CSX Corporation

State of Florida Financial Reporting Package

September 23, 2016

Building a better working world

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Report of Independent Certified Public Accountants

Chief Executive Officer and Chief Financial Officer, and Audit Committee
CSX Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CSX Corporation, which comprise the consolidated balance sheets as of December 25, 2015 and December 26, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CSX Corporation at December 25, 2015 and December 26, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 25, 2015, in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated February 10, 2016, on our consideration of CSX Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSX Corporation's internal control over financial reporting and compliance.

Ernst & Young LLP

Certified Public Accountants

February 10, 2016

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

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

	Fiscal Years		
	2015	2014	2013
Revenue	**$ 11,811**	$ 12,669	$ 12,026
Expense			
Labor and Fringe	**3,290**	3,377	3,138
Materials, Supplies and Other	**2,336**	2,484	2,275
Fuel	**957**	1,616	1,656
Depreciation	**1,208**	1,151	1,104
Equipment and Other Rents	**436**	428	380
Total Expense	**8,227**	9,056	8,553
Operating Income	**3,584**	3,613	3,473
Interest Expense	**(544)**	(545)	(562)
Other Income (Expense) - Net (Note 10)	**98**	(24)	11
Earnings Before Income Taxes	**3,138**	3,044	2,922
Income Tax Expense (Note 11)	**(1,170)**	(1,117)	(1,058)
Net Earnings	**$ 1,968**	$ 1,927	$ 1,864
Per Common Share (Note 2)			
Net Earnings Per Share			
Basic	**$ 2.00**	$ 1.93	$ 1.83
Assuming Dilution	**$ 2.00**	$ 1.92	$ 1.83
Average Common Shares Outstanding *(Millions)*			
Basic	**983**	1,001	1,019
Assuming Dilution	**984**	1,002	1,019
Cash Dividends Paid Per Common Share	**$ 0.70**	$ 0.63	$ 0.59

See accompanying Notes to Consolidated Financial Statements

Note: The information in this section was gathered directly from the CSX Corporation 10K SEC Filing.

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

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
(Dollars in Millions)

	Fiscal Years		
	2015	2014	2013
Net Earnings	**$ 1,968**	$ 1,927	$ 1,864
Other Comprehensive Income (Loss) - Net of Tax:			
Pension and Other Post-Employment Benefits	**10**	(149)	389
Other	**(9)**	6	24
Total Other Comprehensive Income (Loss)	**1**	(143)	413
Comprehensive Earnings (Note 14)	**$ 1,969**	$ 1,784	$ 2,277

See accompanying Notes to Consolidated Financial Statements

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

CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	December 2015	December 2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 1)	**$ 628**	$ 669
Short-term Investments	**810**	292
Accounts Receivable - Net (Note 1)	**982**	1,129
Materials and Supplies	**350**	273
Deferred Income Taxes	**126**	141
Other Current Assets	**70**	68
Total Current Assets	**2,966**	2,572
Properties	**41,574**	39,343
Accumulated Depreciation	**(11,400)**	(10,759)
Properties - Net (Note 6)	**30,174**	28,584
Investment in Conrail (Note 12)	**803**	779
Affiliates and Other Companies	**591**	577
Other Long-term Assets	**505**	541
Total Assets	**$ 35,039**	$ 33,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	**$ 764**	$ 845
Labor and Fringe Benefits Payable	**490**	613
Casualty, Environmental and Other Reserves (Note 5)	**131**	142
Current Maturities of Long-term Debt (Note 9)	**20**	228
Income and Other Taxes Payable	**108**	163
Other Current Liabilities	**439**	116
Total Current Liabilities	**1,952**	2,107
Casualty, Environmental and Other Reserves (Note 5)	**269**	276
Long-term Debt (Note 9)	**10,683**	9,514
Deferred Income Taxes (Note 11)	**9,305**	8,858
Other Long-term Liabilities	**1,162**	1,122
Total Liabilities	**23,371**	21,877
Shareholders' Equity:		
Common Stock, $1 Par Value (Note 3)	**966**	992
Other Capital	**113**	92
Retained Earnings (Note 1)	**11,238**	10,734
Accumulated Other Comprehensive Loss (Note 14)	**(665)**	(666)
Noncontrolling Minority Interest	**16**	24
Total Shareholders' Equity	**11,668**	11,176
Total Liabilities and Shareholders' Equity	**$ 35,039**	$ 33,053

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED CASH FLOW STATEMENTS

(Dollars in Millions)

	Fiscal Years		
	2015	2014	2013
OPERATING ACTIVITIES			
Net Earnings	**$ 1,968**	$ 1,927	$ 1,864
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	**1,208**	1,151	1,104
Deferred Income Taxes	**456**	298	300
Gain on Property Dispositions	**(90)**	(11)	(70)
Other Operating Activities	**22**	14	(35)
Changes in Operating Assets and Liabilities:			
Accounts Receivable	**149**	(119)	(6)
Other Current Assets	**(84)**	(26)	36
Accounts Payable	**(79)**	1	28
Income and Other Taxes Payable	**(62)**	74	(67)
Other Current Liabilities	**(118)**	34	113
Net Cash Provided by Operating Activities	**3,370**	3,343	3,267
INVESTING ACTIVITIES			
Property Additions	**(2,562)**	(2,449)	(2,313)
Purchase of Short-term Investments	**(1,739)**	(1,433)	(1,256)
Proceeds from Sales of Short-term Investments	**1,225**	1,674	1,401
Proceeds from Property Dispositions	**147**	62	53
Other Investing Activities	**37**	(37)	(112)
Net Cash Used in Investing Activities	**(2,892)**	(2,183)	(2,227)
FINANCING ACTIVITIES			
Long-term Debt Issued (Note 9)	**1,200**	1,000	500
Long-term Debt Repaid (Note 9)	**(229)**	(933)	(780)
Dividends Paid	**(686)**	(629)	(600)
Stock Options Exercised	**—**	—	9
Shares Repurchased	**(804)**	(517)	(353)
Other Financing Activities	**—**	(4)	(8)
Net Cash Used in Financing Activities	**(519)**	(1,083)	(1,232)
Net (Decrease) Increase in Cash and Cash Equivalents	**(41)**	77	(192)
CASH AND CASH EQUIVALENTS			
Cash and Cash Equivalents at Beginning of Period	**669**	592	784
Cash and Cash Equivalents at End of Period	**$ 628**	$ 669	$ 592
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest Paid - Net of Amounts Capitalized	**$ 566**	$ 575	$ 595
Income Taxes Paid	**$ 768**	$ 741	$ 824
Seller Financed Assets	**$ 307**	$ —	$ —

See accompanying Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Millions)

	Common Shares Outstanding *(Thousands)*	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) [(a)]	Non-controlling Interest	Total Shareholders' Equity
December 28, 2012	1,020,485	$ 1,048	$ 9,010	$ (936)	$ 14	$ 9,136
Comprehensive Earnings:						
Net Earnings	—	—	1,864	—	—	1,864
Other Comprehensive Income (Note 14)	—	—	—	413	—	413
Total Comprehensive Earnings						2,277
Common stock dividends, $0.59 per share	—	—	(600)	—	—	(600)
Share Repurchases	(13,791)	(14)	(339)	—	—	(353)
Bond Conversions	1	—	—	—	—	—
Stock Option Exercises and Other	2,165	36	1	—	7	44
December 27, 2013	1,008,860	1,070	9,936	(523)	21	10,504
Comprehensive Earnings:						
Net Earnings	—	—	1,927	—	—	1,927
Other Comprehensive Loss (Note 14)	—	—	—	(143)	—	(143)
Total Comprehensive Earnings						1,784
Common stock dividends, $0.63 per share	—	—	(629)	—	—	(629)
Share Repurchases	(17,010)	(17)	(500)	—	—	(517)
Bond Conversions	134	1	—	—	—	1
Other	(393)	30	—	—	3	33
December 26, 2014	991,591	1,084	10,734	(666)	24	11,176
Comprehensive Earnings:						
Net Earnings	—	—	1,968	—	—	1,968
Other Comprehensive Income (Note 14)	—	—	—	1	—	1
Total Comprehensive Earnings						1,969
Common stock dividends, $0.70 per share	—	—	(686)	—	—	(686)
Share Repurchases	(26,359)	(26)	(778)	—	—	(804)
Bond Conversions	13	—	—	—	—	—
Other	269	21	—	—	(8)	13
December 25, 2015	965,514	$ 1,079	$ 11,238	$ (665)	$ 16	$ 11,668

(a) Accumulated Other Comprehensive Loss year-end balances shown above are net of tax. The associated taxes were $266 million, $354 million and $347 million for 2013, 2014 and 2015, respectively. For additional information see Note 14, Other Comprehensive Income.

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Nature of Operations and Significant Accounting Policies

Business

CSX Corporation ("CSX"), together with its subsidiaries (the "Company"), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

The Company's number of employees was approximately 29,000 as of December 2015, which includes approximately 24,000 union employees. Most of the Company's employees provide or support transportation services.

CSX Transportation, Inc.

CSX's principal operating subsidiary, CSX Transportation, Inc. ("CSXT"), provides an important link to the transportation supply chain through its approximately 21,000 route mile rail network, which serves major population centers in 23 states east of the Mississippi River, the District of Columbia and the Canadian provinces of Ontario and Quebec. It has access to over 70 ocean, river and lake port terminals along the Atlantic and Gulf Coasts, the Mississippi River, the Great Lakes and the St. Lawrence Seaway. The Company's intermodal business, also part of CSXT, links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections to approximately 240 short-line and regional railroads.

Lines of Business

During 2015, the Company services generated $11.8 billion of revenue and served three primary lines of business:

- The merchandise business shipped nearly 2.9 million carloads and generated 62% of revenue and 42% of volume in 2015. The Company's merchandise business is comprised of shipments in the following diverse markets: agricultural products, phosphates and fertilizers, food and consumer, chemicals, automotive, metals, forest products, minerals and waste and equipment.
- The coal business shipped about 1.1 million carloads and accounted for 19% of revenue and 16% of volume in 2015. 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 accounted for 15% of revenue and 42% of volume in 2015. 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 50 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 4% of the Company's total revenue in 2015. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching and other incidental charges. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

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

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.

CSX's other holdings include CSX Real Property, Inc., a subsidiary responsible for the Company's operating and non-operating real estate sales, leasing, acquisition and management and development activities. These activities are classified in either operating income or other income - net depending upon the nature of the activity. Results of these activities fluctuate with the timing of real estate transactions.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the financial position of CSX and its subsidiaries at December 25, 2015 and December 26, 2014, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for fiscal years 2015, 2014 and 2013. In addition, management has evaluated and disclosed all material events occurring subsequent to the date of the financial statements up to the date this annual report is filed on Form 10-K.

