TESTIMONY OF SNEHAL AMIN, PARTNER

THE CHILDRENS INVESTMENT FUND

BEFORE

THE HOUSE OF REPRESENTATIVES

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

SUBCOMMITTEE ON RAILROADS, PIPELINES AND HAZARDOUS MATERIALS

INVESTMENT IN THE RAIL INDUSTRY

WEDNESDAY, MARCH 5TH 2008

11:00 AM

2167 RAYBURN HOUSE OFFICE BUILDING

Good morning Chairwoman Brown, Ranking Member Shuster and Members of the Subcommittee. My name is Snehal Amin. I am a partner at the Children's Investment Fund Management (UK) LLP ("TCI")[1]. I am here today at the Subcommittee's request to discuss investment in rail infrastructure.

There have been many questions and concerns raised about TCI and its intentions with respect to its investment in the United States Rail industry. Whatever your preconception of TCI, we ask that you allow us a chance to explain who we are and what we stand for, and judge us by our actions**.**

TCI is a London-based investment manager founded in 2003 and authorized and regulated in the United Kingdom by the Financial Services Authority. We have a long-term, value-oriented investment philosophy, and it is with that philosophy that we have a nearly $5 billion investment in US railroads. Our investment approach is not complex – we simply try to invest in high quality businesses whose competitive advantages should allow them to generate positive returns for a long time. We are not mysterious foreigners – we are Americans and Britons and the majority of our investors are US institutions, largely US university endowments. Our objective is not a secret – railroads that are even safer, that provide better service, attract more customers, and therefore earn higher returns.

We are committed long term investors. In fact, we ask our own investors to commit their capital to us for years at a time so we can be faithful to our investing philosophy. We analyse a company's prospects over the coming decades, not the coming quarters or years. We also believe in doing a few things very well. Traditional investors will hold 50+ equally-weighted investments in their portfolio, which does not allow them to devote the time and energy to understanding any one of those investments extraordinarily well. At TCI, our top five investments typically represent 60-70% of our fund, and we strive to understand these businesses better than any other investor in the world. US railroads are our largest holding and we have devoted several years of time and millions of dollars to developing and deepening our understanding of the industry. As you can imagine, we plan to stay.

An overview of TCI and short biographies of our key partners is provided in Appendix A.

Our Vision

We are excited about the prospects for the US railroad industry. Railroads can, and must continue to, play a critical part in meeting America's growing freight transportation needs. Railroads are the cheapest, most efficient and most environmentally friendly form of land-based freight transportation, and they don't require taxpayer dollars – a public-policy panacea if ever there was one.

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[1] The Children's Investment Fund Management (UK) LLP is an investment manager and manages a fund called the Children's Investment Master Fund. For the purpose of simplicity, both the investment manager and the fund itself will be referred to as TCI

As valuable as railroads are to America today, their potential is even greater, and that is what we should all find truly exciting. Over the last 100 years, the industry has transformed itself from one operating under heavy regulation to one that competes in the free market. This transformation has taken decades, and while rail market share has nearly halved as they have lost share to trucks, it has brought enormous benefits to shippers – since Staggers rates are down while volumes, service and investment are up. However, as the railroads were trying to adapt to the dynamic competitive market, many opportunities were left unexplored. As we look into the coming decades, we see the potential for US railroads to capture these opportunities.

Today we live in a world where almost every handheld device can have GPS, and where you can send a letter cross-country, be guaranteed delivery the next morning and track it every step of the way, all for just $20. So why in today's world do we accept that we cannot track where our trains carrying millions of dollars of goods are, or know precisely when they will arrive? Technology has revolutionized many industries, and railroads should be no exception. US trains sit idle 90% of the time. When they are moving they move at an average speed of 20 miles per hour, and the likelihood of the train reaching you on-time is little better than a coin toss.

It is time for the US railroads to, again, become leaders – smart-yards work in Canada, positive train control works in Brazil, ECP brakes work in South Africa, they should all work in America. The US is the global leader in technology, service and management practices in almost every industry. Why should we not hold US railroads up to the same standard? We have heard many excuses ('it's an old industry,' 'it's just not the way it's been done in the past,' 'it's too complicated to make change') but frankly, we don't buy them. Companies and entire industries around the world, new or old, complicated or simple, have 'revolutionized' (including railroads like Canadian National and All America Latina Logistica in Brazil) when there was a driving force for positive change and an unwillingness to accept anything short of total success. This is what we ask of railroad managements and boards.

It is with this in mind that we determined there needed to be Board changes at CSX. The ability to nominate and elect directors is one of the most fundamental rights of a shareholder under American law, and one we believe that should be exercised when incumbent Board directors are not capable or willing to fulfil their duties, a situation we believe exists at CSX. Following this statement are both the letter we sent to the Board of CSX in October 2007 outlining our concerns related to the company's performance and corporate governance, as well as the press release announcing our intention to nominate a *minority* slate of five directors out of a Board of twelve. <u>TCI is not seeking and has never sought control of CSX</u>. In fact, if we are successful, only one director on the Board of twelve will be from TCI. What we do seek is a strong Board with relevant experience, and our nominees bring over 50 years of railroad experience with them, as well as senior executive experience at iconic American companies like Disney and

Marriot. Three of our nominees are American, one is British, and one is Brazilian. Short biographies of the nominees are included in the press release.

However for US railroads to become leaders again, *all* stakeholders (shippers, workers, management, shareholders, policymakers and regulators) must work together. We must all shed historical biases, embrace change, and focus on constructing solutions instead of battle plans. While no one of these stakeholders can guarantee success, any one of these stakeholders can guarantee failure.

In our view, the greatest threat to this vision is re-regulation of the rail industry. De-regulation has been an unquestionable success. As mentioned, since passage of the Staggers Act, rates are down while service, volumes and investment is up. We should not forget that prior to Staggers over 20% of the industry was in bankruptcy and there was $16-20 billion in deferred maintenance investment that needed to be made. De-regulation and the private markets have addressed these issues. That is not to say that all issues have been addressed. For example, we agree with shippers that the rate case process should be faster and cheaper (but it must be based on replacement cost). We also believe service levels need to rise, and technology provides a path to doing so. We also understand the frustration that many shippers, and labor, feel because some railroad managements take an unnecessarily aggressive approach towards them, as some do towards us as well. These are market issues, and we are confident that over time the market will address them. The shareholders, at least, understand that customers are king and workers are the true backbone of companies, and positive relations with them is essential to success. The market has a way of dealing with managements that do not understand this.

The risk is that instead of allowing the market forces to work to address the issues at the heart of shipper frustration, legislation such as H.R.2125/S.953 will be enacted to address the issues. This legislation will have unintended and unfortunate consequences for railroads, labor, shippers and the investment community – particularly, shrinking the network.

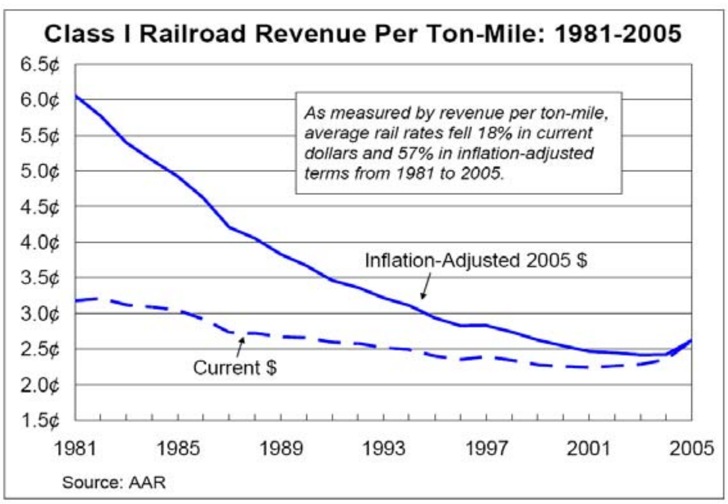
We do not believe policy makers want to reduce investment, and thereby shrink the railroad network, and in fact even those in favour of H.R. 2125/S.953, want to see better service and more capacity (as do we). Studies show that $100 billion investment by railroad shareholders can save taxpayers and shippers $1 trillion over 20 years, a 10x return. Yet, the potential consequences of actions in Washington could have exactly the opposite effect – constraining investment, shrinking the railroads and putting more trucks on the highway. The irony of Washington DC seeking more investment while debating legislation that would dramatically reduce investment is something we have tried hard to understand. Our conclusion is that while legislators and regulators are well-meaning, there are a few fundamental misperceptions about the industry (perpetuated by special interests) that result in advocacy for legislative and regulatory changes that are unintentionally against the public's interests. Railroads will face an unprecedented challenge over the coming decades to meet growing demand – in particular $300+ billion of investment. Misperceptions, and legislative/regulatory changes based on them, should not threaten their prospects to succeed.

In this testimony, we seek to address the main misperceptions we believe exist. We hope an open, honest and fact based discussion will lead to the right public policy outcomes. As is often said 'in God we trust, everyone else must bring data to the table.'

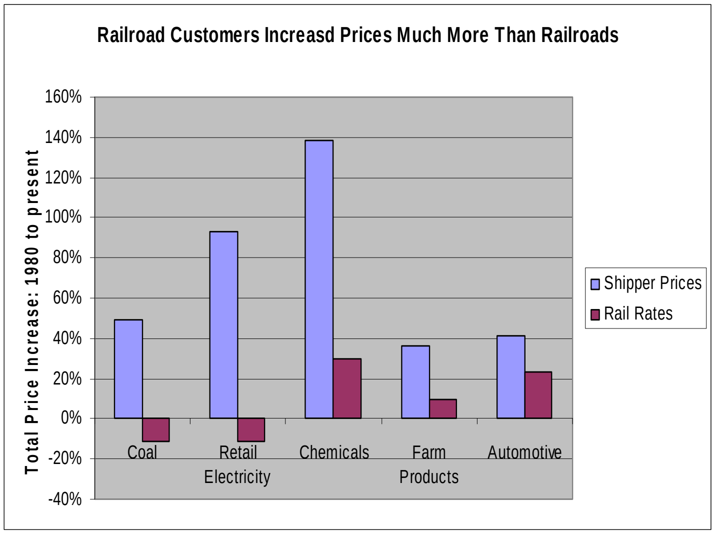
Misperception #1: Rail Rates Are Too High

Rail rates are an emotional issue for many, and we understand that nobody ever wants to pay more for anything. So when studying the issue of rail rates we approached the issue from many different angles. Our conclusion, based on the data, is that rail rates are not too high. In fact, rail rates in the US are economically half of what they were 25 years ago and are the cheapest unsubsidized rail rates in the world.

