

SECURITIES AND EXCHANGE COMMISSION

FORM SC 14D1/A

Tender offer statement. [amend]

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SUBJECT COMPANY

ILLINOIS CENTRAL CORP

CIK: **859119** | IRS No.: **133545405** | State of Incorp.: **DE** | Fiscal Year End: **1231**
Type: **SC 14D1/A** | Act: **34** | File No.: **005-41121** | Film No.: **98555085**
SIC: **4011** Railroads, line-haul operating

Mailing Address
455 NORTH CITYFRONT
PLAZA DR
455 NORTH CITYFRONT
PLAZA DR
CHICAGO IL 60611-5504

Business Address
455 N CITYFRONT PLZ DR
20TH FLOOR
CHICAGO IL 60611-5504
3127557500

CANADIAN NATIONAL RAILWAY CO

CIK: **16868** | IRS No.: **980018609** | Fiscal Year End: **1231**
Type: **SC 14D1/A**
SIC: **4011** Railroads, line-haul operating

Mailing Address
935 DE LA GAUCHETIERE ST
WEST
QUEBEC CANADA
MONTREAL A8 00000

Business Address
935 DE LA GAUCHETIERE ST
W
MONTREAL QUEBEC CANA
A8 00000
5143996569

FILED BY

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-1

(Amendment No. 1)

TENDER OFFER STATEMENT PURSUANT TO SECTION 14(d)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934

ILLINOIS CENTRAL CORPORATION
(Exact name of Subject Company)

CANADIAN NATIONAL RAILWAY
COMPANY

BLACKHAWK MERGER SUB, INC.
(Bidders)

Common Stock, \$.001 Par Value
(Title of Class of Securities)

896215100
(CUSIP Number of Class of Securities)

Jean Pierre Ouellet, Esq.
Canadian National Railway
Company
935 de La Gauchetiere St. West
Montreal, Quebec, Canada
H3B 2M9

(Name, Address and Telephone Number of Persons Authorized to Receive Notices and Communications on Behalf of Person(s) Filing Statement)

With Copies to:

Winthrop B. Conrad, Jr., Esq.
David W. Ferguson, Esq.

John G. Finley, Esq.
Allan Schwartz, Esq.

Davis Polk & Wardwell
450 Lexington Avenue

Simpson, Thacher & Bartlett
425 Lexington Avenue

New York, New York 10017
(212) 450-4000

New York, New York 10017
(212) 455-2000

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This Amendment No. 1 (this "Amendment") amends and supplements the Tender Offer Statement on Schedule 14D-1 originally filed on February 13, 1998 (the "Schedule 14D-1") by Canadian National Railway Company, a Canadian corporation ("Parent"), and Balckhawk Merger Sub Inc. ("Purchaser"), a Delaware corporation and an indirect wholly owned subsidiary of Parent, relating to the offer by Purchaser to purchase 46,051,761 of the issued and outstanding shares of Common Stock, \$0.001 par value (the shares subject to the Offer, as well as all other shares of such Common Stock hereinafter referred to as the "Shares"), of Illinois Central Corporation, a Delaware corporation (the "Company"), at a price of \$39.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated February 13, 1998 (the "Offer to Purchase") and in the related Letter of Transmittal (which together constitute the "Offer").

All capitalized terms used in this Amendment without definition have the meanings attributed to them in the Schedule 14D-1.

The item of the Schedule 14D-1 set forth below is hereby amended as follows:

Item 1. Security and Subject Company

(c) Item 1(c) is hereby supplemented and amended to incorporate by reference the information set forth under "6. Price Range of Shares; Dividends." in the Supplement dated March 2, 1998 to the Offer to Purchase (the "Supplement"), a copy of which is attached hereto as Exhibit (a)(10).

Item 4. Source and Amount of Funds of Other Consideration

Item 4 is hereby supplemented and amended to incorporate by reference the information set forth in paragraph 2 under "INTRODUCTION" in the Supplement.

Item 7. Contracts, Arrangements, Understandings or Relationships with Respect to the Subject Company's Securities

Item 7 is hereby supplemented and amended to incorporate by reference paragraph 2 of the information set forth under "17. Certain Legal Matters; Regulatory Approval" in the Supplement.

Item 10. Additional Information

(b) and (c) Item 10(b) and (c) is hereby supplemented and amended to incorporate by reference the information set forth in paragraph 1 under "INTRODUCTION" and paragraph 1 under "17. Certain Legal Matters; Regulatory Approvals" in the Supplement.

(e) Item 10(e) is hereby supplemented and amended to incorporate by reference the information set forth in paragraph 2 under "17. Certain Legal Matters; Regulatory Approvals" in the Supplement.

Item 11. Material to be Filed as Exhibits.

Item 11 is hereby supplemented and amended by adding the following exhibits:

(a) (10) Supplement dated March 2, 1998 to the Offer to Purchase dated February 13, 1998.

(c) (5) Form of Amendment No. 1 dated as of March 4, 1998 to the Agreement and Plan of Merger dated as of February 10, 1998 among Parent, Purchaser and the Company.

(g) (1) Complaint filed in Jay Spinner, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney and Illinois Central Corp., C.A. No. 16184-NC (Del. Ch. Ct., New Castle County, filed February 11, 1998).

(g) (2) Complaint filed in Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation, Blackhawk Merger Sub, Inc. and Canadian National Railway Co., Defendants, C.A. No. 16191-NC (Del. Ch. Ct., New Castle County, filed February 13, 1998).

(g) (3) Complaint filed in Carlton Harris, Susan Harris, and A.F. Pearlman on

behalf of themselves and all others similarly situated, Plaintiffs . Illinois Central Corporation, Gilbert Lamphere, E. Hunter Harrison, Samuel F. Pryor, IV, George D. Gould, Alexander P. Lynch, F. Jay Taylor, Alan H. Washkowitz, William B. Johnson, and John V. Tunney, Defendants, C.A. No. 16188-NC (Del. Ch. Ct., New Castle County, filed February 13, 1998) .

(g) (4) Complaint filed in Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation and Blackhawk Merger Sub, Inc., Defendants, Civil Action No. 98CH01972 (Ill. Cir. Ct., Chancery Div., Cook County, filed February 13, 1998).

(g) (5) Memorandum of Understanding dated as of March 2, 1998 with certain law firms on behalf of the plaintiffs in the Actions, the Company, the members of the Company's Board of Directors, Parent and Blackhawk Merger Sub, Inc.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Amendment is true, complete and correct.

March 2, 1998

CANADIAN NATIONAL RAILWAY COMPANY

By: /s/ Jean Pierre Ouellet

Name: Jean Pierre Ouellet
Title: Chief Legal Officer and
Corporate Secretary

BLACKHAWK MERGER SUB, INC.

By: /s/ Jean Pierre Ouellet

Name: Jean Pierre Ouellet
Title: President and Treasurer

EXHIBIT INDEX

Exhibit No.

(a) (10) Supplement dated March 2, 1998 to the Offer to Purchase dated February 13, 1998.

(c) (5) Form of Amendment No. 1 dated as of March 4, 1998 to the Agreement and Plan of Merger dated as of February 10, 1998 among Parent, Purchaser and the Company.

(g) (1) Complaint filed in Jay Spinner, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney and Illinois Central Corp., C.A. No. 16184-NC (Del. Ch. Ct., New Castle County, filed February 11, 1998).

(g) (2) Complaint filed in Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation, Blackhawk Merger Sub, Inc. and Canadian National Railway Co., Defendants, C.A. No. 16191-NC (Del. Ch. Ct., New Castle County, filed February 13, 1998).

(g) (3) Complaint filed in Carlton Harris, Susan Harris, and A.F. Pearlman on behalf of themselves and all others similarly situated, Plaintiffs. Illinois Central Corporation, Gilbert Lamphere, E. Hunter Harrison, Samuel F. Pryor, IV, George D. Gould, Alexander P. Lynch, F. Jay Taylor, Alan H. Washkowitz, William B. Johnson, and John V. Tunney, Defendants, C.A. No. 16188- NC (Del. Ch. Ct., New Castle County, filed February 13, 1998).

(g) (4) Complaint filed in Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation and Blackhawk Merger Sub, Inc., Defendants, Civil Action No. 98CH01972 (Ill. Cir. Ct., Chancery Div., Cook County, filed February 13, 1998).

(g) (5) Memorandum of Understanding dated as of March 2, 1998 with certain law firms on behalf of the plaintiffs in the Actions, the Company, the members of the Company's Board of Directors, Parent and Blackhawk Merger Sub, Inc.

Supplement Dated March 2, 1998 to
Offer to Purchase for Cash
46,051,761 Shares of Common Stock

of

Illinois Central Corporation
at
\$39.00 Net Per Share
by
Blackhawk Merger Sub, Inc.
A Wholly Owned Subsidiary of
Canadian National Railway Company

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON FRIDAY, MARCH 13, 1998, UNLESS THE OFFER IS EXTENDED.

To the Holders of Common Stock of
Illinois Central Corporation:

This Supplement amends and supplements the Offer to Purchase dated February 13, 1998 (the "Offer to Purchase") of Blackhawk Merger Sub, Inc., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Canadian National Railway Company, a Canadian corporation ("Parent" or "CN"), with respect to the tender offer made by Purchaser to purchase an aggregate of 46,051,761 shares of Common Stock, \$.001 par value (the shares subject to the Offer, as well as all other shares of such Common Stock being hereinafter referred to as the "Shares"), of Illinois Central Corporation (the "Company" or "IC"), a Delaware corporation, at a price of \$39.00 per Share, net to the seller in cash (the "Offer Price"), upon the terms and subject to the conditions set forth in the Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Offer to Purchase. This Supplement, the Offer to Purchase and the related Letter of Transmittal contain important information which should be read before any decision is made with respect to the Offer.

INTRODUCTION

1. The following paragraph is hereby added to the information set forth under "INTRODUCTION," immediately following the fourth paragraph:

On February 25, 1998, the STB staff issued an informal advisory opinion to the effect that the use of the Voting Trust would preclude unlawful control of the Company by Parent.

2. The following paragraph is hereby added to the information set forth under "INTRODUCTION," immediately following the eighth paragraph:

On March 2, 1998, counsel for plaintiffs in certain actions filed challenging the Offer and the transactions contemplated in the Merger Agreement entered into a Memorandum of Understanding with the Company, Parent and Purchaser, setting forth the parties' agreement-in-principle concerning a proposed settlement of those actions. See Section 17.

