EXCELLENCE**

CN maintained its industry-leading operating ratio in 2013 despite very difficult weather conditions that challenged the Company's operations. Mr. Mongeau deepened the Company's strategic agenda of Operational and Service Excellence and CN continued to lead the industry with respect to key operating efficiency metrics, including terminal dwell and train speed, while at the same time maintaining its commitment to deliver on its customer service priorities. Under Mr. Mongeau's leadership, the Company reorganized its customer service organization, aligning CN's service delivery centres with its operating regions, standardizing processes and policies, and developing new metrics of success to improve the Company's ability to connect with customers on the movement of cars and trains. Mr. Mongeau also continued to progress the Company's goal of becoming a true supply chain enabler, helping employees to see beyond what we do as a railroad and connecting across the end-to-end supply chain for the benefit of customers, partners, as well as for CN. The Company advanced its supply chain visibility tools, supporting improved collaboration across CN's supply chains. Mr. Mongeau continued to lead the Company's commitment to safety, championing efforts to broaden and deepen the Company's safety culture. In support of these efforts, the Company announced a C\$50 million investment to build two new training facilities, one in Winnipeg and one in Chicago. These new facilities, both slated to open in 2014, include modernized training curriculum and equipment to better meet the needs of current and future railroaders. The training programs will have a uniform curriculum with dedicated staff at each location. The significant and ongoing investment in this program and these facilities is designed to strengthen CN's safety culture and to prepare a new generation of safety-conscious railroaders. The Company also announced a special C\$10 million program to acquire additional monitoring equipment to enhance its strong technological based for early detection of defects to help prevent accidents. CN has more wayside detection equipment than any other railroad in North America and has increased that capacity by 30% over the last five years. CN has also increased the frequency of its ultrasonic rail flaw inspection by 70% over the past five years. The application of new detection equipment and modern safety technology will further strengthen the Company's safety performance.

A critical issue for CN and the entire North American rail industry is tank car design, which, in the Company's view, is one of the most important systemic issues arising from the Lac-Mégantic accident. Under Mr. Mongeau's leadership, CN, both independently and as a member of the Association of American Railroads (AAR), has made clear its support for improved tank car safety by requiring all tank cars used to transport flammable liquids to be retrofitted or phased out, and that new cars be built to more stringent standards.

CN takes its commitment to safety very seriously and strives to continuously improve in this area. In 2013, CN reduced its Federal Railroad Administration accident rate per million train miles by 9% and generated a 4% reduction in its Transportation Safety Board accident ratio, the latest data is indicative of a trend towards solid improvement. Over the past ten years, CN's main-track accidents have declined by 50% despite increased freight volumes. Mr. Mongeau continues to focus the Company's safety efforts on ongoing investments in infrastructure, rigorous train and track inspection, as well as a continuing focus on safety culture and employee training.

#### **DELIVERING SUPERIOR GROWTH**

In 2013, the Company again significantly over-performed relative to economic conditions. CN posted year-over-year carload growth of 3% versus an average 1% for the Company's Class 1 railroad peers. CN experienced growth across a broad range of markets, including energy, intermodal and forest products. Growth was driven by market share gains, providing a level of service that helped customers to grow in their own markets, and through the introduction of innovative new products and services. The Company's end-to-end supply chain approach and Sell One CN efforts were key growth contributors. Under Mr. Mongeau's leadership, the Company also continued to ensure pricing gains that recognize the value of CN's service and a robust project pipeline to support future growth.

#### **OPENING NEW MARKETS WITH BREAKTHROUGH OPPORTUNITIES**

Under Mr. Mongeau's leadership, the Company continued to focus its efforts on developing breakthrough opportunities that leverage the strength of CN's franchise, its end-to-end supply chain approach and its ability to grow at low incremental cost. A number of new markets continued to grow significantly in 2013, including commodities related to energy as well as containerized trade. CN's capital investments in its Wisconsin network, coupled with a focus on matchmaking between suppliers and receivers, drove additional growth in frac sand shipments. Crude oil shipments also continued to increase, driven by industry capacity build-out and the Company's strong origination and destination franchise. CN's sustained focus on supply chain collaboration with our port and terminal partners supported additional growth in international intermodal traffic, particularly traffic destined for the U.S. market via Canada's west coast.

#### **EMPLOYEE ENGAGEMENT**

Employee engagement is one of the most important components of Mr. Mongeau's strategic agenda. CN has hired over 2,600 employees in 2013 and over 10,000 since 2010. CN is carefully recruiting the right railroaders, systematically onboarding employees, and is working diligently to retain its employees. Deepening employee engagement takes many forms, from regular quality communications to structured talent management, and careful leadership development.

2013 saw the launch of LEAD, a multi-year, customized management leadership training program that reaches across the organization to embed the Company's leadership model and messages; and the running of LINK, an annual program aimed at accelerating the transfer of railroad knowledge and business leadership skills to key talent. The practice of performance management discussions for all employees (management and union) was continued as was strengthening the onboarding process.

On the labour relations front, over six collective bargaining agreements in the United States were renewed throughout 2013. Progress was made in gaining flexibility through the consolidation of several collective agreements and through the consolidation of bargaining units across most of the properties around greater Chicago, allowing CN to attain a higher level of operating efficiency and to offer better customer service in the area.

#### **STAKEHOLDER ENGAGEMENT**

CN is recognized as a company that delivers responsibly, is a key part of the solution for customers, and a true backbone of the economy.

Mr. Mongeau continued to deepen the Company's sustainability agenda – moving customer goods safely and efficiently, ensuring environmental stewardship, attracting and developing the best railroaders, adhering to the highest ethical standards and building safer, strong communities. In 2013, the Company engaged 258 stakeholders through a formal survey to gather knowledge of the sustainability topics of most interest to them. The results of the survey serve as a means to better focus our continuous improvement initiatives and to guide our future engagement activities.

In broad terms, the Company continued its stakeholder activities: engaging with governments as a participant on advisory councils, review boards and regulatory proceedings; engaging with shareholders through the annual general meeting, quarterly conference calls and through its analyst/investor days in December 2013; working with industry partners through collaborative supply chain service agreements; engaging with suppliers at our annual supplier council and through our Sustainable Procurement Excellence program; strengthening our relationships and improving our communication with customers; ensuring the opportunity for regular two-way communication with employees; structured community engagement; and open dialogue with Aboriginal peoples.

Specifically on the safety front, CN actively engaged communities across its network, meeting with emergency responders and elected officials, providing training and expertise and sharing relevant information on dangerous goods shipments. Under Mr. Mongeau's leadership, CN was also active on the regulatory front, supporting the Transportation Safety Board's and the National Transportation Safety Board's recommendations to regulators on the safe transportation of crude oil by rail.

Throughout 2013, CN also continued its support of hundreds of CN railroaders in the Community who are champions in the causes they choose to support. CN granted C\$560,000 to support its employees, their families and pensioners in their volunteer efforts. In 2013, CN received a number of awards and recognition including: recognition by the Dow Jones Sustainability Index as both a North American and a world leader in the transportation and transportation infrastructure sector; recognition as a Carbon Disclosure Leader in Canada by CDP; five other safety/HR awards.

#### **LONG-TERM INCENTIVES**

PSUs and stock options are granted to the CEO pursuant to the Share Units Plan and the Management Long-Term Incentive Plan. Grants to the CEO are made on the same basis and conditions as those to the other NEOs of the Company, subject to the 20% limitation under the Management Long-Term Incentive Plan. In 2013, Mr. Mongeau received 117,800 PSUs and 190,000 stock options. The fair value of these awards is included in the Summary Compensation Table on page 62, under the Share-Based Awards and Option-Based Awards columns.

In accordance with the disclosure rules issued by the Canadian Securities Administrators, amounts paid to Mr. Mongeau are reported in the prescribed tables in Canadian dollars.

#### ***Other Named Executive Officers' Compensation***

##### **LUC JOBIN, EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER**

Mr. Jobin is accountable for the Company's financial management and governance, strategic planning and information technology.

Appointed CN's Executive Vice-President and Chief Financial Officer ("CFO") in June 2009, Mr. Jobin has extensive experience as a business leader and senior executive within the consumer goods, manufacturing and investment industries.

Mr. Jobin obtained his Chartered Accountant designation from the Canadian Institute of Chartered Accountants and earned his Diploma in Public Accountancy from McGill University.

In 2013, Mr. Jobin's base salary was increased from US\$575,000 to US\$600,000 (C\$617,940) to maintain his competitive position against market. Under the AIBP, his 2013 target bonus was equivalent to 70% of base salary. In addition, the Committee approved a 2013 grant of 34,700 PSUs and 69,400 stock options, in accordance with the terms of the Share Units Plan and the Management Long-Term Incentive Plan respectively.

Mr. Jobin's performance in 2013 was assessed by the CEO against individual performance objectives, including achieving key financial targets, supporting the strategic agenda, driving superior performance, pursuing breakthrough growth opportunities and intensifying employee engagement. Mr. Jobin was assessed as having partially exceeded his overall individual performance objectives. Based on the Company's financial performance, as well as on his individual assessment, Mr. Jobin received a 2013 annual bonus in the amount of US\$527,940 (C\$561,517).

##### **JIM VENA, EXECUTIVE VICE-PRESIDENT AND CHIEF OPERATING OFFICER**

Mr. Vena was accountable for the Company's North American rail operations. Appointed CN's Executive Vice-President and Chief Operating Officer ("COO") in February 2013, Mr. Vena has extensive railway experience having held successively senior positions within the Company's operating functions.

Mr. Vena joined CN in 1977 as a brakeman in Jasper, Alberta. Mr. Vena gradually took over various management positions in CN operations and marketing and led all three of CN's operating regions as Senior Vice-President, Southern Region; Senior Vice-President, Western Region; and Senior Vice-President, Eastern Region.

Upon his appointment to EVP and COO in February of 2013, Mr. Vena's base salary was established at US\$560,000 (C\$576,744), to provide a competitive position against market. Under the AIBP, his 2013 target bonus was equivalent to 65% of base salary from January 1, 2013 to February 18, 2013 and 70% of base salary from February 19, 2013 to December 31, 2013. In addition, the Committee approved 2013 grants of 30,400 PSUs and 60,800 stock options, in accordance with the terms of the Share Units Plan and the Management Long-Term Incentive Plan respectively.

In 2013, Mr. Vena's performance was assessed by the CEO against individual performance objectives, including cost management, asset utilization, service, safety and people. Mr. Vena was assessed as having partially exceeded his overall individual performance objectives. Based on the Company's financial performance, as well as on his individual assessment, Mr. Vena received a 2013 annual bonus in the amount of US\$487,926 (C\$518,958).

**JEAN-JACQUES RUEST, EXECUTIVE VICE-PRESIDENT  
AND CHIEF MARKETING OFFICER**

Mr. Ruest was appointed CN's Executive Vice-President and Chief Marketing Officer ("CMO") on January 1, 2010 and is responsible for providing the strategic direction and leadership for CN's sales, marketing and supply chain solution groups.

He is a seasoned executive and has extensive marketing experience within the railway industry. Prior to joining CN, he accumulated more than 15 years of experience working for a major international chemical company.

Mr. Ruest holds a Masters in Business Administration in marketing from HEC Montréal and a Bachelor of Science degree in applied chemistry from Université de Sherbrooke. He also completed the executive program from the University of Michigan's business school.

In 2013, Mr. Ruest's base salary was increased from US\$540,000 to US\$560,000 (C\$576,744), to maintain his competitive position against market. Under the AIBP, his 2013 target bonus was equivalent to 70% of base salary. In addition, the Committee approved a 2013 grant of 32,780 PSUs and 65,560 stock options, in accordance with the terms of the Share Units Plan and the Management Long-Term Incentive Plan respectively.

