

**CANADIAN NATIONAL RAILWAY COMPANY  
CORPORATE GOVERNANCE MANUAL**

**Approved by the Board of Directors  
on March 2, 2004**

**and last updated as at  
March 7, 2017**

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## 1. OVERVIEW

Canadian National Railway Company (“**CN**” or “**Company**”) is committed to adhering to the highest possible standards in its corporate governance practices. As set forth in this Corporate Governance Manual, these practices are designed to assist CN in achieving its principal stated corporate objective, which is the enhancement of shareholder value on a long term basis. CN believes that in order to enhance shareholder value, on a long term basis, it is advisable to take into account the interests of its other stakeholders.

“Corporate governance means the process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, the board of directors and management. The direction and management of the business should take into account the impact on other stakeholders such as employees, customers, suppliers and communities.” (“Where Were the Directors?” - Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada, December 1994, p. 7).

The following description of CN’s corporate governance practices fully complies with the disclosure and listing requirements of the Toronto Stock Exchange (the “**TSX**”) and with applicable Canadian legislation and related regulations such as National Instruments 51-102, 52-108 and 58-101, Multilateral Instruments 52-109 and 52-110 and National Policy 58-201 of the Canadian Securities Administrators (the “**CSAs**”) (collectively the “**Canadian Corporate Governance Standards**”). In addition, CN complies with the New York Stock Exchange’s (the “**NYSE**”) corporate governance standards and with applicable U.S. legislation, such as the *Sarbanes-Oxley Act of 2002* and related regulations (collectively the “**US Corporate Governance Standards**”)¹.

Disclosure of CN’s corporate governance practices is made annually in the Management Information Circular (“Information Circular”) provided in connection with the annual meeting of shareholders, which Information Circular is available on CN’s web site at [www.cn.ca](http://www.cn.ca), under Delivering Responsibly/Governance.

CN’s Board of Directors (the “**Board**”) from time to time reviews this Corporate Governance Manual with a view to continuously improving CN’s corporate governance practices by assessing their effectiveness and comparing them with evolving best practices, standards identified by leading governance authorities and CN’s changing circumstances and needs.

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<sup>1</sup> This Corporate Governance Manual complies with the Canadian Corporate Governance Standards and US Corporate Governance Standards as they exist today. This manual shall be reviewed by CN’s Board of Directors, from time to time, in order to ensure on-going compliance with such standards.

## 2. BOARD OF DIRECTORS

### 2.1 Composition of the Board

CN's Articles of Continuance, as amended, provide that its Board shall consist of a minimum of seven and a maximum of 21 directors.

The Corporate Governance and Nominating Committee (the "**Governance Committee**") regularly reviews with the Board Chair the size and composition of CN's Board and that of its committees to favour effective decision-making. The Governance Committee also considers the geographical representation, business background, personal qualities and diversified experience of the Board as a whole in the context of CN's evolving business environment. Finally, the Governance Committee regularly monitors Board membership to ensure that the Board functions effectively, taking into consideration CN's circumstances and requirements.

Independent directors comprise a substantial majority of CN's Board.

In determining whether or not a director is "Independent", as that term is defined in the Canadian Corporate Governance Standards and the US Corporate Governance Standards, the Board considers all material relationships that a director may have with CN. In addition, a director is not independent if:

- (a) the director is, or has been within the last three years, an employee of CN, or an immediate family member of the director is, or has been within the last three years, an executive officer of CN;
- (b) the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$CAD 75,000 in direct compensation from CN, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (c) (A) the director or an immediate family member of the director is a current partner of a firm that is CN's internal or external auditor; (B) the director is a current employee of such firm; (C) the director has an immediate family member who is a current employee of such firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such firm and personally worked on CN's audit within that time;
- (d) the director or an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another entity where any of CN's present executive officers at the same time serves or has served on that entity's compensation committee;
- (e) the director is a current employee, or an immediate family member of the director is a current executive officer, of a company that has made payments to, or received payments from, CN for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$US 1 million, or 2% of such other company's consolidated gross revenues.
- (f) the director is a current employee or an immediate family member of the director is a partner or executive officer of a firm that receives payments from CN for professional services in an amount which, in any of the last three fiscal years, exceeds 3% of the total annual billing of the firm.
- (g) the director or an immediate family member of the director is an executive officer, director or trustee of a not-for-profit organization that has received charitable contributions from CN in an amount which, in any of the last three fiscal years, exceeds 1% of that organization's consolidated gross

revenues (CN's contributions matching employee contributions being excluded from such calculation).

In its determination as to the independence of directors, the Board may also consider mutual and reciprocal directorships of Board members.

In order to be considered Independent, a member of the Audit Committee (the "**Audit Committee**") must also qualify as such under the applicable Canadian Corporate Governance Standards and US Corporate Governance Standards, and as such may not, other than in his or her capacity as a director or member of a Board committee and subject to the exceptions provided in Canadian and U.S. laws and regulations, accept directly or indirectly any fee from CN or any subsidiary of CN nor be an affiliated person of CN or any subsidiary of CN.

In order to be considered Independent, a member of the Human Resources and Compensation Committee (the "**HR and Compensation Committee**") must also qualify as such under US Corporate Governance Standards.

With a view to further 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 Governance Committee. In addition, the Board has adopted a policy 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.

The Board discloses annually which directors qualify as Independent.

In addition, all members of the Audit Committee are "financially literate" and several members of the committee meet all the criteria to be designated as "audit committee financial experts" (under the applicable US Corporate Governance Standards).

In determining whether or not a director is "financially literate", the Board considers if the director has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by CN's financial statements.

In determining if a director is an "audit committee financial expert" under US Corporate Governance Standards, the Board considers if the director has acquired, through (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor, or experience in one or more positions that involve the performance of similar functions, (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions, (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements, or (iv) other relevant experience, the following attributes:

- (a) an understanding of generally accepted accounting principles and financial statements;
- (b) the ability to assess the general application of such 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 CN'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.

## **2.2 Appointment of Directors**

In consultation with the Board Chair, the Governance Committee reviews annually the credentials of nominees for election or re-election as members of the Board. It considers their qualification under applicable law, the validity of the credentials underlying the appointment of each nominee, and, for nominees who are already directors of CN, an evaluation of their skills, effectiveness and performance as members of the Board, including their attendance at Board and committee meetings. Board and board committee members are expected to attend all meetings; those who have 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 Governance Committee then submits a report to the Board Chair, for presentation to the Board.

