



# Regulatory Framework and M&A Timeline

INVESTOR PRESENTATION  
May 2021



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## Non-GAAP Measures

This presentation includes certain forward looking non GAAP measures (Adjusted Diluted EPS). It is not practicable to reconcile, without unreasonable efforts, these forward looking measures to the most comparable GAAP measures (diluted EPS), due to unknown variables and uncertainty related to future results. Please see note on Forward Looking Statements above for further discussion.

**All amounts in this presentation are expressed in United States dollars, unless otherwise noted. All references to the "Company" are to CN.**

# Overview of the Regulatory Framework and M&A Timeline

## 1. CN is proposing a plain vanilla voting trust structure identical to CP's, including the same trustee

- Close into independent voting trust to acquire shares of KCS
- We have requested the STB to review CN's voting trust on same schedule as CP's voting trust

## 2. KCS shareholders will receive their consideration upon closing into the trust

- We are targeting to close into the voting trust in 2H/2021
- KCS shareholders to receive \$200 in cash and 1.059 CN shares for each KCS share

## 3. CN voluntarily committed in filings to meeting enhanced competition standard under current STB rules

- Current rules have higher review standards to ensure a better outcome for customers and are pro-competitive
- CP sought and was granted a waiver to avoid scrutiny under current rules, despite shipper concerns

## 4. The CN-KCS combined network benefits shippers and has de minimis overlap (<1%)

- CN North-South routes and KCS North-South routes are hundreds of miles apart
- We will provide more choices, thereby enhancing competition, with lower costs and better service
- We are committed to work with the STB to address the few facilities served only by CN and KCS
- We are committed to implementing arrangements to address any other demonstrated competitive concerns

**CN-KCS merger delivers superior value  
to KCS shareholders, customers, key stakeholders and the North American economy**

# Clarifying the STB Review Process

## Step 1: Voting Trust (2H/2021)

- STB’s voting trust review has 2 tests:
  1. Does the voting trust create a risk of premature control?
  2. Does the voting trust create a public interest harm by damaging the financial integrity of the railroads?
    - Focus on potential damages to the financial integrity of the railroads using the trust, if the transaction were not approved
    - Not about pre-judging the merits of a transaction (addressed separately in Step 2)

## Step 2: Acquire Control (2H/2022)

- STB’s ultimate review under the “current rules” require CN to demonstrate that a CN-KCS merger is in the public interest
- STB balances all potential benefits of merger against potential harms
  - Benefits include improved customer options, enhanced competition, and environmental
  - Harms include demonstrated reductions in competition that are not mitigated
- Demonstrated competitive concerns can be mitigated in multiple ways
  - Open gateways, haulage, trackage rights, divestitures, etc.

**STB’s standard of approval for voting trust is separate from its ultimate merger review – KCS shareholders receive their consideration upon Step 1 closing into voting trust**

Links to STB filings for additional clarification:

[April 29<sup>th</sup> letter to the STB](#)

[April 26<sup>th</sup> motion for approval of CN’s voting trust](#)

# Plain Vanilla Voting Trust Structure

Identical to CP proposal

## Process Overview

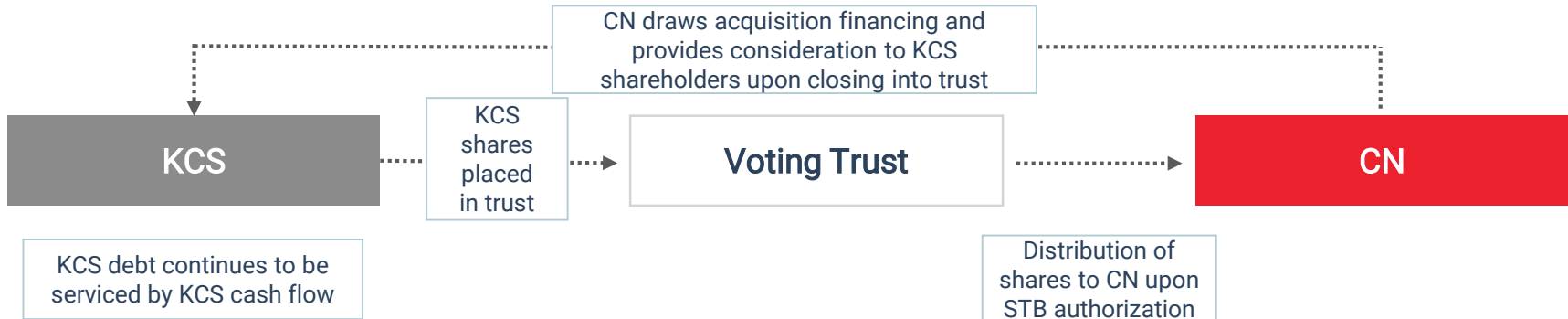
### Step 1: Voting Trust

- Independent voting trust acquires shares of KCS
- KCS shareholder approval and customary closing conditions required for closing into voting trust
- CN provides consideration to KCS shareholders upon closing into voting trust
- No CN shareholder approval required
- Target close in 2H/2021

