

# CSX Corporation

## State of Florida Financial Assistance Reporting Package

For the Year Ended December 31, 2017



Building a better  
working world

# Table of contents



02	Report of Independent Auditors on Compliance for Each Major State Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Florida Financial Assistance Required by Section 215.97, <i>Florida Statutes</i>
04	Schedule of Expenditures of Florida Financial Assistance
05	Notes to Schedule of Expenditures of Florida Financial Assistance
06	Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>
07	Schedule of Findings and Questioned Costs
Appendix	CSX Corporation (CSX) Consolidated Financial Statements, Supplementary Data, and Unmodified Audit Opinion prepared in accordance with the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States



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

To the Shareholders and the Board of Directors of CSX Corporation

### **Report on Compliance for Each Major State Program**

We have audited CSX Corporation's (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 31, 2017. 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 the requirements of laws, regulations, contracts and grants 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 about the Company's compliance with those requirements and performing 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 31, 2017.

### **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.



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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.

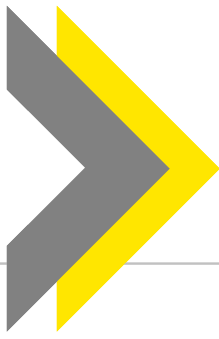
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 215.97, *Florida Statutes*. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the Company as of and for the year ended December 31, 2017 and have issued our report dated February 7, 2018, expressing an unmodified opinion on those 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 Florida Financial Assistance is presented for purposes of additional analysis as required by Section 215.97, *Florida Statutes* and is not a required part of the 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 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 Florida Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Certified Public Accountants

September 7, 2018



# CSX Corporation

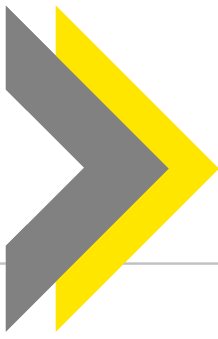
## Schedule of Expenditures of Florida Financial Assistance

### For the Year Ended December 31, 2017

Grantor & Customer	Project Number	Project Name	State Expenditures
<b>Florida Financial Assistance</b>			
<b>Rail Passenger Service Development - CFSA Number: 55.021</b>			
Florida Improvement Projects - Contract Number: AQH97			
Customer: State of Florida			
	FL2228	FL WINTER HAVEN CRANES	4,766,816
Total for Florida Improvement Projects			\$ 4,766,816
Other - Contract Number: AS830			
Customer: State of Florida			
	FL2292	POINCIANA HOLDOUT	16,644
Other - Contract Number: Unknown			
Customer: City of Plant City*			
	FL2190	COZ/WHEELER/PLANT CITY	22,937
Other - Contract Number: G0657			
Customer: City of Tampa*			
	FL2075	SIG/QUIETZONE/TAMPA	112,350
Total for Other			\$ 151,931
<b>Total for Rail Passenger Service Development - CFSA Number: 55.021</b>			<b>\$ 4,918,747</b>
<b>Transportation Regional Incentive Program - CFSA Number: 55.026</b>			
Contract Number: ARZ67			
Customer: State of Florida			
	FL2099	PEDUG/NEW YORK AVE/LAKELAND	90
<b>Total for Transportation Regional Incentive Program - CFSA Number: 55.026</b>			<b>\$ 90</b>
<b>Seaport Investment Program - CFSA Number: 55.034</b>			
Contract Number: Unknown			
Customer: Tampa Bay Port Authority*			
	FL2179	CSUR/GUYVERGERBYPASS/TAMPA	203
<b>Total for Seaport Investment Program - CFSA Number: 55.034</b>			<b>\$ 203</b>
<b>Total Expenditures of Florida Financial Assistance</b>			<b>\$ 4,919,040</b>

\*Pass-through entity of state funds

See accompanying Notes to Schedule of Expenditures of Florida Financial Assistance.



# CSX Corporation

## Notes to Schedule of Expenditures of Florida Financial Assistance

For the Year Ended December 31, 2017

### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Florida Financial Assistance (the Schedule) includes the Florida grant activity of CSX Corporation (the Company) for the year ended December 31, 2017. The information in the Schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes*.

The Schedule includes costs that were incurred by the Company in the fiscal year ending December 31, 2017 and is presented on the accrual basis of accounting.

### 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.

### 3. Indirect Cost Rates

The indirect cost rates applied to direct labor charges from December 31, 2016 to February 24, 2017 that are included within the Schedule are the 2009 rates, as these were the rates most recently approved by the Federal Highway Administration (FHWA) at that time.

The indirect cost rates applied to direct labor charges from February 25, 2017 to December 31, 2017 that are included within the Schedule are the 2014 rates, as these were the rates most recently approved by FHWA at that time.

### 4. Related Parties

We have identified the related parties in regards to our financial assistance process to be the various subsidiaries and affiliates of the Company. Our Florida financial assistance has been granted to CSX Transportation, Inc. (CSXT), a wholly-owned subsidiary of the Company. All of CSXT's applicable Florida financial assistance has been included in the Schedule.



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## **Report of Independent Auditors 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***

To the Shareholders and the Board of Directors of CSX Corporation

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) 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 (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and December 30, 2016, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements, and have issued our report dated February 7, 2018, which expressed an unmodified opinion thereon. We also have audited, in accordance with the standards of the PCAOB, the Company's internal control over financial reporting as of December 31, 2017, 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 7, 2018 expressed an unmodified 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 the Company'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 effectiveness of 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.

Certified Public Accountants

February 7, 2018

# CSX Corporation

## Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2017

### Section I — Summary of Auditor's Results

#### Financial statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
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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

#### Major state financial assistance

Internal control over major state programs:			
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
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Any audit findings disclosed that are required to be reported in accordance with Section 215.97, <i>Florida Statutes</i> ?		Yes	X No
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<b>Identification of major Florida program:</b>	
<u>CFSA number</u>	<u>Name of Florida program</u>
55.021	Rail Passenger Service Development

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

## Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2017

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### **Section II — Financial Statement Findings**

No findings.

### **Section III — State Financial Assistance Findings and Questioned Costs**

No findings or questioned costs.

# Appendix



**CSX Corporation (CSX) Consolidated Financial Statements, Supplementary Data, and Unmodified Audit Opinion prepared in accordance with the Public Company Accounting Oversight Board (United States) (PCAOB) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States**



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## Report of Independent Auditors

To the Shareholders and the Board of Directors of 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 31, 2017 and December 30, 2016, 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 31, 2017, 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 31, 2017 and December 30, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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 7, 2018, 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 solely 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 the effectiveness of CSX Corporation's 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.

Certified Public Accountants

February 7, 2018

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

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

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
<b>Revenue</b>	<b>\$ 11,408</b>	\$ 11,069	\$ 11,811
<b>Expense</b>			
Labor and Fringe	<b>2,914</b>	3,159	3,290
Materials, Supplies and Other	<b>2,113</b>	2,092	2,356
Depreciation	<b>1,315</b>	1,301	1,208
Fuel	<b>864</b>	713	957
Equipment and Other Rents	<b>429</b>	465	456
Restructuring Charges (Note 1)	<b>325</b>	—	—
Equity Earnings of Affiliates	<b>(219)</b>	(50)	(40)
<b>Total Expense</b>	<b>7,741</b>	7,680	8,227
 <b>Operating Income</b>	 <b>3,667</b>	 3,389	 3,584
Interest Expense	<b>(546)</b>	(579)	(544)
Debt Repurchase Expense	<b>—</b>	(115)	—
Other Income (Expense) - Net (Note 10)	<b>21</b>	46	98
<b>Earnings Before Income Taxes</b>	<b>3,142</b>	2,741	3,138
Income Tax Benefit (Expense) (Note 11)	<b>2,329</b>	(1,027)	(1,170)
<b>Net Earnings</b>	<b>\$ 5,471</b>	\$ 1,714	\$ 1,968
 <b>Per Common Share (Note 2)</b>			
Net Earnings Per Share			
Basic	<b>\$ 6.01</b>	\$ 1.81	\$ 2.00
Assuming Dilution	<b>\$ 5.99</b>	\$ 1.81	\$ 2.00
 Average Common Shares Outstanding <i>(Millions)</i>			
Basic	<b>911</b>	947	983
Assuming Dilution	<b>914</b>	948	984
Cash Dividends Paid Per Common Share	<b>\$ 0.78</b>	\$ 0.72	\$ 0.70

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

**CSX CORPORATION**  
**PART II**  
**Item 8. Financial Statements and Supplementary Data**  
**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS**  
*(Dollars in Millions)*

	<b>Fiscal Years</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net Earnings	<b>\$ 5,471</b>	<b>\$ 1,714</b>	<b>\$ 1,968</b>
Other Comprehensive Income (Loss) - Net of Tax:			
Pension and Other Post-Employment Benefits	140	21	10
Other	14	4	(9)
Total Other Comprehensive Income (Loss)	<b>154</b>	<b>25</b>	<b>1</b>
<b>Comprehensive Earnings (Note 14)</b>	<b>\$ 5,625</b>	<b>\$ 1,739</b>	<b>\$ 1,969</b>

See accompanying Notes to Consolidated Financial Statements.