In proposing the list of CN Board nominees, the Board is guided by the following process:

- based on CN's current business plan, the opportunities and risks facing CN, the nature of CN's operating and competitive environment, and the work carried out by each of the committees of the Board, the Governance Committee identifies, in consultation with the Board Chair, the expertise, competencies, skills and knowledge that the Board as a whole and its committees require to understand the business, to adequately fulfill their mandates and enhance shareholder value;
- the Board Chair, in consultation with the Governance Committee, develops a competency matrix with knowledge areas, types of expertise, competencies, skills and geographical representation listed on one axis and individual Board members listed on the other;
- based on the results of the most recent director performance assessment both at the Board and committee levels, the Governance Committee's knowledge of the competencies, skills, personal qualities, availability, geographical representation, business background and experience of the Board members and with the help of the competency matrix, the Governance Committee identifies any improvement to be addressed in the director nomination process;
- based on the improvements to be made as identified by the Governance Committee, and considering Board membership requirements such as those for Independence and availability, the Governance Committee, in consultation with the Board Chair, conducts a search for the requisite new Board members;
- once potential Board candidates have been identified, the Board Chair meets with and interviews each candidate to assess the candidate's fit with the Board and the candidate's ability to work as part of a team and advises the Governance Committee of the results;
- as appropriate, the Governance Committee may rely on assessments made by the Board Chair and other Board members who have interviewed or who know the candidate(s);
- based on the above process and the recommendations of the Governance Committee, the Board Chair brings forth to the Board, for consideration and approval, a slate of nominees to consider for appointment as directors of CN at the next annual meeting of shareholders.

In order to assist the Governance Committee and the Board Chair in recommending candidates to become directors of CN, the Governance Committee shall constitute and update a list of potential candidates. Such a list will be constituted and updated based on the same process as described above with respect to CN Board nominees.

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 in total (including CN's Board and membership on the board of the corporation at which an individual is employed).
- for other candidates, the Board will prefer individuals who hold no more than five (5) public corporation directorships in total (including CN's Board).

The Governance Committee, in consultation with the Chief Legal Officer (the "**CLO**"), will assess annually if Board candidates meet the above guidelines. For the purpose of assessing the number of public corporation directorships held by a candidate, it is understood that directorships with public entities associated, affiliated or otherwise related together may be considered as constituting only one directorship.

The term of office of each director expires at the close of the annual meeting of shareholders following that at which he or she was elected. Board nominees, as recommended by the Governance Committee and the Board Chair and approved by the Board, are put to a vote of shareholders. Should a vacancy occur during the course of the year, the Board may fill the vacancy in accordance with the foregoing process and applicable laws. In accordance with CN's Articles, the Board may appoint one or more additional directors, who shall hold office for a term expiring not later than the next annual meeting of shareholders, but the total number of directors so appointed may not exceed one third of the number of directors elected at the previous annual meeting of shareholders.

#### *Board Diversity policy*

CN believes that increasing the diversity of the Board to reflect the communities and customers CN serves is essential in maintaining a competitive focus. The Board, upon the recommendation of the Governance Committee, approved a policy regarding diversity on the CN Board which provides that the Governance Committee will consider candidates on merit, based on a balance of skills, background, experience and knowledge. In identifying the highest quality directors, the Governance Committee will take into account diversity considerations such as gender, age and ethnicity, with a view to ensuring that the Board benefits from a broader range of perspectives and relevant experience. The Governance Committee will also set measurable objectives for achieving diversity and recommend them to the Board for adoption on an annual basis. Pursuant to the policy, the Board adopted a target of having a minimum representation of one-third of the Board by women, by 2017.

#### *Majority Voting Policy*

The Board has adopted a policy providing that a nominee for election as a director of CN who receives a greater number of votes "withheld" than votes "for", with respect to the election of directors by shareholders, will tender his or her resignation to the Board Chair promptly following the meeting of shareholders at which the director is elected. The Governance Committee will consider such offer and make a recommendation to the Board whether to accept it or not. The Board will make its decision and promptly announce it in a press release within 90 days following the meeting of shareholders, a copy of which will be provided to the Toronto Stock Exchange. The Board shall however, accept the resignation absent exceptional circumstances. The resignation shall be effective when accepted by the Board. The director who offered to tender his or her resignation should not be part of any committee or Board 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. Subject to any corporate law restrictions, in the case where the Board accepts the offer of resignation of a director and that such director resigns, the Board may leave the resultant vacancy unfilled until the next annual meeting of shareholders. It may also choose to fill the vacancy through the appointment of a new director whom the Board considers to merit the confidence of the shareholders. It may further decide to call a special meeting of shareholders at which there will be presented a new candidate to fill the vacant position.

### *Board Tenure Policy*

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. Furthermore, the Board Chair, the Committee Chair and individual director tenure are subject to the following term limits:

- 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, renewable for one further three (3) year term, subject to the discretion of the Board 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 following annual shareholders' meeting.
- 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 to further extend the term, if deemed appropriate.
- Effective as of April 25, 2017, any member of the Board of Directors who is elected or appointed for the first time will serve for a maximum term of fourteen (14) years.

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 and the above term(s) for the Board Chair and Committee Chairs remain subject to the mandatory retirement age limit of 75 years of age. 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.

In addition, directors are expected to inform the Board Chair of any major change in their principal occupation so that the Board would have the opportunity to decide the appropriateness of such director's continuance as a member of the Board or of a Board committee. 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 Governance 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.

## **2.3 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 (the “**CBCA**”) 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 seven 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

- choosing the President and Chief Executive Officer (the “**President and CEO**”), appointing executive management and monitoring 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;
- 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

- 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, as applicable;
- 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-executive directors as a group.

*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:
  - the integrity and quality of CN's financial statements and other financial information and the appropriateness of their disclosure;
  - the review of the Audit Committee on external auditors' independence and qualifications;
  - the performance of CN's internal audit function and of CN's external auditors; and
  - 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;
- 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**");
- 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.

## **2.4 Board Performance Assessment**

The Board has implemented and reviews, from time to time, a process to annually assess the effectiveness of the Board, Board committees, Board and committee chairs and individual directors. This process is under the supervision of the Governance Committee and the Board Chair and comprises the following steps:

- The following questionnaires are prepared by the Office of the Corporate Secretary and approved by the Governance Committee and the Board Chair, taking into account current issues, previous years findings and input from the Board:
  - (i) Board and Committee performance evaluation questionnaires, including an assessment of individual directors;
  - (ii) a Board Chair evaluation questionnaire; and
  - (iii) Committee Chair evaluation questionnaires.
- Such questionnaire takes into account the responsibilities set forth in Board and Committee mandates as well as competencies and skills each individual director is expected to bring to the Board.
- 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 Board Chair evaluation questionnaires, which are forwarded directly to each of the chairs of the Governance Committee and the HR and Compensation Committee.
- Following receipt of the completed questionnaires, the Board Chair contacts each director to discuss the answers and any comments to the questionnaires which the director may have. One of the Governance Committee or HR and Compensation Committee chairs also discusses individually with each director the director's responses and comments on the Board Chair evaluation questionnaires.
- Full reports are then made by the Board Chair and the Governance Committee and HR and Compensation Committee chairs to the Governance Committee and the Board, with suggestions to improve the effectiveness of the Board, Board committees, Board and committee chairs and individual directors.
- 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.
  - In addition to the above, the Board may, from time to time, hire an independent advisor to independently assess or assist the Board in independently assessing the performance of the Board, Board committees, Board and Committee chairs and individual directors. Such assessment may include an individual director peer assessment conducted with the assistance of an independent advisor.

## **2.5 Director Emeritus**

The Board may, from time to time, confer 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. As a general rule, over ten (10) years of tenure as CN Board member would be considered long service; however, exceptions can be made in length of service, if recommended by the Board Chair or the President and CEO and approved by the Board.