Shippers are paying less now to move freight by rail, in absolute dollars, than they did 25 years ago. The GAO confirmed this in September, stating "rates for 2005 remain below their 1985 levels and below the rate of inflation." In fact, when you include inflation, shippers are paying *half* of what they paid for rail 25 year ago.



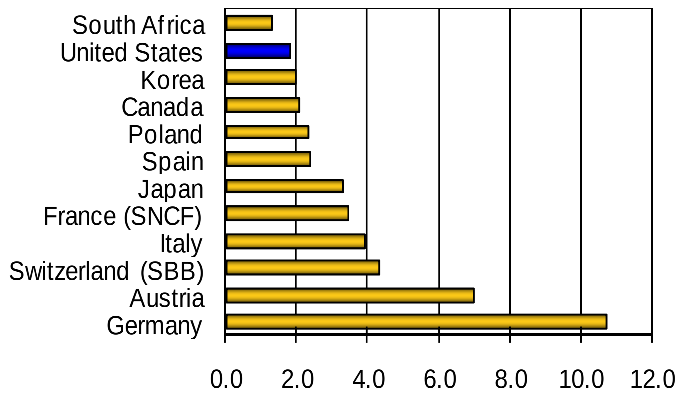
By comparison, consumer prices over this period have doubled. Truck rates over this period have doubled. In fact, every major shipper category has increased prices way in excess of their rail rate increases over this period. As the table below illustrates, coal, agriculture and chemical shippers have increased their prices to their customers by 80% on average since 1980, while the rail rates they pay have been roughly flat over that time. Why is it fair for the shippers to raise their rates, but unfair for the railroads to do so?



There are instances of large rail rate increases, sometimes 100% increases, but these must be placed in context. These are often contracts signed many years ago, which did not contain fuel surcharges and with rate deflators, that the railroads have been honouring despite making losses serving these shippers at these rates. When these contracts come up for renewal, there will of course be large one-time uplifts to bring the rates to market. As fuel costs grow and demands on capacity increase, why shouldn't the market reflect this? It is no different from the price of airline tickets around Thanksgiving or hotels on Memorial Day weekend.

Rail rates in the US are also the cheapest unsubsidized rates in the world. Even with subsidies, and every major country in the world subsidises railroads except the US, Canada and Mexico, US rail rates are the second cheapest in the world. Shippers in other industrialized nations like Germany, Japan and France pay rail rates that are 2-5x as much as their US competitors. So we question the claim we often hear that high rail rates are forcing shippers to re-locate abroad. The facts indicate that US rail rates are a global competitive *advantage* for shippers, not a disadvantage.

International Rail Freight Charges (US cents/km)



The great rate debate will no doubt continue to rage on. We would all like to pay less for everything. It is important however to understand that rates have only been increasing for a few years, after declining for two *decades*, that they are cheap relative to other countries and that they have not risen anywhere near as much as shippers' own prices have.

Misperception #2: Railroads Are Making Too Much Money

As private investors in the sector we are always puzzled when we hear that the railroads are "making too much money." When we analyse the railroads, we genuinely come to a different conclusion. Yes, they are making record profits. But profits themselves don't tell you much – if railroads had never earned more than $9 and now they earned $10, that would be a record, but still a paltry sum.

Why don't "record profits" tell you much? Because it is impossible to judge profits unless you know how much money was invested to generate those profits. Take for example a bookstore I set up many years ago that made a record profit of $10,000 this year. How well am I doing? Impossible to say because you don't know how much I invested to set up the store. If I spent very little setting up a little neighbourhood book shop, then my $10k of profit would be great. But if I had spent $1m creating a giant superstore, then profits of only $10k would be an awful result. It's only a 1% return on my investment. Profits must be considered relative to how much capital was needed, and the relationship between the two is the returns (profit/capital). Only if the returns are exceeding the cost of capital can one even begin to argue that railroads are earning too much money.

US railroads today earn very low returns, 1-2% we estimate, well below their cost of capital and well below even interest on US government debt. Railroads earn lower returns than almost all of their customers, including utilities, chemicals, steel, aggregates and consumer products companies.

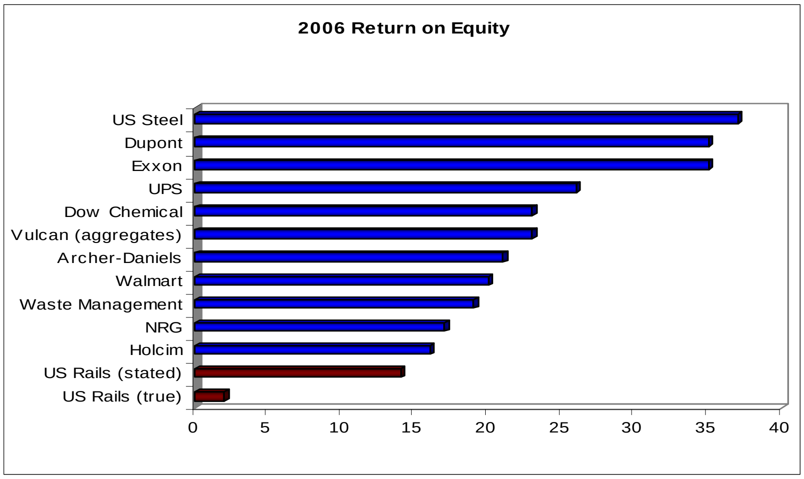
The 1-2% returns we estimate for railroads are based on replacement cost, and differ from returns published by the STB that are 8% or higher, which are based on *historic* cost. The simple difference is how you estimate the capital in the business – based on what it is worth today (replacement cost) or based on what you paid for it when you made the original investment (historic cost)? In a business where you must re-invest at today's costs, you must also evaluate returns at today's cost. There is virtually no economic decision that an individual or company makes based on historic cost – it is largely irrelevant, and returns based on it do not give you a true reflection of the health of a business.

Consider the following – if you bought a home in Manhattan 50 years ago for $100k and it is now worth $1m, you certainly wouldn't sell it for your original purchase price of $100k. Nor would you accept an offer from a tenant who offered to pay you a fair rent based on the original purchase price, instead of a fair rent based on the value of the home today. What decision, if any, would you make based on the original purchase price of the home?

Railroads were built decades ago and the cost of the land, steel and labor at the time they were built bears absolutely no relation to what it costs to replace and maintain the networks today, as they must do. In fact we estimate it would cost the railroads **5-7 times** as much to replace their networks today as the STB thinks their assets are worth. Going back to the property in Manhattan – if you could only rent it out based on 1900 rental prices would you ever invest in a paint-job or upgrading the bathroom today? Probably not, because the rent would never be high enough to make it worthwhile. The same logic applies for railroads.

We are encouraged that the STB recently re-affirmed that "current cost accounting is theoretically preferable to original cost valuation." The use of replacement/current cost accounting in a regulatory setting has sound economic basis and is successfully used around the world for businesses with long-lived assets like railroads. We recognise that it may be complex to implement a replacement cost methodology. However, today's method is so off base that even an indicative replacement cost measure would be more accurate. In this case, it is better to be approximately right rather than precisely wrong.

Why do returns matter? Because institutional shareholders like TCI are no different from you. You probably shift your savings around to the best performing stocks, mutual funds and deposit accounts. In the same way, shareholders invest their capital wherever they believe the returns will be highest. One of the most basic principles of a free market is this: capital will flow to wherever it achieves the highest risk adjusted returns. Reducing railroad returns will mean less capital flowing into the industry, and thus less investment by railroads in the vital infrastructure the country needs. It's that simple. So when you look at a menu of returns that looks like the following, it is clear that railroad returns must increase for them to compete for and attract capital.



The need to compete for capital is just as true for railroads as it is for their customers that are publicly traded companies, as the following statements indicate:

> *"Where we can generate higher than cost of capital returns, IP will invest in our North American assets."* International Paper

> *"If we can't make an attractive investment for the shareholder, then we are going to have a very difficult time going in the marketplace and competing for dollars."* Florida Power and Light

While all industries compete for capital, the need for capital is greatest for railroads. Railroads are by far the most capital intensive major industry in the country, re-investing 17% of revenue (versus approximately 3-5% for the average S&P500 company), and these capital needs will only grow over time. Railroads will likely need to invest $100 billion over the next 20 years to accommodate expected freight transportation growth and another $200 billion to maintain the existing infrastructure.

Failure on the rails part to do so, which would be virtually guaranteed if returns are not improved significantly from here, would mean more trucks on the highway, more shippers complaining about service and more pollution in the atmosphere. Based on a study done by AASHTO, we believe if railroads did not invest for growth, it would cost shippers and highway users an astonishing $1 trillion in 'collateral damage' from increased congestion and higher freight rates, not to mention the environmental impact. Why? Because trucks consume 3x as much fuel and charge 5x as much per ton-mile as rails, because highways cost 5-10x as much to build as rail lines, and because 1 train can move as much as 400 trucks.

Allowing shareholders to invest $100 billion so that taxpayers and shippers can save $1 trillion seems like an obvious public policy choice, and something everyone should agree to do, but the returns for shareholders need to be there.

Misperception #3: Railroads Still Owe For Their Land Grants

As surely as the Promontory Spike was driven into the ground, railroads have fully repaid the nation for the land grants they received, and actually done so "several time over." Two Federal agencies, Congress and the Supreme Court have all affirmed this. If anything, the government and the nation were the net beneficiaries of land grants, not the railroads.

The history of railroad expansion is a fascinating and instructive tale. Policymakers saw railroads as vital for strong national defence, developing the nation's vast western provinces and improving trade links with Asia. But Congress recognised the construction risks as "hazardous in the extreme", and thus provided inducements to the railroads to overcome the private sector's lack of enthusiasm for such a "forlorn hope". In the end though only 7% of the nation's rail system was built using land grants and only 12% of all land granted by the government went to the railroads.

Crucially however, these land grants were not gifts to the railroads. On the contrary, land grant railroads provided free or deeply discounted carriage to government traffic (especially the US military and the Post Office). Troops and supplies could now move quickly and cheaply to the West rather than make the perilous and costly journey around Cape Horn. The land grants were also intentionally "checkered" and because the newly laid rail lines provided access to markets the alternate patches of land the government kept usually doubled in value, offsetting the 'cost' of the land grants.

Decades later, two Federal agencies, Congress and the Supreme Court have all declared the railroads to be free of further obligations. In 1943, the Board of Investigation and Research concluded that the rate discounts "fully counter-balanced these aids which were given many years ago". In 1977, the Department of Transportation went further in saying "the federal government has been a net beneficiary of its railway aid program". The House said in 1945 that the time had come to "close its books" on the issue of land grants, the debt having "long been extinguished".

In fact, it was estimated that in 1946 the value of the land received by the railroads was $550 million. However, by then the value of government traffic discounts and appreciation of the checkered government land were worth $1.6 billion, or nearly 3x the value of the land grants. On top of that, railroad expansion enabled the colonization of the West, improved national security and created new trade links: all priceless benefits to the nation.

If this was not enough, most railroads have been in and out of bankruptcy after receiving grants. Readers of an esteemed legal journal such as this can probably agree that legacy debts should not continue to burden a company after a restructuring, any more than a father's debts burden his children. "Speak now or forever hold your peace" is as true in bankruptcy as in marriage.

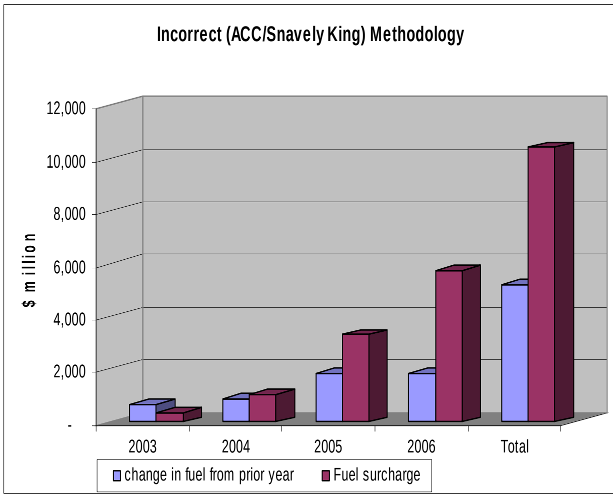
There is absolutely no question that railroads play a vital role in America's infrastructure, but there is no basis we believe to treat railroads differently from other equally important industries. The perception that land grants, which in the end financed a very small part of the network and which were repaid several times over, result in an ongoing public obligation is unfounded given these facts.

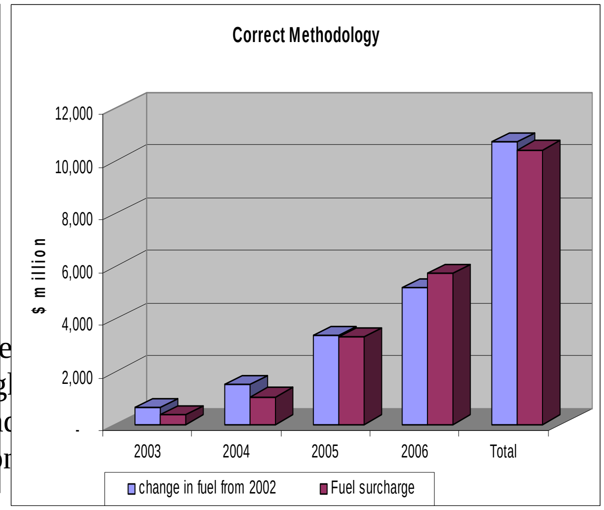
Misperception #4: Railroads Are Over Recovering On Fuel

While many misperceptions are perpetuated innocently, this is one we find particularly misleading. So much so that if the "study" by Snavely King and the American Chemistry Council (ACC) which suggested that the railroads over-recovered fuel costs by $6 billion was audited in the same way as financial statements, it would be considered fraudulent we believe. We welcome conflicting data and different view-points, as they will result in a more enlightened view, but intellectual dishonesty such as that shown in the ACC study has no place in the debate and shouldn't be tolerated. When corrected, the same data suggests the railroads have actually under-recovered fuel expenses.

The ACC's methodology used to calculate the supposed over-recovery is flawed. Let's say you are a railroad and I contract with you for carriage. We agree a base rate of $100 and a fuel surcharge of $1 for every $1 that the oil price exceeds $20 per barrel; while simplistic this is basically what the fuel surcharge does, it compensates for fuel prices above a certain base level. If in year 1 the oil price is $20, then I should pay you only the $100 base rate. If in year 2 the oil price rises to $30, then I should pay you the $100 base rate + $10 fuel surcharge. Now lets say in year 3 the oil price stays at $30, should I owe you a fuel surcharge or not? Of course I should, and it should be $10 again as oil is $10 above the base level. But according to the ACC the study, you would be entitled to $0 in surcharge revenue because the oil price in year 3 didn't increase over year 2. In fact the ACC methodology is so absurd that if in year 4 oil went back to $20, it would suggest that the rate I pay you is $100 base rate – $10 = $90, because oil prices went down from year 3 to year 4.

This is simply not how the fuel surcharge works, or is meant to work, or how it should work. The fuel surcharge is meant to compensate for fuel prices above a certain base level (2002), and all that matters is the fuel price this year versus that base year, not fuel price this year versus last year.





Misperception #5: Railroads are taking advantage of shippers by differential pricing

We often hear the complaint of one shipper saying he pays more than another shipper moving the same goods the same distance in another state, or similar complaints on the basic premise that all similar moves should pay similar rates. This is what pricing was like prior to Staggers, and resulted in a quarter of the industry being in bankruptcy. The fact is, you need people that can afford to pay more, or that cost more to service, to pay more than those who can not or do not. To understand why, we think airlines provide an instructive analogy.

It is almost certain that when you fly the people sitting next to you paid a different fare to fly than you, either higher or lower. One can argue that this isn't 'fair' as everyone is travelling on the same plane, getting the same meal and going to and from the same places. The reason airlines must charge this way, however, is that they are fixed cost businesses and therefore they need to get as many passengers on the plane as possible to dilute all of the fixed costs of flying. When a passenger pays a lot for a ticket (a fully flexible ticket for example), he allows the airline to charge discounted rates for other customers and thus attract flyers that otherwise wouldn't be able to afford flying. If on the other hand all passengers on the same flight had to pay the same price, there would be no 'discounted' fares and thus many passengers would no longer be able to afford to fly, and therefore the cost for each passenger that could afford to fly would go up (because you have the same fixed cost but fewer passengers from which to recover the costs). Therefore the airline fares must rise, which results in even fewer passengers (as even fewer can now afford to fly), which leads to even higher costs per passenger, which leads to even higher fares, and again the cycle continues. The result is the flight is either cancelled because there are not enough passengers to justify the flight, or the airline uses a much smaller plane and only the wealthy can afford to fly, and they pay even more than they used to pay on the bigger plane when more passengers helped offset the fixed cost. Who wins? Nobody really – those that can afford to fly will pay more than they used to, and many that used to be able to afford to fly on discounted fares can no longer afford to. The logic is no different if railroads are not able to differentially price – there will be less rail service, and those shippers that use it will pay more than they used to.

The simple truth is differential pricing brings down the overall cost per shipper, and thus the overall rates that shippers pay, by attracting as many shippers as possible to use the network. If you eliminate or limit differential pricing, railroads will be forced to abandon lines and rail rates will increase. Everyone loses – fewer jobs, less rail service, more trucks on the road, more pollution, and less profitable railroads. We view this as the unintended consequence of many sections of H.R.2125/S.953. Legislating the use of historic cost and subjecting railroads to 'baseball' arbitration are all forms of limiting or eliminating the ability for differential pricing.

Conclusion

We want railroads that are even safer, that provide better service, attract more customers, and therefore earn higher returns. We are committed to doing our part to achieve this objective. We ask others to be equally so. We ask rail managements to embrace change and look forward instead of backwards. We ask shippers and labor to be patient as we try to affect change to push for more constructive relations, a better and safer working environment and better service/value. We ask the regulators to provide a cheaper and faster rate case process (based on replacement cost) and a stable, fair and transparent regulatory framework that reflects economic reality. Lastly, we ask lawmakers to allow the forces for change to run their course, which will address many of the concerns we know exist today, and to consider all of the consequences of proposed legislation. Unintended or not, the consequences are real.

In closing, I'd like to leave you with the following quote by Paul Tellier, the former CEO of Canadian National Railroad: *"There will always be skeptics. We hear their voices whenever we try to do something that has never been done before in railroading"*

Thank you for your time today. I'd be pleased to answer any questions you might have.

APPENDIX A

Key Facts	
Fund name:	The Children's Investment Master Fund (TCI)
Investment Manager:	The Children's Investment Fund Management (UK) LLP
Headquarters:	London, UK
Fund inception:	January 2, 2004
Assets:	$15bn+
Regulation:	Authorized and Regulated by the Financial Services Authority (FSA) in the United Kingdom

Investment Philosophy

TCI's mindset is to invest in businesses, not stocks. We perform thorough bottom-up research on companies and industries. TCI invests for the long-term – looking out decades, not just years or months. We are also firm believers in strong corporate governance, and the need to defend shareholders' rights. We strive to be active and constructive shareholders, including serving on boards of companies in which we have a significant investment, such as Link REIT (Honk Kong listed REIT, $5 billion market cap)

This long-term investment philosophy is supported by our capital base being stable. Our investors must commit their capital to us for a multi-year period.

We aim to perform not only for our investors, but also for charity. The majority of our profits are received by the Children's Investment Fund Foundation (www.ciff.org), a charitable foundation that focuses on helping impoverished children in the developing world.

TCI's principals are predominantly British, American and European.

Key Achievements	
Barron's:	"World's No.2 Best Performing Global Hedge Fund" based on cumulative returns over three years to June 30, 2007
Eurohedge Awards:	"Overall Fund of the Year" in 2004 and 2005 "Event Driven Fund of the Year" in 2005
Hedge Funds Review:	"Best New Launch" in 2004

Investor Base By Geography		
US: 57%	Europe: 37%	Rest of the World: 6%
US Endowments and Foundations		
45 institutions	23% of assets	24 US university endowments
Other Investors		
European not-for-profits: 14% of assets		
Sovereign Wealth Funds: 1% of assets		

Key Biographies – TCI Investment and Business Teams	
Christopher Hohn – Chief Investment Officer *Experience:* 2003- TCI, London – Managing Partner 1996-2003 Perry Capital – Portfolio Manager *Former Member of the Board of Rothschild Investment Trust (RIT): 2005-2007*	*Citizenship:* United Kingdom *Education:* 1991-1993 Harvard Business School, MBA 1985-1988 Southampton University (UK) BSc Accounting/Business Economics
Patrick Degorce *Experience:* 2003- TCI, London – Partner 1997-2003 Merrill Lynch Investment Management – European Equity Manager 1993-1997 CCF – Corporate Finance Associate	*Citizenship:* France *Education:* 1993-1997 Delta (France), Postgraduate 1992 Institut d'Etudes Politiques (France), BA Political Science, MPhil Economics
Snehal Amin *Experience:* 2004- TCI, London – Partner 2000-2004 Goldman Sachs, Vice President – Merchant Banking (Private Equity) 1995-1998 Goldman Sachs, Analyst – M&A Investment Banking	*Citizenship:* United States *Education:* 1998-2000 Stanford Graduate Business School, MBA 1992-1995 University of Michigan, BA

Stuart Powers *Experience:* 2004- TCI, London – Partner 1998-2004 Cazenove – Sell Side Equity Analyst, European Markets 1994-1998 Deloitte & Touche – General Audit, ACA Qualified	*Citizenship:* United Kingdom *Education:* 1989-1993 University of Oxford, BA Modern Languages
Oscar Veldhuijzen *Experience:* 2005- TCI, London – Partner 2002-2004 Philips Investment Management, Investment Manager Asian Equities 2000-2002 Goldman Sachs, Asian Research Sales 1998-2000 Pictet Asset Management, Investment Manager Asian Equities 1997-1998 HSBC Capel, Research Analyst 1994-1997 General Electric, Global Financial Analyst	*Citizenship:* Netherlands *Education:* 1987-1992 Erasmus University Rotterdam, MSc Business Economics
John Ho *Experience:* 2005- TCI Asia, Hong Kong – Analyst 2003-2005 Citadel Investment Group – Senior Equities Analyst 2000-2003 The Boston Consulting Group – Consultant 1999-2000 UNSW Australia, School of Banking and Finance – Lecturer	*Citizenship:* Australia *Education:* 1995-1999 UNSW Australia, BComm Finance, BSc Mathematics

Alexander Baring *Experience:* 2006- TCI, London – Partner 2001-2006 JP Morgan Cazenove – Pan-European Sell Side Analyst	*Citizenship:* United Kingdom *Education:* 1997-2000 Bristol University, MSc Physics and Philosophy
Rishi Sunak *Experience:* 2006- TCI, London – Partner 2001-2004 Goldman Sachs – Analyst Executive Director – Merchant Banking (Private Equity)	*Citizenship:* United Kingdom *Education:* 2004-2006 Stanford Graduate Business School, MBA (Fulbright Scholar) 1998-2001 University of Oxford, BA Philosophy, Politics and Economics
Shen Li *Experience:* 2007- TCI Asia, Hong Kong – Analyst 2005-2006 Texas Pacific Group – Analyst 2004-2005 Morgan Stanley Real Estate Fund – Analyst 2001-2004 Morgan Stanley Investment Banking – Analyst	*Citizenship:* Hong Kong *Education:* 1998-2001 Columbia University – MSc Financial Engineering, BSc Applied Mathematics

Philip Green *Experience:* 2007- TCI, London – Partner 2002-2007 Merrill Lynch – Sell Side Analyst 1995-2002 Goldman Sachs – Analyst/Co-Head Pan European Utilities 1994-1995 Lehman Brothers – Side Sell Analyst 1982-1994 PriceWaterhouseCoopers – Audit and Corporate Finance, Privatization, ACA Qualified	*Citizenship:* United Kingdom *Education:* 1978-1982 University of Newcastle Upon Tyne, BSc Geotechnical Engineering
Fernando Delgado Nevares *Experience:* 2007 TCI, London – Partner 1997-2007 Cazenove – Director/Analyst 1995-1997 Stone & McCarthy Research – Analyst 1994-1995 Arthur Andersen – Audit Assistant	*Citizenship:* *Spain* *Education:* 1989-1993 ICADE, ESC REIMS – Diploma
Robb LeMasters *Experience:* 2008- TCI, London – Partner 2004-2007 Highbridge Capital Management – Vice-President Rel Value / Event Driven Group 2001-2003 Forstmann Little – Analyst 1999-2001 Morgan Stanley – Financial Analyst, M&A and Restructurings	*Citizenship:* United States *Education:* 2003-2005 Harvard Business School, MBA 1995-1999 University of Pennsylvania – The Wharton School, BSc Economics

THE CHILDREN'S INVESTMENT FUND

Joseph O'Flynn - Chief Financial Officer *Experience:* 2006- TCI, London – CFO 2004-2006 Merrill Lynch – Equity Financing Control 1996-2004 Goldman Sachs, Finance and Regulatory Reporting 1992-1996 Moylan Mulcahy & Co.	*Citizenship:* Ireland *Education:* 1988-1992 University College Cork, BComm, FCA Qualified, Member of Institute of Chartered Accountants, Ireland
James Hawks – General Counsel *Experience:* 2006- TCI, London – General Counsel 2001-2006 Baker & McKenzie – Senior Associate, Tax Division 1998-2001 Taylor Joynson Garrett, Tax Associate 1997-1998 Treasury Solicitors, Lawyer	*Citizenship:* United Kingdom *Education:* 1992-1996 Bristol University, LLB Law Degree ICSL Bar Vocational Course
Rahul Moodgal – Head of Investor Relations *Experience:* 2005- TCI, London – Head of Investor Relations and Business Development 2004-2005 Union Bancaire Privee – Senior Client Relationship Manager 1998-2004 TT International – Client Relations and Business Development 1995-1998 Keele University – Lecturer in International Relations	*Citizenship:* United Kingdom *Education:* 1995-2005 London School of Economics, MPhil Economics 1994-1995 London School of Economics, MPhil Government 1993-1994 Cambridge University, MPhil Economics and Politics of Development 1990-1993 Keele University, BA International Relations and Chemistry

Board of Directors of TCI	
Christopher Hohn	*Citizenship:* United Kingdom

Christopher Hohn was the Portfolio Manager leading the European event driven investment strategy at Perry Capital from 1997 to the start of 2003. This strategy employed capital in the main Perry Partners L.P. fund from 1997 to 2003 and from June 2000 to May 2003 in the separate Perry Capital European Fund ("PEF"). PEF was awarded the Eurohedge Event Driven Fund of the Year in 2001 and 2002. He led the establishment of a London office for Perry Capital in 1998. From 1994 to 1995, he was an Associate at Apax Partners in London and from 1989 to 1991, a Manager in the Corporate Finance Division of Coopers and Lybrand in London. Mr. Hohn joined Perry Capital in 1996. Christopher graduated from Harvard Business School in 1993 with an MBA (high distinction) and from Southampton University (UK) in 1988 with a BSc. in Accounting and Business Economics (1st Class Honors) in 1988. He is a Chartered Financial Analyst.

David DeRosa	*Citizenship:* United States

David DeRosa is the president of DeRosa Research and Trading, Inc. He is also an Adjunct Professor of Finance and Fellow of the International Center for Finance at the Yale School of Management. In previous times he was a Managing Partner of Quadrangle Investments, LLC, a hedge fund, and before that a Director of Swiss Bank Corporation's proprietary foreign exchange trading group. Dr. DeRosa received his Ph.D from the Graduate School of Business of the University of Chicago in finance and economics and his A.B. in economics from the College of the University of Chicago. He is the author of "*In Defense of Free Capital Markets / The Case Against A New International Financial Architecture*" (Bloomberg Press 2001), "*Options on Foreign Exchange*", *second edition (Wiley) 2000),* "*Managing Foreign Exchange Risk*" (Irwin 1996), and is the editor of "*Currency Derivatives*" (Wiley 1998). He serves on the boards of directors of funds managed by Rubicon Fund Management, BlueCrest Capital Management, GSA Capital Management and Preston Capital Management.

Linburgh Martin	*Citizenship:* Cayman Islands

Linburgh Martin is the Managing Director of Close Brothers (Cayman) Limited. He is a member of the Institute of Chartered Accountants in England & Wales and a member of the Society of Trust and Estate Practitioners. He is a former trustee of the Public Service Pension Board, a former council member of the Cayman Islands Society of Professional Accountants and a former member of the board of directors of the Cayman Islands Monetary Authority. Upon graduating from the University of Kent at Canterbury, Linburgh joined Ernst & Young in London. Having completed his training and qualifying as a Chartered Accountant he returned to the Cayman Islands practice of Ernst & Young in the audit division. During his time in the audit division in London and the Cayman Islands he managed a portfolio of clients which included insurance companies, banks, hedge funds and large manufacturing concerns. In 1994 he moved to Chartered Trust, which was an affiliate of Ernst & Young. He became managing director and a shareholder in 1998. Chartered Trust was acquired by Close Brothers Group plc ("Close Brothers") in April 2001. Chartered Trust has been integrated into Close Brothers and now operates as Close Brothers (Cayman) Limited, which is licensed by the Cayman Islands Monetary Authority to provide trust, company and mutual fund administration.