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

**CONSOLIDATED BALANCE SHEETS**

(Dollars in Millions)

	<b>December</b>	<b>December</b>	
	<b>2017</b>	<b>2016</b>	
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents (Note 1)	\$ 401	\$ 603	
Short-term Investments	18	417	
Accounts Receivable - Net (Note 1)	970	938	
Materials and Supplies	372	407	
Other Current Assets	154	122	
<b>Total Current Assets</b>	<b>1,915</b>	<b>2,487</b>	
Properties	44,324	43,227	
Accumulated Depreciation	(12,560)	(12,077)	
<b>Properties - Net (Note 6)</b>	<b>31,764</b>	<b>31,150</b>	
Investment in Conrail (Note 12)	907	840	
Affiliates and Other Companies	779	619	
Other Long-term Assets	374	318	
<b>Total Assets</b>	<b>\$ 35,739</b>	<b>\$ 35,414</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 847	\$ 806	
Labor and Fringe Benefits Payable	602	545	
Casualty, Environmental and Other Reserves (Note 5)	108	115	
Current Maturities of Long-term Debt (Note 9)	19	331	
Income and Other Taxes Payable	157	129	
Other Current Liabilities	161	114	
<b>Total Current Liabilities</b>	<b>1,894</b>	<b>2,040</b>	
Casualty, Environmental and Other Reserves (Note 5)	266	259	
Long-term Debt (Note 9)	11,790	10,962	
Deferred Income Taxes - Net (Note 11)	6,418	9,596	
Other Long-term Liabilities	650	863	
<b>Total Liabilities</b>	<b>21,018</b>	<b>23,720</b>	
<b>Shareholders' Equity:</b>			
Common Stock, \$1 Par Value (Note 3)	890	928	
Other Capital	217	138	
Retained Earnings (Note 1)	14,084	11,253	
Accumulated Other Comprehensive Loss (Note 14)	(486)	(640)	
Noncontrolling Minority Interest	16	15	
<b>Total Shareholders' Equity</b>	<b>14,721</b>	<b>11,694</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 35,739</b>	<b>\$ 35,414</b>	

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

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

**CONSOLIDATED CASH FLOW STATEMENTS**

*(Dollars in Millions)*

	<b>Fiscal Years</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>			
Net Earnings	\$ 5,471	\$ 1,714	\$ 1,968
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	1,315	1,301	1,208
Restructuring Charge (Note 1)	325	—	—
Cash Payments for Restructuring Charge	(187)	—	—
Deferred Income Taxes	(3,233)	405	456
Earnings of equity-method investments	(219)	(50)	(40)
Contributions to Qualified Pension Plans (Note 8)	—	(250)	—
Gain on Property Dispositions	(18)	(128)	(90)
Other Operating Activities	(17)	(20)	62
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(70)	84	149
Other Current Assets	1	(113)	(84)
Accounts Payable	41	40	(79)
Income and Other Taxes Payable	20	23	(62)
Other Current Liabilities	43	35	(118)
<b>Net Cash Provided by Operating Activities</b>	<b>3,472</b>	<b>3,041</b>	<b>3,370</b>
<b>INVESTING ACTIVITIES</b>			
Property Additions	(2,040)	(2,398)	(2,562)
Purchase of Short-term Investments	(782)	(929)	(1,739)
Proceeds from Sales of Short-term Investments	1,193	1,325	1,225
Proceeds from Property Dispositions	97	195	147
Other Investing Activities	37	9	37
<b>Net Cash Used in Investing Activities</b>	<b>(1,495)</b>	<b>(1,798)</b>	<b>(2,892)</b>
<b>FINANCING ACTIVITIES</b>			
Long-term Debt Issued (Note 9)	850	2,200	1,200
Long-term Debt Repaid (Note 9)	(333)	(1,419)	(229)
Dividends Paid	(708)	(680)	(686)
Shares Repurchased	(1,970)	(1,056)	(804)
Other Financing Activities	(18)	(313)	—
<b>Net Cash Used in Financing Activities</b>	<b>(2,179)</b>	<b>(1,268)</b>	<b>(519)</b>
Net Decrease in Cash and Cash Equivalents	(202)	(25)	(41)
<b>CASH AND CASH EQUIVALENTS</b>			
Cash and Cash Equivalents at Beginning of Period	603	628	669
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 401</b>	<b>\$ 603</b>	<b>\$ 628</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Interest Paid - Net of Amounts Capitalized	\$ 555	\$ 606	\$ 566
Income Taxes Paid	\$ 911	\$ 580	\$ 768
Seller Financed Assets	\$ —	\$ —	\$ 307

Certain prior year data has been reclassified to conform to the current presentation.  
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 <i>(Thousands)</i>	Common Stock and Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) <sup>(a)</sup>	Non- controlling Interest	Total Shareholders' Equity
<b>December 26, 2014</b>	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
<b>December 25, 2015</b>	965,514	1,079	11,238	(665)	16	11,668
Comprehensive Earnings:						
Net Earnings	—	—	1,714	—	—	1,714
Other Comprehensive Income (Note 14)	—	—	—	25	—	25
Total Comprehensive Earnings						1,739
Common stock dividends, \$0.72 per share	—	—	(680)	—	—	(680)
Share Repurchases	(38,379)	(38)	(1,018)	—	—	(1,056)
Bond Conversions	94	1	—	—	—	1
Other	951	24	(1)	—	(1)	22
<b>December 30, 2016</b>	928,180	1,066	11,253	(640)	15	11,694
Comprehensive Earnings:						
Net Earnings	—	—	5,471	—	—	5,471
Other Comprehensive Income (Note 14)	—	—	—	154	—	154
Total Comprehensive Earnings						5,625
Common stock dividends, \$0.78 per share	—	—	(708)	—	—	(708)
Share Repurchases	(38,785)	(39)	(1,931)	—	—	(1,970)
Other	456	80	(1)	—	1	80
<b>December 31, 2017</b>	889,851	\$ 1,107	\$ 14,084	\$ (486)	\$ 16	\$ 14,721

(a) Accumulated Other Comprehensive Loss year-end balances shown above are net of tax. The associated taxes were \$162 million, \$335 million and \$347 million for 2017, 2016 and 2015, respectively. For additional information see Note 14, Other Comprehensive Income.

See accompanying Notes to Consolidated Financial Statements.

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

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

***Business***

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

The Company's number of employees was approximately 24,000 as of December 2017, which includes approximately 20,000 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 links customers to railroads via trucks and terminals. CSXT also serves thousands of production and distribution facilities through track connections to approximately 230 short-line and regional railroads.

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

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

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

*Lines of Business*

During 2017, the Company's services generated \$11.4 billion of revenue and served three primary lines of business: merchandise, coal and intermodal.

- The merchandise business shipped 2.7 million carloads and generated 62 percent of revenue and 42 percent of volume in 2017. The Company's merchandise business is comprised of shipments in the following diverse markets: chemicals, automotive, agricultural and food products, minerals, fertilizers, forest products, and metals and equipment.
- The coal business shipped about 855 thousand carloads and accounted for 18 percent of revenue and 13 percent of volume in 2017. 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 16 percent of revenue and 44 percent of volume in 2017. 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 40 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 percent of the Company's total revenue in 2017. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching, other incidental charges and adjustments to revenue reserves. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars or other equipment are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

*Other Entities*

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

***Basis of Presentation***

In the opinion of management, the accompanying consolidated financial statements contain all normal, recurring adjustments necessary to fairly present the financial position of CSX and its subsidiaries at December 31, 2017 and December 30, 2016, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for fiscal years 2017, 2016 and 2015. 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.

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

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

***Fiscal Year***

Through the second quarter 2017, CSX followed a 52/53 week fiscal reporting calendar with the last day of each reporting period ending on a Friday. The 52/53 week calendar allowed for every quarter and year to be of equal duration, 13 weeks and 52 weeks, respectively. To maintain this calendar, every fifth or sixth year, an extra week was added to the fourth quarter and year, making the reporting periods 14 weeks and 53 weeks, respectively. In 2016, the fourth quarter and fiscal year included this extra week.

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

- Fiscal year 2017 (December 31, 2016 through December 31, 2017) contained 366 days, and fiscal year 2016 (December 26, 2015 through December 30, 2016) contained 371 days
- Fiscal first quarter 2017 (December 31, 2016 through March 31, 2017) contained 91 days, and fiscal first quarter 2016 (December 26, 2015 through March 25, 2016) contained 91 days
- Fiscal second quarter 2017 (April 1, 2017 through June 30, 2017) contained 91 days, and fiscal second quarter 2016 (September 24, 2016 through December 30, 2016) contained 91 days
- Fiscal third quarter 2017 (July 1, 2017 through September 30, 2017) contained 92 days, and fiscal third quarter 2016 (June 25, 2016 through September 23, 2016) contained 91 days
- Fiscal fourth quarter 2017 (October 1, 2017 through December 31, 2017) contained 92 days, and fiscal fourth quarter 2016 (September 24, 2016 through December 30, 2016) contained 98 days

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

***Principles of Consolidation***

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

***Cash and Cash Equivalents***

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

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

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

***Investments***

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

***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 creditworthiness 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 \$26 million and \$33 million is included in the consolidated balance sheets as of December 2017 and December 2016, 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 2017 and December 2016, 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, 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 forecasted future volume).

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

**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 May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *Compensation - Stock Compensation: Scope of Modification Accounting*, which provides clarity on what changes to share-based awards are considered substantive and require modification accounting to be applied. This update is required beginning with first quarter 2018 and should be applied prospectively to award modifications after the effective date. The Company early adopted this standard update in second quarter 2017 and will apply it prospectively to any award modifications after the adoption date. The Company does not regularly modify the terms and conditions of share-based awards and does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity.

In March 2017, the FASB issued ASU *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that only the service cost component of net periodic benefit costs be recorded as compensation cost in the operating expense section of the income statement. All other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of net loss) will be presented in other income - net. This standard update is effective beginning with the first quarter 2018 and must be applied retrospectively. The Company does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity. The Company currently records service costs and net benefit costs within labor and fringe expense. In 2017, pension and other post-retirement benefit charges and pension settlement charges totaling \$85 million were included in the restructuring charge. Beginning in first quarter 2018, only the service cost will be recorded within labor and fringe expense, and the other components of net benefit costs will be recorded in other income. The retrospective impact of adoption will be an increase in operating income for the prior years presented as the other components were a net expense. The impact of adoption is projected to be a decrease in operating income for 2018. The retrospective impact of adoption is shown in the following table.

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Increase in Operating Income	\$ 53	\$ 24	\$ 44
Decrease in Other Income	(53)	(24)	(44)

In March 2017, the FASB issued ASU *Simplifying the Test for Goodwill Impairment*, which eliminates step two, the calculation of the implied fair value of goodwill, from the goodwill impairment test. Impairment will be quantified in step one of the test as the amount by which the carrying amount exceeds the fair value. This standard update is effective beginning first quarter 2020 and must be applied prospectively. The Company does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity.

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

**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. CSX will adopt this standard update in first quarter 2018 using a modified retrospective method of adoption.

The FASB has also issued several amendments to the revenue standard, including clarification on accounting for principal versus agent considerations (i.e., reporting gross versus net), licenses of intellectual property and identifying performance obligations. These amendments do not change the core principle of the standard, but provide clarity and implementation guidance.