Emeritus titles are granted by action of the Board on recommendation by the Board Chair or the President and CEO. Upon approval of the recommendation by the Board, the designation of "Emeritus" shall then be added to the designation of the former or retiring director. The Director Emeritus status is a lifetime designation.

A Director Emeritus status confers the benefits and privileges described below. He or she will

- be invited to the Annual General Meeting of CN; and
- be invited to certain CN or CN Board events taking place in the geographical area of residence of the Director Emeritus.

Directors Emeritus shall be reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at the above-mentioned events.

### 3. BOARD CHAIR

#### 3.1 Role

The Board Chair is an Independent director who is designated by the Board. The Board Chair's key role 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 Board and management responsibilities.

The Board Chair may vote at meetings of the Board and at all meetings of the committees of which the Board Chair is a member.

The Board Chair may attend and participate in all meetings of the Board committees.

The Board Chair's responsibilities include the following:

#### A. Providing leadership to enhance Board effectiveness

- taking all reasonable steps to ensure that the Board works as a cohesive group and providing the leadership essential to achieve this;
- taking all reasonable steps to ensure that the resources available to the Board (in particular timely and relevant information) are adequate to support its work.

#### B. Managing the Board

- chairing Board meetings and meetings of shareholders;
- setting the agenda of the Board, in consultation with the President and CEO and the Corporate Secretary;
- adopting procedures allowing the Board to conduct its work effectively and efficiently;
- overseeing committee structure and composition, as well as the scheduling and management of meetings, including meetings without management present;
- regularly reviewing with the Governance Committee the size and composition of the Board and its committees to favour effective decision-making;
- recommending committee chairs to the Board, in consultation with the Governance Committee;
- taking all reasonable steps to ensure that the conduct of Board meetings provides adequate time for serious in depth discussion of relevant issues;
- taking all reasonable steps to ensure that, where functions are delegated to appropriate committees, the functions are carried out and results are reported to the Board.

#### C. Ensuring Board quality and continuity

- meeting, from time to time, with the Governance Committee to review Board, Board committee, committee chairs and Board members' performance and to discuss nominees as directors to be submitted to the Board for its approval;

- in consultation with the Governance Committee, monitoring and reviewing, as appropriate, CN's orientation and continuing education programs for Directors;
- in consultation with the Governance Committee, developing a competency matrix for Board membership.

*D. Acting as liaison between Board and management and representing CN to external groups*

- providing advice and counsel to the President and CEO;
- facilitating the conduct of relationships between the Board and management in a professional and constructive manner. This involves working closely with the President and CEO and the CLO to take all reasonable steps to ensure that CN is building a healthy governance culture;
- at the request of the Board or the President and CEO, representing CN to external groups such as shareholders and others stakeholders, including local community groups and governments.

**3.2 Objectives and Performance Assessment**

The Governance Committee, together with the Board Chair, develops each year objectives that the Board Chair is responsible for meeting, which objectives are submitted to the Board for approval. Every year, the Board Chair is assessed against these objectives.

As part of this assessment, a Board Chair assessment questionnaire is prepared by the Office of the Corporate Secretary, taking into account current issues and objectives, previous year's findings and input from the Board. This questionnaire is forwarded to each Board member well in advance of a meeting with the Governance Committee or the HR and Compensation Committee chair and is used as a reference tool for meetings between the chairs of these committees and each Board member to discuss such director's assessment of the Board Chair's performance during the year and suggestions on Board Chair objectives for the following year.

The Governance Committee and the HR and Compensation Committee chairs collate the information and meet with the Board Chair to discuss the findings and then report on the results of the Board Chair assessment process to the Governance Committee, which then makes recommendations to the Board for approval of Board Chair objectives for the following year.

## 4. COMMITTEE CHAIRS

### 4.1 Role

Each committee of the Board, with the exception of the Donations and Sponsorships Committee, is chaired by a non-executive director (the “**Committee chair**”). The Committee chair is responsible for the management and the effective performance of his or her committee. He or she takes all reasonable measures to ensure that the committee fully executes its mandate.

The Committee chair responsibilities include the following:

#### A. Providing leadership to enhance committee effectiveness

- taking all reasonable steps to ensure that the committee works as a cohesive group and providing the leadership essential to achieve this;
- taking all reasonable steps to ensure that the resources available to the committee (in particular, timely and relevant information) are adequate to support its work;
- taking all reasonable steps to ensure that a process is in place for the assessment on a regular basis of the effectiveness of the committee and the contribution of each of its members.

#### B. Managing the committee

- chairing committee meetings;
- setting the agenda of each committee meeting, in consultation with the Corporate Secretary;
- adopting procedures allowing the committee to conduct its work effectively and efficiently;
- taking all reasonable steps to ensure that the conduct of committee meetings facilitates discussions and provides adequate time for serious in depth discussion of the business under consideration;
- overseeing the committee’s full discharge of its responsibilities.

Each Committee chair reports to the Board on the deliberations of the committee and on any decisions or recommendations of the committee.

### 4.2 Performance Assessment

The Governance Committee, together with the Board Chair, annually supervises the performance assessment of each Committee chair and reports to the Board on such assessment.

## 5. PRESIDENT AND CHIEF EXECUTIVE OFFICER

### 5.1 Role

The President and CEO is responsible for the management of CN's strategic and operational agenda and for the execution of the Board's resolutions and policies.

The responsibilities of the President and CEO include the following:

#### A. Providing strategic orientation

- as the leading executive officer of CN, assuming ultimate accountability for the development and execution of CN's strategy and policies and, where appropriate, their communication to CN's key internal and external stakeholders;
- formulating and recommending to the Board a business plan;
- ensuring the efficient utilization of CN's resources to meet CN's strategic objectives, including short-term and long-term growth and profitability objectives;
- monitoring global trends in business and in transportation services specifically with a view to remaining an industry leader, providing leadership in managing change and ensuring that CN's culture enables it to respond to the changing competitive environment.

#### B. Managing CN

- managing the business and affairs of CN;
- developing and monitoring CN's organizational structure, business plans and budgets to meet goals and objectives, as approved by the Board;
- assuming responsibility for CN's day-to-day operations, including capital management and financial management, as well as for acquisitions and divestitures, all of which must be accomplished within CN's strategic framework;
- ensuring that CN has in place effective disclosure controls and procedures and internal control over financial reporting capable of producing periodic reports that fairly present CN's business, financial condition and results of operations in a timely and accurate manner and enables investors to understand the business and to make investment decisions accordingly;
- taking all reasonable steps to identify, assess and manage the risks that CN takes in the course of its business;
- assuming responsibility for the hiring, compensation, performance assessment, leadership development and succession planning of management resources, subject to the approval of the Board as to executive management;
- ensuring that CN recruits, develops and retains talented and motivated employees;
- ensuring that the Board's policies with respect to legal, accounting, ethical, moral, safety, security and environmental standards are met and, with the CLO, that CN is in full compliance with applicable laws and regulations;



- fostering a corporate culture that promotes ethical practices, encourages individual integrity, and fulfills social responsibility.