October 16, 2007

Board of Directors
CSX Corporation
500 Water Street
Jacksonville, FL 32202

Dear Board of Directors:

As you are aware, The Children's Investment Master Fund (TCI) is a long-term, value-oriented investment fund that currently owns 17.8 million shares, or 4.1% of CSX. This makes TCI one of CSX's largest shareholders. TCI is an engaged, long-term investor with a track record of helping companies reach their potential with management's cooperation, or without it. While some investors seek short-term gains, TCI has a long-term view – our outlook is decades, not years, or months, or weeks.

Over the past year we have repeatedly, but unsuccessfully, attempted to engage in a constructive dialogue with the Board and top management of CSX on concerns we have about the business. Except for a single 'one-on-one' meeting with Oscar Munoz, top management and the Board have refused all our offers to meet privately. Over the past few months, CSX has refused even to return our calls or to allow us to attend meetings at CSX with an analyst and other investors.

Instead CSX management has opted to communicate through a paid advertising campaign and an abbreviated investor day. The investor day reaffirmed to us the weakness of the CSX management team and strategy. We conclude this weakness must be made public as our attempts to discuss it privately have consistently been rebuffed. We do so in the interest of TCI investors, as well as CSX employees, customers and shareholders.

It is our view that CSX management does not fully understand the economics of the business, is cavalier about potential risks, is undisciplined about spending, is unrealistic about future prospects, is complacent about operational under-performance and is unnecessarily adversarial towards labor, shippers and shareholders. We hold the Board accountable for these failings.

We have a simple long-term desire – a stronger CSX. CSX has the potential to be the leading railroad in the United States – providing the best service, running the safest network, generating the highest returns and thus able to invest to fully meet America's freight transportation needs now and in the future. CSX's legacy dates back to America's first railroad; it should return to its rightful place as America's best.

Unfortunately, the glaring and unavoidable fact is that on virtually every major metric of operational and financial performance, CSX today is last or near last among the five major North American railroads. Perhaps the only exception is executive compensation – Michael Ward made $36 million over the past two years, the highest compensation of any CEO in the industry.

The issues at CSX are real, meaningful, and addressable. We therefore urge the Board to act immediately and act voluntarily to strengthen CSX's corporate governance, management, business performance, and the Board itself. The Board should:

- Separate the Chairman and CEO roles
- Refresh the Board with new independent directors
- Allow shareholders to call special shareholder meetings
- Align management compensation with shareholder interests
- Provide a plan to improve operations
- Justify the capital spending plan
- Promote open and constructive relations with labor, shippers and shareholders

Failure to take these actions would, in our opinion, be negligent of your duty to shareholders.

We urge the Board to be open-minded as it reads this letter as we share a common goal – to ensure that CSX is a strong and viable company able to provide the service that its shippers demand, a working environment that its employees can be proud of, and the returns that its shareholders deserve. Achieving operational excellence and maximizing shareholder value are inextricably linked, not mutually exclusive.

We also urge open-mindedness as the views and frustrations expressed in this letter are widely held. Relations with labor, shippers and shareholders are strained. The Board should question whether the views of so many constituencies could really be wrong. The Board should also question why Warren Buffett, a legendary investor known for identifying and backing good management teams, has chosen to invest in each of the major US railroads, except CSX.

Not open to question is the fact that CSX lags its peers on almost every major operational and financial metric. It is not just the fact that CSX ranks poorly on these metrics that causes us concern. It is the fact that management refuses to acknowledge the underperformance, discuss it with shareholders, or present a plan to address it.

The Board should know that TCI is also a shareholder in other US railroads. However, the other management teams have been willing to engage in an open and constructive dialogue with us, through which we have gained confidence in their abilities and strategies. We had hoped for a similarly constructive relationship with CSX.

CSX has a long and rich tradition. It is an essential part of America's infrastructure and commerce. It is a vital artery for thousands of businesses, large and small. It is the fruit of labor and source of livelihood of tens of thousands of workers. It helps fund retirements, scholarships and the lives of hundreds of thousands of investors through pension funds, university endowments and personal investment accounts. A CSX that operates at anything less than its fullest potential is a disappointment and disservice to all.

I. Corporate Governance

Sound corporate governance is essential to successful performance – it provides checks and balances, accountability and aligned incentives. Corporate governance at CSX is lacking in all of these criteria and shareholder confidence in the Board needs to be restored. We therefore ask the Board to take the following actions:

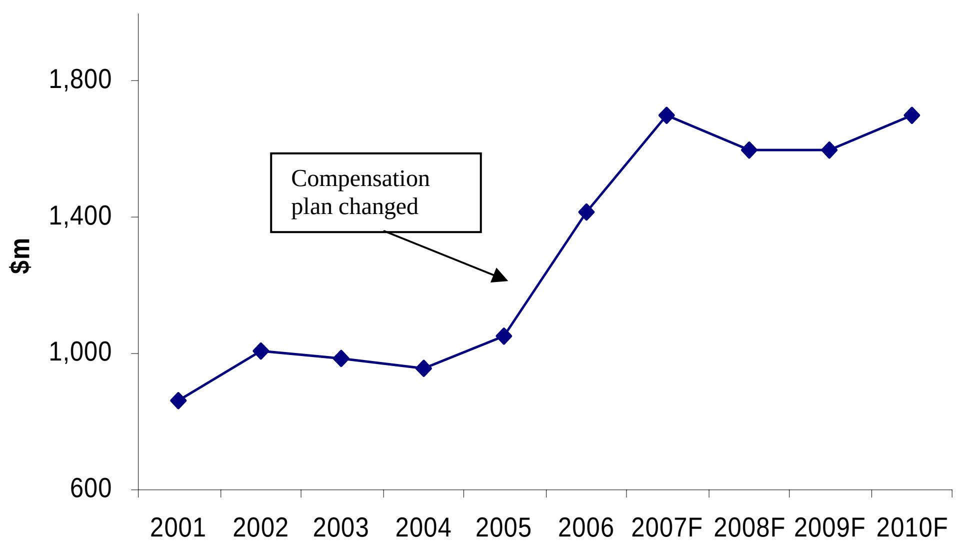
- **Separate the Chairman and CEO Roles**. This is widely recognized as a 'best practice' in corporate governance; how can a Chairman independently question his own failings as a CEO? Further, we believe Michael Ward's interests are not reflective of and not aligned with CSX shareholders. His comments in a recent Bloomberg interview are telling – in response to a question on how CSX would spend its cashflow, he drew an analogy to a farmer winning the lottery who, when asked how he would spend the winnings, answered that he would "keep farming *until every penny of it is gone*." The farmer may do as he wishes with his own money, but Michael Ward is managing ours – the shareholders'. We fear he wants to spend everything he can, whether it creates shareholder value or not. His consistent personal sales of CSX stock while increasing CSX's spending speaks volumes, as if to say "this spending is good enough for your [shareholder] capital, but not good enough for mine."

- **Change Board Composition.** While one independent director has some railroad background, not a single independent director has direct railroad management experience, leaving the Board unable to credibly challenge management. In addition, over half of the independent directors have been on the Board for over a decade, leading us to question their independence, as does the fact that our requests to the Board to discuss concerns about management were flatly denied. Who should shareholders speak to on these issues if not the independent members of the Board? The Board needs to be refreshed with new independent directors acceptable to large shareholders, including TCI, who not only respect and invite the views of shareholders, but also have the railroad or other relevant business expertise to challenge management, and the courage to do so. Shareholder confidence in the Board needs to be restored.

- **Allow Shareholders to Call Special Meetings**. At CSX's most recent annual shareholder meeting, shareholders voted *overwhelmingly* (nearly 2.3 votes in favor for every 1 vote against) in favor of amending the bylaws to allow shareholders to call special meetings, and yet the Board has failed to act on this. We believe the threshold should be set at 10% for any individual or group of shareholders. Michael Ward said at the investor day that allowing shareholders to call special meetings was still under consideration by the Board. We view this statement as disingenuous – it does not (or certainly should not) take five months to make this decision. In fact, the Board has found the time to amend the bylaws twice since the shareholder meeting, including incorporating the majority voting resolution, which passed by a much smaller margin (only 1.3 votes in favor for every 1 vote against). If the Board has decided to ignore the views of its shareholders, it should immediately make that decision public. Ignoring the issue, or the shareholders who care about it, is poor corporate governance, and unwise.

- **Align Management Compensation with Shareholder Interests**. Shareholder value is created by increasing returns on capital, and that is how management should be compensated. In fact, that is largely how they are compensated at the four other large Class I railroads. However, at CSX long-term executive compensation is now predominantly tied to the company's operating ratio. Improvements in the operating ratio can be 'gamed' by accounting adjustments or re-allocations from operating costs to capex, and 'bought' by investing in projects that would directly or immediately improve the operating ratio instead of projects that earn the best risk-adjusted returns on capital. For example, it provides a clear incentive to buy assets instead of lease them, irrespective of which is better economically[1]. We note that since the Board changed compensation away from free cash flow, CSX's annual capex budget has increased by over 50%.

CSX Capex



[1] The $200 million project highlighted at the investor day to replace leased with owned locomotives illustrates this point. There are two effects from this that improve the operating ratio. First, it will move the financing component of lease expense (currently an operating cost) to interest expense. Second, the lease term is typically shorter than the depreciable life, so lease expense is being replaced by a smaller depreciation expense. These effects would occur irrespective of whether the transaction truly created shareholder value. Therefore management would be able to improve the operating ratio, and increase its compensation, despite not creating shareholder value.

II. Operational Improvement

CSX is not a well run railroad in our opinion. Unlike management, TCI does not benchmark relative to history and claim success; we benchmark relative to potential and assess failure. As you can see below, CSX is last or near last among the five major North American rails on almost every key operational metric (ranking is best at top to worst at bottom)[2].

