

CSX CORP
Form 10-Q
October 17, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018
OR

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

For the transition period from _____ to _____

Commission

File

Number

1-8022

CSX CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

62-1051971

(State or other jurisdiction of incorporation or
organization)

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

500 Water Street, 15th Floor, Jacksonville, FL

32202

(904) 359-3200

(Address of principal executive offices)

(Zip
Code)

(Telephone number, including area
code)

No

Change

(Former name, former address and former fiscal year, if changed since last report.)

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

Yes (X) No ()

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

Yes (X) No ()

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large Accelerated Filer (X) Accelerated Filer () Non-accelerated Filer () Smaller Reporting Company ()

Emerging growth company ()

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

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

Yes () No (X)

There were 844,420,361 shares of common stock outstanding on September 30, 2018 (the latest practicable date that is closest to the filing date).

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018
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CSX CORPORATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2018	2017	2018	2017
Revenue	\$3,129	\$2,743	\$9,107	\$8,545
Expense				
Labor and Fringe	695	725	2,060	2,271
Materials, Supplies and Other	474	523	1,425	1,590
Depreciation	334	331	986	978
Fuel	268	205	793	621
Equipment and Other Rents	89	109	302	313
Restructuring Charge (Note 1)	—	1	—	226
Equity Earnings of Affiliates	(24)	(19)	(79)	(48)
Total Expense	1,836	1,875	5,487	5,951
Operating Income	1,293	868	3,620	2,594
Interest Expense	(162)	(132)	(468)	(406)
Restructuring Charge - Non-Operating (Note 1)	—	—	—	(70)
Other Income - Net	19	14	54	41
Earnings Before Income Taxes	1,150	750	3,206	2,159
Income Tax Expense	(256)	(291)	(740)	(828)
Net Earnings	\$894	\$459	\$2,466	\$1,331
Per Common Share (Note 2)				
Net Earnings Per Share, Basic	\$1.05	\$0.51	\$2.85	\$1.45
Net Earnings Per Share, Assuming Dilution	\$1.05	\$0.51	\$2.83	\$1.45
Average Shares Outstanding (In millions)	850	902	866	916
Average Shares Outstanding, Assuming Dilution (In millions)	854	906	870	919
Cash Dividends Paid Per Common Share	\$0.22	\$0.20	\$0.66	\$0.58

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

	Third Quarters		Nine Months	
	2018	2017	2018	2017
Total Comprehensive Earnings (Note 10)	\$901	\$467	\$2,378	\$1,410

Certain prior year data has been reclassified to conform to the current presentation.
See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	(Unaudited)	
	September 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 663	\$ 401
Short-term Investments	615	18
Accounts Receivable - Net (Note 11)	1,090	970
Materials and Supplies	283	372
Other Current Assets	133	154
Total Current Assets	2,784	1,915
Properties	44,485	44,324
Accumulated Depreciation	(12,614)	(12,560)
Properties - Net	31,871	31,764
Investment in Conrail	941	907
Affiliates and Other Companies	823	779
Other Long-term Assets	442	374
Total Assets	\$ 36,861	\$ 35,739
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 982	\$ 847
Labor and Fringe Benefits Payable	517	602
Casualty, Environmental and Other Reserves (Note 4)	110	108
Current Maturities of Long-term Debt (Note 7)	18	19
Income and Other Taxes Payable	166	157
Other Current Liabilities	151	161
Total Current Liabilities	1,944	1,894
Casualty, Environmental and Other Reserves (Note 4)	231	266
Long-term Debt (Note 7)	13,754	11,790
Deferred Income Taxes - Net	6,584	6,418
Other Long-term Liabilities	613	650
Total Liabilities	23,126	21,018
Shareholders' Equity:		
Common Stock, \$1 Par Value	844	890
Other Capital	129	217
Retained Earnings	13,320	14,084
Accumulated Other Comprehensive Loss (Note 10)	(574)	(486)
Noncontrolling Interest	16	16
Total Shareholders' Equity	13,735	14,721
Total Liabilities and Shareholders' Equity	\$ 36,861	\$ 35,739

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENTS (Unaudited)

(Dollars in millions)