Fiscal Year

CSX follows a 52/53 week fiscal reporting calendar. This fiscal calendar allows every quarter to consistently end on a Friday and typically, to be of equal duration (13 weeks), resulting in a 52 week fiscal year. To maintain this type of reporting calendar every fifth or sixth year (depending on the Gregorian calendar and when leap year falls), an extra week will be included in the fourth quarter (a 14-week fiscal quarter) and, therefore, that full fiscal year will have 53 weeks. The next 53 week fiscal year will be 2016, which will end on December 30, 2016. Fiscal years 2015, 2014 and 2013 each consisted of 52 weeks ending on December 25, 2015, December 26, 2014 and December 27, 2013, respectively. Except as otherwise specified, references to full year indicate CSX's fiscal periods ended on these dates.

Principles of Consolidation

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

Cash and Cash Equivalents

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

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

Investments

Investments in instruments with original maturities greater than three months but will mature in less than one year were classified as short-term investments. Investments with original maturities greater than one year are classified within other long-term assets.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the credit worthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of $37 million and $41 million is included in the consolidated balance sheets as of December 2015 and December 2014, respectively.

Materials and Supplies

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

Goodwill

Goodwill represents purchase price in excess of fair value and is related to affiliates of CSXT, primarily P&L Transportation, Inc. Goodwill of $63 million is recorded in other long-term assets in the consolidated balance sheets as of December 2015 and December 2014, respectively.

Revenue and Expense Recognition

The Company recognizes freight revenue using Free-On-Board Origin pursuant to the *Revenue Recognition Topic* in the Accounting Standards Codification ("ASC"). Accounting guidance in this topic provides for the allocation of revenue between reporting periods based on relative transit time in each reporting period. Expenses are recognized as incurred.

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

- revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move commodities and products from their origin to their final destination or interchange;
- adjustments to revenue for billing corrections, billing discounts and bad debts or to accounts receivable for allowances for doubtful accounts;
- adjustments to revenue for overcharge claims filed by customers, which are based on historical cash paid to customers for rate overcharges as a percentage of total billing;
- incentive-based refunds to customers, which are primarily based on customers achieving certain volume thresholds and are recorded as a reduction to revenue on the basis of management's best estimate of the projected liability (this estimate is based on historical activity, current volume levels and a forecast of future volume).

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

The Company regularly updates the estimates described above based on historical experience and current conditions. All other revenue, such as demurrage, switching and other incidental charges are recorded upon completion of the service.

New Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU"), *Balance Sheet Classification of Deferred Taxes*, which requires that all deferred income taxes be classified as noncurrent in the balance sheet, rather than being separated into current and noncurrent amounts. This standard is effective for annual reporting periods beginning after December 15, 2016 and will not have a material effect on the Company's financial condition, results of operations or liquidity.

In July 2015, the FASB issued ASU, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) and Health and Welfare Benefit Plans (Topic 965): I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures; III. Measurement Date Practical Expedient*. This three-part update simplifies current benefit plan accounting and requires benefit plans to disaggregate their investments measured using fair value by general type, among other changes. This update is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. Parts I and III of this update are not applicable to CSX. This update only affects disclosures related to fair value measurement. Adoption does not have an effect on the Company's pension plan net assets available for benefits or its changes in net assets available for benefits.

In May 2015, the FASB issued ASU, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* This update eliminates the requirement to categorize investments within the fair value hierarchy if their fair value is measured using the net asset value per share practical expedient. This update requires that investments measured using the net asset value per share be disclosed as a reconciling item between the statement of net assets available for benefits and the fair value hierarchy disclosure. This update is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. This update only affects disclosures related to fair value measurement. Adoption does not have an effect on the Company's pension plan net assets available for benefits or its changes in net assets available for benefits.

In April 2015, the FASB issued ASU, *Interest - Imputation of Interest*, which changes the financial statement presentation of debt issuance costs to be a direct reduction to long-term debt, rather than presented as a long-term asset. The amortization of debt issuance costs will continue to be included in interest expense. This standard is effective for annual reporting periods beginning after December 15, 2015 and will not have a material effect on the Company's financial condition, results of operations or liquidity.

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

In May 2014, the FASB issued ASU, *Revenue from Contracts with Customers*, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. In July 2015, the FASB approved a one-year deferral of the effective date. This standard will now become effective for CSX beginning with the first quarter 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

Use of Estimates

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

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

Other Items

Share Repurchases

In April 2015, the Company announced a new $2 billion share repurchase program, which is expected to be completed by April 2017. 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. During 2015, 2014 and 2013, CSX repurchased $804 million, or 26 million shares, $517 million or 17 million shares, and $353 million, or 14 million shares, respectively, of common stock. In accordance with the *Equity Topic* in the ASC, the Company elected to allocate the excess of repurchase price over par value and record in retained earnings. Generally, retained earnings is only impacted by net earnings and dividends.

Workforce Reduction Plans, Separation & Other Costs

Union agreements

In November 2015, CSX finalized a union agreement that will improve efficiency across the CSX network. This agreement allows certain employees impacted by work transitions to voluntarily separate from the Company with enhanced benefits and will provide relocation benefits for employees not electing to separate. As a result, approximately 300 union employees will be impacted. Separation benefits will be paid from general corporate funds.

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

Facility closures

In October 2015, CSX closed facilities in Erwin, Tennessee and Corbin, Kentucky as a result of the decline in coal movements in these regions. These closures impacted approximately 500 positions. The Company recorded a charge resulting from separation, relocation and furlough costs, as well as asset impairment charges related to the facility closures. Separation benefits will be paid from general corporate funds.

Management streamlining

In 2014, the Company announced a workforce reduction plan to streamline the organization. The initiative reduced management workforce by approximately 300 positions through a voluntary separation program with enhanced benefits as well as a subsequent involuntary severance program during the fourth quarter of 2014 and the first quarter of 2015. The majority of separation benefits were paid from CSX's qualified pension plans, while the remainder was paid from general corporate funds.

The Company recorded a charge for each of the initiatives above as shown in the table below. These amounts are recognized in labor and fringe and materials, supplies and other on the consolidated statements of income.

Workforce Reduction Plans, Separation & Other Costs

(Dollars in millions)	**2015**	2014
Union agreements	**$ 28**	$ —
Facility closures	**19**	—
Management streamlining	**4**	39
Total costs	**$ 51**	$ 39

NOTE 2. Earnings Per Share

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

	Fiscal Years		
	2015	2014	2013
Numerator *(Dollars in Millions)*:			
Net Earnings	**$ 1,968**	$ 1,927	$ 1,864
Dividend Equivalents on Restricted Stock	**(1)**	(1)	—
Net Earnings, Attributable to Common Shareholders	**$ 1,967**	$ 1,926	$ 1,864
Denominator *(Units in Millions)*:			
Average Common Shares Outstanding	**983**	1,001	1,019
Other Potentially Dilutive Common Shares	**1**	1	—
Average Common Shares Outstanding, Assuming Dilution	**984**	1,002	1,019
Net Earnings Per Share, Basic	**$ 2.00**	$ 1.93	$ 1.83
Net Earnings Per Share, Assuming Dilution	**$ 2.00**	$ 1.92	$ 1.83

NOTE 2. Earnings Per Share, *continued*

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

The *Earnings Per Share Topic* in the ASC requires CSX to include additional shares in the computation of earnings per share, assuming dilution. The additional shares included in diluted earnings per share represent the number of shares that would be issued if all of the above potentially dilutive instruments were converted into CSX common stock.

When calculating diluted earnings per share, the *Earnings Per Share Topic* in the ASC requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options, which is included in Note 4, Stock Plans and Share-Based Compensation, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Outstanding stock options were excluded from the diluted earnings per share calculation as the effect of their inclusion currently would be anti-dilutive.

NOTE 3. Shareholders' Equity

Common and preferred stock consists of the following:

Common Stock, $1 Par Value	December 2015
	(Units in Millions)
Common Shares Authorized	1,800
Common Shares Issued and Outstanding	966
Preferred Stock	
Preferred Shares Authorized	25
Preferred Shares Issued and Outstanding	—

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

NOTE 4. Stock Plans and Share-Based Compensation

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

The *Compensation-Stock Compensation Topic* in the ASC requires the cash flows resulting from income tax deductions in excess of compensation costs to be classified as financing cash flows. This requirement resulted in reduced net operating cash flows and increased net financing cash flows of approximately $4 million, $3 million and $13 million for fiscal years 2015, 2014 and 2013, respectively.

It also requires the disclosure of total compensation costs for share-based payment arrangements and the related tax benefits recognized in income. Share-based compensation expense is measured at the fair market value of the Company's stock on the grant date and is recognized on a straight-line basis over the service period of the respective award. Total pre-tax expense associated with share-based compensation and its related income tax benefit is shown in the table below.

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Share-Based Compensation Expense	**$ 12**	$ 33	$ 14
Income Tax Benefit	**4**	13	6

Stock Options

During fourth quarter 2015, the Company granted 2.5 million in stock options to certain members of management. The fair value of stock options on the date of grant was $5.31 which was estimated using the Black-Scholes valuation model. Stock options have been granted with 10-year terms and vest three years after the date of grant. The exercise price for options granted equals the closing market price of the underlying stock on the date of grant.

Restricted Stock Grants

Restricted stock grants consist of units and awards. Restricted stock units are granted as part of the Company's long-term incentive plan, with each unit being equivalent to one share of CSX stock and vest over three years. Restricted stock awards generally vest over an employment period of up to five years. The following table provides information about outstanding restricted stock units and awards combined. As of December 2015, unrecognized compensation expense for these awards and units was approximately $13 million, which will be expensed over a weighted-average remaining period of 2 years.

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

	Fiscal Years		
	2015	2014	2013
Restricted Stock Units and Awards Outstanding *(Thousands)*[(a)]	1,157	1,383	1,462
Weighted-Average Fair Value at Grant Date	$ 28.66	$ 25.03	$ 23.89
Restricted Stock Units and Awards Expense *(Millions)*[(a)]	$ 11	$ 11	$ 10
Unvested Restricted Stock Units and Awards Outstanding *(Thousands)*	406	601	705
Weighted-Average Fair Value of Unvested Units and Awards Outstanding	$ 31.35	$ 26.40	$ 24.17

(a) Time-based restricted stock units were granted to certain employees under the respective Long-term Incentive Plans in the amount of 312,000, 371,000, and 524,000 in 2015, 2014 and 2013, respectively, as described below. These units vest over three years, therefore only a partial amount of expense was recognized in 2015, 2014, and 2013, respectively.

Long-term Incentive Plans

The CSX Long-term Incentive Plans ("LTIP") were adopted under the 2010 CSX Stock and Incentive Award Plan. The objective of these long-term incentive plans is to motivate and reward certain employees for achieving and exceeding certain financial and strategic initiatives. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals for each three-year cycle. In 2013, 2014 and 2015, target performance units were granted to certain employees under three separate LTIP plans covering three-year cycles: the 2013-2015 ("2013-2015 LTIP"), 2014-2016 ("2014-2016 LTIP") and 2015-2017 ("2015-2017 LTIP") plans (collectively, the "plans").

