

# CSX CORPORATION

## 2017 FOURTH QUARTER EARNINGS CONFERENCE CALL



# FORWARD LOOKING DISCLOSURE

This information and other statements by the company may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act with respect to, among other items: projections and estimates of earnings, revenues, margins, volumes, rates, cost-savings, expenses, taxes, liquidity, capital expenditures, dividends, share repurchases or other financial items, statements of management's plans, strategies and objectives for future operations, and management's expectations as to future performance and operations and the time by which objectives will be achieved, statements concerning proposed new services, and statements regarding future economic, industry or market conditions or performance. Forward-looking statements are typically identified by words or phrases such as "will," "should," "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. Forward-looking statements speak only as of the date they are made, and the company undertakes no obligation to update or revise any forward-looking statement. If the company updates any forward-looking statement, no inference should be drawn that the company will make additional updates with respect to that statement or any other forward-looking statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual performance or results could differ materially from that anticipated by any forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by any forward-looking statements include, among others; (i) the company's success in implementing its financial and operational initiatives; (ii) changes in domestic or international economic, political or business conditions, including those affecting the transportation industry (such as the impact of industry competition, conditions, performance and consolidation); (iii) legislative or regulatory changes; (iv) the inherent business risks associated with safety and security; (v) the outcome of claims and litigation involving or affecting the company; (vi) natural events such as severe weather conditions or pandemic health crises; and (vii) the inherent uncertainty associated with projecting economic and business conditions.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the company's SEC reports, accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and the company's website at [www.csx.com](http://www.csx.com).





# NON-GAAP MEASURES DISCLOSURE

CSX reports its financial results in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CSX also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results.

Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, CSX's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP. Reconciliations of non-GAAP measures to corresponding GAAP measures are attached hereto in the Appendix of this presentation.



# EXECUTIVE SUMMARY

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James M. Foote  
President and Chief Executive Officer