Velocity	Dwell Time	Accident Rate	Labor/Sales	Cost Inflation	Cost / Unit Inflation
CN	CN	NSC	CN	CN	CN
BNSF	NSC	CN	BNSF	NSC	NSC
UP	BNSF	***CSX***	NSC	UP	UP
NSC	***CSX***	BNSF	UP	***CSX***	BNSF
CSX	UP	UP	***CSX***	BNSF	***CSX***

While the type of network can make a difference, this chart makes clear that CSX's underperformance is not due to its network type – there is one of each type of railroad (eastern, western and Canadian) that consistently outperforms CSX. The issue is management. This is our belief, the belief of nearly every ex-railroad (including ex-CSX) executive and employee we have spoken with, the belief of nearly every railroad research analyst, and it is what the data shows. We simply cannot ignore all of these views and facts. The following from industry analysts sum up well what we believe is a commonly shared view:

> *"...we see no reason why initiatives at CSX cannot result in substantially better margins. A failure to achieve such margins over time could suggest it is more an issue of management." William Greene, Morgan Stanley*
>
> *"We think ~6% price increases and mid-single digit y/y gains in average train speeds and terminal dwell should be generating more operating margin improvements than we've seen so far. There's still a lot of fat on this pig." Rick Paterson, UBS*

A well run business with sound corporate governance would never be referred to as a 'pig.' The fact that CSX is because of its weak management is tragic. CSX is a coveted franchise with a storied history – the Board shouldn't tarnish this by giving anyone reason to refer to the company in this way.

While the underperformance is dramatic, management's refusal to acknowledge it compounds our concern. At the investor day, management once again failed to provide any specific long-term operating targets. Management's operating ratio target (low-to-mid 70s operating ratio by 2010) can be achieved by price increases alone, as the following analysis illustrates. This leaves

[2] TCI Analysis. Based on publicly available data for 12 months ended June 30, 2007. Cost inflation is based on operating expenses excluding fuel and depreciation.

us to conclude that management has no plan to improve the operations, or at least not a plan they can be held accountable for by shareholders.

	2007	2008	2009	2010
Revenue	10.0	10.6	11.1	11.7
price growth		*5.5%*	*5.5%*	*5.5%*
volume growth		*0%*	*0%*	*0%*
Operating expenses	(7.8)	(8.0)	(8.3)	(8.5)
cost inflation		*3.0%*	*3.0%*	*3.0%*
Operating income	2.2	2.5	2.9	3.2
Operating ratio	***78%***	***76%***	***74%***	***73%***

The analysis set forth above assumes *no* volume growth, *no* earnings contribution from growth investment and *no* productivity or efficiency improvement. Nevertheless, the operating ratio achieves management's 'low-to-mid 70s' target by 2010[3].

The lack of spending discipline seems to us to be cultural. Take for example the fact that every major US railroad has responded in some way to the current soft environment, except CSX. Norfolk Southern, already noticeably more efficient than CSX, cut operating costs so that in H1 2007 they were actually 2% *below* the absolute level of costs in H1 2006, despite inflation; in contrast, CSX's costs are *up* 4% in the same comparison. Burlington Northern *cut* its 2007 capex budget *twice* (in contrast, CSX *raised* its capex budget *twice*). Union Pacific has managed to keep cost growth lower than CSX despite having much stronger volumes.

The inescapable conclusion is whatever CSX is doing, it could be doing it better and its competitors, in fact, are. Since Michael Ward was appointed CEO, the gap in operating ratio between CSX and both Norfolk Southern and Canadian National, the industry leaders, has actually widened. Yet somehow the Board has found it acceptable to make Michael Ward the highest compensated CEO in the industry over the past two years. We must question the Board's judgment.

While we recognize that CSX's share price has performed well over the past several years, and its operations have improved, we note that both improvements are off of a low base; this low base seems largely attributable, to us, to poor execution of the Conrail integration. As a senior manager at CSX over the past decade, and in particular as the VP responsible for the Conrail merger planning and integration, Michael Ward was at least partly responsible for CSX being at that low base in the first place. It seems irrational to us to reward someone merely for making some progress towards getting the company out of a mess he was largely responsible for getting the company into. Frankly, a similar logic could be applied to longstanding members of the Board.

[3] TCI Analysis. Pricing assumption based on an extrapolation of management guidance.

We therefore recommend the Board and management take the following actions:

- **Present to shareholders a detailed and credible plan to improve operations.** Investors need both a clear idea of management's view of the potential to improve the business as well as yardsticks to judge their ability to execute on their plan. This requires a detailed operating plan with specific long-term operational and cost targets, not simply operating ratio targets (as the operating ratio is impacted by both price and operations).

- **Re-evaluate the absolute levels of management compensation.** In addition to changing the primary metric on which compensation is based, the Board should consider whether the absolute levels of payouts are reasonable. To be clear, we have no issues with managements being well paid. However, we have serious issues with managements being overpaid (i.e., well paid but under-delivering).

III. Returns on Capital

Does the Board really believe CSX is close to earning its cost of capital? Economically, CSX earns just a 1-3% return on its capital, not the ~9% management proclaimed at their investor day[4]. While return on invested capital (ROIC) may be used for accounting or regulatory purposes (inappropriately we believe), it shouldn't be the focus of dialogue between management and shareholders if it doesn't reflect economic reality. In this case, it certainly does not. We are therefore surprised that management chose to focus on ROIC and disappointed that we as shareholders, instead of the Board or management, must explain how to evaluate true economic returns for the company you are entrusted to manage. We question whether CSX management understands the economics of the business. If they do, they are being disingenuous in asserting they have 'earned the right to spend' because CSX is close to earning its cost of capital; obviously this claim cannot be made on the true returns.

Returns must be calculated on the fair value of the capital today. This is best approximated by replacement value, which we estimate is close to $100 billion for CSX, as opposed to the approximately $16 billion management uses as a capital base. The $16 billion is the invested capital *at historic cost* as opposed to at today's cost. Why does management, and the Board, believe CSX should earn a fair return only on the historic cost of its land and network as opposed to the value of that land and network today? You cannot buy the land for the same price as you could in the 1800s, nor can you buy locomotives for the same price as you could 30 years ago, nor can you replace rail for the same price as you could 20 years ago. Using historic cost is the same flawed logic as a landlord charging rent on a 100 year-old home based on what it cost to buy the land and build that home 100 years ago, as opposed to a rent based on the value of that home today.

[4] CSX earns a taxed-EBIT of roughly $1.3 billion, which is a 1% return on the $100 billion replacement value we estimate. No matter how one calculates replacement value, it is unthinkable that the replacement value for CSX could be below $50 billion, implying at most a return of 3%.

In our mind there is simply no justification for publicly asserting to shareholders that CSX is "achieving returns approaching cost of capital in 2007" when the reality is CSX's returns will likely not approach its cost of capital for decades.

We therefore ask the Board and management to take the following actions:

- **Present a corrected *Stronger Returns on Long-term Investments* slide.** Management needs to present to shareholders a truer reflection of the returns CSX generates. This requires an estimation of replacement value, but even a rough approximation of replacement value will suffice to make the point. It is better to be approximately right than precisely wrong.

- **Ensure that all returns-based decisions reflect economic reality.** There are many decisions that management and the Board make based on return on capital, including pricing and capital investment decisions. We fear these decisions are being made on overstated returns, leading to wrong decisions.

IV. Capital Spending

US railroads could require up to $150 billion of growth investment over the next 30 years to meet America's growing freight transportation needs. CSX's management is putting the ability of CSX, and the other major US railroads, to make the needed future investments at severe risk by advocating an illogical and undisciplined capital spending plan. Reckless spending will undermine confidence in CSX and the railroad sector, and will result in less access to capital for them all. This is of great concern to us, as we firmly believe that shareholder value is created through *sustainable* investment in safety, maintenance, infrastructure and training.

Recognizing this fact, the CEOs of all of the major US railroads, with the notable exception of Michael Ward, are trying to establish credibility as *disciplined* guardians of capital, as their comments in recent letters to the STB show:

> *"As a private company, BNSF will only invest in added capacity to the extent we believe we can earn an adequate return on those investments." Matt Rose, CEO of Burlington Northern*
>
> *"Increased investment in additional capacity cannot always be economically justified if it becomes questionable whether a company can meet its cost of capital on an ongoing basis." Wick Moorman, CEO of Norfolk Southern*
>
> *"The owners of the Union Pacific (our shareholders) have a fiduciary responsibility to ensure that management will operate the Company in a profitable manner and make prudent decisions regarding future capital investments." Jim Young, CEO of Union Pacific*

These CEOs recognize that capital spending must be economically justified, as the inevitable consequence of spending recklessly is losing the confidence of the owners of the business, who will have no choice but to restrain future capital spending. Individuals who overspend lose their creditworthiness and thus their ability to spend in the future. The underlying logic and result is no different for shareholder-owned companies.

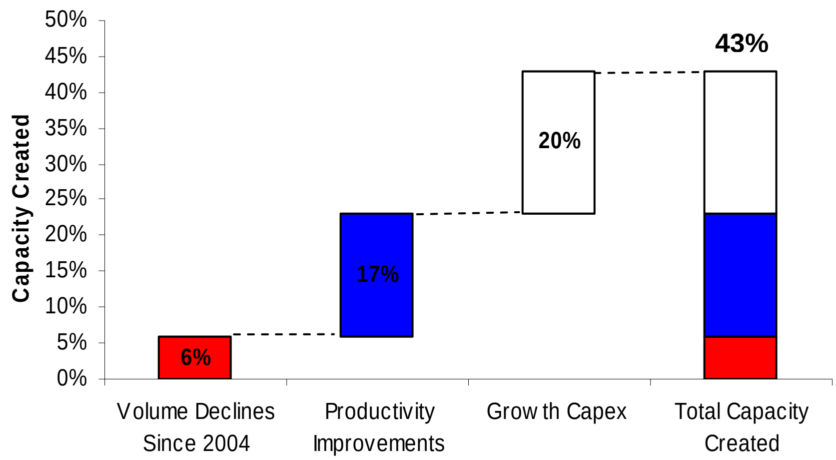
Further, just as over-extended subprime lending has resulted in a crisis of confidence among all lenders – resulting in even prime borrowers now finding it difficult to obtain mortgages – CSX's undisciplined spending plan could prove damaging for all US railroads, even the disciplined ones. Unfortunately, as many companies and sectors have learned, once confidence is lost it can take years or decades to be re-established.