	Nine Months	
	2018	2017
OPERATING ACTIVITIES		
Net Earnings	\$2,466	\$1,331
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:		
Depreciation	986	978
Deferred Income Taxes	148	161
Gain on Property Dispositions	(122)	(5)
Equity Earnings of Affiliates	(79)	(48)
Restructuring Charge	—	296
Cash Payments for Restructuring Charge	(14)	(147)
Other Operating Activities	(13)	40
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(97)	(78)
Other Current Assets	70	47
Accounts Payable	140	102
Income and Other Taxes Payable	19	180
Other Current Liabilities	(98)	4
Net Cash Provided by Operating Activities	3,406	2,861
INVESTING ACTIVITIES		
Property Additions	(1,240)	(1,462)
Proceeds from Property Dispositions	257	38
Purchase of Short-term Investments	(611)	(645)
Proceeds from Sales of Short-term Investments	15	957
Other Investing Activities	(8)	33
Net Cash Used In Investing Activities	(1,587)	(1,079)
FINANCING ACTIVITIES		
Long-term Debt Issued (Note 7)	2,000	850
Long-term Debt Repaid (Note 7)	(19)	(332)
Dividends Paid	(570)	(530)
Shares Repurchased	(2,816)	(1,763)
Accelerated Share Repurchase Pending Final Settlement (Note 2)	(100)	—
Other Financing Activities	(52)	(19)
Net Cash Used in Financing Activities	(1,557)	(1,794)
Net Increase (Decrease) in Cash and Cash Equivalents	262	(12)
CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Period	401	603
Cash and Cash Equivalents at End of Period	\$663	\$591

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

See accompanying notes to consolidated financial statements.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. Nature of Operations and Significant Accounting Policies

Background

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

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. The Company's intermodal business links customers to railroads via trucks and terminals.

After a merger on July 1, 2017 with CSX Real Property, Inc., a former wholly-owned CSX subsidiary, CSXT is now responsible for the Company's real estate sales, leasing, acquisition and management and development activities. 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.

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 include 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 following:

- Consolidated income statements for the quarter and nine months ended September 30, 2018 and September 30, 2017;
- Condensed consolidated comprehensive income statements for the quarter and nine months ended September 30, 2018 and September 30, 2017;
- Consolidated balance sheets at September 30, 2018 and December 31, 2017; and
- Consolidated cash flow statements for the nine months ended September 30, 2018 and September 30, 2017.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been omitted from these interim financial statements. CSX suggests that these financial statements be read in conjunction with the audited financial statements and the notes included in CSX's most recent annual report on Form 10-K and any subsequently filed current reports on Form 8-K.

Fiscal Year

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

Fiscal year 2018 (January 1, 2018 through December 31, 2018) will contain 365 days, and fiscal year 2017 (December 31, 2016 through December 31, 2017) contained 366 days.

Fiscal first quarter 2018 (January 1, 2018 through March 31, 2018) contained 90 days, and fiscal first quarter 2017 (December 31, 2016 through March 31, 2017) contained 91 days.

Fiscal second quarter 2018 (April 1, 2018 through June 30, 2018) contained 91 days, and fiscal second quarter 2017 (April 1, 2017 through June 30, 2017) contained 91 days.

Fiscal third quarter 2018 (July 1, 2018 through September 30, 2018) contained 92 days, and fiscal third quarter 2017 (July 1, 2017 through September 30, 2017) contained 92 days.

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

Except as otherwise specified, references to "third quarter(s)" or "nine months" indicate CSX's fiscal periods ending September 30, 2018 and September 30, 2017, and references to "year-end" indicate the fiscal year ended December 31, 2017.

New Accounting Pronouncements

Pronouncements adopted in 2018

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

(Dollars in millions)	Third Quarter 2017			Nine Months 2017		
	As Previously Reported	Reclass	As Reclassified	As Previously Reported	Reclass	As Reclassified
Operating Expense:						
Labor and Fringe	\$717	\$ 8	\$ 725	\$2,249	\$ 22	\$ 2,271
Restructuring Charge	1	—	1	296	(70)	226
Non-Operating Income (Expense):						
Restructuring Charge - Non-Operating	\$—	\$ —	\$ —	\$—	\$ (70)	\$ (70)
Other Income - Net	6	8	14	19	22	41

In May 2014, the FASB issued ASU Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. In-depth reviews of commercial contracts were completed and changes to processes and internal controls to meet the standard's reporting and disclosure requirements were implemented. The Company adopted the guidance effective January 1, 2018 using the modified retrospective approach. The adoption did not affect the Company's financial condition, results of operations or liquidity. Disclosures related to the nature, amount and timing of revenue and cash flows arising from contracts with customers are included in Note 11, Revenues.

Pronouncements to be adopted

In February 2016, the FASB issued ASU, Leases, which will require lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, and lessors to recognize a net lease investment. Additional qualitative and quantitative disclosures will also be required. This standard update is effective for CSX beginning with the first quarter 2019 and the Company plans to adopt it using the cumulative-effect adjustment transition method approved by the FASB in July 2018. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and are being implemented. Software has been implemented that will assist in the recognition of additional assets and liabilities to be included on the balance sheet related to leases currently classified as operating leases with durations greater than twelve months, with certain allowable exceptions. In addition to lease agreements, service contracts and other agreements are also being reviewed to determine if they contain an embedded lease. 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 as a result of right-of-use assets and corresponding lease liabilities that will be recorded.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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.

Restructuring Charge

The prior year restructuring charge includes costs related to the management workforce reduction program completed in 2017, reimbursement arrangements with MR Argent Advisor LLC ("Mantle Ridge") and the Company's former President and Chief Executive Officer, E. Hunter Harrison, the proration of equity awards and other advisory costs related to the leadership transition. Payments related to the 2017 restructuring charge were substantially complete as of March 31, 2018. For further details on the charge, see the Company's most recent annual report on Form 10-K.

