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CSX  
TM

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# 2018 Annual Report



# About CSX

## CSX Network Map

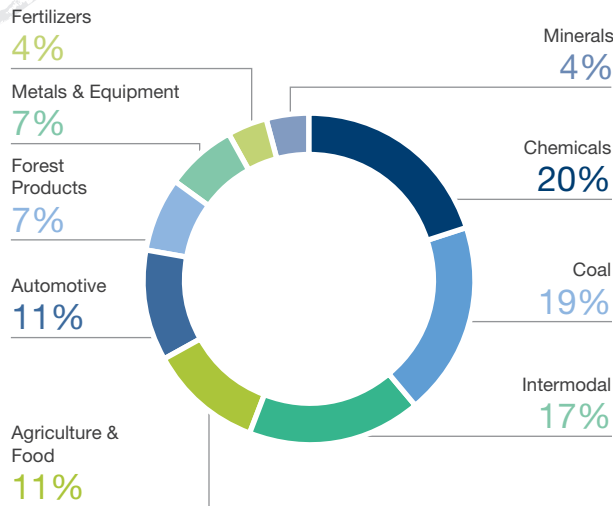
Our network reaches nearly two-thirds of the U.S. population...



CSX is a leading supplier of rail-based freight transportation in North America.

## CSX Revenue Mix\*

...and reaches a diverse customer base.



\* Excludes Other Revenue

## In This Report

- i** Becoming the Best Run Railroad in North America
- iii** Our Performance
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- IBC** Our Board of Directors and Executive Management



# Becoming the Best Run Railroad in North America

## Dear Fellow Shareholders,

To be the best run railroad in North America is more than an aspiration at CSX; it's the *inspiration* that drives us every day to become the industry's premier railroad and grow our business through unprecedented customer service. CSX's outstanding team of railroaders have made significant progress in the implementation of our transformational operating model and in 2018 produced record operating and financial results. The path to achieving operational excellence in safety, service and efficiency is clear and we will deliver.

Five foundational principles guide us — operate safely, improve customer service, control costs, optimize asset utilization and value and develop employees. In 2018, CSX further streamlined the rail network, simplified our operating plan and increased the productivity and effectiveness of our employees and assets. Customers' valued products now move across the network on more direct routes and without unnecessary handlings. Far fewer railcars and locomotives are now employed to move more volumes of freight, resulting in historic lows in average railcar dwell time and record highs in average train velocity. To support these improvements, CSX greatly increased organizational efficiency by realigning our operating teams, decentralizing functions and empowering local decision making by employees in the field.

Improvements in operating performance translated into stronger financial results. CSX's 2018 operating ratio was 60.3%, surpassing our goal for the year and setting a U.S. Class I Railroad record. In fact, we met or exceeded all of our financial goals for 2018 — for the second consecutive year. Adjusted earnings per share grew by 67%\*, adjusted free cash flow improved by 88%\* and revenues increased by 7%. CSX also returned more than \$5.4 billion to our shareholders through dividends and share repurchases, doubling our 2017 total.

I am proud of our achievements in 2018 and the benefits we delivered to shareholders, customers and other stakeholders. Ultimately, however, to be the best, CSX must be the safest railroad in North America. Although CSX made improvements to our safety performance in 2018, all CSX railroaders know that we must do better. Increased training and employee safety programs that focus on identifying root causes and

### CSX Guiding Principles



**Operate Safely**



**Improve Customer Service**



**Control Costs**



**Optimize Asset Utilization**



**Value and Develop Employees**

\* See reconciliations of these non-GAAP measures to corresponding GAAP measures in the Non-GAAP Measures section of the Company's 2018 Form 10-K.



**I am proud of our achievements in 2018 and the benefits we delivered to shareholders, customers and other stakeholders.**

emphasize the personal accountability of every employee at CSX will assist us as we move forward, and 2019 safety performance targets have been added to our annual incentive bonus program.

Have we arrived at the final destination of our transformation journey? No. The progress CSX has made since the transformation of the company began in early 2017 is remarkable. But there is still much work to be done. We will continue to relentlessly identify and eliminate every unnecessary step, every unproductive asset and resource, every extra mile and every extra car handling that does not contribute to the quality and consistency of our transportation product.

Most important, CSX is instilling a new culture by embedding our guiding principles throughout the company. CSX is investing in employees through frontline supervisor training and career development opportunities, and making CSX a better and more rewarding place to work. The company is committed to demonstrating that we value our employees, because they drive the value of CSX.

There is so much more work to do, but this company has never been in a better position to grow our business. CSX is able to offer a more reliable and high-quality service that can truly compete with trucks over a much greater range of moves. CSX is not just a purveyor of a commodity, but rather a key strategic partner that can deliver enhanced service that is valued by our customers.

Our goal of being The Best Run Railroad in North America is clearly in our sights, inspiring us to ever-greater achievements.

**James M. Foote**

President and Chief Executive Officer

## Focus on Safety

**CSX devoted significant attention and resources to improving the company's safety performance in 2018.**

- ✓ Chief Safety Officer with strong regulatory and compliance background was added to CSX's leadership team
- ✓ Comprehensive safety assessment performed by a renowned safety consultant
- ✓ Adoption of safety program enhancements including renewed focus on operating rules compliance
- ✓ Revised discipline policy placing greater emphasis on education over punitive suspensions
- ✓ Federal Railroad Administration-reportable injuries dropped to 0.99 for 2018



# Our Performance

## Financial Performance

### REVENUE (\$ MILLIONS)

**+7%**

2017 \$11,408

2018 \$12,250

### OPERATING INCOME (\$ MILLIONS)

**+28%**

2017 \$3,818 (Adjusted)\*

2018 \$4,869

### OPERATING RATIO

**620 bps (favorable)**

2017 66.5% (Adjusted)\*

2018 60.3%

### NET EARNINGS PER SHARE (\$)

**+67%**

2017 \$2.30 (Adjusted)\*

2018 \$3.84

## Free Cash Flow and Returns to Shareholders

### ADJUSTED FREE CASH FLOW BEFORE DIVIDENDS (\$ MILLIONS)\*

**+88%**

2017 \$1,701

2018 \$3,199

### DIVIDENDS PER SHARE (\$)

**+13%**

2017 \$0.78

2018 \$0.88

### SHAREHOLDER DISTRIBUTIONS (\$ MILLIONS)

**+102%**

2017 \$2,678

2018 \$5,422

\* See reconciliations of these non-GAAP measures to corresponding GAAP measures in the Non-GAAP Measures section of the Company's 2018 Form 10-K.



# Our Strategy

## Scheduled Railroading

Scheduled railroading is transforming CSX into a more efficient and reliable railroad. Based on five guiding principles — safety, service, cost control, asset utilization and people — scheduled railroading is both an operating model and a shared commitment to excellence.

### Operate Safely

Maintain 100% compliance with safety and operating rules 100% of the time to protect our employees, our customers' freight and the communities in which we operate.

### Improve Customer Service

Do what we say we are going to do. Know your customer and understand how you can drive value. Proactively communicate at all times including when we cannot meet our commitments.

### Control Costs

Eliminate unnecessary steps that add complexity and costs.

### Optimize Asset Utilization

Do more with less by maximizing the value of our assets through increased transit speed and lower dwell.

### Value and Develop Employees

Act with integrity, make sure employees know what is expected of them and reward them when they do the right things, and always strive to get better.

## Results of Scheduled Railroading at CSX

We've gone from 12 to 5  
Hump Yards

Streamlined our  
workforce by over  
4,000

Removed 1,100+  
Locomotives  
from our active fleet

Improved **efficiency** and  
**network fluidity** through  
improved business  
processes

Consolidated 9 Dispatch  
Offices to 1

**Dwell** and **velocity** at  
record levels

Removed over 28,000  
Railcars from our network

We've gone from  
10 to 6 **Locomotive Shops**  
while still delivering a  
decrease in failures

**The quality of our service product is better than it has ever been in the history of CSX.**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-K**

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8022



**CSX CORPORATION**

(Exact name of registrant as specified in its charter)

**Virginia**

**62-1051971**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**500 Water Street, 15th Floor, Jacksonville, FL**

**32202**

**(904) 359-3200**

(Address of principal executive offices)

(Zip Code)

(Telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class

Name of exchange on which registered

Common Stock, \$1 Par Value

Nasdaq Global Select Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes (X) No ( )

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ( ) No (X)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer (X) Accelerated Filer ( ) Non-accelerated Filer ( ) Smaller reporting company ( )

Emerging growth company ( )

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ( )

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes ( ) No (X)

On June 30, 2018 (which is the last day of the second quarter and the required date to use), the aggregate market value of the Registrant's voting stock held by non-affiliates was approximately \$46 billion (based on the close price as reported on the NASDAQ National Market System on such date).

There were 815,630,366 shares of Common Stock outstanding on January 31, 2019 (the latest practicable date that is closest to the filing date).

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") to be filed no later than 120 days after the end of the fiscal year with respect to its 2019 annual meeting of shareholders.

**CSX CORPORATION**  
**FORM 10-K**  
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# CSX CORPORATION

## PART I

### Item 1. Business

CSX Corporation (“CSX”), and together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation’s leading transportation companies. The Company provides rail-based freight transportation services including traditional rail service, the transport of intermodal containers and trailers, as well as other transportation services such as rail-to-truck transfers and bulk commodity operations. CSX and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce and is critical to the long-term economic success and improved global competitiveness of the United States. In addition, freight railroads provide the most economical and environmentally efficient means to transport goods over land.

#### *CSX Transportation, Inc.*

CSX’s principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 20,500 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. It has access to over 70 ocean, river and lake port terminals along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. This access allows the Company to meet the dynamic transportation needs of manufacturers, industrial producers, the automotive industry, construction companies, farmers and feed mills, wholesalers and retailers, and energy producers. The Company’s intermodal business links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections with other Class I railroads and approximately 230 short-line and regional railroads.

CSXT is also responsible for the Company’s real estate sales, leasing, acquisition and management and development activities after a merger with CSX Real Property, Inc., a former wholly-owned CSX subsidiary, on July 1, 2017. In addition, as substantially all real estate sales, leasing, acquisition and management and development activities are focused on supporting railroad operations, all results of these activities are included in operating income beginning in 2017. Previously, the results of these activities were classified as operating or non-operating based on the nature of the activity and were not material for any prior periods presented.

# CSX CORPORATION

## PART I

### *Lines of Business*

During 2018, the Company's services generated \$12.3 billion of revenue and served three primary lines of business: merchandise, coal and intermodal.

- The merchandise business shipped 2.7 million carloads (41 percent of volume) and generated 61 percent of revenue in 2018. The Company's merchandise business is comprised of shipments in the following diverse markets: chemicals, automotive, agricultural and food products, minerals, fertilizers, forest products, and metals and equipment.
- The coal business shipped 887 thousand carloads (14 percent of volume) and generated 18 percent of revenue in 2018. The Company transports domestic coal, coke and iron ore to electricity-generating power plants, steel manufacturers and industrial plants as well as export coal to deep-water port facilities. Roughly one-third of export coal and the majority of the domestic coal that the Company transports is used for generating electricity.
- The intermodal business shipped 2.9 million units (45 percent of volume) and generated 16 percent of revenue in 2018. The intermodal business combines the superior economics of rail transportation with the short-haul flexibility of trucks and offers a cost advantage over long-haul trucking. Through a network of more than 30 terminals, the intermodal business serves all major markets east of the Mississippi River and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments.

Other revenue accounted for 5 percent of the Company's total revenue in 2018. This category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching, other incidental charges and adjustments to revenue reserves. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars or other equipment are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

### *Other Entities*

In addition to CSXT, the Company's subsidiaries include CSX Intermodal Terminals, Inc. ("CSX Intermodal Terminals"), Total Distribution Services, Inc. ("TDSI"), Transflo Terminal Services, Inc. ("Transflo"), CSX Technology, Inc. ("CSX Technology") and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the pickup and delivery of intermodal shipments) for certain customers and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations. Transflo connects non-rail served customers to the many benefits of rail by transferring products from rail to trucks. The biggest Transflo markets are chemicals and agriculture, which includes shipments of plastics and ethanol. CSX Technology and other subsidiaries provide support services for the Company.

### *Employees*

The Company's number of employees was approximately 22,500 as of December 2018, which includes approximately 18,500 union employees. Most of the Company's employees provide or support transportation services.

### **Scheduled Railroading**

In 2018, the Company continued transforming its operating model to scheduled railroading, which is focused on developing and strictly maintaining a scheduled service plan with an emphasis on optimizing assets. When the operating model is executed effectively, customer service is improved, costs are reduced and free cash flow is generated, allowing financial growth. The Company's leadership team includes James M. Foote, Chief Executive Officer, as well as several other leaders with extensive scheduled railroading experience.

# CSX CORPORATION

## PART I

### Financial Information

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for operating revenue, operating income and total assets for each of the last three fiscal years.

### Company History

A leader in freight rail transportation for more than 190 years, the Company's heritage dates back to the early nineteenth century when The Baltimore and Ohio Railroad Company ("B&O") – the nation's first common carrier – was chartered in 1827. Since that time, the Company has built on this foundation to create a railroad that could safely and reliably service the ever-increasing demands of a growing nation.

Since its founding, numerous railroads have combined with the former B&O through merger and consolidation to create what has become CSX. Each of the railroads that combined into the CSX family brought new geographical reach to valuable markets, gateways, cities, ports and transportation corridors.

CSX was incorporated in 1978 under Virginia law. In 1980, the Company completed the merger of the Chessie System and Seaboard Coast Line Industries into CSX. The merger allowed the Company to connect northern population centers and Appalachian coal fields to growing southeastern markets. Later, the Company's acquisition of key portions of Conrail, Inc. ("Conrail") allowed CSXT to link the northeast, including New England and the New York metropolitan area, with Chicago and midwestern markets as well as the growing areas in the Southeast already served by CSXT. This current rail network allows the Company to directly serve every major market in the eastern United States with safe, dependable, environmentally responsible and fuel efficient freight transportation and intermodal service.

### Competition

The business environment in which the Company operates is highly competitive. Shippers typically select transportation providers that offer the most compelling combination of service and price. Service requirements, both in terms of transit time and reliability, vary by shipper and commodity. As a result, the Company's primary competition varies by commodity, geographic location and mode of available transportation and includes other railroads, motor carriers that operate similar routes across its service area and, to a less significant extent, barges, ships and pipelines.

CSXT's primary rail competitor is Norfolk Southern Railway, which operates throughout much of the Company's territory. Other railroads also operate in parts of the Company's territory. Depending on the specific market, competing railroads and deregulated motor carriers may exert pressure on price and service levels. For further discussion on the risk of competition to the Company, see Item 1A. Risk Factors.

### Regulatory Environment

The Company's operations are subject to various federal, state, provincial (Canada) and local laws and regulations generally applicable to businesses operating in the United States and Canada. In the U.S., the railroad operations conducted by the Company's subsidiaries, including CSXT, are subject to the regulatory jurisdiction of the Surface Transportation Board ("STB"), the Federal Railroad Administration ("FRA"), and its sister agency within the U.S. Department of Transportation ("DOT"), the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). Together, FRA and PHMSA have broad jurisdiction over railroad operating standards and practices, including track, freight cars, locomotives and hazardous materials requirements. In addition, the U.S. Environmental Protection Agency ("EPA") has regulatory authority with respect to matters that impact the Company's properties and operations.

The Transportation Security Administration ("TSA"), a component of the Department of Homeland Security, has broad authority over railroad operating practices that may have homeland security implications. In Canada, the railroad operations conducted by the Company's subsidiaries, including CSXT, are subject to the regulatory jurisdiction of the Canadian Transportation Agency.

## CSX CORPORATION PART I

Although the Staggers Act of 1980 significantly deregulated the U.S. rail industry, the STB has broad jurisdiction over rail carriers. The STB regulates routes, fuel surcharges, conditions of service, rates for non-exempt traffic, acquisitions of control over rail common carriers and the transfer, extension or abandonment of rail lines, among other railroad activities.

### *Positive Train Control*

In 2008, Congress enacted the Rail Safety Improvement Act (the "RSIA"). The legislation included a mandate that all Class I freight railroads implement an interoperable positive train control system ("PTC") by December 31, 2015. Implementation of a PTC system is designed to prevent train-to-train collisions, over-speed derailments, incursions into established work-zone limits, and train diversions onto another set of tracks. On October 29, 2015, the President of the United States signed the Positive Train Control Enforcement and Implementation Act of 2015 into law extending the deadline. In accordance with this Act, the Company completed installation of all PTC hardware by December 31, 2018. As the Company has met all criteria required by the Act and been approved for an extension by the FRA, the PTC system is now required to be fully operational by December 31, 2020. CSX remains on track to meet this regulatory requirement.

PTC must be installed on all main lines with passenger and commuter operations as well as most of those over which toxic-by-inhalation hazardous materials are transported. The Company expects to continue incurring capital costs in connection with the implementation of PTC as well as related ongoing operating expenses. CSX currently estimates that the total multi-year cost of PTC implementation will be approximately \$2.4 billion for the Company. Total PTC investment through 2018 was \$2.2 billion.

### *STB Proceedings*

New rules regarding, among other things, competitive access or revenue adequacy could have a material adverse effect on the Company's financial condition, results of operations and liquidity as well as its ability to invest in enhancing and maintaining vital infrastructure. For further discussion on regulatory risks to the Company, see Item 1A. *Risk Factors*.

### **Other Information**

CSX makes available on its website [www.csx.com](http://www.csx.com), free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). The information on the CSX website is not part of this annual report on Form 10-K. Additionally, the Company has posted its code of ethics on its website, which is also available to any shareholder who requests it. This Form 10-K and other SEC filings made by CSX are also accessible through the SEC's website at [www.sec.gov](http://www.sec.gov).

CSX has included the certifications of its Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") required by Section 302 of the Sarbanes-Oxley Act of 2002 ("the Act") as Exhibit 31, as well as Section 906 of the Act as Exhibit 32 to this Form 10-K report.

The information set forth in Item 6. Selected Financial Data is incorporated herein by reference. For additional information concerning business conducted by the Company during 2018, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**CSX CORPORATION**  
**PART I**

**Item 1A. Risk Factors**

The risks set forth in the following risk factors could have a materially adverse effect on the Company's financial condition, results of operations or liquidity, and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements. Additional risks and uncertainties not currently known to the Company or that the Company currently does not deem to be material also may materially impact the Company's financial condition, results of operations or liquidity.

***New legislation or regulatory changes could impact the Company's earnings or restrict its ability to independently negotiate prices.***

Legislation passed by Congress, new regulations issued by federal agencies or executive orders issued by the President of the United States could significantly affect the revenues, costs and profitability of the Company's business. In addition, statutes imposing price constraints or affecting rail-to-rail competition could adversely affect the Company's profitability.

***Government regulation and compliance risks may adversely affect the Company's operations and financial results.***

The Company is subject to the jurisdiction of various regulatory agencies, including the STB, FRA, PHMSA, TSA, EPA and other state, provincial and federal regulatory agencies for a variety of economic, health, safety, labor, environmental, tax, legal and other matters. New or modified rules or regulations by these agencies could increase the Company's operating costs or reduce operating efficiencies and impact service performance. For example, the RSIA, as amended, mandated that the installation of PTC hardware be completed by December 31, 2018 and requires that the PTC system be fully operational by December 31, 2020 on main lines that carry certain hazardous materials and on lines that have commuter or passenger operations. Although CSX remains on track to meet this regulatory requirement, noncompliance with these and other applicable laws or regulations could erode public confidence in the Company and can subject the Company to fines, penalties and other legal or regulatory sanctions.

***CSXT, as a common carrier by rail, is required by law to transport hazardous materials, which could expose the Company to significant costs and claims.***

A train accident involving the transport of hazardous materials could result in significant claims arising from personal injury, property or natural resource damage, environmental penalties and remediation obligations. Such claims, if insured, could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates. Under federal regulations, CSXT is required to transport hazardous materials under the legal duty referred to as the common carrier mandate.

CSXT is also required to comply with regulations regarding the handling of hazardous materials. In November 2008, the TSA issued final rules placing significant new security and safety requirements on passenger and freight railroad carriers, rail transit systems and facilities that ship hazardous materials by rail. Noncompliance with these rules can subject the Company to significant penalties and could be a factor in litigation arising out of a train accident. Finally, legislation preventing the transport of hazardous materials through certain cities could result in network congestion and increase the length of haul for hazardous substances, which could increase operating costs, reduce operating efficiency or increase the risk of an accident involving the transport of hazardous materials.

***Network constraints could have a negative impact on service and operating efficiency.***

CSXT could experience rail network difficulties related to: (i) increased volume; (ii) locomotive or crew shortages; (iii) extreme weather conditions; (iv) impacts from changes in yard capacity, or network structure or composition, including train routes; (v) increased passenger activities; or (vi) regulatory changes impacting where and how fast CSXT can transport freight or maintain routes, which could have a negative effect on CSXT's operational fluidity, leading to deterioration of service, asset utilization and overall efficiency.

**CSX CORPORATION**  
**PART I**

***Global economic conditions could negatively affect demand for commodities and other freight.***

A decline or disruption in general domestic and global economic conditions that affects demand for the commodities and products the Company transports, including import and export volume, could reduce revenues or have other adverse effects on the Company's cost structure and profitability. For example, if the rate of economic growth in Asia slows, European economies contract, or if the global supply of seaborne coal or price of seaborne coal changes from its current levels, U.S. export coal volume could be adversely impacted resulting in lower revenue for CSX. Additionally, changes to trade agreements or policies could result in reduced import and export volumes due to increased tariffs and lower consumer demand. If the Company experiences significant declines in demand for its transportation services with respect to one or more commodities and products, the Company may experience reduced revenue and increased operating costs, workforce adjustments, and other related activities, which could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

***Changing dynamics in the U.S. and global energy markets could negatively impact profitability.***

Increases in production and source locations of natural gas in the U.S. have resulted in lower natural gas prices in CSX's service territory. As a result of sustained low natural gas prices, many coal-fired power plants have been displaced by natural gas-fired power generation facilities. If natural gas prices were to remain low, additional coal-fired plants could be displaced, which would likely further reduce the Company's domestic coal volumes and revenues. Additionally, crude oil prices combined with increased pipeline activity have resulted in volatility in domestic crude oil production, which has affected crude oil volumes for CSX.

***The Company relies on the security, stability and availability of its technology systems to operate its business.***

The Company relies on information technology in all aspects of its business. The performance and reliability of the Company's technology systems are critical to its ability to operate and compete safely and effectively. A cybersecurity attack, which is a deliberate theft of data or impairment of information technology systems, or other significant disruption or failure, could result in a service interruption, train accident, misappropriation of confidential information, process failure, security breach or other operational difficulties. Such an event could result in decreased revenues and increased capital, insurance or operating costs, including increased security costs to protect the Company's infrastructure. Insurance maintained by the Company to protect against loss of business and other related consequences resulting from cyber incidents may not be sufficient to cover all damages. A disruption or compromise of the Company's information technology systems, even for short periods of time, could have a material adverse effect.

***Climate change and other emissions-related laws and regulations could adversely affect the Company's operations and financial results.***

Climate change and other emissions-related laws and regulations have been proposed and, in some cases adopted, on the federal, state, provincial and local levels. These final and proposed laws and regulations take the form of restrictions, caps, taxes or other controls on emissions. In particular, the EPA has issued various regulations and may issue additional regulations targeting emissions, including rules and standards governing emissions from certain stationary sources and from vehicles.

Any of these pending or proposed laws or regulations could adversely affect the Company's operations and financial results by, among other things: (i) reducing coal-fired electricity generation due to mandated emission standards; (ii) reducing the consumption of coal as a viable energy resource in the United States and Canada; (iii) increasing the Company's fuel, capital and other operating costs and negatively affecting operating and fuel efficiencies; and (iv) making it difficult for the Company's customers in the U.S. and Canada to produce products in a cost competitive manner. Any of these factors could reduce the amount of shipments the Company handles and have a material adverse effect on the Company's financial condition, results of operations or liquidity.

**CSX CORPORATION**  
**PART I**

***The Company is subject to environmental laws and regulations that may result in significant costs.***

The Company is subject to wide-ranging federal, state, provincial and local environmental laws and regulations concerning, among other things, emissions into the air, ground and water; the handling, storage, use, generation, transportation and disposal of waste and other materials; the clean-up of hazardous material and petroleum releases and the health and safety of our employees. If the Company violates or fails to comply with these laws and regulations, CSX could be fined or otherwise sanctioned by regulators. The Company can also be held liable for consequences arising out of human exposure to any hazardous substances for which CSX is responsible. In certain circumstances, environmental liability can extend to formerly owned or operated properties, leased properties, adjacent properties and properties owned by third parties or Company predecessors, as well as to properties currently owned, leased or used by the Company.

The Company has been, and may in the future be, subject to allegations or findings to the effect that it has violated, or is strictly liable under, environmental laws or regulations, and such violations can result in the Company's incurring fines, penalties or costs relating to the clean-up of environmental contamination. Although the Company believes it has appropriately recorded current and long-term liabilities for known and reasonably estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. The Company also may be required to incur significant expenses to investigate and remediate known, unknown or future environmental contamination.

***Disruption of the supply chain could negatively affect operating efficiency and increase costs.***

The capital intensive nature and sophistication of core rail equipment (including rolling stock equipment, locomotives, rail, and ties) limits the number of railroad equipment suppliers. If any of the current manufacturers stops production or experiences a supply shortage, CSXT could experience a significant cost increase or material shortage. In addition, a few critical railroad suppliers are foreign and, as such, adverse developments in international relations, new trade regulations, disruptions in international shipping or increases in global demand could make procurement of these supplies more difficult or increase CSXT's operating costs. Additionally, if a fuel supply shortage were to arise, the Company would be negatively impacted.

***The Company faces competition from other transportation providers.***

The Company experiences competition in pricing, service, reliability and other factors from various transportation providers including railroads and motor carriers that operate similar routes across its service area and, to a less significant extent, barges, ships and pipelines. Other transportation providers generally use public rights-of-way that are built and maintained by governmental entities, while CSXT and other railroads must build and maintain rail networks largely using internal resources. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation such as through the use of automation, autonomy or electrification, or legislation providing for less stringent size or weight restrictions on trucks, could negatively impact the Company's competitive position. Additionally, any future consolidation in the rail industry could materially affect the regulatory and competitive environment in which the Company operates.

**CSX CORPORATION**  
**PART I**

***Future acts of terrorism, war or regulatory changes to combat the risk of terrorism may cause significant disruptions in the Company's operations.***

Terrorist attacks, along with any government response to those attacks, may adversely affect the Company's financial condition, results of operations or liquidity. CSXT's rail lines, other key infrastructure and information technology systems may be targets or indirect casualties of acts of terror or war. This risk could cause significant business interruption and result in increased costs and liabilities and decreased revenues. In addition, premiums charged for some or all of the insurance coverage currently maintained by the Company could increase dramatically, or the coverage may no longer be available.

Furthermore, in response to the heightened risk of terrorism, federal, state and local governmental bodies are proposing and, in some cases, have adopted legislation and regulations relating to security issues that impact the transportation industry. For example, the Department of Homeland Security adopted regulations that require freight railroads to implement additional security protocols when transporting hazardous materials. Complying with these or future regulations could continue to increase the Company's operating costs and reduce operating efficiencies.

***Severe weather or other natural occurrences could result in significant business interruptions and expenditures in excess of available insurance coverage.***

The Company's operations may be affected by external factors such as severe weather and other natural occurrences, including floods, fires, hurricanes and earthquakes. As a result, the Company's rail network may be damaged, its workforce may be unavailable, fuel costs may rise and significant business interruptions could occur. In addition, the performance of locomotives and railcars could be adversely affected by extreme weather conditions. Insurance maintained by the Company to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of the Company's damages or damages to others, and this insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of service, the Company may not be able to restore service without a significant interruption in operations.

***The Company may be subject to various claims and lawsuits that could result in significant expenditures.***

As part of its railroad and other operations, the Company is subject to various claims and lawsuits related to disputes over commercial practices, labor and unemployment matters, occupational and personal injury claims, property damage, environmental and other matters. The Company may experience material judgments or incur significant costs to defend existing and future lawsuits. Although the Company maintains insurance to cover some of these types of claims and establishes reserves when appropriate, final amounts determined to be due on any outstanding matters may exceed the Company's insurance coverage or differ materially from the recorded reserves. Additionally, the Company could be impacted by adverse developments not currently reflected in the Company's reserve estimates.



**CSX CORPORATION**  
**PART I**

***Failure to complete negotiations on collective bargaining agreements could result in strikes and/or work stoppages.***

Most of CSX's employees are represented by labor unions and are covered by collective bargaining agreements. Approximately 70 percent of these agreements are bargained for nationally by the National Carriers Conference Committee and negotiated over the course of several years and previously have not resulted in any extended work stoppages. Under the Railway Labor Act's procedures (which include mediation, cooling-off periods and the possibility of an intervention by the President of the United States), during negotiations neither party may take action until the procedures are exhausted. If, however, CSX is unable to negotiate acceptable agreements, the employees covered by the Railway Labor Act could strike, which could result in loss of business and increased operating costs as a result of higher wages or benefits paid to union members. Additionally, from time to time, the Company enters into CSX-specific, or "local", bargaining agreements which could also be critical to the Company.

***The unavailability of critical resources could adversely affect the Company's operational efficiency and ability to meet demand.***

Marketplace conditions for resources like locomotives as well as the availability of qualified personnel, particularly engineers and conductors, could each have a negative impact on the Company's ability to meet demand for rail service. Although the Company believes that it has adequate personnel for the current business environment, unpredictable increases in demand for rail services or extreme weather conditions may exacerbate such risks, which could have a negative impact on the Company's operational efficiency and otherwise have a material adverse effect on the Company's financial condition, results of operations, or liquidity in a particular period.

***Weaknesses in the capital and credit markets could negatively impact the Company's access to capital.***

The Company regularly relies on capital markets for the issuance of long-term debt instruments, commercial paper and bank financing from time to time. Instability or disruptions of the capital markets, including credit markets, or the deterioration of the Company's financial condition due to internal or external factors, could restrict or prohibit access and could increase the cost of financing sources. A significant deterioration of the Company's financial condition could also reduce credit ratings and could limit or affect its access to external sources of capital and increase the costs of short and long-term debt financing.

**Item 1B. Unresolved Staff Comments**

None

**CSX CORPORATION**  
**PART I**

**Item 2. Properties**

The Company's properties primarily consist of track and its related infrastructure, locomotives and freight cars and equipment. These categories and the geography of the network are described below.

*Track and Infrastructure*

Serving 23 states, the District of Columbia, and the Canadian provinces of Ontario and Quebec, the CSXT rail network serves, among other markets, New York, Philadelphia and Boston in the Northeast and Mid-Atlantic, the southeast markets of Atlanta, Miami and New Orleans, and the midwestern markets of St. Louis, Memphis and Chicago.