5. Certain Income Tax Consequences.

The following paragraph is hereby added to the information set forth under "Certain Income Tax Consequences," immediately following the first full paragraph:

The U.S. federal income tax consequences to stockholders of the possibility of a cash distribution to stockholders of the Company who received payment for their Shares pursuant to the Offer and to record holders at the Effective Time in the event that (i) certain conditions to the proposed settlement shall have been satisfied, including Final Court Approval (as defined in Section 17), and (ii) the STB shall have issued written notice disapproving the acquisition of control of the Company by Parent or advised Parent of such determination or imposed unacceptable conditions upon such acquisition of control and there is a subsequent disposition of Shares in the Voting Trust, are unclear. See Section 17. Stockholders of the Company are advised to consult their own tax advisors concerning the U.S. federal income and other relevant tax consequences to them of the proposed settlement.

6. Price Range of Shares; Dividends.

The following sentence is hereby added to the information set forth under "Price Range of Shares; Dividends," immediately following the last sentence of the last paragraph:

On February 27, 1998, the reported closing sales price per Share on the NYSE Composite Tape was \$38.81, and the reported closing sales price per share of Parent Common Stock was \$62.13.

16. Certain Conditions to the Offer.

The following paragraph is hereby added to the information set forth under "Certain Conditions to the Offer," immediately following the existing paragraph:

On February 25, 1998, the STB staff issued an informal advisory opinion to the effect that the use of the Voting Trust would preclude unlawful control of the Company by Parent.

17. Certain Legal Matters; Regulatory Approvals.

1. The following sentence is hereby added to the information set forth under "Certain Legal Matters; Regulatory Approvals--STB Matters; The Voting

Trust" immediately following the sixth sentence:

On February 25, 1998, the STB staff issued an informal advisory opinion to the effect that the use of the Voting Trust would preclude unlawful control of the Company by Parent.

2. The information set forth under "Certain Legal Matters; Regulatory Approvals--Certain Litigation" is hereby amended and restated to read in its entirety as follows:

As described in more detail below, certain purported class actions allegedly brought on behalf of stockholders of the Company (the "Actions") have been filed in the Delaware Court of Chancery and the Circuit Court of Cook County, Illinois, *inter alia*, challenging the Offer and the transactions contemplated in the Merger Agreement.

Jay Spinner, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney and Illinois Central Corp., C.A. No. 16184-NC (Del. Ch. Ct., New Castle County). On February 11, 1998, an alleged owner of Shares filed a "Class Action Complaint" in the Court of Chancery of the State of Delaware against the Company and members of its Board of Directors arising out of the Company's announcement that it had reached an agreement to be acquired by Parent. Although the body of the complaint purports to list Parent as a defendant, Parent is not listed as a defendant in the caption of the complaint. The complaint alleges, *inter alia*, that the individual defendants breached fiduciary duties allegedly owed to public stockholders of the Company by, among other things, not adequately evaluating the value of the Company or the terms of the transactions contemplated by the Offer before approving its terms. The plaintiff brings the action on behalf of a purported class of all common stockholders of the Company (except the defendants and any person, firm, trust, corporation or other entity related to or affiliated with any of the defendants) and their successors in interest, who are or will be threatened with injury allegedly arising from defendants' actions as alleged in the complaint. The plaintiff alleges that he and members of the purported class will suffer damages if they receive the Offer consideration, which the complaint characterizes as unfair and inadequate. The plaintiff has demanded judgment: (1) declaring, *inter alia*, that the initiated action is a proper class action, (2) enjoining or rescinding the transactions contemplated by the Offer, (3) awarding damages and (4) requiring the Board of Directors of the Company to place the Company up for auction and/or conduct a market check.

Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation, Blackhawk Merger Sub, Inc. and Canadian National Railway Co., Defendants, C.A. No. 16191-NC (Del. Ch. Ct., New Castle County). On February 13, 1998, an alleged owner of Shares filed a "Class Action Complaint" in the Court of Chancery of the State of Delaware against the Company and the members of its Board of Directors, Blackhawk Merger Sub, Inc., and Parent, arising out of the Company's announcement that it had reached an agreement to be acquired by Parent. The

complaint alleges, *inter alia*, that the individual defendants breached fiduciary duties allegedly owed to public stockholders of the Company by, among other things, not adequately evaluating the value of the Company or the terms of the transactions contemplated by the Offer before approving its terms. The complaint alleges that Parent and Blackhawk Merger Sub, Inc. aided and abetted the Individual Defendants' alleged breaches of fiduciary duties. The plaintiff brings the action on behalf of a purported class of all common stockholders of the Company (except the defendants and any person, firm, trust, corporation, or other entity related to or affiliated with any of the defendants) and their successors in interest, who are or will be threatened with injury allegedly arising from defendants' actions as alleged in the complaint. The plaintiff alleges that she and members of the purported class will suffer damages if they receive the Offer consideration, which the complaint characterizes as unfair and inadequate. The plaintiff has demanded judgment: (1) declaring, *inter alia*, that the initiated action is a proper class action, (2) enjoining preliminarily and permanently the transactions contemplated by the Offer, (3) to the extent the transaction is consummated, rescinding the transaction and (4) awarding damages.

Carlton Harris, Susan Harris, and A.F. Pearlman on behalf of themselves and all others similarly situated, Plaintiffs v. Illinois Central Corporation, Gilbert Lamphere, E. Hunter Harrison, Samuel F. Pryor, IV, George D. Gould, Alexander P. Lynch, F. Jay Taylor, Alan H. Washkowitz, William B. Johnson, and John V. Tunney, Defendants, C.A. No. 16188-NC (Del. Ch. Ct., New Castle County). On February 13, 1998, three alleged owners of Shares filed a "Class Action Complaint" in the Court of Chancery of the State of Delaware against the Company and the members of its Board of Directors, arising out of the Company's announcement that it had reached an agreement to be acquired by Parent. The complaint alleges, *inter alia*, that the individual defendants breached fiduciary duties allegedly owed to stockholders of the Company by, among other things, not adequately evaluating the value of the Company or the terms of the transactions contemplated by the Offer before approving its terms. The complaint also alleges that certain defendants acted under a conflict of interest and engaged in self-dealing. The plaintiffs bring the action on behalf of a purported class of all stockholders of the Company (except the defendants and any affiliated or related persons or entities, predecessors or successors in interest). The plaintiffs allege that they and members of the purported class will suffer damages if they receive the Offer Consideration, which the complaint characterizes as unfair and inadequate. The plaintiffs have demanded judgment: (1) declaring, *inter alia*, that the initiated action is a proper class action, (2) enjoining the transactions contemplated by the Offer, (3) awarding damages and (4) ordering the defendants to carry out their fiduciary duties to plaintiffs and the purported class.

Susan Regan, Plaintiff, against George D. Gould, Alexander P. Lynch, F. Jay Taylor, E. Hunter Harrison, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson, Gilbert H. Lamphere, John V. Tunney, Illinois Central Corporation and Blackhawk Merger Sub, Inc., Defendants, Civil Action No. 98CH01972 (Ill. Cir. Ct., Chancery Div., Cook County) (the "Illinois Action"). On or about February 13, 1998, an alleged owner of Shares filed a "Class Action Complaint" in the Court of Chancery of the State of Illinois against the Company and the members of its Board of Directors, and Blackhawk Merger Sub,

Inc., arising out of the Company's announcement that it had reached an agreement to be acquired by Parent. The complaint alleges, *inter alia*, that the individual defendants breached fiduciary duties allegedly owed to public stockholders of the Company by, among other things, not adequately evaluating the value of the Company or the terms of the transactions contemplated by the Offer before approving its terms. The plaintiff brings the action on behalf of a purported class of all common stockholders of the Company (except the defendants and any person, firm, trust, corporation or other entity related to or affiliated with any of the defendants) and their successors in interest, who are or will be threatened with injury allegedly arising from defendants' actions as alleged in the complaint. The plaintiff alleges that she and members of the purported class will suffer damages if they receive the Offer consideration, which the complaint characterizes as unfair and inadequate. The plaintiff has demanded judgment: (1) declaring, *inter alia*, that the initiated action is a proper class action, (2) enjoining or rescinding the transactions contemplated by the Offer, (3) awarding damages and (4) requiring the Board of Directors of the Company to place the Company up for auction and/or conduct a market check.

Proposed Settlement of the Actions

On March 2, 1998, the parties to the Actions entered into a Memorandum of Understanding (the "Memorandum of Understanding") which was signed by counsel for defendants and attorneys from certain law firms representing the plaintiffs in those Actions. The Memorandum of Understanding sets forth the parties' agreement-in-principle concerning a proposed settlement of those actions.

Among other things, the Memorandum of Understanding provides that upon, and only upon, "Final Court Approval" (as that term is defined in the Memorandum of Understanding) of the proposed settlement and other conditions summarized below, the Merger Agreement will be modified as follows: (i) the definition of "CN Average Closing Price" set forth in Section 2.02(c) of the Merger Agreement will be amended to provide that if such average closing price is less than \$41.50 then the CN Average Closing Price shall be \$41.50; and (ii) Parent shall agree that, if the STB shall have issued written notice disapproving the acquisition of control of the Company by Parent or advised Parent of such determination or imposed unacceptable conditions upon such acquisition of control, and there is a subsequent disposition of the Shares in the Voting Trust, Parent shall distribute, or cause to be distributed, to stockholders of the Company who received payment for their Shares pursuant to the Offer and to record holders at the Effective Time, their pro rata share of one-third of any net profits realized upon any disposition of Shares by or out of the Voting Trust (after deducting, *inter alia*, the fees and expenses, including legal and advisory fees and expenses, associated with the acquisition and disposition of such Shares, the cost of carrying the Shares between the acquisition and disposition of such Shares and certain taxes relating to the acquisition, ownership and disposition of such Shares). As defined in the Memorandum of Understanding, "Final Court Approval" of the proposed settlement means that the Delaware Court of Chancery has entered an order approving the settlement and that such order is finally affirmed on appeal or is no longer subject to appeal and the time for any petition for reargument, appeal or

review, by certiorari or otherwise, has expired. As indicated above, these changes to the Merger Agreement will become effective only upon Final Court Approval of the proposed settlement which may never be obtained.

The Memorandum of Understanding also provides for, among other things, (i) the dissemination to the record holders of the Company of certain supplemental disclosure materials, (ii) the certification, for settlement purposes only, of a mandatory non-opt-out class, (iii) the complete discharge and dismissal with prejudice of any claims that were, or could have been, or in the future might have been asserted in the Actions, (iv) the release of the defendants and others and (v) the defendants' agreement that they will not oppose an application by plaintiffs' counsel for an award of fees not to exceed, in the aggregate, \$925,000 and of expenses not to exceed, in the aggregate, \$25,000. The Memorandum of Understanding shall be null and void and of no force and effect if plaintiffs' counsel in the Actions determine that the settlement is not fair and reasonable.