Mr. Ruest's performance in 2013 was assessed by the CEO against individual performance objectives, including delivering profitable growth and price sustainability, opening new markets with breakthrough opportunities, accelerating the implementation of innovation, strengthening intermodal operations and the deployment of employees within sales and marketing to increase supply chain alignment. Mr. Ruest was assessed as having partially exceeded his overall individual performance objectives. Based on the Company's financial performance, as well as on his individual assessment, Mr. Ruest received a 2013 annual bonus in the amount of US\$492,744 (C\$524,083).

**SEAN FINN, EXECUTIVE VICE-PRESIDENT CORPORATE SERVICES  
AND CHIEF LEGAL OFFICER**

Mr. Finn was appointed Senior Vice-President, Chief Legal Officer and Corporate Secretary in December 2000 and CN's Executive Vice-President Corporate Services and Chief Legal Officer ("CLO") in December 2008. He is responsible for a wide array of legal, government, regulatory, public affairs, risk mitigation and security matters. As Corporate Secretary, he is also responsible for CN's Corporate Governance practices.

Mr. Finn led CN's tax function and was appointed CN's Vice-President, Treasurer and Principal Tax Counsel in January 2000. Before joining the Company, he was the Managing Tax Partner for a major Montreal law firm.

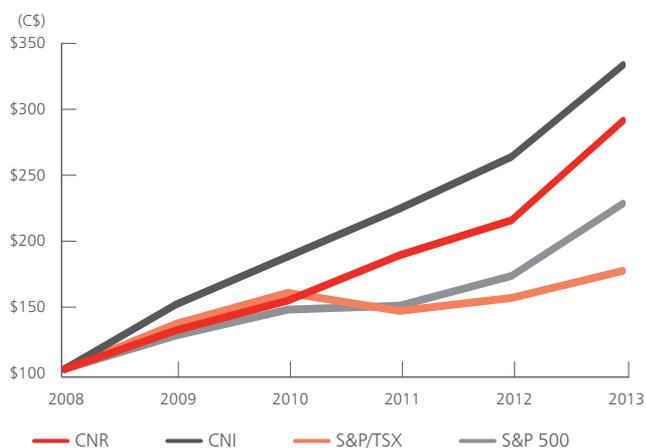
Mr. Finn graduated from the Faculty of Law of the University of Montreal, after which he was admitted to the Quebec Bar, and is a member of the Canadian and American Bar Associations. Mr. Finn has completed the Directors Education Program offered by the Institute of Corporate Directors and the Rotman School of Management, as well as the Excellence in the Boardroom Program at the Rotman School of Management, Executive Programs, University of Toronto.

In 2013, Mr. Finn's base salary was increased from US\$513,000 to US\$528,000 (C\$543,787), to maintain his competitive position against market. Under the AIBP, his 2013 target bonus was equivalent to 70% of base salary. In addition, the Committee approved a 2013 grant of 28,920 PSUs and 57,840 stock options, in accordance with the terms of the Share Units Plan and the Management Long-Term Incentive Plan respectively.

Mr. Finn's performance in 2013 was assessed by the CEO against individual performance objectives related to taking CN's stakeholder engagement to the next level, leading key strategic initiatives associated with Corporate Services, establishing an infrastructure and process for enhancing succession and leadership development activities for his function, ensuring successful corporate governance and being a trusted advisor to the CEO, the executive team and the Board. Mr. Finn was assessed as having fully met his overall individual performance objectives. Based on the Company's financial performance, as well as on his individual assessment, Mr. Finn received a 2013 annual bonus in the amount of US\$436,867 (C\$464,562).

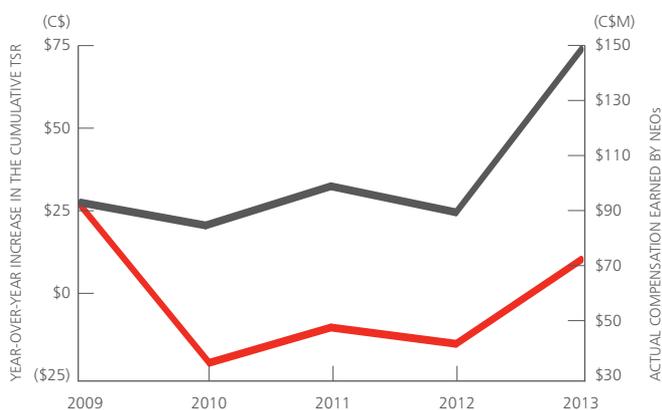
## Performance Graph

The following Performance Graph illustrates the yearly cumulative total shareholder return on a \$100 investment in CN's common shares compared with the cumulative total return of the S&P/TSX and the S&P 500 Indices from the period beginning December 31, 2008 to the period ending December 31, 2013. It assumes reinvestment of all dividends during the covered period.



	DEC-08	DEC-09	DEC-10	DEC-11	DEC-12	DEC-13
CNR	\$100	\$130	\$153	\$188	\$215	\$292
CNI	\$100	\$150	\$187	\$224	\$264	\$335
S&P/TSX	\$100	\$135	\$159	\$145	\$155	\$176
S&P 500	\$100	\$126	\$146	\$149	\$172	\$228

The following graph illustrates the year-over-year increase in cumulative total shareholder return on a C\$100 investment in CN's common shares on the TSX compared with the total compensation earned by NEOs in each year of the five-year period ending on December 31, 2013, and demonstrates the close link between the two.



— Total Shareholder Return: Year-over-year increase in the cumulative total shareholder return during the year on a \$100 investment on Dec. 31, 2008.

— Actual compensation earned by NEOs attributed to the year. Value shown for 2012 excludes amounts forfeited by Mr. Creel as a result of his resignation.

Over the last five years, the three main components of compensation — base salary, annual incentive, and LTIs — that were earned by all NEOs combined represented about 1.03% of the approximate C\$29 billion aggregate market capitalization increase over the same period. The total compensation earned by NEOs is defined as the amount of base salary and bonus earned during the year, plus the yearly change in unrealized and realized gains from equity-based incentive plans. The Committee believes that the Company's executive compensation policy is effective and appropriately supports a strong relationship between the compensation earned by NEOs and the investment return of shareholders. Over the last five years, approximately 87% of the compensation earned by NEOs was derived from equity-based incentive plans, closely linking their compensation to shareholder return.

## Summary Compensation Table

The following table sets forth the annual total compensation in Canadian dollars for the NEOs, for the years ended December 31, 2013, 2012 and 2011. Fluctuation in the exchange rate may affect year-over-year comparability. Please refer to page 71 for currency exchange information.

NAME AND PRINCIPAL POSITION <sup>(1)</sup>	YEAR	SALARY (C\$)	SHARE-BASED AWARDS <sup>(2)</sup> (C\$)	OPTION- BASED AWARDS <sup>(2)</sup> (C\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION—	PENSION VALUE <sup>(4)</sup> (C\$)	ALL OTHER COMPENSATION <sup>(5)</sup> (C\$)	TOTAL COMPENSATION (C\$)
					ANNUAL INCENTIVE PLANS <sup>(3)</sup> (C\$)			
Claude Mongeau President and Chief Executive Officer	2013	1,055,648	3,210,050	1,609,300	1,644,443	628,000	82,191	8,229,632
	2012	999,600	2,654,030	1,698,400	2,208,678	314,000	84,797	7,959,505
	2011	964,373	2,924,889	1,878,000	2,112,055	274,000	81,624	8,234,941
Luc Jobin Executive Vice-President and Chief Financial Officer	2013	617,940	945,575	587,818	561,517	150,669 <sup>(7)</sup>	18,694	2,882,213
	2012	574,770	902,008 <sup>(6)</sup>	625,011	710,794	141,982 <sup>(7)</sup>	16,591	2,971,156
	2011	544,005	1,012,563 <sup>(6)</sup>	656,048	694,992 <sup>(9)</sup>	142,360 <sup>(7)</sup>	14,698	3,064,666
Jim Vena Executive Vice-President and Chief Operating Officer	2013	546,061	980,709	554,670	518,958	2,200,000 <sup>(10)</sup>	13,497	4,813,895
	2012	327,869	184,402	151,003	376,500	144,000	24,329	1,208,103
	2011	314,534	211,486	164,012	373,130	100,000	464,223	1,627,385
Jean-Jacques Ruest Executive Vice-President and Chief Marketing Officer	2013	576,744	893,255	555,293	524,083	310,000	17,233	2,876,608
	2012	539,784	718,376	588,264	667,528	174,000	18,059	2,706,011
	2011	509,387	793,074	615,045	650,766	183,000	16,442	2,767,714
Sean Finn Executive Vice-President, Corporate Services and Chief Legal Officer	2013	543,787	788,070	489,905	464,652	317,000	14,846	2,618,260
	2012	512,795	651,252	533,298	634,152	137,000	16,126	2,484,623
	2011	494,550	740,202	574,042	605,115	111,000	14,179	2,539,088

- (1) Mr. Mongeau was appointed President and CEO as of January 1, 2010. Mr. Jobin joined CN and assumed the role of Executive Vice-President and CFO as of June 1, 2009. Mr. Vena was appointed Executive Vice-President and Chief Operating Officer as of February 19, 2013. Mr. Ruest was appointed Executive Vice-President and CMO as of January 1, 2010. Mr. Finn was appointed Executive Vice-President Corporate Services and CLO effective December 1, 2008.
- (2) The Committee relies on a number of factors in determining NEO compensation as described in the Compensation Discussion & Analysis. The share and option-based grant date fair value of awards shown in the above table are calculated in accordance with Accounting Standards Codification (ASC) 718—Compensation—Stock Compensation, under U.S. Generally Accepted Accounting Principles (U.S. GAAP), in order to align with the methodology used in the Company's financial statements. Please refer to page 60 for a detailed description of the methodology used. The share and option-based awards are sensitive to variations in accounting assumptions, in particular the risk-free interest rate and stock price volatility, which explains the decline in share and option-based grant date fair values between 2011 and 2012.
- (3) Represents the incentive award earned under the AIBP for the applicable year. Refer to page 47 for the details of the AIBP.
- (4) Includes the compensatory value of pension benefits as reported in the "Defined Benefit Plans" and "Defined Contribution Plans" tables in the "Pension Plan Benefits" section on page 69.
- (5) Includes the value of perquisites, personal benefits and other compensation (as applicable), for example post-retirement benefits or the Employer contribution under the ESIP. Perquisites and other personal benefits that in aggregate amount to less than C\$50,000 or 10% of the total salary for any of the NEOs are not reported in this column. Details are provided in the table on page 61. Amounts for Mr. Vena include tax protection payments made on behalf of Mr. Vena for United States income taxes paid in excess of Canadian income taxes on stock options exercised in 2011 and 2012, as Mr. Vena's duties were required to be performed in the United States. The tax protection amount paid in 2011 and 2012 were C\$456,118, and C\$15,644 respectively.
- (6) Mr. Jobin's share-based award includes 3,669 deferred share units which represent the 25% company-match awarded under the VIDP and vest over 4 years, upon the deferral of his 2011 AIBP. The grant date fair value of the award was calculated by multiplying the number of units by C\$37.82, the share price on the day of the award.
- (7) The pension plan value stated for Mr. Jobin excludes the notional investment earnings (and losses) from the Defined Contribution Supplemental Executive Retirement Plan. Refer to page 68 for details of the Defined Contribution Supplemental Executive Retirement Plans.
- (8) Mr. Jobin's share-based award includes 4,908 deferred share units which represent the 25% company-match awarded under the VIDP and vest over four years, upon the deferral of his 2010 AIBP. The grant date fair value of the award was calculated by multiplying the number of units by C\$33.95, the share price on the day of the award.
- (9) The amount includes any portion of the annual bonus that was deferred by an NEO. Mr. Jobin elected to defer the totality of his 2011 AIBP payout into deferred share units under the VIDP, up to the maximum limit equivalent to his stock ownership guideline. Payouts from the VIDP occur only upon cessation of employment and are payable in cash. For 2011, his deferral was equivalent to 14,678 units using a share price of US\$38.66 with a 25% company match of 3,669 units that will vest over four years, at a rate of 25% per year. Refer to "Deferred Compensation Plans" on pages 66 and 67 for details.
- (10) The increase in pension value for Mr. Vena is mostly attributable to his appointment as Executive Vice-President and Chief Operating Officer of CN on February 19, 2013, which increased his projected pensionable earnings.