HOW TOMORROW MOVES



# FOURTH QUARTER HIGHLIGHTS

Volume 1,601K

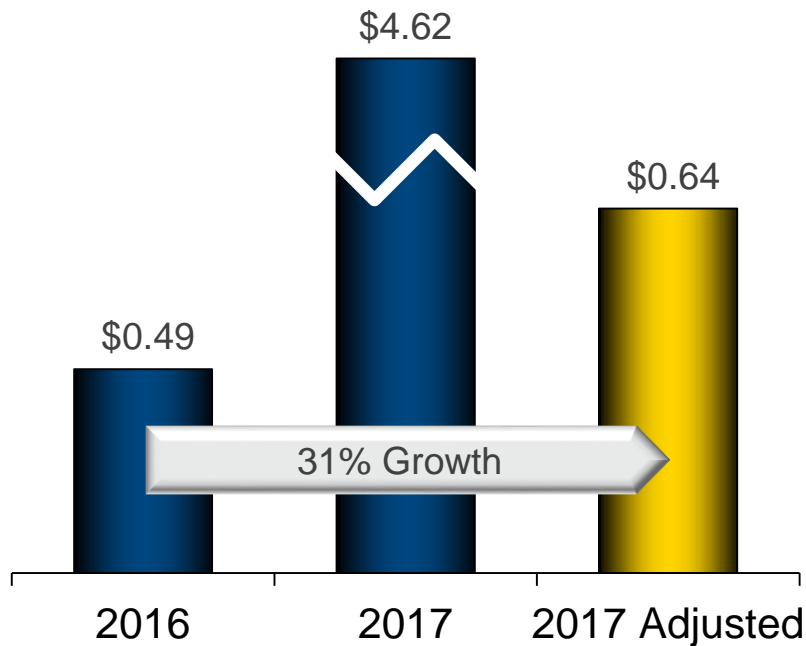
Revenue \$2,863M

Operating Income \$1,121M

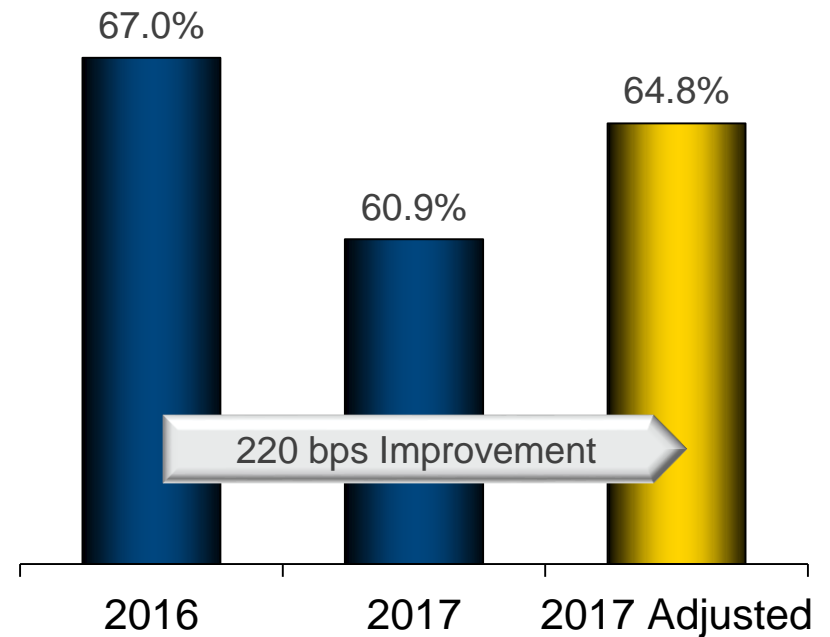
Operating Ratio 60.9%

EPS \$4.62

## Earnings Per Share



## Operating Ratio



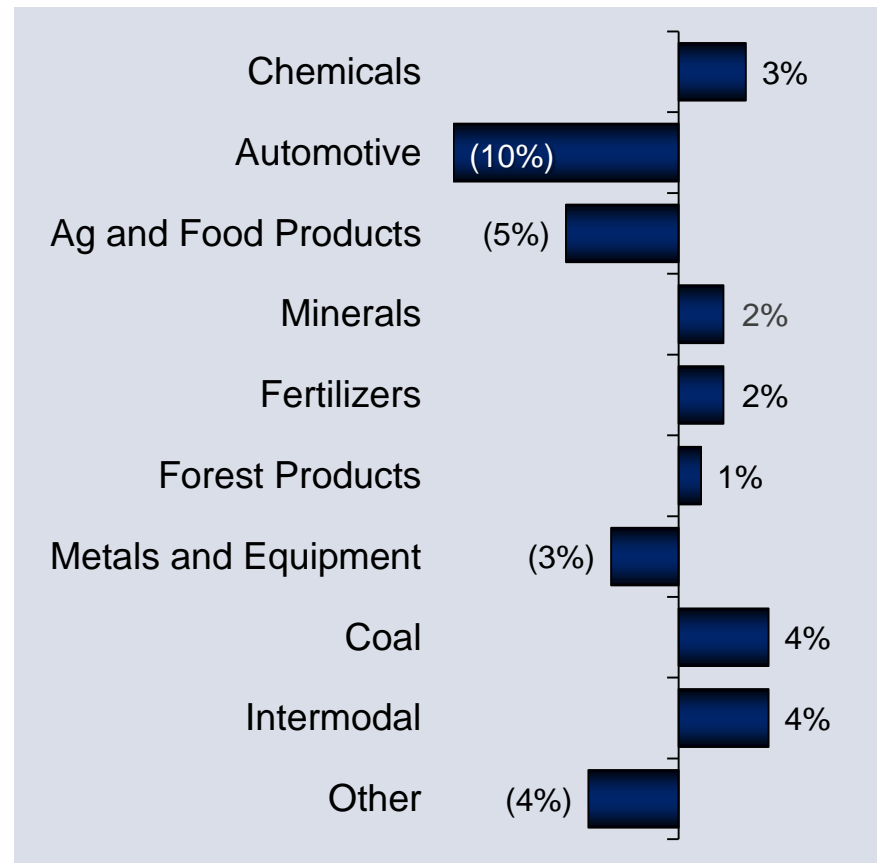
Note: Adjusted financials exclude impacts from restructuring and the tax reform benefit. See Appendix.