The Company is currently finalizing its review of the impact of adopting this new guidance and has developed a comprehensive implementation plan. In-depth reviews of commercial contracts have been completed and changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and are being implemented. Adoption of this standard update will not materially impact the Company's financial condition, results of operations or liquidity. Freight revenue will continue to be recognized ratably over transit time. Additionally, the disaggregated revenue information required to be disclosed under this standard update is similar to the information currently included in the Results of Operations section of Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In February 2016, the FASB issued ASU, *Leases*, which will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard update is effective for CSX beginning with the first quarter 2019 and will be adopted using a modified retrospective method. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and are being implemented. Software has been implemented that will assist in the recognition of additional assets and liabilities to be included on the balance sheet related to leases currently classified as operating leases with durations greater than twelve months, with certain allowable exceptions. The Company continues to evaluate the expected impact of this standard update on disclosures, but does not anticipate any material changes to operating results or liquidity.

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

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

***Use of Estimates***

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

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

***Other Items***

***Management Workforce Reduction***

Through an involuntary separation program with enhanced benefits to further its strategic objectives, CSX reduced its management workforce by approximately 950 employees during 2017. The Company has been focused on driving efficiencies through process improvement and responding to business mix shifts. These management reductions were designed to further streamline general and administrative and operating support functions to speed decision making and further control costs. In April 2017, the involuntary separation program was essentially completed. This program extends separation benefits for certain members of management that could result in additional charges through first quarter 2018. Accordingly, additional charges were incurred under the program throughout the year, including charges related to the separation of senior executives during fourth quarter 2017. The majority of separation benefits are being paid from general corporate funds while certain benefits are being paid through CSX's qualified pension plans.

***Executive Retirements***

In first quarter 2017, the Company's former Chief Executive Officer, Michael J. Ward, and President, Clarence W. Gooden, announced their retirements, and the terms of their unvested equity awards were modified to permit prorated vesting through May 31, 2018. The lump-sum payments of their non-qualified pension benefits also resulted in a settlement charge in fourth quarter 2017.

***Reimbursement Arrangements***

In June 2017, the Company and the Company's former President and Chief Executive Officer, E. Hunter Harrison, executed a letter agreement providing for certain reimbursement arrangements. Pursuant to the letter agreement, the Company made a reimbursement payment to MR Argent Advisor LLC ("Mantle Ridge") of \$55 million for funds previously paid to Mr. Harrison by Mantle Ridge. Further, the Company assumed Mantle Ridge's obligation to pay Mr. Harrison, prior to March 15, 2018, a lump sum cash amount of \$29 million in respect of other forfeited compensation from his previous employer, Canadian Pacific Railway Limited. This \$29 million payment was made to his estate following his death in December 2017. The Company also assumed Mantle Ridge's tax indemnification obligations to Mr. Harrison, which was intended to allow Mr. Harrison to remain in the same after-tax position as if he had not: (i) forfeited such compensation and benefits earned from CP; and (ii) received \$55 million from Mantle Ridge.

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

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

The ownership position of Mantle Ridge, a CSX shareholder, is detailed in the Company's Proxy Statement on Schedule 14A filed on April 20, 2017 and subsequent Form 4 filings with the SEC. The Vice-Chairman of CSX's Board of Directors, Paul C. Hilal, founded and controls Mantle Ridge and each of its related entities. At the Company's 2017 annual meeting of shareholders held on June 5, 2017, the Company's shareholders approved, on an advisory basis, with approximately 93 percent of the vote, the Company undertaking such reimbursement arrangements.

***Restructuring Charge***

The total restructuring charge includes costs related to the management workforce reduction, executive retirements, reimbursement arrangements, the proration of equity awards and other advisory costs related to the leadership transition. Future charges related to this restructuring are not expected to be material. Expenses related to the management workforce reduction and other costs are shown in the following table.

	<b>2017</b>				
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Year-to- Date</b>
<i>(Dollars in millions)</i>					
Severance	\$ 81	\$ 10	\$ —	\$ 7	\$ 98
Pension and Other Post-Retirement Benefit Charges	63	7	—	3	73
Share-Based Compensation Remeasurement	5	3	—	7	15
Relocation	6	2	—	—	8
<b>Subtotal Management Workforce Reduction</b>	<b>\$ 155</b>	<b>\$ 22</b>	<b>\$ —</b>	<b>\$ 17</b>	<b>\$ 194</b>
Reimbursement Arrangements	—	84	—	—	84
Non-Cash Executive Equity Awards Proration	8	16	—	—	24
Non-Cash Pension Settlement Charge	—	—	—	12	12
Other Charges Including Fees Related to Shareholder Matters	10	—	1	—	11
<b>Total Restructuring Charge</b>	<b>\$ 173</b>	<b>\$ 122</b>	<b>\$ 1</b>	<b>\$ 29</b>	<b>\$ 325</b>

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

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

Charges and payments related to the management workforce reduction and other costs are shown in the following table.

<i>(Dollars in millions)</i>	<b>2017 Charges</b>	<b>2017 Payments</b>	<b>Non-cash Items</b>	<b>Liability 12/31/2017</b>
Severance	\$ 98	\$ (86)	\$ —	\$ 12
Pension, Other Post-Retirement Benefit Charges <sup>(a)</sup>	73	—	(73)	—
Share-Based Compensation Remeasurement	15	—	(15)	—
Relocation	8	(6)	—	2
<b>Subtotal Management Workforce Reduction</b>	<b>\$ 194</b>	<b>\$ (92)</b>	<b>\$ (88)</b>	<b>\$ 14</b>
Reimbursement Arrangements	84	(84)	—	—
Non-Cash Executive Equity Awards Proration	24	—	(24)	—
Non-Cash Pension Settlement Charge	12	—	(12)	—
Other Charges Including Fees Related to Shareholder Matters	11	(11)	—	—
<b>Total Restructuring Charge</b>	<b>\$ 325</b>	<b>\$ (187)</b>	<b>\$ (124)</b>	<b>\$ 14</b>

<sup>(a)</sup> The majority of non-cash items are related to certain benefits paid through CSX's qualified pension plans.

***Separation Benefits***

Union agreements and facility closures in 2015, and management streamlining under workforce reduction plans announced in 2014 resulted in payment of separation benefits to employees of \$51 million in 2015. These amounts are recognized in labor and fringe and materials, supplies and other on the consolidated statements of income. Separation benefits incurred in 2016 related to workforce reduction plans were not material.

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

**NOTE 2. Earnings Per Share**

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

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
<i>Numerator (Dollars in Millions):</i>			
Net Earnings	\$ 5,471	\$ 1,714	\$ 1,968
Dividend Equivalents on Restricted Stock	(1)	(1)	(1)
Net Earnings, Attributable to Common Shareholders	<b>\$ 5,470</b>	<b>\$ 1,713</b>	<b>\$ 1,967</b>
<i>Denominator (Units in Millions):</i>			
Average Common Shares Outstanding	<b>911</b>	947	983
Other Potentially Dilutive Common Shares	<b>3</b>	1	1
Average Common Shares Outstanding, Assuming Dilution	<b>914</b>	948	984
Net Earnings Per Share, Basic	<b>\$ 6.01</b>	\$ 1.81	\$ 2.00
Net Earnings Per Share, Assuming Dilution	<b>\$ 5.99</b>	\$ 1.81	\$ 2.00

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 equity awards, which include long-term incentive awards and employee stock options.

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, CSX is required to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options, which is included in Note 4, *Stock Plans and Share-Based Compensation*, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 7.6 million, 2.8 million and 2.5 million of total average outstanding stock options for 2017, 2016 and 2015, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

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

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

*Share Repurchases*

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

During 2017, 2016, and 2015, CSX repurchased the following shares:

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Shares Repurchased ( <i>Units in Millions</i> )	39	38	26
Cost of Shares ( <i>Dollars in Millions</i> )	\$ 1,970	\$ 1,056	\$ 804

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

**NOTE 3. Shareholders' Equity**

Common and preferred stock consists of the following:

<b>Common Stock, \$1 Par Value</b>	<b>December 2017</b>
	<i>(Units in Millions)</i>
Common Shares Authorized	1,800
Common Shares Issued and Outstanding	890
<b>Preferred Stock</b>	
Preferred Shares Authorized	25
Preferred Shares Issued and Outstanding	—

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

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

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

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

Share-based compensation expense is measured using the fair value of the award on the grant date and is recognized on a straight-line basis over the service period of the respective award. Forfeitures are recognized as they occur. Total pre-tax expense associated with share-based compensation and its related income tax benefit is shown in the table below. The year over year increase in expense related to performance units and stock options is primarily due to modifications to the terms of awards (see Equity Award Modifications below) and higher expected award payouts.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Share-Based Compensation Expense			
Performance Units	\$ 49	\$ 17	\$ (1)
Restricted Stock Units and Awards	15	11	11
Stock Options	22	7	—
Stock Awards for Directors	3	2	2
Total Share-based Compensation Expense	\$ 89	\$ 37	\$ 12
Income Tax Benefit	\$ 34	\$ 14	\$ 4

***Long-term Incentive Plans***

The CSX Long-term Incentive Plans ("LTIP") were adopted under the 2010 CSX Stock and Incentive Award Plan. The objective of these plans is to motivate and reward certain employees for achieving and exceeding certain financial goals. Grants were made in performance units, with each unit being equivalent to one share of CSX common stock, and payouts will be made in CSX common stock. The payout range for participants will be between 0% and 200% of the target awards depending on Company performance against predetermined goals for each three-year cycle. In 2015, 2016 and 2017, target performance units were granted to certain employees under three separate LTIP plans covering three-year cycles: the 2015-2017 ("2015-2017 LTIP"), 2016-2018 ("2016-2018 LTIP") and 2017-2019 ("2017-2019 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 certain items as disclosed in the Company's financial statements. The three-year cumulative operating ratio and average return on assets over the performance period will each comprise 50% of the payout and are measured independently of the other. 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.

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

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

Performance unit grant and vesting information is summarized as follows:

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Weighted-average grant date fair value	\$ 49.50	\$ 24.17	\$ 35.45
Fair value of units vested in fiscal year ending ( <i>in millions</i> )	\$ 26	\$ 31	\$ 34

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

	<b>Performance Units Outstanding (in Thousands)</b>	<b>Weighted-Average Fair Value at Grant Date</b>
Unvested at December 30, 2016	1,581	\$ 30.00
Granted	644	49.50
Forfeited	(530)	38.47
Vested	(719)	35.94
Unvested at December 31, 2017	976	\$ 33.90

As of December 2017, there was \$24 million of total unrecognized compensation cost related to performance units that is expected to be recognized over a weighted-average period of approximately two years.