**EXTENSION TO NOTE (2) OF THE SUMMARY COMPENSATION TABLE ON THE CALCULATION OF GRANT DATE FAIR VALUE OF AWARDS**

The fair value of the LTI awards reflects their expected value on the date of the grant and is calculated in accordance with Accounting Standards Codification (ASC) 718 — Compensation — Stock Compensation, under U.S. Generally Accepted Accounting Principles (U.S. GAAP), in order to align with the methodology used in the Company's financial statements. Share-based awards represent the award of company-matched deferred share units under the VIDP and of PSUs under the Share Units Plan. Option-based awards represent the award of stock options pursuant to the Management Long-Term Incentive Plan. The grant date fair value for DSUs is determined by the closing share price of the Company's stock on such date. The grant date fair value for PSUs and stock options is determined using the lattice-based valuation model and the Black-Scholes option-pricing model, respectively, and considers the following assumptions:

SHARE-BASED AWARDS (PSUs)	2011 (JANUARY)	2012 (JANUARY)	2013 (JANUARY)	2013 (FEBRUARY)	OPTION-BASED AWARDS	2011 (JANUARY)	2012 (JANUARY)	2013 (JANUARY)	2013 (FEBRUARY)
Closing share price on grant date (C\$)	34.45	38.29	47.30	50.75	Closing share price on grant date (C\$)	34.45	38.29	47.30	50.75
Risk-free interest rate over term of the award <sup>(1)</sup>	1.88%	1.05%	1.20%	1.21%	Risk-free interest rate over term of the award <sup>(1)</sup>	2.53%	1.33%	1.41%	1.48%
Expected stock price volatility over term of the award <sup>(2)</sup>	28%	22%	17%	17%	Expected stock price volatility over term of the award <sup>(2)</sup>	26%	26%	23%	23%
Expected annual dividends per share (C\$)	0.65	0.75	0.86	0.86	Expected annual dividends per share (C\$)	0.65	0.75	0.86	0.86
Expected term <sup>(3)</sup>	3 years	3 years	3 years	3 years	Expected term <sup>(3)</sup>	5.3 years	5.4 years	5.4 years	5.4 years
Resulting fair value per unit (C\$)	20.18	18.86	27.25	34.08	Resulting fair value per stock option (C\$)	7.83	7.72	8.47	9.36

(1) Based on the implied yield available on zero-coupon government issues with an equivalent term commensurate with the expected term of the award.

(2) Based on the historical volatility of the Company's stock over a period commensurate with the expected term of the award, and for option-based awards, also considers the implied volatility from traded options on the Company's stock.

(3) Represents the period of time that awards are expected to be outstanding. For option-based awards, the Company uses historical data to estimate stock option exercise and employee termination, and groups of employees that have similar historical exercise behaviour are considered separately.

The share and option-based awards are sensitive to variations in accounting assumptions, in particular the risk-free interest rate and stock price volatility.

DETAILS OF "ALL OTHER COMPENSATION" AMOUNTS FOR 2013, 2012, AND 2011<sup>(1)</sup>

NAME	YEAR	PERQUISITES AND OTHER PERSONAL BENEFITS <sup>(2)</sup> (C\$)	OTHER COMPENSATION (C\$)	ALL OTHER COMPENSATION (TOTAL OF THE TWO PREVIOUS COLUMNS) (C\$)
Claude Mongeau	2013	Company-leased vehicle: 16,594 Financial counselling: 15,980 Healthcare benefits and life insurance: 9,083 Other perquisites: 15,709	ESIP Employer contribution: 22,025 <sup>(3)</sup> Post-retirement benefits: 2,800 <sup>(4)</sup>	82,191
	2012	Company-leased vehicle: 19,325 Financial counselling: 15,744 Healthcare benefits and life insurance: 9,715 Other perquisites: 14,358	ESIP Employer contribution: 21,027 <sup>(3)</sup> Post-retirement benefits: 4,628 <sup>(4)</sup>	84,797
	2011	Company-leased vehicle: 18,104 Financial counselling: 15,300 Healthcare benefits and life insurance: 9,660 Other perquisites: 15,214	ESIP Employer contribution: 20,206 <sup>(3)</sup> Post-retirement benefits: 3,140 <sup>(4)</sup>	81,624
Luc Jobin	2013	Nil	ESIP Employer contribution: 12,894 <sup>(3)</sup> Post-retirement benefits: 5,800 <sup>(4)</sup>	18,694
	2012	Nil	ESIP Employer contribution: 12,091 <sup>(3)</sup> Post-retirement benefits: 4,500 <sup>(4)</sup>	16,591
	2011	Nil	ESIP Employer contribution: 11,398 <sup>(3)</sup> Post-retirement benefits: 3,300 <sup>(4)</sup>	14,698
Jim Vena	2013	Nil	ESIP Employer contribution: 10,997 <sup>(3)</sup> Post-retirement benefits: 2,500 <sup>(4)</sup>	13,497
	2012	Nil	ESIP Employer contribution: 6,885 <sup>(3)</sup> Post-retirement benefits: 1,800 <sup>(4)</sup> Tax protection: 15,644 <sup>(5)</sup>	24,329
	2011	Nil	ESIP Employer contribution: 6,605 <sup>(3)</sup> Post-retirement benefits: 1,500 <sup>(4)</sup> Tax protection: 456,118 <sup>(5)</sup>	464,223
Jean-Jacques Ruest	2013	Nil	ESIP Employer contribution: 12,033 <sup>(3)</sup> Post-retirement benefits: 5,200 <sup>(4)</sup>	17,233
	2012	Nil	ESIP Employer contribution: 11,355 <sup>(3)</sup> Post-retirement benefits: 6,704 <sup>(4)</sup>	18,059
	2011	Nil	ESIP Employer contribution: 10,673 <sup>(3)</sup> Post-retirement benefits: 5,769 <sup>(4)</sup>	16,442
Sean Finn	2013	Nil	ESIP Employer contribution: 11,346 <sup>(3)</sup> Post-retirement benefits: 3,500 <sup>(4)</sup>	14,846
	2012	Nil	ESIP Employer contribution: 10,787 <sup>(3)</sup> Post-retirement benefits: 5,339 <sup>(4)</sup>	16,126
	2011	Nil	ESIP Employer contribution: 10,362 <sup>(3)</sup> Post-retirement benefits: 3,817 <sup>(4)</sup>	14,179

- (1) This table outlines the perquisites and other compensation received by NEOs in 2011, 2012 and 2013. The amounts are calculated based on the incremental cost to the Company. Effective January 1, 2010, the Company eliminated tax gross-ups on such perquisites and revised its policy to restrict the usage of the corporate aircraft to business-related purposes, save for certain exceptional circumstances.
- (2) Perquisites and other personal benefits include the use of a company-leased vehicle, parking, club membership, executive physical exam, financial counselling and tax services, and certain healthcare benefits and life insurance coverage. The incremental cost to the Company is determined by the actual cost of the company-leased vehicle (including gas and maintenance fees), parking, club membership, executive physical exam, financial counselling and tax services and by the cost of certain healthcare benefits and life insurance coverage in excess of that offered to salaried employees. See section "Executive Perquisites" on page 50 for more details. Perquisites and other personal benefits that amount to less than C\$50,000 (in aggregate) or 10% of total salary for any of the NEOs are reported as "Nil" in this column.
- (3) Represents the value of the Company-match under the ESIP.
- (4) Represents the service cost for post-retirement benefits, if applicable.
- (5) Amounts for Mr. Vena include tax protection payments made on behalf of Mr. Vena for United States income taxes paid in excess of Canadian income taxes on stock options exercised in 2011 and 2012, as Mr. Vena's duties were required to be performed in the United States. The tax protection amount paid in 2011 and 2012 were C\$456,118, and C\$15,644 respectively.

## Incentive Plan Awards

### Share-Based and Option-Based Awards in 2013

The following table shows information regarding grants of PSUs made to NEOs under the Share Units Plan, grants of stock options made under the Management Long-Term Incentive Plan and awards of company-matched DSUs under the VIDP in 2013.

NAME	GRANT DATE	AWARD TYPE	SECURITIES, UNITS OR OTHER RIGHTS (#)	END OF PLAN PERIOD OR EXPIRY DATE	SHARE PRICE ON DATE OF GRANT (C\$)	AWARD'S GRANT DATE FAIR VALUE <sup>(1)</sup> (C\$)
Claude Mongeau	January 24, 2013	PSUs <sup>(2)</sup>	117,800	December 31, 2015	47.30	3,210,050
		Stock Options <sup>(3)</sup>	190,000	January 24, 2023	47.30	1,609,300
Luc Jobin	January 24, 2013	PSUs <sup>(2)</sup>	34,700	December 31, 2015	47.30	945,575
		Stock Options <sup>(3)</sup>	69,400	January 24, 2023	47.30	587,818
Jim Vena	February 19, 2013	PSUs <sup>(2)</sup>	22,300	December 31, 2015	50.75	759,984
		Stock Options <sup>(3)</sup>	44,600	February 19, 2023	50.75	417,456
	January 24, 2013	PSUs <sup>(2)</sup>	8,100	December 31, 2015	47.30	220,725
		Stock Options <sup>(3)</sup>	16,200	January 24, 2023	47.30	137,214
Jean-Jacques Ruest	January 24, 2013	PSUs <sup>(2)</sup>	32,780	December 31, 2015	47.30	893,255
		Stock Options <sup>(3)</sup>	65,560	January 24, 2023	47.30	555,293
Sean Finn	January 24, 2013	PSUs <sup>(2)</sup>	28,920	December 31, 2015	47.30	788,070
		Stock Options <sup>(3)</sup>	57,840	January 24, 2023	47.30	489,905

(1) The grant date fair values reported for PSUs and stock options are calculated using the same assumptions as described in the extension to footnote 2 of the Summary Compensation Table on page 59.

(2) The PSUs granted in 2013 were made under the Share Units Plan. Under this plan, the payout is subject to the attainment of average ROIC targets for the plan period that determine the applicable performance vesting factor (as an example, threshold, target, and maximum performance levels are 50%, 100% and 150% respectively). The payout is also conditional to meeting a minimum share price condition of C\$45.05 or US\$45.51, as described under "Performance Share Units: 2013 Award" on page 50.

(3) The stock options granted in 2013 were made under the Management Long-Term Incentive Plan and vest over a period of four years, with 25% of the stock options vesting at each anniversary date of the award. Unexercised stock options shall expire on the tenth anniversary of the date of the award. See section "Management Long-Term Incentive Plan" on page 65 for a description of the plan.

## Outstanding Share-Based Awards and Option-Based Awards

The following table shows all awards made to NEOs and outstanding on December 31, 2013.

NAME	OPTION-BASED AWARDS <sup>(1)</sup>				SHARE-BASED AWARDS		
	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#)	OPTION EXERCISE PRICE <sup>(2)</sup> (C\$)	OPTION EXPIRATION DATE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS <sup>(3)</sup> (C\$)	NUMBER OF SHARES OR UNITS OF SHARES THAT HAVE NOT VESTED <sup>(4)</sup> (#)	MARKET OR PAYOUT VALUE OF SHARE-BASED AWARDS THAT HAVE NOT VESTED <sup>(5)</sup> (C\$)	MARKET OR PAYOUT VALUE OF VESTED SHARE-BASED AWARDS THAT HAVE NOT PAID OUT OR DISTRIBUTED <sup>(6)</sup> (C\$)
Claude Mongeau	190,000	50.18	2023/01/24	46,672,651	258,560	15,658,394	37,722,561
	220,000	40.61	2022/01/26				
	240,000	36.91	2021/01/27				
	256,000	27.25	2020/01/28				
	160,000	18.17	2019/01/26				
	120,000	25.57	2018/01/24				
	92,000	23.76	2017/01/25				
	120,000	23.89	2016/01/27				
Luc Jobin	69,400	50.18	2023/01/24	10,184,847	80,904	4,899,543	6,845,216
	80,960	40.61	2022/01/26				
	83,840	36.91	2021/01/27				
	97,400	27.25	2020/01/28				
	70,000	23.60	2019/06/01				
Jim Vena	44,600	53.34	2023/02/19	3,717,997	40,180	2,433,301	2,860,226
	16,200	50.18	2023/01/24				
	19,560	40.61	2022/01/26				
	20,960	36.91	2021/01/27				
	30,200	27.25	2020/01/28				
	24,000	18.17	2019/01/26				
	8,700	25.57	2018/01/24				
Jean-Jacques Ruest	65,560	50.18	2023/01/24	13,460,114	70,880	4,292,493	13,016,922
	76,200	40.61	2022/01/26				
	78,600	36.91	2021/01/27				
	87,400	27.25	2020/01/28				
	40,000	20.96	2019/01/26				
	30,000	24.23	2018/01/24				
	33,600	26.35	2017/01/25				
	12,800	23.48	2016/06/12				
	23,200	25.81	2016/01/27				
	32,000	18.11	2015/01/28				
Sean Finn	57,840	50.18	2023/01/24	7,324,919	63,460	3,843,138	3,332,011
	69,080	40.61	2022/01/26				
	73,360	36.91	2021/01/27				
	87,400	27.25	2020/01/28				
	15,900	18.17	2019/01/26				

(1) Includes all stock options granted under the Management Long-Term Incentive Plan and outstanding on December 31, 2013.

(2) All stock option exercise prices shown are in Canadian dollars. Where applicable, stock option exercise prices in U.S. dollars resulting from stock option grants to NEOs made in U.S. dollars, were converted to Canadian dollars using the December 31, 2013 exchange rate of US\$1.00 = C\$1.0636. The following table presents the option exercise prices that were converted to Canadian dollars:

OPTION EXPIRATION DATE	OPTION EXERCISE PRICE (US\$)	OPTION EXERCISE PRICE (C\$)
19/02/2023	50.15	53.34
24/01/2023	47.18	50.18
26/01/2022	38.19	40.61
27/01/2021	34.71	36.91
28/01/2020	25.62	27.25
01/06/2019	22.19	23.60
26/01/2019	17.09	18.17
24/01/2018	24.04	25.57
25/01/2017	22.34	23.76
27/01/2016	22.47	23.89
28/01/2015	14.60	15.52

- (3) The value of unexercised in-the-money stock options at financial year-end for stock options granted to NEOs in Canadian dollars is the difference between the closing share price of the common shares on December 31, 2013, on the TSX (C\$60.56) and the exercise price. The value of unexercised in-the-money stock options at financial year-end for stock options granted to NEOs in U.S. dollars is the difference between the closing share price of the common shares on December 31, 2013 on the NYSE (US\$57.02) converted to Canadian dollars based on the December 31, 2013 exchange rate of US\$1 = C\$1.0636 (i.e. US\$57.02 × 1.0636 = C\$60.65) and the exercise price converted to Canadian dollars using this same exchange rate. Please refer to Note 2 of this table for additional details. This value has not been, and may never be, realized. The actual gains, if any, will depend on the value of the common shares on the date of exercise.
- (4) Includes all PSUs outstanding on December 31, 2013 that have not vested on such date under the Share Units Plan. Payouts for these units are conditional to meeting performance criteria and a minimum share price condition that may or may not be achieved. For Mr. Jobin, the value also includes the company-matched DSUs outstanding on December 31, 2013 (5,724 units) that have not vested on such date under the VIDP. Under the plan, company-match DSUs vest over four years, at a rate of 25% per year.
- (5) The value of outstanding share units awarded under the PSU Plan is based on the closing price of the common shares on the TSX on December 31, 2013 (C\$60.56) assuming that the target average ROIC objective (i.e. 100%) and the minimum share price condition are met. In accordance with the plan, a performance vesting factor between 0% and 150% will apply to the awarded share units. For Mr. Jobin, the value of the company-matched DSUs awarded under the VIDP is based on the closing price of the common shares on the TSX on December 31, 2013 (C\$60.56) and is equivalent to C\$346,642.
- (6) Includes the value as at December 31, 2013 of the 2011 PSU awards granted under the Share Units Plan based on the closing price of the Company's common shares on the TSX of C\$60.56. The average ROIC for the period ending on December 31, 2013 was 15.88%, exceeding the target for the plan period. The performance vesting factor was therefore 150% and the minimum share price condition was also met. Payout for the 2011 PSU award occurred in February 2014 and was based on the average 20-day share price for the period ending January 31, 2014 (C\$58.87/US\$53.76). Also includes the value as at December 31, 2013 of the DSUs that have vested under the terms of the VIDP and the Senior Executive Bonus Share Plan based on the closing share price of the Company's common shares on the TSX of C\$60.56. Units held under these deferred compensation plans are only payable upon cessation of employment (please refer to pages 66 and 67 for more details on the Company's Deferred Compensation Plans). The following table provides the breakdown, for each of the NEOs, of the market value of vested share-based awards that were not paid out or distributed on December 31, 2013:

NEOs	2011 PSUs (C\$)	ACCUMULATED DSUs (C\$)	TOTAL (C\$)
Claude Mongeau	13,166,350	24,556,211	37,722,561
Luc Jobin	3,808,013	3,037,203	6,845,216
Jim Vena	952,003	1,908,223	2,860,226
Jean-Jacques Ruest	3,570,012	9,446,910	13,016,922
Sean Finn	3,332,011	0	3,332,011

### Incentive Plan Awards – Value Vested or Earned During the Year

The following table shows the value from incentive plans vested or earned by NEOs under the Company's incentive plans, including the annual incentive bonus, PSUs, DSUs and stock options earned during the financial year ended December 31, 2013.

NAME	OPTION-BASED AWARDS – VALUE VESTED DURING THE YEAR <sup>(1)</sup> (C\$)	SHARE-BASED AWARDS – VALUE VESTED DURING THE YEAR <sup>(2)</sup> (C\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION – VALUE EARNED DURING THE YEAR <sup>(3)</sup> (C\$)
Claude Mongeau	3,910,882	13,166,350	1,644,443
Luc Jobin	1,508,506	3,935,435	561,517
Jim Vena	645,449	952,003	518,958
Jean-Jacques Ruest	1,177,728	3,570,012	524,083
Sean Finn	1,946,129	3,332,011	464,652

- (1) Represents the value of the potential gains from stock options granted under the Management Long-Term Incentive Plan in 2009, 2010, 2011 and 2012 that have vested during the 2013 financial year. These grants all vest over four years, with 25% of stock options vesting on each anniversary date (see section "Management Long-Term Incentive Plan" starting on page 65 for a description of the Plan). The potential gains are calculated as the difference between the closing price of the common shares on each of the stock option grant anniversary dates in 2013 and the exercise price, converted to Canadian dollars when applicable using the exchange rate on such vesting date (see "Currency Exchange Information" on page 71). This value has not been, and may never be, realized. The actual gains, if any, will depend on the value of the common shares on the date of exercise.
- (2) Includes PSUs granted in 2011 that vested on December 31, 2013 under the Share Units Plan and, for Mr. Jobin, the 25% of the Company-matched DSUs that vested on January 31, 2013 under the VIDP. The PSU values included in the table have been calculated by multiplying the number of units granted by the performance vesting factor of 150% and by the closing price of the common shares on December 31, 2013 on the TSX (C\$60.56). As provided under the plan, the actual payout occurred in February 2014 and was based on the average 20-day share price for the period ending January 31, 2014 (C\$58.87/US\$53.76).
- (3) Represents the amount of bonus earned under the AIBP for the financial year ending on December 31, 2013.

### *Incentive Plan Awards – Value of Exercised Stock Options During the Year*

The following table lists the number of shares acquired and the value realized as a result of stock options exercised by NEOs in 2013. For stock options exercised, the value realized is calculated by multiplying the number of shares acquired by the difference between the exercise price and the market price of CN common shares on the exercise date.

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED ON EXERCISE (C\$)
Claude Mongeau	–	–
Luc Jobin	–	–
Jim Vena	–	–
Jean-Jacques Ruest	–	–
Sean Finn	50,500	1,825,912

### *Management Long-Term Incentive Plan*

The Management Long-Term Incentive Plan (the “Plan”) was approved by the Company’s shareholders on May 7, 1996 and amended on April 28, 1998, April 21, 2005, April 24, 2007 and on March 4, 2008.

Eligible participants under the Plan are employees of the Company or its affiliates as determined by the Board of Directors. Pursuant to an amendment approved by the Board of Directors on March 8, 2005, grants cannot be made to non-executive Board directors under the Plan. While they remained as participants in the Plan for previous grants, the last time non-executive Board directors received stock options was in 2002, which stock options have all expired on January 25, 2012. The maximum number of common shares that may be issued under the Plan is 120,000,000. The following table provides information on the status of the reserve and the number of shares issued and issuable under the Plan, as at December 31, 2013.

### STOCK OPTIONS OUTSTANDING AND AVAILABLE FOR GRANT AS OF FEBRUARY 28, 2013

	# COMMON SHARES	% OF OUTSTANDING COMMON SHARES
Stock options already granted and outstanding	8,485,029	1.03
Stock options issuable under the Plan	19,224,468	2.33
Shares issued following the exercise of stock options	92,290,503	11.16

The following table presents information concerning stock options granted under the Plan as at December 31 of the years indicated below.

	2013	2012
Number of stock options granted during the year	1,063,920	1,183,120
Number of employees who were granted stock options	199	197
Number of stock options outstanding at year-end	7,684,324	8,491,900
Weighted average exercise price of stock options outstanding	C\$30.97	C\$26.05
Number of stock options granted as a % of outstanding shares	0.13%	0.14%
Number of stock options exercised	1,448,406	6,418,580

The maximum number of common shares that may be issued and/or be the subject of a grant to any one participant in a particular year is 20% of the awards in that year. The maximum aggregate number of common shares, with regard to which awards may be made to any participant under the Plan and under any other plan which the Company has or may eventually have, shall not exceed 5% of the common shares issued and outstanding. Also pursuant to the March 8, 2005 amendment, the maximum number of common shares with regard to which awards may be made during a calendar year is limited to 1% of the outstanding common shares at the beginning of that year. As demonstrated in the previous table, the number of stock options granted is well below the 1% limitation. Stock options are non-transferable except, in certain circumstances, upon the death of the holder of such stock options.

## Stock Option Features

Grant Currency	Same currency as the recipient's salary
Exercise Price	At least equal to the closing share price of the common shares on the TSX or the NYSE (depending on the grant currency) on the grant date.
Term	Ten years
Vesting Criteria	Stock options may become exercisable on the anniversary date ("conventional stock options") and/or upon meeting performance targets ("performance options") as established for each grant. Since 2005, grants have been of conventional stock options, which vest over four years, with 25% of stock options vesting on each anniversary.
Termination Conditions	<p>Stock options shall be cancelled upon the termination of a participant's employment for cause or if the participant voluntarily terminates employment.</p> <p>In the event that a participant's employment is terminated by the Company other than for cause, all stock options held by such participant shall be cancelled three months after termination of the participant's employment.</p> <p>In the case of retirement, stock options are cancelled three years after the retirement date.</p> <p>In the event of a participant's death, all available stock options may be exercised by the estate within a period of twelve months.</p> <p>In the event non-compete, non-solicitation, confidentiality or other conditions of the grant are breached, stock options shall be forfeited and cancelled.</p> <p>These conditions are subject to the discretion of the Committee.</p>

At the 2007 annual meeting, shareholders approved an ordinary resolution confirming the addition of new amendment provisions to the Plan. Such amendment provisions state that the Board of Directors or the Committee, as provided in the Plan or pursuant to a specific delegation and in accordance with applicable legislation and regulations, may amend any of the provisions of the Plan or suspend or terminate the Plan or amend the terms of any then outstanding award of stock options under the Plan ("Options") provided, however, that the Company shall obtain shareholder approval for:

- (i) any amendment to the maximum number of common shares issuable under the Plan, except for adjustments in the event that such shares are subdivided, consolidated, converted or reclassified by the Company or that any other action of a similar nature affecting such shares is taken by the Company (a "Share Adjustment");
- (ii) any amendment which would allow non-employee directors to be eligible for new awards under the Plan;
- (iii) any amendment which would permit any Option granted under the Plan to be transferable or assignable other than by will or pursuant to succession laws (estate settlements);
- (iv) the addition of a cashless exercise feature, payable in cash or common shares, which does not provide for a full deduction of the number of underlying shares from the Plan reserve;

- (v) the addition in the Plan of deferred or performance share unit provisions or any other provisions which result in participants receiving common shares while no cash consideration is received by the Company;
- (vi) any reduction in the exercise price of an Option after the Option has been granted to a participant or any cancellation of an Option and the substitution of that Option by a new Option with a reduced exercise price granted to the same participant, except in the case of a Share Adjustment;
- (vii) any extension to the term of an outstanding Option beyond the original expiry date, except in the case of an extension due to a blackout period;
- (viii) any increase to the maximum number of common shares that may be issued:
  - a. under the Plan to any one participant during any calendar year; or
  - b. under the Plan and under any other plan to any one participant; and
- (ix) the addition in the Plan of any form of financial assistance and any amendment to a financial assistance provision which is more favourable to participants.

No amendment, suspension or termination shall, except with the written consent or the deemed consent of the participants concerned, affect the terms and conditions of Options previously granted under the Plan, unless the rights of the participants shall then have terminated in accordance with the Plan.

On March 4, 2008, the Plan was amended to include a "double trigger provision". Pursuant to such provisions, provided that a proper substitute is granted, the vesting of non-performance-based stock options held by a participant would not accelerate upon a Change of Control, unless the participant is terminated without cause or resigns for good reason. Please refer to "Change of Control Provisions" on page 51 for more details on such amendment.

## Deferred Compensation Plans

The Voluntary Incentive Deferral Plan was introduced by the Company in 2002. This plan allows NEOs and other senior management employees to elect to defer up to 100% of their annual bonus, PSU payouts and other amounts paid under an eligible incentive plan (as approved by the Board of Directors) into deferred share units ("DSUs") payable in cash upon retirement or termination of employment. A DSU is equivalent to a common share of the Company and earns notional dividends, which are re-invested into additional DSUs, when cash dividends are paid on the Company's common shares. The amount deferred is converted into a number of units at the deferral date, using the 20-day average closing share price on the deferral date. Deferral elections are made at least six months prior to the end of the performance period of the incentive plan. The maximum total amount participants can defer to DSUs is equivalent to their ownership requirement under the Stock Ownership guidelines (see section on "Stock Ownership" under

“Other Key Compensation Policies of the Company” on page 51 for a detailed description). In other words, the election to receive eligible incentive payments in DSUs is not available to a participant when the value of the participant’s vested DSU account is sufficient to meet the Company’s stock ownership guidelines.

The Company also credits a company match equal to 25% of the number of DSUs resulting from an eligible deferral. These company-matched DSUs vest over a period of four years (25% per year) from the deferral date.

The payout of the DSUs is established based on the 20-day average closing share price at the retirement or termination date and includes the vested company-matched DSUs as well as notional dividends accrued over the deferral period. A lump sum payment is made to eligible Canadian executives following their termination. For eligible U.S. tax payers, in compliance with U.S. tax regulations, payment of amounts deferred or vested after December 31, 2004 is made after a six-month waiting period as a lump sum or in monthly instalments not exceeding ten years, in accordance with the executive’s irrevocable election.

Due to its tax effectiveness and the additional match provided by the Company, this plan offers an opportunity for executives to increase their stake in CN, linking their future returns to the share price performance.

Certain executives hold DSUs in accordance with past awards made under the Senior Executive Bonus Share Rights Plan. These awards, which vested in January 2001, are payable upon their retirement or termination date. No additional awards may be made under this plan.

No modification to the nature of the deferrals under both plans can be made, unless the Board of Directors approves an amendment of the plans.

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## Employment Arrangements

Claude Mongeau was appointed President and CEO of the Company effective January 1, 2010. The Board of Directors, upon the recommendation of the Committee, approved, at its April 20, 2009 meeting, the terms and conditions of Mr. Mongeau’s employment. Mr. Mongeau’s employment as President and CEO is not for a fixed term; he serves at the will of the Board.

For 2013, Mr. Mongeau’s salary was increased to US\$1,025,000, as part of the annual compensation review process, based on performance and market trends. The President and CEO remains eligible for the same compensation, benefit plans and policies as the other executives except for the following:

- Under the AIBP, his target payout is 120% of base salary with a payout ranging from 0% to 240%.
- Mr. Mongeau’s supplemental pension plan remains in effect, but the annual pension benefit payable under this plan upon retirement is capped at US\$1,000,000. See also the “Pension Plan Benefits” section that starts on page 69.

- Mr. Mongeau is required to maintain a minimum level of stock ownership equivalent to five times his annual salary. He is also required to maintain this stock ownership level for one year following retirement.
- Mr. Mongeau is limited to participating in only one outside public company board.

The Company has not entered into formal employment agreements with the other NEOs. It has only provided appointment letters setting forth general details of employment which are all described in this Information Circular.

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## Pension Plan Benefits

### *Canadian Pension Plans and Other Retirement Arrangements*

#### **CN’S PRINCIPAL PENSION PLAN (“CNPP”) AND SENIOR MANAGEMENT PENSION PLAN (“SMPP”)**

Messrs. Mongeau, Vena, Ruest and Finn participate in the CNPP and SMPP, which are federally-registered defined benefit pension plans designed to provide retirement benefits based on pensionable years of service and highest average earnings. Highest average earnings are defined as the average pensionable earnings during the last 60 months of compensated service or the best five consecutive calendar years, whichever is greater. Under the CNPP, pensionable earnings consist of base salary and overtime. Under the SMPP, pensionable earnings include base salary, overtime, and bonuses paid by the Company under the AIBP, up to the employee’s target level. In 2013, the aggregate annual retirement benefit payable under both plans is subject to a maximum of C\$2,697 per year of pensionable service and is calculated as follows:

- 1.7% of highest average earnings up to the average year’s maximum pensionable earnings (“YMPE”) as defined under the Quebec/Canada Pension Plan, multiplied by the number of years of pensionable service (maximum 35 years)
- plus
- 2.0% of highest average earnings in excess of the YMPE, multiplied by the number of years of pensionable service (maximum 35 years).

Under both plans, if the sum of the participant’s age and years of pensionable service is at least 85 and the participant is age 55 or over at the time of retirement from active employment, the participant is eligible to receive an immediate, unreduced pension, subject to Company consent. Retirement benefits vest immediately when participation begins.

### SPECIAL RETIREMENT STIPEND

Executives and senior management employees who participate in the CNPP also participate in a non-registered, supplemental executive retirement program called the Special Retirement Stipend ("SRS"). SRS participants enter into an agreement, which includes confidentiality, non-compete and non-solicitation clauses.

Messrs. Mongeau, Vena, Ruest and Finn have each signed an SRS agreement.

The annual amount payable under the SRS equals 2% of the employee's highest average earnings in excess of the average earnings that result in the maximum pension under the CNPP and SMPP (approximately C\$142,124 in 2013), multiplied by the number of years of pensionable service (maximum 35 years).

Earnings consist of base salary and bonuses paid by the Company under the AIBP, up to the employee's target level.

If the sum of the participant's age and years of pensionable service is at least 85 and the participant is age 55 or over at the time of retirement, the participant is eligible to receive an immediate, unreduced SRS benefit, subject to the conditions set out in the agreement.

SRS benefits for employees who entered into an SRS agreement prior to July 1, 2002 vest after two years of employment. For employees who entered into an SRS agreement on or after July 1, 2002, the SRS benefits become vested only if the employee remains in active service for two years and until the age of 55. SRS retirement benefits are paid out of operating funds and secured through letters of credit.

Mr. Mongeau's annual benefit payable under the SRS shall not exceed US\$1,000,000 (C\$1,063,600).

### DEFINED CONTRIBUTION PENSION PLAN FOR EXECUTIVES AND SENIOR MANAGEMENT ("DCPP")

Mr. Jobin participates in the DCPP.

The DCPP is a federally-registered defined contribution pension plan that was introduced for executives and senior management employees on January 1, 2006. For non-unionized employees other than executives and senior management, a separate defined contribution plan was also introduced on the same date. Executives and senior management employees hired prior to January 1, 2006 had a one-time opportunity to either join the DCPP or maintain participation in the CNPP and SMPP mentioned above. Messrs. Mongeau, Vena, Ruest and Finn elected to remain in the CNPP and SMPP. Executives and senior management employees hired on or after January 1, 2006 automatically join the DCPP.

Executives participating in the DCPP contribute a specific percentage of their pensionable earnings into their account and the Company contributes the same percentage, subject to the maximum contribution imposed by the Canadian *Income Tax Act* (C\$24,270 in 2013).

The contribution percentage for executives depends on age and service as follows:

POINTS (SUM OF AGE AND SERVICE)	% OF PENSIONABLE EARNINGS
Up to 39	6%
40-49	7%
50-59	8%
60 and above	9%

Pensionable earnings include base salary and bonuses payable under the AIBP up to the employee's target level. All contributions vest immediately and are invested in various investment funds as selected by the participant. No withdrawals or distributions are permitted prior to employment termination.

### DEFINED CONTRIBUTION SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("DC SERP")

Mr. Jobin participates in the DC SERP.

The DC SERP is a non-registered defined contribution pension plan designed to provide executives and senior management employees with retirement benefits in excess of the Canadian *Income Tax Act* limits applicable to the DCPP described above. Once contributions have reached the limit prescribed by the Canadian *Income Tax Act* in the DCPP in a given year, an amount equal to employer and employee contributions in excess of the limit is gradually credited by the Company to a notional account under the DC SERP. These notional contributions vest after two years of employment. Employees do not contribute to the DC SERP.

Notional contributions accrue investment credits using investment options as selected by the participant in the DCPP. No withdrawals or distributions are permitted prior to employment termination.

Effective January 1, 2011, the DC SERP was amended to include certain confidentiality, non-compete, non-solicitation and other covenants as a condition of payment of retirement benefits accruing as of the effective date.

## Defined Benefit Plans Table

The following amounts have been calculated using the actuarial assumptions disclosed in Note 11 — Pensions, on page 71 of the 2013 Annual Report and in Note 11 — Pensions, on page 70 of the 2012 Annual Report, available on the Company's website at [www.cn.ca](http://www.cn.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com). The amounts calculated in this table are estimates only and are based on assumptions, which may or may not materialize. Amounts shown in this table include pension benefits from the Company's defined benefit registered pension plans and non-registered supplemental pension arrangements for 2013 and are in Canadian dollars.