CSXT's track structure includes mainline track, connecting terminals and yards, track within terminals and switching yards, sidings used for passing trains, track connecting CSXT's track to customer locations and track that diverts trains from one track to another known as turnouts. Total track miles, which reflect the size of CSXT's network that connects markets, customers and western railroads, are greater than CSXT's approximately 20,500 route miles. At December 2018, the breakdown of track miles was as follows:

	<b>Track Miles</b>
Mainline track	26,286
Terminals and switching yards	9,350
Passing sidings and turnouts	921
Total	<u>36,557</u>

In addition to its physical track structure, the Company operates numerous yards and terminals for rail and intermodal service. These serve as points of connectivity between the Company and its local customers and as sorting facilities where railcars and intermodal containers are received, classed for destination and placed onto outbound trains, or arrive and are delivered to the customer. As part of the transition to scheduled railroading, CSX converted a number of hump yards to flat switching operations which allows for less intermediate processing and the opportunity to improve transit time. The Company's largest yards and terminals based on 2018 volume (number of railcars or intermodal containers processed) are listed below.

**Yards and Terminals**

---

Bedford Park Intermodal Terminal - Chicago, IL  
Waycross, GA  
Selkirk, NY  
Avon, IN (Indianapolis)  
Cincinnati, OH  
Nashville, TN  
Louisville, KY  
Walbridge, OH (Toledo)  
Rocky Mount, NC  
Chicago, IL

## CSX CORPORATION PART I

### *Network Geography*

CSXT's operations are primarily focused on four major transportation networks and corridors which are defined geographically and by commodity flows below.

Interstate 90 (I-90) Corridor – This CSXT corridor links Chicago and the Midwest to metropolitan areas in New York and New England. This route, also known as the “waterlevel route,” has minimal hills and grades and nearly all of it has two main tracks (referred to as double track). These engineering attributes permit the corridor to support high-speed service across intermodal, automotive and merchandise commodities. This corridor is a primary route for import traffic coming from the far east through western ports moving eastward across the country, through Chicago and into the population centers in the Northeast. The I-90 Corridor is also a critical link between ports in New York, New Jersey, and Pennsylvania and consumption markets in the Midwest. This route carries goods from all three of the Company's major markets – merchandise, coal and intermodal.

Interstate 95 (I-95) Corridor – The CSXT I-95 Corridor connects Charleston, Jacksonville, Miami and many other cities throughout the Southeast with the heavily populated mid-Atlantic and northeastern cities of Baltimore, Philadelphia and New York. CSXT primarily transports food and consumer products, as well as metals and chemicals along this line. It is the leading rail corridor along the eastern seaboard south of the District of Columbia, and provides access to major eastern ports.

Southeastern Corridor – This critical part of the network runs between CSXT's western gateways of Chicago, St. Louis and Memphis through the cities of Nashville, Birmingham, and Atlanta and markets in the Southeast. The Southeastern Corridor is the premier rail route connecting these key cities, gateways, and markets and positions CSXT to efficiently handle projected traffic volumes of intermodal, automotive and general merchandise traffic. The corridor also provides direct rail service between the coal reserves of the southern Illinois basin and the demand for coal in the Southeast.

Coal Network – The CSXT coal network connects the coal mining operations in the Appalachian mountain region and Illinois basin with industrial areas in the Southeast, Northeast and Mid-Atlantic, as well as many river, lake, and deep water port facilities. The domestic coal market has declined significantly over the past several years and export coal remains subject to a high degree of volatility. CSXT's coal network remains well positioned to supply utility markets in both the Northeast and Southeast and to transport coal shipments for export outside of the U.S. Roughly one-third of the tons of export coal and the majority of the domestic coal that the Company transports is used for generating electricity.

See the following page for a map of the CSX Rail Network. Also included on the map, CSX Operating Agreement indicates areas within which CSX can operate through trackage rights beyond the CSX network.

**CSX CORPORATION  
PART I**

**CSX Rail Network**



**CSX CORPORATION  
PART I**

*Locomotives*

At December 2018, CSXT owned nearly 3,900 locomotives. From time to time, the Company also short-term leases locomotives based on business needs. Freight locomotives are used primarily to pull trains while switching locomotives are used in yards. Auxiliary units are typically used to provide extra traction for heavy trains in hilly terrain. At December 2018, CSXT's fleet of owned locomotives consisted of the following types:

	<b>Locomotives</b>	<b>%</b>	<b>Average Age (years)</b>
Freight	3,440	88%	20
Switching	254	7%	37
Auxiliary Units	204	5%	24
Total	3,898	100%	21

*Equipment*

At any time, over half of the railcars on the CSXT system are not owned or leased by the Company. Examples of these include railcars owned by other railroads (which are utilized by CSXT), shipper-furnished or private cars (which are generally used only in that shipper's service), multi-level railcars used to transport automobiles (which are shared between railroads) and double-stack railcars, or well cars (which are industry pooled), that allow for two intermodal containers to be loaded one above the other.

At December 2018, the Company's owned and long-term leased equipment consisted of the following:

<b>Equipment</b>	<b>Number of Units</b>	<b>%</b>
Gondolas	19,388	36%
Multi-level flat cars	11,476	22%
Covered hoppers	8,570	16%
Open-top hoppers	8,273	16%
Box cars	4,873	9%
Flat cars	533	1%
Other cars	266	—%
Subtotal freight cars	53,379	100%
Containers	18,051	
<b>Total equipment</b>	<b>71,430</b>	

## CSX CORPORATION PART I

The Company's revenue-generating equipment, either owned or long-term leased, consists of freight cars and containers as described below.

Gondolas – Support CSXT's metals markets and provide transport for woodchips and other bulk commodities. Some gondolas are equipped with special hoods for protecting products like coil and sheet steel.

Multi-level flat cars – Transport finished automobiles and are differentiated by the number of levels: bi-levels for large vehicles such as pickup trucks and SUVs and tri-levels for sedans and smaller automobiles.

Covered hoppers – Have a permanent roof and are segregated based upon commodity density. Lighter bulk commodities such as grain, fertilizer, flour, salt, sugar, clay and lime are shipped in large cars called jumbo covered hoppers. Heavier commodities like cement, ground limestone and industrial sand are shipped in small cube covered hoppers.

Open-top hoppers – Transport heavy dry bulk commodities such as coal, coke, stone, sand, ores and gravel that are resistant to weather conditions.

Box cars – Include a variety of tonnages, sizes, door configurations and heights to accommodate a wide range of finished products, including paper, auto parts, appliances and building materials. Insulated box cars deliver food products, canned goods, beer and wine.

Flat cars – Used for shipping intermodal containers and trailers or bulk and finished goods, such as lumber, pipe, plywood, drywall and pulpwood.

Other cars – Primarily leased refrigerator cars and slab steel cars.

Containers – Weather-proof boxes used for bulk shipment of freight.

### Item 3. Legal Proceedings

For further details, please refer to Note 7. Commitments and Contingencies of this annual report on Form 10-K.

#### *Environmental Proceedings That Could Result in Fines Above \$100,000*

In connection with a CSXT train derailment in Mount Carbon, West Virginia in February 2015, the Company paid a penalty of \$1.2 million to the United States federal government and a penalty of \$1.5 million to the State of West Virginia in January 2019 related to the release of product into the environment.

### Item 4. Mine Safety Disclosure

Not Applicable

**CSX CORPORATION  
PART I**

**Executive Officers of the Registrant**

Executive officers of the Company are elected by the CSX Board of Directors and generally hold office until the next annual election of officers. There are no family relationships or any arrangement or understanding between any officer and any other person pursuant to which such officer was elected. As of the date of this filing, the executive officers' names, ages and business experience are:

Name and Age	Business Experience During Past Five Years
<p>James M. Foote, 65 <i>President and Chief Executive Officer</i></p>	<p>Foote has served as President and Chief Executive Officer since December 2017. He joined CSX in October 2017 as Chief Operating Officer, with responsibility for both operations and sales and marketing.</p> <p>Mr. Foote has more than 40 years of railroad industry experience. Most recently, he was President and Chief Executive Officer of Bright Rail Energy. Before heading Bright Rail, he was Executive Vice President, Sales and Marketing with Canadian National Railway Company. At Canadian National, Mr. Foote also served as Vice President – Investor Relations and Vice President Sales and Marketing – Merchandise.</p>
<p>Frank A. Lonegro, 50 <i>Executive Vice President and Chief Financial Officer</i></p>	<p>Lonegro has served as Executive Vice President and Chief Financial Officer of CSX since September 2015. In this capacity, he directs all financial aspects of the company's business, including financial and economic analysis, accounting, tax, treasury and purchasing activities.</p> <p>In his 18 years with CSX, Mr. Lonegro has also served as Vice President Service Design, President of CSX Technology, Vice President Mechanical, and Vice President Internal Audit.</p>
<p>Edmond L. Harris, 69 <i>Executive Vice President of Operations</i></p>	<p>Harris has served as CSX's Executive Vice President of Operations since January 2018. In this role, he is responsible for mechanical, engineering, transportation and network operations.</p> <p>Mr. Harris has more than 40 years of railroad industry experience. Most recently, Mr. Harris served as a senior adviser to Global Infrastructure Partners, an independent fund that invests in infrastructure assets worldwide; Chairman of Omnitrax Rail Network; and Board Director for Universal Rail Services. His previous experience also includes having served as Chief Operations Officer at Canadian Pacific, and subsequently, a member of the Board. He also served as Executive Vice President of Operations at Canadian National.</p>
<p>Nathan D. Goldman, 61 <i>Executive Vice President and Chief Legal Officer, Corporate Secretary</i></p>	<p>Goldman has served as Executive Vice President and Chief Legal Officer, and Corporate Secretary of CSX since October 2017. In this role he directs the company's legal affairs, government relations, risk management, public safety, environmental, and audit functions.</p> <p>During his 15 years with the Company, Mr. Goldman has previously served as Vice President of Risk Compliance and General Counsel and has overseen work in compliance, risk management and safety programs.</p>

**CSX CORPORATION**  
**PART I**

<b>Name and Age</b>	<b>Business Experience During Past Five Years</b>
<p>Diana B. Sorfleet, 54 <i>Executive Vice President and Chief Administrative Officer</i></p>	<p>Sorfleet was named Executive Vice President and Chief Administrative Officer in July 2018. In this role, her responsibilities include human resources, labor relations, people systems and analytics, information technology, total rewards and aviation.</p> <p>During her 7 years with the Company, Ms. Sorfleet has previously served as Chief Human Resources Officer. Prior to joining CSX, she worked in human resources for 20 years.</p>
<p>Mark K. Wallace, 49 <i>Executive Vice President of Sales and Marketing</i></p>	<p>Wallace has served as Executive Vice President of Sales and Marketing since July 2018. In his current role, Mr. Wallace is responsible for the commercial organization, as well as real estate and facilities functions. He joined the Company in March 2017 and previously served as Executive Vice President and Chief Administrative Officer and Executive Vice President of Corporate Affairs and Chief of Staff to the CEO.</p> <p>Prior to joining CSX, he served as the Vice President of Corporate Affairs at Canadian Pacific Railway Limited with responsibility for the corporate communications and public affairs, investor relations, facilities and real estate functions. Prior to his time at Canadian Pacific, Mr. Wallace spent more than 15 years in various senior management positions with Canadian National Railway Company.</p>
<p>Angela C. Williams, 44 <i>Vice President and Controller</i></p>	<p>Williams has served as Vice President and Controller of CSX since March 2018. She is responsible for financial and regulatory reporting, freight billing and collections, payroll, accounts payable and various other accounting processes.</p> <p>During her 15 years with the Company, she previously served as Assistant Vice President - Assistant Controller and in other various accounting roles. Prior to joining CSX, she held various accounting and auditing positions for over 6 years. Ms. Williams is a Certified Public Accountant.</p>



**CSX CORPORATION**  
**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

CSX’s common stock is listed on the Nasdaq Global Select Market, which is its principal trading market, and is traded over-the-counter and on exchanges nationwide. The official trading symbol is “CSX.”

**Description of Common and Preferred Stock**

A total of 1.8 billion shares of common stock are authorized, of which 818,179,988 shares were outstanding as of December 31, 2018. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights, which are privileges extended to select shareholders that would allow them to purchase additional shares before other members of the general public in the event of an offering. At January 31, 2019, the latest practicable date that is closest to the filing date, there were 26,281 common stock shareholders of record. The weighted average of common shares outstanding, which was used in the calculation of diluted earnings per share, was 861 million as of December 31, 2018. (See Note 2, Earnings Per Share.) A total of 25 million shares of preferred stock is authorized, none of which is currently outstanding.

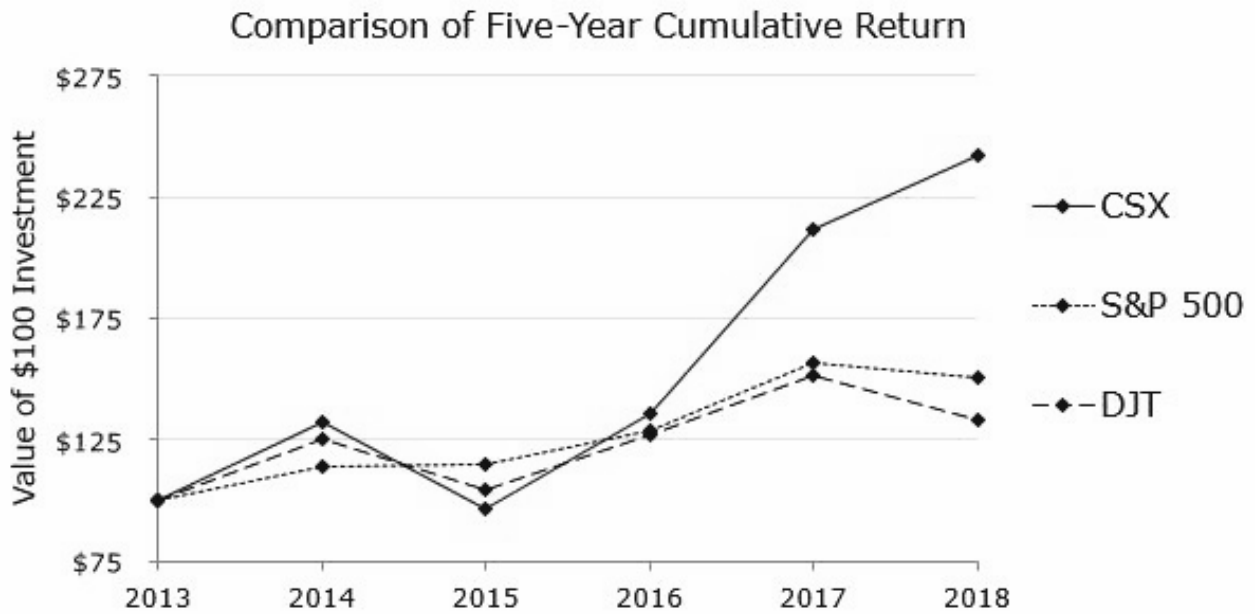
The following table sets forth, for the quarters indicated, the dividends declared and the high and low share prices of CSX common stock.

	Quarter				
	1st	2nd	3rd	4th	Year
<b>2018</b>					
<b>Dividends</b>	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.88
<b>Common Stock Price</b>					
<b>High</b>	\$ 60.04	\$ 67.69	\$ 76.24	\$ 75.66	\$ 76.24
<b>Low</b>	\$ 48.43	\$ 53.53	\$ 63.23	\$ 58.47	\$ 48.43
<b>2017</b>					
Dividends	\$ 0.18	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.78
Common Stock Price					
High	\$ 50.31	\$ 55.06	\$ 55.48	\$ 58.35	\$ 58.35
Low	\$ 35.59	\$ 46.04	\$ 47.99	\$ 48.26	\$ 35.59

## CSX CORPORATION PART II

### Stock Performance Graph

The cumulative shareholder returns, assuming reinvestment of dividends, on \$100 invested at December 31, 2013 are illustrated on the graph below. The Company references the Standard & Poor's 500 Stock Index ("S&P 500®"), and the Dow Jones U.S. Transportation Average Index, which provide comparisons to a broad-based market index and other companies in the transportation industry.



**CSX CORPORATION**  
**PART II**

**CSX Purchases of Equity Securities**

CSX purchases its own shares for two primary reasons: (1) to further its goals under its share repurchase programs and (2) to fund the Company's contribution required to be paid in CSX common stock under a 401(k) plan that covers certain union employees.

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized to \$5 billion. This program was completed on January 16, 2019. Also on January 16, 2019, the Company announced a new \$5 billion share repurchase program. The repurchases may be made through a variety of methods including, but not limited to, open market purchases, purchases pursuant to Rule 10b5-1 plans, accelerated share repurchases and negotiated block purchases. The timing of share repurchases depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

During 2018, 2017, and 2016, CSX repurchased the following shares:

	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Shares Repurchased ( <i>Units in Millions</i> )	72	39	38
Cost of Shares ( <i>Dollars in Millions</i> )	\$ 4,671	\$ 1,970	\$ 1,056
Average Price Paid per Share	\$ 64.64	\$ 50.80	\$ 27.52

During 2018, the Company entered into four accelerated share repurchase agreements to repurchase shares of the Company's common stock. Under these agreements, the Company paid \$1.5 billion and received approximately 22 million total shares, which are included in the table above.

Management's assessment of market conditions and other factors guide the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Shares are retired immediately upon repurchase. In accordance with the *Equity Topic* in the Accounting Standards Codification ("ASC"), the excess of repurchase price over par value is recorded in retained earnings. Generally, retained earnings are only otherwise impacted by net earnings and dividends.

Share repurchase activity of \$1.9 billion for the fourth quarter 2018 was as follows:

**CSX Purchases of Equity Securities for the Quarter**

<b>Fourth Quarter</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(a)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
<b>Beginning Balance</b>				\$ 1,983,650,599
October 1 - October 31, 2018	11,715,179	\$ 70.89	11,694,469	1,154,480,380
November 1 - November 30, 2018	9,619,372	69.43	9,619,222	486,661,734
December 1 - December 31, 2018	5,257,087	68.01	5,257,087	129,128,793
<b>Ending Balance</b>	26,591,638	\$ 69.79	26,570,778	\$ 129,128,793

(a) The difference of 20,860 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to fund the Company's contribution to a 401(k) plan that covers certain union employees.

**CSX CORPORATION**  
**PART II**

**Item 6. Selected Financial Data**

Selected financial data related to the Company's financial results for the last five fiscal years are listed below.

<i>(Dollars and Shares in Millions, Except Per Share Amounts)</i>	<b>Fiscal Years</b>				
	<b>2018</b>	2017	2016	2015	2014
<b><u>Financial Performance</u></b>					
Revenue	\$12,250	\$11,408	\$11,069	\$11,811	\$12,669
Expense	7,381	7,688	7,656	8,183	8,991
<b>Operating Income</b>	<b>\$ 4,869</b>	<b>\$ 3,720</b>	<b>\$ 3,413</b>	<b>\$ 3,628</b>	<b>\$ 3,678</b>
Adjusted Operating Income <sup>(a)</sup>	4,869	3,818	3,413	3,628	3,678
<b>Net Earnings from Continuing Operations</b>	<b>\$ 3,309</b>	<b>\$ 5,471</b>	<b>\$ 1,714</b>	<b>\$ 1,968</b>	<b>\$ 1,927</b>
Adjusted Net Earnings from Continuing Operations <sup>(a)</sup>	3,309	2,097	1,714	1,968	1,927
<b>Operating Ratio</b>	<b>60.3%</b>	<b>67.4%</b>	<b>69.2%</b>	<b>69.3%</b>	<b>71.0%</b>
Adjusted Operating Ratio <sup>(a)</sup>	60.3%	66.5%	69.2%	69.3%	71.0%
Net Earnings Per Share:					
From Continuing Operations, Basic	\$ 3.86	\$ 6.01	\$ 1.81	\$ 2.00	\$ 1.93
<b>From Continuing Operations, Assuming Dilution</b>	<b>3.84</b>	<b>5.99</b>	<b>1.81</b>	<b>2.00</b>	<b>1.92</b>
Adjusted From Continuing Operations, Assuming Dilution <sup>(a)</sup>	3.84	2.30	1.81	2.00	1.92
Average Common Shares Outstanding					
Basic	857	911	947	983	1,001
Assuming Dilution	861	914	948	984	1,002
<b><u>Financial Position</u></b>					
Cash, Cash Equivalents and Short-term Investments	\$ 1,111	\$ 419	\$ 1,020	\$ 1,438	\$ 961
Total Assets	36,729	35,739	35,414	34,745	32,747
Long-term Debt	14,739	11,790	10,962	10,515	9,349
Shareholders' Equity	12,580	14,721	11,694	11,668	11,176
Dividend Per Share	\$ 0.88	\$ 0.78	\$ 0.72	\$ 0.70	\$ 0.63
<b><u>Additional Data</u></b>					
Capital Expenditures	\$ 1,745	\$ 2,040	\$ 2,705	\$ 2,562	\$ 2,449
Employees -- Annual Averages <i>(estimated)</i>	22,901	25,230	27,350	31,285	31,511
Employees -- Year-end Count <i>(estimated)</i>	22,475	24,006	26,628	29,410	32,287

*(a) Adjusted operating income, adjusted net earnings and adjusted earnings per share assuming dilution are non-GAAP measures that exclude the impacts of tax reform and restructuring activities in 2017. These 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 presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Certain prior year data has been reclassified to conform to the current presentation.

**CSX CORPORATION**  
**PART II**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**TERMS USED BY CSX**

When used in this report, unless otherwise indicated by the context, these terms are used to mean the following:

**Car hire** - A charge paid by one railroad for its use of cars belonging to another railroad or car owner.

**Class I freight railroad** - One of the largest line haul freight railroads as determined based on operating revenue; the exact revenue required to be in each class is periodically adjusted for inflation by the Surface Transportation Board. Smaller railroads are classified as Class II or Class III.

**Common carrier mandate** - A federal mandate that requires U.S. railroads to accommodate reasonable requests from shippers to carry any freight, including hazardous materials.

**Demurrage** - A charge assessed by railroads for the use of rail cars by shippers or receivers of freight beyond a specified free time.

**Department of Transportation ("DOT")** - A U.S. government agency with jurisdiction over matters of all modes of transportation.

**Depreciation study** - A periodic statistical analysis of fixed asset service lives, salvage values, accumulated depreciation, and other factors for group assets along with a comparison of similar asset groups at other companies conducted by a third-party specialist.

**Double-stack** - Stacking containers two-high on specially equipped cars.

**Drayage** - The pickup or delivery of intermodal shipments by truck.

**Environmental Protection Agency ("EPA")** - A U.S. government agency that has regulatory authority with respect to environmental law.

**Federal Railroad Administration ("FRA")** - The branch of the DOT that is responsible for developing and enforcing railroad safety regulations, including safety standards for rail infrastructure and equipment.

**Free cash flow** - The calculation of a non-GAAP measure by using net cash provided by operating activities and adjusting for property additions and certain other investing activities. Free cash flow is a measure of cash available for paying dividends, share repurchases and principal reduction on outstanding debt.

**Group-life method** - A type of depreciation in which assets with similar useful lives and characteristics are aggregated into groups. Instead of calculating depreciation for individual assets, depreciation is calculated for each group.

**Incidental revenue** - Revenue for switching, demurrage, storage, etc.

**Intermodal** - A flexible way of transporting freight over water, highway and rail without being removed from the original transportation equipment, namely a container or trailer.

**Mainline** - The main track thoroughfare, exclusive of terminals, yards, sidings and turnouts.

**CSX CORPORATION**  
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**Pipeline and Hazardous Materials Safety Administration ("PHMSA")** - An agency within the DOT that, together with the FRA, has broad jurisdiction over railroad operating standards and practices, including hazardous materials requirements.

**Positive Train Control ("PTC")** - An interoperable train control system designed to prevent train-to-train collisions, over-speed derailments, incursions into established work-zone limits, and train diversions onto another set of tracks.

**Revenue adequacy** - The achievement of a rate of return on investment at least equal to the cost of investment capital, as measured by the STB.

**Scheduled railroading** - An operating plan focused on developing and strictly maintaining a scheduled service plan to deliver further service gains and improve transit times, with an emphasis on driving asset utilization while controlling costs.

**Shipper** - A customer shipping freight via rail.

**Siding** - Track adjacent to the mainline used for passing trains.

**Staggers Act of 1980** - Congressional law which significantly deregulated the rail industry, replacing the regulatory structure in existence since the 1887 Interstate Commerce Act. Where previously rates were controlled by the Interstate Commerce Commission, the Staggers Act allowed railroads to establish their own rates for shipments, enhancing their ability to compete with other modes of transportation.

**Surface Transportation Board ("STB")** - An independent governmental adjudicatory body administratively housed within the DOT, responsible for the economic regulation of interstate surface transportation within the United States.

**Switching** - Putting cars in a specific order, placing cars for loading, retrieving empty cars or adding or removing cars from a train at an intermediate point.

**Terminal** - A facility, typically owned by a railroad, for the handling of freight and for the breaking up, making up, forwarding and servicing of trains.

**Transportation Security Administration ("TSA")** - A component of the Department of Homeland Security with broad authority over railroad operating practices that may have homeland security implications.

**TTX Company ("TTX")** - A company that provides its owner-railroads with standardized fleets of intermodal, automotive and general use railcars at time and mileage rates. CSX owns about 20 percent of TTX's common stock, and the remainder is owned by the other leading North American railroads and their affiliates.

**Turnout** - A track that diverts trains from one track to another.

**Yard** - A system of tracks, other than main tracks and sidings, used for making up trains, storing cars and other purposes.

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**2018 HIGHLIGHTS**

- Revenue of \$12.3 billion increased \$842 million or 7% versus the prior year.
- Expenses of \$7.4 billion decreased \$307 million or 4% year over year.
- Operating income of \$4.9 billion increased \$1.1 billion or 31% year over year. Operating income in 2017 included a pre-tax \$240 million restructuring charge and a pre-tax tax reform benefit of \$142 million. Adjusting for these items, operating income increased \$1.1 billion or 28% year over year.
- Operating ratio of 60.3 percent improved 710 basis points from 67.4%. Operating ratio in 2017 was affected by the restructuring charge and tax reform benefit described above. Adjusting for these items, operating ratio of 60.3 percent in 2018 improved 620 basis points.
- Earnings per diluted share of \$3.84 decreased \$2.15 or 36% year over year. Net income in 2017 included a restructuring charge and a restructuring charge - non-operating with a combined \$203 million after-tax impact and a total after-tax reform benefit of \$3.6 billion. Adjusting for these items, earnings per diluted share improved \$1.54 per share or 67% year over year.

Adjusted operating income, adjusted operating ratio and adjusted earnings per diluted share are non-GAAP measures. See reconciliation of GAAP measures to non-GAAP measures in *Non-GAAP Measures - Unaudited* following the discussion of the results of operations.

**RESULTS OF OPERATIONS**

**2018 vs. 2017 Results of Operations**

	<b>Fiscal Years</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017<sup>(a)</sup></b>		
<i>(Dollars in Millions)</i>				
<b>Revenue</b>	<b>\$ 12,250</b>	\$ 11,408	\$ 842	7 %
<b>Expense</b>				
Labor and Fringe	2,738	2,946	208	7
Materials, Supplies and Other	1,967	2,113	146	7
Depreciation	1,331	1,315	(16)	(1)
Fuel	1,046	864	(182)	(21)
Equipment and Other Rents	395	429	34	8
Restructuring Charge	—	240	240	100
Equity Earnings of Affiliates	(96)	(219)	(123)	(56)
<b>Total Expense</b>	<b>7,381</b>	<b>7,688</b>	<b>307</b>	<b>4</b>
<b>Operating Income</b>	<b>4,869</b>	<b>3,720</b>	<b>1,149</b>	<b>31</b>
Interest Expense	(639)	(546)	(93)	(17)
Restructuring Charge - Non-Operating	—	(85)	85	100
Other Income - Net	74	53	21	40
Income Tax (Expense) Benefit	(995)	2,329	(3,324)	(143)
<b>Net Earnings</b>	<b>\$ 3,309</b>	<b>\$ 5,471</b>	<b>\$ (2,162)</b>	<b>(40)</b>
<b>Earnings Per Diluted Share:</b>				
Net Earnings	<b>\$ 3.84</b>	<b>\$ 5.99</b>	<b>\$ (2.15)</b>	<b>(36)%</b>
<b>Operating Ratio</b>	<b>60.3%</b>	<b>67.4%</b>		<b>710</b> bps

(a) Certain prior year data has been reclassified to conform to the current presentation. See further discussion of reclassification of all components of net periodic benefit cost except service cost from labor and fringe expense to other income - net in Note 1.

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**2018 vs. 2017 Results of Operations, continued**

**Volume and Revenue (Unaudited)**

*Volume (Thousands of units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)*

	Volume			Revenue			Revenue Per Unit		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Chemicals	675	672	— %	\$ 2,339	\$ 2,210	6 %	\$3,465	\$3,289	5%
Automotive	463	457	1 %	1,267	1,195	6 %	2,737	2,615	5%
Agricultural and Food Products	447	454	(2)%	1,306	1,262	3 %	2,922	2,780	5%
Minerals	315	308	2 %	518	477	9 %	1,644	1,549	6%
Forest Products	285	264	8 %	850	755	13 %	2,982	2,860	4%
Metals and Equipment	267	256	4 %	769	703	9 %	2,880	2,746	5%
Fertilizers	248	291	(15)%	442	466	(5)%	1,782	1,601	11%
<b>Total Merchandise</b>	<b>2,700</b>	<b>2,702</b>	<b>— %</b>	<b>7,491</b>	<b>7,068</b>	<b>6 %</b>	<b>2,774</b>	<b>2,616</b>	<b>6%</b>
<b>Coal</b>	<b>887</b>	<b>855</b>	<b>4 %</b>	<b>2,246</b>	<b>2,107</b>	<b>7 %</b>	<b>2,532</b>	<b>2,464</b>	<b>3%</b>
<b>Intermodal</b>	<b>2,895</b>	<b>2,843</b>	<b>2 %</b>	<b>1,931</b>	<b>1,799</b>	<b>7 %</b>	<b>667</b>	<b>633</b>	<b>5%</b>
<b>Other</b>	<b>—</b>	<b>—</b>	<b>— %</b>	<b>582</b>	<b>434</b>	<b>34 %</b>	<b>—</b>	<b>—</b>	<b>—%</b>
<b>Total</b>	<b>6,482</b>	<b>6,400</b>	<b>1 %</b>	<b>\$ 12,250</b>	<b>\$ 11,408</b>	<b>7 %</b>	<b>\$1,890</b>	<b>\$1,783</b>	<b>6%</b>



**CSX CORPORATION**  
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**Revenue**

In 2018, revenue increased \$842 million when compared to the previous year, primarily due to increases in fuel recovery as a result of the increase in fuel price, price increases, higher other revenue, volume growth in most markets and favorable mix.

**Merchandise**

Chemicals - Volume was relatively flat as stronger energy, industrial chemicals and waste shipments were mostly offset by reduced fly ash and sand shipments.

Automotive - Volume increased due to higher North American vehicle production of trucks and SUVs.

Agricultural and Food Products - Volume declined due to losses in the ethanol market, which were partially offset by gains in the domestic and export grain markets.

Minerals - Volume increased due to stronger shipments for construction and paving projects.

Forest Products - Volume increased due to e-commerce driven pulpboard demand, strength in building products and truck conversions to rail.

Metals and Equipment - Volume increased due to stronger steel production, including demand for construction and pipe, as well as truck conversions to rail.

Fertilizers - Volume declined primarily due to the closure of a customer facility in late 2017 that previously moved short-haul rail shipments.