The parties to the Memorandum of Understanding contemplate submitting filings to the Delaware Court of Chancery seeking certification of a settlement class, final approval of the terms of the settlement upon notice in form approved by that Court, and dismissal with prejudice of the Actions. The agreements-in-principle in the Memorandum of Understanding are subject to a number of conditions including, among others, (i) 50.1% of the Shares (on a fully diluted basis) having been acquired by Parent and placed into the Voting Trust, (ii) the dismissal of the Illinois Action, (iii) drafting and execution of definitive settlement documents and the other agreements necessary to effectuate the terms of the proposed settlement, (iv) completion by plaintiffs of appropriate discovery in the Actions, and (v) Final Court Approval. The Memorandum of Understanding is filed as an exhibit to Amendment No. 1 to the Schedule 14D-1 and is incorporated herein by reference, and the foregoing summary of the Memorandum of Understanding is qualified in its entirety by reference thereto.

March 2, 1998

BLACKHAWK MERGER SUB, INC.

FORM OF AMENDMENT NO. 1 TO AGREEMENT AND PLAN OF MERGER

AMENDMENT NO. 1 dated as of March 4, 1998 to the Agreement and Plan of Merger dated as of February 10, 1998 (the "Agreement") among Illinois Central Corporation, a Delaware corporation ("IC"), Canadian National Railway Company, a Canadian corporation ("CN"), and Blackhawk Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of CN ("Merger Subsidiary").

WHEREAS, the parties hereto desire to amend the Agreement as set forth below.

NOW, THEREFORE, the parties hereto agree as follows:

Section 1.01. Defined Terms; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement has the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall, after this Amendment becomes effective, refer to the Agreement as amended hereby.

Section 1.02. Contingent Amendment of Section 2.02 of the Agreement.

(a) The parties hereto expressly agree that the amendments to Section 2.02 of the Agreement set forth in paragraphs (b) and (c) of this Section 1.02 shall only become effective at such time as (i) the Delaware Court of Chancery has entered an order approving the Settlement (as such term is defined in the Memorandum of Understanding dated as of February 27, 1998 among IC, the members of IC's Board of Directors, CN Merger Subsidiary and the plaintiffs in such Actions) and such order has been finally affirmed on appeal or is no longer subject to appeal and the time for any petition for reargument, appeal or review, by certiorari or otherwise, has expired and (ii) all of the other conditions precedent to the effectiveness of the Settlement shall have been satisfied.

(b) (i) Subject to paragraph (a) of this Section 1.02, the proviso in the definition of "CN Average Closing Price" in Section 2.02(c) of the Agreement shall be amended in its entirety to read as follows:

"; provided that if such average closing price is less than \$41.50 then the CN Average Closing Price shall be \$41.50 and if such average closing price is greater than \$64.50 then the CN Average Closing Price shall be \$64.50."

(ii) Subject to clause (i) of Section 1.04 of the Agreement and to paragraph (a) of this Section 1.02, in the event that the average closing price of the CN Common Stock on the NYSE for the twenty trading day period ending on the second trading day prior to the date of the Effective Time shall have been less than \$43.00, CN will promptly cause the Exchange Agent to send to each person who was a record holder of shares of IC Common Stock at the Effective Time the additional Merger Consideration such person would have received had the amendment referenced in clause (i) of this Section 1.02(b) been in effect immediately prior to the Effective Time.

(c) Subject to paragraph (a) of this Section 1.02, a new paragraph (f) shall be added to Section 2.02 of the Agreement, as follows:

"(f) if (x) the STB shall have (i) issued written notice disapproving the acquisition of control of IC by CN or (ii) advised CN of such a determination or (iii) imposed unacceptable conditions upon such acquisition of control and, (y) in the case of any of (i), (ii) or (iii), there is a subsequent disposition (a "Disposition") of the shares of capital stock of the Surviving Corporation held in the Voting Trust, CN will distribute or cause to be distributed to those persons whose shares of IC Common Stock were acquired by Merger Subsidiary pursuant to the Offer and to those persons who were record holders of shares of IC Common Stock at the Effective Time, an amount per share, without interest, equal to the quotient obtained by dividing (i) one-third of any "Net Profits" realized upon any such Disposition by (ii) the sum of (x) the number of shares of IC Common Stock acquired by Merger Subsidiary pursuant to the Offer and (y) the aggregate number of shares of IC Common Stock outstanding at the Effective Time. CN shall make all computations as to Net Profits and, absent manifest error, any such computation shall be conclusive and binding on the aforementioned persons.

For purposes of this paragraph (f) the following terms shall have the meanings set forth below:

"Net Profits" means the proceeds of any Disposition after deducting all Acquisition Costs, Carry Costs, Disposition Costs and Applicable Taxes.

"Acquisition Costs" means all direct and indirect costs of CN, Merger Subsidiary, IC or any of their respective affiliates or the Voting Trust, associated with the acquisition of the shares of IC Common Stock pursuant to the Offer and the Merger, including, without limitation, the costs of CN relating to the establishment of the Senior Facilities (and any refinancing thereof) in connection with the Offer and the Merger, the costs of the STB application, together with the related costs of the application proceeding, fees and expenses of attorneys, financial advisors, experts, dealer managers, the depositary, the information agent, the exchange agent, accountants and consultants, and expenses for filing with the SEC, printing and mailing of any documentation related thereto (including, without limitation, the Offer Documents, the Form F-4 and the IC proxy statement) and all other

associated costs and expenses.

"Carry Costs" means all direct and indirect costs of CN, Merger Subsidiary, IC or of their respective affiliates or the Voting Trust, relating to the shares of IC Common Stock and/or shares of the Surviving Corporation, as the case may be, held in the Voting Trust during the period from the acquisition of any shares of IC Common Stock pursuant to the Offer through the date of any Disposition, including, without limitation, financing costs, costs of maintaining the Voting Trust, expenses of the trustee of the Voting Trust pursuant to the Voting Trust Agreement and any related expenses. The parties agree that financing costs shall be equal to an amount per annum equal to 10% (compounded daily) of the sum of (i) the product of (x) the aggregate number of shares of IC Common Stock acquired by CN and Merger Subsidiary pursuant to the Offer and the Merger and (y) the amount paid by Merger Subsidiary for each share of IC Common Stock acquired by it pursuant to the Offer and (ii) with respect to each IC Option converted into a CN Option pursuant to the Merger, an amount equal to the difference between the amount in sub-clause (y) and the exercise price of such IC Option.

"Disposition Costs" means all direct and indirect costs of CN, Merger Subsidiary, IC or any of their respective affiliates or the Voting Trust, associated with any Disposition, including, without limitation, fees and expenses of attorneys, financial advisors, accountants and consultants, and expenses of any filing with the SEC, printing and mailing of any documentation related thereto.

"Applicable Taxes" means the taxes incurred (determined on the basis of the highest marginal effective tax rate applicable at such time) by CN, Merger Subsidiary, IC and any of their respective affiliates or the Voting Trust in connection with the ownership, acquisition and disposition of shares of IC Common Stock and/or shares of capital stock of the Surviving Corporation, as the case may be.

Section 1.05. Amendment of Section 10.01. A new paragraph (d) shall be added to Section 10.01, to read as follows:

"(d) Merger Subsidiary shall have purchased shares of IC Common Stock pursuant to the Offer."

Section 1.06. Amendment of Exhibit B to the Agreement. The first sentence of Section B.1. of Article 7 of Exhibit B to the Agreement is hereby replaced and amended in its entirety to read in full as follows:

"Each person who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise,

shall be indemnified and held harmless by the Corporation to the fullest extent permitted by applicable law."

Section 1.07. Amendment of Exhibit D to the Agreement. The first sentence of the final paragraph of Exhibit D to the Agreement is hereby replaced and amended in its entirety to read in full as follows:

"The parties agree that any cross-references, section references or designations or schedule designations shall be deemed to be modified to reflect the modifications set forth in this Exhibit D, it being understood that the deletion, pursuant to this Exhibit D, of any provision of the Agreement that contains a definition of a term that is used in other provisions of the Agreement shall not result in the deletion of such term in such other provisions (unless such other provisions are also expressly deleted pursuant to this Exhibit D)."

Section 1.08. Amendment of Section 12.03 of the Agreement. Section 12.03 of the Agreement is hereby replaced and amended in its entirety to read as follows:

"Subject to Section 11.02, the representations and warranties and agreements contained herein and in any certificate or other writing delivered pursuant hereto shall terminate at the Effective Time or upon the termination of this Agreement, except that (i) the provisions of Section 2.02, (ii) the covenants and agreements of IC contained in Sections 6.01 and 6.02 and (iii) the covenants and agreements of CN contained in Sections 7.06, 8.01, 8.02, 8.03, 8.07 and 9.03 shall survive the Effective Time and shall remain in full force and effect in accordance with their terms."

Section 1.09. Representations of Each Party. Each party represents and warrants that (i) the execution, delivery and performance of this Amendment by such party have been duly authorized by all necessary corporate action and (ii) this Amendment constitutes a valid and binding agreement of such party.

Section 1.10. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of Delaware.

Section 1.11. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No.1 to be duly executed by their respective authorized officers as of the day and year first above written.

CANADIAN NATIONAL RAILWAY
COMPANY

By:

Name:

Title:

BLACKHAWK MERGER SUB, INC.

By:

Name:

Title:

ILLINOIS CENTRAL CORPORATION

By:

Name:

Title:

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

----- -x
JAY SPINNER, :
:
Plaintiff, :
:
- against - :
:
GEORGE D. GOULD, ALEXANDER P. LYNCH, :
F. JAY TAYLOR, E. HUNTER HARRISON, : C.A. No. 16184-NC
SAMUEL F. PRYOR, IV, ALAN H. WASHKOWITZ, :
WILLIAM B. JOHNSON, GILBERT H. LAMPHERE, :
JOHN V. TUNNEY and ILLINOIS CENTRAL :
CORPORATION :
:
Defendants. :
:

CLASS ACTION COMPLAINT

Plaintiff, by his attorneys, for his complaint against defendants, alleges upon information and belief, except for paragraph 2 hereof, which is alleged upon knowledge as follows:

1. Plaintiff brings this action pursuant to Rule 23 of the Rules of the Court of Chancery on his behalf and as a class action on behalf of all persons, other than defendants and those in privity with them, who own the common stock of Illinois Central Corp., ("ICC" or the "Company").

2. Plaintiff has been the owner of the common stock of the Company since prior to the transaction herein complained of and continuously to date.

3. Defendant ICC is a corporation duly organized and existing under the laws of the State of Delaware and maintains its principal executive offices at 455 N. City Front Plaza Drive, Chicago, Illinois. The Company is a holding company whose principal subsidiaries are the Illinois Central and the Chicago Central railroad lines.

4. Defendant Canadian National Railway Co. ("CNR") was privatized by

the Canadian government in 1995 and had revenues of approximately US \$2.97 billion in 1997. CNR's railroad operations serve important U.S. gateways such as Chicago and Detroit.