NAME	NUMBER OF YEARS OF CREDITED SERVICE (#)	ANNUAL BENEFITS PAYABLE		OPENING PRESENT VALUE OF DEFINED BENEFIT OBLIGATION <sup>(3)</sup> (C\$)	COMPENSATORY CHANGE <sup>(1)</sup> (C\$)			NON-COMPENSATORY CHANGE <sup>(4)</sup> (C\$)	CLOSING PRESENT VALUE OF DEFINED BENEFIT OBLIGATION <sup>(3)</sup> (C\$)	
		AT YEAR END (C\$)	AT AGE 65 <sup>(2)</sup> (C\$)		SERVICE COST	IMPACT OF SALARY/BONUS	IMPACT OF PLAN CHANGES			TOTAL
Claude Mongeau	19.67	800,000	1,197,000	10,827,000	583,000	45,000	0	628,000	559,000	12,014,000
Jim Vena	34.50	432,000	677,000	5,487,000	213,000	1,987,000 <sup>(5)</sup>	0	2,200,000	445,000	8,132,000
Jean-Jacques Ruest	17.67	310,000	464,000	3,956,000	232,000	78,000	0	310,000	291,000	4,557,000
Sean Finn	20	360,000	541,000	4,410,000	230,000	87,000	0	317,000	329,000	5,056,000

- (1) The change in present value that is attributable to compensation includes the service cost net of employee contributions, the increase in earnings in excess or below what was assumed and the impact of plan changes. The service cost net of employee contributions is the estimated value of the employer portion of benefits accrued during the calendar year.
- (2) The projected pension is based on current compensation levels and assumes the executive will receive 80% of his target bonus for the years after 2014.
- (3) The present value of the defined benefit obligation is the value of the benefits accrued for all service to the specified point in time.
- (4) The change in present value that is not compensatory includes employee contributions, interest cost, changes in assumptions and gains and losses other than those resulting from a difference in earnings. The impact on the present value at the end of 2013 relating to the change in assumptions was mainly due to the increase in the discount rate which decreased the present value, as well as the change in the mortality table and the increase in the currency exchange rate which increased the present value.
- (5) The compensatory change for Mr. Vena is mostly attributable to his appointment as Executive Vice-President and Chief Operating Officer of CN on February 19, 2013, which increased his projected pensionable earnings.

## Defined Contribution Plans Table

The table below includes amounts from the Company's registered and non-registered defined contribution plans.

NAME	ACCUMULATED VALUE AT START OF YEAR (C\$)	COMPENSATORY AMOUNT <sup>(1)</sup> (C\$)	NON-COMPENSATORY AMOUNT <sup>(2)</sup> (C\$)	ACCUMULATED VALUE AT YEAR END (C\$)
Luc Jobin <sup>(3)</sup>	527,301	150,669	112,410	790,380

- (1) Represents employer contributions and notional contributions.
- (2) Represents employee contributions and, if any, investment gains and losses and notional investment credits and losses.
- (3) Mr. Jobin participates in the Defined Contribution Pension Plan and DC SERP.

## Non-Registered Plans Table

The following table provides the total present value for CN's non-registered defined benefit and defined contribution plans. These amounts were determined using the actuarial assumptions disclosed in Note 11 — Pensions, on page 71 of the 2013 Annual Report and in Note 11 — Pensions, on page 70 of the 2012 Annual Report, available on the Company's website at [www.cn.ca](http://www.cn.ca) and on SEDAR at [www.sedar.com](http://www.sedar.com). Amounts include the value of pension benefits for active, deferred and retired executive and senior management participants for 2013.

PLANS	OPENING PRESENT VALUE OF BENEFIT OBLIGATION (C\$)	CLOSING PRESENT VALUE OF BENEFIT OBLIGATION (C\$)
Non-Registered Defined Benefit Plans in Canada and U.S.	274,700,000	284,500,000 <sup>(1)</sup>
Non-Registered Defined Contribution Plans in Canada and U.S.	2,100,000	2,300,000

- (1) The increase in the present value at the end of 2013 was mainly due to benefit accruals, the change in the mortality table and the increase in the currency exchange rate.

## Termination and Change of Control Benefits

The Company does not have contractual arrangements or other agreements in connection with termination, resignation, retirement, change of control or a change in responsibilities of a Named Executive Officer, other than the conditions provided in the compensation plans, and summarized as follows:

	RESIGNATION	INVOLUNTARY TERMINATION		RETIREMENT		CHANGE OF CONTROL		TERMINATION FOR CAUSE
Annual Incentive Bonus Plan	Forfeits eligibility to the plan	Entitled to a bonus based on corporate and individual performance and prorated on active service in plan year		Entitled to a bonus based on corporate and individual performance and prorated on active service in plan year (minimum of 3 months), subject to providing a 6-month notice period prior to retirement		No specific provision		Forfeits eligibility to the plan
Stock Options <sup>(1)</sup>	All stock options are cancelled	<i>Grants made before January 2009</i> Continued vesting for three months  Exercise of vested stock options within three months or otherwise forfeited	<i>Grants made since January 2009</i> Continued vesting for three months  Exercise of vested stock options within three months or otherwise forfeited	<i>Grants made before January 2009</i> Continued vesting for three years  Exercise of vested stock options within three years or otherwise forfeited	<i>Grants made since January 2009</i> Subject to respect of 2-year non-compete, non-solicitation and confidentiality provisions  Continued vesting for three years  Exercise of vested stock options within three years or otherwise forfeited  Since 2011, the above conditions only apply if the executive remains in continuous and active service until the last day of the year in which the grant was made	<i>Grants made prior to March 4, 2008</i> Immediate vesting of conventional stock options	<i>Grants made since March 4, 2008</i> If proper substitute is granted, immediate vesting would occur only if participant is terminated without cause or resigns for good reason <sup>(2)</sup> within two years of the Change of Control	All stock options are cancelled
Performance Shares Units <sup>(1)</sup>	All PSUs are cancelled	Partial payout if performance criteria met and prorated based on active service during the plan period  Subject to respect of 2-year non-compete, non-solicitation and confidentiality provisions		Full payout if performance criteria met and if the executive remains in continuous and active service until the last day of the year in which the grant was made  Subject to respect of 2-year non-compete, non-solicitation and confidentiality provisions		If proper substitute is granted, immediate vesting would occur only if participant is terminated without cause or resigns for good reason <sup>(2)</sup> within two years of the Change in Control		All PSUs are cancelled
Deferred Share Units	Payment of all vested units, including the vested company-matched DSUs	Payment of all vested units, including the vested company-matched DSUs		Payment of all vested units, including the vested company-matched DSUs		Immediate vesting of unvested company-matched DSUs		Payment of all vested units, including the vested company-matched DSUs
Registered Pension Plans	Payment of vested benefits	Payment of vested benefits		Payment of vested benefits		Payment of vested benefits		Payment of vested benefits
Non-Registered Pension Plans and Arrangements <sup>(1)</sup>	Payment of vested benefits	Payment of vested benefits		Payment of vested benefits		Payment of vested benefits		Payment of vested benefits, except for SRS benefits which are forfeited

(1) In the event of resignation, involuntary termination, retirement or change of control, the payment of awards or vested benefits is subject to certain non-compete, non-solicitation, non-disclosure of confidential information and other restrictive provisions as per the respective plan rules and arrangements.

(2) A resignation for good reason may take place only during the twenty-four months following a change of control if (i) the executive is required to relocate his or her office or home base to a location that is outside a 100 kilometer radius of his or her office or home base immediately prior to the change of control or (ii) the executive is assigned a set of responsibilities and/or the employment or continued employment of the executive on terms and conditions that are not the substantial equivalent of such executive's set of responsibilities and/or terms and conditions of employment in effect immediately prior to the change of control.

Severance entitlement payable to the NEOs would generally be determined in accordance with applicable legal requirements.

## Involuntary Termination

In the event of an involuntary termination, an NEO would receive a severance amount generally in line with applicable legal requirements. No incremental amounts would be payable. Share-based awards, option-based awards and other benefits will be treated as per the terms of the plans under which they were granted, as described in the summary Termination and Change of Control Benefits table on page 70.

## Retirement

On December 31, 2013, Mr. Vena was eligible for retirement with unreduced retirement benefits. Messrs. Ruest and Finn were also eligible for retirement but did not have sufficient service for unreduced retirement benefits. Had Messrs. Vena, Ruest and Finn retired on December 31, 2013, no incremental amounts would be payable. Share-based awards, option-based awards and other benefits will be treated as per the terms of the plans under which they were granted, as described in the summary Termination and Change of Control Benefits table on page 70.

## Change of Control

The following table shows the incremental benefits that NEOs would have been entitled to had there been a change of control on December 31, 2013.

### CHANGE OF CONTROL

NAME	SHARE UNITS PLAN <sup>(1)</sup> (C\$)	STOCK OPTIONS <sup>(2)</sup> (C\$)	DEFERRED SHARE UNITS (C\$)	TOTAL (C\$)
Claude Mongeau	0	0	0	0
Luc Jobin	0	0	346,642	346,642
Jim Vena	0	0	0	0
Jean-Jacques Ruest	0	0	0	0
Sean Finn	0	0	0	0

- (1) An NEO would be eligible to immediate vesting only if no proper substitute is granted, or if the executive is terminated without cause or resigns for good reason within two years of the change of control.
- (2) An NEO would be eligible to immediate vesting of the unvested company-matched deferred share units allocated to an executive following the deferral of compensation in previous years (see pages 66 and 67, section "Deferred Compensation Plans" for a description of the Voluntary Incentive Deferral Plan). The value shown is equal to the number of deferred share units that would vest multiplied by the closing share price of common shares on December 31, 2013 (C\$60.56).

## Currency Exchange Information

Compensation disclosed in the section "Statement of Executive Compensation" that is paid in U.S. dollars was converted to Canadian dollars using the following currency exchange rates:

	EXCHANGE RATE USED	ACTUAL RATE US\$1 = C\$X
Salary All other compensation	Average rate during the year	2013: 1.0299 2012: 0.9996 2011: 0.9891
Annual incentive bonus plan	When bonus is earned (i.e. December 31)	December 31, 2013: 1.0636 December 31, 2012: 0.9949 December 31, 2011: 1.0170
Pension value Value of unexercised in-the-money stock options Market value of share-based awards that have not vested Non-equity incentive plan compensation – Value earned during the year Termination scenarios – incremental costs	December 31	December 31, 2013: 1.0636 December 31, 2012: 0.9949 December 31, 2011: 1.0170
Option-based awards – Value vested during the year	Actual vesting date of the grants made on: January 26, 2012 January 27, 2011 January 28, 2010 June 1, 2009 January 26, 2009	January 26, 2013: 1.0065 January 27, 2013: 1.0065 January 28, 2013: 1.0065 June 1, 2013: 1.0368 January 26, 2013: 1.0065

## OTHER INFORMATION

### Securities Authorized For Issuance Under Equity Compensation Plans

The table below indicates, as at December 31, 2013, certain information with respect to the Company's Management Long-Term Incentive Plan.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (C\$)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN THE FIRST COLUMN)
Equity compensation plans approved by securityholders	7,684,324	\$30.97	20,175,468
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
<b>Total</b>	<b>7,684,324</b>	<b>\$30.97</b>	<b>20,175,468</b>

### Indebtedness of Directors and Executive Officers

As of February 28, 2014, there was no outstanding indebtedness of current and former directors, officers and employees of the Company and its subsidiaries, whether entered into in connection with the purchase of common shares of the Company or otherwise.

### Interest of Informed Persons and Others in Material Transactions

The Management of the Company is not aware of any material interest, direct or indirect, of any informed person of the Company, any proposed director or any associate or affiliate of any informed person or proposed director in any transaction since the commencement of the Company's most recently completed financial year, or in any proposed transaction, that has materially affected or would materially affect the Company or any of its affiliates or subsidiaries.

### Shareholder Proposals

Shareholder proposals to be considered at the 2015 annual meeting of shareholders must be received at the head office of the Company no later than December 12, 2014, to be included in the Information Circular for such annual meeting.

### Availability of Documents

The Company is a reporting issuer in Canada and the United States and is required to file various documents, including an annual information form and financial statements. Financial information is provided in the Company's comparative financial statements and Management's discussion and analysis for its most recently completed financial year. Copies of these documents and additional information relating to the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov), or may be obtained on request from the Corporate Secretary of the Company.