**Coal**

Domestic utility coal volume declined reflecting strong competition from natural gas. Domestic coke, iron ore and other volume increased primarily driven by stronger domestic steel production. Export volume increased as global supply levels and elevated global benchmark prices supported continued demand for U.S. coal.

**Intermodal**

Domestic volume was relatively flat as rationalization of low-density lanes was mostly offset by growth with existing customers due to tight truck conditions. International volume increased driven by new customers and strong performance with existing customers, which more than offset losses from the rationalization of low-density lanes.

**Other**

Other revenue increased \$148 million versus prior year primarily due to increases in incidental charges, partially offset by settlements in 2017 from customers who did not meet historical volume commitments.

## CSX CORPORATION PART II

### **Expense**

In 2018, total expenses decreased \$307 million, or 4%, compared to prior year. Descriptions of each expense category as well as significant year-over-year changes are described below.

Labor and Fringe expenses include employee wages and related payroll taxes, health and welfare costs, pension, other post-retirement benefits and incentive compensation. These expenses decreased \$208 million due to the following items:

- Costs decreased \$198 million driven by lower headcount and crew starts, partially offset by higher inflation and volume.
- Incentive compensation increased \$26 million due to higher projected payouts.
- Other costs decreased \$36 million due to the recognition of railroad retirement tax refunds related to past share-based compensation awards and several other items, none of which were individually significant.

Materials, Supplies and Other expenses consist primarily of contracted services to maintain infrastructure and equipment, terminal and pier services and professional services. This category also includes costs related to materials, travel, casualty claims, environmental remediation, train accidents, property and sales tax, utilities and other items including gains on property dispositions. Total materials, supplies and other expenses decreased \$146 million driven by the following:

- Gains from line and real estate sales were \$136 million higher in 2018.
- Costs decreased \$49 million as a result of lower operating support costs, partially offset by inflation.
- Favorable judgments related to previously condemned properties resulted in prior year gains of \$73 million.
- Other costs decreased \$34 million primarily driven by a reduction in personal injury expense resulting from a decline the severity of injuries and other items, none of which were individually significant.

Depreciation expense primarily relates to recognizing the costs of a capital asset, such as locomotives, railcars and track structure, over its useful life. This expense is impacted primarily by the capital expenditures made each year. Depreciation expense increased \$16 million due to a larger asset base.

Fuel expense includes locomotive diesel fuel as well as non-locomotive fuel. This expense is largely driven by the market price and locomotive consumption of diesel fuel. Fuel expense increased \$182 million primarily due to a 24 percent price increase that drove additional expense of \$200 million, partially offset by fuel efficiency initiatives.

Equipment and Other expenses include rent paid for freight cars owned by other railroads or private companies, net of rents received by CSXT for use of its equipment. This category of expenses also includes expenses for short-term and long-term leases of locomotives, railcars, containers and trailers, offices and other rentals. These expenses decreased \$34 million primarily due to reduced days per load, particularly for merchandise and automotive markets, partially offset by volume-related costs.

Equity Earnings of Affiliates includes earnings from operating equity method investments. Equity earnings of affiliates decreased \$123 million primarily due to a \$142 million favorable impact of tax reform (primarily related to TTX and Conrail) and a real estate gain of \$16 million for the sale of a property owned by one of the Company's equity affiliates both included in prior year results. These decreases were partially offset by higher affiliate earnings in the current year.

**CSX CORPORATION**  
**PART II**

***Interest Expense***

Interest Expense includes interest on long-term debt, equipment obligations and capital leases. Interest expense increased \$93 million to \$639 million primarily due to higher average debt balances partially offset by lower average interest rates.

***Other Income - Net***

Other Income - Net includes investment gains, losses and interest income, as well as components of net periodic pension and postretirement benefit cost and other non-operating activities. Other income increased \$21 million to \$74 million primarily due to increased interest income as a result of higher average investment balances.

***Income Tax Expense***

Income Tax Expense increased \$3.3 billion from a benefit of \$2.3 billion in 2017 to an expense of \$1.0 billion in 2018 due to a \$3.5 billion non-cash reduction in income tax in 2017 primarily due to the revaluation of the Company's net deferred tax liabilities to reflect the reduction of the federal corporate tax rate to 21 percent as part of tax reform. This increase was also due to additional income tax expense resulting from increased earnings before income taxes, partially offset by a lower enacted income tax rate.

***Net Earnings***

Net Earnings decreased \$2.2 billion to \$3.3 billion, and earnings per diluted share decreased \$2.15 to \$3.84, due to the factors mentioned above, including the significant impact of tax reform on 2017 results. Lower average shares outstanding resulting from higher share repurchase activity had a positive impact on earnings per diluted share.

**CSX CORPORATION**  
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**2017 vs. 2016 Results of Operations<sup>(a)</sup>**

	Fiscal Years		\$ Change	% Change
	2017	2016		
<i>(Dollars in Millions)</i>				
<b>Revenue</b>	<b>\$ 11,408</b>	\$ 11,069	\$ 339	3%
<b>Expense</b>				
Labor and Fringe	<b>2,946</b>	3,135	189	6
Materials, Supplies and Other	<b>2,113</b>	2,092	(21)	(1)
Depreciation	<b>1,315</b>	1,301	(14)	(1)
Fuel	<b>864</b>	713	(151)	(21)
Equipment and Other Rents	<b>429</b>	465	36	8
Restructuring Charge	<b>240</b>	—	(240)	(100)
Equity Earnings of Affiliates	<b>(219)</b>	(50)	169	338
<b>Total Expense</b>	<b>7,688</b>	7,656	(32)	—
<b>Operating Income</b>	<b>3,720</b>	3,413	307	9
Interest Expense	<b>(546)</b>	(579)	33	6
Debt Repurchase Expense	<b>—</b>	(115)	115	100
Restructuring Charge - Non-Operating	<b>(85)</b>	—	(85)	(100)
Other Income - Net	<b>53</b>	22	31	141
Income Tax Benefit (Expense)	<b>2,329</b>	(1,027)	3,356	327
<b>Net Earnings</b>	<b>\$ 5,471</b>	\$ 1,714	\$ 3,757	219
<b>Earnings Per Diluted Share:</b>				
Net Earnings	<b>\$ 5.99</b>	\$ 1.81	\$ 4.18	231%
<b>Operating Ratio</b>	<b>67.4%</b>	69.2%		180 bps

(a) Prior to third quarter 2017, CSX followed a 52/53 week fiscal reporting calendar. All 2016 information presented in Results of Operations is on a 53-week basis, under GAAP. Additionally, certain prior year data has been reclassified to conform to the current presentation. See further discussion of reclassification of all components of net periodic benefit cost except service cost from labor and fringe expense to other income - net in Note 1.

**CSX CORPORATION**  
**PART II**

**2017 vs. 2016 Results of Operations, continued**

**Volume and Revenue (Unaudited)<sup>(a)</sup>**

Volume (Thousands of units); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)

	Volume			Revenue			Revenue Per Unit		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Chemicals	672	700	(4)%	2,210	2,191	1%	3,289	3,130	5%
Automotive	457	482	(5)	1,195	1,261	(5)	2,615	2,616	—%
Agricultural and Food Products	454	477	(5)	1,262	1,286	(2)	2,780	2,696	3%
Minerals	308	310	(1)	477	464	3	1,549	1,497	3%
Fertilizers	291	300	(3)	466	463	1	1,601	1,543	4%
Forest Products	264	274	(4)	755	773	(2)	2,860	2,821	1%
Metals and Equipment	256	259	(1)	703	704	—	2,746	2,718	1%
<b>Total Merchandise</b>	<b>2,702</b>	<b>2,802</b>	<b>(4)</b>	<b>7,068</b>	<b>7,142</b>	<b>(1)</b>	<b>2,616</b>	<b>2,549</b>	<b>3%</b>
<b>Coal</b>	<b>855</b>	<b>838</b>	<b>2</b>	<b>2,107</b>	<b>1,833</b>	<b>15</b>	<b>2,464</b>	<b>2,187</b>	<b>13%</b>
<b>Intermodal</b>	<b>2,843</b>	<b>2,811</b>	<b>1</b>	<b>1,799</b>	<b>1,726</b>	<b>4</b>	<b>633</b>	<b>614</b>	<b>3%</b>
<b>Other</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>434</b>	<b>368</b>	<b>18</b>	<b>—</b>	<b>—</b>	<b>—%</b>
<b>Total</b>	<b>6,400</b>	<b>6,451</b>	<b>(1)%</b>	<b>\$11,408</b>	<b>\$11,069</b>	<b>3%</b>	<b>\$1,783</b>	<b>\$1,716</b>	<b>4%</b>

(a) Prior to third quarter 2017, CSX followed a 52/53 week fiscal reporting calendar. All 2016 information presented in Results of Operations is on a 53-week basis, under GAAP.

## CSX CORPORATION PART II

### **Revenue**

In 2017, revenue increased \$339 million when compared to the previous year, primarily due to gains in export coal, price increases across nearly all other markets and fuel recovery, partially offset by the \$178 million impact of an extra fiscal week in 2016 and lower merchandise volumes. Revenue per unit increased over prior year as pricing gains and higher fuel recoveries were partially offset by unfavorable mix.

### **Merchandise**

Chemicals - Volume declined, primarily due to sustained challenges in the Eastern crude-by-rail market. This decline offset an increase in shipments of frac sand and petroleum gases due to growth in drilling activity.

Automotive - Volume declined as North American vehicle production fell.

Agricultural and Food Products - Volume declined due to challenges in the export market as well as a large southeastern grain crop leading to local truck sourcing to feed mills.

Minerals - Volume slightly declined as short-term competitive losses were mostly offset by growth in construction project activity.

Fertilizers - Volume declined, primarily driven by the closure of a customer facility as well as Hurricane Irma's impact on Central Florida phosphate operations.

Forest Products - Volume declined as the decrease in shipments of paper products as a result of mill closures and truck competition was partially offset by strong pulp board volumes driven by e-commerce demand.

Metals and Equipment - Volume slightly declined as a nonrecurring 2016 benefit from large pipe projects was partially offset by increases in equipment moves.

### **Coal**

Domestic utility coal volume declined 12 percent as the competitive loss of short-haul interchange traffic more than offset underlying growth at other utilities. Domestic coke, iron ore and other volume declined 13 percent, primarily in iron ore shipments, as a large customer temporarily halted its production. Export volume increased 42 percent as global supply levels and pricing conditions supported strong growth in U.S. coal exports.

### **Intermodal**

Domestic volume declined 2 percent as rationalization of low-density lanes and competitive losses more than offset growth with existing customers. International volume was up 7 percent driven by competitive gains and strong performance with existing customers as eastern port volumes increased.

### **Other**

Other revenue increased \$66 million versus prior year primarily due to a \$58 million settlement in 2017 related to a customer that did not meet historical volume commitments and higher incidental charges.

**CSX CORPORATION**  
**PART II**

***Expense***

In 2017, total expenses increased \$32 million, or less than one percent, compared to prior year. Descriptions of each expense category as well as significant year-over-year changes are described below.

Labor and Fringe expenses include employee wages and related payroll taxes, health and welfare costs, pension, other post-retirement benefits and incentive compensation. These expenses decreased \$189 million due to the following items:

- Efficiency and volume savings of \$274 million were driven primarily by reductions in overall headcount and other effects of implementing scheduled railroading as well as the impacts of the 2017 restructuring initiative, slightly offset by higher volume-related costs.
- Pension costs decreased \$10 million primarily due to adoption in 2017 of the spot rate approach for measuring service cost.
- The extra fiscal week in 2016 resulted in \$51 million of additional cost compared to 2017.
- Inflation resulted in \$152 million of additional cost driven by increased health and welfare costs and wage increases.
- Various other costs decreased \$6 million.

Materials, Supplies and Other expenses consist primarily of contracted services to maintain infrastructure and equipment, terminal and coal pier services and professional services. This category also includes costs related to materials, travel, casualty claims, environmental remediation, train accidents, property and sales tax, utilities and other items. Total materials, supplies and other expenses increased \$21 million driven by the following:

- Real estate gains were \$18 million in 2017 compared to \$128 million in 2016 related to the sale of an operating property and other related income.
- Inflation resulted in \$37 million of additional cost.
- Asset impairments of \$25 million resulted from the discontinuation of certain in-progress projects as a result of transition to scheduled railroading.
- Relocation costs increased \$19 million, which includes the impact of the Company's initiative to consolidate dispatchers.
- Additional expense of \$13 million resulted from train accidents during the year.
- Efficiency and volume savings of \$152 million are primarily related to lower maintenance costs from the reduction in the active locomotive fleet, lower operating support costs and a reduction in contingent workers.
- Favorable judgments resulted in compensation to CSX for previously condemned properties, reflecting gains of \$73 million.
- The extra week in 2016 resulted in \$18 million of additional cost compared to 2017.
- Other costs increased \$60 million due to various non-significant items.

Depreciation expense primarily relates to recognizing the costs of a capital asset, such as locomotives, railcars and track structure, over its useful life. This expense is impacted primarily by the capital expenditures made each year. Depreciation expense increased \$14 million due to a larger asset base, partially offset by \$25 million of additional costs in 2016 from the extra week compared to 2017.

## CSX CORPORATION PART II

Fuel expense includes locomotive diesel fuel as well as non-locomotive fuel. This expense is largely driven by the market price and locomotive consumption of diesel fuel. Fuel expense increased \$151 million driven by the following:

- A 24 percent increase in the average fuel price per gallon, from \$1.48 to \$1.84 per gallon versus the prior year, drove \$154 million in increased fuel expense.
- The extra week in 2016 resulted in \$15 million of additional cost compared to 2017.
- Other costs increased \$12 million primarily due to increased fuel expense for non-locomotive fuel, partially offset by efficiency and volume savings.

Equipment and Other expenses include rent paid for freight cars owned by other railroads or private companies, net of rents received by CSXT for use of its equipment. This category of expenses also includes expenses for short-term and long-term leases of locomotives, railcars, containers and trailers, offices and other rentals. These expenses decreased \$36 million driven by the following:

- The extra week in 2016 resulted in \$7 million of additional cost compared to 2017.
- Other costs decreased \$29 million primarily due to the reclassification of rental income from other non-operating to operating income in 2017, partially offset by inflation.

Restructuring Charge of \$240 million includes costs related to restructuring activities in 2017, including the management workforce reduction, executive retirements, reimbursement arrangements, the proration of equity awards and other advisory costs related to the leadership transition.

Equity Earnings of Affiliates includes earnings from operating equity method investments. Equity earnings of affiliates increased \$169 million primarily due to the following:

- Tax reform resulted in a \$142 million increase in earnings (primarily related to TTX and Conrail).
- Real estate gains of \$16 million were recognized on the sale of a property owned by one of the Company's equity affiliates.
- Other increases were primarily due to increased equity earnings from affiliates, primarily TTX as a result of higher rental volumes and decreased costs.



**CSX CORPORATION**  
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***Interest Expense***

Interest Expense includes interest on long-term debt, equipment obligations and capital leases. Interest expense decreased \$33 million to \$546 million due to lower average interest rates and \$11 million of additional expense in 2016 related to the extra week, partially offset by higher average debt balances.

***Restructuring Charge - Non Operating***

Restructuring Charge - Non Operating of \$85 million includes non-operating costs related to restructuring activities in 2017, including certain pension benefits and other post-retirement benefits curtailment.

***Other Income - Net***

Other Income - Net increased \$31 million to \$53 million primarily due to adoption in 2017 of the spot rate approach for measuring employee benefit plan interest costs, prior year pension contributions and other favorable benefit plan experience, offset by the reclassification of real estate activities from other non-operating to operating income in 2017.

***Income Tax Benefit (Expense)***

Income Tax Benefit (Expense) decreased \$3.4 billion from an expense of \$1.0 billion in 2016 to a benefit of \$2.3 billion in 2017 primarily due to a \$3.5 billion non-cash reduction in income tax mostly resulting from the revaluation of the Company's net deferred tax liabilities to reflect the reduction of the federal corporate tax rate to 21 percent as part of tax reform. This reduction was partially offset by additional income tax expense resulting from increased earnings before income taxes.

***Net Earnings***

Net Earnings increased \$3.8 billion to \$5.5 billion, and earnings per diluted share increased \$4.18 to \$5.99, due to the factors mentioned above, including the significant impact of tax reform. Lower average shares outstanding resulting from higher share repurchase activity had a positive impact on earnings per diluted share.

**CSX CORPORATION**  
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**Non-GAAP Measures - Unaudited**

CSX reports its financial results in accordance with United States generally accepted accounting principles ("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 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 below.

*Prior Year Adjusted Operating Results*

Management believes that adjusted operating income, adjusted operating ratio, adjusted net earnings and adjusted net earnings per share, assuming dilution are important in evaluating the Company's operating performance and for planning and forecasting future business operations and future profitability. These non-GAAP measures provide meaningful supplemental information regarding operating results because they exclude certain significant items that are not considered indicative of future financial trends.

The impact of tax reform, the restructuring charge and retrospective impact of adoption of a new accounting standard update on 2017 operating results are shown in the following table. There were no adjustments to operating results in 2018. As noted in Note 1. Nature of Operations and Significant Accounting Policies, the Company adopted the provisions of an accounting standard related to the presentation of net pension and other post-retirement benefit costs during the first quarter 2018 and applied them retrospectively.

**For the Year ended December 31, 2017**

<i>(in millions, except operating ratio and net earnings per share, assuming dilution)</i>	<b>Operating Income</b>	<b>Operating Ratio</b>	<b>Net Earnings</b>	<b>Net Earnings Per Share, Assuming Dilution</b>
As Previously Reported - GAAP	\$ 3,667	67.9%	\$ 5,471	\$ 5.99
Reclassification of Net Pension and Other Post-Retirement Expense	53	(0.5)	—	—
<b>As Reclassified - GAAP</b>	<b>3,720</b>	<b>67.4</b>	<b>5,471</b>	<b>5.99</b>
Restructuring Charge <sup>(a)(b)</sup>	240	(2.1)	203	0.22
Tax Reform Benefit (net)	(142)	1.2	(3,577)	(3.91)
<b>Adjusted Operating Results (non-GAAP)</b>	<b>\$ 3,818</b>	<b>66.5%</b>	<b>\$ 2,097</b>	<b>\$ 2.30</b>

(a) The restructuring charge was tax effected using rates reflective of the applicable tax amounts for each component of the restructuring charge.

(b) For 2017, \$85 million of the \$325 million restructuring charge was reclassified to non-operating income (expense) as a result of the adoption of an accounting standard update related to the presentation of net pension and other post-retirement benefit costs.

**CSX CORPORATION**  
**PART II**

*Free Cash Flow and Adjusted Free Cash Flow*

Management believes that free cash flow is useful to investors as it is important in evaluating the Company's financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principal reduction on outstanding debt. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities, which includes proceeds from property dispositions. The increase in free cash flow from the prior year of \$1.6 billion is primarily due to higher earnings from operations which includes the impact of a lower income tax rate, a decrease in property additions of \$295 million and higher proceeds from property dispositions of \$222 million.

Adjusted free cash flow excludes the impact of cash payments for restructuring charge. Adjusted free cash flow before dividends increased \$1.5 billion year-over-year to \$3.2 billion due to higher earnings from operations which includes the impact of a lower income tax rate, a decrease in property additions of \$295 million and higher proceeds from property dispositions of \$222 million, partially offset by \$124 million lower cash payments for restructuring charge.

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow and adjusted free cash flow (both non-GAAP measures).

	<b>Fiscal Years</b>		
	2018	2017	2016
<i>(Dollars in Millions)</i>			
<b>Net cash provided by operating activities</b>	<b>\$ 4,641</b>	<b>\$ 3,472</b>	<b>\$ 3,041</b>
Property additions	(1,745)	(2,040)	(2,398)
Other investing activities	292	134	204
Free Cash Flow, before dividends (non-GAAP)	<b>\$ 3,188</b>	<b>\$ 1,566</b>	<b>\$ 847</b>
Add back: Cash Payments for Restructuring Charge (after-tax) <sup>(a)</sup>	\$ 11	\$ 135	\$ —
Adjusted Free Cash Flow, before dividends (non-GAAP)	<b>\$ 3,199</b>	<b>\$ 1,701</b>	<b>\$ 847</b>

*(a) The restructuring charge impact to free cash flow was tax effected using the applicable tax rate of the charge. During 2018 and 2017, the Company made cash payments of \$15 million and \$187 million, respectively, related to the restructuring charge. Also in 2017, the Company made \$30 million in payments to a former CEO and a former President for previously accrued non-qualified pension benefits that are not included in the restructuring charge.*

**CSX CORPORATION**  
**PART II**

**Operating Statistics (Estimated)**

	Fiscal Years		<i>Improvement/ (Deterioration)</i>
	2018	2017	
<b>Operations Performance</b>			
Train Velocity ( <i>Miles per hour</i> ) <sup>(a)</sup>	17.9	15.1	19 %
Dwell ( <i>Hours</i> ) <sup>(a)</sup>	9.6	11.3	15 %
Revenue Ton- Miles (Billions)			
Merchandise	128.1	124.0	3 %
Coal	45.5	43.3	5 %
Intermodal	29.3	28.8	2 %
Total Revenue Ton-Miles	<b>202.9</b>	<b>196.1</b>	<b>3 %</b>
Total Gross Ton-Miles ( <i>Billions</i> )	402.7	400.1	1 %
On-Time Originations	82%	80%	3 %
On-Time Arrivals	60%	56%	7 %
<b>Safety</b>			
FRA Personal Injury Frequency Index	0.99	1.22	19 %
FRA Train Accident Rate	3.45	3.07	(12)%

(a) The methodology for calculating train velocity and dwell differ from that prescribed by the STB. CSXT will continue to report train velocity and dwell, using the prescribed methodology, to the STB on a weekly basis. See additional discussion on the Company's website.

Certain operating statistics are estimated and can continue to be updated as actuals settle.

*Key Performance Measures Definitions*

Train Velocity - Average train speed between origin and destination in miles per hour (does not include locals, yard jobs, work trains or passenger trains). Train velocity measures the profiled schedule of trains (from departure to arrival and all interim time), and train profiles are periodically updated to align with a changing operation.

Dwell - Average amount of time in hours between car arrival to and departure from the yard.

Revenue Ton-Miles (RTM's) - The movement of one revenue-producing ton of freight over a distance of one mile.

Gross Ton-Miles (GTM's) - The movement of one ton of train weight over one mile. GTM's are calculated by multiplying total train weight by distance the train moved. Total train weight is comprised of the weight of the freight cars and their contents.

On-Time Originations - Percent of scheduled road trains that depart the origin yard on-time or ahead of schedule.

On-Time Arrivals - Percent of scheduled road trains that arrive at the destination yard on-time.

FRA Personal Injury Frequency Index - Number of FRA-reportable injuries per 200,000 man-hours.

FRA Train Accident Rate - Number of FRA-reportable train accidents per million train-miles.

The Company strives for continuous improvement in safety and service performance through training, innovation and investment. Investment in training and technology also is designed to allow the Company's employees to have an additional layer of protection that can detect and avoid many types of human factor incidents. Safety programs are designed to prevent incidents that can adversely impact employees, customers and communities. Continued capital investment in the Company's assets, including track, bridges, signals, equipment and detection technology also supports safety performance.

The Company's FRA reportable personal injury frequency index of 0.99 for the full year of 2018 improved 19% versus the prior year as overall injuries fell by 27%, outpacing a reduction in man-hours. The Company's FRA train accident frequency rate of 3.45 for the full year was 12% unfavorable versus the prior year. Safety performance improved in the second half reflecting the changes made in safety leadership, engagement with external resources and the Company's renewed focus on enhancing the overall safety of its employees, customers and communities in which the company operates.

Operating performance improved significantly throughout the year as train velocity and car dwell achieved record levels in 2018. The operational plan remains focused on delivering further service gains, improving transit times and driving asset utilization while controlling costs.

**CSX CORPORATION**  
**PART II**

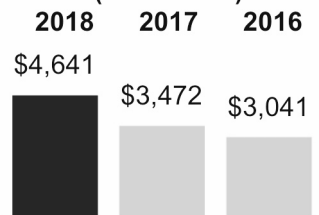
**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity is a company's ability to generate adequate amounts of cash to meet both current and future needs for obligations as they mature and to provide for planned capital expenditures, including those to address regulatory and legislative requirements. To have a complete picture of a company's liquidity, its sources and uses of cash, balance sheet and external factors should be reviewed.

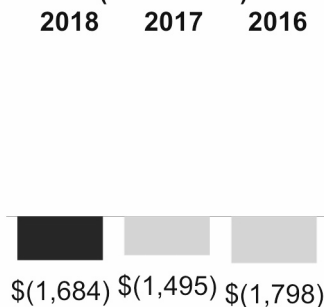
**Significant Cash Flows**

The following charts highlight the components of the change in cash and cash equivalents for operating, investing and financing activities for full years 2018, 2017 and 2016.

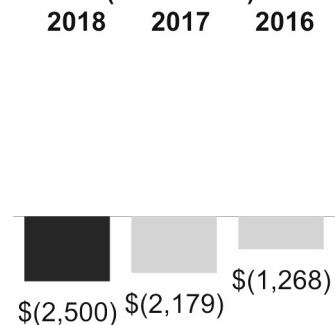
**OPERATING CASH FLOWS**  
(in millions)



**INVESTING CASH FLOWS**  
(in millions)



**FINANCING CASH FLOWS**  
(in millions)



In 2018, the Company generated \$4.6 billion of cash provided by operating activities which was \$1.2 billion higher than prior year primarily driven by higher cash-generating income which includes the impact of a lower income tax rate, partially offset by lower working capital and other activities. In 2017, the Company generated \$3.5 billion of cash provided by operating activities which was \$431 million higher than 2016 primarily driven by \$250 million in voluntary contributions in 2016 to the Company's qualified pension plans and higher net earnings in 2017, partially offset by payments related to restructuring activities.

In 2018, net cash used in investing activities was \$1.7 billion, an increase of \$189 million from the prior year primarily driven by an increase in net investment purchases, partially offset by lower property additions and higher proceeds from property dispositions. In 2017, net cash used in investing activities was \$1.5 billion, a decrease of \$303 million from 2016 primarily driven by lower property additions.

In 2018, net cash used in financing activities was \$2.5 billion, which represents an increase of \$321 million from the prior year primarily driven by higher share repurchases, partially offset by higher net debt issued. In 2017, net cash used in financing activities was \$2.2 billion, which represented an increase in spending of \$911 million from 2016 primarily driven by higher share repurchases and lower net debt issued, partially offset by the repayment of seller-financed assets in the prior year.

**CSX CORPORATION**  
**PART II**

*Sources of Cash and Liquidity*

The Company has multiple sources of liquidity, including cash generated from operations and financing sources. The Company filed a shelf registration statement with the SEC in February 2016 which is unlimited as to amount and may be used to issue debt or equity securities at CSX's discretion, subject to market conditions and CSX Board authorization. While CSX seeks to give itself flexibility with respect to cash requirements, there can be no assurance that market conditions would permit CSX to sell such securities on acceptable terms at any given time, or at all. In 2018, CSX issued a total of \$3.0 billion of new long-term debt.

CSX has access to a \$1 billion five-year unsecured revolving credit facility backed by a diverse syndicate of banks that expires in May 2020. As of December 31, 2018, the Company had no outstanding balances under this facility. See Note 9, *Debt and Credit Agreements* for more information. The Company also has a commercial paper program, backed by the revolving credit facility, under which the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1.0 billion outstanding at any one time. At December 31, 2018, the Company had no outstanding debt under the commercial paper program.

*Uses of Cash*

CSX uses current cash balances for general corporate purposes, which may include working capital requirements, repayment of additional indebtedness outstanding from time to time, repurchases of CSX's common stock, capital investments, improvements in productivity and other cost reduction initiatives.

In 2018, CSX continued to invest in its business to create long-term value for shareholders. The Company is committed to maintaining and improving its existing infrastructure and to positioning itself for long-term, profitable growth through optimizing network and terminal capacity. Funds used for property additions are further described below.

<b>Capital Expenditures (Dollars in Millions)</b>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Track	\$ 771	\$ 733	\$ 714
Bridges, Signals and Other	491	570	433
Total Infrastructure	<b>1,262</b>	1,303	1,147
Capacity and Commercial Facilities	246	417	447
Regulatory (including PTC)	225	284	313
Freight Cars	9	20	82
Locomotives	3	16	409
<b>Total Property Additions</b>	<b>1,745</b>	2,040	2,398
Cash paid for new assets using seller financing <sup>(a)</sup>	\$ —	\$ —	\$ 307
<b>Total Capital Expenditures</b>	<b>\$ 1,745</b>	2,040	2,705

(a) In 2016, CSX made payments related to locomotive purchases made in 2015 using seller financing of \$307 million.

Planned capital investments for 2019 are expected to be between \$1.6 billion and \$1.7 billion, including approximately \$100 million for PTC. Of the 2019 investment, over half will be used to sustain the core infrastructure. The remaining amounts will be allocated to projects supporting service enhancements, productivity initiatives and profitable growth. CSX intends to fund capital investments through cash generated from operations.

## CSX CORPORATION PART II

The Company expects to continue incurring capital costs in connection with the implementation of PTC. CSX estimates that the total multi-year cost of PTC implementation will be approximately \$2.4 billion. This estimate includes costs for installing the new system along tracks, upgrading locomotives, adding communication equipment and developing new technologies. Total PTC spending through 2018 was \$2.2 billion.

CSX is continually evaluating market and regulatory conditions that could affect the Company's ability to generate sufficient returns on capital investments. CSX may revise its future estimates for capital spending as a result of changes in business conditions, tax legislation or the enactment of new laws or regulations which could have a material adverse effect on the Company's operations and financial performance in the future (see *Risk Factors* under Item 1A of this Form 10-K).

The Company also uses cash for scheduled payments of debt and leases, share repurchases and to pay dividends to shareholders. In February 2018, the Company announced a 10 percent increase in the quarterly cash dividend to \$0.22 per common share.

### ***Material Changes in the Consolidated Balance Sheets and Working Capital***

CSX's balance sheet reflects its strong capital base and the impact of CSX's balanced approach in deploying capital for the benefit of its shareholders, which includes investments in infrastructure, dividend payments and share repurchases. Further, CSX is well positioned from a liquidity standpoint. The Company ended the year with \$1.1 billion of cash, cash equivalents and short-term investments.

Total assets as well as total liabilities and shareholders' equity increased \$990 million from prior year. The increase in assets was primarily due to the net increase in cash and short-term investments of \$692 million and higher net properties of \$234 million. The increase in cash and short-term investments was primarily a result of net cash from operations of \$4.6 billion and the issuance of \$3.0 billion in long-term debt, partially offset by share repurchases of \$4.7 billion and property additions of \$1.7 billion. The increase in total liabilities and shareholders' equity combined was driven by the issuance of \$3.0 billion in long-term debt and net earnings of \$3.3 billion, partially offset by share repurchases of \$4.7 billion and dividends paid of \$751 million.