# FOURTH QUARTER REVENUE HIGHLIGHTS

- **Chemicals supported by stable core markets**
  - Steady plastics and other chemicals offset by reduced waste moves
- **Automotive revenue declined as North American vehicle production fell**
  - Declines in line with U.S. vehicle production
- **Agricultural and Food Product revenue declined on lower volume**
  - Weak export markets
- **Coal strength centered in export market**
  - Boosted by global supply levels and pricing conditions
- **Intermodal revenue increase driven by International service**
  - Both new and existing customers contributed to increased port volumes, strong peak season

## Fourth Quarter Adjusted Revenue Flat Year over Year<sup>(a)</sup>

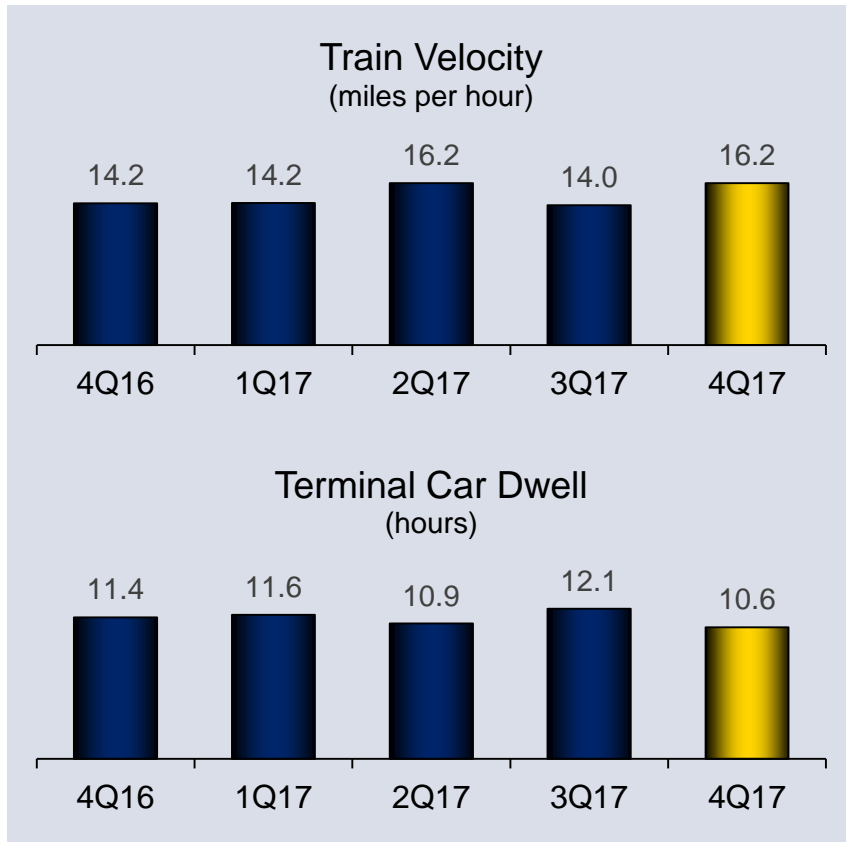


(a) Prior year revenue adjusted to exclude an extra fiscal week



# FOURTH QUARTER OPERATING HIGHLIGHTS

## Service



## Efficiency



Note: See [www.csx.com/servicemetrics](http://www.csx.com/servicemetrics) for updated definitions of key performance measures



# FINANCIAL REVIEW

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Frank A. Lonegro  
EVP and Chief Financial Officer

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# FOURTH QUARTER EARNINGS SUMMARY