***Restricted Stock Grants***

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

Restricted stock grant and vesting information is summarized as follows:

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Weighted-average grant date fair value	\$ 48.35	\$ 24.21	\$ 35.94
Fair value of units and awards vested during fiscal year ended ( <i>in millions</i> )	\$ 8	\$ 14	\$ 9

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

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

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

	<b>Restricted Stock Units and Awards Outstanding (in Thousands)</b>	<b>Weighted-Average Fair Value at Grant Date</b>
Unvested at December 30, 2016	1,076	\$ 28.19
Granted	328	48.35
Forfeited	(297)	36.48
Vested	(300)	28.09
Unvested at December 31, 2017	807	\$ 33.37

As of December 2017, unrecognized compensation expense for these restricted stock units and awards was approximately \$7 million, which will be expensed over a weighted-average remaining period of one year.

***Stock Options***

Stock options were granted in 2016 and 2017 along with the corresponding LTIP plans, and to certain members of management in 2015. Under this program, an employee receives an award that provides the opportunity in the future to purchase CSX shares at the closing market price of the stock on the date the award is granted (the strike price). The options become exercisable after a three-year vesting period and expire 10 years from the grant date if they are not exercised.

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

On March 6, 2017, the Company granted 9 million stock options to former CEO E. Hunter Harrison at a fair value of \$12.88 per option. These options were granted with a ten-year term and an exercise price equal to the closing market price of the underlying stock on the date of grant. Half of the options, or 4.5 million, were to vest on Mr. Harrison's service anniversary in equal annual installments over four years. The other half were to vest based on achievement of performance targets related to both operating ratio and earnings before interest, taxes, depreciation and amortization adjusted for certain items. Upon his death on December 16, 2017, all of Mr. Harrison's 9 million options were forfeited.

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

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

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

	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Weighted-average grant date fair value	\$ 12.84	\$ 4.68	\$ 5.31
Stock options valuation assumptions:			
Annual dividend yield	1.5%	3%	3%
Risk-free interest rate	2.2%	1%	2%
Annualized volatility	27.1%	27%	28%
Expected life (in years)	6.3	6.5	6.5
Other pricing model inputs:			
Weighted-average grant-date market price of CSX stock (strike price)	\$ 49.63	\$ 24.13	\$ 24.99

The stock option activity is summarized as follows:

	<b>Stock Options Outstanding (in Thousands)</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 30, 2016	4,582	\$ 24.57
Granted	10,462	49.63
Forfeited	(10,860)	46.81
Exercised	22	25.18
Outstanding at December 31, 2017	4,163	\$ 29.52
Exercisable at December 31, 2017	—	—

Unrecognized compensation expense related to stock options as of December 2017 was \$10 million and is expected to be recognized over a weighted-average period of approximately one year.

***Equity Award Modifications***

The terms of performance units, restricted stock units and stock options granted as part of the Company's long-term share-based compensation plans typically require participants to be employed through the final day of the respective performance or vesting periods as applicable, except in the case of death, disability or retirement. As part of an enhanced severance benefit under the management streamlining and realignment initiative discussed in Note 1, unvested performance units, restricted stock units and stock options for separated employees not eligible for retirement were permitted to vest on a pro-rata basis.

Additionally, the terms of unvested equity awards for the former Chief Executive Officer, Michael J. Ward, and President, Clarence W. Gooden, were modified prior to their retirements on March 6, 2017 to permit prorated vesting through May 31, 2018. The terms were modified in exchange for each agreeing to serve in an advisory capacity upon request until May 31, 2017, and waiving various rights and claims, including the cancellation of their respective change of control agreements with the Company.

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

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

The award modifications noted above impacted approximately 75 employees and resulted in an increase to share-based compensation expense for revaluation of the affected awards of \$39 million for the year ended December 31, 2017.

***Stock Awards for Directors***

CSX's non-management directors receive a base annual retainer of \$100,000 to be paid quarterly in cash, unless the director chooses to defer the retainer in the form of cash or CSX common stock. Additionally, non-management directors receive an annual grant of common stock in the amount of approximately \$150,000, with the number of shares to be granted based on the average closing price of CSX stock in the months of November, December and January. In March 2017, the non-management Chairman received approximately \$250,000 in the form of CSX stock valued on the third day after E. Hunter Harrison was named Chief Executive Officer and new Board members were announced.

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

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

<i>(Dollars in Millions)</i>	<b>Casualty Reserves</b>	<b>Environmental Reserves</b>	<b>Other Reserves</b>	<b>Total</b>
<b>December 26, 2014</b>	\$ 265	\$ 94	\$ 59	\$ 418
Charged to Expense	60	45	37	142
Payments	(56)	(57)	(47)	(160)
<b>December 25, 2015</b>	269	82	49	400
Charged to Expense	52	46	30	128
Change in Estimate <sup>(a)</sup>	(28)	—	—	(28)
Payments	(64)	(33)	(29)	(126)
<b>December 30, 2016</b>	229	95	50	374
Charged to Expense	43	26	45	114
Payments	(44)	(31)	(39)	(114)
<b>December 31, 2017</b>	<u>\$ 228</u>	<u>\$ 90</u>	<u>\$ 56</u>	<u>\$ 374</u>

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

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

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

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

<i>(Dollars in Millions)</i>	December 2017			December 2016		
	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$ 43	\$ 125	\$ 168	\$ 46	\$ 124	\$ 170
Occupational	6	54	60	7	52	59
Total Casualty	\$ 49	\$ 179	\$ 228	\$ 53	\$ 176	\$ 229
Environmental	31	59	90	42	53	95
Other	28	28	56	20	30	50
Total	\$ 108	\$ 266	\$ 374	\$ 115	\$ 259	\$ 374

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

**Casualty**

Casualty reserves of \$228 million and \$229 million for 2017 and 2016, respectively, represent accruals for personal injury, occupational disease 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.

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

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

*Personal Injury*

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

During 2017 and 2015, there were no significant changes in estimate recorded to adjust casualty reserves. As a direct result of improvements in safety in recent years, the Company has experienced a downward trend in the severity of injuries, which has resulted in a decrease in the estimate of costs per incident. During 2016, the Company reduced casualty reserves, primarily personal injury reserves, by \$28 million, resulting in an after-tax effect on earnings from continuing operations and net earnings of \$18 million and an after-tax effect on earnings per share of \$0.02. The personal injury reserve reductions were included in materials, supplies and other on the consolidated income statements.

*Occupational*

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

*Environmental*

Environmental reserves were \$90 million and \$95 million for 2017 and 2016, 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 214 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.

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

**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 reasonably estimable and probable. The recorded liabilities for estimated future environmental costs are undiscounted. The liability includes future costs for remediation and restoration of sites as well as any significant ongoing monitoring costs, but excludes any anticipated insurance recoveries. Payments related to these liabilities are expected to be made over the next several years. Environmental remediation costs are included in materials, supplies and other on the consolidated income statements.

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

***Other***

Other reserves of \$56 million and \$50 million for 2017 and 2016, 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.

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

**NOTE 6. Properties**

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

<i>(Dollars in Millions)</i>		Accumulated	Net Book	Annual	Estimated	Depreciation
<b>December 2017</b>	Cost	Depreciation	Value	Rate	Useful Life ( Avg. Years)	Method <sup>(a)</sup>
<b>Road</b>						
Rail and Other Track Material	\$ 7,694	\$ (1,606)	\$ 6,088	2.5%	40	Group Life
Ties	5,665	(1,446)	4,219	3.7%	27	Group Life
Grading	2,662	(542)	2,120	1.4%	90	Group Life
Ballast	2,994	(921)	2,073	2.7%	37	Group Life
Bridges, Trestles, and Culverts	2,405	(356)	2,049	1.6%	70	Group Life
Signals and Interlockers	2,759	(588)	2,171	4.0%	25	Group Life/ Straight Line
Buildings	1,278	(464)	814	2.5%	40	Group Life
Other	4,634	(1,867)	2,767	4.2%	24	Group Life
Total Road	30,091	(7,790)	22,301			
<b>Equipment</b>						
Locomotive	6,083	(2,490)	3,593	3.5%	29	Group Life
Freight Cars	3,262	(998)	2,264	2.9%	35	Group Life
Work Equipment and Other	2,261	(1,282)	979	7.4%	14	Group Life/ Straight Line
Total Equipment	11,606	(4,770)	6,836			
Land	1,849	—	1,849	N/A	N/A	N/A
Construction In Progress	778	—	778	N/A	N/A	N/A
<b>Total Properties</b>	<b>\$ 44,324</b>	<b>\$ (12,560)</b>	<b>\$ 31,764</b>			

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

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

**NOTE 6. Properties, continued**

<i>(Dollars in Millions)</i>						
<b>December 2016</b>	Cost	Accumulated Depreciation	Net Book Value	Annual Depreciation Rate	Estimated Useful Life (Avg. Years)	Depreciation Method <sup>(a)</sup>
<b>Road</b>						
Rail and Other Track Material	\$ 7,326	\$ (1,493)	\$ 5,833	2.5%	40	Group Life
Ties	5,368	(1,292)	4,076	3.7%	27	Group Life
Grading	2,600	(514)	2,086	1.4%	90	Group Life
Ballast	2,897	(860)	2,037	2.7%	37	Group Life
Bridges, Trestles, and Culverts	2,306	(317)	1,989	1.6%	70	Group Life
Signals and Interlockers	2,523	(496)	2,027	4.0%	25	Group Life/ Straight Line
Buildings	1,238	(447)	791	2.5%	40	Group Life
Other	4,566	(1,905)	2,661	4.2%	24	Group Life
Total Road	28,824	(7,324)	21,500			
<b>Equipment</b>						
Locomotive	6,110	(2,504)	3,606	3.5%	29	Group Life
Freight Cars	3,386	(1,046)	2,340	2.9%	35	Group Life
Work Equipment and Other	2,108	(1,190)	918	7.4%	14	Group Life/ Straight Line
Total Equipment	11,604	(4,740)	6,864			
Land	1,833	—	1,833	N/A	N/A	N/A
Construction In Progress	913	—	913	N/A	N/A	N/A
Other	53	(13)	40	N/A	32	Straight Line
<b>Total Properties</b>	<b>\$ 43,227</b>	<b>\$ (12,077)</b>	<b>\$ 31,150</b>			

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

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

**NOTE 6. Properties, continued**

*Capital Expenditures*

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

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

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

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

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.