Working capital is considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$650 million at December 2018 and \$21 million at December 2017. This increase since the prior year end is primarily the result of an increase in cash due to net cash from operations of \$4.6 billion and the issuance of \$3.0 billion in long-term debt. These increases were partially offset by cash used for share repurchases of \$4.7 billion, property additions of \$1.7 billion and dividend payments of \$751 million.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. Although the Company currently has a surplus, a working capital deficit is not unusual for CSX or other companies in the industry and does not indicate a lack of liquidity. The Company continues to maintain adequate current assets to satisfy current liabilities and maturing obligations when they come due. Furthermore, CSX has sufficient financial capacity, including its revolving credit facility, commercial paper program and shelf registration statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity.

**CSX CORPORATION**  
**PART II**

**Credit Ratings**

Credit ratings reflect an independent agency's judgment on the likelihood that a borrower will repay a debt obligation at maturity. The ratings reflect many considerations, such as the nature of the borrower's industry and its competitive position, the size of the company, its liquidity and access to capital and the sensitivity of a company's cash flows to changes in the economy. The two largest rating agencies, Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's"), use alphanumeric codes to designate their ratings. The highest quality rating for long-term credit obligations is AAA and Aaa for S&P and Moody's, respectively. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

The cost and availability of unsecured financing are materially affected by CSX's long-term credit ratings. CSX's credit ratings remained stable during 2018. As of December 2018 and December 2017, S&P's long-term rating on CSX was BBB+ (Stable), and Moody's was Baa1 (Stable). Ratings of BBB- and Baa3 or better by S&P and Moody's, respectively, reflect ratings on debt obligations that fall within a band of credit quality considered to be investment grade. If CSX's credit ratings were to decline to below investment grade levels, the Company could experience significant increases in its interest cost for new debt. In addition, a decline in CSX's credit ratings to below investment grade levels could adversely affect the market's demand, and thus the Company's ability to readily issue new debt.

CSX is committed to returning cash to shareholders and maintaining an investment grade credit profile. Capital structure, capital investments and cash distributions, including dividends and share repurchases, are reviewed at least annually by the Board of Directors.

**SCHEDULE OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL  
COMMITMENTS**

The following tables set forth maturities of the Company's contractual obligations and other significant commitments:

Type of Obligation	2019	2020	2021	2022	2023	Thereafter	Total
<i>(Dollars in Millions) (Unaudited)</i>							
<u>Contractual Obligations</u>							
Total Debt (See Note 9)	\$ 18	\$ 745	\$ 371	\$ 192	\$ 639	\$ 12,792	\$14,757
Interest on Debt	675	666	627	613	599	10,093	13,273
Purchase Obligations (See Note 7)	242	280	272	275	269	2,699	4,037
Other Post-Employment Benefits (See Note 8) <sup>(a)</sup>	50	29	27	25	24	103	258
Operating Leases - Net (See Note 7)	55	56	50	46	40	1,309	1,556
Agreements with Conrail <sup>(b)</sup>	27	27	27	27	27	20	155
Total Contractual Obligations	<u>\$1,067</u>	<u>\$1,803</u>	<u>\$1,374</u>	<u>\$1,178</u>	<u>\$1,598</u>	<u>\$ 27,016</u>	<u>\$34,036</u>
Other Commitments <sup>(c)</sup>	<u>\$ 84</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 90</u>

*(a) Other post-employment benefits include estimated other post-retirement medical and life insurance payments and payments under non-qualified pension plans which are unfunded. No amounts are included for funded pension obligations as no contributions are currently required.*

*(b) Agreements with Conrail represent minimum future payments of \$155 million under the shared asset area agreements (see Note 12, Related Party Transactions).*

*(c) Other commitments of \$90 million consisted of surety bonds, letters of credit, uncertain tax positions and public private partnerships. Surety bonds of \$42 million and letters of credit of \$28 million arise from assurances issued by a third-party that CSX will fulfill certain obligations and are typically a contract, state, federal or court requirement. Uncertain tax positions of \$12 million, which include interest and penalties, are all included in year 2018 as the year of settlement cannot be reasonably estimated. Contractual commitments related to public-private partnerships are \$8 million.*



**CSX CORPORATION**  
**PART II**  
**OFF-BALANCE SHEET ARRANGEMENTS**

For detailed information about the Company's guarantees, operating leases and purchase obligations, see Note 7, Commitments and Contingencies. There are no off-balance sheet arrangements that are reasonably likely to have a material effect on the Company's financial condition, results of operations or liquidity.

**LABOR AGREEMENTS**

Approximately 18,500 of the Company's approximately 22,500 employees are members of a labor union. All 13 rail unions that participate in national bargaining have reached national agreements with the Class I railroads via ratification, executive action or interest arbitration. These agreements are effective January 1, 2015 through December 31, 2019.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Significant estimates using management judgment are made for the following areas:

- personal injury, environmental and legal reserves;
- pension and post-retirement medical plan accounting;
- depreciation policies for assets under the group-life method; and
- income taxes.

**Personal Injury, Environmental and Legal Reserves**

*Personal Injury*

Personal Injury reserves of \$143 million and \$168 million for 2018 and 2017, respectively, represent liabilities for employee work-related and third-party injuries. CSXT retains an independent actuary to assist management in assessing the value of personal injury claims. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. For additional details, including a description of our related accounting policies, see Note 5, *Casualty, Environmental and Other Reserves* in the consolidated financial statements.

**CSX CORPORATION**  
**PART II**

**Critical Accounting Estimates, continued**

*Environmental*

Environmental reserves were \$80 million and \$90 million in 2018 and 2017, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 220 environmentally impaired sites. The Company reviews its potential liability with respect to each site identified, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

Conditions that are currently unknown could, at any given location, result in additional exposure, the amount and materiality of which cannot presently be reasonably estimated. For additional details, including a description of our related accounting policies, see Note 5, *Casualty, Environmental and Other Reserves* in the consolidated financial statements.

*Legal*

The Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits. The Company evaluates all exposures relating to legal liabilities at least quarterly and adjusts reserves when appropriate. The amount of a particular reserve may be influenced by factors that include official rulings, newly discovered or developed evidence, or changes in laws, regulations and evidentiary standards. An unexpected adverse resolution of one or more of these items could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period. For additional details, including a description of our related accounting policies, see Note 5, *Casualty, Environmental and Other Reserves* in the consolidated financial statements. Additionally, see Item 3. *Legal Proceedings* for further discussion of these items.

***Pension and Post-retirement Medical Plan Accounting***

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation. As of December 2018, the projected benefit obligation for the Company's pension plans was \$2.8 billion.

**CSX CORPORATION**  
**PART II**

**Critical Accounting Estimates, continued**

In addition to these plans, the Company sponsors a post-retirement medical plan and a non-contributory life insurance plan that provide certain benefits to full-time, salaried, management employees, hired prior to 2003, upon their retirement if certain eligibility requirements are met. Beginning in 2019, both the life insurance benefit for eligible active employees and health savings account contributions made by the Company to eligible retirees younger than 65 will be eliminated. Beginning in 2020, the employer-funded health reimbursement arrangements for eligible retirees 65 years or older will be eliminated. As a result of these plan amendments, the Company recognized a decrease of \$102 million in the post-retirement benefit liability. As of December 2018, the projected benefit obligation for the Company's other post-retirement benefit plans was \$118 million.

For information related to the funded status of the Company's pension and other post-retirement benefit plans, see Note 8, *Employee Benefit Plans*.

The accounting for these plans is subject to the guidance provided in the *Compensation-Retirement Benefits Topic* in the ASC. This rule requires that management make certain assumptions relating to the following:

- discount rates used to measure future obligations and interest expense;
- long-term rate of return on plan assets;
- salary scale inflation rates; and
- other assumptions.

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company determines are appropriate based on historical trends, current market rates and future projections. These amounts are reviewed by management.

***Discount Rates***

Discount rates affect the amount of liability recorded and the service and interest cost components of pension and post-retirement expense. Discount rates reflect the rates at which pension and other post-retirement benefits could be effectively settled, or in other words, how much it would cost the Company to buy enough high quality bonds to generate cash flow equal to the Company's expected future benefit payments. The Company determines the discount rate based on the market yield as of year-end for high quality corporate bonds whose maturities match the plans' expected benefit payments.

The Company measures the service and interest cost components of the net pension and post-retirement benefits expense by using individual spot rates matched with separate cash flows for each future year instead of a single weighted-average discount rate approach, which was used prior to 2017. Under the spot rate approach, individual spot discount rates along the same high quality corporate bonds yield curve used to measure the pension and post-retirement benefit liabilities are applied to the relevant projected cash flows at the relevant maturity.

## CSX CORPORATION PART II

### **Critical Accounting Estimates, *continued***

The weighted average discount rates used by the Company to value its 2018 pension and post-retirement obligations are 4.24 percent and 3.98 percent, respectively. For 2017, the weighted average discount rates used by the Company to value its pension and post-retirement obligations were 3.56 percent and 3.34 percent, respectively. Discount rates may differ for pension and post-retirement benefits due to varying duration of the liabilities for projected payments for each plan. As of December 2018, the estimated duration of pensions and post-retirement benefits is approximately 11 years and 6 years, respectively.

Each year, these discount rates are reevaluated and adjusted using the current market interest rates for high quality corporate bonds to reflect the best estimate of the current effective settlement rates. In general, if interest rates decline or rise, the assumed discount rates will change.

#### *Long-term Rate of Return on Plan Assets*

The expected long-term average rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, the Company gives appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment as well as the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. As this assumption is long-term, the annual review may result in less frequent adjustment than other assumptions used in pension accounting. The long-term rate of return on plan assets used by the Company to value its benefit cost for the subsequent plan year was 6.75 percent in both 2018 and 2017.

#### *Salary Scale Inflation Rates*

Salary scale inflation rates are based on current trends and historical data accumulated by the Company. The Company reviews recent wage increases and management incentive compensation payments over the past five years in its assessment of salary scale inflation rates. The Company used a salary scale rate of 4.60 percent in both 2018 and 2017 to value its pension obligations.

#### *Other Assumptions*

The calculations made by the actuaries also include assumptions relating to health care cost trend rates, mortality rates, turnover and retirement age. These assumptions are based upon historical data, recent plan experience and industry trends and are determined by management.

**CSX CORPORATION**  
**PART II**

**Critical Accounting Estimates, continued**

*2019 Estimated Pension and Post-retirement Expense*

Net periodic pension and post-retirement benefits expenses for 2019 are expected to be a credit of \$7 million and \$2 million, respectively. Net periodic pension and post-retirement benefits expenses for 2019 are expected to include service cost expense of \$32 million and \$1 million, respectively. Service cost expense is included in labor and fringe on the consolidated income statement and all other components of net pension expense and post-retirement benefits expense are included in other income - net. Net periodic pension expense and post-retirement benefits expense in 2018 was an \$11 million credit and a \$7 million expense, respectively. The net increase in the expected credit is primarily due to changes to the post-retirement benefits plan partially offset by unfavorable pension plan asset experience.

The following sensitivity analysis illustrates the effects of a one percent change in certain assumptions like discount rates, long-term rate of return and salaries on the 2019 estimated pension and post-retirement expense:

<i>(Dollars in Millions)</i>	Pension Expense	Post- Retirement Expense
Discount Rate	\$ 13	\$ 1
Long-term Rate of Return	\$ 26	N/A
Salary Inflation	\$ 6	N/A

**Depreciation Policies for Assets Utilizing the Group-Life Method**

The depreciable assets of the Company are depreciated using either the group-life or straight-line method of accounting, which are both acceptable depreciation methods in accordance with GAAP. The Company depreciates its railroad assets, including main-line track, locomotives and freight cars, using the group-life method of accounting. Assets depreciated under the group-life method comprise 87% of total fixed assets of \$45 billion on a gross basis at December 2018. The remaining depreciable assets of the Company, including non-railroad assets and assets under capital leases, are depreciated using the straight-line method on a per asset basis. Land is not depreciated.

Management performs a review of depreciation expense and useful lives on a regular basis. Under the group-life method, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. There are several factors taken into account during the depreciation study and they include:

- statistical analysis of historical life and salvage data for each group of property;
- statistical analysis of historical retirements for each group of property;
- evaluation of current operations;
- evaluation of technological advances and maintenance schedules;
- previous assessment of the condition of the assets;
- management's outlook on the future use of certain asset groups;
- expected net salvage to be received upon retirement; and
- comparison of assets to the same asset groups with other companies.

**CSX CORPORATION**  
**PART II**

**Critical Accounting Estimates, *continued***

Recent experience with depreciation studies has resulted in depreciation rate changes that did not materially affect the Company's annual depreciation expense of \$1.3 billion for each 2018, 2017 and 2016. A one percent change in the average estimated useful life of all group-life assets would result in an approximate \$12 million change to the Company's annual depreciation expense. For additional details, including a more detailed description of our related accounting policies, see Note 6, *Properties* in the consolidated financial statements.

***Income Taxes***

CSX accounts for income taxes in accordance with the *Income Taxes Topic* in the ASC that addresses how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this topic, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The amount recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

CSX files a consolidated federal income tax return, which includes its principal domestic subsidiaries. Examinations of the federal income tax returns of CSX have been completed through 2016. During 2018, the Company participated in a contemporaneous Internal Revenue Service ("IRS") audit of tax years 2017 and 2018. Management believes an adequate provision has been made for any adjustments that might be assessed. While the final outcome of these matters cannot be predicted with certainty, it is the opinion of CSX management that none of these items will have a material adverse effect on the financial condition, results of operations or liquidity of CSX. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the results of operations in a particular fiscal quarter or fiscal year. As of December 2018, the Company's uncertain tax positions were \$12 million.

**New Accounting Pronouncements and Changes in Accounting Policy**

See Note 1, *Nature of Operations and Significant Accounting Policies* under the caption, "New Accounting Pronouncements and Changes in Accounting Policy."

**CSX CORPORATION**  
**PART II**

**FORWARD-LOOKING STATEMENTS**

Certain statements in this report and in other materials filed with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements within the meaning of the Private Securities Litigation Reform Act may contain, among others, statements regarding:

- projections and estimates of earnings, revenues, margins, volumes, rates, cost-savings, expenses, taxes or other financial items;
- expectations as to results of operations and operational initiatives;
- expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition, results of operations or liquidity;
- management's plans, strategies and objectives for future operations, capital expenditures, workforce levels, dividends, share repurchases, safety and service performance, proposed new services and other matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- future economic, industry or market conditions or performance and their effect on the Company's financial condition, results of operations or liquidity.

Forward-looking statements are typically identified by words or phrases such as "will," "should," "believe," "expect," "anticipate," "project," "estimate," "preliminary" and similar expressions. The Company cautions against placing undue reliance on forward-looking statements, which reflect its good faith beliefs with respect to future events and are based on information currently available to it as of the date the forward-looking statement is made. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing when, or by which, such performance or results will be achieved.

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by any forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update 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.

## CSX CORPORATION PART II

The following important factors, in addition to those discussed in Part II, Item 1A. *Risk Factors* and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

- legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, international trade and initiatives to further regulate the rail industry;
- the outcome of litigation, claims and other contingent liabilities, including, but not limited to, those related to fuel surcharge, environmental matters, taxes, shipper and rate claims subject to adjudication, personal injuries and occupational illnesses;
- 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) and the level of demand for products carried by CSXT;
- natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property, equipment or supply chain;
- competition from other modes of freight transportation, such as trucking, and competition and consolidation or financial distress within the transportation industry generally;
- the cost of compliance with laws and regulations that differ from expectations (including those associated with PTC implementation) as well as costs, penalties and operational and liquidity impacts associated with noncompliance with applicable laws or regulations;
- the impact of increased passenger activities in capacity-constrained areas, including potential effects of high speed rail initiatives, or regulatory changes affecting when CSXT can transport freight or service routes;
- unanticipated conditions in the financial markets that may affect timely access to capital markets and the cost of capital, as well as management's decisions regarding share repurchases;
- changes in fuel prices, surcharges for fuel and the availability of fuel;
- the impact of natural gas prices on coal-fired electricity generation;
- the impact of global supply and price of seaborne coal on CSX's export coal market;
- availability of insurance coverage at commercially reasonable rates or insufficient insurance coverage to cover claims or damages;
- the inherent business risks associated with safety and security, including the transportation of hazardous materials or a cybersecurity attack which would threaten the availability and vulnerability of information technology;
- adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;



**CSX CORPORATION**  
**PART II**

- loss of key personnel or the inability to hire and retain qualified employees;
- labor and benefit costs and labor difficulties, including stoppages affecting either the Company's operations or customers' ability to deliver goods to the Company for shipment;
- the Company's success in implementing its strategic, financial and operational initiatives;
- the impact of conditions in the real estate market on the Company's ability to sell assets;
- changes in operating conditions and costs or commodity concentrations; and
- 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 elsewhere in this report and in CSX's other SEC reports, which are 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). The information on the CSX website is not part of this annual report on Form 10-K.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

CSX does not hold or issue derivative financial instruments for trading purposes. Historically, the Company has used derivative financial instruments to address market risk exposure to fluctuations in interest rates. As of December 2018, CSX does not have a material amount of floating rate debt obligations outstanding, and therefore fluctuations in the interest rate would not have a material impact on the Company's financial condition, results of operations or liquidity.

Changes in interest rates could impact the fair value of the Company's fixed rate long-term debt. The potential decrease in fair value of the Company's fixed rate long-term debt resulting from a hypothetical 10% increase in interest rates, or approximately 25 basis points, is estimated to be \$472 million as of December 31, 2018 and \$403 million as of December 31, 2017. The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of CSX Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of CSX Corporation (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 6, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1981.

Jacksonville, Florida  
February 6, 2019

**CSX CORPORATION**  
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**Item 8. Financial Statements and Supplementary Data**

**CONSOLIDATED INCOME STATEMENTS**  
*(Dollars in Millions, Except Per Share Amounts)*

**Fiscal Years**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>	<b>\$ 12,250</b>	<b>\$ 11,408</b>	<b>\$ 11,069</b>
<b>Expense</b>			
Labor and Fringe	<b>2,738</b>	2,946	3,135
Materials, Supplies and Other	<b>1,967</b>	2,113	2,092
Depreciation	<b>1,331</b>	1,315	1,301
Fuel	<b>1,046</b>	864	713
Equipment and Other Rents	<b>395</b>	429	465
Restructuring Charge (Note 1)	<b>—</b>	240	—
Equity Earnings of Affiliates	<b>(96)</b>	(219)	(50)
<b>Total Expense</b>	<b>7,381</b>	7,688	7,656
<b>Operating Income</b>	<b>4,869</b>	3,720	3,413
Interest Expense	<b>(639)</b>	(546)	(579)
Debt Repurchase Expense	<b>—</b>	—	(115)
Restructuring Charge - Non-Operating (Note 1)	<b>—</b>	(85)	—
Other Income - Net (Note 10)	<b>74</b>	53	22
<b>Earnings Before Income Taxes</b>	<b>4,304</b>	3,142	2,741
Income Tax (Expense) Benefit (Note 11)	<b>(995)</b>	2,329	(1,027)
<b>Net Earnings</b>	<b>\$ 3,309</b>	<b>\$ 5,471</b>	<b>\$ 1,714</b>
<b>Per Common Share (Note 2)</b>			
Net Earnings Per Share			
Basic	<b>\$ 3.86</b>	\$ 6.01	\$ 1.81
Assuming Dilution	<b>\$ 3.84</b>	\$ 5.99	\$ 1.81
Average Common Shares Outstanding ( <i>Millions</i> )			
Basic	<b>857</b>	911	947
Assuming Dilution	<b>861</b>	914	948
Cash Dividends Paid Per Common Share	<b>\$ 0.88</b>	\$ 0.78	\$ 0.72

Certain prior year data has been reclassified to conform to the current presentation.  
See accompanying Notes to Consolidated Financial Statements.

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**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS**  
*(Dollars in Millions)*

	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Net Earnings	<b>\$ 3,309</b>	\$ 5,471	\$ 1,714
Other Comprehensive (Loss) Income - Net of Tax:			
Pension and Other Post-Employment Benefits	(164)	140	21
Other	(11)	14	4
Total Other Comprehensive (Loss) Income	(175)	154	25
<b>Comprehensive Earnings (Note 14)</b>	<b>\$ 3,134</b>	\$ 5,625	\$ 1,739

See accompanying Notes to Consolidated Financial Statements.

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**CONSOLIDATED BALANCE SHEETS**  
*(Dollars in Millions)*

	<b>December</b>	<b>December</b>
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents (Note 1)	\$ 858	\$ 401
Short-term Investments	253	18
Accounts Receivable - Net (Note 1)	1,010	970
Materials and Supplies	263	372
Other Current Assets	181	154
<b>Total Current Assets</b>	<b>2,565</b>	1,915
Properties	44,805	44,324
Accumulated Depreciation	(12,807)	(12,560)
<b>Properties - Net (Note 6)</b>	<b>31,998</b>	31,764
Investment in Conrail (Note 12)	943	907
Affiliates and Other Companies	836	779
Other Long-term Assets	387	374
<b>Total Assets</b>	<b>\$ 36,729</b>	<b>\$ 35,739</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 949	\$ 847
Labor and Fringe Benefits Payable	550	602
Casualty, Environmental and Other Reserves (Note 5)	113	108
Current Maturities of Long-term Debt (Note 9)	18	19
Income and Other Taxes Payable	106	157
Other Current Liabilities	179	161
<b>Total Current Liabilities</b>	<b>1,915</b>	1,894
Casualty, Environmental and Other Reserves (Note 5)	211	266
Long-term Debt (Note 9)	14,739	11,790
Deferred Income Taxes - Net (Note 11)	6,690	6,418
Other Long-term Liabilities	594	650
<b>Total Liabilities</b>	<b>24,149</b>	21,018
<b>Shareholders' Equity:</b>		
Common Stock, \$1 Par Value (Note 3)	818	890
Other Capital	249	217
Retained Earnings (Note 1)	12,157	14,084
Accumulated Other Comprehensive Loss (Note 14)	(661)	(486)
Noncontrolling Minority Interest	17	16
<b>Total Shareholders' Equity</b>	<b>12,580</b>	14,721
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 36,729</b>	<b>\$ 35,739</b>

Certain prior year data has been reclassified to conform to the current presentation.  
See accompanying Notes to Consolidated Financial Statements.

**CSX CORPORATION**  
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**CONSOLIDATED CASH FLOW STATEMENTS**

*(Dollars in Millions)*

	<b>Fiscal Years</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES</b>			
Net Earnings	\$ 3,309	\$ 5,471	\$ 1,714
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	1,331	1,315	1,301
Restructuring Charge (Note 1)	—	325	—
Cash Payments for Restructuring Charge	(15)	(187)	—
Deferred Income Taxes	279	(3,233)	405
Earnings of Equity-method Investments	(96)	(219)	(50)
Contributions to Qualified Pension Plans (Note 8)	—	—	(250)
Gain on Property Dispositions	(154)	(18)	(128)
Other Operating Activities	(21)	(17)	(20)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(46)	(70)	84
Other Current Assets	101	1	(113)
Accounts Payable	104	41	40
Income and Other Taxes Payable	(104)	20	23
Other Current Liabilities	(47)	43	35
<b>Net Cash Provided by Operating Activities</b>	<b>4,641</b>	<b>3,472</b>	<b>3,041</b>
<b>INVESTING ACTIVITIES</b>			
Property Additions	(1,745)	(2,040)	(2,398)
Purchase of Short-term Investments	(736)	(782)	(929)
Proceeds from Sales of Short-term Investments	505	1,193	1,325
Proceeds from Property Dispositions	319	97	195
Other Investing Activities	(27)	37	9
<b>Net Cash Used in Investing Activities</b>	<b>(1,684)</b>	<b>(1,495)</b>	<b>(1,798)</b>
<b>FINANCING ACTIVITIES</b>			
Long-term Debt Issued (Note 9)	3,000	850	2,200
Long-term Debt Repaid (Note 9)	(19)	(333)	(1,419)
Dividends Paid	(751)	(708)	(680)
Shares Repurchased	(4,671)	(1,970)	(1,056)
Other Financing Activities	(59)	(18)	(313)
<b>Net Cash Used in Financing Activities</b>	<b>(2,500)</b>	<b>(2,179)</b>	<b>(1,268)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	457	(202)	(25)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and Cash Equivalents at Beginning of Period	401	603	628
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 858</b>	<b>\$ 401</b>	<b>\$ 603</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Interest Paid - Net of Amounts Capitalized	\$ 614	\$ 555	\$ 606
Income Taxes Paid	\$ 814	\$ 911	\$ 580

Certain prior year data has been reclassified to conform to the current presentation.  
See accompanying Notes to Consolidated Financial Statements.

**CSX CORPORATION**  
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**CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY**

*(Dollars in Millions)*

	Common Shares Outstanding <i>(Thousands)</i>	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) <sup>(a)</sup>	Non- controlling Interest	Total Shareholders' Equity
<b>December 25, 2015</b>	965,514	\$ 1,079	\$ 11,238	\$ (665)	\$ 16	\$ 11,668
Comprehensive Earnings:						
Net Earnings	—	—	1,714	—	—	1,714
Other Comprehensive Income (Note 14)	—	—	—	25	—	25
Total Comprehensive Earnings						1,739
Common stock dividends, \$0.72 per share	—	—	(680)	—	—	(680)
Share Repurchases	(38,379)	(38)	(1,018)	—	—	(1,056)
Bond Conversions	94	1	—	—	—	1
Other	951	24	(1)	—	(1)	22
<b>December 30, 2016</b>	928,180	1,066	11,253	(640)	15	11,694
Comprehensive Earnings:						
Net Earnings	—	—	5,471	—	—	5,471
Other Comprehensive Income (Note 14)	—	—	—	154	—	154
Total Comprehensive Earnings						5,625
Common stock dividends, \$0.78 per share	—	—	(708)	—	—	(708)
Share Repurchases	(38,785)	(39)	(1,931)	—	—	(1,970)
Other	456	80	(1)	—	1	80
<b>December 31, 2017</b>	889,851	1,107	14,084	(486)	16	14,721
Comprehensive Earnings:						
Net Earnings	—	—	3,309	—	—	3,309
Other Comprehensive Income (Note 14)	—	—	—	(175)	—	(175)
Total Comprehensive Earnings						3,134
Common stock dividends, \$0.88 per share	—	—	(751)	—	—	(751)
Share Repurchases	(72,264)	(72)	(4,599)	—	—	(4,671)
Other	593	32	114	—	1	147
<b>December 31, 2018</b>	818,180	\$ 1,067	\$ 12,157	\$ (661)	\$ 17	\$ 12,580

*(a) Accumulated Other Comprehensive Loss year-end balances shown above are net of tax. The associated taxes were \$180 million, \$162 million and \$335 million for 2018, 2017 and 2016, respectively. For additional information see Note 14, Other Comprehensive Income.*

See accompanying Notes to Consolidated Financial Statements.



**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. Nature of Operations and Significant Accounting Policies**

***Business***

CSX Corporation (“CSX”), together with its subsidiaries (the “Company”), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service, the transport of intermodal containers and trailers, as well as other transportation services such as rail-to-truck transfers and bulk commodity operations.

***CSX Transportation, Inc.***

CSX’s principal operating subsidiary, CSX Transportation, Inc. (“CSXT”), provides an important link to the transportation supply chain through its approximately 20,500 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. It has access to over 70 ocean, river and lake port terminals along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company’s intermodal business links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections to approximately 230 short-line and regional railroads.

CSXT is also responsible for the Company's real estate sales, leasing, acquisition and management and development activities after a merger with CSX Real Property, Inc., a former wholly-owned CSX subsidiary, on July 1, 2017. In addition, as substantially all real estate sales, leasing, acquisition and management and development activities are focused on supporting railroad operations, all results of these activities are included in operating income beginning in 2017. Previously, the results of these activities were classified as operating or non-operating based on the nature of the activity and were not material for any prior periods presented.

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

*Lines of Business*

During 2018, the Company's services generated \$12.3 billion of revenue and served three primary lines of business: merchandise, coal and intermodal.

- The merchandise business shipped 2.7 million carloads (41 percent of volume) and generated 61 percent of revenue in 2018. The Company's merchandise business is comprised of shipments in the following diverse markets: chemicals, automotive, agricultural and food products, minerals, fertilizers, forest products, and metals and equipment.
- The coal business shipped 887 thousand carloads (14 percent of volume) and generated 18 percent of revenue in 2018. The Company transports domestic coal, coke and iron ore to electricity-generating power plants, steel manufacturers and industrial plants as well as export coal to deep-water port facilities. Roughly one-third of export coal and the majority of the domestic coal that the Company transports is used for generating electricity.
- The intermodal business shipped 2.9 million units (45 percent of volume) and generated 16 percent of revenue in 2018. The intermodal business combines the superior economics of rail transportation with the short-haul flexibility of trucks and offers a cost advantage over long-haul trucking. Through a network of more than 30 terminals, the intermodal business serves all major markets east of the Mississippi River and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments.

Other revenue accounted for 5 percent of the Company's total revenue in 2018. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching, other incidental charges and adjustments to revenue reserves. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars or other equipment are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

*Other Entities*

In addition to CSXT, the Company's subsidiaries include CSX Intermodal Terminals, Inc. ("CSX Intermodal Terminals"), Total Distribution Services, Inc. ("TDSI"), Transflo Terminal Services, Inc. ("Transflo"), CSX Technology, Inc. ("CSX Technology") and other subsidiaries. CSX Intermodal Terminals owns and operates a system of intermodal terminals, predominantly in the eastern United States and also performs drayage services (the pickup and delivery of intermodal shipments) for certain customers and trucking dispatch operations. TDSI serves the automotive industry with distribution centers and storage locations. Transflo connects non-rail served customers to the many benefits of rail by transferring products from rail to trucks. The biggest Transflo markets are chemicals and agriculture, which includes shipments of plastics and ethanol. CSX Technology and other subsidiaries provide support services for the Company.

*Employees*

The Company's number of employees was approximately 22,500 as of December 2018, which includes approximately 18,500 union employees. Most of the Company's employees provide or support transportation services.

**CSX CORPORATION**  
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**Item 8. Financial Statements and Supplementary Data**

**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

***Basis of Presentation***

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the financial position of CSX and its subsidiaries at December 31, 2018 and December 31, 2017, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for fiscal years 2018, 2017 and 2016. In addition, management has evaluated and disclosed all material events occurring subsequent to the date of the financial statements up to the date this annual report is filed on Form 10-K.