C. Overseeing Corporate Governance matters

- overseeing the development of corporate governance principles applicable to CN;
- collaborating with the Board Chair in the setting of Board agendas;
- ensuring that the Board Chair and the Board are kept appropriately informed of CN's overall business operations and major issues facing CN;
- maintaining an effective communication link with the Board Chair and the Board as a whole;
- taking all reasonable steps to ensure that an open and positive climate exists between CN and its stakeholders;
- serving as CN's key spokesperson on all major issues.

Because of the President and CEO's demanding role and responsibilities, the Board Chair, in consultation with the Governance Committee, shall review any invitation to the President and CEO to join an outside board of directors to take all reasonable steps to ensure that such directorship would not impair the President and CEO's ability to fulfill the responsibilities of the position.

**5.2 Objectives and Performance Assessment**

The HR and Compensation Committee, together with the President and CEO, develop each year corporate and personal objectives that the President and CEO is responsible for meeting, which objectives are submitted to the Board for review and approval. Every year, the President and CEO is assessed against these objectives and all other relevant criteria.

After a review of the President and CEO's performance by the HR and Compensation Committee, the HR and Compensation Committee chair and the Board Chair meet with the President and CEO to discuss such review and the HR and Compensation Committee chair then reports to the Board on the results of the review and recommendations for Board approval of the President and CEO's objectives for the following year.

CEO's compensation is determined by CN's Independent directors only, in accordance with Canadian and US Corporate Governance Standards.

## **6. CORPORATE SECRETARY**

The Corporate Secretary provides a communication and information link between the Board, management and shareholders, with particular emphasis on facilitating the flow of information. The Corporate Secretary receives information from management and takes all reasonable steps to ensure that it is formulated so as to facilitate effective Board and committee evaluation, discussion and decision-making. The Corporate Secretary advises management of Board and committee comments and decisions and is the custodian of the corporate records.

The Office of the Corporate Secretary is responsible for arranging the logistics of Board and committee meetings.

The Corporate Secretary acts as an advisor or arranges for the provision of independent advice to the Board and its committees on legal and procedural matters and assists the Board Chair and the Governance Committee in providing director orientation and continuing education programs.

The Corporate Secretary serves as a source of expertise and advice to the Governance Committee on new developments in corporate governance and best practices.

The Corporate Secretary abides by applicable rules and standards of professional conduct imposed by law or adopted from time to time by regulatory authorities.

The Corporate Secretary takes all reasonable steps to ensure the relevance, on a continuous basis, of CN's Articles, corporate by-laws, administrative resolutions and policies, as well as of CN's Corporate Governance Manual and Code of Business Conduct.

The Corporate Secretary reports to the Board Chair and the President and CEO and is assessed annually on his performance by the President and CEO, after consultation with the Board Chair.

## **7. BOARD COMMITTEES**

It is CN's policy that, as a general rule, committees make recommendations to the Board, which has the decision authority unless otherwise required by law. However, the Board may, from time to time, delegate its decision authority or part thereof to a committee or an individual, subject to applicable laws.

The committee structure of the Board includes the following committees: Audit; Finance; Corporate Governance and Nominating; Human Resources and Compensation; Environment, Safety and Security; Strategic Planning; the Investment Committee of the Pension Trust Funds; and the Donations and Sponsorships.

The members and chairs of the committees are recommended to the Board by the Board Chair in consultation with the Governance Committee. New members of each committee will be chosen taking into account their skills and qualifications so that the committees may properly oversee the discharge of the responsibilities delegated to them by the Board.

The Board has adopted, and annually reviews, the Charters governing the mandate and responsibilities of the Board committees.

### **7.1 Audit Committee**

#### **7.1.1 Membership and Quorum**

- a minimum of five directors appointed by the Board, one of whom must be the chair of the HR and Compensation Committee;
- only Independent directors, as determined by the Board and under Canadian and U.S. Corporate Governance Standards, may be appointed. A member of the Audit Committee may not, other than in his or her capacity as a director or member of a Board committee and subject to the exceptions provided in Canadian and U.S. laws and regulations, accept directly or indirectly any fee from CN or any subsidiary of CN nor be an affiliated person of CN or any subsidiary of CN;
- each member must be “financially literate” (as determined by the Board);
- at least one member must be an “audit committee financial expert” (as determined by the Board);
- quorum of majority of members.

#### **7.1.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least five times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

### 7.1.3 Mandate

The responsibilities of the Audit Committee include the following:

A. Overseeing financial reporting

- monitoring the quality and integrity of CN's accounting and financial reporting process through discussions with management, the external auditors and the internal auditors;
- reviewing with management and the external auditors, the annual audited financial statements to be included in the annual report of CN, including CN's MD&A disclosure and earnings press releases prior to their release, filing and distribution;
- reviewing with management and the external auditors, quarterly consolidated financial statements of CN and accompanying information, including CN's MD&A disclosure and earnings press releases prior to their release, filing and distribution, and reviewing the level and type of financial information provided, from time to time, to financial markets;
- reviewing the financial information contained in the annual information form and other reports or documents, financial or otherwise, requiring Board approval;
- reviewing the procedures in place for the review of CN's disclosure of financial information extracted or derived from CN's financial statements and periodically assessing the adequacy of those procedures;
- reviewing with the external auditors and management, the quality, appropriateness and disclosure of CN's accounting principles and policies, underlying assumptions and reporting practices, and any proposed changes thereto;
- reviewing any analysis or other written communications prepared by management, the internal auditors or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect of alternative generally accepted accounting principles methods;
- reviewing the external auditors' report on the consolidated financial statements and internal controls over financial reporting of CN and on the financial statements of CN's Pension Trust Funds;
- reviewing the external auditors' quarterly review engagement report;
- reviewing the compliance of management certification of financial reports with applicable legislation;
- reviewing any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of CN and the appropriateness of the disclosure thereof in the documents reviewed by the Committee;
- 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 Management Letter issued by the external auditors and any significant recommendations contained therein.

B. Monitoring risk management and internal controls

- receiving periodically management's report assessing the adequacy and effectiveness of CN's disclosure controls and procedures and systems of internal control;
- reviewing CN's risk assessment and risk management policies, including CN's insurance coverage (annually and as otherwise may be appropriate);
- assisting the Board with the oversight of CN's compliance with applicable legal and regulatory requirements;
- reviewing CN's delegation of financial authority;
- making recommendations with respect to the declaration of dividends;
- while ensuring confidentiality and anonymity, establishing procedures for the receipt, retention and treatment of complaints received by CN regarding accounting, internal accounting controls or auditing matters or employee concerns regarding accounting or auditing matters;
- requesting the performance of any specific audit, as required.

C. Monitoring internal auditors

- ensuring that the chief internal auditor reports directly to the Audit Committee;
- regularly monitoring the internal audit function's performance, its responsibilities, staffing, budget and the compensation of its members;
- reviewing annually the internal audit plan;
- ensuring that the internal auditors are accountable to the Audit Committee and to the Board.