5. Defendant E. Hunter Harrison is President, Chief Executive Officer and a Director of ICC.

6. Defendant Gilbert H. Lamphere is Chairman of the Board of Directors of ICC.

7. Defendants George D. Gould, Alexander P- Lynch, F. Jay Taylor, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson and John V. Tunney are Directors of ICC.

8. The Individual Defendants named in paragraphs 5 through 7 are in a fiduciary relationship with Plaintiff and the other public stockholders of ICC and owe them the highest obligations of good faith and fair dealing.

CLASS ACTION ALLEGATIONS

9. Plaintiff brings this action on his own behalf and as a class action, pursuant to Rule 23 of the Rules of the Court of Chancery, on behalf of all common stock holders of the Company (except the defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any of the defendants) and their successors in interest, who are or will be threatened with injury arising from defendants' actions as more fully described herein.

10. This action is properly maintainable as a class action.

11. The class is so numerous that joinder of all members is impracticable. As of March 14, 1997, there were in excess of 61.4 million shares of ICC common stock outstanding, owned by shareholders located throughout the country.

12. There are questions of law and fact which are common to the class including, *inter alia*, the following: (a) whether defendants have breached their fiduciary and other common law duties owed by them to plaintiff and the members of the class; (b) whether the proposed transaction, hereinafter described, constitutes a breach of the duty of fair dealing with respect to the plaintiff and the other members of the class; and (c) whether the class is entitled to injunctive relief or damages as a result of the wrongful conduct committed by defendants.

13. Plaintiff is committed to prosecuting this action and has retained competent counsel experienced in litigation of this nature. The claims of the plaintiff are typical of the claims of other members of the class and plaintiff has the same interests as the other members of the class. Plaintiff will fairly and adequately represent, the class.

14. Defendants have acted in a manner which affects plaintiff and all

members of the class, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the class as a whole.

15. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for defendants, or adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of other members or substantially impair or impede their ability to protect their interests.

SUBSTANTIVE ALLEGATIONS

16. ICC is a holding company whose principal subsidiaries are the Illinois Central and the Chicago Central railroads. The Illinois Central operates a 2,600 mile freight railroad from Chicago south to the Gulf of Mexico. Chicago Central operates an 850 mile freight system from Chicago west through Iowa. ICC is one of the most efficient North American railroads and boasts the highest profit margins in the industry. ICC had 1997 revenues of about \$700 million up 6.5% from 1996. The Company reported net income of \$150.2 million, or \$2.42 per share, compared with \$136.6 million, or \$2.21 per share, in the prior year. Additionally, the Company expects to earn \$2.68 per share in 1998.

17. Despite the Company's strong financial results, ICC's stock has been trading at levels far less than its intrinsic value. Given ICC's efficient operations and strong financial performance, its prospects for future growth and expansion are substantial, and the intrinsic value of ICC is far greater than that reflected in the market price of ICC's stock.

18. On February 10, 1998, ICC announced that it had reached a definitive merger agreement with CNR. Under the terms of the merger, as announced, CNR will make a \$39 per share cash tender offer for about 75% of ICC's outstanding shares. Following the tender offer, CNR will acquire the remaining 25% of ICC stock for CNR shares valued at \$39 per share. The shares acquired by CNR will be placed in a voting trust. Additionally, the stock portion of the transaction is subject to CNR's stock price trading within a range of \$43 to \$64.50. The total value of the transaction as presently proposed is approximately \$2.4 billion.

19. ICC and CNR also announced that defendant Harrison will join CNR as its chief operating officer and that defendants Lamphere and Lynch will join CNR's board of directors. Additionally, under the terms of the transaction as presently proposed, defendants Lamphere and Lynch will be permitted to make significant equity investments in CNR on terms that are not available to the public shareholders of ICC.

20. Despite the obvious long-term value of the ICC acquisition for CNR, ICC shareholders will be receiving an inadequate takeover premium over ICC's stock price immediately prior to announcement of the transaction and inadequate value in relation to ICC's contribution to the pro forma combined value of the two firms. The substantial synergies which CNR will enjoy by virtue of the ICC

transaction are not being adequately compensated in the transaction price.

21. By entering into the merger agreement with CNR, ICC's board has initiated a process to sell the Company which imposes heightened fiduciary responsibilities and requires enhanced scrutiny by the Court. However, the terms of the proposed transaction were not the result of an auction process or active market check; they were arrived at without a full and thorough investigation by the Individual Defendants; and they are intrinsically unfair and inadequate from the standpoint of ICC shareholders.

22. The Individual Defendants failed to make an informed decision, as no market check of the Company's value was obtained. In agreeing to the merger, the Individual Defendants failed to properly inform themselves of ICC's highest transactional value.

23. The Individual Defendants have violated the fiduciary duties owed to the public shareholders of ICC. The Individual Defendants' agreement to the terms of the transaction, its timing, the failure to auction the Company and invite other bidders, defendants' failure to provide a market check, and the benefits the transaction confers on defendants Harrison, Lamphere and Lynch demonstrate breaches of defendants' fiduciary duties to ICC's public shareholders.

24. The Individual Defendants' fiduciary obligations under, these circumstances require them to:

(a) Undertake an appropriate evaluation of ICC's net worth as a merger/acquisition candidate;

(b) Actively evaluate the proposed transaction and engage in a meaningful effort to obtain the best value for ICC's public shareholders; and

(c) Act independently so that the interests of ICC's public shareholders will be protected and enhanced.

25. Plaintiff and other members of the Class have been and will be damaged in that they have not and will not receive their fair proportion of the value of ICC's assets and business, will be largely divested of their right to share in ICC's future growth and development and have been and will be prevented from obtaining a fair and adequate price for their shares of ICC common stock.

26. The consideration to be paid to Class members in the proposed acquisition is unfair and 'inadequate because, among other things:

a. The intrinsic value of ICC's common stock is materially in excess of the amount offered for those securities in the acquisition giving due consideration to the anticipated operating results, net asset value, cash flow, and profitability of the Company;

b. the consideration to be paid to Class members is not the result of an appropriate consideration of the value of ICC because the ICC Board approved

the proposed merger without undertaking steps to accurately ascertain ICC's value through open bidding or at least a "market check" mechanism; and

27. The Individual Defendants did not appoint or retain any truly independent person or entity to negotiate for or on behalf of ICC's public shareholders to promote their best interests in the merger transaction.

28. Plaintiff has no adequate remedy at law.

WHEREFORE, plaintiff demands judgment as follows:

A. declaring this to be a proper class action;

B. enjoining, preliminarily and permanently, the proposed acquisition under the terms presently proposed, requiring the Individual Defendants to place the Company up for auction and/or to conduct a market-check, and requiring defendants to make full and fair disclosure of all material facts to the Class before the completion of any such acquisition;

C. to the extent, if any, that the transaction complained of is consummated prior to the entry of this Court's final judgment, rescinding the same or awarding rescissory damages to the Class;

D. directing that defendants account to plaintiff and the Class for all damages caused to them and account for all profits and any special benefits obtained by defendants as a result of their unlawful conduct;

E. awarding to plaintiff the costs and disbursements of this action, including a reasonable allowance for the fees and expenses of plaintiff's attorneys and experts; and

F. granting such other and further relief as the Court deems appropriate. Dated: February 11, 1998

ROSENTHAL, MONHAIT, GROSS & GODDESS, P.A.

By: /s/ Carmella P. Keener

Suite 1401, Mellon Bank Center
P.O. Box 1070
Wilmington, DE 19899-1070
(302) 656-4433
Attorneys for Plaintiff

OF COUNSEL:

BERNSTEIN LIEBHARD & LIFSHITZ
274 Madison Avenue
New York, New York 10016
(212) 779-1414

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

-----X
SUSAN REGAN, :
: Plaintiff, :
: :
- against - :
: :
: : C.A. No. 16191-NC
: :
GEORGE D. GOULD, ALEXANDER P. LYNCH, :
F. JAY TAYLOR, E. HUNTER HARRISON, :
SAMUEL F. PRYOR, IV, ALAN H. WASHKOWITZ, :
WILLIAM B. JOHNSON, GILBERT H. LAMPHERE, :
JOHN V. TUNNEY, ILLINOIS CENTRAL :
CORPORATION, BLACKHAWK MERGER SUB, :
INC. and CANADIAN NATIONAL RAILWAY CO., :
: Defendants. :
: :
-----X

CLASS ACTION COMPLAINT

Plaintiff, by her attorneys, alleges upon information and belief, except for paragraph 2 hereof, which is alleged upon knowledge as follows:

1. Plaintiff brings this action pursuant to Rule 23 of the Rules of the Court of Chancery on her own behalf and as a class action on behalf of all persons, other than defendants and those in privity with them, who own the common stock of Illinois Central Corporation ("ICC" or the "Company").

2. Plaintiff has been the owner of the common stock of the Company since prior to the transaction herein complained of and continuously to date.

3. Defendant ICC is a corporation duly organized and existing under the laws of the State of Delaware and maintains its principal executive offices at 455 N. City Front Plaza Drive, Chicago, Illinois. The Company is a holding company whose principal subsidiaries are the Illinois Central and the Chicago Central railroad lines.

4. Defendant Canadian National Railway Co. ("CNR") was privatized by the Canadian government in 1995 and had revenues of approximately US \$2.97 billion in 1997. CNR's railroad operations serve important U.S. gateways such as Chicago and Detroit. CNR formed a wholly-owned subsidiary, defendant Blackhawk Merger Sub, Inc., for the sole purpose of effectuating the transaction complained of herein. CNR and Blackhawk Merger Sub, Inc. will be collectively referred to as "CNR."

5. Defendant E. Hunter Harrison is President, Chief Executive Officer and a Director of ICC.

6. Defendant Gilbert H. Lamphere is Chairman of the Board of Directors of ICC.

7. Defendants George D. Gould, Alexander P. Lynch, F. Jay Taylor, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson and John V. Tunney are Directors of ICC.

8. The Individual Defendants named in paragraphs 5 through 7 are in a fiduciary relationship with plaintiff and the other public stockholders of ICC and owe them the highest obligations of fair dealing, due care and candor.

CLASS ACTION ALLEGATIONS

9. Plaintiff brings this action on her own behalf and as a class action, pursuant to Rule 23 of the Rules of the Court of Chancery, on behalf of all common stockholders of the Company (except defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any defendant) and their successors in interest, who are or will be threatened with injury arising from defendants' actions as more fully described herein.

10. This action is properly maintainable as a class action because:

(a) The Class is so numerous that joinder of all members is impracticable. There are in excess of 61.4 million shares of ICC common stock outstanding, owned by hundreds if not thousands of record and beneficial shareholders.