The key financial targets for the plans will be based on the achievement of goals related to both operating ratio and return on assets (tax-adjusted operating income divided by net property) excluding non-recurring items as disclosed in the Company's financial statements. The three-year cumulative operating ratio and average return on assets over the performance period will each comprise 50% of the payout and are measured independently of the other. The plans state that payouts for certain executive officers are subject to downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups. The total benefit recognized due to the plans was $1 million for fiscal year 2015 reflecting adjustments for reduced award payouts. The expense incurred due to the plans was $19 million and $2 million for fiscal years 2014 and 2013, respectively.

	LTIP Plan (Plan Ended In)		
	2015	2016	2017
Number of target units outstanding *(Thousands)*[(a)]	**1,317**	1,115	826
Weighted-average fair value at grant date [(a)]	**$ 25.90**	$ 28.60	$ 35.94
Payout Range	0% - 200%	0% - 200%	0% - 200%

(a) Number of target units granted and weighted-average fair value calculations above include the value of both initial grants and subsequent, smaller grants issued at different prices based on grant date fair value to new or promoted employees not previously included.

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

Restricted Stock Units

As part of the 2013-2015, 2014-2016 and 2015-2017 LTIP plans, 524 thousand, 371 thousand and 312 thousand restricted stock units, respectively, were granted. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon CSX's attainment of operational targets. The restricted stock units and expenses are included in the information as shown within the Restricted Stock Grants section above.

As of December 2015, there was $7 million of total unrecognized compensation cost related to these plans that is expected to be recognized over a weighted-average period of approximately 2 years. The activity related to each of the outstanding long-term incentive plans is summarized as follows:

	LTIP Plan (Plan Ended In)			**Weighted-Average Fair Value at Grant Date**
(Units Outstanding, in Thousands)	**2015**	**2016**	**2017**	
Unvested at December 27, 2013	1,318	—	—	$ 25.32
Granted in 2014	52	1,144	—	28.11
Forfeited in 2014	(40)	(25)	—	26.33
Unvested at December 26, 2014	1,330	1,119	—	26.66
Granted in 2015	63	134	935	35.45
Forfeited in 2015	(76)	(138)	(109)	30.06
Vested at December 25, 2015	1,317	—	—	25.90
Unvested at December 25, 2015	—	1,115	826	$ 31.73

Stock Awards for Directors

CSX's non-management directors receive an annual retainer of $90,000 to be paid quarterly in cash, unless the director chooses to receive the retainer in the form of CSX common stock. Additionally, non-management directors receive an annual grant of common stock in the amount of approximately $150,000, with the number of shares to be granted based on the average closing price of CSX stock in the months of November, December and January. The following table provides information about shares issued to directors.

	Fiscal Years		
	2015	2014	2013
Shares Issued to Directors *(Thousands)*	**62**	79	105
Expense *(Millions)*	**$ 2**	$ 2	$ 2
Weighted Average Grant Date Stock Price	**$ 34.59**	$ 28.01	$ 23.12

The directors may elect to defer receipt of their fees, in accordance with Internal Revenue Code ("IRC") Section 409A. Deferred cash amounts were credited to an account and invested in a choice of eight investment selections, including a CSX common stock equivalent fund. Distributions are made in accordance with elections made by the directors, consistent with the terms of the Directors' Deferred Compensation Plan.

NOTE 5. Casualty, Environmental and Other Reserves

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

(Dollars in Millions)	Casualty Reserves	Environmental Reserves	Other Reserves	Total
December 28, 2012	$ 325	$ 88	$ 64	$ 477
Charged to Expense	54	48	38	140
Payments	(99)	(36)	(31)	(166)
December 27, 2013	280	100	71	451
Charged to Expense [(a)]	89	57	30	176
Payments	(104)	(63)	(42)	(209)
December 26, 2014	265	94	59	418
Charged to Expense	60	45	37	142
Payments	(56)	(57)	(47)	(160)
December 25, 2015	$ 269	$ 82	$ 49	$ 400

[(a)] *Increase in expense in 2014 is primarily due to the resolution of personal injury claims for prior years.*

These reserves are considered critical accounting estimates due to the need for significant management judgment. They are provided for in the consolidated balance sheets as shown in the table below.

	December 2015			December 2014		
(Dollars in Millions)	**Current**	**Long-term**	**Total**	Current	Long-term	Total
Casualty:						
Personal Injury	$ 57	$ 147	$ 204	$ 68	$ 123	$ 191
Asbestos	9	44	53	5	51	56
Occupational	3	9	12	3	15	18
Total Casualty	$ 69	$ 200	$ 269	$ 76	$ 189	$ 265
Environmental	42	40	82	48	46	94
Other	20	29	49	18	41	59
Total	$ 131	$ 269	$ 400	$ 142	$ 276	$ 418

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

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

Casualty

Casualty reserves of $265 million and $269 million for 2014 and 2015, respectively, represent accruals for personal injury, asbestos and occupational injury claims. The Company's self-insured retention amount for these claims is $50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the *Contingencies Topic* in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities. During 2015, 2014 and 2013, there were no significant changes in estimate recorded to adjust casualty reserves.

Personal Injury

Personal injury reserves represent liabilities for employee work-related and third-party injuries. Work-related injuries for CSXT employees are primarily subject to FELA. In addition to FELA liabilities, employees of other current or former CSX subsidiaries are covered by various state workers' compensation laws, the Federal Longshore and Harbor Workers' Compensation Program or the Maritime Jones Act.

CSXT retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. The methodology used by the actuary includes a development factor to reflect growth or reduction in the value of these personal injury claims. It is based largely on CSXT's historical claims and settlement experience.

Asbestos & Occupational

The Company is party to a number of asbestos claims by employees alleging exposure to asbestos in the workplace. The greatest possible exposure for employees resulted from work conducted in and around steam locomotive engines that were largely phased out beginning around the 1950s. Other types of exposures, however, including exposure from locomotive component parts and building materials, continued until these exposures were substantially eliminated by 1985. Additionally, the Company has retained liability for asbestos claims filed against its previously owned international container shipping business. Diseases associated with asbestos typically have long latency periods (amount of time between exposure to asbestos and the onset of the disease) which can range from 10 to 40 years after exposure.

Management reviews asserted asbestos claims quarterly. Since exposure to asbestos has been substantially eliminated, unasserted or incurred but not reported ("IBNR") asbestos claims are analyzed by a third-party specialist and reviewed by management annually. In 2014, management extended the forecast period from 7 years to 10 years. Based on a review of historical settlement trends, management concluded that ten years is the most probable time period in which unasserted asbestos claim filings and claim values can be estimated. The Company does not believe there is sufficient data to justify a projection period longer than 10 years at this time. The change in the forecast period resulted in an immaterial increase in the asbestos reserves during 2014. Approximately 20% of the recorded undiscounted liability is related to asserted claims and approximately 80% is related to unasserted claims as of December 25, 2015.

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

CSXT's historical claim filings, settlement amounts, and dismissal rates are analyzed to determine future anticipated claim filing rates and average settlement values for asbestos claims reserves. The potentially exposed population is estimated by using CSXT's employment records and industry data. From this analysis, the specialist estimates the IBNR claims liabilities.

Occupational claims arise from allegations of exposure to certain materials in the workplace, such as solvents, soaps, chemicals (collectively referred to as "irritants") and diesel fuels (like exhaust fumes) or allegations of chronic physical injuries resulting from work conditions, such as repetitive stress injuries, carpal tunnel syndrome and hearing loss.

A summary of asbestos claims activity is as follows:

	Fiscal Years	
	2015	2014
Asserted Asbestos Claims		
Open Claims - Beginning of Year	**177**	251
New Claims Filed	**77**	106
Claims Settled	**(64)**	(95)
Claims Dismissed	**(30)**	(85)
Open Claims - End of Year	**160**	177

Environmental

Environmental reserves were $94 million and $82 million for 2014 and 2015, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 242 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

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

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

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

Other

Other reserves of $59 million and $49 million for 2014 and 2015, respectively, include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

NOTE 6. Properties

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

(Dollars in Millions) **December 2015**	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
Road						
Rail and Other Track Material	$ 7,150	$ (1,414)	$ 5,736	2.5%	Group Life	
Ties	5,077	(1,147)	3,930	3.7%	Group Life	
Grading	2,533	(479)	2,054	1.4%	Group Life	
Ballast	2,793	(802)	1,991	2.7%	Group Life	
Bridges, Trestles, and Culverts	2,238	(283)	1,955	1.6%	Group Life	
Signals and Interlockers	2,315	(416)	1,899	4.0%	Group Life	
Buildings	1,152	(424)	728	2.5%	Group Life	
Other	4,306	(1,793)	2,513	4.2%	Group Life	
Total Road	27,564	(6,758)	20,806			8-90 Years
Equipment						
Locomotive	5,673	(2,461)	3,212	3.6%	Group Life	
Freight Cars	3,362	(1,018)	2,344	3.2%	Group Life	
Work Equipment and Other	2,073	(1,154)	919	7.1%	Group Life	
Total Equipment	11,108	(4,633)	6,475			3-38 Years
Land	1,858	—	1,858	N/A	N/A	N/A
Construction In Progress	1,003	—	1,003	N/A	N/A	N/A
Other	41	(9)	32	N/A	Straight Line	4-30 Years
Total Properties	$ 41,574	$ (11,400)	$ 30,174			

NOTE 6. Properties, *continued*

(Dollars in Millions) **December 2014**	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Depreciation Method	Estimated Useful Life
Road						
Rail and Other Track Material	$ 6,771	$ (1,400)	$ 5,371	2.5%	Group Life	
Ties	4,807	(1,060)	3,747	3.7%	Group Life	
Grading	2,460	(481)	1,979	1.4%	Group Life	
Ballast	2,693	(679)	2,014	2.7%	Group Life	
Bridges, Trestles, and Culverts	2,119	(278)	1,841	1.6%	Group Life	
Signals and Interlockers	2,103	(356)	1,747	4.0%	Group Life	
Buildings	1,102	(377)	725	2.5%	Group Life	
Other	4,070	(1,517)	2,553	4.2%	Group Life	
Total Road	26,125	(6,148)	19,977			8-90 Years
Equipment						
Locomotive	5,036	(2,325)	2,711	3.6%	Group Life	
Freight Cars	3,244	(1,169)	2,075	3.2%	Group Life	
Work Equipment and Other	1,828	(1,032)	796	7.1%	Group Life	
Total Equipment	10,108	(4,526)	5,582			3-38 Years
Land	1,875	—	1,875	N/A	N/A	N/A
Construction In Progress	1,196	—	1,196	N/A	N/A	N/A
Other	39	(85)	(46)	N/A	Straight Line	4-30 Years
Total Properties	$ 39,343	$ (10,759)	$ 28,584			

Railroad Assets

The Company depreciates its rail assets, including main-line track, locomotives and freight cars, using the group-life method of accounting. Assets depreciated under the group-life method of accounting comprise 86% of total fixed assets of $42 billion on a gross basis as of December 2015. All other depreciable assets of the Company are depreciated on a straight-line basis. The group-life method aggregates assets with similar lives and characteristics into groups and depreciates each of these groups as a whole. When using the group-life method, an underlying assumption is that each group of assets, as a whole, is used and depreciated to the end of its recoverable life.