## Fourth Quarter Income Statement

Dollars in millions	2017	2016	Variance
Revenue	\$ 2,863	\$ 3,037	(6%)
Expense			
Labor and Fringe	665	852	22%
Materials, Supplies and Other	524	497	(5%)
Depreciation	337	348	3%
Fuel	243	217	(12%)
Equipment and Other Rents	116	132	12%
Restructuring Charge	29	-	NM
Equity Earnings of Affiliates	(172)	(13)	1,223%
Total Expense	1,742	2,033	14%
Operating Income	1,121	1,004	12%
Interest Expense	(140)	(156)	10%
Debt Repurchase Expense	-	(115)	-
Other Income – Net	2	18	(89%)
Income Tax Benefit (Expense)	3,157	(293)	1,177%
Net Earnings	\$ 4,140	\$ 458	804%
Earnings Per Share	\$ 4.62	\$ 0.49	843%
Operating Ratio	60.9%	67.0%	610 bps

Note: Prior year includes extra fiscal week



# NON-GAAP ADJUSTED OPERATING RESULTS

## Fourth Quarter Adjusted Operating Results

	Operating Income (millions)	Operating Ratio	Net Earnings (millions)	Net Earnings Per Share, Assuming Dilution
<b>GAAP Operating Results</b>	<b>\$ 1,121</b>	<b>60.9%</b>	<b>\$ 4,140</b>	<b>\$ 4.62</b>
Restructuring Charge	29	(1.0%)	10	0.01
Tax Reform Benefit (net)	(142)	4.9%	(3,577)	(3.99)
Adjusted Operating Results (non-GAAP)	\$ 1,008	64.8%	\$ 573	\$ 0.64

## Full-Year 2017 Adjusted Operating Results

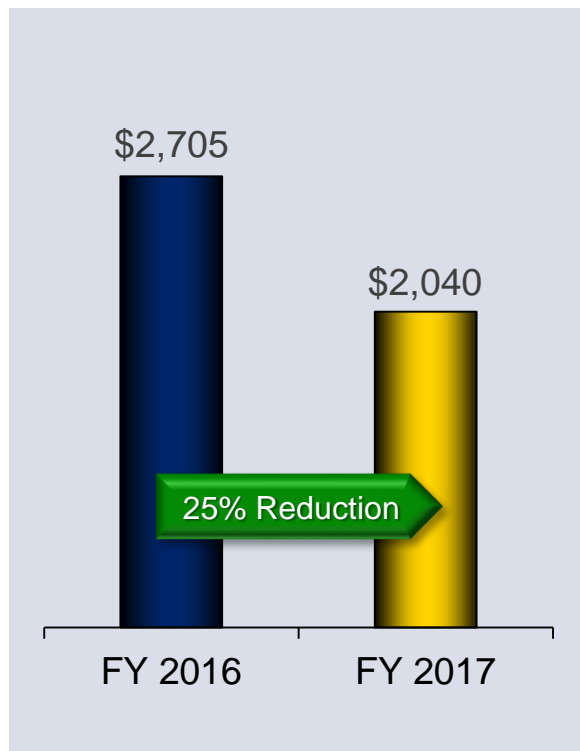
	Operating Income (millions)	Operating Ratio	Net Earnings (millions)	Net Earnings Per Share, Assuming Dilution
<b>GAAP Operating Results</b>	<b>\$ 3,667</b>	<b>67.9%</b>	<b>\$ 5,471</b>	<b>\$ 5.99</b>
Restructuring Charge	325	(2.8%)	203	0.22
Tax Reform Benefit (net)	(142)	1.2%	(3,577)	(3.91)
Adjusted Operating Results (non-GAAP)	\$ 3,850	66.3%	\$ 2,097	\$ 2.30