(b) There are questions of law and fact which are common to the class including, *inter alia*, the following: (i) whether the Individual Defendants have breached their fiduciary and other common law duties owed by them to plaintiff and the members of the Class; and (ii) whether the Class is entitled to injunctive relief or damages as a result of the wrongful conduct committed by defendants.

(c) Plaintiff is committed to prosecuting this action and has retained competent counsel experienced in litigation of this nature. The

claims of the plaintiff are typical of the claims of other members of the Class and plaintiff has the same interests as the other members of the Class. Accordingly, plaintiff will fairly and adequately represent the Class.

(d) Defendants have acted in a manner which affects plaintiff and all members of the Class, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the Class as a whole.

(e) The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for defendants, or adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of other members or substantially impair or impede their ability to protect their interests.

SUBSTANTIVE ALLEGATIONS

11. The Illinois Central operates a 2,600 mile freight railroad from Chicago south to the Gulf of Mexico. Chicago Central operates an 850 mile freight system from Chicago west through Iowa. ICC is one of the most efficient North American railroads and boasts the highest profit margins in the industry. ICC had 1997 revenues of about \$700 million up 6.5% from 1996. The Company reported net income of \$150.2 million, or \$2.42 per share, compared with \$136.6 million, or \$2.21 per share, in the prior year. Additionally, the Company expects to earn \$2.68 per share in 1998.

12. Despite the Company's strong financial results, ICC's stock has been trading at levels far less than its intrinsic value. Given ICC's efficient operations and strong financial performance, its prospects for future growth and expansion are substantial, and the intrinsic value of ICC is far greater than that reflected in the market price of ICC's stock.

13. On February 10, 1998, ICC announced that it had reached a definitive merger agreement with CNR. Under the terms of the merger, as announced, CNR will make a \$39 per share cash tender offer for about 75% of ICC's outstanding shares. Following the tender offer, CNR will acquire the remaining 25% of ICC stock for CNR shares valued at \$39 per share. The number of CNR shares to be issued to ICC stockholders will be adjusted for fluctuations in the market price of CNR stock within a range of \$43 to \$64.50 per CNR share. The total value of the transaction as presently proposed is approximately \$2.4 billion.

14. ICC and CNR also announced that defendant Harrison will join CNR as its chief operating officer and that defendants Lamphere and Lynch will join CNR's board of directors. Additionally, under the terms of the transaction as presently proposed, defendants Lamphere and Lynch will be permitted to make significant equity investments in CNR on terms that are not available to the public shareholders of ICC.

15. Despite the obvious long-term value of the ICC acquisition for CNR, ICC shareholders will be receiving an inadequate takeover premium over ICC's stock price immediately prior to announcement of the transaction and inadequate value in relation to ICC's contribution to the pro forma combined value of the two firms. The substantial synergies which CNR will enjoy by virtue of the ICC transaction are not being adequately compensated in the transaction price.

16. By entering into the merger agreement with CNR, ICC's board has initiated a process to sell the Company which imposes heightened fiduciary responsibilities on the Individual Defendants and requires enhanced scrutiny by the Court. However, the terms of the proposed transaction were not the result of an auction process or active market check; they were arrived at without a full and thorough investigation by the Individual Defendants; and they are intrinsically unfair and inadequate from the standpoint of ICC shareholders.

17. The Individual Defendants failed to make an informed decision, as no market check of the Company's value was obtained. In agreeing to the merger, the individual Defendants failed to properly inform themselves of ICC's highest transactional value.

18. The Individual Defendants have violated the fiduciary duties owed to the public shareholders of ICC. The Individual Defendants' agreement to the terms of the transaction, its timing, the failure to auction the Company and invite other bidders, defendants' failure to provide a market check, and the benefits the transaction confers on defendants Harrison, Lamphere and Lynch demonstrate breaches of defendants' fiduciary duties to ICC's public shareholders.

19. The Individual Defendants' fiduciary obligations under these circumstances require them to:

(a) Undertake an appropriate evaluation of ICC's net worth as a merger/acquisition candidate;

(b) Actively evaluate the proposed transaction and all alternatives thereto in a meaningful effort to obtain the best value for ICC's public shareholders; and

(c) Act independently so that the interests of ICC's public shareholders will be protected and enhanced.

20. Plaintiff and other members of the Class have been and will be damaged in that they have not and will not receive their fair proportion of the value of ICC's assets and business, will be largely divested of their right to share in ICC's future growth and development and have been and will be prevented from obtaining a fair and adequate price for their shares of ICC common stock.

21. The consideration to be paid to Class members in the proposed acquisition is unfair and inadequate because, among other things:

(a) The intrinsic value of ICC's common stock is materially in excess of the amount offered for those securities in the acquisition giving due consideration to the anticipated operating results, net asset value, cash flow, and profitability of the Company; and

(b) The consideration to be paid to Class members is not the result of an appropriate consideration of the value of ICC because the ICC Board approved the proposed merger without undertaking steps to accurately ascertain ICC's value through open bidding or at least a "market check" mechanism.

22. The Individual Defendants did not appoint or retain any truly independent person or entity to negotiate for or on behalf of ICC's public shareholders to promote their best interests in the merger transaction.

28. Defendant CNR has knowingly aided and abetted the breaches of fiduciary duty committed by the other defendants to the detriment of ICC's public shareholders. Indeed, the proposed merger could not take place without the active participation of CNR. Furthermore, CNR and its shareholders are the intended beneficiaries of the wrongs complained of and would be unjustly enriched absent relief in this action.

29. Plaintiff has no adequate remedy at law.

WHEREFORE, plaintiff demands judgment as follows:

A. declaring this to be a proper class action;

B. enjoining, preliminarily and permanently, the proposed merger of ICC into CNR;

C. to the extent, if any, that the transaction complained of is consummated prior to the entry of this Court's final judgment, rescinding the same or awarding rescissory damages to the Class;

D. directing defendants to account to plaintiff and the Class for all damages caused to them and account for all profits and any special benefits obtained by defendants as a result of their wrongful conduct;

E. awarding plaintiff the costs and disbursements of this action, including a reasonable allowance for the fees and expenses of plaintiff's attorneys and experts; and

F. granting such other and further relief as the Court deems appropriate.

ROSENTHAL, MONHAIT, GROSS & GODDESS, P.A.

By: /s/

Suite 1401 Mellon Bank Center
P.O. Box 1070
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Attorneys for Plaintiff

OF COUNSEL:

LAW OFFICES OF TODD KROUNER
681 Fifth Avenue
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(212) 355-5001

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

CARLTON HARRIS, SUSAN HARRIS,
and A.F. PEARLMAN
on behalf of themselves and
all others similarly situated,

Civil Action No. 16188
CLASS ACTION COMPLAINT

Plaintiffs,

v.

ILLINOIS CENTRAL CORPORATION.,
GILBERT LAMPHERE, E. HUNTER HARRISON,
SAMUEL F. PRYOR, IV, GEORGE D. GOULD,
ALEXANDER P. LYNCH, F. JAY TAYLOR,
ALAN H. WASHKOWITZ, WILLIAM B. JOHNSON,
and JOHN V. TUNNEY,

Defendants

Plaintiffs, by their attorneys, for and as a complaint against the defendants captioned above ("Defendants"), allege upon information and belief, except for those facts concerning their status as shareholders of Illinois Central Corporation ("IC" or the "Company") and as to their conduct, which are alleged based upon knowledge, the following:

NATURE OF THE ACTION

1. Plaintiffs bring this action on behalf of themselves and all other shareholders of IC similarly situated (the "Class") to enjoin the defendants from effectuating their agreement with Canadian National Railway Company ("CNR") under which CNR is supposed to acquire all of the common stock of IC for a combination of cash and stock, or to compel the defendants to alter the terms of the agreement in such a manner as to ensure that the Class will receive adequate compensation for the deprivation of their right to participate in the future profit and growth of IC.

PARTIES

2. Plaintiffs Carlton Harris, Susan Harris and A.F. Pearlman ("Plaintiffs") are and have been shareholders of IC at all relevant times.

3. Defendant IC is a Delaware corporation with its principal executive offices at 455 North Cityfront Plaza Drive, Chicago, IL 60611-5504. IC is a railroad company which primarily operates in the mid-western United States, with operations spanning from Chicago to New Orleans. IC's principal subsidiaries are the Illinois Central and the Chicago Central railroads. The Illinois Central operates a 2,600 mile freight railroad from Chicago to the Gulf of Mexico. Chicago Central operates an 850 mile freight system from Chicago through Iowa. IC had 1997 revenues of approximately \$700 million, an increase of 6.5% over 1996 revenues. IC also reported for 1997 net income of \$150.2 million, or \$2.42 per share, compared with \$136.6 million, or \$2.21 per share in 1996. IC expects to have earnings of \$2.68 per share in 1998.

4. Defendants Gilbert Lamphere, E. Hunter Harrison, George D. Gould, Alexander P. Lynch, F. Jay Taylor, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson and John V. Tunney (the "Individual Defendants") are all directors of IC. As directors of IC, the Individual Defendants agreed to accept CNR's offer to purchase IC for \$39 per share, and thereby breached and continue to breach their fiduciary duties of care and/or loyalty to Plaintiffs and the Class.

CLASS ACTION ALLEGATIONS

5. Plaintiffs bring this action pursuant to Rule 23 of the Rules of the Court of Chancery on their own behalf and as a class action on behalf of a class consisting of all shareholders of IC, excepting the defendants and any affiliated or related persons or entities, predecessors or successors in interest.

6. The Class is so numerous that joinder of all members is impracticable. As of February 10, 1998, IC had 61,402,347 shares issued and outstanding, and such shares were publicly traded on the New York Stock Exchange ("NYSE"). As of February 10, 1998 IC had approximately 25,000 shareholders of record.

7. Plaintiffs will fairly and adequately protect the interests of the members of the Class, and Plaintiffs have no interests which are contrary or in conflict with the interests of the Class members that they seek to represent. Plaintiffs have retained competent counsel experienced in class action litigation of this nature to ensure such protection, and intend to prosecute this action vigorously.

8. Plaintiffs' claims are typical of the members of the Class, because Plaintiffs and all of the Class members will sustain similar damages arising from the same wrongful conduct complained of and sought to be enjoined herein.

9. Defendants have acted or refused to act on grounds generally applicable to the Class, thereby making appropriate injunctive relief with respect to the Class as a whole.

10. The prosecution of separate actions by individual members of the Class could create a risk of inconsistent or varying adjudications with respect to individual members of the Class which would establish incompatible standards of conduct for defendants or adjudications with respect to individual members of the Class which would as a practical matter be dispositive of the interests of the other members not parties to the adjudications.

11. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy.