The Company currently utilizes more than 130 different depreciable asset categories to account for depreciation expense for the railroad assets that are depreciated under the group-life method of accounting. Examples of depreciable asset categories include 18 different categories for crossties due to the different combinations of density classifications and asset types. By utilizing various depreciable categories, the Company can more accurately account for the use of its assets. All assets of the Company are depreciated on a time or life basis.

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

NOTE 6. Properties, *continued*

Under the group-life method of accounting, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study (also referred to as a life study) is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company's management and approved by the Surface Transportation Board ("STB"), the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed for equipment assets generally every three years and for road (e.g. bridges and signals) and track (e.g. rail, ties and ballast) assets generally every six years. The Company believes the frequency currently required by the STB provides adequate review of asset service lives and that a more frequent review would not result in a material change due to the long-lived nature of most of the assets. In 2014, the Company completed a depreciation study for its road and track assets. In 2012, the Company completed a depreciation study for its equipment assets and a technical update (an update to the prior depreciation study) for its road and track assets. The Company plans to complete the next depreciation study for road and track assets in 2020 and for equipment assets in 2016.

The results of the depreciation study process determine the service lives for each asset group under the group-life method. Road assets, including main-line track, have estimated service lives ranging from eight years for system roadway machinery to 90 years for grading (construction of protection for the roadway, tracks and embankments). Equipment assets, including locomotives and freight cars, have estimated service lives ranging from three years for technology assets to 38 years for work equipment. Changes in asset service lives due to the results of the depreciation studies are applied on a prospective basis and could significantly impact future periods' depreciation expense, and thus, the Company's results of operations.

There are several factors taken into account during the depreciation study and they include:

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

NOTE 6. Properties, *continued*

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

Since the rail network is one contiguous, connected network it is impractical to maintain specific identification records for these assets. For road assets (such as rail and track related items), CSX utilizes a first-in, first-out approach to asset retirements. The historical cost of these replaced assets is estimated using inflation indices published by the Bureau of Labor Statistics applied to the replacement value based on the age of the retired asset. The indices are used because they closely correlate with the major cost of the materials comprising the applicable road assets.

Equipment assets (such as locomotives and freight cars) are specifically identified at retirement. When an equipment asset is retired that has been depreciated using the group-life method, the cost is reduced from the cost base and recorded in accumulated depreciation.

In the event that large groups of assets are removed from service as a result of unusual acts or sales, resulting gains and losses are recognized immediately. These acts are not considered to be in the normal course of business and are therefore recognized when incurred. Examples of such acts would be the major destruction of assets due to significant storm damage (e.g. major hurricanes), the sale of a rail line segment or the disposal of an entire class of assets (e.g. disposal of all refrigerated freight cars). Abnormal operating gains were $23 million in 2015 primarily related to the sale of an operating rail line segment. There were no abnormal operating gains or losses in 2014. Abnormal operating gains of $65 million in 2013 were related to a deferred gain from the 2011 sale of an operating rail line segment as well as a non-monetary exchange of easements and rail assets.

Recent experience with depreciation studies has resulted in depreciation rate changes, which did not materially affect the Company’s annual depreciation expense of $1.2 billion, $1.2 billion and $1.1 billion for 2015, 2014 and 2013, respectively. In general, changes in depreciation rates result from updated average asset service lives as determined during depreciation studies.

Non-Railroad Assets, Capital Leases and Land

The majority of non-railroad property is depreciated using the straight-line method on a per asset basis. The depreciable lives of this property are periodically reviewed by the Company and any changes are applied on a prospective basis. Amortization expense recorded under capital leases is included in depreciation expense on the consolidated income statements. For retirements or disposals of non-railroad depreciable assets and all dispositions of land, the resulting gains or losses are recognized in earnings at the time of disposal. During 2015, the Company recognized a gain of $59 million related to the sale of non-operating easements, which is recognized in other income on the consolidated statements of income. (For additional information regarding cost reimbursements related to this sale, see Note 10, Other Income.) These gains and losses were not material for any other period presented.

NOTE 6. Properties, *continued*

Impairment Review

Properties and other long-lived assets are reviewed for impairment annually or whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets in accordance with the *Property, Plant, and Equipment Topic* in the ASC. Where impairment is indicated, the assets are evaluated and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value.

Capital Expenditures

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

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

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

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

NOTE 6. Properties, *continued*

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

NOTE 7. Commitments and Contingencies

Lease Commitments

The Company has various lease agreements with other parties with terms up to 30 years. Non-cancelable, long-term leases may include provisions for maintenance, options to purchase and options to extend the terms. The Company uses the straight-line method to recognize rent expense associated with operating leases that include escalations over their terms. These amounts are shown in the table below.

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Rent Expense on Operating Leases	**$ 66**	$ 61	$ 60

At December 2015, minimum rentals on land, buildings, track and equipment under operating leases are disclosed in the table below. Also, payments to Conrail for leases on shared rail infrastructure are included in these amounts. (See Note 12, Related Party Transactions).

(Dollars in Millions) **Years**	**Operating Leases**	**Sublease Income**	**Net Lease Commitments**
2016	$ 76	$ (3)	$ 73
2017	69	(3)	66
2018	55	(2)	53
2019	53	(2)	51
2020	35	(2)	33
Thereafter	167	(8)	159
Total	$ 455	$ (20)	$ 435

Purchase Commitments

CSXT has a commitment under a long-term maintenance program that currently covers 50% of CSXT's fleet of locomotives. The agreement is based on the maintenance cycle for each locomotive. Under CSXT's current obligations, the agreement will expire no earlier than 2031. The costs expected to be incurred throughout the duration of the agreement fluctuate as locomotives are placed into or removed from service, or as required maintenance schedules are revised. The table below includes both active and inactive locomotives covered under this agreement.

NOTE 7. Commitments and Contingencies, *continued*

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

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Amounts Paid	**$ 233**	$ 247	$ 287
Number of Locomotives	**2,310**	1,886	1,886

Annual payments related to the locomotive purchase obligations, including amounts that would be payable under the long-term maintenance program, are estimated in the table below. The amount of the ultimate purchase commitment depends upon the model of locomotive acquired and the timing of delivery.

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

(Dollars in Millions)	**Locomotive & Maintenance Payments**	**Other Commitments**	**Total**
2016	$ 570	$ 110	$ 680
2017	561	74	635
2018	287	20	307
2019	306	17	323
2020	316	12	328
Thereafter	4,515	64	4,579
Total	$ 6,555	$ 297	$ 6,852

Insurance

The Company maintains numerous insurance programs with substantial limits for property damage (which includes business interruption) and third-party liability. A certain amount of risk is retained by the Company on each of the property and liability programs. The Company has a $25 million retention per occurrence for the non-catastrophic property program (such as a derailment) and a $50 million retention per occurrence for the liability and catastrophic property programs (such as hurricanes and floods). While the Company believes its insurance coverage is adequate, future claims could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates.

NOTE 7. Commitments and Contingencies, *continued*

Legal

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

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be $2 million to $78 million in aggregate at December 25, 2015. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Fuel Surcharge Antitrust Litigation

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

In June 2012, the District Court certified the case as a class action. The decision was not a ruling on the merits of plaintiffs' claims, but rather a decision to allow the plaintiffs to seek to prove the case as a class. The defendant railroads petitioned the U.S. Court of Appeals for the D.C. Circuit for permission to appeal the District Court's class certification decision. In August 2013, the D.C. Circuit issued a decision vacating the class certification decision and remanded the case to the District Court to reconsider its class certification decision. The District Court remand proceedings are underway. Although a class certification hearing had been scheduled for November 2015, it has been postponed pending the U.S. Supreme Court's decision on a class certification issue in an unrelated case. The District Court has delayed proceedings on the merits of the case pending the outcome of the class certification remand proceedings.

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

NOTE 7. Commitments and Contingencies, *continued*

Environmental

CSXT has indemnified Pharmacia LLC (formerly known as Monsanto Company) for certain liabilities associated with real estate located in Kearny, New Jersey along the Lower Passaic River (the “Property”). The Property, which was formerly owned by Pharmacia, is now owned by CSXT. CSXT's indemnification and defense duties arise with respect to several matters. CSXT, on behalf of Pharmacia, is conducting a Remedial Investigation and Feasibility Study of the 17-mile Lower Passaic River Study Area with approximately 55 other parties pursuant to an Administrative Settlement Agreement and Order on Consent with the U.S. Environmental Protection Agency ("EPA"). The EPA, using its CERCLA authority, seeks cleanup and removal costs and other damages associated with the presence of hazardous substances in the Lower Passaic River Study Area. In April 2014, the EPA announced its proposed plan to remediate the lower 8 miles of the Lower Passaic River, which was based on a Focused Feasibility Study. After review of public comments, EPA is expected to issue its cleanup plan for the lower eight miles of the Lower Passaic River in 2016.

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

NOTE 8. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. For employees hired prior to January 1, 2003, the plans provide eligible employees with retirement benefits based predominantly on years of service and compensation rates near retirement. For employees hired in 2003 or thereafter, benefits are determined based on a cash balance formula, which provides benefits by utilizing interest and pay credits based upon age, service and compensation.

In addition to these plans, the Company sponsors a post-retirement medical plan and a life insurance plan that provide benefits to full-time, salaried, management employees, hired prior to January 1, 2003, upon their retirement if certain eligibility requirements are met. Eligible retirees who are age 65 years or older (Medicare-eligible) are covered by a health reimbursement arrangement, which is an employer-funded account that can be used for reimbursement of eligible medical expenses. Eligible retirees younger than 65 years (non-Medicare eligible) are covered by a self-insured program partially funded by participating retirees. The life insurance plan is non-contributory.

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company selects. These amounts are reviewed by management. In order to perform this valuation, the actuaries are provided with the details of the population covered at the beginning of the year, summarized in the table below, and projects that population forward to the end of the year.

NOTE 8. Employee Benefit Plans, *continued*

	Summary of Participants as of January 1, 2015	
	Pension Plans	**Post-retirement Medical Plan**
Active Employees	5,234	1,212
Retirees and Beneficiaries	11,777	12,957
Other[(a)]	3,781	69
Total	20,792	14,238

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

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

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

Cash Flows

Plan assets are amounts that have been segregated and restricted to provide qualified pension plan benefits and include amounts contributed by the Company and amounts earned from invested contributions, net of benefits paid. Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company funds the cost of the post-retirement medical and life insurance benefits as well as nonqualified pension benefits on a pay-as-you go basis. No contributions were made during 2013, 2014 and 2015. No contributions to the Company's qualified pension plans are expected in 2016.