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

**NOTE 6. Properties, continued**

*Depreciation Method*

The depreciable assets of the Company are depreciated using either the group-life or straight-line method of accounting, which are both acceptable depreciation methods in accordance with GAAP. The Company depreciates its railroad assets, including main-line track, locomotives and freight cars, using the group-life method. Assets depreciated under the group-life method comprise 86% of total fixed assets of \$44 billion on a gross basis as of December 2017. The remaining depreciable assets of the Company, including non-railroad assets and assets under capital leases, are depreciated using the straight-line method on a per asset basis. Land is not depreciated.

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

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

*Estimated Useful Life*

Management performs a review of depreciation expense and useful lives on a regular basis. Under the group-life method, the service lives and salvage values for each group of assets are determined by completing periodic depreciation studies and applying management's assumptions regarding the service lives of its properties. A depreciation study is the periodic review of asset service lives, salvage values, accumulated depreciation, and other related factors for group assets conducted by a third-party specialist, analyzed by the Company's management and approved by the STB, the regulatory board that has broad jurisdiction over railroad practices. The STB requires depreciation studies be performed every three years for equipment assets (e.g. locomotives and freight cars) and every six years for road and track assets (e.g. bridges, signals, rail, ties, and ballast). The Company believes the frequency 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 2016, the Company completed a depreciation study for its equipment assets. The Company plans to complete the next depreciation study for equipment assets in 2019 and road and track assets in 2020.

*Group-Life Assets Sales and Retirements*

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

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

**NOTE 6. Properties, continued**

For sales or retirements of assets depreciated under the group-life method that occur in the ordinary course of business, the asset cost (net of salvage value or sales proceeds) is charged to accumulated depreciation and no gain or loss is immediately recognized. This practice is consistent with accounting treatment 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 is that the assets within the group on average have the same service life and characteristics, it is therefore concluded that the deferred gains and losses offset over time.

For sales or retirements of assets depreciated under the group-life method that do not occur in the ordinary course of business, a gain or loss may be recognized if the sale or retirement meets each of the following three criteria: (i) it is unusual, (ii) it is material in amount, and (iii) it varies significantly from the retirement profile identified through our depreciation studies. No material gains or losses were recognized on the sale of assets depreciated using the group-life method in 2017, 2016, or 2015.

*Land and Straight-line Assets Sales and Retirements*

A gain or loss is recognized in operating income when we sell or retire land, land-related easements or assets depreciated under the straight-line method. In 2017 and 2016, the Company recognized gains on the sale of operating properties of \$14 million and \$110 million, respectively, which are recognized in materials, supplies and other on the consolidated statements of income. 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*.)

*Impairment Review*

Properties and other long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or a group of assets in accordance with the *Property, Plant, and Equipment Topic* in the ASC. Where impairment is indicated, the assets are evaluated and their carrying amount is reduced to fair value based on discounted net cash flows or other estimates of fair value. In 2017, impairment expense of \$25 million was recorded in materials, supplies and other expense primarily due to the discontinuation of certain in-progress projects. There were no material impairments recorded during 2016 or 2015.

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

**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. Rent expense on operating leases is included in equipment and other rents on the consolidated income statements. The Company uses the straight-line method to recognize rent expense on operating leases that include escalations over their terms. These amounts are shown in the table below.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Rent Expense on Operating Leases <sup>(a)</sup>	<b>\$ 78</b>	\$ 77	\$ 86

*(a) Prior year data has been reclassified to conform to the current presentation.*

At December 2017, 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*).

<i>(Dollars in Millions)</i>	<b>Operating Leases</b>			<b>Sublease Income</b>	<b>Net Lease Commitments</b>
<b>Years</b>	<b>Operating Leases</b>	<b>Sublease Income</b>	<b>Net Lease Commitments</b>	<b>Operating Leases</b>	<b>Net Lease Commitments</b>
2018	\$ 68	\$ (3)	\$ 65	\$ (3)	\$ 61
2019	64	(3)	61	(3)	47
2020	50	(3)	42	(3)	38
2021	45	(3)	38	(3)	122
2022	41	(3)	38	(3)	122
Thereafter	128	(6)	122	(6)	122
Total	\$ 396	\$ (21)	\$ 375	\$ (21)	\$ 375

**Purchase Commitments**

CSXT has a commitment under a long-term maintenance program agreement that covers a portion of CSXT's fleet of locomotives. The program costs are based on the maintenance cycle for each covered locomotive, which is determined by the asset's age and type. Expected future costs may change as required maintenance schedules are revised and locomotives are placed into or removed from service. Under CSXT's current obligations, the agreement will expire no earlier than 2031.

At the end of 2016, the future commitment totaled \$4.9 billion and after modifications to the agreement and ordinary activity throughout the year, the total commitment at December 31, 2017 was significantly reduced to \$3.7 billion. In August 2017, the Company exercised certain rights under the agreement, which resulted in a reduction of locomotive fleet covered and reduced the future commitment at the end of the third quarter 2017. However, another modification was made on December 22, 2017 that superseded the previous modification, increasing the total commitment to \$3.7 billion at the end of the year. About 50 percent of the locomotive fleet is covered under this agreement.

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

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

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

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Amounts Paid	<b>\$ 197</b>	\$ 230	\$ 233
Number of Locomotives	<b>2,062</b>	2,243	2,310

As of December 2017, the Company has no outstanding locomotive purchase obligations. Annual payments related to the long-term locomotive maintenance program are estimated in the table below.

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

<i>(Dollars in Millions)</i>	<b>Locomotive Maintenance Payments</b>	<b>Other Commitments</b>	<b>Total</b>
2018	\$ 171	\$ 119	\$ 290
2019	162	67	229
2020	218	35	253
2021	223	35	258
2022	225	33	258
Thereafter	2,716	213	2,929
Total	\$ 3,715	\$ 502	\$ 4,217

***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.

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

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

***Legal***

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

The Company is able to estimate a range of possible loss for certain legal proceedings for which a loss is reasonably possible in excess of reserves established. The Company has estimated this range to be \$2 million to \$117 million in aggregate at December 31, 2017. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

***Fuel Surcharge Antitrust Litigation***

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

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

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

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

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

*Environmental*

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

In March 2016, EPA issued its Record of Decision detailing the agency's mandated remedial process for the lower 8 miles of the Study Area, which was based on a Focused Feasibility Study. EPA has estimated that it will take the potentially responsible parties approximately ten years to complete the work. EPA is currently in discussions with various potentially responsible parties to seek their agreement to pay for or perform the work. At a later date, EPA will select a remedy for the remainder of the Study Area and is expected to again seek the participation of private parties to implement the selected remedy using EPA's CERCLA authority to compel such participation, if necessary.

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

**NOTE 8. Employee Benefit Plans**

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

In addition to these plans, the Company sponsors a post-retirement medical plan and a life insurance plan that provide certain benefits to full-time, salaried, management employees hired prior to 2003, upon their retirement if certain eligibility requirements are met. 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.

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

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

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

	<b>Summary of Participants as of January 1, 2017</b>	
	<b>Pension Plans</b>	<b>Post-retirement Medical Plan</b>
Active Employees	3,744	458
Retirees and Beneficiaries	12,723	9,940
Other <sup>(a)</sup>	3,591	36
<b>Total</b>	<b>20,058</b>	<b>10,434</b>

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

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

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

**Cash Flows**

Plan assets are amounts that have been segregated and restricted to provide qualified pension plan benefits and include amounts contributed by the Company and amounts earned from invested contributions, net of benefits paid. Qualified pension plan obligations are funded in accordance with regulatory requirements and with an objective of meeting or exceeding minimum funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. The Company funds the cost of the post-retirement medical and life insurance benefits as well as nonqualified pension benefits on a pay-as-you go basis. No qualified pension plan contributions were made during 2015 and 2017. Although no contributions to the Company's qualified pension plans were required, CSX made voluntary contributions totaling \$250 million during 2016. No contributions to the Company's qualified pension plans are expected in 2018.

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

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

Future expected benefit payments are as follows:

<i>(Dollars in Millions)</i>	<b>Expected Cash Flows</b>	
	<b>Pension Benefits</b>	<b>Post-retirement Benefits</b>
2018	\$ 198	\$ 38
2019	193	28
2020	189	26
2021	186	24
2022	183	22
2023-2026	888	76
Total	<u>\$ 1,837</u>	<u>\$ 214</u>

**Plan Assets**

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

<i>(Dollars in Millions)</i>	<b>December 2017</b>		<b>December 2016</b>	
	<b>Amount</b>	<b>Percent of Total Assets</b>	<b>Amount</b>	<b>Percent of Total Assets</b>
	Equity	\$ 2,060	73%	\$ 1,806
Fixed Income	729	26	665	26
Cash and Cash Equivalents	44	1	68	3
Total	<u>\$ 2,833</u>	<u>100%</u>	<u>\$ 2,539</u>	<u>100%</u>

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

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

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

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

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

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

Changes in benefit obligation and the fair value of plan assets for the 2017 and 2016 calendar plan years are as follows:

	Pension Benefits		Post-retirement Benefits	
	Plan Year	Plan Year	Plan Year	Plan Year
	2017	2016	2017	2016
<i>(Dollars in Millions)</i>				
<b>Actuarial Present Value of Benefit Obligation</b>				
Accumulated Benefit Obligation	\$ 2,873	\$ 2,717	N/A	N/A
Projected Benefit Obligation	3,002	2,871	\$ 250	\$ 274
<b>Change in Projected Benefit Obligation:</b>				
Projected Benefit Obligation at Beginning of Plan Year	\$ 2,871	\$ 2,860	\$ 274	\$ 314
Service Cost	36	48	2	2
Interest Cost	92	119	7	12
Plan Participants' Contributions	—	—	7	6
Workforce Reduction Program/Curtailment	58	—	13	—
Actuarial Loss (Gain)	163	20	(17)	(22)
Benefits Paid	(218)	(176)	(36)	(38)
Benefit Obligation at End of Plan Year	\$ 3,002	\$ 2,871	\$ 250	\$ 274
<b>Change in Plan Assets:</b>				
Fair Value of Plan Assets at Beginning of Plan Year	\$ 2,539	\$ 2,309	\$ —	\$ —
Actual Return on Plan Assets	467	139	—	—
Qualified Employer Contributions	—	250	—	—
Non-qualified Employer Contributions	45	17	29	32
Plan Participants' Contributions	—	—	7	6
Benefits Paid	(218)	(176)	(36)	(38)
Fair Value of Plan Assets at End of Plan Year	2,833	2,539	—	—
<b>Funded Status at End of Plan Year</b>	\$ (169)	\$ (332)	\$ (250)	\$ (274)

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

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

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

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

	<b>Pension Benefits</b>		<b>Post-retirement Benefits</b>	
	<b>December 2017</b>	December 2016	<b>December 2017</b>	December 2016
<i>(Dollars in Millions)</i>				
<b>Amounts Recorded in Consolidated</b>				
<b>Balance Sheets:</b>				
Long-term Assets <sup>(a)</sup>	\$ 57	\$ 9	\$ —	\$ —
Current Liabilities	(15)	(15)	(38)	(39)
Long-term Liabilities	(211)	(326)	(212)	(235)
Net Amount Recognized in				
Consolidated Balance Sheets	<u>\$ (169)</u>	<u>\$ (332)</u>	<u>\$ (250)</u>	<u>\$ (274)</u>

(a) Long-term assets as of December 2017 and 2016 relate to qualified pension plans where assets exceed projected benefit obligations.