### Approval

The Board of Directors of the Company has approved the contents of this Information Circular and its sending to the shareholders.



Sean Finn

EXECUTIVE VICE-PRESIDENT  
CORPORATE SERVICES AND CHIEF LEGAL OFFICER  
AND CORPORATE SECRETARY

March 11, 2014

# SCHEDULE "A" – MANDATE OF THE BOARD

The Board has clearly delineated its role and the role of Management. The role of the Board is to supervise the management of CN's business and affairs, with the objective of increasing shareholder value. Management's role is to conduct the day-to-day operations in a way that will meet this objective.

The Board approves all matters expressly required herein, under the *Canada Business Corporations Act* and other applicable legislation and CN's Articles and By-laws. The Board may assign to Board committees the prior review of any issues it is responsible for, or as required by applicable laws. Board committee recommendations are generally subject to Board approval. The Board has delegated the approval of certain matters to Management pursuant to its Standing Resolutions on Delegation of Authority, as amended from time to time.

Meetings of the Board are held at least nine times a year and as necessary.

As part of its stewardship responsibility, the Board advises Management on significant business issues and has the following responsibilities:

## A. APPROVING CN'S STRATEGY

- adopting a strategic planning process, approving and reviewing, on at least an annual basis, a business plan and a strategic framework which take into account, among other things, the opportunities and risks of the business, and monitoring the implementation of the business plan by Management.

## B. ASSESSING AND OVERSEEING THE SUCCESSION PLANNING OF EXECUTIVE MANAGEMENT

- Appointing executive management and monitoring President and Chief Executive Officer (the "President and CEO") and executive management performance taking into consideration Board expectations and fixed objectives, approving the President and CEO's corporate goals and objectives and approving annually President and CEO and executive management compensation;
- ensuring that an appropriate portion of President and CEO and executive management compensation is tied to both the short- and longer-term performance of CN; and
- taking all reasonable steps to ensure that processes are in place for the recruitment, training, development and retention of executives who exhibit the highest standards of integrity as well as competence.

## C. MONITORING CORPORATE GOVERNANCE ISSUES AND BOARD RENEWAL

- monitoring the size and composition of the Board to favour effective decision-making;
- taking all reasonable measures to satisfy itself as to the integrity of Management and that Management creates a culture of integrity throughout CN;
- monitoring and reviewing, as appropriate, CN's approach to governance issues and monitoring and reviewing, as appropriate, CN's Corporate Governance Manual and policies and measures for receiving shareholder feedback;
- taking all reasonable steps to ensure the highest quality of ethical standards, including reviewing, on a regular basis, the Code of Business Conduct applicable to CN's directors, its President and CEO, senior financial officers, other executives and employees, monitoring compliance with such code, approving any waiver from compliance with the code for directors and executive officers and ensuring appropriate disclosure of any such waiver;
- ensuring the regular performance assessment of the Board, Board committees, Board and committee chairs and individual directors and determining their remuneration;
- approving the list of Board nominees for election by shareholders and filling Board vacancies;
- adopting and reviewing orientation and continuing education programs for directors;
- overseeing the disclosure of a method for interested parties to communicate directly with the Board Chair or with the non-management directors as a group; and
- ensuring a Board succession and renewal plan is in place.

#### **D. MONITORING FINANCIAL MATTERS AND INTERNAL CONTROLS**

- monitoring the quality and integrity of CN's accounting and financial reporting systems, disclosure controls and procedures, internal controls and management information systems, including by overseeing:
  - (i) the integrity and quality of CN's financial statements and other financial information and the appropriateness of their disclosure;
  - (ii) the review of the Audit Committee on external auditors' independence and qualifications;
  - (iii) the performance of CN's internal audit function and of CN's external auditors; and
  - (iv) CN's compliance with applicable legal and regulatory requirements (including those related to environment, safety and security);
- ensuring that an appropriate risk assessment process is in place to identify, assess and manage the principal risks of CN's business and financial strategy; and
- adopting communications and disclosure policies and monitoring CN's investor relations programs.

#### **E. MONITORING PENSION FUND MATTERS**

- monitoring and reviewing, as appropriate, CN's pension fund policies and practices, including the investment policies of the Canadian National Railway Pension Trust Funds or any other pension trust fund established in connection with a new pension plan or any other pension plan offered or administered by CN (the "CN's Pension Trust Funds"); and
- approving the annual budget of the Investment Division of CN's Pension Trust Funds.

#### **F. MONITORING ENVIRONMENTAL, SAFETY AND SECURITY MATTERS**

- monitoring and reviewing, as appropriate, CN's environmental, safety and security policies and practices.

The non-executive Board members meet before or after every Board meeting without the presence of Management and under the chairmanship of the Board Chair. If such group includes directors who are not Independent, an executive session including only Independent directors is held regularly.

Board members are expected to demonstrate a high level of professionalism in discharging their responsibilities. They are expected to attend the meetings of the Board and of the Board committees on which they sit and to rigorously prepare for and actively participate in such meetings. They should review all meeting materials in advance. They are also expected to be available to provide advice and counsel to the President and CEO or other corporate officers of CN upon request.

The Board annually reviews the adequacy of its mandate.

# SCHEDULE "B" – REPORTS OF THE COMMITTEES

The following are reports of each Board committee as of December 31, 2013. These reports provide details on the activities of each committee but are not meant to be exhaustive.

## Report of the Audit Committee

### MEMBERS

D. LOSIER (CHAIR), H.J. BOLTON, D.J. CARTY, G.D. GIFFIN, V.M. KEMPSTON DARKES, J.E. O'CONNOR, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Audit Committee, in accordance with its mandate:

#### FINANCIAL INFORMATION

- reviewed and approved the 2012 annual and 2013 quarterly results, Management's discussion and analysis and the earnings press releases of the Company;
- reviewed the independent auditors' reports of the external auditors on the consolidated financial statements of the Company, as well as the internal controls over financial reporting;
- reviewed financial information contained in the 2012 Annual Information Form, the 2012 Form 40-F and other reports requiring Board approval;
- reviewed and approved Audit Committee Report and other information appearing in the 2013 Management Information Circular;
- reviewed analysis and communications materials prepared by Management, the internal auditors or external auditors setting forth any significant financial reporting issues;
- reviewed the compliance of Management's certification of financial reports with applicable legislation;

- reviewed, with the external auditors and Management, the quality, appropriateness and disclosure of the Company's critical accounting principles and policies, underlying assumptions and reporting practices, and any proposed changes thereto;
- reviewed judgments made in connection with the preparation of the financial statements, if any, including analyses of the effect of alternative generally accepted accounting principles methods;
- reviewed financial statements for CN's pension plans with the independent auditors and responsible officers; and
- reviewed with external auditors and Management, changes in Accounting for CN's pension plans and other post employment benefits.

#### INTERNAL AUDITORS

- reviewed and approved the internal audit plan;
- monitored the internal audit function's performance, its responsibilities, staffing, budget and the compensation of its members; and
- held in-camera meetings with the Chief, Internal Audit.

#### EXTERNAL AUDITORS

- reviewed and approved the results of the external audit;
- recommended to the Board the appointment and terms of engagement of the Company's external auditors;
- evaluated, remunerated and monitored the qualifications, performance and independence of the external auditors;
- discussed, approved and oversaw the disclosure of all audit, review and attest services provided by the external auditors;
- determined which non-audit services the external auditors are prohibited from providing, and pre-approved and oversaw the disclosure of permitted non-audit services by the external auditors to the Company, in accordance with applicable laws and regulations;
- reviewed the formal statement from the external auditors confirming their independence and reviewed hiring policies for employees or former employees of the Company's external auditors; and
- held in-camera meetings with external auditors.

#### RISK MANAGEMENT

- reviewed the Company's risk assessment and risk management policies, including the Company's delegation of financial authority, CN's insurance coverage, information technology risk management, and Business Continuity Management; and

- assisted the Board with the oversight of the Company's compliance with applicable legal and regulatory requirements.

#### INTERNAL CONTROL

- received Management's report assessing the adequacy and effectiveness of the Company's disclosure controls and procedures and systems of internal control;
- reviewed procedures established for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters or employee concerns regarding accounting or auditing matters;
- reviewed minutes of the Corporate Disclosure Committee; and
- reviewed project management processes and controls.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Audit Committee; and
- reviewed and approved a forward-looking agenda for the committee for 2013.

#### OTHER

- made recommendations to the Board with respect to the declaration of dividends, Non-Freight Processes and Operational Systems; and
- monitored the tax affairs of the Company.

Submitted by the members of the Audit Committee.

## Report of the Finance Committee

### MEMBERS

A.C. BAILLIE (CHAIR), M.R. ARMELLINO, D.J. CARTY, G.D. GIFFIN, E.E. HOLIDAY, E.C. LUMLEY, D.G.A. MCLEAN, J.E. O'CONNOR

### 2013 HIGHLIGHTS

In 2013, the Finance Committee, in accordance with its mandate:

#### FINANCIAL POLICIES

- provided oversight with respect to CN's capital structure, cash flows and key financial ratios;
- made recommendations to the Board with respect to the Company's financial policies and financial matters affecting the Company;
- reviewed policies with respect to distributions to shareholders, including policies on dividends, and policies regarding financial hedging, short-term investment and credit;
- reviewed the Company's credit ratings and monitored the Company's activities with respect to credit rating agencies; and
- reviewed the Company's Standing Resolution on Delegation of Authority.

#### FINANCING

- reviewed the Company's liquidity position, including the Company's capital expenditures, capital structure, short-term investments and credit facilities;
- reviewed Treasury and transactional activities;
- reviewed prospectuses, offering memoranda and other documents, as well as approved a shelf-prospectus for the issuance of an aggregate principal amount of C\$3 billion of debt securities and approved a public two-tranche debt offering of US\$600 million, comprised of US\$350 million Floating Rate Notes due 2015, and US\$250 million 4.5% Notes due 2043; and
- reviewed and recommended a debt tender offer and the extension of CN's Revolving Credit facility and Letter of Credit facilities.

#### FINANCIAL ACTIVITIES

- recommended decisions related to indebtedness of the Company, as well as loans, guarantees or extension of credit;
- reviewed and recommended significant capital and other expenditures, such as capacity improvements in the Winnipeg-Edmonton corridor and the Prairie North Line, funding requirement for Positive Train Control, share repurchase program, as well as projected and actual returns from investments;
- reviewed the Company's Locomotive Acquisition Plan and its transportation renewal program;
- oversaw post-completion audits of significant capital projects approved by the Board and post-completion audits carried out by the internal auditors or the external auditors, and reviewed their reports;
- reviewed and recommended to the Board the sale of a portion of the Oakville Subdivision to Metrolinx; and
- reviewed and recommended to the Board an additional voluntary contribution to principal CN Pension Plans.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Finance Committee;
- assessed the adequacy of the Finance Committee's Charter and made a report thereon to the Board; and
- reviewed and approved a forward-looking agenda for the committee for 2014.

#### OTHER

- benchmarked quarterly results to those of other major railways.

Submitted by the members of the Finance Committee.

## Report of the Corporate Governance and Nominating Committee

### MEMBERS

M.R. ARMELLINO (CHAIR), A.C. BAILLIE, D.J. CARTY, E.E. HOLIDAY, D. LOSIER, E.C. LUMLEY, D.G.A. MCLEAN, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Corporate Governance and Nominating Committee, in accordance with its mandate:

#### COMPOSITION OF THE BOARD AND ITS COMMITTEES

- reviewed the size and composition of the Board and assisted the Board in determining Board Committee size, composition and mandate;
- reviewed directors' independence, financial literacy and areas of expertise;
- reviewed criteria for selecting directors and assessed the competencies and skills of the Board members in relation to the Company's circumstances and needs;
- identified candidates qualified to become Board members, and recommended director nominees for the next annual meeting of shareholders; and
- reviewed director succession and board renewal in light of upcoming director retirements and updated evergreen list.

#### PERFORMANCE OF THE BOARD AND ITS COMMITTEES

- reviewed the performance of the Board, Board Committees, Board and Committee Chairs and Board members, including reviewing the Board, Committee, peer and Chair evaluation process and the development of Management Information Circular questionnaires.

#### DIRECTOR COMPENSATION

- recommended to the Board remuneration of the Board Chair, the Committee Chairs and non-executive directors.

#### CONTINUING EDUCATION FOR DIRECTORS

- monitored and reviewed the Company's orientation and continuing education programs for directors.

#### CORPORATE GOVERNANCE INITIATIVES

- reviewed and recommended changes to the Company's corporate governance guidelines and monitored disclosure of corporate governance guidelines in accordance with applicable rules and regulations;
- led the annual review of the Company's Corporate Governance Manual, including recommending to the Board an update to include recent best practices, including recommending to the Board a Board Chair and Committee Chair Tenure Policy;
- reviewed, monitored and oversaw the disclosure of CN's Code of Business Conduct;
- monitored CN's policy prohibiting its directors and officers to directly or indirectly purchase, sell or otherwise acquire or transfer securities of CN during blackout periods;
- reviewed adherence to, and amended the Company's Aircraft Utilization Policy;
- monitored developments, proposed changes and changes to securities laws, disclosure and other regulatory requirements;
- reviewed the 2012 Annual Report, Annual Information Form and Form 40-F;
- reviewed the 2013 Management Information Circular;
- reviewed Annual Report of CN's Ombudsman;
- recommended to the Board a date and location for the Annual Meeting;
- monitored the Company's Corporate Disclosure and Communications Policy and the Investor Relations Program; and
- assisted the Board with the oversight of the Company's corporate governance and monitored legal & regulatory requirements, as well as best practices.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Corporate Governance and Nominating Committee; and
- reviewed and approved a forward-looking agenda for the Committee for 2014.

Submitted by the members of the Corporate Governance and Nominating Committee.

## Report of the Human Resources and Compensation Committee

### MEMBERS

G.D. GIFFIN (CHAIR), M.R. ARMELLINO, A.C. BAILLIE, H.J. BOLTON, E.E. HOLIDAY, V.M. KEMPSTON DARKES, D. LOSIER, E.C. LUMLEY, D.G.A. MCLEAN, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Human Resources and Compensation Committee, in accordance with its mandate:

#### SUCCESSION PLANNING

- reviewed the mechanisms in place regarding succession planning for executive management positions, including that of President and CEO;
- reviewed the leadership team assessment, including in-depth functional talent reviews; and
- reviewed the succession plan for management put into place by the President and CEO, including processes to identify, develop and retain the talent of outstanding officers.

#### PRESIDENT AND CEO COMPENSATION

- reviewed corporate goals and objectives relevant to the President and CEO, evaluated his mid-year and annual performance based on those goals and objectives and recommended compensation based on this evaluation, for approval by the Independent Board members; and
- developed 2013 performance objectives in conjunction with the President and CEO.

#### APPOINTMENT OF EXECUTIVE MANAGEMENT

- recommended the appointment of executive management and approved the terms and conditions of their appointment and termination or retirement.

#### EXECUTIVE COMPENSATION

- reviewed the validity of the Company's benchmark group used in determining the compensation of executives;
- reviewed the evaluation of executive management's performance and recommended to the Board executive management's compensation;
- examined and reviewed each element of executive compensation and reported on compensation practices;
- monitored any potential risks that could arise from CN's compensation policies and practices, while ensuring proper risk identification and mitigation practices were in place;
- reviewed performance of NEOs and the Company's annual performance as measured under the AIBP;
- closely monitored bonus outlook, as well as PSU vesting outlook; and
- reviewed and recommended proposed 2013 bonus targets and performance targets related to PSUs.

#### EXECUTIVE COMPENSATION DISCLOSURE

- produced for review and approval by the Board a report on executive compensation for inclusion in the 2013 Management Information Circular.

#### COMPENSATION PHILOSOPHY

- monitored the compensation philosophy and policy that rewards the creation of shareholder value and reflects the appropriate balance between the short- and longer-term performance of the Company; and
- monitored the Company policy relating to the positioning of total direct compensation for executives.

#### PENSION PLANS

- reviewed and monitored the financial position of CN's pension plans; and
- reviewed and recommended Pension Plan amendments.

#### HUMAN RESOURCES INITIATIVES

- closely monitored the labour negotiation process;
- monitored pension and strategic labour and social issues;
- reviewed and discussed strategies for hiring, training, engaging, and developing talent; and
- reviewed and discussed strategies for workforce planning.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Human Resources and Compensation Committee;
- reviewed and approved a forward-looking agenda for the Committee for 2014;
- retained the service of independent compensation advisors to help it carry its responsibilities and approved appropriate fees for such services; and
- recommended amendments to the Human Resources and Compensation Committee Charter.

Submitted by the members of the Human Resources and Compensation Committee.

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## Report of the Environment, Safety and Security Committee

### MEMBERS

V.M. KEMPSTON DARKES (CHAIR), M.R. ARMELLINO, H.J. BOLTON, G.D. GIFFIN, D. LOSIER, J.E. O'CONNOR

### 2013 HIGHLIGHTS

In 2013, the Environment, Safety and Security Committee, in accordance with its mandate:

#### ENVIRONMENTAL, HEALTH AND SAFETY AUDITS

- oversaw the development and implementation of environmental, safety and security policies, procedures and guidelines;
- reviewed environmental, health and safety audits and assessments of compliance, taking all reasonable steps to ensure that the Company is exercising due diligence;
- reviewed progress of Sustainability Action Plan;
- reviewed the Company's business plan to ascertain that environmental, safety and security issues are taken into consideration;
- ensured appropriate employee training standards and communications are developed and implemented; and
- reviewed all significant safety and security matters.

#### ACCOUNTING ACCRUAL

- monitored accounting accrual for environmental costs in conjunction with the Audit Committee.

#### ENVIRONMENTAL INVESTIGATIONS AND JUDGMENTS

- reviewed reports in respect of all notices, complaints, investigations and proceedings by governmental authorities, and all judgments and orders in respect of environmental, safety and security matters.

#### OTHER

- reviewed Canadian and U.S. environmental and safety, legal and regulatory developments of importance to the Company;
- monitored results from various security initiatives; and
- reviewed industry safety and security matters related to crude oil rail transportation.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Environment, Safety and Security Committee; and
- reviewed and approved a forward-looking agenda for the committee for 2014.

Submitted by the members of the Environment, Safety and Security Committee.

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## Report of the Strategic Planning Committee

### MEMBERS

H.J. BOLTON (CHAIR), M.R. ARMELLINO, A.C. BAILLIE, D.J. CARTY, G.D. GIFFIN, E.E. HOLIDAY, V.M. KEMPSTON DARKES, D. LOSIER, E.C. LUMLEY, D.G.A. MCLEAN, C. MONGEAU, J.E. O'CONNOR, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Strategic Planning Committee, in accordance with its mandate:

#### STRATEGIC DIRECTION

- focused on financial and strategic issues, including the review of key assumptions underlying the business plan;
- reviewed and approved the Company's strategic direction, including its 2014-2016 business plan and 2014 capital budget; and
- obtained regular briefings and presentations on strategic and financial issues.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Strategic Planning Committee.

Submitted by the members of the Strategic Planning Committee.

## Report of the Investment Committee of CN's Pension Trust Funds

### MEMBERS

E.C. LUMLEY (CHAIR), M.R. ARMELLINO, A.C. BAILLIE, H.J. BOLTON, D.J. CARTY, G.D. GIFFIN, E.E. HOLIDAY, V.M. KEMPSTON DARKES, D. LOSIER, D.G.A. MCLEAN, C. MONGEAU, J.E. O'CONNOR, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Investment Committee of CN's Pension Trust Funds, in accordance with its mandate:

#### INVESTMENT DIVISION

- reviewed the activities of the CN Investment Division and advised the Investment Division on investment of assets of CN's Pension Trust Funds in accordance with applicable policies and procedures;
- reviewed and approved the Statement of Investment Policies and Procedures for CN's pension plans;
- reviewed and approved the Investment Strategy of the CN Investment Division;
- reviewed and approved the CN Investment Incentive Plan and any award payouts thereunder; and
- reviewed and approved the annual budget of the CN Investment Division and the CN Investment Incentive Plan.

#### COMMITTEE PERFORMANCE

- reviewed the processes in place to evaluate the performance of the Investment Committee of CN's Pension Trust Funds.

Submitted by the members of the Investment Committee of CN's Pension Trust Funds.

## Report of the Donations and Sponsorships Committee

### MEMBERS

C. MONGEAU (CHAIR), G.D. GIFFIN, D. LOSIER, D.G.A. MCLEAN, R. PACE

### 2013 HIGHLIGHTS

In 2013, the Donations and Sponsorships Committee, in accordance with its mandate:

#### DONATIONS AND SPONSORSHIP STRATEGY

- reviewed and approved the general donations and sponsorships strategy and goals of the Company;
- reviewed and approved the 2013 budget for donations and sponsorships; and
- reviewed the CN Stronger Communities Fund Guidelines.

#### DONATIONS AND SPONSORSHIP REQUESTS

- reviewed donation requests and approved selected donations by the Company, including those having a total cost of more than \$100,000;
- recommended to the Board for approval sponsorships by the Company, including those having a total cost of more than \$500,000; and
- reviewed reports from the Vice-President, Public and Government Affairs concerning sponsorships having a total cost of more than \$50,000 and donations of more than \$100,000 and on other matters.

#### COMMITTEE PERFORMANCE

- reviewed committee mandate and processes in place to evaluate the performance of the Donations and Sponsorships Committee.

Submitted by the members of the Donations and Sponsorships Committee.

## SCHEDULE "C" – SHAREHOLDER PROPOSAL

The Company received a proposal from Vancity Investment Management Ltd. ("Vancity"), on behalf of IA Clarington Inhance SRI Funds, requesting that the Company's Board of Directors issue a report on measures to address risks to the Company, the community and the environment arising out of continued use by shippers of general service non-pressure tank cars, manufactured prior to October 2011, for transportation of crude oil and petroleum products.

The Company discussed with Vancity its robust safety programs and practices, its solid track record of improvement, including a 50% reduction in main track accidents over the past ten years, as well as more recent initiatives that the Company believes will further strengthen its overall Safety Management System:

- The Company's Safety Management System, which is described in greater detail in the Company's Leadership in Safety brochure ([www.cn.ca/safety](http://www.cn.ca/safety)), focuses on people, process, technology and investment. The Company also recently launched targeted corridor risk assessments, stepped up detection capabilities, including the acquisition of additional monitoring equipment to enhance our strong technological base for early detection of defects, and updated our already-robust train securement practices in line with the directives issued by Canadian and U.S. Regulators.
- For CN, tank car design is one of the most important systemic issues arising from the Lac-Mégantic accident. The Company strongly supports the recent recommendations of the Association of American Railroads, of which CN is a member, calling for the retrofitting or phase-out of the old DOT-111 cars used to transport flammable liquids, safety upgrades for tank cars built since 2011 in accordance with standards that today exceed U.S. federal requirements and a reinforced standard for new tank cars built in the future.

- The Company has and will continue to strengthen emergency response capabilities through more transparent sharing of relevant information with communities, training support, and mutual aid intervention protocols. CN believes the rail industry can enhance safety by working more closely with communities and it has done this by launching a comprehensive outreach program to meet municipalities and their emergency responders along its network in order to review its safety practices, discuss the nature and volume of dangerous commodities transported through the communities and emergency response planning. CN's engagement program supplements the Canadian government's November 2013 protective direction, which requires major railways to provide municipalities with yearly aggregate information on the nature and volume of dangerous goods transported through their communities.

After discussions with CN, Vancity withdrew its shareholder proposal.



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CN shows its concern for protecting the environment through the use of FSC-certified paper.

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