Future expected benefit payments are as follows:

	Expected Cash Flows	
(Dollars in Millions)	**Pension Benefits**	**Post-retirement Benefits**
2016	$ 187	$ 36
2017	188	34
2018	188	31
2019	183	29
2020	183	27
2021-2025	917	107
Total	$ 1,846	$ 264

NOTE 8. Employee Benefit Plans, *continued*

Plan Assets

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

	December 2015		December 2014	
(Dollars in Millions)	**Amount**	**Percent of Total Assets**	Amount	Percent of Total Assets
Equity	**$ 1,626**	**70%**	$ 1,715	68%
Fixed Income	**641**	**28**	740	30
Cash and Cash Equivalents	**42**	**2**	49	2
Total	**$ 2,309**	**100%**	$ 2,504	100%

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

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

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

NOTE 8. Employee Benefit Plans, *continued*

Benefit Obligation, Plan Assets and Funded Status

Changes in benefit obligation and the fair value of plan assets for the 2015 and 2014 calendar plan years are as follows:

	Pension Benefits		Post-retirement Benefits	
(Dollars in Millions)	**Plan Year 2015**	Plan Year 2014	**Plan Year 2015**	Plan Year 2014
Actuarial Present Value of Benefit Obligation				
Accumulated Benefit Obligation	**$ 2,672**	$ 2,849	**N/A**	N/A
Projected Benefit Obligation	**2,860**	3,002	**$ 314**	$ 340
Change in Projected Benefit Obligation:				
Projected Benefit Obligation at Beginning of Plan Year	**$ 3,002**	$ 2,679	**$ 340**	$ 350
Service Cost	**45**	44	**2**	3
Interest Cost	**116**	123	**12**	13
Plan Participants' Contributions	**—**	—	**7**	7
Workforce Reduction Program/Curtailment	**7**	27	**—**	8
Actuarial Loss (Gain)	**(110)**	333	**(7)**	(8)
Benefits Paid	**(200)**	(204)	**(40)**	(33)
Benefit Obligation at End of Plan Year	**$ 2,860**	$ 3,002	**$ 314**	$ 340
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Plan Year	**$ 2,504**	$ 2,500	**$ —**	$ —
Actual Return on Plan Assets	**(9)**	195	**—**	—
Non-qualified Employer Contributions	**14**	13	**33**	26
Plan Participants' Contributions	**—**	—	**7**	7
Benefits Paid	**(200)**	(204)	**(40)**	(33)
Fair Value of Plan Assets at End of Plan Year	**2,309**	2,504	**—**	—
Funded Status at End of Plan Year	**$ (551)**	$ (498)	**$ (314)**	$ (340)

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

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

NOTE 8. Employee Benefit Plans, *continued*

	Pension Benefits		Post-retirement Benefits	
(Dollars in Millions)	**December 2015**	December 2014	**December 2015**	December 2014
Amounts Recorded in Consolidated Balance Sheets:				
Long-term Assets [(a)]	**$ 9**	$ 9	**$ —**	$ —
Current Liabilities	**(15)**	(15)	**(36)**	(37)
Long-term Liabilities	**(545)**	(492)	**(278)**	(303)
Net Amount Recognized in Consolidated Balance Sheets	**$ (551)**	$ (498)	**$ (314)**	$ (340)

(a) Long-term assets as of December 2015 and 2014 relate to one of the qualified pension plans whose assets exceed projected benefit obligations.

The funded status, or amount by which the benefit obligation exceeds the fair value of plan assets, represents a liability. At December 2015, the status of CSX plans only with a net liability is disclosed below. The total fair value of all plans as of December 2015 was $2.3 billion, which includes the qualified pension plans with net assets.

(Dollars in Millions) **Benefit Obligations in Excess of Plan Assets**	**Aggregate Fair Value of Plan Assets**	**Aggregate Projected Benefit Obligation**
Projected Benefit Obligation	$ 2,273	$ (2,833)
Accumulated Benefit Obligation	2,273	(2,645)

NOTE 8. Employee Benefit Plans, *continued*

Net Benefit Expense

The following table describes the components of expense/(income) related to net benefit expense recorded in labor and fringe on the income statement.

	Pension Benefits Fiscal Years			Post-retirement Benefits Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013	**2015**	2014	2013
Service Cost	**$ 45**	$ 44	$ 49	**$ 2**	$ 3	$ 3
Interest Cost	**116**	123	108	**12**	13	13
Expected Return on Plan Assets	**(162)**	(166)	(162)	**—**	—	—
Amortization of Net Loss	**70**	57	100	**4**	5	14
Amortization of Prior Service Cost	**—**	—	—	**(1)**	(1)	(1)
Net Periodic Benefit Expense	**69**	58	95	**17**	20	29
Special Termination Benefits - Workforce Reduction Program/ Curtailment[(a)]	**7**	27	—	**—**	8	—
Settlement Gain[(b)]	**(2)**	(1)	(2)	**—**	—	—
Total Expense	**$ 74**	$ 84	$ 93	**$ 17**	$ 28	$ 29

(a) Special termination benefits are charges in 2015 and 2014 that resulted from a management workforce reduction program initiated in 2014. For further information regarding the program, see Note 1. Nature of Operations and Significant Accounting Policies.

(b) Settlement gains were recognized as one of the pension plan's lump-sum payments to retirees with insignificant balances exceeded the sum of the service cost and interest cost recognized. The gain is the recognition of a portion of its accumulated other comprehensive income related to that plan.

Pension and Other Post-Employment Benefits Adjustments

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

(Dollars in Millions)	Pension Benefits		Post-retirement Benefits	
Components of Other Comprehensive Loss (Income)	**December 2015**	December 2014	**December 2015**	December 2014
Recognized in the balance sheet				
Losses (Gains)	**$ 60**	$ 305	**$ (7)**	$ (8)
Expense (Income) recognized in the income statement				
Amortization of net losses [(a)]	**$ 70**	$ 57	**$ 4**	$ 5
Settlement gain	**(2)**	(1)	**—**	—
Amortization of prior service costs	**—**	—	**(1)**	(1)

(a) Amortization of net losses estimated to be expensed for 2016 is approximately $48 million and $2 million for pension benefits and post-retirement benefits, respectively.

NOTE 8. Employee Benefit Plans, *continued*

As of December 2015, the balances of pre-tax amounts to be amortized that are included in accumulated other comprehensive loss (a component of shareholders' equity) are as follows:

	Pension Benefits	Post-retirement Benefits
Losses	$ 900	$ 49
Prior Service Costs (Credits)	—	—
Total	$ 900	$ 49

Assumptions

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

Weighted-average assumptions used in accounting for the plans were as follows:

	Pension Benefits		Post-retirement Benefits	
	2015	2014	**2015**	2014
Expected Long-term Return on Plan Assets:				
Benefit Cost for Plan Year	**7.25%**	7.50%	**N/A**	N/A
Benefit Obligation at End of Plan Year	**7.00%**	7.25%	**N/A**	N/A
Discount Rates:				
Benefit Cost for Plan Year	**4.00%**	4.75%	**3.60%**	4.25%
Benefit Obligation at End of Plan Year	**4.30%**	4.00%	**3.85%**	3.60%
Salary Scale Inflation	**4.60%**	4.10%	**N/A**	N/A

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

Other Plans

Under collective bargaining agreements, the Company participates in a multi-employer benefit plan, which provides certain post-retirement health care and life insurance benefits to eligible contract employees. Premiums under this plan are expensed as incurred and amounted to $32 million, $37 million and $41 million in 2015, 2014 and 2013, respectively.

The Company maintains savings plans for virtually all full-time salaried employees and certain employees covered by collective bargaining agreements. Expense associated with these plans was $36 million, $41 million and $37 million for 2015, 2014 and 2013, respectively.

NOTE 9. Debt and Credit Agreements

Debt at December 2015 and December 2014 is shown in the table below. For information regarding the fair value of debt, see Note 13, Fair Value Measurements.

(Dollars in Millions)	**Maturity at December 2015**	**Average Interest Rates at December 2015**	**December 2015**	December 2014
Notes	2017-2054	5.2%	**$ 10,445**	$ 9,456
Equipment Obligations[(a)]	2016-2023	6.3%	**250**	277
Capital Leases	2016-2026	15.0%	**7**	8
Convertible Debentures	2021	1.0%	**1**	1
Subtotal Long-term Debt (including current portion)			**$ 10,703**	$ 9,742
Less Debt Due within One Year			**(20)**	(228)
Long-term Debt (excluding current portion)			**$ 10,683**	$ 9,514

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

Debt Issuance & Early Redemption of Long-term Debt

During 2015, CSX issued $600 million of 3.95% notes due 2050 and $600 million of 3.35% notes due 2025. These notes are included in the consolidated balance sheets under long-term debt and may be redeemed by the Company at any time at the applicable redemption premium. Proceeds were used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions at CSX's major transportation units.

During 2014, CSX issued $550 million of 3.40% notes due 2024 and $450 million of 4.50% notes due 2054. The net proceeds of the 2014 issuances were used to redeem $263 million of CSXT's 8.375% secured equipment obligations that otherwise would have matured on October 15, 2014 and $400 million of CSX Corporation's 6.25% unsecured notes that otherwise would have matured April 1, 2015. Proceeds were used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, working capital requirements, improvements in productivity and other cost reductions at CSX's major transportation units. CSX recognized $16 million of other expense in 2014 for the early redemption premium related to $663 million of note repayments. For more information regarding a non-cash debt transaction with a related party, see Note 12. Related Party Transactions.

Long-term Debt Maturities

(Dollars in Millions) **Fiscal Years Ending**	**Maturities as of December 2015**
2016	$ 20
2017	632
2018	619
2019	518
2020	745
Thereafter	8,169
Total Long-term Debt Maturities (including current portion)	$ 10,703

NOTE 9. Debt and Credit Agreements, *continued*

Credit Facilities

During 2015, CSX replaced its existing $1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks which was set to expire in September 2016. This new facility expires in May 2020, and as of the date of this filing, the Company has no outstanding balances under this facility. The facility allows borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds.

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. At December 2015, CSX was in compliance with all covenant requirements under the facilities.

Receivables Securitization Facility

The Company has a receivables securitization facility with a three-year term expiring in June 2017. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity of up to $250 million, depending on eligible receivables balances. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, LLC ("CSX Trade Receivables"), a bankruptcy-remote special purpose subsidiary. A separate subsidiary of CSX services the receivables. Upon transfer, the receivables become assets of CSX Trade Receivables and are not available to the creditors of CSX or any of its other subsidiaries. In the event CSX Trade Receivables draws under this facility, the Company will record an equivalent amount of debt on its consolidated financial statements. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 10. Other Income - Net

The Company derives income from items that are not considered operating activities. Income from these items is reported net of related expense. Income from real estate operations includes the results of the Company’s non-operating real estate sales, leasing, acquisition and management and development activities and may fluctuate as a function of timing of real estate sales. Miscellaneous income (expense) includes equity earnings or losses, investment gains and losses and other non-operating activities and may fluctuate due to timing. Other income – net consisted of the following:

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Interest Income	**$ 6**	$ 5	$ 8
Income from Real Estate Operations [(a)]	**83**	23	23
Miscellaneous Income (Expense) [(b)]	**9**	(52)	(20)
Total Other Income (Expense) - Net	**$ 98**	$ (24)	$ 11
Gross Revenue from Real Estate Operations included above	**$ 104**	$ 47	$ 48

(a) Income from real estate operations increased from 2014 to 2015 primarily due to a $59 million gain on a sale of non-operating easements. For additional information, see Note 6, Properties.

(b) Miscellaneous income increased from 2014 to 2015 primarily due to a reimbursement of environmental costs of $21 million related to the sale above. Additionally, 2015 environmental costs were $21 million lower than 2014, and prior year costs of $16 million associated with the early redemption of long-term debt did not repeat in the current year.

NOTE 11. Income Taxes

Earnings before income taxes of $3.1 billion, $3.0 billion and $2.9 billion for fiscal years 2015, 2014 and 2013, respectively, represent earnings from domestic operations. The breakdown of income tax expense between current and deferred is as follows:

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Current:			
Federal	**$ 619**	$ 729	$ 671
State	**95**	90	87
Subtotal Current	**714**	819	758
Deferred:			
Federal	**414**	291	285
State	**42**	7	15
Subtotal Deferred	**456**	298	300
Total	**$ 1,170**	$ 1,117	$ 1,058

Income tax expense reconciled to the tax computed at statutory rates is presented in the table below. The Company recorded a tax benefit of $4 million, $31 million and $42 million in 2015, 2014 and 2013, respectively, primarily as a result of federal and state legislative changes as well as the resolution of other federal and state tax matters. Each year's benefit is included in the state income tax and other lines in the table below.

	Fiscal Years					
(Dollars In Millions)	**2015**		2014		2013	
Federal Income Taxes	**$ 1,098**	**35.0 %**	$ 1,066	35.0 %	$ 1,023	35.0 %
State Income Taxes	**86**	**2.7 %**	61	2.0 %	65	2.2 %
Other	**(14)**	**(0.4)%**	(10)	(0.3)%	(30)	(1.0)%
Income Tax Expense/Rate	**$ 1,170**	**37.3 %**	$ 1,117	36.7 %	$ 1,058	36.2 %

In September 2013, the IRS issued final regulations governing the income tax treatment of the acquisition, disposition and repair of tangible property. The regulations were effective beginning in 2014. These new regulations did not have a material impact on the financial statements.

The significant components of deferred income tax assets and liabilities include:

	2015		2014	
(Dollars in Millions)	**Assets**	**Liabilities**	Assets	Liabilities
Pension Plans	**$ 207**	**$ —**	$ 188	$ —
Other Employee Benefit Plans	**258**	**—**	306	—
Accelerated Depreciation	**—**	**9,614**	—	9,133
Other	**261**	**291**	256	334
Total	**$ 726**	**$ 9,905**	$ 750	$ 9,467
Net Deferred Income Tax Liabilities		**$ 9,179**		$ 8,717

NOTE 11. Income Taxes, *continued*

The primary factors in the change in year-end net deferred income tax liability balances include:

- annual provision for deferred income tax expense and
- accumulated other comprehensive loss.

The Company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. Income tax incurred on the operations of the Company are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. CSX participated in a contemporaneous IRS audit of tax year 2015. Federal examinations of original federal income tax returns for all years through 2014 are resolved.

As of December 2015, 2014 and 2013, the Company had approximately $23 million, $21 million and $23 million, respectively, of total unrecognized tax benefits. Net tax benefits of $15 million, $13 million and $15 million in 2015, 2014 and 2013, respectively, could favorably impact the effective income tax rate in each year. The Company does not expect that unrecognized tax benefits as of December 2015 for various state and federal income tax matters will significantly change over the next 12 months. The final outcome of these uncertain tax positions is not yet determinable. The change to the total gross unrecognized tax benefits and prior year audit resolutions of the Company during the fiscal year ended December 2015 is reconciled in the table below.

Uncertain Tax Positions:	**Fiscal Year**		
(Dollars in Millions)	**2015**	2014	2013
Balance at beginning of the year	**$ 21**	$ 23	$ 24
Additions based on tax positions related to current year	**1**	2	2
Additions based on tax positions related to prior years	**4**	3	5
Reductions based on tax positions related to prior years	**—**	—	(6)
Settlements with taxing authorities	**1**	—	—
Lapse of statute of limitations	**(4)**	(7)	(2)
Balance at end of the year	**$ 23**	$ 21	$ 23

CSX's continuing practice is to recognize net interest and penalties related to income tax matters in income tax expense. Included in the consolidated income statements are expense of $2 million in 2015, expense of $1 million in 2014 and benefits of $1 million in 2013, respectively, for changes to reserves for interest and penalties for all prior year tax positions. The Company had $4 million, $1 million and $2 million accrued for interest and penalties at 2015, 2014 and 2013, respectively, for all prior year tax positions.

NOTE 12. Related Party Transactions

Conrail

Through a limited liability company, CSX and Norfolk Southern Corporation ("NS") jointly own Conrail. CSX has a 42% economic interest and 50% voting interest in the jointly-owned entity, and NS has the remainder of the economic and voting interests. Pursuant to the *Investments-Equity Method and Joint Venture Topic* in the ASC, CSX applies the equity method of accounting to its investment in Conrail.

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

(Dollars in Millions) **Years**	**Conrail Shared Asset Agreement**
2016	$ 26
2017	26
2018	26
2019	26
2020	26
Thereafter	98
Total	$ 228

Also, included in materials, supplies and other are CSX's 42% share of Conrail's income and its amortization of the fair value write-up arising from the acquisition of Conrail and certain other adjustments. The amortization primarily represents the additional after-tax depreciation expense related to the write-up of Conrail's fixed assets when the original purchase price, from the 1997 acquisition of Conrail, was allocated based on fair value. This write-up of fixed assets resulted in a difference between CSX's investment in Conrail and its share of Conrail's underlying net equity, which is $353 million as of December 2015.

The following table details the related Conrail amounts included in materials, supplies and other in the Company's consolidated income statements:

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Rents, fees and services	**$ 123**	$ 124	$ 115
Purchase price amortization and other	**4**	4	4
Equity earnings of Conrail	**(33)**	(31)	(35)
Total Conrail Expense	**$ 94**	$ 97	$ 84

NOTE 12. Related Party Transactions, *continued*

As required by the *Related Party Disclosures Topic* in the ASC, the Company has identified amounts below owed to Conrail, or its subsidiaries, representing liabilities under the operating, equipment and shared area agreements with Conrail. The Company also executed two promissory notes with a subsidiary of Conrail which were included in long-term debt on the consolidated balance sheets. Interest expense from these promissory notes was $6 million, $3 million and $4 million for 2015, 2014 and 2013, respectively.

(Dollars in Millions)	**December 2015**	December 2014
Balance Sheet Information:		
CSX payable to Conrail	**$ 65**	$ 54
Promissory notes payable to Conrail subsidiary		
2.89% CSX promissory note due October 2044	**73**	73
2.89% CSXT promissory note due October 2044	**151**	151

In October 2014, the Company converted its existing short term payable balance of approximately $125 million for operation of the shared asset area as well as its $23 million, 4.52% note due 2035 and its $73 million, 4.40% note due 2035 plus accrued interest of $3 million, into $224 million, 2.89% notes due 2044. The transaction was non-cash in nature.

TTX Company

TTX Company ("TTX") is a privately-held corporation engaged in the business of providing its owner-railroads with standardized fleets of intermodal, automotive and general use railcars at time and mileage rates. CSX owns about 20% of TTX's common stock, and the remaining is owned by the other leading North American railroads and their affiliates. CSX's investment in TTX is $443 million and is included in affiliates and other companies in the consolidated balance sheet. Pursuant to the *Investments-Equity Method* topic in the ASC, CSX applies the equity method of accounting to its investment in TTX.

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

	Fiscal Years		
(Dollars in Millions)	**2015**	2014	2013
Income statement information:			
Car hire rents	**$ 218**	$ 207	$ 180
Equity earnings of TTX	**(20)**	(21)	(13)
Total TTX expense	**$ 198**	$ 186	$ 167

	December 2015	December 2014
Balance sheet information:		
CSX payable to TTX	**$ 40**	$ 35

NOTE 13. Fair Value Measurements

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

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

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

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

Investments

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

- *Certificates of Deposit and Commercial Paper (Level 2):* Valued at amortized cost, which approximates fair value.

- *Corporate Bonds and Government Securities (Level 2):* Valued using broker quotes that utilize observable market inputs.

- *Auction Rate Securities (Level 3):* Valued using pricing models for which the assumptions utilize management's estimates of market participant assumptions, because there is currently no active market for trading.

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the table below. Additionally, the amortized cost basis of these investments was $920 million and $453 million as of December 25, 2015 and December 26, 2014, respectively.

NOTE 13. Fair Value Measurements, *continued*

	Fiscal Years							
	2015				2014			
(Dollars in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	**$ —**	**$ 810**	**$ —**	**$ 810**	$ —	$ 250	$ —	$ 250
Corporate Bonds	**—**	**73**	**—**	**73**	—	141	—	141
Government Securities	**—**	**32**	**—**	**32**	—	51	—	51
Auction Rate Securities	**—**	**—**	**4**	**4**	—	—	11	11
Total investments at fair value	**$ —**	**$ 915**	**$ 4**	**$ 919**	$ —	$ 442	$ 11	$ 453

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

(Dollars in Millions)	**December 2015**	December 2014
Less than 1 year	**$ 810**	$ 292
1 - 2 years	**9**	45
2 - 5 years	**27**	100
Greater than 5 years	**73**	16
Total investments at fair value	**$ 919**	$ 453

Long-term Debt

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

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

NOTE 13. Fair Value Measurements, *continued*

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

(Dollars in Millions)	**December 2015**	December 2014
Long-term Debt (Including Current Maturities):		
Fair Value	**$ 11,340**	$ 11,042
Carrying Value	**10,703**	9,742

Pension Plan Assets

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

Investments in the fair value hierarchy

- *Common stock (Level 1):* Valued at the closing price reported on the active market on which the individual securities are traded on the last day of the year and classified in level 1 of the fair value hierarchy

- *Mutual funds (Level 1)*: Valued at the net asset value of shares held at year end based on quoted market prices determined in an active market. These assets are classified in level 1 of the fair value hierarchy.