At December 2017, the fair value of plan assets for all qualified pension plans exceeded the benefit obligation. At December 2017, benefit obligations of the unfunded CSX non-qualified pension plans is disclosed below.

<i>(Dollars in Millions)</i>	<b>Aggregate Fair Value of Plan Assets</b>	<b>Aggregate Benefit Obligation</b>
	<b>Benefit Obligations in Excess of Plan Assets</b>	
Projected Benefit Obligation	\$ —	\$ (226)
Accumulated Benefit Obligation	—	(216)

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

**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.

<i>(Dollars in Millions)</i>	<b>Pension Benefits Fiscal Years</b>			<b>Post-retirement Benefits Fiscal Years</b>		
	<b>2017</b>	2016	2015	<b>2017</b>	2016	2015
Service Cost	<b>\$ 36</b>	\$ 48	\$ 45	<b>\$ 2</b>	\$ 2	\$ 2
Interest Cost	<b>92</b>	119	116	<b>7</b>	12	12
Expected Return on Plan Assets	<b>(171)</b>	(157)	(162)	—	—	—
Amortization of Net Loss	<b>41</b>	48	70	—	3	4
Amortization of Prior Service Cost	—	—	—	—	—	(1)
Net Periodic Benefit Expense	<b>(2)</b>	58	69	<b>9</b>	17	17
Special Termination Benefits - Workforce Reduction Program/Curtailment	<b>60</b>	—	7	<b>13</b>	—	—
Settlement Loss (Gain)	<b>11</b>	(1)	(2)	—	—	—
Total Expense	<b>\$ 69</b>	\$ 57	\$ 74	<b>\$ 22</b>	\$ 17	\$ 17

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

Pension settlement losses (gains) were recognized as a result of lump-sum payments to retirees exceeding the sum of the plan's service and interest cost. The Company recorded an \$11 million net settlement loss in 2017, of which a \$12 million loss resulted from the retirements of former executives and is reported in restructuring charge on the income statement. The other settlement gains in 2017, 2016 and 2015 were from one of the Company's qualified pension plans with insignificant balances and were recorded in labor and fringe expense on the income statement.

The special termination benefits in 2015 resulted from the management workforce reduction programs initiated in 2014. For additional information regarding the management workforce reductions, see Note 1, Nature of Operations and Significant Accounting Policies.

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

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

***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.

<i>(Dollars in Millions)</i> <b>Components of Other Comprehensive Loss (Income)</b>	<b>Pension Benefits</b>		<b>Post-retirement Benefits</b>	
	<b>December 2017</b>	December 2016	<b>December 2017</b>	December 2016
	Recognized in the balance sheet			
(Gains) Losses	\$ (131)	\$ 38	\$ (17)	\$ (22)
Expense (Income) recognized in the income statement				
Amortization of net losses <sup>(a)</sup>	\$ 41	\$ 48	\$ —	\$ 3
Settlement gain	11	(1)	—	—
Curtailment loss	4	—	—	—

(a) Amortization of net losses estimated to be expensed for 2018 is approximately \$43 million for pension benefits.

As of December 2017, the balances of pre-tax losses to be amortized related to the Company's pension and post-retirement obligations are \$705 million and \$7 million, respectively. These amounts are included in accumulated other comprehensive loss, a component of shareholders' equity.

***Assumptions***

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

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

The Company made this change to improve the correlation between projected pension and post-retirement benefit obligation cash flows and the corresponding spot discount rates and to provide a more precise measurement of service and interest costs. Under the spot rate approach, individual spot discount rates along the same high-quality corporate bonds yield curve used to measure the pension and post-retirement benefit obligations are applied to the relevant projected cash flows at the relevant maturity. The use of the spot rate approach does not affect the measurement of the pension and post-retirement benefits obligations. The Company accounted for this change on a prospective basis as a change in accounting estimate. For 2017, the adoption of the spot rate approach decreased the Company's net pension and post-retirement benefits expense by approximately \$25 million compared to the approach applicable in prior years.

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

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

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

	Pension Benefits		Post-retirement Benefits	
	2017	2016	2017	2016
Expected Long-term Return on Plan Assets:				
Benefit Cost for Current Plan Year	<b>6.75%</b>	7.00%	<b>N/A</b>	N/A
Benefit Cost for Subsequent Plan Year	<b>6.75%</b>	6.75%	<b>N/A</b>	N/A
Discount Rates:				
Benefit Cost for Plan Year	—%	—%	—%	—%
Service Cost for Plan Year	<b>4.26%</b> <sup>(a)</sup>	4.30%	<b>4.11%</b> <sup>(b)</sup>	3.85%
Interest Cost for Plan Year	<b>3.26%</b> <sup>(a)</sup>	4.30%	<b>2.78%</b> <sup>(b)</sup>	3.85%
Benefit Obligation at End of Plan Year	<b>3.56%</b>	4.08%	<b>3.34%</b>	3.71%
Salary Scale Inflation	<b>4.60%</b>	4.60%	<b>N/A</b>	N/A

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

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

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 \$40 million, \$35 million and \$32 million in 2017, 2016 and 2015, 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 \$39 million, \$35 million and \$36 million for 2017, 2016 and 2015, respectively, and is included in labor and fringe expense on the consolidated income statement.

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

**NOTE 9. Debt and Credit Agreements**

Debt at December 2017 and December 2016 is shown in the table below. For information regarding the fair value of debt, see Note 13, Fair Value Measurements.

<i>(Dollars in Millions)</i>	<b>Maturity at December 2017</b>	<b>Average Interest Rates at December 2017</b>	<b>December 2017</b>	<b>December 2016</b>
Notes	2020-2066	4.3%	\$ 11,591	\$ 11,055
Equipment Obligations <sup>(a)</sup>	2018-2023	6.3%	213	232
Capital Leases	2018-2026	16.2%	5	6
Subtotal Long-term Debt (including current portion)			<b>\$ 11,809</b>	<b>\$ 11,293</b>
Less Debt Due within One Year			<b>(19)</b>	<b>(331)</b>
Long-term Debt (excluding current portion)			<b>\$ 11,790</b>	<b>\$ 10,962</b>

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

**Debt Issuance & Early Redemption of Long-term Debt**

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

During 2016, the Company issued \$2.2 billion of new debt and repurchased \$1.4 billion of certain notes that were expected to mature in 2017, 2018 and 2019 resulting in a net increase in debt of \$800 million related to these transactions. CSX issued \$700 million of 2.60% notes due 2026, \$800 million of 3.80% notes due 2046, and \$700 million of 4.25% notes due 2066 (collectively, the "2016 issuances"). 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.

The net proceeds of the 2016 issuances were used to fully redeem \$300 million of 5.60% notes that otherwise would have matured on May 1, 2017; \$600 million of 6.25% notes that otherwise would have matured on March 15, 2018; and \$500 million of 7.375% notes that otherwise would have matured on February 1, 2019. The remaining proceeds were used for general corporate purposes, which may include repurchases of CSX's common stock, capital investment, pension contributions, working capital requirements, improvements in productivity and other cost reductions at CSX's major transportation units. The transactions noted above were determined to be an extinguishment of the existing debt, resulting in recognition of \$115 million of debt repurchase expense in 2016 related to \$1.4 billion of note repayments.

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

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

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

<i>(Dollars in Millions)</i>	<b>Maturities as of</b>
<b>Fiscal Years Ending</b>	<b>December 2017</b>
2018	\$ 19
2019	18
2020	745
2021	371
2022	162
Thereafter	10,494
Total Long-term Debt Maturities, including current portion	<u>\$ 11,809</u>

***Credit Facilities***

CSX has a \$1 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. This 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 2017, CSX was in compliance with all covenant requirements under the facility.

***Receivables Securitization Facility***

The Company has a receivables securitization facility with a three-year term scheduled to expire in September 2019. 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 \$200 million, depending on eligible receivables balances. Under the terms of this facility, CSXT transfers eligible third-party receivables to CSX Trade Receivables, LLC, 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 December 30, 2017 and the date of this filing, the Company has no outstanding balances under this facility.

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

**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. Miscellaneous income (expense) includes investment gains and losses, certain non-operating equity earnings or losses and other non-operating activities and may fluctuate due to timing.

As substantially all real estate activities are focused on supporting railroad operations, beginning in first quarter 2017, all results of these activities are included in operating income. Previously, these activities were classified as operating or non-operating based on the nature of the activity. As the results of these activities were not material for any periods presented, prior periods have not been reclassified.

Interest Income increased from 2016 to 2017 primarily due to higher yields on investment securities. Income from real estate operations were recorded as part of operating expenses during 2017.