***Fiscal Year***

Through the second quarter 2017, CSX followed a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday. On July 7, 2017, the Board of Directors of CSX approved a change in the fiscal reporting calendar from a 52/53 week year ending on the last Friday of December to a calendar year ending on December 31 each year, effective beginning with fiscal third quarter 2017. Related to the change in the fiscal calendar:

- Year:
  - 2018 contained 365 days (January 1, 2018 through December 31, 2018)
  - 2017 contained 366 days (December 31, 2016 through December 31, 2017)
  - 2016 contained 371 days (December 26, 2015 through December 30, 2016)
- First quarter:
  - 2018 contained 90 days (January 1, 2018 through March 31, 2018)
  - 2017 contained 91 days (December 31, 2016 through March 31, 2017)
  - 2016 contained 91 days (December 26, 2015 through March 25, 2016)
- Second quarter:
  - 2018 contained 91 days (April 1, 2018 through June 30, 2018)
  - 2017 contained 91 days (April 1, 2017 through June 30, 2017)
  - 2016 contained 91 days (March 26, 2016 through June 24, 2016)
- Third quarter:
  - 2018 contained 92 days (July 1, 2018 through September 30, 2018)
  - 2017 contained 92 days (July 1, 2017 through September 30, 2017)
  - 2016 contained 91 days (June 25, 2016 through September 23, 2016)
- Fourth quarter:
  - 2018 contained 92 days (October 1, 2018 through December 31, 2018)
  - 2017 contained 92 days (October 1, 2017 through December 31, 2017)
  - 2016 contained 98 days (September 24, 2016 through December 30, 2016)

**CSX CORPORATION**  
**PART II**  
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**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

This change did not materially impact comparability of the Company's financial results for fiscal years 2017 and 2016. Accordingly, the change to a calendar fiscal year was made on a prospective basis and operating results for prior periods were not adjusted. The Company was not required to file a transition report because this change was not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or Rule 15d-10 of the Securities Exchange Act of 1934 as the new fiscal year commenced with the end of the prior fiscal year end and within seven days of the prior fiscal year end. Except as otherwise specified, references to full years indicate CSX's fiscal years ended on December 31, 2018, December 31, 2017 and December 30, 2016.

***Principles of Consolidation***

The consolidated financial statements include results of operations of CSX and subsidiaries over which CSX has majority ownership or financial control. All significant intercompany accounts and transactions have been eliminated. Most investments in companies that were not majority-owned were carried at cost (if less than 20% owned and the Company has no significant influence) or were accounted for under the equity method (if the Company has significant influence but does not have control). These investments are reported within Investment in Conrail or Affiliates and Other Companies on the consolidated balance sheets.

***Cash and Cash Equivalents***

On a daily basis, cash in excess of current operating requirements is invested in various highly liquid investments having a typical maturity date of three months or less at the date of acquisition. These investments are carried at cost, which approximated market value, and are classified as cash equivalents.

***Investments***

Investments in instruments with original maturities greater than three months that will mature in less than one year are classified as short-term investments. Investments with original maturities of one year or greater are initially classified within other long-term assets, and the classification is re-evaluated at each balance sheet date.

***Materials and Supplies***

Materials and supplies in the consolidated balance sheets are carried at average costs and consist primarily of fuel and parts used in the repair and maintenance of CSXT's freight car and locomotive fleets, equipment and track structure.

***New Accounting Pronouncements***

***Pronouncements adopted in 2018***

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. Companies that elect to reclassify these amounts must reclassify stranded tax effects for all items accounted for in accumulated other comprehensive income. The Company adopted this standard update in first quarter 2018 and applied it prospectively. Adoption resulted in the reclassification of \$107 million in tax effects related to employee benefit plans from accumulated other comprehensive loss, increasing retained earnings by the same amount.

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**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

In March 2017, the FASB issued ASU *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that only the service cost component of net periodic benefit costs be recorded as compensation cost in operating expense on the consolidated income statement. All other components of net periodic benefit cost (interest cost, expected return on plan assets, amortization of net loss, special termination benefits and settlement and curtailment effects) should be presented as non-operating charges on the consolidated income statement. If these non-operating charges are related to prior year restructuring activities, they are presented as restructuring charge - non-operating. Other non-operating charges are presented as other income - net. The Company adopted the provisions of this standard during first quarter 2018 and applied them retrospectively. The retrospective impact of adoption for fiscal years 2017 and 2016 is shown in the following table.

	Fiscal Year 2017			Fiscal Year 2016		
	As Previously Reported	Reclass	As Reclassified	As Previously Reported	Reclass	As Reclassified
<i>(Dollars in millions)</i>						
<b>Operating Expense:</b>						
Labor and Fringe	\$ 2,914	\$ 32	\$ 2,946	\$ 3,159	\$ (24)	\$ 3,135
Restructuring Charge	325	(85)	240	—	—	—
<b>Non-Operating Income (Expense):</b>						
Restructuring Charge - Non-Operating	\$ —	\$ (85)	\$ (85)	\$ —	\$ —	\$ —
Other Income - Net	21	32	53	46	(24)	22

In May 2014, the FASB issued ASU *Revenue from Contracts with Customers*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. In-depth reviews of commercial contracts were completed and changes to processes and internal controls to meet the standard's reporting and disclosure requirements were implemented. The Company adopted the guidance effective January 1, 2018 using the modified retrospective approach. The adoption did not affect the Company's financial condition, results of operations or liquidity. Disclosures related to the nature, amount and timing of revenue and cash flows arising from contracts with customers are included in Note 16, Revenues.

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**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

*Pronouncements to be adopted*

In February 2016, the FASB issued ASU, *Leases*, which will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard update is effective for CSX beginning with the first quarter 2019 and the Company plans to adopt it using the cumulative-effect adjustment transition method approved by the FASB in July 2018. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and are being implemented. Software has been implemented that will assist in the recognition of additional assets and liabilities to be included on the balance sheet related to leases currently classified as operating leases with durations greater than twelve months, with certain allowable exceptions. In addition to lease agreements, service contracts and other agreements have been reviewed to determine if they contain an embedded lease. The Company expects that adoption of this standard update will result in right-of-use assets and corresponding lease liabilities of approximately \$650 million being reported on the consolidated balance sheet beginning first quarter 2019, but will not materially impact operating results or liquidity.

In January 2018, the FASB issued ASU *Leases - Land Easement Practical Expedient*, which permits entities to forgo the evaluation of existing land easement arrangements to determine if they contain a lease as part of the adoption of the *Leases* ASU issued in February 2016. Accordingly, the Company's accounting treatment of existing land easements will not change. CSX will adopt this standard update concurrently with the *Leases* ASU issued in February 2016. New land easement arrangements, or modifications to existing arrangements, after the adoption of the standard update will still be evaluated to determine if they meet the definition of a lease.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of certain revenues and expenses during the reporting period. Actual results may differ from those estimates. Critical accounting estimates using management judgment are made for the following areas:

- personal injury, environmental and legal reserves (see Note 5, *Casualty, Environmental and Other Reserves*);
- pension and post-retirement medical plan accounting (see Note 8, *Employee Benefit Plans*);
- depreciation policies for assets under the group-life method (see Note 6, *Properties*); and
- income taxes (see Note 11, *Income Taxes*).

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**NOTE 1. Nature of Operations and Significant Accounting Policies, *continued***

*Restructuring Charge*

Through an involuntary separation program with enhanced benefits to further its strategic objectives, CSX reduced its management workforce by approximately 950 employees during 2017. The Company was focused on driving efficiencies through process improvement and responding to business mix shifts. These management reductions were designed to further streamline general and administrative and operating support functions to speed decision making and further control costs. The involuntary separation program was essentially completed in April 2017.

The prior year restructuring charge includes costs related to the management workforce reduction program, executive retirements, reimbursement arrangements with MR Argent Advisor LLC (“Mantle Ridge”) and the Company’s former President and Chief Executive Officer, E. Hunter Harrison, the proration of equity awards and other advisory costs related to the leadership transition. Payments related to the 2017 restructuring charge were substantially complete as of March 31, 2018.

Expenses related to the management workforce reduction and other restructuring costs during 2017 are shown in the following table.

	<b>Fiscal Year 2017</b>		
	<b>As Previously Reported</b>	<b>Operating Restructuring Charge</b>	<b>Non-Operating Restructuring Charge</b>
<i>(Dollars in millions)</i>			
Severance and Pension	\$ 154	\$ 98	\$ 56
Other Post-Retirement Benefits Curtailment	17	—	17
Employee Equity Awards Proration and Other	23	23	—
<b>Subtotal Management Workforce Reduction</b>	<b>\$ 194</b>	<b>\$ 121</b>	<b>\$ 73</b>
Reimbursement Arrangements	84	84	—
Executive Equity Awards Proration	24	24	—
Pension Settlement Charge	12	—	12
Advisory Fees Related to Shareholder Matters	11	11	—
<b>Total Restructuring Charge</b>	<b>\$ 325</b>	<b>\$ 240</b>	<b>\$ 85</b>

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**NOTE 2. Earnings Per Share**

The following table sets forth the computation of basic earnings per share and earnings per share, assuming dilution:

	Fiscal Years		
	2018	2017	2016
<i>Numerator (Dollars in Millions):</i>			
Net Earnings	\$ 3,309	\$ 5,471	\$ 1,714
Dividend Equivalents on Restricted Stock	(1)	(1)	(1)
Net Earnings, Attributable to Common Shareholders	\$ 3,308	\$ 5,470	\$ 1,713
<i>Denominator (Units in Millions):</i>			
Average Common Shares Outstanding	857	911	947
Other Potentially Dilutive Common Shares	4	3	1
Average Common Shares Outstanding, Assuming Dilution	861	914	948
Net Earnings Per Share, Basic	\$ 3.86	\$ 6.01	\$ 1.81
Net Earnings Per Share, Assuming Dilution	\$ 3.84	\$ 5.99	\$ 1.81

Basic earnings per share is based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock outstanding and common stock equivalents adjusted for the effects of common stock that may be issued as a result of potentially dilutive instruments. CSX's potentially dilutive instruments are made up of equity awards including performance units and employee stock options.

When calculating diluted earnings per share, CSX is required to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options, which is included in Note 4, *Stock Plans and Share-Based Compensation*, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 479 thousand, 7.6 million and 2.8 million of total average outstanding stock options for 2018, 2017 and 2016, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

**Share Repurchases**

Share repurchases under the \$2 billion program announced in April 2015 were completed in April 2017. The Company subsequently announced a \$1 billion share repurchase program in April 2017, with additional authority of \$500 million added in July 2017. Repurchases under that program were completed on October 2, 2017. The Company announced a new \$1.5 billion share repurchase program on October 25, 2017.

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized to \$5 billion. This program was completed on January 16, 2019. Also on January 16, 2019, the Company announced another \$5 billion share repurchase program. The repurchases may be made through a variety of methods including, but not limited to, open market purchases, purchases pursuant to Rule 10b5-1 plans, accelerated share repurchases and negotiated block purchases. The timing of share repurchases depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.



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**NOTE 2. Earnings Per Share, continued**

During 2018, 2017, and 2016, CSX repurchased the following shares:

	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Shares Repurchased ( <i>Units in Millions</i> )	72	39	38
Cost of Shares ( <i>Dollars in Millions</i> )	\$ 4,671	\$ 1,970	\$ 1,056
Average Price Paid per Share	\$ 64.64	\$ 50.80	\$ 27.52

During 2018, the Company entered into four accelerated share repurchase agreements to repurchase shares of the Company's common stock. Under these agreements, the Company paid \$1.5 billion and received approximately 22 million total shares, which are included in the table above.

Management's assessment of market conditions and other factors guide the timing and volume of repurchases. Future share repurchases are expected to be funded by cash on hand, cash generated from operations and debt issuances. Shares are retired immediately upon repurchase. In accordance with the *Equity Topic* in the ASC, the Company elected to allocate the excess of repurchase price over par value and record in retained earnings.

**NOTE 3. Shareholders' Equity**

Common and preferred stock consists of the following:

<b>Common Stock, \$1 Par Value</b>	<b>December 2018</b>
	<i>(Units in Millions)</i>
Common Shares Authorized	1,800
Common Shares Issued and Outstanding	818
<b>Preferred Stock</b>	
Preferred Shares Authorized	25
Preferred Shares Issued and Outstanding	—

Holders of common stock are entitled to one vote on all matters requiring a vote for each share held. Preferred stock is senior to common stock with respect to dividends and upon liquidation of CSX.

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**NOTE 4. Stock Plans and Share-Based Compensation**

Under CSX's share-based compensation plans, awards consist of performance units, restricted stock units, restricted stock awards and stock options for management and stock grants for directors. Awards granted under the various programs are determined and approved by the Compensation Committee of the Board of Directors or, in certain circumstances, by the Chief Executive Officer for awards to management employees other than senior executives. The Board of Directors approves awards granted to CSX's non-management directors upon recommendation of the Governance Committee.

Share-based compensation expense for awards under share-based compensation plans and purchases made as part of the employee stock purchase plan is measured using the fair value of the award on the grant date and is recognized on a straight-line basis over the service period of the respective award. Forfeitures are recognized as they occur. Total pre-tax expense associated with share-based compensation and its related income tax benefit is shown in the table below. The year over year decrease in share-based compensation expense is primarily due to modifications to the terms of awards in the first and second quarters of 2017 (see Equity Award Modifications below).

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Share-Based Compensation Expense			
Performance Units	\$ 28	\$ 49	\$ 17
Restricted Stock Units and Awards	6	15	11
Stock Options	13	22	7
Stock Awards for Directors	2	3	2
Employee Stock Purchase Plan	2	—	—
Total Share-based Compensation Expense	<b>\$ 51</b>	<b>\$ 89</b>	<b>\$ 37</b>
Income Tax Benefit	<b>\$ 26</b>	<b>\$ 42</b>	<b>\$ 15</b>

***Long-term Incentive Plans***

The CSX Long-term Incentive Plans ("LTIP") were adopted under the 2010 CSX Stock and Incentive Award Plan. The objective of these plans is to motivate and reward certain employees for achieving and exceeding certain financial goals. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals for each three-year cycle. In 2016, 2017 and 2018, target performance units were granted to certain employees under three separate LTIP plans covering three-year cycles: the 2016-2018 ("2016-2018 LTIP"), 2017-2019 ("2017-2019 LTIP") and 2018-2020 ("2018-2020 LTIP") plans.

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**NOTE 4. Stock Plans and Share-Based Compensation, *continued***

The key financial targets for the 2016-2018 and 2017-2019 plans are based on the achievement of goals related to both operating ratio and return on assets (tax-adjusted operating income divided by net property) excluding certain items as disclosed in the Company's financial statements. The three-year cumulative operating ratio and average return on assets over the performance period will each comprise 50% of the payout and are measured independently of the other. These plans state that payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

Payouts of performance units for the 2018-2020 plan will be based on the achievement of goals related to both operating ratio and free cash flow, in each case excluding non-recurring items as disclosed in the Company's financial statements. The final year operating ratio and cumulative free cash flow over the plan period will each comprise 50% of the payout and will be measured independently of the other. For this plan, payouts for certain executive officers are subject to formulaic upward or downward adjustment by up to 25%, capped at an overall payout of 200%, based upon the Company's total shareholder return relative to specified comparable groups over the performance period. The fair value of the performance units awarded during the year ended December 2018 was calculated using a Monte-Carlo simulation model with the following weighted-average assumptions:

Weighted-average assumptions used:	<b>2018</b>
Annual dividend yield	1.6%
Risk-free interest rate	2.3%
Annualized volatility	29.1%
Expected life (in years)	2.9

Performance unit grant and vesting information is summarized as follows:

	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Weighted-average grant date fair value	\$ 55.57	\$ 49.50	\$ 24.17
Fair value of units vested in fiscal year ending <i>(in millions)</i>	\$ 14	\$ 26	\$ 31

The performance unit activity related to the outstanding long-term incentive plans and corresponding fair value is summarized as follows:

	<b>Performance Units Outstanding (in Thousands)</b>	<b>Weighted-Average Fair Value at Grant Date</b>
Unvested at December 31, 2017	976	\$ 33.90
Granted	376	55.57
Forfeited	(43)	43.09
Vested	(587)	24.13
Unvested at December 31, 2018	722	\$ 52.58

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**NOTE 4. Stock Plans and Share-Based Compensation, *continued***

As of December 2018, there was \$38 million of total unrecognized compensation cost related to performance units that is expected to be recognized over a weighted-average period of approximately two years.

***Restricted Stock Grants***

Restricted stock grants consist of units and awards, each equivalent to one share of CSX stock. Restricted stock units are issued along with corresponding LTIP plans and vest three years after the date of grant. Separately, restricted stock awards generally vest over an employment period of up to five years. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and not based upon CSX's attainment of operational targets.

Restricted stock grant and vesting information is summarized as follows:

	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Weighted-average grant date fair value	\$ 62.60	\$ 48.35	\$ 24.21
Fair value of units and awards vested during fiscal year ended <i>(in millions)</i>	\$ 9	\$ 8	\$ 14

The restricted stock activity related to the outstanding long-term incentive plans and other awards and corresponding fair value is summarized as follows:

	<b>Restricted Stock Units and Awards Outstanding (in Thousands)</b>	<b>Weighted-Average Fair Value at Grant Date</b>
Unvested at December 31, 2017	807	\$ 33.37
Granted	164	62.60
Forfeited	(23)	42.12
Vested	(264)	35.41
Unvested at December 31, 2018	684	\$ 39.30

As of December 2018, unrecognized compensation expense for these restricted stock units and awards was approximately \$11 million, which will be expensed over a weighted-average remaining period of two years.

***Stock Options***

Stock options were granted in 2016, 2017 and 2018 along with the corresponding LTIP plans. Under this program, an employee receives an award that provides the opportunity in the future to purchase CSX shares at the closing market price of the stock on the date the award is granted (the strike price). The options become exercisable after a three-year vesting period and expire 10 years from the grant date if they are not exercised.

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**NOTE 4. Stock Plans and Share-Based Compensation, continued**

The fair value of stock options granted was estimated as of the dates of grant using the Black-Scholes-Merton option model which uses the following assumptions: dividend yield, risk-free interest rate, annualized volatility and expected life. The annual dividend yield is based on the most recent quarterly CSX dividend payment annualized. The risk-free interest rate is based on U.S. Treasury yield curve in effect at the time of grant. The annualized volatility is based on historical volatility of daily CSX stock price returns over a 6.5 year look-back period ending on the grant date. The expected life is calculated using the safe harbor approach due to lack of historical data on CSX options, which is the midpoint between the vesting schedule (three year cliff) and contractual term (10 years).

In March 2017, the Company granted 9 million stock options to former CEO E. Hunter Harrison at a fair value of \$12.88 per option. These options were granted with a ten-year term and an exercise price equal to the closing market price of the underlying stock on the date of grant. Upon his death in December 2017, all of Mr. Harrison's 9 million options were forfeited.

Assumptions and inputs used to estimate fair value of stock options are summarized as follows:

	Fiscal Years		
	2018	2017	2016
Weighted-average grant date fair value	\$ 14.65	\$ 12.84	\$ 4.68
Stock options valuation assumptions:			
Annual dividend yield	1.5%	1.5%	3.0%
Risk-free interest rate	2.6%	2.2%	1.4%
Annualized volatility	27.0%	27.1%	27.3%
Expected life (in years)	6.5	6.3	6.5
Other pricing model inputs:			
Weighted-average grant-date market price of CSX stock (strike price)	\$ 54.19	\$ 49.63	\$ 24.13

The stock option activity is summarized as follows:

	Stock Options Outstanding (in Thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at December 31, 2017	4,163	\$ 29.52		
Granted	1,009	54.19		
Forfeited	(169)	37.18		
Exercised	(330)	24.99		
Outstanding at December 31, 2018	4,673	\$ 34.89	7.7	\$ 139
Exercisable at December 31, 2018	1,268	\$ 24.99	6.9	\$ 50

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**NOTE 4. Stock Plans and Share-Based Compensation, *continued***

Unrecognized compensation expense related to stock options as of December 2018 was \$13 million and is expected to be recognized over a weighted-average period of approximately two years. The Company issues new shares upon stock option exercises.

***Equity Award Modifications***

In 2017, as part of an enhanced severance benefit under the management streamlining and realignment initiative discussed in Note 1, unvested performance units, restricted stock units and stock options for separated employees not eligible for retirement were permitted to vest on a pro-rata basis. Additionally, the terms of unvested equity awards for a former Chief Executive Officer, Michael J. Ward, and a former President, Clarence W. Gooden, were modified prior to their retirements on March 6, 2017 to permit prorated vesting through May 31, 2018.

The award modifications impacted approximately 75 employees and resulted in an increase to share-based compensation expense for revaluation of the affected awards of \$39 million for the year ended December 31, 2017. The expense associated with these award modifications was included in the 2017 restructuring charge. No significant award modifications took place in 2018 or 2016.

***Stock Awards for Directors***

CSX's non-management directors receive a base annual retainer of \$100,000 to be paid quarterly in cash, unless the director chooses to defer the retainer in the form of cash or CSX common stock. Additionally, non-management directors receive an annual grant of common stock in the amount of approximately \$150,000, with the number of shares to be granted based on the average closing price of CSX stock in the months of November, December and January. The independent non-executive Chairman also receives an annual grant of common stock in the amount of approximately \$250,000, with the number of shares to be granted based on the average closing price of CSX stock in the months of November, December, and January.

***Employee Stock Purchase Plan***

In May 2018, shareholders approved the 2018 CSX Employee Stock Purchase Plan ("ESPP") for the benefit of Company employees. The Company registered 4 million shares of common stock that may be issued pursuant to this plan. Under the ESPP, employees may contribute between 1% and 10% of base compensation, after-tax, to purchase up to \$25,000 of CSX common stock per year at 85% of the closing market price on either the grant date or the last day of the six-month offering period, whichever is lower. No shares will be issued under the ESPP until first quarter 2019.

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**NOTE 5. Casualty, Environmental and Other Reserves**

Activity related to casualty, environmental and other reserves is as follows:

<i>(Dollars in Millions)</i>	<b>Casualty Reserves</b>	<b>Environmental Reserves</b>	<b>Other Reserves</b>	<b>Total</b>
<b>December 25, 2015</b>	\$ 269	\$ 82	\$ 49	\$ 400
Charged to Expense	52	46	30	128
Change in Estimate <sup>(a)</sup>	(28)	—	—	(28)
Payments	(64)	(33)	(29)	(126)
<b>December 30, 2016</b>	229	95	50	374
Charged to Expense	43	26	45	114
Payments	(44)	(31)	(39)	(114)
<b>December 31, 2017</b>	228	90	56	374
Charged to Expense	47	10	41	98
Change in Estimate <sup>(a)</sup>	(26)	—	—	(26)
Payments	(50)	(20)	(52)	(122)
<b>December 31, 2018</b>	\$ 199	\$ 80	\$ 45	\$ 324

<sup>(a)</sup> Changes in estimates are the result of continued safety improvements and a continuing decline in the severity of injuries.

Personal injury and environmental reserves are considered critical accounting estimates due to the need for significant management judgment. Casualty, environmental and other reserves are provided for in the consolidated balance sheets as shown in the table below.

<i>(Dollars in Millions)</i>	<b>December 2018</b>			<b>December 2017</b>		
	<b>Current</b>	<b>Long-term</b>	<b>Total</b>	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
Casualty:						
Personal Injury	\$ 40	\$ 103	\$ 143	\$ 43	\$ 125	\$ 168
Occupational	10	46	56	6	54	60
Total Casualty	\$ 50	\$ 149	\$ 199	\$ 49	\$ 179	\$ 228
Environmental	39	41	80	31	59	90
Other	24	21	45	28	28	56
Total	\$ 113	\$ 211	\$ 324	\$ 108	\$ 266	\$ 374

These liabilities are accrued when probable and reasonably estimable in accordance with the *Contingencies Topic* in the ASC. Actual settlements and claims received could differ and final outcomes of these matters cannot be predicted with certainty. Considering the legal defenses currently available, the liabilities that have been recorded and other factors, it is the opinion of management that none of these items individually, when finally resolved, will have a material adverse effect on the Company's financial condition, results of operations or liquidity. Should a number of these items occur in the same period, however, their combined effect could be material in that particular period.

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**NOTE 5. Casualty, Environmental and Other Reserves, *continued***

***Casualty***

Casualty reserves of \$199 million and \$228 million for 2018 and 2017, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. During second quarter 2018, the Company increased its self-insured retention amount for these claims from \$50 million to \$75 million per occurrence for claims occurring on or after June 1, 2018. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the *Contingencies Topic* in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

***Personal Injury***

Personal injury reserves represent liabilities for employee work-related and third-party injuries. Work-related injuries for CSXT employees are primarily subject to the Federal Employers' Liability Act ("FELA"). CSXT retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims based largely on CSXT's historical claims and settlement experience.

As a direct result of improvements in safety in recent years, the Company has experienced a downward trend in the severity of injuries, which has resulted in a decrease in the estimate of costs per incident. During 2018 and 2016, the Company reduced casualty reserves, primarily personal injury reserves, by \$26 million and \$28 million, respectively, resulting in an after-tax effect on earnings from continuing operations and net earnings of \$19 million and \$18 million, respectively and an after-tax effect on earnings per share of \$0.02 and \$0.02, respectively. The personal injury reserve reductions are included in materials, supplies and other on the consolidated income statements. During 2017, there were no significant changes in estimate recorded to adjust casualty reserves.

***Occupational***

Occupational reserves represent liabilities for occupational disease and injury claims. Occupational disease claims arise primarily from allegations of exposure to asbestos in the workplace. Occupational injury claims arise from allegations of exposure to certain other materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries.



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**NOTE 5. Casualty, Environmental and Other Reserves, *continued***

***Environmental***

Environmental reserves were \$80 million and \$90 million for 2018 and 2017, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 220 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

In any such proceedings, the Company is subject to environmental clean-up and enforcement actions under the Superfund Law, as well as similar state laws that may impose joint and several liability for clean-up and enforcement costs on current and former owners and operators of a site without regard to fault or the legality of the original conduct. These costs could be substantial.

In accordance with the *Asset Retirement and Environmental Obligations Topic* in the ASC, the Company reviews its role with respect to each site identified at least quarterly, giving consideration to a number of factors such as:

- type of clean-up required;
- nature of the Company's alleged connection to the location (e.g., generator of waste sent to the site or owner or operator of the site);
- extent of the Company's alleged connection (e.g., volume of waste sent to the location and other relevant factors); and
- number, connection and financial viability of other named and unnamed potentially responsible parties at the location.

Based on the review process, the Company has recorded amounts to cover contingent anticipated future environmental remediation costs with respect to each site to the extent such costs are reasonably estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statements.

Currently, the Company does not possess sufficient information to reasonably estimate the amounts of additional liabilities, if any, on some sites until completion of future environmental studies. In addition, conditions that are currently unknown could, at any given location, result in additional exposure, the amount and materiality of which cannot presently be reasonably estimated. Based upon information currently available, however, the Company believes its environmental reserves accurately reflect the estimated cost of remedial actions currently required.

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**NOTE 5. Casualty, Environmental and Other Reserves, *continued***

**Other**

Other reserves were \$45 million and \$56 million for 2018 and 2017, respectively. These reserves include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

**NOTE 6. Properties**

A detail of the Company's net properties are as follows:

<i>(Dollars in Millions)</i>		Accumulated	Net Book	Annual	Estimated	Depreciation
<b>December 2018</b>	Cost	Depreciation	Value	Depreciation	Useful Life	Method <sup>(a)</sup>
				Rate	( Avg. Years)	
<b>Road</b>						
Rail and Other Track Material	\$ 7,964	\$ (1,698)	\$ 6,266	2.5%	40	Group Life
Ties	5,860	(1,557)	4,303	3.7%	27	Group Life
Grading	2,757	(572)	2,185	1.4%	72	Group Life
Ballast	3,076	(971)	2,105	2.7%	37	Group Life
Bridges, Trestles, and Culverts	2,506	(382)	2,124	1.6%	61	Group Life
Signals and Interlockers	2,975	(693)	2,282	4.0%	25	Group Life/ Straight Line
Buildings	1,318	(486)	832	2.5%	40	Group Life
Other	4,955	(1,964)	2,991	4.2%	24	Group Life
Total Road	31,411	(8,323)	23,088			
<b>Equipment</b>						
Locomotive	5,661	(2,266)	3,395	3.5%	29	Group Life
Freight Cars	3,093	(882)	2,211	2.9%	35	Group Life
Work Equipment and Other	2,338	(1,336)	1,002	7.4%	14	Group Life/ Straight Line
Total Equipment	11,092	(4,484)	6,608			
Land	1,845	—	1,845	N/A	N/A	N/A
Construction In Progress	457	—	457	N/A	N/A	N/A
Total Properties	<b>\$ 44,805</b>	<b>\$ (12,807)</b>	<b>\$ 31,998</b>			

(a) For depreciation method, certain asset categories contain intermodal terminals or technology-related assets, which are depreciated using the straight-line method.

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**NOTE 6. Properties, continued**

<i>(Dollars in Millions)</i>		Accumulated	Net Book	Annual	Estimated	Depreciation
<b>December 2017</b>	Cost	Depreciation	Value	Depreciation	Useful Life	Method <sup>(a)</sup>
				Rate	(Avg. Years)	
Road						
Rail and Other Track Material	\$ 7,694	\$ (1,606)	\$ 6,088	2.5%	40	Group Life
Ties	5,665	(1,446)	4,219	3.7%	27	Group Life
Grading	2,662	(542)	2,120	1.4%	72	Group Life
Ballast	2,994	(921)	2,073	2.7%	37	Group Life
Bridges, Trestles, and Culverts	2,405	(356)	2,049	1.6%	61	Group Life
Signals and Interlockers	2,759	(588)	2,171	4.0%	25	Group Life/ Straight Line
Buildings	1,278	(464)	814	2.5%	40	Group Life
Other	4,634	(1,867)	2,767	4.2%	24	Group Life
Total Road	30,091	(7,790)	22,301			
Equipment						
Locomotive	6,083	(2,490)	3,593	3.5%	29	Group Life
Freight Cars	3,262	(998)	2,264	2.9%	35	Group Life
Work Equipment and Other	2,261	(1,282)	979	7.4%	14	Group Life/ Straight Line
Total Equipment	11,606	(4,770)	6,836			
Land	1,849	—	1,849	N/A	N/A	N/A
Construction In Progress	778	—	778	N/A	N/A	N/A
Total Properties	<u>\$44,324</u>	<u>\$ (12,560)</u>	<u>\$ 31,764</u>			

(a) For depreciation method, certain asset categories contain intermodal terminals or technology-related assets, which are depreciated using the straight-line method.

**CSX CORPORATION**  
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**NOTE 6. Properties, continued**

*Capital Expenditures*

The Company's capital investment includes purchased and self-constructed assets and property additions that substantially extend the service life or increase the utility of those assets. Indirect costs that can be specifically traced to capital projects are also capitalized. The Company is committed to maintaining and improving its existing infrastructure and expanding its network capacity for long-term growth. Rail operations are capital intensive and CSX accounts for these costs in accordance with GAAP and the Company's capitalization policy. All properties are stated at historical cost less an allowance for accumulated depreciation.

The Company's largest category of capital investment is the replacement of track assets and the acquisition or construction of new assets that enable CSX to enhance its operations or provide new capacity offerings to its customers. These construction projects are primarily completed by CSXT employees. Costs for track asset replacement and capacity projects that are capitalized include:

- labor costs, because many of the assets are self-constructed;
- costs to purchase or construct new track or to prepare ground for the laying of track;
- welding (rail, field and plant) which are processes used to connect segments of rail;
- new ballast, which is gravel and crushed stone that holds track in line;
- fuels and lubricants associated with tie, rail and surfacing work which is the process of raising track to a designated elevation over an extended distance;
- cross, switch and bridge ties which are the braces that support the rails on a track;
- gauging which is the process of standardizing the distance between rails;
- handling costs associated with installing rail, ties or ballast;
- usage charge of machinery and equipment utilized in construction or installation; and
- other track materials.

