

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

CSX Corporation

The history of this US railway company goes back to 1828. Today, it is one of the four most important railway companies in the US, besides BNSF, Union Pacific and Norfolk Southern. Its rise began with the "Staggers Rail Act" of 1980. Until that time, the industry had only limited ability to set tariffs, determine the number of train personnel and sell or close lines. The abolition of the "Interstate Commerce Act", which has been in effect since 1887, led to an extensive deregulation and consolidation phase, which ended with the take-over battle for state-owned Conrail, which was split between the two competitors CSX and Norfolk Southern in 1999. Today, CSX boasts a line network of 21,000 miles. It connects 23 federal states between the Mississippi and the Eastern Seaboard. Almost two thirds of all Americans live within this area. In addition, it secures access to the Pacific ports on the US West coast through cooperative relationships.

Between 2000 and 2012, CSX multiplied its operating result from USD 0.8 billion to USD 3.5 billion. Sales grew by 3% p.a. during the same time period. The years were characterised by the clean-up of unprofitable branch lines and cost reductions. In addition, CSX increased its tariffs with new services. Its operating margin rose from 10% to 30%. The difference is solely due to price and efficiency gains, while the transport volume has re-

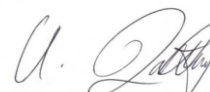
mained the same. In the future, the company will focus on new technologies for locomotives, automation, an increase in intermodal transport and the intelligent use of capital in order to increase the margin to 35% in the long term.

The capital allocation of management is very good. It is based on the distribution to shareholders and growth of operating earning power, items that are anchored in the employment contracts at 50% each through the two parameters "Operating ratio" and "Return on Assets". USD 3 billion in dividends and USD 7 billion in net share buy-backs have been paid out since the year 2000. This distribution corresponds with approximately 75% of accumulated profits and highlights the company's considerable internal financing power, since the economic equity ratio was increased from 46% to 56% during the same time period. This development is particularly due to deferred tax liabilities, in addition to retained earnings. Due to the depreciation of assets for tax purposes, which is accelerated in comparison to US GAAP financial reporting, they offer a higher tax-related earnings potential in the future, which corresponds with a permanent and interest-free form of financing (equity), so that CSX is consistently investing in its own infrastructure over a long time period. The balance sheet effect underlines the true earning potential of this company. We joined the company at a competitive and stable level through steady share buy-backs.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky