CSX CORP
Form 10-K
February 06, 2019
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.

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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.

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, 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.

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.

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.

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.

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.

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:

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

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

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 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:

	Locomotives	%	Average Age (years)
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:

Equipment	Number of Units	%
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	
Total equipment	71,430	

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
James M. Foote, 65 President and Chief Executive Officer	Foote has served as President and Chief Executive Office since December 2017. He joined CSX in October 2017 as Chief Operating Officer, with responsibility for both operations and sales and marketing. 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.
Frank A. Lonegro, 50 Executive Vice President and Chief Financial Officer	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. 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.
Edmond L. Harris, 69 Executive Vice President of Operations	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. 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.
Nathan D. Goldman, 61 Executive Vice President and Chief Legal Officer, Corporate Secretary	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. 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.

CSX CORPORATION
PART I

Name and Age	Business Experience During Past Five Years
Diana B. Sorfleet, 54 Executive Vice President and Chief Administrative Officer	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. 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.
Mark K. Wallace, 49 Executive Vice President of Sales and Marketing	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. 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.
Angela C. Williams, 44 Vice President and Controller	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. 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.

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
2018					
Dividends	$0.22	$0.22	$0.22	$0.22	$0.88
Common Stock Price					
High	$60.04	$67.69	$76.24	$75.66	$76.24
Low	$48.43	$53.53	$63.23	$58.47	$48.43
2017					
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:

	Fiscal Years		
	2018	2017	2016
Shares Repurchased (Units in Millions)	72	39	38
Cost of Shares (Dollars in Millions)	$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

Fourth Quarter	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				$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
Ending Balance	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.

	Fiscal Years				
(Dollars and Shares in Millions, Except Per Share Amounts)	2018	2017	2016	2015	2014
Financial Performance					
Revenue	$12,250	$11,408	$11,069	$11,811	$12,669
Expense	7,381	7,688	7,656	8,183	8,991
Operating Income	$4,869	$3,720	$3,413	$3,628	$3,678
Adjusted Operating Income[a]	4,869	3,818	3,413	3,628	3,678
Net Earnings from Continuing Operations	$3,309	$5,471	$1,714	$1,968	$1,927
Adjusted Net Earnings from Continuing Operations[a]	3,309	2,097	1,714	1,968	1,927
Operating Ratio	60.3 %	67.4 %	69.2 %	69.3 %	71.0 %
Adjusted Operating Ratio[a]	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
From Continuing Operations, Assuming Dilution	3.84	5.99	1.81	2.00	1.92
Adjusted From Continuing Operations, Assuming Dilution[a]	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
Financial Position					
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
Additional Data					
Capital Expenditures	$1,745	$2,040	$2,705	$2,562	$2,449
Employees -- Annual Averages (estimated)	22,901	25,230	27,350	31,285	31,511
Employees -- Year-end Count (estimated)	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
PART II

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.

CSX CORPORATION
PART II

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

	Fiscal Years			
	2018	2017[(a)]	$ Change	% Change
(Dollars in Millions)				
Revenue	$12,250	$11,408	$842	7 %
Expense				
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)
Total Expense	7,381	7,688	307	4
Operating Income	4,869	3,720	1,149	31
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)
Net Earnings	$3,309	$5,471	$(2,162)	(40)
Earnings Per Diluted Share:				
Net Earnings	$3.84	$5.99	$(2.15)	(36)%
Operating Ratio	60.3 %	67.4 %		710 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.

CSX CORPORATION
PART II

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 %
Total Merchandise	2,700	2,702	— %	7,491	7,068	6 %	2,774	2,616	6 %
Coal	887	855	4 %	2,246	2,107	7 %	2,532	2,464	3 %
Intermodal	2,895	2,843	2 %	1,931	1,799	7 %	667	633	5 %
Other	—	—	— %	582	434	34 %	—	—	— %
Total	6,482	6,400	1 %	$12,250	$11,408	7 %	$1,890	$1,783	6 %

CSX CORPORATION
PART II

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.

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
PART II

2017 vs. 2016 Results of Operations[a]

	Fiscal Years			
	2017	2016	$ Change	% Change
(Dollars in Millions)				
Revenue	$11,408	$11,069	$339	3 %
Expense				
Labor and Fringe	2,946	3,135	189	6
Materials, Supplies and Other	2,113	2,092	(21)	(1)
Depreciation	1,315	1,301	(14)	(1)
Fuel	864	713	(151)	(21)
Equipment and Other Rents	429	465	36	8
Restructuring Charge	240	—	(240)	(100)
Equity Earnings of Affiliates	(219)	(50)	169	338
Total Expense	7,688	7,656	(32)	—
Operating Income	3,720	3,413	307	9
Interest Expense	(546)	(579)	33	6
Debt Repurchase Expense	—	(115)	115	100
Restructuring Charge - Non-Operating	(85)	—	(85)	(100)
Other Income - Net	53	22	31	141
Income Tax Benefit (Expense)	2,329	(1,027)	3,356	327
Net Earnings	$5,471	$1,714	$3,757	219
Earnings Per Diluted Share:				
Net Earnings	$5.99	$1.81	$4.18	231 %
Operating Ratio	67.4 %	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
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2017 vs. 2016 Results of Operations, continued
Volume and Revenue (Unaudited)[(a)]
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 %
Total Merchandise	2,702	2,802	(4)	7,068	7,142	(1)	2,616	2,549	3 %
Coal	855	838	2	2,107	1,833	15	2,464	2,187	13 %
Intermodal	2,843	2,811	1	1,799	1,726	4	633	614	3 %
Other	—	—	—	434	368	18	—	—	— %
Total	6,400	6,451	(1)%	$11,408	$11,069	3 %	$1,783	$1,716	4 %

(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.

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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
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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.

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.

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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.

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

(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.

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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).

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

(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.

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Operating Statistics (Estimated)

	Fiscal Years		Improvement/ (Deterioration)
	2018	2017	
Operations Performance			
Train Velocity (Miles per hour)[a]	17.9	15.1	19 %
Dwell (Hours)[a]	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	202.9	196.1	3 %
Total Gross Ton-Miles (Billions)	402.7	400.1	1 %
On-Time Originations	82 %	80 %	3 %
On-Time Arrivals	60 %	56 %	7 %
Safety			
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.

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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.
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.

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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.

	Fiscal Years		
Capital Expenditures (Dollars in Millions)	2018	2017	2016
Track	$771	$733	$714
Bridges, Signals and Other	491	570	433
Total Infrastructure	1,262	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
Total Property Additions	1,745	2,040	2,398
Cash paid for new assets using seller financing [a]	$—	$—	$307
Total Capital Expenditures	$1,745	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.

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.

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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
(Dollars in Millions) (Unaudited)							
Contractual Obligations							
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) [(a)]	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 [(b)]	27	27	27	27	27	20	155
Total Contractual Obligations	$1,067	$1,803	$1,374	$1,178	$1,598	$ 27,016	$34,036
Other Commitments [(c)]	$84	$2	$2	$2	$—	$ —	$90

(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.

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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 St