12. Questions of law and fact common to the members of the Class predominate over any questions that may affect only individual members, in that Defendants have acted on grounds generally applicable to the entire Class. Among the questions of law and fact common to the Class are:

a) whether the Defendants have breached their fiduciary duties to the plaintiffs and the Class;

b) whether a \$39 per share consideration (tendered in the form of 75% cash and 25% stock) is adequate and fair compensation to the Class for the deprivation of the right to participate in the growth and future earnings of IC;

c) whether the Class would be irreparably harmed as a consequence of the completion of the proposed acquisition; and

d) whether members of the Class have sustained damages and, if so, the proper measure of such damages.

FACTUAL ALLEGATIONS AND CLAIM FOR RELIEF

13. On February 5, 1998, IC's management announced that the Company was in merger negotiations with CNR, stating, *inter alia*:

Illinois Central Corporation (NYSE: IC- news) today confirmed it is in negotiations to be acquired by Canadian National Railway Company (NYSE: CAI - news). The parties are discussing a transaction valued in the high US \$30s per Illinois Central share, consisting of 75% cash and 25% Canadian National stock.

14. On February 10, 1998, a mere five days after announcing that negotiations were underway, the Defendants and the management of CNR jointly released the following press release, detailing the terms of a new agreement between IC and CNR, whereby CNR would acquire IC for a package of consideration consisting of 75% cash and 25% stock, for a total payment of \$39 per share, stating *inter alia*:

Canadian National Railway Company ("CN") (NYSE: CAI, TSE/ME: CNR) and Illinois Central Corporation (NYSE: IC - news; "IC") announced today that the companies have entered into a definitive merger agreement under which CN will acquire all of the common stock of IC for a combination of cash and stock valued at US\$39.00 per IC share. IC has approximately 61.4 million shares outstanding, giving the transaction a total equity value of approximately US\$2.4 billion. Upon completion of the merger, CN will also assume IC's net debt of approximately US\$560 million. The transaction is expected to be accretive to CN's earnings and cash flow per share in the first year following Surface Transportation Board (STB) approval, and increasingly accretive thereafter.

Under the terms of the agreement, which has been unanimously approved by both companies' Boards of Directors, CN will promptly commence a cash tender offer for approximately 46.1 million shares of IC common stock, representing approximately 75 percent of the outstanding IC common stock at a price of US\$39.00 per IC share. This represents a premium of 17.8 percent over the US\$33.12 average closing price of IC stock for the 30-calendar day period ended February 9, 1998. The tender offer is subject to a minimum tender condition of 50.1 percent of the fully diluted IC common shares being validly tendered and not withdrawn. The tender offer will be subject to receipt of informal STB staff approval of a required voting trust agreement and the satisfaction of other customary conditions. The shares purchased in the tender offer will be placed in the voting trust.

Following completion of the tender offer, CN will consummate a second-step merger in which the remaining IC shares will be exchanged for cash and CN shares at a value equal to the same cash price paid in the tender offer, subject to certain collar arrangements. The CN shares will be issued in the merger with respect to 25 percent of the IC common stock. The merger is subject to, among other things, approval by IC shareholders and other customary conditions. After, the merger, all of IC's stock will be held in the voting trust.* * *

David McLean will remain Chairman of the Board of Canadian National and Paul M. Tellier will remain President and Chief Executive Officer of CN. E. Hunter Harrison, President and Chief Executive Officer of Illinois Central, will become Chief Operating Officer of CN effective upon completion of the tender offer. Two IC directors, Gilbert H. Lamphere, Chairman of the Board of Illinois Central, and Alexander P. Lynch, will join the CN Board of Directors, which will expand to 15 members. Messrs. Harrison, Lamphere and Lynch have each agreed to make a significant equity investment in CN. Furthermore, it is anticipated that the IC employee stock options outstanding at the time of the merger will be converted into an equal value of CN employee stock options.

* * * *

Illinois Central, with 1997 revenues of approximately \$700 million, has operations extending from the rail hub of Chicago, south to the Gulf of Mexico. and west through Iowa. Based upon its 62.3 percent operating ratio, IC is the most efficient U.S. Class I railroad. Operating ratio (operating expenses as a percentage of revenues) is the freight railroad industry's standard efficiency measure.

With headquarters in Montreal, Canadian National after the merger will be the fifth largest railway in North America based on 1997 annual revenues of CDN\$5.3 billion (US\$3.7 billion). CN will have approximately 18,700 route miles in Canada and the U.S. and 24,600 employees.

* * * *

The combined strengths of CN and IC include:

- A seamless North-South network from all major markets in Canada through Chicago and Detroit to the Gulf of Mexico, positioning CN along a rapidly growing trade corridor which had 1997 annual rail revenues of over \$5 billion;
- The ability to capitalize on the liberalization of trade among Canada, the United States and Mexico, which is growing annually at double-digit rates;
- A broader array of rail service options in key North-South traffic lanes;
- Expedited, more reliable and more efficient single line service that will free up assets, increase rail car availability and reduce switching between the two railways;
- Enhanced competition at all points served by the combined rail network including new port options for shippers;
- Improved opportunities for diverting traffic from highways between Southwest Ontario, the Midwest and beyond by improving CN's intermodal network;
- Reduced reliance on truck-laden interstate highways; and
- Integration of the best safety practices of both companies throughout the Canadian and U.S. transportation systems.

"Employees will benefit from being part of a stronger company in a consolidating industry. We expect the combined companies' ability to stimulate revenue growth will create exciting new employment opportunities. We are delighted to welcome IC's talented employees into

the CN family. We look forward to having Hunter Harrison join CN as soon as possible," concluded Mr. Tellier.

Gilbert Lamphere, Chairman of the Board of Directors of IC, said, "This is a great opportunity for our stockholders to obtain solid value for their shares while retaining the potential for upside in the combined entity. The senior management of the combined railroad is shareholder-oriented and has a strong track record of improving operating margins while maintaining quality service for customers.

E. Hunter Harrison, President and Chief Executive Officer of IC, said, "We will have a strong, experienced team drawn from both organizations who will implement the best practices of both. Enhancing service, seizing revenue opportunities and further improving CN's operating ratio can drive increased shareholder value."

It is anticipated that the combined company's operating efficiency will improve as a result of.

- Precision train schedules which will increase yard and line capacity;
- Lower car cycle times, which will reduce rolling stock requirements and increase car availability; and
- Savings from improved asset utilization.

* * * *

"The management of the combined railroad is committed to keeping in place significant levels of employee share ownership and incentive plans based on industry-leading service and efficiency. We believe this will help keep the focus on exceptional performance long after the immediate benefits of combining have been achieved," added Mr. Harrison.

* * * *

Then number of shares to be received per IC share in the second step merger will be equal to \$39.00 divided by the average closing price of the CN common stock on the NYSE for a 20-day trading period ending two business days prior to the effective date of the merger, provided that, for purposes of the calculation, such average price will not be greater than \$64.50 or less than \$43. 00 (the collar).

(Emphases added.) This agreement anticipates and is intended to result in a sale of control of a publicly traded Delaware corporation. This agreement further prohibits IC from seeking or otherwise soliciting other bids, and includes a \$72 million breakup fee. The tender offer is set to commence on February 13, 1998 and expire on March 13, 1998.

15. In fact, this agreement was reached inappropriately and constitutes an overreaching breach of the Defendants' fiduciary duties owed to Plaintiffs and the Class, because, *inter alia*,: a) the purchase price of \$39 per share is unreasonably low, taking into account the trading history of IC's common stock previous to the takeover announcement, as well as the value of IC (by itself, and as an acquisition for CNR); and b) certain directors who had a voice in making the decision to accept CNR's offer had a vested interest in seeing the agreement go through (see P. 11, *supra*), and in agreeing to accept CNR's offer have engaged in unacceptable self-dealing at the expense of the shareholders.

16. In light of the 75% cash, 25% stock payment package anticipated by the agreement, Plaintiffs and the Class would be largely "disinvested", and will therefore be cut out of the benefits and economies of scale enjoyed by the new entity (as outlined *supra* at P. 11), and Defendants therefore had a duty to aggressively shop IC to other potential suitors before accepting CNR's offer, in order to ensure a maximum benefit for Plaintiffs and the Class, but have failed to do so. Specifically, the Individual Defendants had a fiduciary duty to, but failed to: a) undertake an adequate evaluation of IC's value as a potential merger/acquisition candidate; b) take adequate steps to enhance IC's value and/or attractiveness as a merger acquisition candidate to other potential suitors; and/or c) effectively expose IC to the marketplace in an effort to create an active and open auction for IC. Rather, only five (5) days after announcing that they were in negotiations with CNR, the Defendants announced an agreement which will result in a transaction which will serve only to impede maximization of shareholder value. Defendant Harrison reportedly stated that since disclosure of the negotiations no other bidders have emerged.

17. The reaction from Wall Street has been evident, and clearly indicates that CNR was getting the best part of the deal. First, the price of CNR's shares has risen dramatically, rising from a close of \$50.93750 on February 3, 1998 to a close of \$60.50 on February 12, 1998, a gain of 18.8%. IC's shares climbed from a close of \$35.25 on February 3, 1998 to a close of \$38.75 on February 12, 1998 an 9.9% increase. The increase in CNR's stock price results in an increase in CNR's market capitalization of approximately \$813 million, as compared to the increase in market capitalization of IC, as a result of its increased stock price, of only \$215 million. Clearly, the financial community perceived that CNR was the real beneficiary of this agreement. Indeed, upon hearing of the rumor that IC would be acquired by CNR for a purchase price in the "high -30's" per share, Gruntal & Co., an independent brokerage which covers IC's stock cut its rating for IC's stock from "buy" to "hold" on February 6, 1998, suggesting that IC's shareholders should take their profits and go elsewhere.

18. As recently as October 22, 1997, IC's common stock closed as high as \$38 13/16 per share. Railroad stocks generally trade at an earnings per share ("EPS") ratio of between 14 and 22 times earnings. IC's earnings per (diluted) share for fiscal 1997 were \$2.42 per share. Thus, the \$39 purchase price is merely 16 times IC's earnings. As such, the \$39 per share acquisition price sits on the low end of the acceptable spectrum of ratios, and does not deliver any genuine premium to Plaintiffs or the Class.

19. Defendants' fiduciary duties require them to: a) undertake an appropriate evaluation of any bona fide offers, and take appropriate steps to solicit all potential bids for the Company or its assets, and consider strategic alternatives and otherwise maximize shareholder value; and b) adequately ensure that no conflicts of interest exist between defendants' own interests and their fiduciary obligations to the public shareholders of the Company.

20. Unless enjoined by this Court, the Defendants will continue to breach their fiduciary duties owed to Plaintiffs and the Class, and will consummate an unfair transaction for the benefits of themselves and CNR, and to the irreparable harm of Plaintiffs and the Class.

21. Plaintiffs and the Class have no adequate remedy at law.

WHEREFORE, plaintiffs demand judgment and relief as follows.