So while Michael Ward's seeming objective to spend "until every penny of it is gone" may sound like it addresses the long-term investment need of the industry, it actually undermines it. Reckless spending is a short-term strategy, with the dire long-term consequence of less access to capital for CSX and other US railroads. US railroads are in the infancy of a very exciting growth phase; CSX management should not ruin it by undermining shareholder confidence, as they are doing.

To protect CSX's ability to invest sustainably in the future, the Board must work to re-establish shareholder confidence. This confidence has been undermined by management's unwillingness or inability to justify a capital spending plan that seems totally out of touch with the economic reality, as well as by glaring inconsistencies between management's statements and actions regarding maintenance capex.

Growth investment. Management has consistently over-estimated volume growth for CSX, and as a result has spent for growth that CSX has not delivered. At CSX's 2005 investor day management forecasted annual volume growth of 2-3%, accommodated by $1.2 billion in annual capex. Since then volumes have declined and yet the capex budget has increased.

We firmly believe in making investments to meet the future needs of the business, but the estimate of future needs should be realistic and credible. Estimating that CSX volumes will be 43% above current levels by 2010 is neither. Yet 43% growth by 2010 seems to be what management is estimating, as the following analysis illustrates:



Please refer to footnote 5 for details

The ~23% spare capacity CSX already has (6% volume decline + 17% capacity created through productivity) seems adequate for a decade of 2-3% annual volume growth. Yet management has increased the capex budget *twice* in 2007. It is certainly reasonable for shareholders to question why management believes 43% volume growth by 2010 is realistic, especially in light of a weakening and uncertain US economy, and considering management's consistent over-estimation of volume growth historically.

We acknowledge these are very rough system-wide approximations, but even if the estimates are half of these amounts, what leads management to conclude volumes will be even 20% higher than current levels by 2010, much less 43% higher? We are not the only ones seeking an answer to this question – the JP Morgan analyst commented after the investor day as follows:

> *"We walked away without much conviction or visibility to how they will transition from several years of no volume growth to meaningful volume growth in the future"*
>
> *"We lack visibility to improved volume performance for CSX that would help justify the strong investment"*
>
> *"In our view, the combination of a very strong capital spending plan with an unfavorable medium-term volume outlook is not a good recipe for upside for this stock"*

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[5] TCI Analysis. 43% comprised as follows: (i) 6% volume decline since 2004 implies at least 6% excess capacity today; (ii) since Q2 2004 dwell time and velocity have improved by 18% and 5% respectively, which we estimate creates 17% capacity assuming trains spend 90% of their time dwelling and 10% moving; (iii) management stated at the 2005 investor day that capex equal to 12-13% of revenue would finance 2-3% volume growth, implying roughly $100 million of capex for 1% volume growth. The 2007-2010 capital budget includes over $2 billion of expansion capex (per Oscar Munoz's presentation at the Merrill Lynch conference, June 2007), so approximately 20% volume growth.

There is a striking analogy here, with important lessons that hopefully do not have to be re-learned. The last time mature network-oriented businesses expected this type of growth was the telecom companies in the dot com era. Almost without exception, the growth did not materialize, huge value was destroyed, the management teams were replaced and access to capital thereafter was (and in many cases still is) significantly diminished. Confidence in the telecom sector has still not fully recovered.

Management may argue that the capital spending is not just for capacity increases, but also for productivity gains and efficiency improvements. However, in the railroad business, productivity gains are essentially capacity increases and, as discussed, management's operating ratio guidance seems to include no benefits from productivity or efficiency gains. All of this begs the question – where is this $2 billion of shareholders' capital going, and for what returns? The Board should be asking this question, but management's inability to answer it leaves us to conclude that it isn't.

Maintenance capex. Senior management had *repeatedly* told us in the past that they had *not* been under-investing in the network and there was no further 'catch-up' capex required post-2006[6]. Yet at the investor day management announced a huge increase in the annual rail and tie replacement program and suggested they had underspent previously; this was the message that the market took away:

> *"Detailed capex forecasts suggest underspending in prior years, which could hinder future returns…In fact, Michael Ward, the company's CEO, suggested that the company's irregular capital spending in prior years may be to blame for some of the higher capital expenditures near-term" William Greene, Morgan Stanley*

Based on GTMs and useful lives, the old level of rail and tie replacement seems appropriate, and it is also consistent (GTM-adjusted) with the replacement program at Norfolk Southern, widely considered the industry leader in network maintenance. This would suggest that management is now bloating the maintenance capex budget and wasting valuable shareholder capital. Alternatively, we could conclude that management *had* under-invested and had misled us and others about doing so. If this was the case, we find the under-investment of capex when compensation was free cashflow-based, and then catching up on capex once the compensation system had moved away from free cashflow, to be questionable at best.

Not only is confidence in CSX management undermined by a capital spending plan that seems economically unjustifiable and inconsistencies related to maintenance capex, it is also undermined by their advocating an approach to capital allocation, the 'balanced approach', which lacks financial logic. The 'balanced approach' is an easy way out for a management that is unable or unwilling to truly distinguish the merits of various options for capital deployment.

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[6] In late 2006 both Oscar Munoz and David Baggs told us on different occasions that maintenance capex would be $850-900 million. Alarmingly management has raised this by over 25% to $1.1 billion in the latest capital budget (per Oscar Munoz's presentation at the Merrill Lynch conference, June 2007).

Capital should be allocated to where it is able to achieve its highest long term, risk-adjusted return.

Instead CSX is allocating capital based on an arbitrary 'balance' and a pre-determined preference, based on Michael Ward's comments, to invest in new projects irrespective of whether better returns can be achieved elsewhere, and to return capital to shareholders via dividends instead of share repurchases, despite the stock being fundamentally cheap in our opinion[7].

A company's ability to invest continuously for the long-term rests on management's ability to maintain confidence and credibility with its shareholders. CSX is not an exception to this rule, and this confidence does not exist today. To re-establish it, management and the Board need to prove rationality, discipline and integrity to us and the other shareholders. Capital allocation deserves rigorous analysis and a transparent and financially solid logic. Management has provided none of that in our view. We therefore ask the Board and management to take the following action:

- **Justify the 2007-10 capital spending plan to shareholders.** It is time to shed biases, be transparent and realistic, and commit to deploying capital in the best interest of shareholders. Management should present details of each key project in the capital plan, the main pricing and volume assumptions, and the expected after-tax returns, so if growth investment is resumed it is done with the support of shareholders[8]. We acknowledge that this level of disclosure is not customary, but it is necessary – the Board has failed to provide proper oversight and discipline, so the shareholders must. Shareholders need the information to hold management accountable for delivering returns. It is, after all, our capital.

V. Response to Regulatory Pressure

Over the past year, the STB has issued several decisions against the railroads, including those related to smaller shipper rate cases, fuel surcharges and the cost of capital. The STB's slashing of the cost of capital coupled with a refusal to simultaneously consider replacement cost has significantly increased regulatory risk.

We do not believe CSX management fully appreciates the regulatory and legislative risks facing the industry. In fact, CSX management is fanning the anti-rail flames and thus only increasing these risks by massively overstating CSX's true returns.

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[7] We recognize that CSX's returns significantly more capital via buyback than dividends. However, Oscar Munoz's statement at the investor day is alarming, "our Chairman in particular has a strong affinity for returning value to share owners through this methodology [dividends]." The buyback versus dividend decision should be based on what most shareholders desire and on whether the stock is cheap or not. It should not be based on a Chairman's attachment to dividends.

[8] As discussed further in this letter, all growth capital spending should be frozen until the heightened risk of re-regulation passes. If the risk passes, management should proceed with a plan that is economically justified to shareholders.

We therefore ask the Board and management take the following actions:

- **Educate policymakers and regulators on the true state of the industry.** US railroads earn lower economic returns than almost any industry in the world, and CSX earns among the lowest returns even within that group. Instead of portraying this truthful state of the industry, management is focused on developing a paid advertising campaign about how wonderfully CSX is performing. In addition to being a waste of management time and shareholder money, it is simply not true. CSX needs to stop the sloganeering and start the education. If railroads can not earn adequate returns on replacement value they cannot justify investment, which means even more trucks on the highway, even more shippers complaining about service, and even more pollution in the atmosphere.

- **Provide the STB a practical methodology to estimate replacement value.** Replacement value or current cost accounting are widely accepted and used standards for both accounting and regulation around the world. In its recent cost of capital decision, the STB not only opened the door for the railroads to present a methodology that would allow calculation of returns on replacement cost, but cited its predecessor, the ICC, in saying that a replacement cost methodology was *preferable* to use of historic costs. Yet, the STB also has claimed that a practical methodology for estimating replacement cost has not been presented to it. This is a dramatic failure on the rail industry's part, and it needs to be rectified immediately by CSX alone or in conjunction with other US railroads.

- **Freeze growth investment until the fate of the re-regulation bill is known.** It is irresponsible to make long-term investments without knowing the long-term returns, and the long-term returns are unknowable while the re-regulation risk persists at this heightened level. This is a sad outcome, and ironic as Washington acknowledges the railroads' need to make long-term investments, and yet it is the uncertainty emanating from Washington that ensures such investments cannot be justifiably made.

VI. Management Approach to Key Constituencies

It is completely counter-intuitive to us that at the time of the brightest long-term prospects for the industry, putting the heightened risk of re-regulation aside, CSX has managed to alienate its workers, its customers, and its owners. Railroads are unique in American industry in that they have the largest self-managed workforce in the country, touch nearly every sector and every community, and re-invest the highest level of capital per revenue dollar of any major industry. Thus, while good relations with workers, customers and owners are always important, they seem essential for railroads.