D. Monitoring external auditors

- recommending to the Board and CN's shareholders the retention and, if appropriate, the removal of external auditors, evaluating and remunerating them, and monitoring their qualifications, performance and independence;
- approving and overseeing the disclosure of all audit, review and attest 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 to CN or any of its subsidiaries, in accordance with applicable laws and regulations;
- reviewing recommendations to shareholders on the continued engagement or replacement of external auditors, for CN and CN's Pension Trust Funds;
- ensuring that the external auditors are accountable to the Audit Committee and to the Board;
- discussing with the external auditors the quality and not just the acceptability of CN's accounting principles, including (i) all critical accounting policies and practices used, (ii) any alternative treatments of financial information that have been discussed with management, the

ramification of their use and the treatment preferred by the external auditors, as well as (iii) any other material written communications between CN and the external auditors (including a disagreement, if any, with management and any audit problems or difficulties and management's response);

- reviewing at least annually, a report by the external auditors describing their internal quality-control procedures; any material issues raised by their most recent internal quality-control review of their firm, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more audits carried out by them, to the extent available, and any steps taken to deal with any such issues;
- reviewing at least annually, the formal written statement from the external auditors stating all relationships the external auditors have with CN and confirming their independence, and holding discussions with the external auditors as to any relationship or services that may impact their objectivity or independence;
- reviewing hiring policies for employees or former employees of CN's firm of external auditors;
- ensuring the rotation of lead, concurring and other audit partners, to the extent required by Canadian Corporate Governance Standards and US Corporate Governance Standards.

*E. Evaluating the performance of the Audit Committee*

- ensuring that processes are in place to annually evaluate the performance of the Audit Committee.

In addition to the above responsibilities, the Audit Committee may discharge the responsibilities of the Finance Committee if no meeting of the Finance Committee is scheduled to be held in the immediate future.

Because of the Audit Committee's demanding role and responsibilities, the Board Chair, together with the Governance Committee chair, reviews any invitation to Audit Committee members to join the audit committee of another entity. Where a member of the Audit Committee simultaneously serves on the audit committee of more than three public companies, including CN, the Board determines whether such simultaneous service impairs the ability of such member to effectively serve on the Audit Committee and either requires a correction to the situation or discloses in CN's Information Circular that there is no such impairment.

As appropriate, 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 Audit Committee makes arrangements for the appropriate funding for payment of the external auditors and any advisors retained by it. The Board also makes arrangements for the appropriate funding for all administrative expenses necessary or appropriate to allow the Audit Committee to carry out its duties.

The Audit Committee has direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. In addition, each must meet separately with the Audit Committee, without management, twice a year, and more frequently as required; the Audit Committee must also meet separately with management twice a year, and more frequently as required.

The Audit Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members may have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditors and the external auditors.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Company by the external auditors.

The Audit Committee's oversight responsibilities are not established to provide an independent basis to determine that (i) management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures, or (ii) the Company's financial statements have been prepared and, if applicable, audited in accordance with generally accepted accounting principles or generally accepted auditing standards.

## **7.2 Finance Committee**

### **7.2.1 Membership and Quorum**

- a minimum of five directors appointed by the Board;
- a majority of Independent directors shall be appointed;
- quorum of a majority of members.

### **7.2.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least four times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

### **7.2.3 Mandate**

The responsibilities of the Finance Committee include the following:

#### **A. Overseeing financial policies**

- providing oversight with respect to CN's capital structure, cash flows and key financial ratios;
- making recommendations to the Board with respect to CN's financial policies and generally, financial matters affecting CN;
- reviewing policies with respect to distributions to shareholders generally, including CN's policies on dividends;
- making recommendations with respect to the repurchase of shares of CN from time to time;

- overseeing compliance with financial covenants;
- reviewing CN's credit ratings and monitor CN's activities with respect to credit rating agencies;
- reviewing CN's policies regarding financial hedging, investment and credit.

*B. Reviewing financings*

- reviewing the opportunity and parameters of any debt or equity financing;
- reviewing prospectuses, offering memoranda, and other financing documents and reports relating to financing transactions requiring Board approval;
- reviewing CN's liquidity position, including CN's credit facilities and its bank group.

*C. Authorizing, Approving and Recommending certain financial activities*

- within the scope of its authority levels as established by the Board, authorizing the borrowing of money, the issuing of debt securities or the engaging in other forms of financing (other than any financing calling for the issuance of common stock), including with respect to derivative financial instruments, or making recommendations to the Board thereon;
- recommending the prepayment, redemption, repurchase or defeasance of any indebtedness of CN;
- recommending loans, guarantees of the credit of others, or other extensions of credit by CN;
- reviewing significant capital and other expenditures, sales and leases of assets, related party transactions, as required, and any other transactions that could alter, impact or otherwise materially affect CN's financial or corporate structure, including off-balance sheet items, as well as projected and actual returns from investments;
- overseeing post audits of significant capital projects approved by the Board, including material acquisitions;
- overseeing post audits carried-out by the internal auditors or the external auditors, from time to time, and reviewing their reports, which are to be tabled with the Finance Committee and the chair of the Audit Committee;
- reviewing any significant additional voluntary pension contributions above current service cost and above any required special payments that would materially impact CN's use of cash policy and/or balance sheet.

*D. Evaluating the performance of the Finance Committee*

- ensuring that processes are in place to annually evaluate the performance of the Finance Committee;
- assessing the adequacy of the Committee's charter on an annual basis and making reports thereon to the Board.

As appropriate, the Finance Committee may obtain advice and assistance from outside legal, accounting or other advisors and so advise the Board Chair; the Committee makes arrangements for the appropriate funding for payment of any advisors retained by it. The Board also makes arrangements for the appropriate



funding for all administrative expenses necessary or appropriate to allow the Finance Committee to carry out its duties.

The Finance Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Finance Committee the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Finance Committee.

### **7.3 Corporate Governance and Nominating Committee**

#### **7.3.1 Membership and Quorum**

- a minimum of five directors appointed by the Board;
- only Independent directors shall be appointed;
- quorum of majority of members.

#### **7.3.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least four times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

#### **7.3.3 Mandate**

The responsibilities of the Governance Committee include the following:

##### **A. Monitoring the composition and performance of the Board and its committees**

- together with the Board Chair, monitoring the size and composition of the Board and its committees to favour effective decision making and making recommendations to the Board in connection therewith;
- developing, reviewing and monitoring, in consultation with the Board Chair, criteria for selecting directors by regularly assessing the competencies, skills, personal qualities, availability, geographical representation, business background and diversified experience of the Board members and CN's circumstances and needs, and assisting the Board Chair in developing a competency matrix for CN;
- in consultation with the Board Chair, identifying candidates qualified to become Board members, who can devote sufficient time and resources to their duties as Board members, and selecting or recommending that the Board select the director nominees for the next annual or special meeting of shareholders;
- reviewing, with the Board Chair, the performance of the Board, Board committees, Board and committee chairs and Board members;

- assisting the Board in determining Board committee composition, as well as the appropriate mandate of each committee for submission to the Board;
- making recommendations to the Board on the remuneration of the Board Chair, the committee chairs and non-executive directors.