The primary cost in self-constructed track replacement work is labor. CSXT engineering employees directly charge their labor to the track replacement project (the capitalized depreciable property). These employees concurrently perform deconstruction and installation of track material. Because of this concurrent process, CSX must estimate the amount of labor that is related to deconstruction versus installation. Through analysis of CSXT's track replacement process, CSX determined that approximately 20% of labor costs associated with track material installation is related to the deconstruction of old track, which is expensed, and 80% is associated with the installation of new track, which is capitalized.

Capital investment related to locomotives and freight cars comprises the second largest category of the Company's capital assets. This category includes purchase costs of locomotives and freight cars as well as certain equipment leases that are considered to be capital leases in accordance with the *Leases Topic* in the ASC. In addition, costs to modify or rebuild these assets are capitalized if the investment incurred extends the asset's service life or improves utilization. Improvement projects must meet specified dollar thresholds to be capitalized and are reviewed by management to determine proper accounting treatment. Routine repairs, overhauls and other maintenance costs, for all asset categories, are expensed as incurred.

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**NOTE 6. Properties, continued**

*Depreciation Method*

The depreciable assets of the Company are depreciated using either the group-life or straight-line method of accounting, which are both acceptable depreciation methods in accordance with GAAP. The Company depreciates its railroad assets, including main-line track, locomotives and freight cars, using the group-life method. Assets depreciated under the group-life method comprise 87% of total fixed assets of \$45 billion on a gross basis as of December 2018. The remaining depreciable assets of the Company, including non-railroad assets and assets under capital leases, are depreciated using the straight-line method on a per asset basis. Land is not depreciated.

The group-life method aggregates assets with similar lives and characteristics into groups and depreciates each of these groups as a whole. When using the group-life method, an underlying assumption is that each group of assets, as a whole, is used and depreciated to the end of its group's recoverable life. The Company currently utilizes different depreciable asset categories to account for depreciation expense for the railroad assets that are depreciated under the group-life method. By utilizing various depreciable categories, the Company can more accurately account for the use of its assets. All assets of the Company are depreciated on a time or life basis.

The group-life method of depreciation closely approximates the straight-line method of depreciation. Additionally, due to the nature of most of its assets (e.g. track is one contiguous, connected asset), the Company believes that this is the most effective way to properly depreciate its assets.

*Estimated Useful Life*

Management performs a review of depreciation expense and useful lives on a regular basis. Under the group-life method, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company's management and approved by the STB, the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed every three years for equipment assets (e.g. locomotives and freight cars) and every six years for road and track assets (e.g. bridges, signals, rail, ties, and ballast). The Company believes the frequency of depreciation studies currently required by the STB, complemented by annual data reviews conducted by a third-party specialist and analyzed by the Company's management, provides adequate review of asset service lives and that a more frequent review would not result in a material change due to the long-lived nature of most of the assets. In 2016, the Company completed a depreciation study for its equipment assets. The Company plans to complete the next depreciation study for equipment assets in 2019 and road and track assets in 2020.

*Group-Life Assets Sales and Retirements*

Since the rail network is one contiguous, connected network it is impractical to maintain specific identification records for these assets. For track assets (e.g. rail, ties, and ballast), CSX utilizes a first-in, first-out approach to asset retirements. Equipment assets (e.g. locomotives and freight cars) are specifically identified at retirement. When an equipment asset is retired that has been depreciated using the group-life method, the cost is reduced from the cost base and recorded in accumulated depreciation.

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**NOTE 6. Properties, continued**

For sales or retirements of assets depreciated under the group-life method that occur in the ordinary course of business, the asset cost (net of salvage value or sales proceeds) is charged to accumulated depreciation and no gain or loss is immediately recognized. This practice is consistent with accounting treatment prescribed under the group-life method. As part of the depreciation study, an assessment of the recorded amount of accumulated depreciation is made to determine if it is deficient (or in excess) of the appropriate amount indicated by the study. Any such deficiency (or excess), including any deferred gains or losses, is amortized as a component of depreciation expense over the remaining service life of the asset group until the next required depreciation study. Since the overall assumption with the group-life method is that the assets within the group on average have the same service life and characteristics, it is therefore concluded that the deferred gains and losses offset over time.

For sales or retirements of assets depreciated under the group-life method that do not occur in the ordinary course of business, a gain or loss may be recognized if the sale or retirement meets each of the following three criteria: (i) it is unusual, (ii) it is material in amount, and (iii) it varies significantly from the retirement profile identified through our depreciation studies. No material gains or losses were recognized on the sale of assets depreciated using the group-life method in 2018, 2017, or 2016 as no sales met the criteria described above.

*Land and Straight-line Assets Sales and Retirements*

When the Company sells or retires land, land-related easements or assets depreciated under the straight-line method, a gain or loss is recognized in materials, supplies and other on the consolidated statements of income. In 2018, the Company recognized gains on the sale of properties of \$154 million as a result of its initiative to monetize non-core properties. In 2017 and 2016, the Company recognized gains on the sale of properties of \$18 million and \$128 million, respectively.

*Impairment Review*

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets in accordance with the *Property, Plant, and Equipment Topic* in the ASC. Where impairment is indicated, the assets are evaluated and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value. In 2018 and 2017, impairment expense of \$24 million and \$25 million, respectively, was recorded in materials, supplies and other expense primarily due to the discontinuation of certain in-progress projects. There were no material impairments recorded during 2016.

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**NOTE 7. Commitments and Contingencies**

**Lease Commitments**

The Company has various lease agreements with other parties with terms up to 50 years. Non-cancelable, long-term leases may include provisions for maintenance, options to purchase and options to extend the terms. Rent expense on operating leases is included in equipment and other rents on the consolidated income statements. The Company uses the straight-line method to recognize rent expense on operating leases that include escalations over their terms. These amounts are shown in the table below.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Rent Expense on Operating Leases	\$ 66	\$ 78	\$ 77

During 2018, the Company renewed a lease with the State of Georgia for approximately 137 miles of right-of-way with integral equipment for an additional term of 50 years, pending approval by the STB. Lease payments, which include an annual 2.5% increase, are included in the table below.

At December 2018, minimum rentals on land, buildings, track and equipment under operating leases are disclosed in the table below.

<i>(Dollars in Millions)</i>	<b>Operating</b>	<b>Sublease</b>	<b>Net Lease</b>
<b>Years</b>	<b>Leases</b>	<b>Income</b>	<b>Commitments</b>
2019	\$ 58	\$ (3)	\$ 55
2020	59	(3)	56
2021	54	(4)	50
2022	50	(4)	46
2023	44	(4)	40
Thereafter	1,312	(3)	1,309
Total	\$ 1,577	\$ (21)	\$ 1,556

**Purchase Commitments**

In 2018, CSXT revised its long-term locomotive maintenance program agreement with a third-party. The new agreement contains commitments related to specific locomotive rebuilds and a long-term maintenance program that covers a portion of CSXT's fleet of locomotives. The maintenance program costs are based on the maintenance cycle for each covered locomotive, which is determined by the asset's age and type. Expected future costs may change as required maintenance schedules are revised and locomotives are placed into or removed from service. Under CSXT's current obligations, the agreement will expire no earlier than 2035.

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**NOTE 7. Commitments and Contingencies, continued**

The following table summarizes the number of locomotives covered and CSXT's payments under the long-term maintenance program.

<i>(Dollars in Millions)</i>	Fiscal Years		
	2018	2017	2016
Amounts Paid	\$ 145	\$ 197	\$ 230
Number of Locomotives	1,910	2,062	2,243

The total of annual payments under the agreement, including those related to locomotive rebuilds and the long-term locomotive maintenance program, are estimated in the table below.

Additionally, the Company has various other commitments to purchase technology, communications, railcar maintenance and other services from various suppliers. Total annual payments under all of these purchase commitments are also estimated in the table below.

<i>(Dollars in Millions)</i>	Locomotive Maintenance & Rebuild Payments	Other Commitments	Total
2019	\$ 137	\$ 105	\$ 242
2020	232	48	280
2021	237	35	272
2022	242	33	275
2023	242	27	269
Thereafter	2,515	184	2,699
Total	\$ 3,605	\$ 432	\$ 4,037

**Insurance**

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a \$50 million per occurrence retention for floods and named windstorms and a \$25 million per occurrence retention for property losses other than floods and named windstorms. For claims occurring on or after June 1, 2018, the Company increased its self-insured retention for third-party liability claims from \$50 million to \$75 million per occurrence. While the Company believes its insurance coverage is adequate, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.



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**NOTE 7. Commitments and Contingencies, *continued***

***Legal***

The Company is involved in litigation incidental to its business and is a party to a number of legal actions and claims, various governmental proceedings and private civil lawsuits, including, but not limited to, those related to fuel surcharge practices, tax matters, environmental and hazardous material exposure matters, FELA and labor claims by current or former employees, other personal injury or property claims and disputes and complaints involving certain transportation rates and charges. Some of the legal proceedings include claims for compensatory as well as punitive damages and others are, or are purported to be, class actions. While the final outcome of these matters cannot be predicted with certainty, considering, among other things, the legal defenses available and liabilities that have been recorded along with applicable insurance, it is currently the opinion of management that none of these pending items will have a material adverse effect on the Company's financial condition, results of operations or liquidity. An unexpected adverse resolution of one or more of these items, however, could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$3 million to \$120 million in aggregate at December 31, 2018. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

***Fuel Surcharge Antitrust Litigation***

In May 2007, class action lawsuits were filed against CSXT and three other U.S.-based Class I railroads alleging that the defendants' fuel surcharge practices relating to contract and unregulated traffic resulted from an illegal conspiracy in violation of antitrust laws. In November 2007, the class action lawsuits were consolidated in federal court in the District of Columbia, where they are now pending. The suit seeks treble damages allegedly sustained by purported class members as well as attorneys' fees and other relief. Plaintiffs are expected to allege damages at least equal to the fuel surcharges at issue.

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. On October 10, 2017, the District Court issued an order denying class certification. The U.S. Court of Appeals for the D.C. Circuit is reviewing the District Court's denial of class certification and held oral argument on September 28, 2018, with a decision yet to be issued. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification proceedings.

CSXT believes that its fuel surcharge practices were arrived at and applied lawfully and that the case is without merit. Accordingly, the Company intends to defend itself vigorously. However, penalties for violating antitrust laws can be severe, and resolution of this matter or an unexpected adverse decision on the merits could have a material adverse effect on the Company's financial condition, results of operations or liquidity in that particular period.

**CSX CORPORATION**  
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**NOTE 7. Commitments and Contingencies, *continued***

*Environmental*

CSXT is indemnifying Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate located in Kearny, New Jersey along the Lower Passaic River (the "Property"). The Property, which was formerly owned by Pharmacia, is now owned by CSXT. CSXT's indemnification and defense duties arise with respect to several matters. The U.S. Environmental Protection Agency ("EPA"), using its CERCLA authority, seeks cleanup and removal costs and other damages associated with the presence of hazardous substances in the 17-mile Lower Passaic River Study Area (the "Study Area"). CSXT, on behalf of Pharmacia, and a significant number of other potentially responsible parties are together conducting a Remedial Investigation and Feasibility Study of the Study Area pursuant to an Administrative Settlement Agreement and Order on Consent with the EPA.

In March 2016, EPA issued its Record of Decision detailing the agency's mandated remedial process for the lower 8 miles of the Study Area. Approximately 80 parties, including Pharmacia, are participating in an EPA-directed allocation process to assign responsibility for costs to be incurred implementing the remedy selected for the lower 8 miles of the Study Area. CSXT is participating in the allocation process on behalf of Pharmacia. At a later date, EPA will select a remedy for the remainder of the Study Area and is expected to again seek the participation of private parties to implement the selected remedy using EPA's CERCLA authority to compel such participation, if necessary.

CSXT is also defending and indemnifying Pharmacia in a cooperative natural resource damages assessment process related to the Property. Based on currently available information, the Company does not believe any indemnification or remediation costs potentially allocable to CSXT with respect to the Property and the Study Area would be material to the Company's financial condition, results of operations or liquidity.

**NOTE 8. Employee Benefit Plans**

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

In addition to these plans, the Company sponsors a post-retirement medical plan and a non-contributory life insurance plan that provide certain benefits to full-time, salaried, management employees hired prior to 2003, upon their retirement if certain eligibility requirements are met. Changes to the post-retirement medical and life insurance plans were communicated to participants in October 2018. Beginning in 2019, both the life insurance benefit for eligible active employees and health savings account contributions made by the Company to eligible retirees younger than 65 will be eliminated. Beginning in 2020, the employer-funded health reimbursement arrangements for eligible retirees 65 years or older will be eliminated. As a result of these plan amendments, the company recognized a decrease of \$102 million in the post-retirement benefit liability and a corresponding gain in other comprehensive income. These changes did not result in a curtailment loss as there was no material impact to service costs for active plan participants.

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**NOTE 8. Employee Benefit Plans, continued**

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company determines are appropriate based on historical trends, current market rates and future projections. These amounts are reviewed by management. In order to perform this valuation, the actuaries are provided with the details of the population covered at the beginning of the year, summarized in the table below, and projects that population forward to the end of the year.

**Summary of Participants as of  
January 1, 2018**

	<b>Pension Plans</b>	<b>Post-retirement Medical Plan</b>
Active Employees	3,566	660
Retirees and Beneficiaries	12,081	9,030
Other <sup>(a)</sup>	4,262	23
<b>Total</b>	<b>19,909</b>	<b>9,713</b>

*(a) For pension plans, the other category consists mostly of terminated but vested former employees. For post-retirement plans, the other category consists of employees on long-term disability that have not yet retired.*

The benefit obligation for these plans represents the liability of the Company for current and retired employees and is affected primarily by the following:

- service cost (benefits attributed to employee service during the period);
- interest cost (interest on the liability due to the passage of time);
- actuarial gains/losses (experience during the year different from that assumed and changes in plan assumptions); and
- benefits paid to participants.

**Cash Flows**

Plan assets are amounts that have been segregated and restricted to provide qualified pension plan benefits and include amounts contributed by the Company and amounts earned from invested contributions, net of benefits paid. Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting or exceeding minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company funds the cost of the post-retirement medical and life insurance benefits as well as nonqualified pension benefits on a pay-as-you go basis. No qualified pension plan contributions were made during 2018 and 2017. Although no contributions to the Company's qualified pension plans were required, CSX made voluntary contributions totaling \$250 million during 2016. No contributions to the Company's qualified pension plans are expected in 2019.

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**NOTE 8. Employee Benefit Plans, continued**

Future expected benefit payments are as follows:

<i>(Dollars in Millions)</i>	<b>Expected Cash Flows</b>	
	<b>Pension Benefits</b>	<b>Post-retirement Benefits</b>
2019	\$ 192	\$ 34
2020	186	13
2021	185	11
2022	183	10
2023	180	9
2024-2028	886	32
Total	<u>\$ 1,812</u>	<u>\$ 109</u>

**Plan Assets**

The CSX Investment Committee (the "Investment Committee"), whose members are selected by the Chief Financial Officer, is responsible for oversight and investment of plan assets. The Investment Committee utilizes an investment asset allocation strategy that is monitored on an ongoing basis and updated periodically in consideration of plan or employee changes, or changing market conditions. Periodic studies provide an extensive modeling of asset investment return in conjunction with projected plan liabilities and seek to evaluate how to maximize return within the constraints of acceptable risk. The current asset allocation targets 70% equity investments and 30% fixed income investments and cash. Within equity, a further target is currently established for 42% of total plan assets in domestic equity and 28% in international equity. Allocations are evaluated for levels within 3% of targeted allocations and are adjusted quarterly as necessary. The distribution of pension plan assets as of the measurement date is shown in the table below, and these assets are reported net of pension liabilities on the balance sheet.

<i>(Dollars in Millions)</i>	<b>December 2018</b>		<b>December 2017</b>	
	<b>Amount</b>	<b>Percent of Total Assets</b>	<b>Amount</b>	<b>Percent of Total Assets</b>
Equity	\$ 1,698	70%	\$ 2,060	73%
Fixed Income	704	29	729	26
Cash and Cash Equivalents	29	1	44	1
Total	<u>\$ 2,431</u>	<u>100%</u>	<u>\$ 2,833</u>	<u>100%</u>

Under the supervision of the Investment Committee, individual investments or fund managers are selected in accordance with standards of prudence applicable to asset diversification and investment suitability. The Company also selects fund managers with differing investment styles and benchmarks their investment returns against appropriate indices. Fund investment performance is continuously monitored. Acceptable performance is determined in the context of the long-term return objectives of the fund and appropriate asset class benchmarks.

**CSX CORPORATION**  
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**NOTE 8. Employee Benefit Plans, continued**

Within the Company's equity funds, domestic stock is diversified among large and small capitalization stocks. International stock is diversified in a similar manner as well as in developed versus emerging markets stocks. Guidelines established with individual managers limit investment by industry sectors, individual stock issuer concentration and the use of derivatives and CSX securities.

Fixed income securities guidelines established with individual managers specify the types of allowable investments, such as government, corporate and asset-backed bonds, target certain allocation ranges for domestic and foreign investments and limit the use of certain derivatives. Additionally, guidelines stipulate minimum credit quality constraints and any prohibited securities. For detailed information regarding the fair value of pension assets, see Note 13, *Fair Value Measurements*.

**Benefit Obligation, Plan Assets and Funded Status**

Changes in benefit obligation and the fair value of plan assets for the 2018 and 2017 calendar plan years are as follows:

	Pension Benefits		Post-retirement Benefits	
	Plan Year 2018	Plan Year 2017	Plan Year 2018	Plan Year 2017
<i>(Dollars in Millions)</i>				
<b>Actuarial Present Value of Benefit Obligation</b>				
Accumulated Benefit Obligation	\$ 2,623	\$ 2,873	N/A	N/A
Projected Benefit Obligation	2,758	3,002	\$ 118	\$ 250
<b>Change in Projected Benefit Obligation:</b>				
Projected Benefit Obligation at Beginning of Plan Year	\$ 3,002	\$ 2,871	\$ 250	\$ 274
Service Cost <sup>(a)</sup>	36	36	2	2
Interest Cost	92	92	7	7
Plan Participants' Contributions	—	—	5	7
Workforce Reduction Program/Curtailment	—	58	—	13
Post-retirement Plan Amendment	—	—	(102)	—
Actuarial (Gain) Loss	(173)	163	(10)	(17)
Benefits Paid	(199)	(218)	(34)	(36)
Benefit Obligation at End of Plan Year	\$ 2,758	\$ 3,002	\$ 118	\$ 250
<b>Change in Plan Assets:</b>				
Fair Value of Plan Assets at Beginning of Plan Year	\$ 2,833	\$ 2,539	\$ —	\$ —
Actual Return on Plan Assets (Loss) Gain	(220)	467	—	—
Non-qualified Employer Contributions	17	45	30	29
Plan Participants' Contributions	—	—	4	7
Benefits Paid	(199)	(218)	(34)	(36)
Fair Value of Plan Assets at End of Plan Year	2,431	2,833	—	—
<b>Funded Status at End of Plan Year</b>	<b>\$ (327)</b>	<b>\$ (169)</b>	<b>\$ (118)</b>	<b>\$ (250)</b>

(a) Service cost for 2018 includes capitalized service costs of \$4 million.

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**NOTE 8. Employee Benefit Plans, continued**

For qualified plan funding purposes, assets and discounted liabilities are measured in accordance with the Employee Retirement Income Security Act ("ERISA"), as well as other related provisions of the IRC and related regulations. Under these funding provisions and the alternative measurements available thereunder, the Company estimates its unfunded obligation for qualified plans on an annual basis.

In accordance with *Compensation-Retirement Benefits Topic* in the ASC, an employer must recognize the funded status of a pension or other post-retirement benefit plan by recording a liability (underfunded plan) or asset (overfunded plan) for the difference between the projected benefit obligation (or the accumulated post-retirement benefit obligation for a post-retirement benefit plan) and the fair value of plan assets at the plan measurement date. Amounts related to pension and post-retirement benefits recorded in other long-term assets, labor and fringe benefits payable and other long-term liabilities on the balance sheet are as follows:

	<u>Pension Benefits</u>		<u>Post-retirement Benefits</u>	
	<u>December</u>	December	<u>December</u>	December
<i>(Dollars in Millions)</i>	<b>2018</b>	2017	<b>2018</b>	2017
<b>Amounts Recorded in Consolidated</b>				
<b>Balance Sheets:</b>				
Long-term Assets <sup>(a)</sup>	\$ 13	\$ 57	\$ —	\$ —
Current Liabilities	(16)	(15)	(34)	(38)
Long-term Liabilities	(324)	(211)	(84)	(212)
Net Amount Recognized in				
Consolidated Balance Sheets	<u>\$ (327)</u>	<u>\$ (169)</u>	<u>\$ (118)</u>	<u>\$ (250)</u>

(a) Long-term assets as of December 2018 and 2017 relate to qualified pension plans where assets exceed projected benefit obligations.

The funded status, or amount by which the benefit obligation exceeds the fair value of plan assets, represents a liability. At December 2018, the status of CSX plans with a net liability only is disclosed below. The total fair value of all plan assets as of December 2018 was \$2.4 billion, which includes the qualified pension plans with net assets.

<i>(Dollars in Millions)</i>	<b>Aggregate</b>	
	<b>Fair Value</b>	<b>Aggregate</b>
<b>Benefit Obligations in Excess of Plan Assets</b>	<b>of Plan Assets</b>	<b>Benefit Obligation</b>
Projected Benefit Obligation	\$ 2,337	\$ (2,677)
Accumulated Benefit Obligation	2,337	(2,542)

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**NOTE 8. Employee Benefit Plans, continued**

**Net Benefit Expense**

Only the service cost component of net periodic benefit costs is included in labor and fringe expense on the consolidated income statement. All other components of net periodic benefit cost are included in other income - net or, if related to prior year restructuring activities, in restructuring charge - non-operating. The following table describes the components of expense/(income) related to net benefit expense recorded on the income statement.

<i>(Dollars in Millions)</i>	<b>Pension Benefits Fiscal Years</b>			<b>Post-retirement Benefits Fiscal Years</b>		
	<b>2018</b>	2017	2016	<b>2018</b>	2017	2016
Service Cost Included in Labor and Fringe	\$ 32	\$ 36	\$ 48	\$ 2	\$ 2	\$ 2
Interest Cost	92	92	119	7	7	12
Expected Return on Plan Assets	(176)	(171)	(157)	—	—	—
Amortization of Net Loss	41	41	48	—	—	3
Amortization of Prior Service Cost	—	—	—	(2)	—	—
Total Income Included in Other Income - Net	(43)	(38)	10	5	7	15
<b>Net Periodic Benefit Cost</b>	<b>\$ (11)</b>	<b>\$ (2)</b>	<b>\$ 58</b>	<b>\$ 7</b>	<b>\$ 9</b>	<b>\$ 17</b>
Restructuring Charge - Non Operating <sup>(a)</sup>	—	60	—	—	13	—
Settlement (Gain) Loss	(1)	11	(1)	—	—	—
<b>Total (Credit) Expense</b>	<b>\$ (12)</b>	<b>\$ 69</b>	<b>\$ 57</b>	<b>\$ 7</b>	<b>\$ 22</b>	<b>\$ 17</b>

*(a) Charges related to special termination benefits and curtailment costs were the result of the management workforce reductions in first quarter 2017. See Restructuring Charge in Note 1, Nature of Operations and Significant Accounting Policies.*

As a result of the management workforce reduction programs initiated in 2017, \$85 million in charges were incurred related to special termination benefits, curtailment and settlement changes. In 2017, the Company recorded special termination pension benefits of \$56 million and remeasured the pension and other post-retirement benefits assets and obligations and recorded a curtailment loss of \$4 million and \$13 million, respectively, in restructuring charge - non-operating on the income statement.

Pension settlement (gains) losses were recognized as a result of lump-sum payments to retirees exceeding the sum of the plan's service and interest cost. The Company recorded an \$11 million net settlement loss in 2017, of which a \$12 million loss resulted from the retirements of former executives and is reported in restructuring charge - non-operating on the income statement. The other settlement gains in 2018, 2017 and 2016 were from one of the Company's qualified pension plans with insignificant balances and were recorded in other income - net on the income statement.

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**NOTE 8. Employee Benefit Plans, continued**

***Pension and Other Post-retirement Benefits Adjustments***

The following table shows the pre-tax change in other comprehensive loss (income) attributable to certain components of net benefit expense and the change in benefit obligation for CSX for pension and other post-employment benefits.

<i>(Dollars in Millions)</i> <b>Components of Other Comprehensive Loss (Income)</b>	<b>Pension Benefits</b>		<b>Post-retirement Benefits</b>	
	<b>December 2018</b>	December 2017	<b>December 2018</b>	December 2017
Recognized in the Balance Sheet				
Losses (Gains)	\$ 223	\$ (131)	\$ (112)	\$ (17)
Expense (Income) Recognized in the Income Statement				
Amortization of Net Losses <sup>(a)</sup>	\$ 41	\$ 41	\$ —	\$ —
Settlement (Gain) Loss	(1)	11	—	—
Curtailment Loss	—	4	—	—
Amortization of Prior Service Costs	—	—	(2)	—

(a) Amortization of net losses estimated to be expensed for 2019 is approximately \$43 million for pension benefits.

As of December 2018, the balances to be amortized related to the Company's pension obligations is a pre-tax loss of \$888 million and related to post-retirement obligations is a pre-tax gain of \$103 million. These amounts are included in accumulated other comprehensive loss, a component of shareholders' equity.

***Assumptions***

The expected long-term average rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for benefits included in the projected benefit obligation. In estimating that rate, the Company gives appropriate consideration to the returns being earned by the plan assets in the funds and the rates of return expected to be available for reinvestment as well as the current and projected asset mix of the funds. Management balances market expectations obtained from various investment managers and economists with both market and actual plan historical returns to develop a reasonable estimate of the expected long-term rate of return on assets. This assumption is reviewed annually and adjusted as deemed appropriate.

The Company measures the service cost and interest cost components of the net pension and post-retirement benefits expense by using individual spot rates matched with separate cash flows for each future year instead of a single weighted-average discount rate approach, which was used prior to 2017.



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**NOTE 8. Employee Benefit Plans, continued**

The weighted averages of assumptions used by the Company to value its pension and post-retirement obligations were as follows:

	Pension Benefits		Post-retirement Benefits	
	2018	2017	2018	2017
Expected Long-term Return on Plan Assets:				
Benefit Cost for Current Plan Year	<b>6.75%</b>	6.75%	<b>N/A</b>	N/A
Benefit Cost for Subsequent Plan Year	<b>6.75%</b>	6.75%	<b>N/A</b>	N/A
Discount Rates:				
Benefit Cost for Plan Year				
Service Cost for Plan Year	<b>3.74%</b>	4.26% <sup>(a)</sup>	<b>4.14%</b> <sup>(c)</sup>	4.11% <sup>(b)</sup>
Interest Cost for Plan Year	<b>3.15%</b>	3.26% <sup>(a)</sup>	<b>3.45%</b> <sup>(c)</sup>	2.78% <sup>(b)</sup>
Benefit Obligation at End of Plan Year	<b>4.24%</b>	3.56%	<b>3.98%</b>	3.34%
Salary Scale Inflation	<b>4.60%</b>	4.60%	<b>N/A</b>	N/A

(a) The pension benefits service cost and interest cost for 2017 were based on a weighted average discount rate of 4.35% and 3.37%, respectively, prior to the management workforce reduction program initiated in 2017 and were reduced to 4.26% and 3.26%, respectively, after the Company remeasured the pension benefits obligation and pension plan assets in the second quarter of 2017.

(b) The post-retirement benefits service cost and interest cost for 2017 were based on a weighted average discount rate of 4.20% and 2.88%, respectively, prior to the management workforce reduction program initiated in 2017 and were reduced to 4.11% and 2.78%, respectively, after the Company remeasured the other post-retirement benefits obligation in the first quarter of 2017.

(c) The post-retirement benefits service cost and interest cost for 2018 were based on a weighted average discount rate of 3.68% and 2.79%, respectively, prior to the post-retirement plan amendments approved in 2018 and were increased to 4.14% and 3.45%, respectively, after the Company remeasured the other post-retirement benefits obligation in the fourth quarter of 2018.

The impact of the health care cost trend rate is immaterial to the post-retirement benefit cost and obligation due to the plan's health reimbursement arrangement that covers Medicare-eligible retirees.

**Other Plans**

Under collective bargaining agreements, the Company participates in a multi-employer benefit plan, which provides certain post-retirement health care and life insurance benefits to eligible contract employees. Premiums under this plan are expensed as incurred and amounted to \$30 million, \$40 million and \$35 million in 2018, 2017 and 2016, respectively.

The Company maintains savings plans for virtually all full-time salaried employees and certain employees covered by collective bargaining agreements. Expense associated with these plans was \$41 million, \$39 million and \$35 million for 2018, 2017 and 2016, respectively, and is included in labor and fringe expense on the consolidated income statement.

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**NOTE 9. Debt and Credit Agreements**

Debt at December 2018 and December 2017 is shown in the table below. For information regarding the fair value of debt, see Note 13, Fair Value Measurements.

<i>(Dollars in Millions)</i>	<b>Maturity at December 2018</b>	<b>Average Interest Rates at December 2018</b>	<b>December 2018</b>	December 2017
Notes	2020-2068	4.5%	\$ 14,558	\$ 11,591
Equipment Obligations <sup>(a)</sup>	2019-2023	6.3%	195	213
Capital Leases	2020-2026	16.2%	4	5
Subtotal Long-term Debt (including current portion)			<b>\$ 14,757</b>	<b>\$ 11,809</b>
Less Debt Due within One Year			<b>(18)</b>	<b>(19)</b>
Long-term Debt (excluding current portion)			<b>\$ 14,739</b>	<b>\$ 11,790</b>

*(a) Equipment obligations are secured by an interest in certain railroad equipment.*

**Debt Issuance**

On November 15, 2018, CSX issued \$350 million of 4.25% notes due 2029 and \$650 million of 4.75% notes due 2048. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time, subject to payment of certain make-whole premiums. The net proceeds will be used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions at the Company's major transportation units.

On February 20, 2018, CSX issued \$800 million of 3.80% notes due 2028, \$850 million of 4.30% notes due 2048, and \$350 million of 4.65% notes due 2068. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time, subject to payment of certain make-whole premiums. The net proceeds will be used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions at the Company's major transportation units.

In May 2017, CSX issued \$850 million of 3.25% notes due 2027. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time. The net proceeds have been or will be used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvement in productivity and other cost reductions at CSX's major transportation units.

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**NOTE 9. Debt and Credit Agreements, *continued***

***Long-term Debt Maturities (Net of Discounts, Premiums and Issuance Costs)***

<i>(Dollars in Millions)</i>	<b>Maturities at</b>
<b>Fiscal Years Ending</b>	<b>December 2018</b>
2019	\$ 18
2020	745
2021	371
2022	192
2023	639
Thereafter	12,792
Total Long-term Debt Maturities, including current portion	<u>\$ 14,757</u>

***Credit Facilities***

CSX has a \$1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. The facility allows same-day borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. This facility expires in May 2020, and as of December 31, 2018, the Company had no outstanding balances under the facility.

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. As of December 31, 2018, CSX was in compliance with all covenant requirements under the facility.

***Commercial Paper***

On September 14, 2018, the Company established a commercial paper program, backed by the revolving credit facility, under which the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1 billion. Proceeds from issuances of the notes are expected to be used for general corporate purposes. At December 31, 2018, the Company had no commercial paper outstanding.