- *Corporate bonds, government securities, asset-backed securities and derivatives (Level 2):* Valued using price evaluations reflecting the bid and/or ask sides of the market for a similar investment at year end. Asset-backed securities include commercial mortgage-backed securities and collateralized mortgage obligations. These assets are classified in level 2 of the fair value hierarchy.

Investments measured at net asset value

- *Partnerships:* Net asset value of private equity is based on the fair market values associated with the underlying investments at year end. These funds have redemption restrictions that require advanced notice of 15 business days.

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

The pension plan assets at fair value by level, within the fair value hierarchy, as of calendar plan years 2015 and 2014 are shown in the table below. For additional information related to pension assets, see Note 8, Employee Benefit Plans.

NOTE 13. Fair Value Measurements, *continued*

	Fiscal Years							
	2015				2014			
(Dollars in Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Common Stock	**$ 738**	**$ —**	**$ —**	**$ 738**	$ 787	$ —	$ —	$ 787
Mutual funds	**15**	**—**	**—**	**15**	20	—	—	20
Cash equivalents	**8**	**—**	**—**	**8**	1	—	—	1
Corporate bonds	**—**	**480**	**—**	**480**	—	539	—	539
Government securities	**—**	**132**	**—**	**132**	—	164	—	164
Asset-backed securities	**—**	**14**	**—**	**14**	—	15	—	15
Derivatives and other	**—**	**6**	**—**	**6**	—	2	—	2
Total investments in the fair value hierarchy	**$ 761**	**$ 632**	**$ —**	**$ 1,393**	$ 808	$ 720	$ —	$ 1,528
Investments measured at net asset value [(a)]	**n/a**	**n/a**	**n/a**	**$ 916**	n/a	n/a	n/a	$ 976
Investments at fair value	**$ 761**	**$ 632**	**$ —**	**$ 2,309**	**$ 808**	**$ 720**	**$ —**	**$ 2,504**

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

NOTE 14. Other Comprehensive Income / (Loss)

CSX reports comprehensive earnings or loss in accordance with the *Comprehensive Income Topic* in the ASC in the Consolidated Comprehensive Income Statement. Total comprehensive earnings are defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (e.g. issuance of equity securities and dividends). Generally, for CSX, total comprehensive earnings equal net earnings plus or minus adjustments for pension and other post-retirement liabilities. Total comprehensive earnings represent the activity for a period net of tax and were $2.0 billion, $1.8 billion and $2.3 billion for 2015, 2014 and 2013, respectively.

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

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

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

(Dollars in millions)	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
Balance December 28, 2012 - Net of Tax	$ (851)	$ (85)	$ (936)
Other Comprehensive Income			
Income Before Reclassifications	510	24	534
Amounts Reclassified to Net Earnings	111	(2)	109
Tax (Expense) Benefit	(232)	2	(230)
Total Other Comprehensive Income	389	24	413
Balance December 27, 2013 - Net of Tax	(462)	(61)	(523)
Other Comprehensive (Loss) Income			
(Loss) Income Before Reclassifications	(297)	4	(293)
Amounts Reclassified to Net Earnings	60	2	62
Tax Benefit	88	—	88
Total Other Comprehensive (Loss) Income	(149)	6	(143)
Balance December 26, 2014 - Net of Tax	(611)	(55)	(666)
Other Comprehensive Income (Loss)			
Loss Before Reclassifications	(53)	(8)	(61)
Amounts Reclassified to Net Earnings	71	(2)	69
Tax (Expense) Benefit	(8)	1	(7)
Total Other Comprehensive Income (Loss)	10	(9)	1
Balance December 25, 2015 - Net of Tax	$ (601)	$ (64)	$ (665)

NOTE 15. Quarterly Financial Data (Unaudited)

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

Fiscal Year Ended December 2015	**Quarters**				
(Dollars in Millions, Except Per Share Amounts)	**1st**	**2nd**	**3rd**	**4th**	**Full Year**
Revenue	**$ 3,027**	**$ 3,064**	**$ 2,939**	**$ 2,781**	**$ 11,811**
Operating Income	**843**	**1,017**	**933**	**791**	**3,584**
Net Earnings	**442**	**553**	**507**	**466**	**1,968**
Earnings Per Share, Basic	**$ 0.45**	**$ 0.56**	**$ 0.52**	**$ 0.48**	**$ 2.00**
Earnings Per Share, Assuming Dilution	**0.45**	**0.56**	**0.52**	**0.48**	**2.00**
Fiscal Year Ended December 2014					
Revenue	$ 3,012	$ 3,244	$ 3,221	$ 3,192	$ 12,669
Operating Income	739	997	976	901	3,613
Net Earnings	398	529	509	491	1,927
Earnings Per Share, Basic	$ 0.40	$ 0.53	$ 0.51	$ 0.49	$ 1.93
Earnings Per Share, Assuming Dilution	0.40	0.53	0.51	0.49	1.92

NOTE 16. Summarized Consolidating Financial Data

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

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Income Statements
(Dollars in Millions)

Fiscal Year Ended December 2015	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
Revenue	$ —	$ 11,733	$ 78	$ 11,811
Expense	(589)	8,922	(106)	8,227
Operating Income	589	2,811	184	3,584
Equity in Earnings of Subsidiaries	1,949	—	(1,949)	—
Interest Expense	(539)	(33)	28	(544)
Other Income - Net	(4)	111	(9)	98
Earnings Before Income Taxes	1,995	2,889	(1,746)	3,138
Income Tax Expense	(27)	(1,083)	(60)	(1,170)
Net Earnings	$ 1,968	$ 1,806	$ (1,806)	$ 1,968
Total Comprehensive Earnings	$ 1,969	$ 1,806	$ (1,806)	$ 1,969
Fiscal Year Ended December 2014				
Revenue	$ —	$ 12,590	$ 79	$ 12,669
Expense	(427)	9,585	(102)	9,056
Operating Income	427	3,005	181	3,613
Equity in Earnings of Subsidiaries	1,996	1	(1,997)	—
Interest Expense	(520)	(46)	21	(545)
Other Income - Net	(19)	(4)	(1)	(24)
Earnings Before Income Taxes	1,884	2,956	(1,796)	3,044
Income Tax Benefit (Expense)	43	(1,093)	(67)	(1,117)
Net Earnings	$ 1,927	$ 1,863	$ (1,863)	$ 1,927
Total Comprehensive Earnings	$ 1,784	$ 1,875	$ (1,875)	$ 1,784
Fiscal Year Ended December 2013				
Revenue	$ —	$ 11,950	$ 76	$ 12,026
Expense	(371)	9,091	(167)	8,553
Operating Income	371	2,859	243	3,473
Equity in Earnings of Subsidiaries	1,964	(1)	(1,963)	—
Interest Expense	(516)	(62)	16	(562)
Other Income - Net	(7)	(2)	20	11
Earnings Before Income Taxes	1,812	2,794	(1,684)	2,922
Income Tax Benefit (Expense)	52	(1,028)	(82)	(1,058)
Net Earnings	$ 1,864	$ 1,766	$ (1,766)	$ 1,864
Total Comprehensive Earnings	$ 2,277	$ 1,825	$ (1,825)	$ 2,277

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Balance Sheets
(Dollars in Millions)

As of December 25, 2015	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 444	$ 175	$ 9	$ 628
Short-term Investments	810	—	—	810
Accounts Receivable - Net	1	198	783	982
Receivable from Affiliates	1,092	2,038	(3,130)	—
Materials and Supplies	—	350	—	350
Deferred Income Taxes	10	117	(1)	126
Other Current Assets	(59)	120	9	70
Total Current Assets	2,298	2,998	(2,330)	2,966
Properties	1	38,964	2,609	41,574
Accumulated Depreciation	(1)	(10,016)	(1,383)	(11,400)
Properties - Net	—	28,948	1,226	30,174
Investments in Conrail	—	—	803	803
Affiliates and Other Companies	(39)	658	(28)	591
Investment in Consolidated Subsidiaries	22,755	—	(22,755)	—
Other Long-term Assets	176	399	(70)	505
Total Assets	$ 25,190	$ 33,003	$ (23,154)	$ 35,039
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts Payable	$ 108	$ 626	$ 30	$ 764
Labor and Fringe Benefits Payable	36	407	47	490
Payable to Affiliates	2,954	437	(3,391)	—
Casualty, Environmental and Other Reserves	—	115	16	131
Current Maturities of Long-term Debt	1	19	—	20
Income and Other Taxes Payable	(87)	183	12	108
Other Current Liabilities	—	437	2	439
Total Current Liabilities	3,012	2,224	(3,284)	1,952
Casualty, Environmental and Other Reserves	—	219	50	269
Long-term Debt	9,900	783	—	10,683
Deferred Income Taxes	(178)	9,258	225	9,305
Other Long-term Liabilities	804	484	(126)	1,162
Total Liabilities	13,538	12,968	(3,135)	23,371
Shareholders' Equity:				
Common Stock, $1 Par Value	966	181	(181)	966
Other Capital	113	5,091	(5,091)	113
Retained Earnings	11,238	14,774	(14,774)	11,238
Accumulated Other Comprehensive Loss	(665)	(31)	31	(665)
Noncontrolling Minority Interest	—	20	(4)	16
Total Shareholders' Equity	11,652	20,035	(20,019)	11,668
Total Liabilities and Shareholders' Equity	$ 25,190	$ 33,003	$ (23,154)	$ 35,039

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Balance Sheets
(Dollars in Millions)

As of December 26, 2014	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	$ 510	$ 100	$ 59	$ 669
Short-term Investments	250	—	42	292
Accounts Receivable - Net	2	206	921	1,129
Receivable from Affiliates	1,211	2,418	(3,629)	—
Materials and Supplies	—	272	1	273
Deferred Income Taxes	3	139	(1)	141
Other Current Assets	—	61	7	68
Total Current Assets	1,976	3,196	(2,600)	2,572
Properties	1	36,888	2,454	39,343
Accumulated Depreciation	(1)	(9,516)	(1,242)	(10,759)
Properties - Net	—	27,372	1,212	28,584
Investments in Conrail	—	—	779	779
Affiliates and Other Companies	(39)	644	(28)	577
Investment in Consolidated Subsidiaries	21,570	—	(21,570)	—
Other Long-term Assets	178	387	(24)	541
Total Assets	$ 23,685	$ 31,599	$ (22,231)	$ 33,053
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	$ 106	$ 707	$ 32	$ 845
Labor and Fringe Benefits Payable	38	511	64	613
Payable to Affiliates	3,053	514	(3,567)	—
Casualty, Environmental and Other Reserves	—	126	16	142
Current Maturities of Long-term Debt	200	29	(1)	228
Income and Other Taxes Payable	(150)	293	20	163
Other Current Liabilities	—	111	5	116
Total Current Liabilities	3,247	2,291	(3,431)	2,107
Casualty, Environmental and Other Reserves	—	213	63	276
Long-term Debt	8,705	809	—	9,514
Deferred Income Taxes	(172)	8,827	203	8,858
Other Long-term Liabilities	753	487	(118)	1,122
Total Liabilities	12,533	12,627	(3,283)	21,877
Shareholders' Equity				
Common Stock, $1 Par Value	992	181	(181)	992
Other Capital	92	5,077	(5,077)	92
Retained Earnings	10,734	13,717	(13,717)	10,734
Accumulated Other Comprehensive Loss	(666)	(31)	31	(666)
Noncontrolling Minority Interest	—	28	(4)	24
Total Shareholders' Equity	11,152	18,972	(18,948)	11,176
Total Liabilities and Shareholders' Equity	$ 23,685	$ 31,599	$ (22,231)	$ 33,053