*B. Overseeing Corporate Governance matters*

- reviewing corporate governance guidelines applicable to CN, recommending to the Board any change that should be made thereto and monitoring the disclosure of CN's corporate governance practices in accordance with applicable rules and regulations;
- developing, reviewing and monitoring procedures for meeting the Board's information needs, including formal and informal access to executive management;
- in consultation with the Board Chair, developing, monitoring and reviewing, as applicable, CN's orientation and continuing education programs for directors;
- reviewing, monitoring and overseeing the disclosure of CN's Code of Business Conduct, including a code of ethics applicable to CN's directors, its President and CEO, senior financial officers, other executives and employees, and such other policies as may be approved by the Board from time to time;
- reviewing CN's policy prohibiting its directors and officers to directly or indirectly purchase, sell or otherwise acquire or transfer securities of CN during pension fund blackout periods, taking all reasonable measures to ensure that such policy as well as the list of pension fund blackout periods are provided to every director and officer of CN and overseeing the appropriate disclosure of same;
- monitoring CN's Corporate Disclosure and Communications Policy and the Investor Relations and Public Affairs Program, and overseeing CN's lobbying activities and political contributions and disclosure of same;
- reviewing from time to time CN's Corporate Governance Manual;
- reviewing CN's community investment program.

*C. Evaluating the performance of the Governance Committee*

- ensuring that processes are in place to annually evaluate the performance of the Governance Committee.

As appropriate, the Governance 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 Governance Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

The Board Chair shall supervise the Governance Committee annual performance assessment.

Nothing contained in the above mandate is intended to assign to the Governance Committee the Board responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable

standards of liability under statutory or regulatory requirements for the directors or the members of the Governance Committee.

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

### **7.4.1 Membership**

- a minimum of five directors appointed by the Board;
- only Independent directors, as determined by the Board and under Canadian and U.S. Corporate Governance Standards, may be appointed. Under US Corporate Governance Standards, when affirmatively determining the independence of any director who will serve on the HR and Compensation Committee, the Board must consider all factors specifically relevant to determining whether a director has a relationship to CN which is material to that director's ability to be independent from management in connection with the duties of a HR and Compensation Committee member, including, but not limited to:
  - the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and
  - whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company;
- no more than one in three members shall be a sitting CEO of another company;
- one or more members of the HR and Compensation Committee shall have: i) direct experience in executive compensation matters; and ii) skills and experience that enable him or her to provide input on the suitability of CN's compensation policies and practices;
- the Chair of the Audit Committee shall be a member of the HR and Compensation Committee;
- the President and CEO shall be excluded from the member selection process;
- quorum of a majority of members.

### **7.4.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least four times a year and as necessary;
- committee members meet before or after every meeting without the presence of management.

### **7.4.3 Mandate**

The responsibilities of the HR and Compensation Committee include the following:

#### **A. Monitoring executive management's performance assessment, succession planning and compensation**

- ensuring that appropriate mechanisms are in place regarding succession planning for the position of President and CEO;

- ensuring that the President and CEO has put into place, and monitoring, succession planning systems and policies for management, including processes to identify, develop and retain the talent of outstanding executives;
- recommending appointment of executive management, and approving the terms and conditions of their appointment and termination or retirement;
- reviewing corporate goals and objectives relevant to the President and CEO, evaluating the President and CEO's performance based on those goals and objectives and such other factors as the HR and Compensation Committee deems appropriate and in the best interest of CN, and recommending the President and CEO's compensation based on this evaluation, for approval by Independent Board members;
- reviewing the evaluation of executive management's performance and recommending to the Board executive management's compensation;
- examining each element of executive remuneration and reporting annually on compensation practices;
- producing for review and approval by the Board a report on executive compensation for inclusion in CN's Information Circular;
- overseeing the identification and management of risks associated with CN's compensation policies and practices and reviewing disclosure on : (i) the role of the HR and Compensation 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.

*B. Reviewing Human Resources practices*

- ensuring that appropriate human resources systems, such as hiring policies, training and development policies and compensation structures are in place so that CN can attract, motivate and retain the quality of personnel required to meet its business objectives;
- developing a compensation philosophy and policy that rewards the creation of shareholder value and reflects an appropriate balance between the short and longer-term performance of CN;
- recommending pension plan design to the Board;
- making recommendations to the Board with respect to the design of incentive-compensation plans and equity-based plans;
- monitoring pension, strategic labour and social issues, such as bilingualism, employment opportunity and employment assistance programs.

C. Evaluating the performance of the HR and Compensation Committee

- ensuring that processes are in place to annually evaluate the performance of the HR and Compensation Committee.

As appropriate, the HR and Compensation Committee may retain such outside advisors to assist it in the performance of its functions and responsibilities, including the sole authority to retain or obtain the advice of compensation consultants, independent legal counsel or other advisors, including fixing such advisors' fees and retention terms, subject to advising the Board Chair and overseeing their work. Before retaining or obtaining advice of any outside advisors, the HR and Compensation Committee will consider the independence of the advisor in accordance with applicable U.S. Corporate Governance Standards, or other applicable laws, rules and regulations, as the foregoing may be amended from time to time. The HR and Compensation Committee will make arrangements for the appropriate funding for payment of such consultants.

The HR and Compensation Committee shall pre-approve all non-compensation services provided by the consultants retained by the HR and Compensation Committee to perform compensation-related services. The fees paid to such consultants, regarding compensation and non-compensation services, shall be disclosed separately in CN's Information Circular.

The HR and Compensation Committee chair or another member of the HR and Compensation Committee will attend annual shareholder meetings in order to respond directly to any questions shareholders may have on executive compensation.

The HR and Compensation Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the HR and Compensation Committee the Board responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the HR and Compensation Committee.

**7.5 Environment, Safety and Security Committee**

**7.5.1 Membership and Quorum**

- a minimum of five directors appointed by the Board;
- only non-executive directors may be appointed, a majority of whom are Independent directors;
- quorum of majority of members.

**7.5.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least four times a year and as necessary;
- committee members meet before or after every meeting without the presence of management;

- special meeting may be held following an accident resulting in employee fatality or a major derailment giving rise to an evacuation, except where a regular meeting is scheduled in the immediate future.

### **7.5.3 Mandate**

The responsibilities of the Environment, Safety and Security Committee include the following:

- overseeing the development and implementation of environmental, safety and security policies, procedures and guidelines;
- assessing corporate environmental, safety and security practices, monitoring systems with regard to statutory and regulatory requirements, and, where applicable, ensuring any remedial plans and programs are carried out and adequate reserves are in place;
- reviewing environmental, health and safety audits and assessments of compliance, taking all reasonable steps to ensure that CN is exercising due diligence;
- reviewing CN's business plan to ascertain whether environmental, safety and security issues are adequately taken into consideration;
- obtaining reports on a timely basis in respect of all notices, complaints, investigations and proceedings by governmental authorities or others, and all judgments and orders in respect of environmental, safety and security matters;
- ensuring appropriate employee training standards and communications are developed and implemented;
- monitoring accounting accrual for environmental costs in conjunction with the Audit Committee;
- performing such other functions as are assigned to it by the Board;
- ensuring that processes are in place to annually evaluate the performance of the Environment, Safety and Security Committee.

The Environment, Safety and Security Committee shall report to the Board regularly on its deliberations and annually on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Environment, Safety and Security Committee the Board responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Environment, Safety and Security Committee.