Other income – net consisted of the following:

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Interest Income	\$ 13	\$ 10	\$ 6
Income from Non-operating Real Estate Activities	—	27	83
Miscellaneous Income (Expense)	8	9	9
Total Other Income (Expense) - Net	<b>\$ 21</b>	<b>\$ 46</b>	<b>\$ 98</b>
Gross Revenue from Real Estate			
Operations included above	\$ —	\$ 56	\$ 104

**NOTE 11. Income Taxes**

Earnings before income taxes of \$3.1 billion, \$2.7 billion and \$3.1 billion for fiscal years 2017, 2016 and 2015, respectively, represent earnings from domestic operations. The breakdown of income tax expense between current and deferred is as follows:

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Current:			
Federal	\$ 787	\$ 540	\$ 619
State	117	82	95
Subtotal Current	<b>904</b>	622	714
Deferred:			
Federal	(3,277)	355	414
State	44	50	42
Subtotal Deferred	<b>(3,233)</b>	405	456
Total	<b>\$ (2,329)</b>	<b>\$ 1,027</b>	<b>\$ 1,170</b>

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

**NOTE 11. Income Taxes, continued**

Income tax expense reconciled to the tax computed at statutory rates is presented in the table below. With the enactment of the Tax Cuts and Jobs Act (the "Act" or "tax reform") on December 22, 2017, the Company's 2017 financial results included a \$3.5 billion, or \$3.81 per share, non-cash reduction in income tax expense, primarily resulting from revaluing the Company's net deferred tax liabilities to reflect the recently enacted 21% federal corporate tax rate effective January 1, 2018. These estimates are based on the Company's initial analysis of the Act and may be adjusted in future periods as required. The Act has significant complexity and implementation guidance from the Internal Revenue Service, clarifications of state tax law and the completion of the Company's 2017 tax return filings could all impact these estimates. The Company does not believe potential adjustments in future periods would materially impact the Company's financial condition or results of operations. The provisions of the Act related to foreign earnings will not impact CSX.

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

In addition to the tax benefit related to tax reform, the Company recorded a 2017 income tax benefit of \$21 million primarily as a result of the additional tax benefit associated with vesting of share-based awards, state legislative changes, a change in the apportionment of state taxable income and the related impact on the valuation of deferred taxes, and the settlement of certain state tax matters. In 2016, the Company recorded an income tax expense adjustment of \$10 million as a result of a change in the apportionment of state income taxes and the related impact on the valuation of deferred taxes as well as a \$7 million tax benefit as a result of federal and state legislative changes. In 2015, the Company recorded a tax benefit of \$4 million primarily as a result of federal and state legislative changes as well as the resolution of federal and state tax matters.

<i>(Dollars In Millions)</i>	<b>Fiscal Years</b>					
	<b>2017</b>		2016		2015	
Federal Income Taxes	<b>\$ 1,100</b>	<b>35.0 %</b>	\$ 959	35.0 %	\$ 1,098	35.0 %
State Income Taxes	<b>102</b>	<b>3.2 %</b>	83	3.0 %	86	2.7 %
Deferred Tax Rate Change	<b>(3,506)</b>	<b>(111.6)%</b>	—	— %	—	— %
Other	<b>(25)</b>	<b>(0.8)%</b>	(15)	(0.5)%	(14)	(0.4)%
Income Tax (Benefit) Expense/Rate	<b>\$ (2,329)</b>	<b>(74.2)%</b>	\$ 1,027	37.5 %	\$ 1,170	37.3 %

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

**NOTE 11. Income Taxes, continued**

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

<i>(Dollars in Millions)</i>	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Pension Plans	\$ 41	\$ —	\$ 125	\$ —
Other Employee Benefit Plans	182	—	272	—
Accelerated Depreciation	—	6,576	—	9,925
Other	657	722	225	293
Total	\$ 880	\$ 7,298	\$ 622	\$ 10,218
Net Deferred Income Tax Liabilities		\$ 6,418		\$ 9,596

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

- annual provision for deferred income tax expense including the impact of the recently enacted federal corporate tax rate change from 35 percent to 21 percent, and
- accumulated other comprehensive income/loss.

The Company files a consolidated federal income tax return, which includes its principal domestic subsidiaries. CSX and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. CSX participated in a contemporaneous IRS audit of tax years 2016 and 2017. Federal examinations of original federal income tax returns for all years through 2015 are resolved.

As of December 2017, 2016 and 2015, the Company had approximately \$24 million, \$25 million and \$23 million, respectively, of total unrecognized tax benefits as a result of uncertain tax positions. Net tax benefits of \$19 million, \$16 million and \$15 million in 2017, 2016 and 2015, respectively, could favorably impact the effective income tax rate in each year. The Company does not expect that unrecognized tax benefits as of December 2017 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 2017 is reconciled in the table below.

**Unrecognized Tax Benefits:**

*(Dollars in Millions)*

	Fiscal Year		
	2017	2016	2015
Balance at beginning of the year	\$ 25	\$ 23	\$ 21
Additions based on tax positions related to current year	1	1	1
Additions based on tax positions related to prior years	4	4	4
Reductions based on tax positions related to prior years	—	—	—
Settlements with taxing authorities	(4)	—	1
Lapse of statute of limitations	(2)	(3)	(4)
<b>Balance at end of the year</b>	<b>\$ 24</b>	<b>\$ 25</b>	<b>\$ 23</b>

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

**NOTE 11. Income Taxes, continued**

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 expenses of \$3 million, \$2 million and \$2 million in 2017, 2016 and 2015, respectively, for changes to reserves for interest and penalties for all prior year tax positions. The Company had \$6 million, \$6 million and \$4 million accrued for interest and penalties at 2017, 2016 and 2015, respectively, for all prior year tax positions.

**NOTE 12. Related Parties and Affiliates**

*Conrail*

Through a limited liability company, CSX and Norfolk Southern Corporation ("NS") jointly own Conrail. CSX has a 42% economic interest and 50% voting interest in the jointly-owned entity, and NS has the remainder of the economic and voting interests. 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.

<i>(Dollars in Millions)</i>	<b>Conrail Shared Asset Agreement</b>
<b>Years</b>	
2018	\$ 27
2019	27
2020	27
2021	27
2022	27
Thereafter	48
<b>Total</b>	<b>\$ 183</b>

Also, included in equity earnings of affiliates are CSX's 42 percent share of Conrail's income and its amortization of the fair value write-up arising from the acquisition of Conrail and certain other adjustments. The amortization primarily represents the additional after-tax depreciation expense related to the write-up of Conrail's fixed assets when the original purchase price, from the 1997 acquisition of Conrail, was allocated based on fair value. This write-up of fixed assets resulted in a difference between CSX's investment in Conrail and its share of Conrail's underlying net equity, which is \$347 million as of December 2017.

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

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

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

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
Rents, fees and services	\$ 120	\$ 114	\$ 123
Purchase price amortization and other	4	4	4
Equity earnings of Conrail	(58)	(37)	(33)
Total Conrail Expense	<b>\$ 66</b>	<b>\$ 81</b>	<b>\$ 94</b>

As required by the *Related Party Disclosures Topic* in the ASC, the Company has identified amounts below owed to Conrail, or its subsidiaries, representing liabilities under the operating, equipment and shared area agreements with Conrail. In 2014, the Company 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 for 2017, 2016 and 2015, respectively.

<i>(Dollars in Millions)</i>	<b>December 2017</b>	December 2016
<b>Balance Sheet Information:</b>		
CSX payable to Conrail	\$ 123	\$ 91
Promissory notes payable to Conrail subsidiary		
2.89% CSX promissory note due October 2044	73	73
2.89% CSXT promissory note due October 2044	151	151

*TTX Company*

TTX Company ("TTX") is a privately-held corporation engaged in the business of providing its owner-railroads with standardized fleets of intermodal, automotive and general use railcars at time and mileage rates. CSX owns about 20 percent of TTX's common stock, and the remaining is owned by the other leading North American railroads and their affiliates. CSX's investment in TTX is \$626 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.

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

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

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

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>		
	<b>2017</b>	2016	2015
<b>Income statement information:</b>			
Car hire rents	\$ 237	\$ 233	\$ 218
Equity earnings of TTX	(157)	(26)	(20)
Total TTX expense	\$ 80	\$ 207	\$ 198
	<b>December</b>	December	
<b>Balance sheet information:</b>	<b>2017</b>	2016	
CSX payable to TTX	\$ 43	\$ 47	

*Tax Reform Effect on Equity Earnings of Affiliates*

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

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

**NOTE 13. Fair Value Measurements**

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

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

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

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

***Investments***

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

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

The Company's investment assets are carried at fair value on the consolidated balance sheets as summarized in the following table. All of the inputs used to determine the fair value of the Company's investments are Level 2 inputs. The amortized cost basis of these investments was \$91 million and \$500 million as of December 31, 2017 and December 30, 2016, respectively.

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

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

<i>(Dollars in Millions)</i>	Fiscal Years							
	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Certificates of Deposit and Commercial Paper	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 415	\$ —	\$ 415
Corporate Bonds	—	61	—	61	—	63	—	63
Government Securities	—	34	—	34	—	22	—	22
Total investments at fair value	<b>\$ —</b>	<b>\$ 95</b>	<b>\$ —</b>	<b>\$ 95</b>	<b>\$ —</b>	<b>\$ 500</b>	<b>\$ —</b>	<b>\$ 500</b>

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

<i>(Dollars in Millions)</i>	December 2017	December 2016
Less than 1 year	\$ 18	\$ 417
1 - 2 years	3	12
2 - 5 years	8	4
Greater than 5 years	66	67
Total investments at fair value	<b>\$ 95</b>	<b>\$ 500</b>

**Long-term Debt**

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

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

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

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

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

<i>(Dollars in Millions)</i>	<b>December 2017</b>	December 2016
Long-term Debt (Including Current Maturities):		
Fair Value	<b>\$ 13,220</b>	\$ 12,096
Carrying Value	<b>11,809</b>	11,293

***Pension Plan Assets***

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

***Investments in the Fair Value Hierarchy***

- *Common stock (Level 1)*: Valued at the closing price reported on the active market on which the individual securities are traded on the last day of the year and classified in Level 1 of the fair value hierarchy.
- *Mutual funds (Level 1)*: Valued at the net asset value of shares held at year end based on quoted market prices determined in an active market. These assets are classified in Level 1 of the fair value hierarchy.
- *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.

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

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

The pension plan assets at fair value by level, within the fair value hierarchy, as of calendar plan years 2017 and 2016 are shown in the table below. For additional information related to pension assets, see Note 8, Employee Benefit Plans.