***Receivables Securitization Facility***

On December 4, 2018, the Company terminated its receivables securitization facility which previously served as a source of short-term liquidity of up to \$200 million. The Company had no outstanding balance under the facility prior to termination.

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**NOTE 10. Other Income - Net**

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense. All components of net periodic pension and postretirement benefit costs, excluding service cost, are included in other income - net. Miscellaneous income (expense) may fluctuate due to timing and includes investment gains, losses and interest income as well as other non-operating activities.

As substantially all real estate activities are focused on supporting railroad operations, beginning in first quarter 2017, all results of these activities are included in operating income. Previously, these activities were classified as operating or non-operating based on the nature of the activity. The results of these activities were not material in 2016 and were not reclassified.

Net periodic pension and postretirement benefit credit increased from 2016 to 2017 primarily due to adoption in 2017 of the spot rate approach for measuring employee benefit plan interest costs, pension contributions in 2016 and other favorable benefit plan experience. Interest income increased from 2017 to 2018 primarily as a result of higher average investment balances. Income from real estate operations were recorded as part of operating expenses during 2018 and 2017.

Other income – net consisted of the following:

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Net Periodic Pension and Postretirement Benefit Credit (Expense) <sup>(a)</sup>	<b>\$ 38</b>	\$ 32	\$ (24)
Interest Income	<b>32</b>	13	10
Income from Non-operating Real Estate Activities	<b>—</b>	—	27
Miscellaneous Income	<b>4</b>	8	9
Total Other Income - Net	<b>\$ 74</b>	\$ 53	\$ 22
Gross Revenue from Real Estate Operations included above	<b>\$ —</b>	\$ —	\$ 56

*(a) Excludes the service cost component of net periodic benefit cost.*

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**NOTE 11. Income Taxes**

Earnings before income taxes of \$4.3 billion, \$3.1 billion and \$2.7 billion for fiscal years 2018, 2017 and 2016, respectively, represent earnings from domestic operations. The breakdown of income tax expense between current and deferred is as follows:

<i>(Dollars in Millions)</i>	Fiscal Years		
	2018	2017	2016
Current:			
Federal	\$ 572	\$ 787	\$ 540
State	144	117	82
Subtotal Current	716	904	622
Deferred:			
Federal	275	(3,277)	355
State	4	44	50
Subtotal Deferred	279	(3,233)	405
Total	\$ 995	\$ (2,329)	\$ 1,027

The Company recorded a 2018 income tax benefit of \$62 million primarily as a result of the additional tax benefit associated with vesting of share-based awards, state legislative changes, the settlement of certain state tax matters and a change in the valuation of deferred taxes as a result of filing the 2017 tax returns.

With the enactment of the Tax Cuts and Jobs Act (the "Act" or "tax reform") on December 22, 2017, the Company's 2017 financial results included a \$3.5 billion, or \$3.81 per share, non-cash reduction in income tax expense, primarily resulting from revaluing the Company's net deferred tax liabilities to reflect the enacted 21% federal corporate tax rate effective January 1, 2018. During third quarter 2018, the Company filed its 2017 Federal Income Tax return which resulted in an immaterial adjustment to the deferred tax liability and tax expense. Accordingly, the Company's accounting for the federal rate reduction under the Tax Cuts and Jobs Act ("the Act") is now complete.

The Company's affiliates also revalued their deferred tax liabilities to reflect the lower federal corporate tax rate, which resulted in the Company recognizing a benefit in 2017 of \$142 million, or \$0.10 per share after-tax, in equity earnings of affiliates, which is included in operating income. (See additional discussion over equity earnings of affiliates in Note 12, *Related Parties and Affiliates*.)

In addition to the tax benefit related to tax reform, the Company recorded a 2017 income tax benefit of \$21 million primarily as a result of the additional tax benefit associated with vesting of share-based awards, state legislative changes, a change in the apportionment of state taxable income and the related impact on the valuation of deferred taxes and the settlement of certain state tax matters.

In 2016, the Company recorded an income tax expense adjustment of \$10 million as a result of a change in the apportionment of state income taxes and the related impact on the valuation of deferred taxes as well as a \$7 million tax benefit as a result of federal and state legislative changes.

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**NOTE 11. Income Taxes, continued**

Income tax expense reconciled to the tax computed at statutory rates is presented in the following table.

<i>(Dollars In Millions)</i>	<b>Fiscal Years</b>					
	<b>2018</b>		<b>2017</b>		<b>2016</b>	
Federal Income Taxes	<b>\$ 904</b>	<b>21.0 %</b>	\$ 1,100	35.0 %	\$ 959	35.0 %
State Income Taxes	<b>112</b>	<b>2.6 %</b>	102	3.2 %	83	3.0 %
Deferred Tax Rate Change	<b>—</b>	<b>— %</b>	(3,506)	(111.6)%	—	— %
Other	<b>(21)</b>	<b>(0.5)%</b>	(25)	(0.8)%	(15)	(0.5)%
Income Tax (Benefit) Expense/Rate	<b>\$ 995</b>	<b>23.1 %</b>	\$ (2,329)	(74.2)%	\$ 1,027	37.5 %

The primary factors in the change in year-end net deferred income tax liability balances include the annual provision for deferred income tax expense and accumulated other comprehensive income/loss. The significant components of deferred income tax assets and liabilities include:

<i>(Dollars in Millions)</i>	<b>2018</b>		<b>2017</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Pension Plans	\$ 79	\$ —	\$ 41	\$ —
Other Employee Benefit Plans	146	—	182	—
Accelerated Depreciation	—	6,799	—	6,576
Other	529	645	657	722
Total	<b>\$ 754</b>	<b>\$ 7,444</b>	<b>\$ 880</b>	<b>\$ 7,298</b>
Net Deferred Income Tax Liabilities		<b>\$ 6,690</b>		<b>\$ 6,418</b>

The Company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. CSX and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. CSX participated in a contemporaneous IRS audit of tax years 2017 and 2018. Federal examinations of original federal income tax returns for all years through 2016 are resolved.

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**NOTE 11. Income Taxes, continued**

As of December 2018, 2017 and 2016, the Company had approximately \$12 million, \$24 million and \$25 million, respectively, of total unrecognized tax benefits as a result of uncertain tax positions. Net tax benefits of \$9 million, \$19 million and \$16 million in 2018, 2017 and 2016, respectively, could favorably impact the effective income tax rate in each year. The Company does not expect that unrecognized tax benefits as of December 2018 for various state and federal income tax matters will significantly change over the next 12 months. The final outcome of these uncertain tax positions is not yet determinable. The change to the total gross unrecognized tax benefits and prior year audit resolutions of the Company during the fiscal year ended December 2018 is reconciled in the table below.

**Unrecognized Tax Benefits:**

*(Dollars in Millions)*

	<b>Fiscal Year</b>		
	<b>2018</b>	2017	2016
Balance at beginning of the year	\$ 24	\$ 25	\$ 23
Additions based on tax positions related to current year	1	1	1
Additions based on tax positions related to prior years	3	4	4
Reductions based on tax positions related to prior years	—	—	—
Settlements with taxing authorities	(11)	(4)	—
Lapse of statute of limitations	(5)	(2)	(3)
<b>Balance at end of the year</b>	<b>\$ 12</b>	<b>\$ 24</b>	<b>\$ 25</b>

CSX's continuing practice is to recognize net interest and penalties related to income tax matters in income tax expense. Included in the consolidated income statements is a benefit of \$3 million, and expenses of \$3 million and \$2 million in 2018, 2017 and 2016, respectively, for changes to reserves for interest and penalties for all prior year tax positions. The Company had \$2 million, \$6 million and \$6 million accrued for interest and penalties at 2018, 2017 and 2016, respectively, for all prior year tax positions.

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**NOTE 12. Related Parties and Affiliates**

*Conrail*

Through a limited liability company, CSX and Norfolk Southern Corporation (“NS”) jointly own Conrail. CSX has a 42% economic interest and 50% voting interest in the jointly-owned entity, and NS has the remainder of the economic and voting interests. CSX’s investment of \$943 million is included on the consolidated balance sheet as investment in Conrail. Pursuant to the *Investments-Equity Method and Joint Venture Topic* in the ASC, CSX applies the equity method of accounting to its investment in Conrail.

Conrail owns rail infrastructure and operates for the joint benefit of CSX and NS. This is known as the shared asset area. Conrail charges fees for right-of-way usage, equipment rentals and transportation, switching and terminal service charges in the shared asset area. These expenses are included in materials, supplies and other on the consolidated income statements. Future payments due to Conrail under the shared asset area agreements are shown in the table below.

<i>(Dollars in Millions)</i>	<b>Conrail Shared Asset Agreement</b>	
<b>Years</b>		
2019	\$	27
2020		27
2021		27
2022		27
2023		27
Thereafter		20
<b>Total</b>	<b>\$</b>	<b>155</b>

Also, included in equity earnings of affiliates are CSX’s 42 percent share of Conrail’s income and its amortization of the fair value write-up arising from the acquisition of Conrail and certain other adjustments. The amortization primarily represents the additional after-tax depreciation expense related to the write-up of Conrail’s fixed assets when the original purchase price, from the 1997 acquisition of Conrail, was allocated based on fair value. This write-up of fixed assets resulted in a difference between CSX’s investment in Conrail and its share of Conrail’s underlying net equity, which is \$343 million as of December 2018.

The following table discloses amounts related to Conrail. Purchase price amortization and equity earnings are included in equity earnings of affiliates and all other amounts in the table are included in materials, supplies and other expenses on the Company’s consolidated income statements.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Rents, fees and services	\$ 117	\$ 120	\$ 114
Purchase price amortization and other	4	4	4
Equity earnings of Conrail	(43)	(58)	(37)
<b>Total Conrail Expense</b>	<b>\$ 78</b>	<b>\$ 66</b>	<b>\$ 81</b>



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**NOTE 12. Related Parties and Affiliates, continued**

As required by the *Related Party Disclosures Topic* in the ASC, the Company has identified amounts below owed to Conrail, or its subsidiaries, representing liabilities under the operating, equipment and shared area agreements with Conrail. In 2014, the Company executed two promissory notes with a subsidiary of Conrail which were included in long-term debt on the consolidated balance sheets. Interest expense from these promissory notes was \$6 million in each 2018, 2017 and 2016.

<i>(Dollars in Millions)</i>	<b>December 2018</b>	December 2017
<b>Balance Sheet Information:</b>		
CSX accounts payable to Conrail	\$ 153	\$ 123
Promissory notes payable to Conrail subsidiary		
2.89% CSX promissory note due October 2044	73	73
2.89% CSXT promissory note due October 2044	151	151

**TTX Company**

TTX Company ("TTX") is a privately-held corporation engaged in the business of providing its owner-railroads with standardized fleets of intermodal, automotive and general use railcars at time and mileage rates. CSX owns about 20 percent of TTX's common stock, and the remaining is owned by the other leading North American railroads and their affiliates. CSX's investment in TTX is \$688 million and is included in affiliates and other companies in the consolidated balance sheet. Pursuant to the *Investments-Equity Method* topic in the ASC, CSX applies the equity method of accounting to its investment in TTX.

As required by the *Related Party Disclosures Topic* in the ASC, the following table discloses amounts related to TTX. Car hire rents are included in equipment and other rents expense and equity earnings are included in equity earnings of affiliates in the Company's consolidated income statements. Also included below is balance sheet information related to CSX's payable to TTX, which represents car rental liabilities.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
<b>Income statement information:</b>			
Car hire rents	\$ 223	\$ 237	\$ 233
Equity earnings of TTX	(60)	(157)	(26)
Total TTX expense	<u>\$ 163</u>	<u>\$ 80</u>	<u>\$ 207</u>

<b>Balance sheet information:</b>	<b>December 2018</b>	December 2017
CSX payable to TTX	\$ 36	\$ 43

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**NOTE 12. Related Parties and Affiliates, *continued***

*Tax Reform Effect on Equity Earnings of Affiliates*

Due to the enactment of tax reform, the Company recognized a benefit in 2017 of \$142 million, or \$0.10 per share after-tax, in its equity earnings of affiliates. This benefit was primarily the result of the Company's affiliates (primarily TTX and Conrail) revaluing their deferred tax liabilities to reflect the lower federal corporate tax rate, which favorably impacted their net earnings for 2017. (See additional discussion of tax reform in Note 11, Income Taxes.)

**NOTE 13. Fair Value Measurements**

The *Financial Instruments Topic* in the ASC requires disclosures about fair value of financial instruments in annual reports as well as in quarterly reports. For CSX, this statement applies to certain investments, pension plan assets and long-term debt. Also, the *Fair Value Measurements and Disclosures Topic* in the ASC clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the value of the Company's investments, pension plan assets and long-term debt. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. These inputs are summarized in the three broad levels listed below:

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions about the assumptions market participants would use in determining the fair value of investments).

The valuation methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

***Investments***

The Company's investment assets, valued with assistance from a third-party trustee, consist of certificates of deposits, commercial paper, corporate bonds and government securities and are carried at fair value on the consolidated balance sheet per the *Fair Value Measurements and Disclosures Topic* in the ASC. There are several valuation methodologies used for those assets as described below:

- Certificates of Deposit and Commercial Paper (Level 2): Valued at amortized cost, which approximates fair value; and
- Corporate Bonds and Government Securities (Level 2): Valued using broker quotes that utilize observable market inputs.

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**NOTE 13. Fair Value Measurements, continued**

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the following table. All of the inputs used to determine the fair value of the Company's investments are Level 2 inputs. The amortized cost basis of these investments was \$340 million and \$91 million as of December 31, 2018 and December 31, 2017, respectively.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>	
	<b>2018</b>	<b>2017</b>
	<b>Level 2</b>	<b>Level 2</b>
Certificates of Deposit and Commercial Paper	\$ 250	\$ —
Corporate Bonds	56	61
Government Securities	35	34
Total investments at fair value	<b>\$ 341</b>	<b>\$ 95</b>

These investments have the following maturities and are represented on the consolidated balance sheet within short-term investments for investments with maturities of less than one year, and other long-term assets for investments with maturities of one year and greater:

<i>(Dollars in Millions)</i>	<b>December 2018</b>	<b>December 2017</b>
Less than 1 year	\$ 253	\$ 18
1 - 5 years	14	11
5 - 10 years	26	26
Greater than 10 years	48	40
Total investments at fair value	<b>\$ 341</b>	<b>\$ 95</b>

**Long-term Debt**

Long-term debt is reported at carrying amount on the consolidated balance sheets and is the Company's only financial instrument with fair values significantly different from their carrying amounts. The majority of the Company's long-term debt is valued with assistance from a third party that utilizes closing transactions, market quotes or market values of comparable debt. For those instruments not valued by the third party, the fair value has been estimated by applying market rates of similar instruments to the scheduled contractual debt payments and maturities. These market rates are provided by the same third party. All of the inputs used to determine the fair value of the Company's long-term debt are Level 2 inputs.

The fair value of outstanding debt fluctuates with changes in a number of factors. Such factors include, but are not limited to, interest rates, market conditions, credit ratings, values of similar financial instruments, size of the transaction, cash flow projections and comparable trades. Fair value will exceed carrying value when the current market interest rate is lower than the interest rate at which the debt was originally issued. The fair value of a company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules.

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**NOTE 13. Fair Value Measurements, continued**

The fair value and carrying value of the Company's long-term debt is as follows:

<i>(Dollars in Millions)</i>	<b>December 2018</b>	December 2017
Long-term Debt (Including Current Maturities):		
Fair Value	<b>\$ 14,914</b>	\$ 13,220
Carrying Value	<b>14,757</b>	11,809

**Pension Plan Assets**

Pension plan assets are reported at fair value, net of pension liabilities, on the consolidated balance sheet. The Investment Committee targets an allocation of pension assets to be generally 70% equity and 30% fixed income. There are several valuation methodologies used for those assets as described below.

*Investments in the Fair Value Hierarchy*

- *Common stock (Level 1)*: Valued at the closing price reported on the active market on which the individual securities are traded on the last day of the year and classified in Level 1 of the fair value hierarchy.
- *Mutual funds (Level 1)*: Valued at the net asset value of shares held at year end based on quoted market prices determined in an active market. These assets are classified in Level 1 of the fair value hierarchy.
- *Cash and cash equivalents (Level 1)*: Includes cash and short term investments with an original maturity of three months or less. The carrying value of cash and cash equivalents at year end approximates fair value. These assets are classified in Level 1 of the fair value hierarchy.
- *Corporate bonds, government securities, asset-backed securities and derivatives (Level 2)*: Valued using price evaluations reflecting the bid and/or ask sides of the market for a similar investment at year end. Asset-backed securities include commercial mortgage-backed securities and collateralized mortgage obligations. These assets are classified in Level 2 of the fair value hierarchy.

*Investments Measured at Net Asset Value*

- *Partnerships*: Net asset value of private equity is based on the fair market values associated with the underlying investments at year end. These funds have redemption restrictions that require advanced notice of 15 business days.
- *Common collective trust funds*: This class consists of private funds that invest in government and corporate securities and various short-term debt instruments and are measured at net asset value to estimate the fair value of the investments. The net asset value of the investments is determined by reference to the fair value of the underlying securities, which are valued primarily through the use of directly or indirectly observable inputs. These funds have redemption restrictions that require advanced notice of up to 15 business days.

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**NOTE 13. Fair Value Measurements, continued**

The pension plan assets at fair value by level, within the fair value hierarchy, as of calendar plan years 2018 and 2017 are shown in the table below. For additional information related to pension assets, see Note 8, Employee Benefit Plans.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>					
	<b>2018</b>			<b>2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Common Stock	\$ 750	\$ —	\$ 750	\$ 1,022	\$ —	\$ 1,022
Mutual funds	7	—	7	14	—	14
Cash equivalents	3	—	3	2	—	2
Corporate bonds	—	537	537	—	537	537
Government securities	—	149	149	—	169	169
Asset-backed securities	—	10	10	—	9	9
Derivatives and other	—	5	5	—	11	11
Total investments in the fair value hierarchy	<b>\$ 760</b>	<b>\$ 701</b>	<b>\$ 1,461</b>	<b>\$ 1,038</b>	<b>\$ 726</b>	<b>\$ 1,764</b>
Investments measured at net asset value <sup>(a)</sup>	n/a	n/a	<b>\$ 970</b>	n/a	n/a	<b>\$ 1,069</b>
Investments at fair value	<b>\$ 760</b>	<b>\$ 701</b>	<b>\$ 2,431</b>	<b>\$ 1,038</b>	<b>\$ 726</b>	<b>\$ 2,833</b>

*(a) Investments measured at net asset value represent certain investments that have been measured at net asset value per share (or its equivalent) and thus are not classified in the fair value hierarchy. In accordance with ASC 820, Fair Value Measurements, the fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the pension assets disclosed in Note 8, Employee Benefit Plans.*

**NOTE 14. Other Comprehensive Income / (Loss)**

CSX reports comprehensive earnings or loss in accordance with the *Comprehensive Income Topic* in the ASC in the consolidated comprehensive income statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equal net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were \$3.1 billion, \$5.6 billion and \$1.7 billion for 2018, 2017 and 2016, respectively.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For CSX, AOCI is primarily the cumulative balance related to pension and other post-retirement benefit adjustments and CSX's share of AOCI of equity method investees.

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**NOTE 14. Other Comprehensive Income / (Loss), continued**

Changes in the AOCI balance by component are shown in the following table. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in other income-net on the consolidated income statements. See Note 8. Employee Benefit Plans for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in equity earnings of affiliates on the consolidated income statements.

	<b>Pension and Other Post- Employment Benefits</b>	<b>Other</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
<i>(Dollars in millions)</i>			
<b>Balance December 25, 2015 - Net of Tax</b>	\$ (601)	\$ (64)	\$ (665)
Other Comprehensive Income (Loss)			
(Loss) Income Before Reclassifications	(16)	3	(13)
Amounts Reclassified to Net Earnings	50	1	51
Tax Expense	(13)	—	(13)
Total Other Comprehensive Income	<u>21</u>	<u>4</u>	<u>25</u>
<b>Balance December 30, 2016 - Net of Tax</b>	<u>(580)</u>	<u>(60)</u>	<u>(640)</u>
Other Comprehensive Income (Loss)			
Income Before Reclassifications	148	13	161
Amounts Reclassified to Net Earnings	56	2	58
Tax Expense	(64)	(1)	(65)
Total Other Comprehensive Income	<u>140</u>	<u>14</u>	<u>154</u>
<b>Balance December 31, 2017 - Net of Tax</b>	<u>(440)</u>	<u>(46)</u>	<u>(486)</u>
Other Comprehensive Income (Loss)			
Reclassification of Stranded Tax Effects <sup>(a)</sup>	(108)	1	(107)
Loss Before Reclassifications	(111)	(8)	(119)
Amounts Reclassified to Net Earnings	38	(6)	32
Tax Benefit	17	2	19
Total Other Comprehensive Loss	<u>(164)</u>	<u>(11)</u>	<u>(175)</u>
<b>Balance December 31, 2018 - Net of Tax</b>	<u>\$ (604)</u>	<u>\$ (57)</u>	<u>\$ (661)</u>

*(a) As the result of a standard update adopted in 2018, certain tax effects stranded in accumulated other comprehensive income as a result of tax reform were reclassified to retained earnings. See further discussion in New Accounting Pronouncements in Note 1. Nature of Operations and Significant Accounting Policies.*

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**NOTE 15. Quarterly Financial Data (Unaudited)**

Pursuant to Article 3 of the SEC's Regulation S-X, the following are selected quarterly financial data:

<b>Fiscal Year Ended December 2018 <sup>(a)</sup></b>	<b>Quarters</b>				
<i>(Dollars in Millions, Except Per Share Amounts)</i>	<b>1st</b>	<b>2nd</b>	<b>3rd</b>	<b>4th</b>	<b>Full Year</b>
Revenue	<b>\$ 2,876</b>	<b>\$ 3,102</b>	<b>\$ 3,129</b>	<b>\$ 3,143</b>	<b>\$ 12,250</b>
Operating Income	<b>1,044</b>	<b>1,283</b>	<b>1,293</b>	<b>1,249</b>	<b>4,869</b>
Net Earnings	<b>695</b>	<b>877</b>	<b>894</b>	<b>843</b>	<b>3,309</b>
Earnings Per Share, Basic	<b>\$ 0.78</b>	<b>\$ 1.02</b>	<b>\$ 1.05</b>	<b>\$ 1.02</b>	<b>\$ 3.86</b>
Earnings Per Share, Assuming Dilution	<b>0.78</b>	<b>1.01</b>	<b>1.05</b>	<b>1.01</b>	<b>3.84</b>
<b>Fiscal Year Ended December 2017 <sup>(a)</sup></b>					
Revenue	<b>\$ 2,869</b>	<b>\$ 2,933</b>	<b>\$ 2,743</b>	<b>\$ 2,863</b>	<b>\$ 11,408</b>
Operating Income <sup>(c)</sup>	<b>769</b>	<b>957</b>	<b>868</b>	<b>1,126</b>	<b>3,720</b>
Net Earnings <sup>(b)</sup>	<b>362</b>	<b>510</b>	<b>459</b>	<b>4,140</b>	<b>5,471</b>
Earnings Per Share, Basic <sup>(b)</sup>	<b>\$ 0.39</b>	<b>\$ 0.55</b>	<b>\$ 0.51</b>	<b>\$ 4.63</b>	<b>\$ 6.01</b>
Earnings Per Share, Assuming Dilution <sup>(b)</sup>	<b>0.39</b>	<b>0.55</b>	<b>0.51</b>	<b>4.62</b>	<b>5.99</b>

*(a) Prior to third quarter 2017, CSX followed a 52/53 week fiscal reporting calendar and 2017 included 366 days. See Note 1, Nature of Operations and Significant Accounting Policies for details regarding the number of days in each quarterly period presented.*

*(b) These results for fourth quarter and full year 2017 include a \$3.6 billion, or \$3.91 per share, net tax reform benefit. See further discussion in Note 11, Income Taxes.*

*(c) Certain prior year data has been reclassified to conform to the current presentation. See further discussion of reclassification of all components of net periodic benefit cost except service cost from labor and fringe expense to other income - net in Note 1.*

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**NOTE 16. Revenues**

The Company's revenues are primarily derived from the transportation of freight as performance obligations that arise from its contracts with customers are satisfied. The following table presents the Company's revenues disaggregated by lines of business as they best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

<i>(Dollars in millions)</i>	<b>Fiscal Years</b>		
	<b>2018</b>	2017	2016
Chemicals	<b>\$ 2,339</b>	\$ 2,210	\$ 2,191
Agricultural and Food Products	<b>1,306</b>	1,262	1,286
Automotive	<b>1,267</b>	1,195	1,261
Forest Products	<b>850</b>	755	773
Metals and Equipment	<b>769</b>	703	704
Minerals	<b>518</b>	477	464
Fertilizers	<b>442</b>	466	463
<b>Total Merchandise</b>	<b>7,491</b>	7,068	7,142
<b>Coal</b>	<b>2,246</b>	2,107	1,833
<b>Intermodal</b>	<b>1,931</b>	1,799	1,726
<b>Other</b>	<b>582</b>	434	368
<b>Total</b>	<b>\$ 12,250</b>	\$ 11,408	\$ 11,069

**Revenue Recognition**

The Company generates revenue from freight billings under contracts with customers generally on a rate per carload, container or ton-basis based on origin to destination and commodities carried. The Company's performance obligation arises when it receives a bill of lading ("BOL") to transport a customer's commodities at a negotiated price contained in a transportation services agreement or a publicly disclosed tariff rate. Once a BOL is received, a contract is formed whereby the parties are committed to perform, collectability of consideration is probable and the rights of the parties, shipping terms and conditions, and payment terms are identified. A customer may submit several BOLs for transportation services at various times throughout a service agreement term but each shipment represents a distinct service that is a separately identified performance obligation.

The average transit time to complete a shipment is between 3 to 8 days and payments for transportation services are normally billed once a BOL is received and are generally due within 15 days after the invoice date. The Company recognizes revenue over transit time of freight as it moves from origin to destination. Revenue for services started but not completed at the reporting date is allocated based on the relative transit time in each reporting period, with the portion allocated for services subsequent to the reporting date considered remaining performance obligations.



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**NOTE 16. Revenues, *continued***

The certain key estimates included in the recognition and measurement of revenue and related accounts receivable are as follows:

- Revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move commodities and products from their origin to their final destination or interchange;
- Adjustments to revenue for billing corrections and billing discounts;
- Adjustments to revenue for overcharge claims filed by customers, which are based on historical payments to customers for rate overcharges as a percentage of total billing; and
- Incentive-based refunds to customers, which are primarily volume-related, are recorded as a reduction to revenue on the basis of the projected liability (this estimate is based on historical activity, current volume levels and forecasted future volume).

Revenue related to interline transportation services that involve the services of another party, such as another railroad, is reported on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as revenue.

Other revenue, which includes revenue from regional subsidiary railroads, demurrage, switching and other incidental charges, is recorded upon completion of the service and accounted for 5%, 4%, and 3% of the Company's total revenue for 2018, 2017 and 2016, respectfully. Revenue from regional subsidiary railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held by a customer beyond a specified period of time. Switching revenue is primarily generated when the Company switches cars for a customer or another railroad.

During 2018, 2017 and 2016, revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material.

***Remaining Performance Obligations***

Remaining performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unearned portion of billed and unbilled amounts for cancellable freight shipments in transit. The Company expects to recognize the unearned portion of revenue for freight services in transit within one week of the reporting date. As of December 31, 2018, remaining performance obligations were not material.

***Contract Balances and Accounts Receivable***

The timing of revenue recognition, billings and cash collections results in accounts receivable and customer advances and deposits (contract liabilities) on the consolidated balance sheets. Contract assets, contract liabilities and deferred contract costs recorded on the consolidated balance sheet as of December 31, 2018 were not material.

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**NOTE 16. Revenues, continued**

The Company's accounts receivable - net consists of freight and non-freight receivables, reduced by an allowance for doubtful accounts.

<i>(Dollars in millions)</i>	<b>December 31, 2018</b>	December 31, 2017
Freight Receivables	<b>\$ 846</b>	\$ 810
Freight Allowance for Doubtful Accounts	<b>(18)</b>	(17)
Freight Receivables, net	<b>828</b>	793
Non-Freight Receivables	<b>190</b>	186
Non-Freight Allowance for Doubtful Accounts	<b>(8)</b>	(9)
Non-Freight Receivables, net	<b>182</b>	177
<b>Total Accounts Receivable, net</b>	<b>\$ 1,010</b>	\$ 970

Freight receivables include amounts earned, billed and unbilled, and currently due from customers for transportation-related services. Non-freight receivables include amounts billed and unbilled and currently due related to government reimbursement receivables and other non-revenue receivables. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and economic conditions. Impairment losses recognized on the Company's accounts receivable were not material in 2018 and 2017.

**NOTE 17. Summarized Consolidating Financial Data**

In 2007, CSXT, a wholly-owned subsidiary of CSX Corporation, sold secured equipment notes maturing in 2023 in a registered public offering. CSX has fully and unconditionally guaranteed the notes. In connection with the notes, the Company is providing the following condensed consolidating financial information in accordance with SEC disclosure requirements. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation and the allocation of certain expenses of CSX incurred for the benefit of its subsidiaries. Condensed consolidating financial information for the obligor, CSXT, and parent guarantor, CSX, is shown in the following tables.

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**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Income Statements**  
*(Dollars in Millions)*

<b>Fiscal Year Ended December 2018</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
Revenue	\$ —	\$ 12,174	\$ 76	\$ 12,250
Expense	(344)	7,868	(143)	7,381
Operating Income	344	4,306	219	4,869
Equity in Earnings of Subsidiaries	3,580	—	(3,580)	—
Interest Expense	(742)	(39)	142	(639)
Other Income - Net	24	152	(102)	74
Earnings Before Income Taxes	3,206	4,419	(3,321)	4,304
Income Tax Benefit (Expense)	103	(1,036)	(62)	(995)
<b>Net Earnings</b>	<b>\$ 3,309</b>	<b>\$ 3,383</b>	<b>\$ (3,383)</b>	<b>\$ 3,309</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 3,134</b>	<b>\$ 3,441</b>	<b>\$ (3,441)</b>	<b>\$ 3,134</b>
<b>Fiscal Year Ended December 2017</b>				
Revenue	\$ —	\$ 11,334	\$ 74	\$ 11,408
Expense	(158)	8,009	(163)	7,688
Operating Income	158	3,325	237	3,720
Equity in Earnings of Subsidiaries	5,810	—	(5,810)	—
Interest Expense	(582)	(29)	65	(546)
Other Income - Net	7	(19)	(20)	(32)
Earnings Before Income Taxes	5,393	3,277	(5,528)	3,142
Income Tax Benefit	78	2,247	4	2,329
<b>Net Earnings</b>	<b>\$ 5,471</b>	<b>\$ 5,524</b>	<b>\$ (5,524)</b>	<b>\$ 5,471</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 5,625</b>	<b>\$ 5,538</b>	<b>\$ (5,538)</b>	<b>\$ 5,625</b>
<b>Fiscal Year Ended December 2016</b>				
Revenue	\$ —	\$ 10,991	\$ 78	\$ 11,069
Expense	(265)	8,086	(165)	7,656
Operating Income	265	2,905	243	3,413
Equity in Earnings of Subsidiaries	1,997	2	(1,999)	—
Interest Expense	(583)	(35)	39	(579)
Other Income - Net	(112)	30	(11)	(93)
Earnings Before Income Taxes	1,567	2,902	(1,728)	2,741
Income Tax Benefit (Expense)	147	(1,081)	(93)	(1,027)
<b>Net Earnings</b>	<b>\$ 1,714</b>	<b>\$ 1,821</b>	<b>\$ (1,821)</b>	<b>\$ 1,714</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 1,739</b>	<b>\$ 1,833</b>	<b>\$ (1,833)</b>	<b>\$ 1,739</b>

Certain prior year data has been reclassified to conform to the current presentation.