# KEY 2017 FINANCIAL MEASURES

## Capital Investments<sup>(a)</sup>

Dollars in Millions



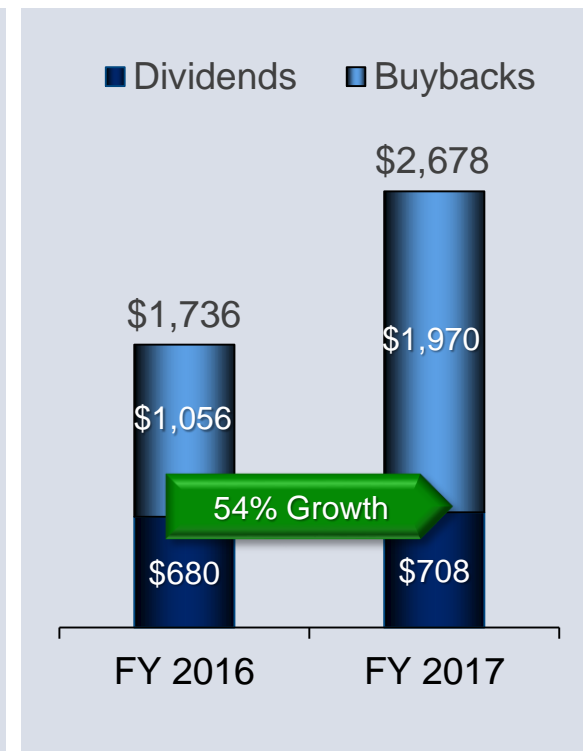
## Adjusted Free Cash Flow Before Dividends<sup>(b)</sup>

Dollars in Millions



## Distributions

Dollars in Millions



(a) 2016 capital investments include payments for locomotive seller financing of \$307 million

(b) See quarterly financial report for the calculation of adjusted free cash flow before dividends



# 2017 FULL-YEAR TARGETS ACHIEVED

## 2017 Targets<sup>(a)</sup>

Efficiency	<ul style="list-style-type: none"><li>Achieve record efficiency gains (previous record \$430 million)</li></ul>	\$460 million	
Operating Ratio	<ul style="list-style-type: none"><li>Operating ratio to be around the high end of the mid-60s</li></ul>	66.3% <sup>(b)</sup>	
Earnings Growth	<ul style="list-style-type: none"><li>Earnings per share growth of 20-25%, off 2016 reported base of \$1.81</li></ul>	27% <sup>(b)</sup>	
Shareholder Value	<ul style="list-style-type: none"><li>Free Cash Flow before dividends around \$1.5 billion</li></ul>	\$1.7 billion	

(a) Excluding restructuring charges and tax reform benefit

(b) Non-GAAP adjusted results. See Slide 10



# CLOSING REMARKS

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James M. Foote  
President and Chief Executive Officer

HOW TOMORROW MOVES





# 2018 FINANCIAL OUTLOOK . . .

- Expect revenue up slightly
- Continued improvement in operating ratio
  - No change to focused implementation and execution of scheduled railroading
- Capital expense of ~\$1.6 billion
  - Asset utilization and refined network approach driving decline
- Expect full-year effective tax rate of ~25%
- Investor Conference scheduled for March 1<sup>st</sup> in New York City
  - Will convey long-term outlook and showcase leadership team



# CSX CORPORATION

## 2017 FOURTH QUARTER EARNINGS CONFERENCE CALL





# APPENDIX

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- Non-GAAP Reconciliations

HOW TOMORROW MOVES



# FOURTH QUARTER EARNINGS SUMMARY

## Fourth Quarter Income Statement

Dollars in millions	GAAP	Adjustments	Non-GAAP
Revenue	\$ 2,863	\$ -	\$ 2,863
Expense			
Labor and Fringe	665	-	665
Materials, Supplies and Other	524	-	524
Depreciation	337	-	337
Fuel	243	-	243
Equipment and Other Rents	116	-	116
Restructuring Charge	29	(29)	-
Equity Earnings of Affiliates	(172)	142	(30)
Total Expense	1,742	113	1,855
Operating Income	1,121	(113)	1,008
Interest Expense	(140)	-	(140)
Debt Repurchase Expense	-	-	-
Other Income – Net	2	1	3
Income Tax Benefit (Expense)	3,157	(3,455)	(298)
Net Earnings	\$ 4,140	\$ (3,567)	\$ 573
Earnings Per Share	\$ 4.62	\$ (3.98)	\$ 0.64
Operating Ratio	60.9%	390 bps	64.8%

Note: Non-GAAP is adjusted for the impacts of restructuring charge and tax reform benefit





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