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

### **7.6.1 Membership and Quorum**

- composed of up to twelve members, a majority of whom are Independent directors, and three of whom are officers of the Company;
- quorum is a majority of members, including at least two members who are officers of the Company;

- participants at committee meetings include the President and CEO, the Executive Vice-President and Chief Financial Officer of CN, the President and Chief Executive Officer and the General Manager of CN's Investment Division (the "**Investment Division**").

### **7.6.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings;
- at least three times a year and as necessary.

### **7.6.3 Mandate**

The responsibilities of the Investment Committee of CN's Pension Trust Funds are in part described in the Standing Resolutions on CN Investments and include the following:

- reviewing the activities of the Investment Division;
- advising the Investment Division on investment of assets of CN's Pension Trust Funds in accordance with the Statement of Investment Policies and Procedures approved by the CN Board and the general investment strategy approved by the Investment Committee;
- approving all of CN's Pension Trust Funds investments made in any one real estate property, resource property or the shares of a corporation not listed on a prescribed stock exchange as defined in the *Income Tax Act* (Canada), for which the aggregate investment exceeds \$50,000,000, except when the loan or interest is by way of a first mortgage;
- reviewing and approving the annual budget of the Investment Division;
- reviewing and approving the CN Investment Incentive Plan and award payouts thereunder;
- recommending to the Board changes to the Statement of Investment Policies and Procedures of the Investment Division;
- reviewing and approving the general investment strategy of the Investment Division and reporting thereon to the Board;
- ensuring that processes are in place to annually evaluate performance of the Investment Committee of CN's Pension Trust Funds.

The Investment Committee of CN's Pension Trust Funds shall report annually to the Board on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Investment Committee of CN's Pension Trust Funds the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Investment Committee of CN's Pension Trust Funds.

## **7.7 Strategic Planning Committee**

### **7.7.1 Membership and Quorum**

- all members of the Board;

- quorum of a majority of the members.

### **7.7.2 Frequency and Timing of Meetings**

- a special strategic planning session takes place annually to review and discuss CN's business plan and capital budget;
- other meetings as necessary;
- committee members meet before or after every meeting without the presence of management.

### **7.7.3 Mandate**

The responsibilities of the Strategic Planning Committee include the following:

- focusing on financial and strategic issues, including the review of the key assumptions underlying the business plan;
- obtaining regular briefings on strategic and financial issues;
- reviewing, with the President and CEO and other appropriate executive officers, CN's business plan and capital budget prior to their formal approval by the Board;
- reviewing CN's strategic direction periodically;
- ensuring that processes are in place to annually evaluate the performance of the Strategic Planning Committee.

The Strategic Planning Committee shall report annually to the Board on the adequacy of its mandate.

Nothing contained in the above mandate is intended to assign to the Strategic Planning Committee the Board responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Strategic Planning Committee.

## **7.8 Donations and Sponsorships Committee**

### **7.8.1 Membership and Quorum**

- Composed of up to nine members, including the Board Chair; one additional board member; the President and CEO; the Executive Vice-President Corporate Services and Chief Legal Officer; the Chief Marketing Officer; the Vice-President, Human Resources and the Vice-President, Public and Government Affairs;
- Quorum is a majority of members, including at least one non-executive board member and two members who are officers of the Company;
- The Committee will be chaired by the President and CEO.

### **7.8.2 Frequency and Timing of Meetings**

- normally one day prior to CN Board meetings or on the day of the Board meeting;



- at least three times a year and as necessary.

### **7.8.3 Mandate**

The responsibilities of the Donations and Sponsorships Committee include the following:

#### **A. Developing a sponsorship and donations strategy**

- the Committee shall on a yearly basis review and approve the general donations and sponsorships strategy and goals of the Company. The Committee shall be guided by the CN Stronger Communities Fund Guidelines and other guidelines which it may adopt from time to time;
- the Committee shall review and approve the annual budget for all donations and sponsorships of the Company, including the budget for the CN Stronger Communities Fund;
- the Committee shall review annually the CN Stronger Communities Fund Guidelines, updating the guidelines as necessary.

#### **B. Approving sponsorship and donation requests**

- any donation request, meaning a monetary or non-monetary gift made to a registered charitable organization with no expectation of returned benefit to the Company, for a total cost of more than \$100,000 shall be pre-approved by the Committee prior to the making of any commitment;
- any sponsorship request, meaning a transaction between the Company and another party (registered not-for-profit, private sector or public sector) in which financial consideration is exchanged for purchase of a tangible such as advertising, signage or event participation, for a total cost of more than \$500,000 shall be recommended by the Committee and approved by the Board of Directors of the Company prior to the making of any commitment;
- all donations for a total cost of more than \$50,000 and sponsorships for a total cost of more than \$100,000 must be reported to the Vice-President, Public and Government Affairs, who will submit a report thereon at each regular meeting of the Committee;
- requests for funding will be reviewed by the Committee at each of its meetings. All requests will be assessed and granted or declined at the sole discretion of the Committee. Requests may be granted for the requested amount or for an amount either more or less than the requested amount. There is no process for appeal.

All dollar amounts set out above shall be deemed to be in CDN\$ or US\$ depending on the country in which the donation or sponsorship has been or is to be made.

The Donations and Sponsorship Committee shall report annually to the Board on the adequacy of its mandate and on all donations and sponsorships.

Nothing contained in the above mandate is intended to assign to the Donations and Sponsorship Committee the Board's responsibility to ensure CN's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Donations and Sponsorship Committee.

## **8. BOARD MEMBER ORIENTATION AND CONTINUING EDUCATION PROGRAMS**

CN has developed, for the benefit of new directors, a Board Orientation Program, which normally includes the following:

- presentations by CN officers or other key executives on CN's organizational structure and the nature and operation of CN's business, including a review of the current business plan. Such presentations may include visits to key business locations in order to acquaint the new director with CN's business activities;
- a review with the Board Chair of the methods of operation and the roles of the Board and its committees, including a discussion of the Board performance assessment process, meeting format, access to information both included in, and outside of, the Board and Board committee meeting materials, and other factors that are important to Board effectiveness;
- a discussion on the contribution individual directors are expected to make (including the commitment of time and energy that CN expects from its directors);
- access to a summary of the legal and ethical responsibilities of Board members including a review of the Code of Business Conduct applicable to CN's directors, officers and employees;
- access to other appropriate information or outside resources as discussed with the Board Chair, given the new director's previous experience as a member of other boards of directors and the new director's responsibilities, both at the Board and committee levels.

In addition to the Board Orientation Program for new directors, the Board Chair should take all reasonable steps to ensure that Board members have access to education and information on an on-going basis and as required pertaining to the following:

- board effectiveness and the best practices associated with boards that are the most successful at adding value for their shareholders;
- briefings as required on factors or emerging trends that may be relevant to CN's current or future business strategy;
- other material as deemed appropriate by the Board Chair or as suggested to the Board Chair by other Board members.

CN also encourages directors to attend seminars and other educational programs, at CN's expense and with the approval of the Board Chair, and to report back to the Board on the quality of such programs.

## 9. DIRECTOR COMPENSATION POLICY

The Governance Committee annually reviews with the Board Chair and makes recommendations to the Board on the adequacy and form of the compensation for non-executive directors, taking all reasonable steps to ensure such compensation realistically reflects the responsibilities and risk involved, without compromising a director's independence. A substantial portion of the total non-executive directors' compensation package should be in the form of CN common shares or share equivalents in order to align the interests of CN's directors with the interests of its shareholders. The Board has adopted a guideline stating that each non-executive director should own, within five (5) years of joining the Board, common shares, deferred share units or similar share equivalent of CN, if any, ("**CN Securities**") with a value of at least the higher of: (i) \$CAD 500,000, or (ii) three (3) times the aggregate of the director's annual board retainer (which includes cash and the value of any grant of CN Securities and in the case of the Board Chair, the Board Chair cash annual retainer and the value of any grant of CN Securities, (such shareholding requirement, the "**Minimum Shareholding Requirement**"). Each director shall continue to hold such value throughout his or her tenure as a director and the CN Securities held to comply with the Minimum Shareholding Requirement shall not be, during the director tenure, the object of specific monetization procedures or other hedging procedures to reduce the exposure related to his or her holding. In addition, each director shall continue to hold CN Securities with a value of at least the higher of: (i) \$CAD 250,000, or (ii) 50% of the Minimum Shareholding Requirement for a period of 2 years following and commencing on, the date the director ceases to be a member of the Board.

Each director shall be required to receive at least fifty percent (50%) of his or her annual board, committee, board chair and committee chair cash retainers in CN Securities and may elect to receive up to one hundred percent (100%) of such retainers in CN Securities until his or her Minimum Shareholding Requirement is met. Once the Minimum Shareholding Requirement is met, directors may elect to receive up to one hundred percent (100%) of such retainers in CN Securities.

Directors who are executives of CN receive no additional remuneration for their services as director.

The Governance Committee also reviews and makes recommendations, on an annual basis, on the amount and form of the Board Chair's compensation.

## **10. ACCESS TO MANAGEMENT AND TO EXTERNAL ADVISORS**

Board members have full access to executive management. Advice and counsel from directors to executive management occur both in formal Board and committee meetings and through informal, individual directors' contacts and discussions with the President and CEO, the CLO and Corporate Secretary and other members of CN executive management.

The Board relies on the information that management provides to the Board and its committees. The timeliness, quality and completeness of this information is critical to the effectiveness of Board decisions and is monitored by the Board on an ongoing basis. Nonetheless, on occasion, members of the Board may seek legal or expert advice at CN's expense from a source independent of management. Hiring of such advisors is subject to Board approval, except as otherwise provided herein with respect to the Audit Committee, Finance Committee, Governance Committee and HR and Compensation Committee.

## 11. EXECUTIVE COMPENSATION

### 11.1 Clawback Policy

The Board may, in its sole discretion, to the full extent permitted by governing law and to the extent it determines that it is in CN's best interest to do so, require reimbursement of all or a portion of any bonus or vested incentive compensation awarded to an executive officer after March 4, 2008, require the reimbursement of any profit realized by the executive officer from the exercise of options granted after March 4, 2008, or effect the cancellation of unvested incentive compensation awards granted to the executive officer after March 4, 2008 if:

- a) the amount of a bonus or incentive compensation 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 CN'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 amount of the bonus or incentive compensation that would have been awarded to or the profit realized by the executive officer had the financial results been properly reported would have been lower than the amount actually awarded or received.

In addition, with respect to bonus or incentive based compensation awarded after March 7, 2017, in the event that any executive officer is found to have engaged in gross negligence, intentional misconduct, fraud, theft or embezzlement, the Board may in its discretion, to the full extent permitted by governing law and to the extent it determines that it is in CN's best interest to do so, require the reimbursement of some or all of the after-tax amount of any incentive compensation already paid in the previous 24 months or forfeit his or her vested or unvested incentive awards in accordance with plan terms.

For the purposes of this Policy:

"Board" means the Board of directors of CN or, if determined by the Board, one of its committees;

"executive officer" means any executive officer or former executive officer of CN who has been designated as such by the Board; and

"gross negligence" means any act or failure to act by any executive officer which was intended to cause, or which was in reckless disregard of or wanton indifference to, the significant and harmful financial consequences such executive officer knew, or should have known, such act or failure would have on the Company.

## 11.2 Advisory Vote

The Board has adopted a policy to the effect that the Company provides, on an annual or such other basis as it may determine from time to time, its shareholders with an opportunity to cast at the Annual Meeting of Shareholders (“Meeting”) a non-binding advisory vote on the Company’s approach to executive compensation, as disclosed in the Statement of Executive Compensation section of the Information Circular prepared in connection with the Meeting. Such section will describe the role of the HR and Compensation Committee in overseeing compensation of executives and the Company’s executive compensation principles, the structure of the compensation plans for executives, and the alignment of such plans with the interests of the Company shareholders.

The form of resolution to be put forth to the Company shareholders is set out below :

*“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 •.”*

Furthermore, the Board 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 non-binding advisory resolution, the Board Chair or the Chair of the HR 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 and the HR 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.

## **12. PROCEDURES RELATIVE TO COMPLAINTS REGARDING ACCOUNTING AND AUDITING MATTERS**

### **12.1 General**

The purpose of CN's complaint procedure regarding accounting and auditing matters (the "**Complaint Procedure**") is to offer an effective and confidential method for interested parties to notify the Board of any potential or real wrongdoing with respect to accounting or auditing matters.

The complaint channel is advertised through CN's Internet site, Intranet site and through CN's Code of Business Conduct.

Any person who wishes to raise issues relating to accounting and auditing matters will be asked to call CN's Hot Line Number at 1-800-925-5974 or online by following this link: [www.reportanissue.com](http://www.reportanissue.com).

### **12.2 Protection**

The Complaint Procedure offers protection to those who disclose their concerns. No complaint will result in dismissal or disciplinary action or any other form of detriment for the complainant. Any acts of reprisal against a complainant shall be treated by CN as a very serious matter.

### **12.3 Confidentiality**

The identity of any complainant under the Complaint Procedure will be kept confidential and any complaint can be made anonymously.

### **12.4 Detailed procedures**

The CN Hot Line is reserved for complaints related to accounting and auditing matters. Complaints about other matters made using the CN Hot Line will be redirected to the appropriate organization or person.

Complaints will be classified in four categories: (1) Accounting, (2) External Audit, (3) Internal Audit or (4) Unclassified.

Detailed information about the complainant and the complaint allegations will be recorded and complaints details will be sent to Internal Audit for review (unless the complaint or allegations concern Internal Audit in which case it will be forwarded to the Chief Legal Officer). Complainants requesting to remain anonymous will be assigned a reference number.

A quarterly report of all complaints and/or disclosures as well as any subsequent actions taken will be made to the Audit Committee.

### **12.5 Procedures review**

The Complaint Procedure will be reviewed periodically.

### **13. INTERESTED PARTIES COMMUNICATIONS WITH THE BOARD CHAIR**

In addition to the Complaint Procedure, the Board has made available a method for interested parties to communicate their concerns to the Board Chair. This process is posted on the CN's website.

Such method allows any interested party to communicate directly by telephone or telecopier with the Board Chair at locations determined and agreed to by him or her.

The Board Chair will report periodically to the Board on any valid concerns expressed by interested parties.

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