Yet, in our experience, and those relayed to us by others, CSX management has too often taken an 'us versus them' approach, resulting in tension instead of solutions. We strongly urge the Board and management to re-evaluate this adversarial approach, as workers will be more productive, shippers more accommodating, and shareholders more understanding if management fosters an open, collaborative and constructive relationship with all of them. All of our interests should be, largely, aligned.

We hope you receive this as a constructive letter from an informed shareholder with a simple aim – a better and stronger CSX. We have no desire to be disrespectful to the Board or the management team. Our views of CSX, as with all of our investments, are based on the facts. We do not have preconceived notions of the right actions or strategies a company should pursue. We have supported management in many of the companies in which we invest, and opposed it in others. We have supported acquisitions and increased investment in some companies in which we invest, and opposed it in others. Our view is always informed by an open-minded and objective assessment of the facts and the situation. As our record shows, our views have usually proven over time to be in the best long-term interest of the companies in which we invest. To us, this is being a good shareholder, and that is what we strive to be.

We hope you appreciate that it is incumbent on us to raise these issues on behalf of all of the stakeholders of CSX, and as we are guardians of others' capital and have a duty to act in their best long-term interests, as you do to act in ours, the shareholders'.

We sincerely hope you will act now -- and act voluntarily -- to address the serious issues facing CSX. We are available, as always, to discuss issues relevant to CSX.

Sincerely,

Chris Hohn
Managing Partner

Snehal Amin
Partner

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TCI AND 3G FORM GROUP OWNING 8.3% OF CSX SHARES AND AN ADDITIONAL 11.8% ECONOMIC INTEREST

PLAN TO NOMINATE MINORITY BOARD SLATE OF FIVE DIRECTORS

NEW YORK, DECEMBER 19, 2007 – The Children's Investment Fund Management (UK) LLP ("TCI") and 3G Capital Partners, LTD. ("3G") today filed a Schedule 13D with the Securities and Exchange Commission disclosing that they and several individuals have formed a group ("Group") whose members own in the aggregate 8.3% of the outstanding common shares of CSX Corporation (NYSE: CSX). The members of the Group also hold derivative securities providing economic exposure equivalent to an additional 11.8% of CSX's outstanding shares.

The filing also disclosed that the Group intends to nominate five directors for election to the Board of Directors of CSX at its 2008 Annual Meeting of Shareholders.

The Group believes its nominees will strengthen CSX's Board by adding strong independent directors with a shareholder orientation, a broad range of railroad and other relevant experience, and a firm commitment to improving CSX's operating performance and corporate governance.

Christopher Hohn, Managing Partner of TCI, said, "CSX's incumbent Board has overseen a railroad that for many years has lagged its peers on many of the key metrics of operational and financial performance. Rather than engage in a constructive dialogue with one of its largest shareholders, the CSX Board has consistently ignored our substantive concerns and failed to hold management accountable for continuing operational underperformance. Our goal is a strong CSX that can provide the returns shareholders deserve, the service shippers demand, a safety record communities can count on, and a working environment employees can be proud of. To this end, we are nominating to the Board the principals of two major shareholders and three distinguished independents with meaningful railroad experience. We are committed to working constructively with members of the Board to help improve CSX for the benefit of all of its stakeholders."

The director nominees are:

- **Christopher Hohn**
  Before founding TCI in 2003, Mr. Hohn spent seven years at Perry Capital and was the portfolio manager leading its European investment strategy from 1997 to 2003. Mr. Hohn has previously served on the Board of RIT Capital Partners plc, which is publicly listed on the London Stock Exchange.

Key reasons Mr. Hohn is being nominated and can add value to CSX are:

- Mr. Hohn has a long and successful track record of fundamental investing and actively maximizing value of public companies, including the Deutsche Börse Group, ABN AMRO, and Euronext N.V.
- Mr. Hohn has successfully advocated for strong corporate governance and shareholder rights in situations around the world.
- TCI owns approximately 4.2% of CSX's outstanding shares.

Mr. Hohn received a B.S. degree in Accounting and Business Economics (1st Class Honors) from Southampton University and an M.B.A. degree (high distinction) from Harvard Business School.

- **Alexandre Behring**

Mr. Behring is the Managing Director of 3G, a private investment firm. Previously, he spent 10 years at GP Investments, Latin America's largest private-equity firm, including eight years as a Partner and Member of the firm's Investment Committee. He served for seven years as CEO of America Latina Logistica (ALL), Latin America's largest independent railroad and logistics company, which operates more than 13,000 miles of track in Brazil and Argentina. He continues to serve on the Management Committee of ALL's Board.

Key reasons Mr. Behring is being nominated and can add value to CSX are:

- Mr. Behring is a unique combination of a large CSX shareholder (3G owns approximately 4.1% of CSX's outstanding shares) and an experienced, accomplished, hands-on railroad executive.
- Under his leadership, ALL's accident rate was reduced by 86%, locomotive productivity increased at a double-digit compound annual growth rate, and its EBITDA margin improved from 6% to 42% through the third quarter 2007.
- ALL is now one of the most efficient and technologically advanced freight railroads in the world and has also been voted several times by its employees as one of the best companies to work for in Latin America.
- As a publicly traded company, ALL's market capitalization of $6.5 billion is over 30 times the amount Mr. Behring and his partners paid for the company 10 years ago.

Mr. Behring received a B.S. degree in Electric Engineering from Pontifícia Universidade Católica and an M.B.A. degree (high distinction) from Harvard Business School. He is also a locomotive engineer.

- **Gilbert Lamphere**

Mr. Lamphere is the Managing Director of Lamphere Capital Management, a private investment firm. Previously, he was a Director of Canadian National Railway, Chairman of Illinois Central Railroad prior to its sale to Canadian National in 1998, and a Director of Florida East Coast Industries (a railroad and real estate company). He also participated in the acquisition, financing, and oversight of MidSouth Rail. Mr. Lamphere has served as a Director of nine other public companies, including Carlyle Industries, Inc., Cleveland-Cliffs Inc., R. P. Scherer Corporation, Global Natural Resources Corporation and Recognition International, Inc. Earlier in his career, Mr. Lamphere was a Vice President of Mergers & Acquisitions at Morgan Stanley.

Key reasons Mr. Lamphere is being nominated and can add value to CSX are:

- Mr. Lamphere has been Chairman or a director at three of the most successful and efficient railroads in North America.
- During his tenure on the Boards of Canadian National and Illinois Central, where he worked closely with Hunter Harrison, the Companies' operating ratios improved from 76% to 64% and from over 90% to 63%, respectively.
- Mr. Lamphere is deeply knowledgeable of the best practices in railroad operations and a proven value-added railroad board director.

Mr. Lamphere received an A.B. degree in Economics from Princeton University and an M.B.A. degree (high distinction) from Harvard Business School.

➢ **Timothy O'Toole**

Mr. O'Toole has over 25 years of railroad industry experience. He is currently the Managing Director of the London Underground, where he is responsible for operating and rebuilding the Tube, the world's oldest metropolitan railway. Previously, he served as President and Chief Executive Officer of Conrail from 1998 to 2001. During his more than 20 years at Conrail, he served in various senior management roles, including Senior Vice President of Law and Government Affairs, Senior Vice President of Finance and Chief Financial Officer, Vice President and Treasurer, and Vice President and General Counsel.

Key reasons Mr. O'Toole is being nominated and can add value to CSX are:

- Mr. O'Toole was a prominent figure in the transaction splitting the former Conrail business between CSX and Norfolk Southern, providing him with first-hand knowledge of CSX's assets and operations.
- Under his leadership, Conrail achieved record financial results and safety performance. Similarly, under his leadership the London Underground has improved service and safety and moved record numbers of passengers, all while undergoing an historic rebuilding program.
- Mr. O'Toole was made an Honorary Commander of the British Empire in recognition of his performance following the terrorist attack on London's transport system in 2005.

Mr. O'Toole received a B.A. degree in English Literature (Maxima Cum Laude) from LaSalle University, a J.D. degree from the University of Pittsburgh School of Law, and an Honorary Doctor of Humane Letters degree from LaSalle University.

➢ **Gary Wilson**

Mr. Wilson was a principal investor and Co-Chairman of the Board of Northwest Airlines from 1991 to 1997 and Chairman from 1997 to 2007. From 1985 to1990, he was Chief Financial Officer and a director of The Walt Disney Company and served on its Board until 2006. Prior to joining Disney, Mr. Wilson served for 11 years in senior executive positions at Marriott Corp., including Executive Vice President and Chief Financial Officer, Head of Corporate Development, and Treasurer. He is a current director of Yahoo! Inc. (NASDAQ: YHOO) and CB Richard Ellis Group Inc. (NYSE: CBG).

Key reasons Mr. Wilson is being nominated and can add value to the CSX Board are:

- Mr. Wilson has a track record – as an executive, director and investor – of leading major companies through strategic transitions and creating substantial shareholder value. He is also a strong advocate of improved corporate governance in public companies.
- Mr. Wilson successfully transitioned Marriott from an owner-operator to the more profitable and scaleable business model of a hotel management company.
- During his tenure as CFO, Disney's market value increased significantly and Mr. Wilson expanded its hotel and theme park assets while utilizing innovative financing techniques.
- Mr. Wilson was an investor in and a director of Progress Rail, one of North America's largest providers of railroad products and services.

Mr. Wilson received a B.A. degree from Duke University and an M.B.A. degree from The Wharton School of the University of Pennsylvania.

For further information, please visit www.strongercsx.com.

About TCI
TCI is a London-based asset manager founded in 2003 which manages The Children's Investment Master Fund. TCI makes long-term investments in companies globally. The management company is authorized and regulated in the United Kingdom by the Financial Services Authority. The majority of TCI's profits go to The Children's Investment Fund Foundation, a non-profit organization focused on improving the lives of children living in poverty in developing countries.

About 3G
3G manages a private investment fund that invests in global equities and special situations. 3G Fund L.P. leverages its deep industry and operating expertise in different sectors to identify attractive, long-duration investment opportunities.

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