- a) declaring this to be a proper class action;
- b) ordering the Defendants to carry out their fiduciary duties to Plaintiffs and the Class;
- c) Preliminarily and permanently enjoining the proposed transaction until Defendants have fulfilled their fiduciary duties as set forth herein;
- d) ordering Defendants, jointly or severally, to account to plaintiffs and the Class for all damages suffered or to be suffered by them as a result of the acts and transactions alleged herein;
- e) declaring that the Defendants have breached their fiduciary duties to Plaintiffs and the Class;
- f) awarding Plaintiffs the costs and disbursements of this action, including reasonable attorney's and expert's fees; and
- g) granting such other and further proper relief as this Court may deem just and proper.

DATED: February 13, 1998

CIRMICLES, JACOBSEN & TIKELLIS

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IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

----- X
SUSAN REGAN,

Plaintiff,

-against-

Civil Action No.

GEORGE D. GOULD, ALEXANDER F.
LYNCH, F. JAY TAYLOR, E. HUNTER
HARRISON, SAMUEL F. PRYOR, IV,
SAMUEL F. PRYOR, IV, ALAN H.
WASHKOWITZ, WILLIAM B. JOHNSON,
GILBERT H. LAMPERE, JOHN V.
TUNNEY, ILLINOIS CENTRAL CORP.,
and BLACKHAWK MERGER SUB, INC.,

CLASS ACTION COMPLAINT
JURY TRIAL DEMANDED

Defendants.

----- X

Plaintiff, by her attorneys, for her complaint against defendants, alleges upon information and belief, except for paragraph 2 hereof, which is alleged upon knowledge as follows:

1. Plaintiff brings this action pursuant to Section 2-801 of the Illinois Code of Civil Procedure, 735 ILCS 5/2-801, on her behalf and as a class action on behalf of all persons, other than defendants and those in privity with them, who own the common stock of Illinois Central Corp., ("ICC" the "Company").

2. Plaintiff has been the owner of the common stock of the Company since prior to the transaction herein complained of and continuously to date.

3. Defendant ICC is a corporation duly organized and existing under the laws of the State of Illinois and maintains its principal executive offices at 455 N. City Front Plaza Drive, Chicago, Illinois. The Company is a holding company whose principal subsidiaries are the Illinois Central and the Chicago Central railroad lines.

4. Defendant Blackhawk Merger Sub, Inc. is a Delaware corporation, and a wholly-owned subsidiary of Canadian National Railway Co. ("CNR"). CNR was

privatized by the Canadian government in 1995 and had revenues of approximately US \$2.97 billion in 1997. CNR's railroad operations serve important U.S. gateways such as Chicago and Detroit.

5. Defendant E. Hunter Harrison is President, Chief Executive Officer and a Director of ICC.

6. Defendant Gilbert H. Lamphere is Chairman of the Board of Directors of ICC.

7. Defendants George D. Gould, Alexander P. Lynch, F. Jay Taylor, Samuel F. Pryor, IV, Alan H. Washkowitz, William B. Johnson and John V. Tunney are Directors of ICC.

8. The Individual Defendants named in paragraphs 5 through 7 are in a fiduciary relationship with Plaintiff and the other public stockholders of ICC and owe them the highest obligations of good faith and fair dealing.

9. Each Defendant herein is sued individually as a conspirator and aider and abettor, as well as in her capacity as an officer and/or director of the Company (in the case of the Individual Defendants), or as a control person and the liability of each arises from the fact that he or it has engaged in all or part of the unlawful acts, plans, schemes, or transactions complained of herein.

CLASS ACTION ALLEGATIONS

10. Plaintiff brings this action on her own behalf and as a class action pursuant to Section 2-801 of the Illinois Code of Civil Procedure, on behalf of all common stock holders of the Company (except the defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any of the defendants) and their successors in interest, who are or will be threatened with injury arising from defendants' actions as more fully described herein.

11. This action is properly maintainable as a class action.

12. The class is so numerous that joinder of all members is impracticable. As of March 14, 1997, there were in excess of 61.4 million shares of ICC common stock outstanding, owned by shareholders located throughout the country.

13. There are questions of law and fact which are common to the class and which predominate over questions affecting any individual class member. The common questions include, *inter alia*, the following: (a) whether defendants have breached their fiduciary and other common law duties owed by them to plaintiff and the members of the class; (b) whether the proposed transaction, hereinafter described, constitutes a breach of the duty of fair dealing with respect to the plaintiff and the other members of the class; and (c) whether the class is entitled to injunctive relief or damages as a result of the wrongful conduct committed by defendants.

14. Plaintiff is committed to presenting this action and has retained competent counsel experienced in litigation of this nature. The claims of the plaintiff are typical of the claims of other members of the class and plaintiff has the same interests as other members of the class. Plaintiff will fairly and adequately represent the class. A class action is superior to any other type of adjudication of this controversy.

15. Defendants have acted in a manner which affects plaintiff and all members of the class, thereby making appropriate injunctive relief and/or corresponding declaratory relief with respect to the class as a whole.

16. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for defendants, or adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of other members or substantially impair or impede their ability to protect their interests.

CLAIM FOR RELIEF

17. ICC is a holding company whose principal subsidiaries are the Illinois Central and the Chicago Central railroads. The Illinois Central operates a 2,600 mile freight railroad from Chicago south to the Gulf of Mexico. Chicago Central operates an 850 mile freight system from Chicago west through Iowa. ICC is one of the most efficient North American railroads and boasts the highest profit margins in the industry. ICC had 1997 revenues of about \$700 million up 6.5% from 1996. The Company reported net income of \$150.2 million, or \$2.42 per share, compared with \$136.6 million, or \$2.22 per share, in the prior year. Additionally, the Company expects to earn \$2.69 per share in 1998.

18. Despite the Company's strong financial results, ICC's stock has been trading at levels far less than its intrinsic value. Given ICC's efficient operations and strong financial performance, its prospects for future growth and expansion are substantial, and the intrinsic value of ICC is far greater than that reflected in the market price of ICC's stock.

19. On February 10, 1998, ICC announced that it had reached a definitive merger agreement with CNR. Under the terms of the merger, as announced, CNR will make a \$39 per share cash tender offer for about 75% of ICC's outstanding shares. Following the tender offer, CNR will acquire the remaining 25% of ICC stock for CNR shares valued at \$39 per share. The shares acquired by CNR will be placed in a voting trust. Additionally, the stock portion of the transaction is subject to CNR's stock price trading within a range of \$43 to \$64.50.

20. ICC and CNR also announced that defendant Harrison will join CNR as its chief operating officer and that defendants Lamphere and Lynch will join CNR's board of directors. Additionally, under the terms of the transaction as presently proposed, defendants Lamphere and Lynch will be permitted to make

significant equity investments in CNR on terms that are not available to the public shareholders of ICC.

21. Despite the obvious long-term value of the ICC acquisition for CNR, ICC shareholders will be receiving an inadequate takeover premium over ICC's stock price immediately prior to announcement of the transaction and inadequate value in relation to ICC's contribution to the pro forma combined value of the two firms. The substantial synergies which CNR will enjoy by virtue of the ICC transaction are not being adequately compensated in the transaction price.

22. By entering into the merger agreement with CNR, ICC's board has initiated a process to sell the Company which imposes heightened fiduciary responsibilities and requires enhanced scrutiny by the Court. However, the terms of the proposed transaction were not the result of an auction process or active market check; they were arrived at without a full and thorough investigation by the Individual Defendants; and they are intrinsically unfair and inadequate from the standpoint of ICC shareholders.

23. The Individual Defendants failed to make an informed decision, as no market check of the Company's value was obtained. In agreeing to the merger, the Individual Defendants failed to properly inform themselves of ICC's highest transactional value.

24. The Individual Defendants have violated the fiduciary duties owed to the public shareholders of ICC. The Individual Defendants' agreement to the terms of the transaction, its timing, and the failure to auction the Company and invite other bidders, and defendants' failure to provide a market check demonstrate a clear absence of the exercise of due care and of loyalty to ICC's shareholders.

25. The Individual Defendants' fiduciary obligations under these circumstances require them to:

(a) Undertake an appropriate evaluation of ICC's net worth as a merger/acquisition candidate;

(b) Actively evaluate the proposed transaction and engage in a meaningful auction with third parties in an attempt to obtain the best value for ICC's public shareholders; and

(c) Act independently so that the interests of ICC's public shareholders will be protected and enhanced.

26. The Individual Defendants have breached their fiduciary duties by reason of the acts and transactions complained of herein, including their decision to merger with CNR without making the requisite effort to obtain the best offer possible.

27. Plaintiff and other members of the Class have been and will be damaged in that they have not and will not receive their fair proportion of the value of ICC's assets and business, will be largely divested from their right to

share in ICC's future growth and development and have been and will be prevented from obtaining a fair and adequate price for their shares of ICC common stock.

28. The consideration to be paid to Class members in the proposed acquisition is unconscionable and unfair and grossly inadequate because, among other things:

(a) The intrinsic value of ICC's common stock is materially in excess of the amount offered for those securities in the acquisition giving due consideration to the anticipated operating results, net asset value, cash flow, and profitability of the Company;

(b) The consideration to be paid to Class members is not the result of an appropriate consideration of the value of ICC because the ICC Board approved the proposed merger without undertaking steps to accurately ascertain ICC's value through open bidding or at least a "market check" mechanism; and

29. The Individual Defendants did not appoint or retain any truly independent person or entity to negotiate for or on behalf of ICC's public shareholders to promote their best interests in the merger transaction.

30. CNR is named as a defendant in this action in order to permit the court to grant complete relief.

31. Plaintiff has no adequate remedy at law.

WHEREFORE, plaintiff demands judgment as follows:

A. declaring this to be a proper class action;

B. enjoining, preliminarily and permanently, the proposed acquisition under the terms presently proposed, requiring the Individual Defendants to place the Company up for auction and/or to conduct a market-check, and requiring defendants to make full and fair disclosure of all material facts to the Class before the completion of any such acquisition;

C. to the extent, if any, that the transaction complained of is consummated prior to the entry of this Court's final judgment, rescinding the same or awarding rescissory damages to the Class;

D. directing that defendants account to plaintiff and the Class for all damages caused to them and account for all profits and any special benefits obtained by defendants as a result of their unlawful conduct;

E. awarding to plaintiff the costs and disbursements of this action, including a reasonable allowance for the fees and expenses of plaintiff's attorneys and expenses; and

F. granting such other and further relief as the Court deems appropriate.

Dated: February 13 1998

s/ Terence Buehler

one of the Attorneys for Plaintiff

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Attorneys for Plaintiff

MEMORANDUM OF UNDERSTANDING

This MEMORANDUM OF UNDERSTANDING is entered into as of March 2, 1998 among the plaintiffs in the Actions (as defined herein), Illinois Central Corporation ("IC"), the members of IC's Board of Directors (the "IC Board"), Canadian National Railway Company ("CN") and Blackhawk Merger Sub, Inc. ("Blackhawk"), by their undersigned attorneys. Except as otherwise stated in this Memorandum of Understanding, capitalized terms herein have the meaning given them in the Agreement and Plan of Merger dated as of February 10, 1998 among CN, Blackhawk and IC (the "Merger Agreement").