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2015	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$ 983	$ 2,974	$ (587)	$ 3,370
Investing Activities				
Property Additions	—	(2,400)	(162)	(2,562)
Purchases of Short-term Investments	(1,734)	—	(5)	(1,739)
Proceeds from Sales of Short-term Investments	1,175	—	50	1,225
Proceeds from Property Dispositions	—	147	—	147
Other Investing Activities	(10)	132	(85)	37
Net Cash Provided by (Used in) Investing Activities	(569)	(2,121)	(202)	(2,892)
Financing Activities				
Long-term Debt Issued	1,200	—	—	1,200
Long-term Debt Repaid	(200)	(29)	—	(229)
Dividends Paid	(686)	(750)	750	(686)
Stock Options Exercised	—	—	—	—
Shares Repurchased	(804)	—	—	(804)
Other Financing Activities	10	1	(11)	—
Net Cash Provided by (Used in) Financing Activities	(480)	(778)	739	(519)
Net Decrease in Cash and Cash Equivalents	(66)	75	(50)	(41)
Cash and Cash Equivalents at Beginning of Period	510	100	59	669
Cash and Cash Equivalents at End of Period	$ 444	$ 175	$ 9	$ 628

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2014	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$ 583	$ 3,278	$ (518)	$ 3,343
Investing Activities				
Property Additions	—	(2,192)	(257)	(2,449)
Purchases of Short-term Investments	(1,419)	—	(14)	(1,433)
Proceeds from Sales of Short-term Investments	1,642	—	32	1,674
Proceeds from Property Dispositions	—	62	—	62
Other Investing Activities	—	(128)	91	(37)
Net Cash Provided by (Used in) Investing Activities	223	(2,258)	(148)	(2,183)
Financing Activities				
Long-term Debt Issued	1,000	—	—	1,000
Long-term Debt Repaid	(600)	(333)	—	(933)
Dividends Paid	(629)	(660)	660	(629)
Stock Options Exercised	—	—	—	—
Shares Repurchased	(517)	—	—	(517)
Other Financing Activities	11	(18)	3	(4)
Net Cash Provided by (Used in) Financing Activities	(735)	(1,011)	663	(1,083)
Net (Decrease) Increase in Cash and Cash Equivalents	71	9	(3)	77
Cash and Cash Equivalents at Beginning of Period	439	91	62	592
Cash and Cash Equivalents at End of Period	$ 510	$ 100	$ 59	$ 669

NOTE 16. Summarized Consolidating Financial Data, *continued*

Consolidating Cash Flow Statements
(Dollars in Millions)

Fiscal Year Ended December 2013	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	$ 1,004	$ 3,005	$ (742)	$ 3,267
Investing Activities				
Property Additions	—	(2,053)	(260)	(2,313)
Purchases of Short-term Investments	(1,251)	—	(5)	(1,256)
Proceeds from Sales of Short-term Investments	1,335	—	66	1,401
Proceeds from Property Dispositions	—	53	—	53
Other Investing Activities	(134)	(315)	337	(112)
Net Cash Provided by (Used in) Investing Activities	(50)	(2,315)	138	(2,227)
Financing Activities				
Long-term Debt Issued	500	—	—	500
Long-term Debt Repaid	(700)	(80)	—	(780)
Dividends Paid	(600)	(730)	730	(600)
Stock Options Exercised	9	—	—	9
Shares Repurchased	(353)	—	—	(353)
Other Financing Activities	148	(24)	(132)	(8)
Net Cash Provided by (Used in) Financing Activities	(996)	(834)	598	(1,232)
Net (Decrease) Increase in Cash and Cash Equivalents	(42)	(144)	(6)	(192)
Cash and Cash Equivalents at Beginning of Period	481	235	68	784
Cash and Cash Equivalents at End of Period	$ 439	$ 91	$ 62	$ 592

Supplements

Supplementary information required under Section 215.97, *Florida Statutes*

CSX Corporation
Schedule of Expenditures of State Financial Assistance
For the Year Ended December 25, 2015

Grantor	Customer	Project Number	Project Name		State Expenditures
Florida Financial Assistance					
Florida Department of Transportation					
Rail Development Grants – CFSA Number: 55.021					
Florida Improvement Projects – Contract Number: AQH97					
	Customer: State of Florida				
		FL1740	D&C/BALDWIN YRD/JACKSONVILLE	$	2,185,208
		FL1741	D&C/NE CRAWFORD/CALLAHAN		294,133
		FL1742	D&C/DAMES PT SPUR/JCKSNVL		(31)
		FL1743	D&C/KRAFT YRD/JACKSONVILLE		554
		FL1744	D&C/HAWTHORNE/LOCHLOOSA		841
		FL1745	D&C/LCHLSA/LOCHLOOSA		(981)
		FL1746	D&C/SMRFLD/SUMMERFIELD		(2,934)
		FL1747	D&C/S 814.5/ZEPHYRHILLS		1,253
		FL1748	D&C/DAMES POINT SPUR/JAX		(2)
		FL1930	FL WEST JAX YARD		479,917
		FL1998	FL CHATTACHOOCHEE		388,252
Total for Florida Improvement Projects				$	3,346,210
S-Line Projects – Contract Number: AQD17					
	Customer: State of Florida				
		FL1628	S-LINE/EAST PASS SIDING/OCALA	$	63
		FL1629	S LINE/SM5.0/BALDWIN		17
		FL1630	S-LINE/SP652.4-SP656.0/BALDWIN		6,637
		FL1631	S-LINE/S665.3/KeyStoneHeights		6
		FL1632	S-LINE/S676.5/STARKE		31
		FL1634	S-LINE/S757.9-S765.9/WILDWOOD		45
		FL1635	S-LINE/S781.4-S785.6/RICHLOAM		448
		FL1636	S-Line/AR832.9-AR837.8/VITIS		17,634
		FL1637	S-LINE/AR854.6-A851.0/LAKELAND		(516)
		FL1639	S-LINE/UXO S732.0-S738.0/OCALA		403
		FL1640	S-LINE/AUBURNDALE		(4,620)
		FL1641	S-LINE/SM13.3-SM10.9/CRAWFORD		36
		FL1642	S-LINE/CALLAHAN		(133)
		FL1790	S-LINE/SM 10.9/CRFRD/FOURAKER		696,938
Total for S-Line Projects				$	716,989
Other – Contract Number: G0657					
	Customer: City of Tampa				
		FL2075	SIG/QUIETZONE/TAMPA	$	5,753
Total for Other				$	5,753
Total State Expenditures for CFSA 55.021				$	4,068,952
Total Expenditures of Florida Financial Assistance				**$**	**4,068,952**

See accompanying notes.

1. Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) includes the state grant activity of CSX Corporation (the Company) for the year ended December 25, 2015. The information in the Schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes*.

Grant activity for certain subsidiaries of the Company is not included as they are presented in separate, audited Schedules of Expenditures of State Financial Assistance. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the Company's consolidated financial statements.

The Schedule includes costs that were incurred by the Company in the fiscal year ended December 25, 2015. The Company's methodology of determining cost incurrence date was enhanced from the prior year and is based on cost type (payroll, invoice, purchase order, etc.). In the opinion of management, this methodology change does not indicate a material misstatement, for comparison purposes, of the costs included within the Schedule for the fiscal year ended December 26, 2014.

2. Contingency

The grant funding received, including the indirect costs being reimbursed, is subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Company. In the opinion of management, all grant expenditures are in material compliance with the terms of the grant agreements and applicable laws and regulations.

The Company's proposed indirect cost rates, which are based on the Company's actual operating costs for the fiscal year ended December 26, 2014, are under review by the Florida Department of Transportation's Office of the Inspector General (FDOT OIG). The rates applied to raw labor charges included within the Schedule are the indirect cost rates most recently approved by FDOT OIG. Management does not expect the ultimate resolution of FDOT's review to indicate a misstatement of the Schedule or have a material impact on its consolidated financial statements or state financial assistance programs.

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Report of Independent Certified Public Accountants on Compliance for Each Major State Program, Report on Internal Control Over Compliance, and Report on Schedule of Expenditures of State Financial Assistance, Required by Section 215.97, *Florida Statutes*

Chief Executive Officer, Chief Financial Officer, and Audit Committee
CSX Corporation

Report on Compliance for Each Major State Program

We have audited CSX Corporation (the Company)'s compliance with the types of compliance requirements described in the State of Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the Company's major state programs for the year ended December 25, 2015. The Company's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Section 215.97, *Florida Statutes*. Those standards and Section 215.97, *Florida Statutes,* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major State Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 25, 2015.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with Section 215.97, *Florida Statutes*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 215.97, *Florida Statutes*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by Section 215.97, *Florida Statutes*

We have audited the consolidated financial statements of the Company as of and for the year ended December 25, 2015, and have issued our report thereon dated February 10, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis s required by Section 215.97, *Florida Statutes,* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

Certified Public Accountants

September 23, 2016

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Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Chief Executive Officer, Chief Financial Officer, and Audit Committee
CSX Corporation

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of CSX Corporation, which comprise the consolidated balance sheet as of December 25, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have issued our report thereon dated February 10, 2016, and expressed an unqualified opinion thereon. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CSX Corporation's internal control over financial reporting as of December 25, 2015, based on criteria established in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 10, 2016, expressed an unqualified opinion thereon.

Internal Control Over Financial Reporting

A *deficiency in internal control* over financial reporting (internal control) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's annual or interim financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In planning and performing our audits, we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CSX Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

Certified Public Accountants

February 10, 2016

Section I — Summary of Auditor's Results

Financial statements

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	Unmodified

Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Financial assistance

Internal control over major program:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None reported

Type of auditor's report issued on compliance for major state programs (unmodified, qualified, adverse, or disclaimer):	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 215.97, *Florida Statutes*?		Yes	X	No

Identification of major state program:

CSFA number	Name of state financial assistance project
55.021	Rail Development Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000

No summary schedule of prior audit findings presented to the Company as there were no prior audit findings.

No management letter presented to the Company as there were no items related to state financial assistance required to be reported in the management letter.

Section II — Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting in a Section 215.97, *Florida Statutes,* audit.

No findings.

Section III — State Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the Section 215.97 Florida Statutes (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse).

No findings.

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