<i>(Dollars in Millions)</i>	<b>Fiscal Years</b>							
	<b>2017</b>				<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common Stock	<b>\$ 1,022</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,022</b>	\$ 940	\$ —	\$ —	\$ 940
Mutual funds	<b>14</b>	<b>—</b>	<b>—</b>	<b>14</b>	12	—	—	12
Cash equivalents	<b>2</b>	<b>—</b>	<b>—</b>	<b>2</b>	1	—	—	1
Corporate bonds	<b>—</b>	<b>537</b>	<b>—</b>	<b>537</b>	—	497	—	497
Government securities	<b>—</b>	<b>169</b>	<b>—</b>	<b>169</b>	—	141	—	141
Asset-backed securities	<b>—</b>	<b>9</b>	<b>—</b>	<b>9</b>	—	14	—	14
Derivatives and other	<b>—</b>	<b>11</b>	<b>—</b>	<b>11</b>	—	11	—	11
<b>Total investments in the fair value hierarchy</b>	<b>\$ 1,038</b>	<b>\$ 726</b>	<b>\$ —</b>	<b>\$ 1,764</b>	\$ 953	\$ 663	\$ —	\$ 1,616
Investments measured at net asset value <sup>(a)</sup>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>\$ 1,069</b>	n/a	n/a	n/a	\$ 923
<b>Investments at fair value</b>	<b>\$ 1,038</b>	<b>\$ 726</b>	<b>\$ —</b>	<b>\$ 2,833</b>	\$ 953	\$ 663	\$ —	\$ 2,539

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

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

**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 \$5.6 billion, \$1.7 billion and \$2.0 billion for 2017, 2016 and 2015, 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.

	<b>Pension and Other Post- Employment Benefits</b>	<b>Other</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
<i>(Dollars in millions)</i>			
<b>Balance December 26, 2014 - Net of Tax</b>	\$ (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 (Loss) Income	<u>10</u>	<u>(9)</u>	<u>1</u>
<b>Balance December 25, 2015 - Net of Tax</b>	<u>(601)</u>	<u>(64)</u>	<u>(665)</u>
Other Comprehensive Income			
(Loss) Income Before Reclassifications	(16)	3	(13)
Amounts Reclassified to Net Earnings	50	1	51
Tax Expense	(13)	—	(13)
Total Other Comprehensive Income	<u>21</u>	<u>4</u>	<u>25</u>
<b>Balance December 30, 2016 - Net of Tax</b>	<u>(580)</u>	<u>(60)</u>	<u>(640)</u>
Other Comprehensive Income			
Income Before Reclassifications	148	13	161
Amounts Reclassified to Net Earnings	56	2	58
Tax Expense	(64)	(1)	(65)
Total Other Comprehensive Income	<u>140</u>	<u>14</u>	<u>154</u>
<b>Balance December 31, 2017 - Net of Tax</b>	<u>\$ (440)</u>	<u>\$ (46)</u>	<u>\$ (486)</u>

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

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

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

<b>Fiscal Year Ended December 2017 <sup>(a)</sup></b>	<b>Quarters</b>				
<i>(Dollars in Millions, Except Per Share Amounts)</i>	<b>1st</b>	<b>2nd</b>	<b>3rd</b>	<b>4th</b>	<b>Full Year</b>
Revenue	<b>\$ 2,869</b>	<b>\$ 2,933</b>	<b>\$ 2,743</b>	<b>\$ 2,863</b>	<b>\$ 11,408</b>
Operating Income	<b>712</b>	<b>958</b>	<b>876</b>	<b>1,121</b>	<b>3,667</b>
Net Earnings <sup>(b)</sup>	<b>362</b>	<b>510</b>	<b>459</b>	<b>4,140</b>	<b>5,471</b>
Earnings Per Share, Basic <sup>(b)</sup>	<b>\$ 0.39</b>	<b>\$ 0.55</b>	<b>\$ 0.51</b>	<b>\$ 4.63</b>	<b>\$ 6.01</b>
Earnings Per Share, Assuming Dilution <sup>(b)</sup>	<b>0.39</b>	<b>0.55</b>	<b>0.51</b>	<b>4.62</b>	<b>5.99</b>

<b>Fiscal Year Ended December 2016 <sup>(a)</sup></b>					
Revenue	\$ 2,618	\$ 2,704	\$ 2,710	\$ 3,037	\$ 11,069
Operating Income	704	840	841	1,004	3,389
Net Earnings	356	445	455	458	1,714
Earnings Per Share, Basic	\$ 0.37	\$ 0.47	\$ 0.48	\$ 0.49	\$ 1.81
Earnings Per Share, Assuming Dilution	0.37	0.47	0.48	0.49	1.81

*(a) Prior to third quarter 2017, CSX followed a 52/53 week fiscal reporting calendar and 2016 included 53 weeks. All 2016 information presented in Results of Operations is on a 53-week basis, under Generally Accepted Accounting Principles ("GAAP"). See Note 1, Nature of Operations and Significant Accounting Policies for details regarding the number of days in each quarterly period presented.*

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

**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 following tables.

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

<b>Fiscal Year Ended December 2017</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
Revenue	\$ —	\$ 11,334	\$ 74	\$ 11,408
Expense	(158)	8,070	(171)	7,741
Operating Income	158	3,264	245	3,667
Equity in Earnings of Subsidiaries	5,810	—	(5,810)	—
Interest Expense	(582)	(29)	65	(546)
Other Income - Net	7	42	(28)	21
Earnings Before Income Taxes	5,393	3,277	(5,528)	3,142
Income Tax Benefit	78	2,247	4	2,329
<b>Net Earnings</b>	<b>\$ 5,471</b>	<b>\$ 5,524</b>	<b>\$ (5,524)</b>	<b>\$ 5,471</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 5,625</b>	<b>\$ 5,538</b>	<b>\$ (5,538)</b>	<b>\$ 5,625</b>
<b>Fiscal Year Ended December 2016</b>				
Revenue	\$ —	\$ 10,991	\$ 78	\$ 11,069
Expense	(265)	8,100	(155)	7,680
Operating Income	265	2,891	233	3,389
Equity in Earnings of Subsidiaries	1,997	2	(1,999)	—
Interest Expense	(583)	(35)	39	(579)
Other Income - Net	(112)	44	(1)	(69)
Earnings Before Income Taxes	1,567	2,902	(1,728)	2,741
Income Tax Benefit (Expense)	147	(1,081)	(93)	(1,027)
<b>Net Earnings</b>	<b>\$ 1,714</b>	<b>\$ 1,821</b>	<b>\$ (1,821)</b>	<b>\$ 1,714</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 1,739</b>	<b>\$ 1,833</b>	<b>\$ (1,833)</b>	<b>\$ 1,739</b>
<b>Fiscal Year Ended December 2015</b>				
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)
<b>Net Earnings</b>	<b>\$ 1,968</b>	<b>\$ 1,806</b>	<b>\$ (1,806)</b>	<b>\$ 1,968</b>
<b>Total Comprehensive Earnings</b>	<b>\$ 1,969</b>	<b>\$ 1,806</b>	<b>\$ (1,806)</b>	<b>\$ 1,969</b>

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

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

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

As of December 30, 2016	CSX Corporation	CSX Transportation	Eliminations and Other	CSX Consolidated
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 305	\$ 281	\$ 17	\$ 603
Short-term Investments	415	—	2	417
Accounts Receivable - Net	2	215	721	938
Receivable from Affiliates	1,157	2,351	(3,508)	—
Materials and Supplies	—	407	—	407
Other Current Assets	—	106	16	122
<b>Total Current Assets</b>	1,879	3,360	(2,752)	2,487
Properties	1	40,518	2,708	43,227
Accumulated Depreciation	(1)	(10,634)	(1,442)	(12,077)
<b>Properties - Net</b>	—	29,884	1,266	31,150
Investments in Conrail	—	—	840	840
Affiliates and Other Companies	(39)	643	15	619
Investment in Consolidated Subsidiaries	24,179	—	(24,179)	—
Other Long-term Assets	2	607	(291)	318
<b>Total Assets</b>	\$ 26,021	\$ 34,494	\$ (25,101)	\$ 35,414
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 95	\$ 678	\$ 33	\$ 806
Labor and Fringe Benefits Payable	40	440	65	545
Payable to Affiliates	3,457	500	(3,957)	—
Casualty, Environmental and Other Reserves	—	102	13	115
Current Maturities of Long-term Debt	313	19	(1)	331
Income and Other Taxes Payable	(346)	459	16	129
Other Current Liabilities	—	112	2	114
<b>Total Current Liabilities</b>	3,559	2,310	(3,829)	2,040
Casualty, Environmental and Other Reserves	—	208	51	259
Long-term Debt	10,203	759	—	10,962
Deferred Income Taxes - Net	(203)	9,541	258	9,596
Other Long-term Liabilities	783	410	(330)	863
<b>Total Liabilities</b>	14,342	13,228	(3,850)	23,720
<b>Shareholders' Equity</b>				
Common Stock, \$1 Par Value	928	181	(181)	928
Other Capital	138	5,095	(5,095)	138
Retained Earnings	11,253	15,994	(15,994)	11,253
Accumulated Other Comprehensive Loss	(640)	(19)	19	(640)
Noncontrolling Minority Interest	—	15	—	15
<b>Total Shareholders' Equity</b>	11,679	21,266	(21,251)	11,694
<b>Total Liabilities and Shareholders' Equity</b>	\$ 26,021	\$ 34,494	\$ (25,101)	\$ 35,414

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

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

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

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

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

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

**NOTE 16. Summarized Consolidating Financial Data, continued**

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

<b>Fiscal Year Ended December 2015</b>	<b>CSX Corporation</b>	<b>CSX Transportation</b>	<b>Eliminations and Other</b>	<b>CSX Consolidated</b>
<b>Operating Activities</b>				
<i>Net Cash Provided by (Used in) Operating Activities</i>	\$ 983	\$ 2,974	\$ (587)	\$ 3,370
<b>Investing Activities</b>				
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
<i>Net Cash Provided by (Used in) Investing Activities</i>	(569)	(2,121)	(202)	(2,892)
<b>Financing Activities</b>				
Long-term Debt Issued	1,200	—	—	1,200
Long-term Debt Repaid	(200)	(29)	—	(229)
Dividends Paid	(686)	(750)	750	(686)
Shares Repurchased	(804)	—	—	(804)
Other Financing Activities	10	1	(11)	—
<i>Net Cash Provided by (Used in) Financing Activities</i>	(480)	(778)	739	(519)
Net (Decrease) Increase 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

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