### Step 2: Acquire Control

- Upon receiving control approval from the STB, companies would be integrated
- Begin realizing synergies
- Target date for acquisition of control in 2H/2022

## Voting Trust Structure



**Targeting Step 1 closing into voting trust in 2H/2021**

# Implications to CN Under the Voting Trust Structure

	Step 1: Voting Trust (2H/2021)	Step 2: Acquire Control (2H/2022)
Governance	<ul style="list-style-type: none"> <li>Structure separates KCS from CN control until STB authorization</li> <li>Existing KCS management and Board of Directors steward KCS while in trust</li> <li>David Starling, former President &amp; CEO of KCS, to serve as independent trustee</li> </ul>	<ul style="list-style-type: none"> <li>CN acquires full control of KCS</li> <li>Continue operating in the U.S. and Mexico under the Kansas City Southern name / brand</li> <li>Kansas City will be headquarters of combined CN-KCS U.S. operations</li> <li>Four KCS directors will join CN's board</li> </ul>
Financial Contribution and Accounting Considerations	<ul style="list-style-type: none"> <li>CN to receive dividends from KCS</li> <li>KCS excess cash flows to remain inside KCS</li> </ul>	<ul style="list-style-type: none"> <li>Results are fully consolidated</li> <li>CN benefits from cash accumulated in KCS</li> <li>Integration and realization of synergies</li> <li>Expected to be highly accretive to CN Adj. Diluted EPS <sup>(1)</sup></li> </ul>

**KCS will be managed independently by KCS Board and management until STB control approval**

(1) The combination is expected to be accretive to CN's Adjusted Diluted EPS, excluding incremental transaction-related amortization, in the first full year following CN's acquisition of control of KCS, and is expected to generate double-digit accretion upon the full realization of synergies thereafter. Please see the heading Non-GAAP Measures in this presentation.

## STB Current Rules Provide Significant Benefits For Our Customers and Enhance Competition

- ✓ Implemented in 2001 by the STB
- ✓ Designed to ensure and demonstrate that a proposed transaction serves the public interest
  - Voting trust review is entirely separate from STB final approval and potential conditions imposed
- ✓ Will require a Service Assurance Plan that must include:
  - Steps to ensure adequate service and provide for improved service
  - Effect on shippers, connecting railroads, and ports
  - Service benchmarks and contingency plans to mitigate any unanticipated service disruptions
- ✓ No impact on ultimate STB review timeline, whether current rules or old rules

**CN will publicly demonstrate that CN-KCS benefits customers and serves the public interest**



# CN-KCS Clearly and Significantly Enhances Competition



**More choices, lower costs and better service**

✓ Access 22 Class I gateways, 5 ports and 10 barge terminals for KCS customers' supply chains

**Preserves all existing gateways**

✓ Committed to preserving connectivity by providing bottleneck protections and keeping current gateways open

**Creates new shipping options**

✓ Combined CN-KCS will compete with multiple other north-south lines, Mississippi River barge traffic, and I35 and I55 truck traffic

**Committed to appropriate mitigations**

✓ Committed to implementing arrangements with customers and STB to address any demonstrated competitive concerns  
✓ There are no insoluble regulatory concerns

**Overwhelming support with 700+ customers, suppliers, port operators, elected officials and other key stakeholders that have written letters to the STB supporting a CN-KCS combination**

# CN-KCS to Create The Premier USMCA Network for the 21st Century



The CN-KCS combination is an end-to-end transaction with limited overlap

- ✓ Less than 1% of KCS network overlaps with CN
- ✓ Very limited number of customers served only by CN and KCS (so called 2-to-1 customers)



