Canadian National Railways (CNR): 2004-2011 Pay for Performance

PAY FOR PERFORMANCE SCORE				
1 YEAR = **3**	4 YEAR = **1**	6 YEAR = **1**	8 YEAR = **3**	TOTAL: **8/24**

CNR's low Pay for Performance Score is a result of consistently high performance accompanied by negative CEO pay change. This was driven by a dramatic change in CEO pay approach upon the appointment of Claude Mongeau as CEO in 2010. CNR ranked first among its peers in each of TSR, ROE and ROA and third out of five in total pay. The average CEO pay of CNR's peers is significantly higher than CNR, driven primarily by RSU grants and pension contributions, which are much more modest in CNR's case.

Prior to Mr. Mongeau's appointment, year-over-year pay tracked TSR quite well through adjustments in annual bonus. It may become clearer as Mr. Mongeau's tenure continues whether or not CNR will achieve ongoing alignment under the new compensation structure.

Canadian National Railways (CNR): Peer Comparison

Canadian National Railway Company (CNR): Annual Pay vs. TSR
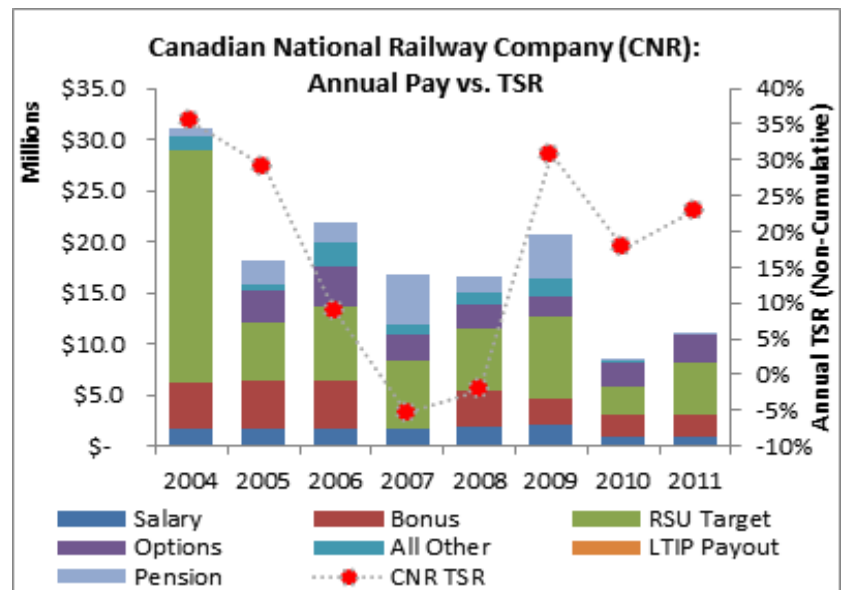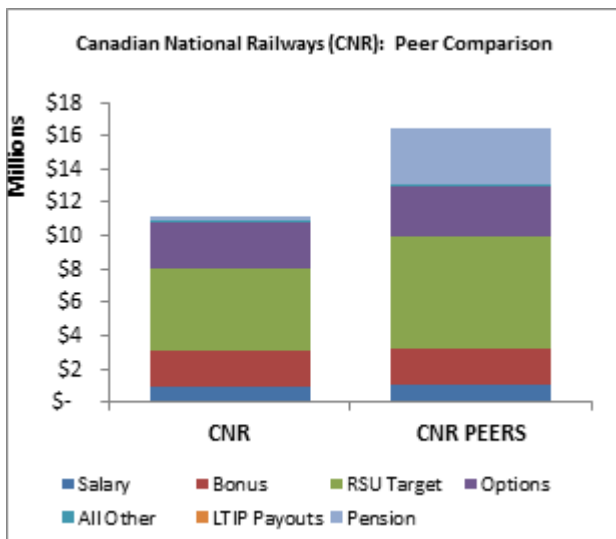
COMPANY'S DISCLOSED PEER FIRMS	
TICKER	**NAME**
NYSE:UNP	Union Pacific Corporation
NYSE:CSX	CSX Corporation
NYSE:NSC	Norfolk Souther Corporation
TSE:CP	Canadian Pacific Railway Ltd.

FY 2011 FINANCIAL PERFORMANCE RANKINGS						
#	**PEER**	**TSR**	**PEER**	**ROE**	**PEER**	**ROA**
1	**TSE:CNR**	**22.9%**	**TSE:CNR**	**23.0%**	**TSE:CNR**	**9.4%**
2	NYSE:NSC	18.8%	NYSE:CSX	21.6%	NYSE:UNP	7.3%
3	NYSE:UNP	16.6%	NYSE:NSC	19.3%	NYSE:NSC	6.7%
4	TSE:CP	8.9%	NYSE:UNP	17.7%	NYSE:CSX	6.2%
5	NYSE:CSX	-0.3%	TSE:CP	12.3%	TSE:CP	4.0%
6						
7						
8						
9						
10						
11						

CEO COMPENSATION RANKINGS AGAINST COMPANY'S DISCLOSED PEER FIRMS										
	PEER	**TOTAL PAY**	**PEER**	**SALARY**	**PEER**	**BONUS**	**PEER**	**TOTAL CASH**	**PEER**	**TOTAL EQUITY**
1	NYSE:CSX	$20,814,160	NYSE:UNP	$1,137,430	NYSE:UNP	$3,956,277	NYSE:UNP	$5,093,706	NYSE:CSX	$18,434,760
2	NYSE:UNP	$18,395,965	NYSE:CSX	$1,087,976	**TSE:CNR**	**$2,112,055**	**TSE:CNR**	**$3,076,428**	**TSE:CNR**	**$7,760,858**
3	**TSE:CNR**	**$11,192,910**	TSE:CP	$985,873	NYSE:NSC	$1,306,066	NYSE:NSC	$2,245,682	NYSE:UNP	$7,319,796
4	NYSE:NSC	$11,181,583	**TSE:CNR**	**$964,373**	NYSE:CSX	$1,135,847	NYSE:CSX	$2,223,823	NYSE:NSC	$5,473,400
5	TSE:CP	$6,974,095	NYSE:NSC	$939,616	TSE:CP	$0	TSE:CP	$985,873	TSE:CP	$4,871,883
6										
7										
8										
9										
10										
11										

For 2012, the Clarkson Centre for Board Effectiveness (CCBE), prepared a Pay for Performance report for each firm currently listed on the TSX 60 Index that has at least 8 years of historical compensation or share price data available. The CCBE's Performance Score measures how closely CEO pay and TSR are aligned over four different time horizons. Compensation data is gathered from the firm's public filings, and valued at the time of grant. Options are valued using the binomial tree fair value method, and PSUs are valued at the grant date value of the target payout. TSR is calculated using a 30-day average start and end date share price, and assumes the reinvestment of dividends.

CCBE collected pay and performance data for up to ten peer companies for each TSX 60 constituent. Peer companies were selected from each TSX 60 constituent's performance benchmarking peer group, as disclosed in its most recent Management Information Circular. If a performance peer group was not disclosed, the CCBE collected information on the disclosed constituents of the total pay benchmarking peer group. If a peer group had more than 10 constituents, we randomly selected ten from among the disclosed list.

Our Pay for Performance Score takes into account alignment between change in CEO pay and TSR in 1-, 4-, 6- and 8-year observations. CEO pay change is 'smoothed' to account for outlying years. For example, in our 8-year observation we calculate CEO pay change as the percent change of the sum of total CEO pay from 2004-2007 against the sum of total CEO pay from 2008-2011. This helps to normalize our longer observations for unusual events like CEO turnover and large one-time payouts. The Pay for Performance Score gives significantly more weight to longer-term observations than shorter ones.

1-YEAR SCORE	4-YEAR SCORE	6-YEAR SCORE	8-YEAR SCORE
A = 3	A = 4	A = 7	A = 10
B = 3	B = 3	B = 5	B = 8
C - 2	C - 2	C - 3	C - 5
D = 1	D = 1	D = 1	D = 3
E = 0	E = 0	E = 0	E = 0

Change in Total CEO Pay vs. TSR