WHEREAS, there are now pending three actions in the Court of Chancery of the State of Delaware, styled Spinner v. Gould, Del. Ch., C.A. No. 16184; Harris v. Illinois Central Corporation, Del. Ch., C.A. No. 16188; Regan v. Gould, Del. Ch., C.A. No. 16191 (the "Delaware Actions"), and one action pending in the Circuit Court of Cook County, Illinois, styled Regan v. Gould, Civ. Action No. 98-01972 (the "Illinois Action" and, together with the Delaware Actions, "the Actions"); and

WHEREAS, the Actions were filed as putative class actions on behalf of holders of IC common stock, relating to the proposed acquisition (the "Transaction") by CN through Blackhawk, an indirect subsidiary of CN, of IC, as set forth in the Merger Agreement; and

WHEREAS, the Actions name as defendants IC, the members of the IC Board, CN and Blackhawk; and

WHEREAS, the Actions seek declaratory and injunctive relief, monetary damages and/or rescission with respect to the Transaction based upon the allegation, *inter alia*, that the conduct of the members of the IC Board in connection with the Transaction constitutes a breach of their fiduciary duties, aided and abetted by CN and Blackhawk; and

WHEREAS, the defendants deny that they have committed or have attempted to commit any violation of law or breach of duty, including breach of any duty to IC stockholders, or have otherwise acted in any improper manner; and

WHEREAS, following negotiations between the parties, counsel for the parties have reached an agreement in principle providing for the proposed settlement of the Actions on the terms and conditions set forth below (the "Settlement"); and

WHEREAS, counsel for the parties believe that the proposed Settlement is in the best interests of the stockholders of IC;

NOW THEREFORE, IT IS HEREBY AGREED IN PRINCIPLE AS FOLLOWS:

1. Modification of Transaction. Upon Final Court Approval (as such term is defined in paragraph 5 below) and the satisfaction of the other conditions of the Settlement described herein, the terms of the Transaction will be modified as follows:

a. The final proviso in the definition of "CN Average Closing Price" in Section 2.02(c) of the Merger Agreement shall be amended to read as follows:

"provided that if such average closing price is less than \$41.50 then the CN Average Closing Price shall be \$41.50 and if such average closing price is greater than \$64.50 then the CN Average Closing Price shall be \$64.50."

Except as expressly provided above, the rights of CN and Blackhawk under the Merger Agreement, including the right to convert the terms of the Offer to an all-cash offer pursuant to the Merger Agreement, shall not be affected.

b. CN shall agree to distribute, or cause to be distributed, to all IC stockholders who received payment for their shares acquired in response to the Offer or who are record holders of IC common stock at the Effective Time of the Merger their pro rata share of an aggregate amount equal to one-third of any "Net Profits" realized upon any disposition of IC shares by or out of the Voting Trust in the event that the Surface Transportation Board of the United States issues written notice disapproving the acquisition of control of IC by CN, or advises CN of such a determination or imposes unacceptable conditions upon such acquisition of control. The definition of the term "Net Profits" is subject to definitive documentation, but such definition shall provide, at a minimum, that "Net Profits" shall mean the proceeds of a qualifying disposition of the IC shares after deducting (i) the costs of such disposition (including fees of attorneys, financial advisors, accountants and consultants, and expenses for printing, mailing, etc.), (ii) the costs of carry between the acquisition and disposition of such shares, (iii) the costs of acquisition of such IC shares (including fees of attorneys, financial advisors, accountants and consultants, and expenses for printing, mailing, etc.) and (iv) taxes incurred by CN, Blackhawk, IC, any of their respective affiliates or the Voting Trust in connection with the ownership, acquisition and disposition of such shares.

2. Additional Disclosure by IC. As a result of discussions among the parties, and although IC maintains that it is not legally required to do so, IC agrees that it will promptly amend the Schedule 14D-9 dated February 13, 1998 to provide further disclosure regarding the analyses performed by its financial advisors concerning the fairness of the Transaction to IC stockholders, and will use its reasonable best efforts to mail such amendment to

IC stockholders as soon as practicable.

3. Dismissal of the Illinois Action. As soon as practicable after the execution of this Memorandum of Understanding, counsel to plaintiff in the Illinois Action shall obtain the dismissal of the Illinois Action. The parties will cooperate in the preparation and filing of the appropriate documentation required to obtain the dismissal of the Illinois Action. Plaintiff's counsel in the Illinois Action agrees that the defendants' time to answer or otherwise move in response to the complaint in that action is extended without date and that counsel shall prepare, execute and submit such documentation as shall be necessary to implement this agreement.

4. Stipulation in Delaware Actions. The parties to the Delaware Actions will attempt in good faith to agree upon and execute an appropriate Stipulation of Settlement (the "Stipulation") and such other documentation as may be required in order to obtain Final Court Approval (as defined in paragraph 5) of the Settlement and the dismissal of the Delaware Actions upon the terms set forth in this Memorandum of Understanding (collectively, the "Settlement Documents"). The Stipulation will expressly provide, *inter alia*, for certification of a non-opt out settlement class pursuant to Delaware Court of Chancery Rules 23(b)(1) and (b)(2) of IC stockholders from February 5, 1998 through and including the later of (a) the date of Final Court Approval or (b) the Effective Time (the "Class"); for entry of a judgment dismissing the Delaware Actions "with prejudice"; for a complete release and settlement of all claims, whether asserted directly, derivatively or otherwise, against defendants and their predecessors, successors, parents, subsidiaries, affiliates and agents (including, without limitation, any investment bankers or attorneys and any past, present or future officers, directors or employees of defendants and their predecessors, successors, parents, subsidiaries, affiliates and agents) which have been, or could have been, asserted relating to the Transaction, the actions of CN, Blackhawk, IC and the IC Board of Directors (including each member of the IC Board of Directors) relating to the Transaction, the related disclosure materials (including the Offer to Purchase, the Schedule 14D-1, the Schedule 14D-9 and any proxy statement, consent statement or prospectus), disclosures, facts and allegations that are or could (insofar as such transactions, disclosures, facts and allegations relate to, or occurred in connection with, the subject matter of the Actions) be the subject of the Actions; that defendants have denied and continue to deny that they have committed or attempted to commit any violations of law or breaches of duty of any kind; that defendants are entering into the Stipulation solely because the proposed Settlement as described above would eliminate the burden, risk and expense of further litigation, and is in the best interests of IC and all its stockholders; and that any of the defendants shall have the right to withdraw from the proposed Settlement in the event that (x) the Illinois Action shall not have been dismissed on terms satisfactory to such defendant or (y) any claims related to the Transaction or the subject matter of the Actions (whether direct, derivative or otherwise) are commenced against any person in any court prior to Final Court Approval of the Settlement, and such claims are not dismissed or stayed in contemplation of dismissal. The parties agree to use their good faith efforts to obtain the dismissal or stay in contemplation of dismissal of any action covered by the foregoing subparagraph 4(y) and further

agree that the defendants shall have the right to withdraw from this Memorandum of Understanding if such efforts do not result in the dismissal or stay in contemplation of dismissal of such an action.

5. Notice and Court Approval. Subject to prior Court approval of the Stipulation and the form of the Settlement Documents, the parties to the respective Delaware Actions will present the Settlement Documents to the Delaware Court of Chancery for approval as soon as practicable following appropriate notice of the proposed Settlement to the IC stockholders as to all claims asserted in the Actions as against the named plaintiffs and the stockholders of IC on whose behalf the Actions were brought, with no right to opt-out of the Settlement and without costs to any party except as provided herein. IC shall pay the costs and expenses related to providing notice of the Settlement to the IC stockholders. As used herein, "Final Court Approval" of the Settlement means that the Delaware Court of Chancery has entered an order approving the Settlement and that such order is finally affirmed on appeal or is no longer subject to appeal and the time for any petition for reargument, appeal or review, by certiorari or otherwise, has expired. Plaintiffs' counsel intend to apply to the Delaware Court of Chancery for an award of attorneys' fees and reasonable out-of-pocket disbursements. Subject to the terms and conditions of this Memorandum of Understanding and the contemplated Stipulation of Settlement, plaintiffs' counsel will apply for an award of fees in an amount not exceeding \$925,000 and expenses in an amount not exceeding \$25,000, which the defendants and other releasees will not oppose, to be paid by IC.

6. Other Conditions. The consummation of the Settlement is subject to: (a) 50.1% of the outstanding shares of the IC common stock on a fully diluted basis having been acquired by CN and placed into the Voting Trust; (b) the drafting and execution of the Settlement Documents and the other agreements necessary to effectuate the terms of the proposed Settlement; (c) the completion by plaintiffs of appropriate discovery in the Actions reasonably satisfactory to plaintiffs' counsel; and (d) Final Court Approval (as defined in paragraph 5 above) of the Settlement and dismissal of the Actions with prejudice and without awarding costs to any party, except as provided herein. This Memorandum of Understanding shall be null and void and of no force and effect if (i) any of these conditions are not met or (ii) plaintiffs' counsel in the Actions determine that the Settlement is not fair and reasonable. In such event, this Memorandum of Understanding shall not be deemed to prejudice in any way the positions of the parties with respect to the Actions, shall be subject to Rule 408 of the Delaware Rules of Evidence, and shall not entitle any party to recover any costs or expenses incurred in connection with the implementation of this Memorandum of Understanding.

7. Interim Stay of the Delaware Actions. The parties to the Delaware Actions agree that except as expressly provided herein, each of the Delaware Actions shall be stayed pending submission of the proposed Settlement to the Court for its consideration. Plaintiffs' counsel in each of the Delaware Actions agrees that the defendants' time to answer or otherwise move with respect to the complaints in each of those actions is extended without date. Counsel shall enter into such documentation as shall be required to effectuate the foregoing agreements.

8. Miscellaneous. (a) This Memorandum of Understanding may be executed in counterparts by any of the signatories hereto and as so executed shall constitute one agreement; (b) this Memorandum of Understanding and the Settlement contemplated by it shall be governed by and construed in accordance with the laws of the State of Delaware without regard to that State's rules concerning conflict of laws; (c) this Memorandum of Understanding shall be binding upon and inure to the benefit of the parties and their respective agents, executors, heirs, successors and assigns, subject to the conditions set forth herein; and (d) plaintiffs and their counsel represent and warrant that none of the claims or causes of action asserted in the Actions have been assigned, encumbered or in any manner transferred, in whole or in part.

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