**CN-KCS will Create a Highly Complementary Network with De Minimis Overlap**

# CN-KCS North-South Routes Will Compete with Numerous Options

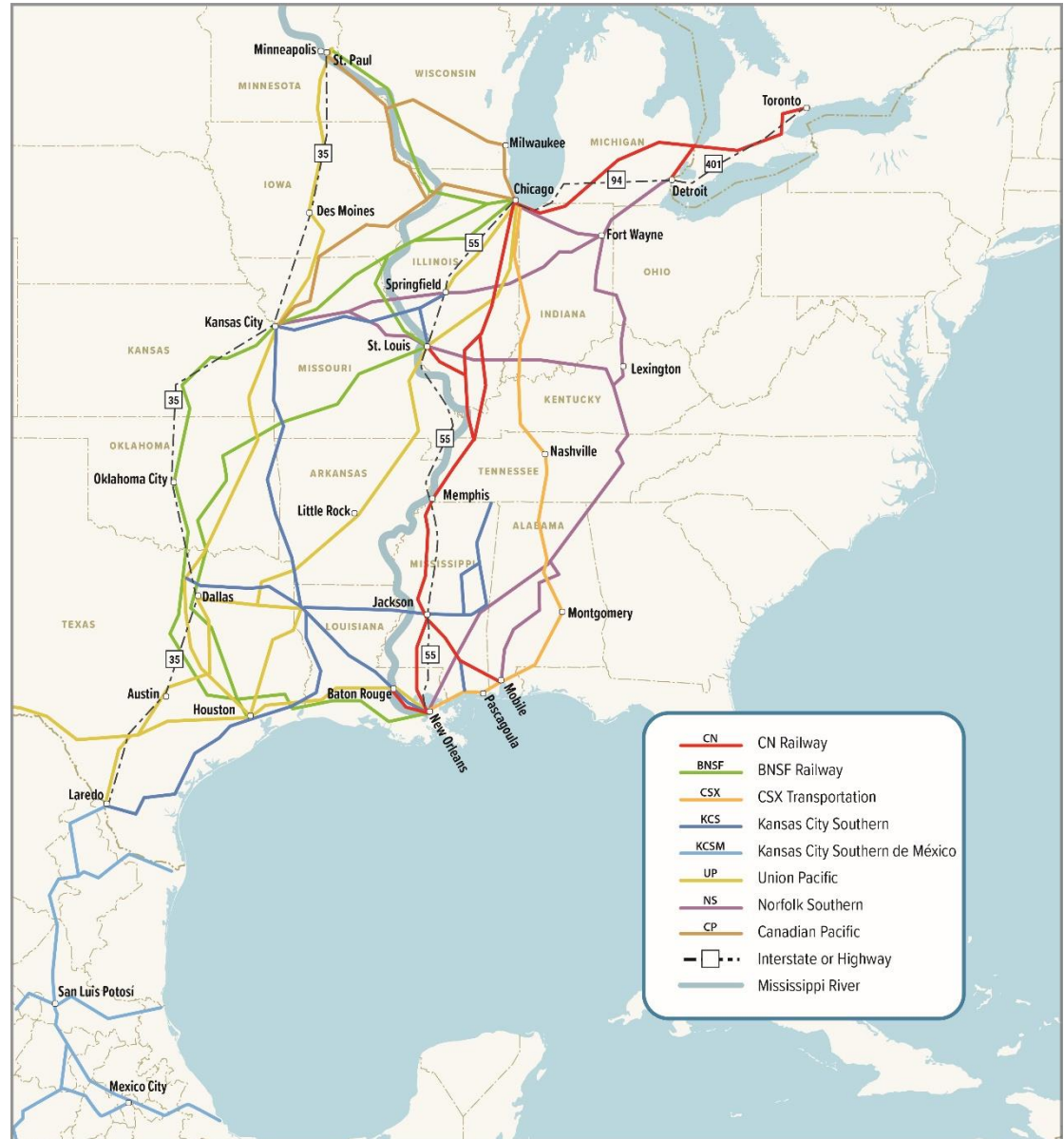


**CN-KCS North-South routes are hundreds of miles apart and will compete with multiple other rail lines, plus trucking and barge routes**

## We are committed to:

- ✓ Providing more choices, thereby enhancing competition, with lower costs and better service
- ✓ Addressing concerns around 2-to-1 customers and proposing appropriate remedies
- ✓ Keeping gateways open on commercially reasonable terms

Note: Map only illustrates major North-South routes via rail, barge, or truck in mid-America, and does not highlight the numerous East-West routes



# Illustrative M&A Timeline – Next Steps to Close Into Step 1

	Key Milestones	Targeted Timing
1	Complete due diligence and sign merger agreement with KCS	May
2	STB approval of CN's voting trust	Late May
3	KCS shareholder vote (majority approval) <sup>(1)</sup>	July
4	Mexican IFT and COFECE approvals <sup>(2)</sup> <sup>(3)</sup>	2H/2021
5	<b>Step 1 closing into voting trust; KCS shareholders receive consideration</b>	<b>2H/2021</b>

(1) CN shareholder approval not required

(2) Canadian Competition Act and Investment Canada Act approvals are not required

(3) Mexico Instituto Federal de Telecomunicaciones (IFT) and Comisión Federal de Competencia Económica (COFECE). We expect the CN-KCS combination to raise limited or no competitive concerns in Mexico, and are committed to implementing pro-competitive arrangements to address any such concerns that may arise.

**Plain vanilla voting trust**  
Identical to CP's

**Committed to the current rules**  
Better for competition



**De minimis network overlap**  
CN to address as required

**CN is committed to working with our customers and the STB to create the premier railway for the 21<sup>st</sup> century**