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**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Balance Sheets**  
(Dollars in Millions)

As of December 31, 2018	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 716	\$ 130	\$ 12	\$ 858
Short-term Investments	250	—	3	253
Accounts Receivable - Net	1	1,003	6	1,010
Receivable from Affiliates	1,020	5,214	(6,234)	—
Materials and Supplies	—	263	—	263
Other Current Assets	63	104	14	181
<b>Total Current Assets</b>	<b>2,050</b>	<b>6,714</b>	<b>(6,199)</b>	<b>2,565</b>
Properties	1	41,897	2,907	44,805
Accumulated Depreciation	(1)	(11,194)	(1,612)	(12,807)
<b>Properties - Net</b>	<b>—</b>	<b>30,703</b>	<b>1,295</b>	<b>31,998</b>
Investments in Conrail	—	—	943	943
Affiliates and Other Companies	(39)	859	16	836
Investment in Consolidated Subsidiaries	32,033	—	(32,033)	—
Other Long-term Assets	2	598	(213)	387
<b>Total Assets</b>	<b>\$ 34,046</b>	<b>\$ 38,874</b>	<b>\$ (36,191)</b>	<b>\$ 36,729</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Accounts Payable	\$ 132	\$ 763	\$ 54	\$ 949
Labor and Fringe Benefits Payable	41	440	69	550
Payable to Affiliates	6,973	633	(7,606)	—
Casualty, Environmental and Other Reserves	—	99	14	113
Current Maturities of Long-term Debt	—	18	—	18
Income and Other Taxes Payable	(290)	392	4	106
Other Current Liabilities	11	162	6	179
<b>Total Current Liabilities</b>	<b>6,867</b>	<b>2,507</b>	<b>(7,459)</b>	<b>1,915</b>
Casualty, Environmental and Other Reserves	—	176	35	211
Long-term Debt	14,029	710	—	14,739
Deferred Income Taxes - Net	(134)	6,601	223	6,690
Other Long-term Liabilities	721	211	(338)	594
<b>Total Liabilities</b>	<b>21,483</b>	<b>10,205</b>	<b>(7,539)</b>	<b>24,149</b>
<b>Shareholders' Equity:</b>				
Common Stock, \$1 Par Value	818	181	(181)	818
Other Capital	249	5,096	(5,096)	249
Retained Earnings	12,157	23,322	(23,322)	12,157
Accumulated Other Comprehensive Loss	(661)	53	(53)	(661)
Noncontrolling Minority Interest	—	17	—	17
<b>Total Shareholders' Equity</b>	<b>12,563</b>	<b>28,669</b>	<b>(28,652)</b>	<b>12,580</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 34,046</b>	<b>\$ 38,874</b>	<b>\$ (36,191)</b>	<b>\$ 36,729</b>

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Balance Sheets**  
*(Dollars in Millions)*

As of December 31, 2017	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 274	\$ 121	\$ 6	\$ 401
Short-term Investments	—	—	18	18
Accounts Receivable - Net	(1)	301	670	970
Receivable from Affiliates	1,226	3,517	(4,743)	—
Materials and Supplies	—	372	—	372
Other Current Assets	(1)	145	10	154
<b>Total Current Assets</b>	<b>1,498</b>	<b>4,456</b>	<b>(4,039)</b>	<b>1,915</b>
Properties	1	41,479	2,844	44,324
Accumulated Depreciation	(1)	(11,017)	(1,542)	(12,560)
<b>Properties - Net</b>	<b>—</b>	<b>30,462</b>	<b>1,302</b>	<b>31,764</b>
Investments in Conrail	—	—	907	907
Affiliates and Other Companies	(39)	800	18	779
Investment in Consolidated Subsidiaries	29,405	—	(29,405)	—
Other Long-term Assets	39	596	(261)	374
<b>Total Assets</b>	<b>\$ 30,903</b>	<b>\$ 36,314</b>	<b>\$ (31,478)</b>	<b>\$ 35,739</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 105	\$ 708	\$ 34	\$ 847
Labor and Fringe Benefits Payable	52	494	56	602
Payable to Affiliates	4,792	552	(5,344)	—
Casualty, Environmental and Other Reserves	—	95	13	108
Current Maturities of Long-term Debt	—	19	—	19
Income and Other Taxes Payable	(326)	455	28	157
Other Current Liabilities	5	153	3	161
<b>Total Current Liabilities</b>	<b>4,628</b>	<b>2,476</b>	<b>(5,210)</b>	<b>1,894</b>
Casualty, Environmental and Other Reserves	—	222	44	266
Long-term Debt	11,056	733	1	11,790
Deferred Income Taxes - Net	(130)	6,342	206	6,418
Other Long-term Liabilities	644	320	(314)	650
<b>Total Liabilities</b>	<b>16,198</b>	<b>10,093</b>	<b>(5,273)</b>	<b>21,018</b>
<b>Shareholders' Equity</b>				
Common Stock, \$1 Par Value	890	181	(181)	890
Other Capital	217	5,096	(5,096)	217
Retained Earnings	14,084	20,933	(20,933)	14,084
Accumulated Other Comprehensive Loss	(486)	(5)	5	(486)
Noncontrolling Minority Interest	—	16	—	16
<b>Total Shareholders' Equity</b>	<b>14,705</b>	<b>26,221</b>	<b>(26,205)</b>	<b>14,721</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 30,903</b>	<b>\$ 36,314</b>	<b>\$ (31,478)</b>	<b>\$ 35,739</b>

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Cash Flow Statements**  
*(Dollars in Millions)*

<b>Fiscal Year Ended December 2018</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
<b>Operating Activities</b>				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 3,182	\$ 1,657	\$ (198)	\$ 4,641
<b>Investing Activities</b>				
Property Additions	—	(1,580)	(165)	(1,745)
Purchases of Short-term Investments	(734)	—	(2)	(736)
Proceeds from Sales of Short-term Investments	485	—	20	505
Proceeds from Property Dispositions	—	319	—	319
Other Investing Activities	(4)	638	(661)	(27)
<i>Net Cash Used in Investing Activities</i>	(253)	(623)	(808)	(1,684)
<b>Financing Activities</b>				
Long-term Debt Issued	3,000	—	—	3,000
Long-term Debt Repaid	—	(19)	—	(19)
Dividends Paid	(751)	(1,000)	1,000	(751)
Shares Repurchased	(4,671)	—	—	(4,671)
Other Financing Activities	(65)	(6)	12	(59)
<i>Net Cash (Used in) Provided by Financing Activities</i>	(2,487)	(1,025)	1,012	(2,500)
Net Increase in Cash and Cash Equivalents	442	9	6	457
Cash and Cash Equivalents at Beginning of Period	274	121	6	401
Cash and Cash Equivalents at End of Period	\$ 716	\$ 130	\$ 12	\$ 858

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Cash Flow Statements**  
*(Dollars in Millions)*

<b>Fiscal Year Ended December 2017</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
<b>Operating Activities</b>				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 1,719	\$ 2,112	\$ (359)	\$ 3,472
<b>Investing Activities</b>				
Property Additions	—	(1,848)	(192)	(2,040)
Purchases of Short-term Investments	(774)	—	(8)	(782)
Proceeds from Sales of Short-term Investments	1,190	—	3	1,193
Proceeds from Property Dispositions	—	97	—	97
Other Investing Activities	(2)	94	(55)	37
<i>Net Cash Provided by (Used in) Investing Activities</i>	414	(1,657)	(252)	(1,495)
<b>Financing Activities</b>				
Long-term Debt Issued	850	—	—	850
Long-term Debt Repaid	(313)	(20)	—	(333)
Dividends Paid	(708)	(600)	600	(708)
Shares Repurchased	(1,970)	—	—	(1,970)
Other Financing Activities	(23)	5	—	(18)
<i>Net Cash (Used in) Provided by Financing Activities</i>	(2,164)	(615)	600	(2,179)
Net Decrease in Cash and Cash Equivalents	(31)	(160)	(11)	(202)
Cash and Cash Equivalents at Beginning of Period	305	281	17	603
Cash and Cash Equivalents at End of Period	\$ 274	\$ 121	\$ 6	\$ 401

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**

**NOTE 17. Summarized Consolidating Financial Data, continued**

**Consolidating Cash Flow Statements**  
*(Dollars in Millions)*

<b>Fiscal Year Ended December 2016</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
<b>Operating Activities</b>				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 453	\$ 2,950	\$ (362)	\$ 3,041
<b>Investing Activities</b>				
Property Additions	—	(2,208)	(190)	(2,398)
Purchases of Short-term Investments	(929)	—	—	(929)
Proceeds from Sales of Short-term Investments	1,325	—	—	1,325
Proceeds from Property Dispositions	—	195	—	195
Other Investing Activities	(41)	91	(41)	9
<i>Net Cash Provided by (Used in) Investing Activities</i>	355	(1,922)	(231)	(1,798)
<b>Financing Activities</b>				
Long-term Debt Issued	2,200	—	—	2,200
Long-term Debt Repaid	(1,400)	(19)	—	(1,419)
Dividends Paid	(680)	(600)	600	(680)
Shares Repurchased	(1,056)	—	—	(1,056)
Other Financing Activities	(11)	(303)	1	(313)
<i>Net Cash (Used in) Provided by Financing Activities</i>	(947)	(922)	601	(1,268)
Net (Decrease) Increase in Cash and Cash Equivalents	(139)	106	8	(25)
Cash and Cash Equivalents at Beginning of Period	444	175	9	628
Cash and Cash Equivalents at End of Period	\$ 305	\$ 281	\$ 17	\$ 603



**CSX CORPORATION**  
**PART II**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As of December 31, 2018, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of December 31, 2018, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports.

***Management's Report on Internal Control over Financial Reporting***

CSX's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of the management of CSX, including CSX's CEO and CFO, CSX conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, which is also referred to as COSO. Based on that evaluation, management of CSX concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. Management's assessment of the effectiveness of internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.

The Company's internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

**CSX CORPORATION**  
**PART II**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of CSX Corporation

**Opinion on Internal Control over Financial Reporting**

We have audited CSX Corporation's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, CSX Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of CSX Corporation as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended December 31, 2018, and the related notes of the Company and our report dated February 6, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**CSX CORPORATION**  
**PART II**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, *continued***

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Jacksonville, Florida  
February 6, 2019

**CSX CORPORATION**  
**PART II**

***Changes in Internal Control over Financial Reporting***

There were no material changes in the Company's internal control over financial reporting.

**Item 9B. Other Information**

None

**PART III**

**Item 10. Directors, Executive Officers of the Registrant and Corporate Governance**

In accordance with Instruction G(3) of Form 10-K, the information required by this item is incorporated herein by reference to the Proxy Statement. The Proxy Statement will be filed not later than April 30, 2019 with respect to the 2019 annual meeting of shareholders, except for the information regarding the executive officers of the Company. Information regarding executive officers is included in Part I of this report under the caption "Executive Officers of the Registrant."

**Item 11. Executive Compensation**

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

**Item 14. Principal Accounting Fees and Services**

In accordance with Instruction G(3) of Form 10-K, the information required by this Item is incorporated herein by reference to the Proxy Statement (see Item 10 above).

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

*(a)(1) Financial Statements*

See Index to Consolidated Financial Statements on page 52.

*(2) Financial Statement Schedules*

The information required by Schedule II, *Valuation and Qualifying Accounts*, is included in Note 5 to the Consolidated Financial Statements, Casualty, Environmental and Other Reserves. All other financial statement schedules are not applicable.

*(3) Exhibits*

The documents listed below are being filed or have previously been filed on behalf of CSX and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not previously filed are filed herewith.

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments that define the rights of holders of the Registrant's long-term debt securities, where the long-term debt securities authorized under each such instrument do not exceed 10% of the Registrant's total assets, have been omitted and will be furnished to the Commission upon request.

**CSX CORPORATION**  
**PART IV**

<b>Exhibit designation</b>	<b>Nature of exhibit</b>	<b>Previously filed as exhibit to</b>
2.1	Distribution Agreement, dated as of July 26, 2004, by and among CSX Corporation, CSX Transportation, Inc., CSX Rail Holding Corporation, CSX Northeast Holding Corporation, Norfolk Southern Corporation, Norfolk Southern Railway Company, CRR Holdings LLC, Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC, Pennsylvania Lines LLC, NYC Newco, Inc. and PRR Newco, Inc.	September 2, 2004, Exhibit 2.1, Form 8-K
3.1	Amended and Restated Articles of Incorporation of CSX Corporation, effective as of October 7, 2015	October 9, 2015, Exhibit 3.1, Form 8-K
3.2	Amended and Restated Bylaws of CSX Corporation, effective as of July 7, 2017	July 11, 2017, Exhibit 3.1, Form 8-K
<b><i>Instruments Defining the Rights of Security Holders, Including Debentures:</i></b>		
4.1(a)(P)	Indenture, dated August 1, 1990, between the Registrant and The Chase Manhattan Bank, as Trustee	September 7, 1990, Form SE
4.1(b)(P)	First Supplemental Indenture, dated as of June 15, 1991, between the Registrant and The Chase Manhattan Bank, as Trustee	May 28, 1992, Exhibit 4(c), Form SE
4.1(c)	Second Supplemental Indenture, dated as of May 6, 1997, between the Registrant and The Chase Manhattan Bank, as Trustee	June 5, 1997, Exhibit 4.3, Form S-4 (Registration No. 333-28523)
4.1(d)	Third Supplemental Indenture, dated as of April 22, 1998, between the Registrant and The Chase Manhattan Bank, as Trustee	May 12, 1998, Exhibit 4.2, Form 8-K
4.1(e)	Fourth Supplemental Indenture, dated as of October 30, 2001, between the Registrant and The Chase Manhattan Bank, as Trustee	November 7, 2001, Exhibit 4.1, Form 10-Q
4.1(f)	Fifth Supplemental Indenture, dated as of October 27, 2003 between the Registrant and The Chase Manhattan Bank, as Trustee	October 27, 2003, Exhibit 4.1, Form 8-K
4.1(g)	Sixth Supplemental Indenture, dated as of September 23, 2004 between the Registrant and JP Morgan Chase Bank, formerly The Chase Manhattan Bank, as Trustee	November 3, 2004, Exhibit 4.1, Form 10-Q
4.1(h)	Seventh Supplemental Indenture, dated as of April 25, 2007, between the Registrant and The Bank of New York (as successor to JP Morgan Chase Bank), as Trustee	April 26, 2007, Exhibit 4.4, Form 8-K
4.1(i)	Eighth Supplemental Indenture, dated as of March 24, 2010, between the Registrant and The Bank of New York Mellon (as successor to JP Morgan Chase Bank), as Trustee	April 19, 2010, Exhibit 4.1, Form 10-Q
<b><i>Material Contracts:</i></b>		
10.1**	CSX Directors' Pre-2005 Deferred Compensation Plan (as amended through January 8, 2008)	February 22, 2008, Exhibit 10.2, Form 10-K
10.2**	CSX Directors' Deferred Compensation Plan effective January 1, 2005	February 22, 2008, Exhibit 10.3, Form 10-K
10.3**	CSX Directors' Charitable Gift Plan, as amended	March 4, 1994, Exhibit 10.4, Form 10-K
10.4**	CSX Directors' Matching Gift Plan (as amended through February 9, 2011)	March 4, 1994, Exhibit 10.5, Form 10-K
10.5**	Special Retirement Plan of CSX Corporation and Affiliated Companies (as amended through February 14, 2001)	March 4, 2002, Exhibit 10.23, Form 10-K

**CSX CORPORATION  
PART IV**

<b>Exhibit designation</b>	<b>Nature of exhibit</b>	<b>Previously filed as exhibit to</b>
10.6**	Supplemental Retirement Benefit Plan of CSX Corporation and Affiliated Companies (as amended through February 14, 2001)	March 4, 2002, Exhibit 10.24, Form 10-K
10.7	Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC, with certain schedules thereto	July 8, 1997, Exhibit 10, Form 8-K
10.8	Amendment No. 1, dated as of August 22, 1998, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	June 11, 1999, Exhibit 10.1, Form 8-K
10.9	Amendment No. 2, dated as of June 1, 1999, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	June 11, 1999, Exhibit 10.2, Form 8-K
10.10	Amendment No. 3, dated as of August 1, 2000, to the Transaction Agreement by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation, and CRR Holdings, LLC.	March 1, 2001, Exhibit 10.34, Form 10-K
10.11	Amendment No. 4, dated and effective as of June 1, 1999, and executed in April 2004, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings, LLC	August 6, 2004, Exhibit 99.1, Form 8-K
10.12	Amendment No. 5, dated as of August 27, 2004, to the Transaction Agreement, dated as of June 10, 1997, by and among CSX Corporation, CSX Transportation, Inc., Norfolk Southern Corporation, Norfolk Southern Railway Company, Conrail Inc., Consolidated Rail Corporation and CRR Holdings LLC	September 2, 2004, Exhibit 10.1, Form 8-K
10.13	Shared Assets Area Operating Agreement for Detroit, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Corporation, with exhibit thereto	June 11, 1999, Exhibit 10.6, Form 8-K,
10.14	Shared Assets Area Operating Agreement for North Jersey, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto	June 11, 1999, Exhibit 10.4, Form 8-K
10.15	Shared Assets Area Operating Agreement for South Jersey/ Philadelphia, dated as of June 1, 1999, by and among Consolidated Rail Corporation, CSX Transportation, Inc. and Norfolk Southern Railway Company, with exhibit thereto	June 11, 1999, Exhibit 10.5, Form 8-K
10.16	Monongahela Usage Agreement, dated as of June 1, 1999, by and among CSX Transportation, Inc., Norfolk Southern Railway Company, Pennsylvania Lines LLC and New York Central Lines LLC, with exhibit thereto	June 11, 1999, Exhibit 10.7, Form 8-K
10.17	Tax Allocation Agreement, dated as of August 27, 2004, by and among CSX Corporation, Norfolk Southern Corporation, Green Acquisition Corp., Conrail Inc., Consolidated Rail Corporation, New York Central Lines LLC and Pennsylvania Lines LLC	September 2, 2004, Exhibit 10.2, Form 8-K

**CSX CORPORATION**  
**PART IV**

<b>Exhibit designation</b>	<b>Nature of exhibit</b>	<b>Previously filed as exhibit to</b>
10.18	Revolving Credit Agreement, dated May 21, 2015	May 28, 2015, Exhibit 10.1, Form 8-K
10.19**	CSX Stock and Incentive Award Plan	May 7, 2010, Exhibit 10.1, Form 8-K
10.20**	Long-term Incentive Plan, dated February 10, 2016	February 16, 2016, Exhibit 10.1, Form 8-K
10.21**	Form of Restricted Stock Unit Agreement	February 16, 2016, Exhibit 10.2, Form 8-K
10.22**	Form of Stock Option Agreement	February 16, 2016, Exhibit 10.3, Form 8-K
10.23**	Restricted Stock Award Agreement with Frank A. Lonegro	February 16, 2016, Exhibit 10.5, Form 8-K
10.24**	CSX Executives' Deferred Compensation Plan (as amended and restated effective January 1, 2017)	October 12, 2016, Exhibit 10.1, Form 10-Q
10.25**	CSX 2017-2019 Long Term Incentive Plan, effective as of February 22, 2017	February 27, 2017 Exhibit 10.1, Form 8-K
10.26**	CSX Section 16 Officer Severance Benefit Plan, effective as of February 22, 2017	February 27, 2017 Exhibit 10.4, Form 8-K
10.27**	Separation Agreement, effective February 27, 2017, between Michael J. Ward and CSX Corporation	February 27, 2017 Exhibit 10.2, Form 8-K
10.28**	Separation Agreement, effective February 27, 2017, between Clarence W. Gooden and CSX Corporation	February 27, 2017 Exhibit 10.3, Form 8-K
10.29	Letter Agreement, dated as of March 6, 2017, between CSX Corporation and MR Argent Advisor LLC	March 7, 2017 Exhibit 10.1, Form 8-K
10.30	Registration Rights Agreement, dated as of March 30, 2017, between CSX Corporation and MR Argent Advisor LLC	April 3, 2017 Exhibit 10.1, Form 8-K
10.31**	Inducement Non-Qualified Stock Option Agreement Under the CSX Special Executive Equity Award Program between CSX Corporation and E. Hunter Harrison	April 20, 2017 Exhibit 10.09, Form 10-Q
10.32**	Inducement Non-Qualified Stock Option Agreement Under the CSX 2010 Stock and Incentive Award Plan between CSX Corporation and E. Hunter Harrison	April 20, 2017 Exhibit 10.08, Form 10-Q
10.33**	Employment Agreement, effective as of March 6, 2017, between CSX Corporation and E. Hunter Harrison	April 20, 2017 Exhibit 10.07, Form 10-Q
10.34**	Reimbursement Letter, dated as of June 16, 2017, between CSX Corporation and E. Hunter Harrison	June 16, 2017 Exhibit 10.1, Form 8-K
10.35**	Employment Agreement, effective as of January 8, 2018, between CSX Corporation and Edmond L. Harris	January 12, 2018 Exhibit 10.1, Form 8-K
10.36**	Employment Agreement, effective as of March 29, 2017, between CSX Corporation and Mark K. Wallace	February 7, 2018 Exhibit 10.41, Form 10-K
10.37**	Employment Agreement, effective as of December 22, 2017, between CSX Corporation and James M. Foote	February 7, 2018 Exhibit 10.42, Form 10-K
10.38**	Form of Change of Control Agreement, effective February 7, 2018	February 7, 2018 Exhibit 10.43, Form 10-K
10.39**	CSX 2018-2020 Long-Term Incentive Plan	February 12, 2018 Exhibit 10.1, Form 8-K

**CSX CORPORATION**  
**PART IV**

Exhibit designation	Nature of exhibit	Previously filed as exhibit to
10.40**	Form of Stock Option Agreement	February 12, 2018 Exhibit 10.2, Form 8-K
<b>Officer certifications:</b>		
31*	Rule 13a-14(a) Certifications	
32*	Section 1350 Certifications	
<b>Interactive data files:</b>		
101*	The following financial information from CSX Corporation's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on February 6, 2019, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended December 31, 2018, December 31, 2017, and December 30, 2016, (ii) Consolidated Comprehensive Income Statements for the fiscal periods ended December 31, 2018, December 31, 2017, and December 30, 2016, (iii) Consolidated Balance Sheets at December 31, 2018 and December 31, 2017, (iv) Consolidated Cash Flow Statements for the fiscal periods ended December 31, 2018, December 31, 2017 and December 30, 2016, and (v) the Notes to Consolidated Financial Statements.	
<b>Other exhibits:</b>		
21*	Subsidiaries of the Registrant	
23*	Consent of Independent Registered Public Accounting Firm	
24*	Powers of Attorney	

\* Filed herewith

\*\* Management Contract or Compensatory Plan or Arrangement

(P) This Exhibit has been paper filed and is not subject to Item 601 of Reg S-K for hyperlinks.

Note: Items not filed herewith have been submitted in previous SEC filings.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### CSX CORPORATION (Registrant)

By: /s/ANGELA C. WILLIAMS  
Angela C. Williams  
Vice President and Controller  
(Principal Accounting Officer)

Dated: February 6, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 6, 2019.

<u>Signature</u>	<u>Title</u>
<u>/s/ JAMES M. FOOTE</u> James M. Foote	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ FRANK A. LONEGRO</u> Frank A. Lonegro	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/s/ANGELA C. WILLIAMS</u> Angela C. Williams	Vice President and Controller (Principal Accounting Officer)
<u>/s/ NATHAN D. GOLDMAN</u> Nathan D. Goldman	Executive Vice President and Chief Legal Officer, Corporate Secretary *Attorney-in-Fact

**SIGNATURES**

Signature

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John J. Zillmer

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Donna M. Alvarado

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John B. Breaux

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Pamela L. Carter

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Steven T. Halverson

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Paul C. Hilal

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John D. McPherson

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David M. Moffett

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Linda H. Riefler

\*

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J. Steven Whisler

Title

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Chairman of the Board and Director

Director

Director

Director

Director

Director

Director

Director

Director

Director

**Subsidiaries of the Registrant**

As of December 31, 2018, the Registrant was the beneficial owner of 100% of the common stock of the following significant subsidiaries:

CSX Transportation, Inc. (a Virginia corporation)

As of December 31, 2018, none of the other subsidiaries included in the Registrant's consolidated financial statements constitute a significant subsidiary.

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- Registration Statement (Form S-8 No. 333-226248) pertaining to the CSX Corporation 2018 Employee Stock Purchase Plan,
- Registration Statement (Form S-8 No. 333-201172) pertaining to the CSX Directors' Deferred Compensation Plan,
- Registration Statement (Form S-8 No. 333-201167) pertaining to the CSX Executives' Deferred Compensation Plan,
- Registration Statement (Form S-8 No. 333-193785) pertaining to the Tax Savings Thrift Plan for Employees of CSX Corporation and Affiliated Companies,
- Registration Statement (Form S-8 No. 333-166769) pertaining to the 2010 CSX Stock and Incentive Award Plan,
- Registration Statement (Form S-8 No. 333-160652) pertaining to the CSX Corporation Capital Builder Plan,
- Registration Statement (Form S-8 No. 333-160650) pertaining to the Tax Savings Thrift Plan for Employees of CSX Corporation and Affiliated Companies,
- Registration Statement (Form S-8 No. 333-110589) pertaining to the 2002 Deferred Compensation Plan of CSX Corporation and Affiliated Companies, and
- Registration Statement (Form S-3ASR No. 333-209541) of CSX Corporation, CSX Capital Trust I and CSX Transportation, Inc.

of our reports dated February 6, 2019, with respect to the consolidated financial statements of CSX Corporation, and the effectiveness of internal control over financial reporting of CSX Corporation, included in this Annual Report (Form 10-K) of CSX Corporation for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Jacksonville, Florida  
February 6, 2019

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned directors of CSX CORPORATION, a Virginia Corporation, which is to file with the Securities and Exchange Commission, Washington, D. C., a Form 10-K for fiscal year ended December 31, 2018 hereby constitutes and appoints Angela C. Williams and Nathan D. Goldman his/her true and lawful attorneys-in-fact and agents, for him/her and in his/her name, place and stead to sign said Form 10-K, and any and all amendments thereto, with power where appropriate to affix the corporate seal of CSX Corporation thereto and to attest said seal, and to file said Form 10-K, and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, may lawfully do or cause to be done by virtue hereof.

/s/ DONNA M. ALVARADO

Donna M. Alvarado  
February 6, 2019

/s/ JOHN D. MCPHERSON

John D. McPherson  
February 6, 2019

/s/ JOHN B. BREAUX

John B. Breaux  
February 6, 2019

/s/ DAVID M. MOFFETT

David M. Moffett  
February 6, 2019

/s/ PAMELA L. CARTER

Pamela L. Carter  
February 6, 2019

/s/ LINDA H. RIEFLER

Linda H. Riefler  
February 6, 2019

/s/ STEVEN T. HALVERSON

Steven T. Halverson  
February 6, 2019

/s/ J. STEVEN WHISLER

J. Steven Whisler  
February 6, 2019

/s/ PAUL C. HILAL

Paul C. Hilal  
February 6, 2019

/s/ JOHN J. ZILLMER

John J. Zillmer  
February 6, 2019

## CERTIFICATION OF CEO AND CFO PURSUANT TO EXCHANGE ACT RULE

## 13a - 14(a) OR RULE 15d-14(a)

I, James M. Foote, certify that:

1. I have reviewed this Annual Report on Form 10-K of CSX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2019

/s/ JAMES M. FOOTE

James M. Foote

President and Chief Executive Officer

I, Frank A. Lonegro, certify that:

1. I have reviewed this Annual Report on Form 10-K of CSX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2019

/s/ FRANK A. LONEGRO

Frank A. Lonegro  
Executive Vice President and Chief Financial Officer

CERTIFICATION OF CEO AND CFO REQUIRED BY RULE 13a-14(b) OR RULE 15D-14(b) AND SECTION 1350  
OF CHAPTER 63 OF TITLE 18 OF THE U.S. CODE

In connection with the Annual Report of CSX Corporation on Form 10-K for the fiscal year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Foote, Chief Executive Officer of the registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: February 4, 2019

/s/ JAMES M. FOOTE

James M. Foote  
President and Chief Executive Officer

In connection with the Annual Report of CSX Corporation on Form 10-K for the fiscal year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank A. Lonergo, Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

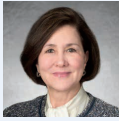
Date: February 4, 2019

/s/ FRANK A. LONEGRO

Frank A. Lonergo  
Executive Vice President and Chief Financial Officer

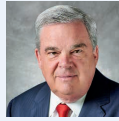


## Board of Directors



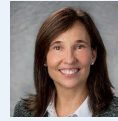
**Donna M. Alvarado**

Founder and President,  
Aguila International



**Steven T. Halverson**

Retired Chief Executive  
Officer, The Haskell Company



**Linda H. Riefler**

Director, MSCI, Inc. and  
Former Chairman of Global  
Research, Morgan Stanley



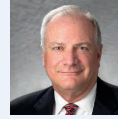
**John B. Breaux**

Partner at Breaux-Lott  
Leadership Group



**Paul C. Hilal**

Founder and Managing  
Member, Mantle Ridge  
GP LLC



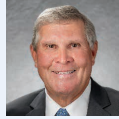
**J. Steven Whisler**

Retired Chairman and  
Chief Executive Officer,  
Phelps Dodge Corporation



**Pamela L. Carter**

Retired Vice President,  
Cummins Inc. and  
President, Cummins  
Distribution Business



**John D. McPherson**

Retired President and Chief  
Operating Officer, Florida  
East Coast Railway



**John J. Zillmer**

Chairman of the Board, CSX  
and Retired Chief Executive  
Officer, Univar



**James M. Foote**

President and Chief  
Executive Officer, CSX



**David M. Moffett**

Retired Chief Executive  
Officer and Director,  
Federal Home Loan  
Mortgage Corporation

## Executive Management



**James M. Foote**

President and  
Chief Executive Officer



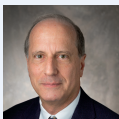
**Edmond L. Harris**

Executive Vice President  
of Operations



**Diana B. Sorfleet**

Executive Vice President  
and Chief Administrative  
Officer



**Nathan D. Goldman**

Executive Vice President  
and Chief Legal Officer



**Frank A. Lonegro**

Executive Vice President  
and Chief Financial Officer



**Mark K. Wallace**

Executive Vice President  
of Sales and Marketing



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