



Board of Directors  
Canadian National Railway Company  
935 de La Gauchetière Street West  
Montreal  
Quebec H3B 2M9, Canada

Attn: Robert Pace, Chairman of the Board

31 August 2021

**Dear Chairman Pace and members of the Board of Directors (the “Board”) of Canadian National Railway Company (“CN” or “Canadian National”),**

TCI Fund Management Limited (“TCI”), through entities it manages, has been a shareholder of Canadian National since 2018 and currently owns over 36 million shares of the company, representing more than 5% of the shares outstanding, valued at \$4bn.

In light of the Surface Transportation Board (the “STB”) ruling today, we think it is imperative that Canadian National immediately withdraws from its agreement to buy Kansas City Southern (“KCS”).

The opinion of the STB is clear: it does not want Canadian National to buy KCS, so persisting in the face of explicit opposition from the STB would be hugely damaging to the reputation of CN and potentially financially disastrous because it would expose the company to the risk of forced divestment and damaging remedies.

The Board has a choice. It can withdraw from the merger agreement, appeal the ruling or try to proceed without a voting trust.

An appeal cannot be won, and it is not an appeal you would want to win, so do not embark on what would be an expensive and undignified charade. Continuing with the bid would not only be futile but, knowing it will ultimately end in failure, would also be unprofessional and disrespectful to everyone involved in the process. Instead, the company should withdraw and save billions of dollars in break fees.

Proceeding *without* a voting trust would be reckless, irresponsible and massively value destructive. The Board must understand that the rules have changed. The old rules do not apply to this transaction. There is no way you can have any confidence in how the new merger rules will be interpreted because they have never been used before. Therefore, given there is such uncertainty around the approval process, it would be negligent to make a higher offer for KCS. It would also demand billions more in advisory and break fees.

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Not only is the STB against the deal but the United States Department of Justice, the Federal Trade Commission and US political leaders have all stated their opposition to large-scale M&A, so needlessly antagonising these agencies would be harmful to the long-term interests of both CN and the rest of the North American railroad industry. It is time to do the right thing, accept the deal cannot be done, and withdraw from the transaction.

Since 2016, CN's financial results have lagged significantly behind those of the other railroads. The company has underperformed on nearly every measure of productivity and efficiency. Revenues per RTM, expenses per RTM, return on capital, operating ratio and profits have all gone backwards compared to the rest of the industry\*. CN has lost its way and the business needs to be fixed as a matter of urgency. That is the top priority. There should be no other objective and no distractions. The Board should not allow another wasteful dollar to be spent on the bid nor another minute of executive time.

The most pressing need is not a misguided pursuit of an unattainable prize but the establishment of a culture of operational excellence that so clearly exists at other railroads such as Canadian Pacific and CSX.

We stated in our previous letter, dated 18 May 2021, that if the STB rejected CN's voting trust, we would expect the immediate resignation of Chairman Pace and the CEO, Jean-Jacques Ruest. We stand by that statement.

From the start, it has been clear and obvious the bid would fail. That the Board sanctioned the bid, together with potential fees of C\$2bn, is an egregious failure of oversight and there must be accountability. CN needs a change of senior management and a shake-up of the Board. That process should begin today.

There is one person who we think is the prime candidate for the job as Canadian National's CEO, Jim Vena. He has a proven track record as an exceptional operator, he is available and has our full support. Mr. Vena's time at CN and Union Pacific demonstrate that he knows how to run a railroad successfully and make no mistake, it is a railroader that CN needs.

In addition to a change in executive leadership, more railroad experience and expertise is required on the Board, so we think Gilbert H. Lamphere should be appointed as a director. Mr. Lamphere is one of the most experienced railroad executives in North America, having previously served as Chairman of the Illinois Central Railroad and as a member of the boards of CN (1998-2005) and CSX (2008-2015). He was also one of the original proponents of PSR. Gil Lamphere is independent and would be an outstanding addition to the Board.

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In conclusion, CN owns a unique asset—the best rail network in North America—so it does not need to acquire KCS to prosper. CN should also be the most efficient and fastest growing railroad in the industry, but change is needed to achieve this goal. History has shown that with the right leadership railroads can be fixed quickly. CN should be no different.

TCI is a long-term shareholder and we want what is best for Canadian National. We believe the majority of other CN shareholders share our vision and would support the actions and leadership changes we are recommending.

Yours sincerely,

/s/ Chris Hohn

**Chris Hohn**

/s/ Ben Walker

**Ben Walker**

\* See the attached presentation for an analysis of CN's recent performance. Do not waste any time adjusting the data or making excuses. Instead, acknowledge the issues and accept that significant improvements are required for CN to achieve its full potential.

Other disclosures: TCI, through entities it manages, owns over 55 million shares of Canadian Pacific, representing more than 8% of the shares outstanding, valued at \$4bn. TCI has no ownership position in Kansas City Southern.

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