During third quarter 2017, restructuring charge of \$1 million was incurred for advisory fees related to shareholder matters. Expenses related to the management workforce reduction and other costs during the nine months 2017 are shown in the following table.

(Dollars in millions)	Nine Months 2017		
	As Reported	Operating Restructuring Charge	Non-Operating Restructuring Charge
Severance and Pension	\$144	\$ 91	\$ 53
Other Post-Retirement Benefits Curtailment	17	—	17
Employee Equity Awards Proration and Other	16	16	—
Subtotal Management Workforce Reduction	\$177	\$ 107	\$ 70
Reimbursement Arrangements	84	84	—
Executive Equity Awards Proration	24	24	—
Advisory Fees Related to Shareholder Matters	11	11	—
Total Restructuring Charge	\$296	\$ 226	\$ 70

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share

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

	Third Quarters		Nine Months	
	2018	2017	2018	2017
Numerator (Dollars in millions):				
Net Earnings	\$894	\$459	\$2,466	\$1,331
Dividend Equivalents on Restricted Stock	—	—	—	(1)
Net Earnings, Attributable to Common Shareholders	\$894	\$459	\$2,466	\$1,330
Denominator (Units in millions):				
Average Common Shares Outstanding	850	902	866	916
Other Potentially Dilutive Common Shares	4	4	4	3
Average Common Shares Outstanding, Assuming Dilution	854	906	870	919
Net Earnings Per Share, Basic	\$1.05	\$0.51	\$2.85	\$1.45
Net Earnings Per Share, Assuming Dilution	\$1.05	\$0.51	\$2.83	\$1.45

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 FASB's 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, this rule requires CSX to include the potential shares that would be outstanding if all outstanding stock options were exercised. This number is different from outstanding stock options because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately seven thousand and 10 million of total average outstanding stock options for the third quarters ended September 30, 2018 and September 30, 2017, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share, continued

Share Repurchases

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized to \$5 billion. This program is expected to be completed by the end of first quarter 2019. During the third quarters of 2018 and 2017, the Company repurchased approximately \$1.0 billion, or 15 million shares, and \$1.0 billion, or 20 million shares, respectively. During the nine months of 2018 and 2017, the Company repurchased \$2.8 billion, or 46 million shares, and \$1.8 billion, or 35 million shares, respectively.

On July 19, 2018, the Company entered into an accelerated share repurchase agreement to repurchase shares of the Company's common stock. Under this agreement, the Company made a prepayment of \$500 million to a financial institution and received an initial delivery of 6 million shares valued at \$400 million. The remaining balance of \$100 million was settled through receipt of additional shares on October 11, 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under the agreement.

Under an accelerated share repurchase agreement executed in April 2018, the Company made a prepayment of \$450 million to a financial institution and received an initial delivery of 6 million shares valued at \$360 million. The remaining balance of \$90 million was settled through receipt of additional shares in July 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under the agreement.

Under an accelerated share repurchase agreement executed in January 2018, the Company made a prepayment of \$150 million to a financial institution and received an initial delivery of shares valued at \$120 million. The remaining balance of \$30 million was settled through receipt of additional shares in February 2018 with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 3 million total shares were repurchased under the agreement.

Management's assessment of market conditions and other factors guides 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 excess of repurchase price over par value is recorded in retained earnings.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3. Share-Based Compensation

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

In May 2018, shareholders approved the 2018 CSX Employee Stock Purchase Plan ("ESPP") for the benefit of Company employees. The Company registered 4 million shares of common stock that may be issued pursuant to this plan. Under the ESPP, employees may contribute between 1% and 10% of base compensation, after-tax, to purchase up to \$25,000 of CSX common stock per year. No shares will be issued under the ESPP until first quarter 2019.

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. Total pre-tax expense associated with share-based compensation and its related income tax benefit is shown in the table below. The year over year decrease in third quarter share-based compensation expense is primarily due to the prior year expense related to 9 million stock options granted in February 2017 to former President and CEO E. Hunter Harrison, which were forfeited upon his death in December 2017. Additionally, the decrease in nine months expense was also due to modifications to the terms of awards in the first and second quarters of 2017 (see Equity Award Modifications below).

	Third Quarters 2018		Nine Months 2017	
(Dollars in millions)				
Share-Based Compensation Expense:				
Performance Units	\$ 8	\$ 3	\$ 22	\$ 41
Stock Options	4	14	10	47
Restricted Stock Units and Awards	1	2	4	11
Stock Awards for Directors	—	—	2	2
Total Share-Based Compensation Expense	\$ 13	\$ 19	\$ 38	\$ 101
Income Tax Benefit	\$ 6	\$ 12	\$ 23	\$ 41

Long-term Incentive Plan

In February 2018, the Company granted approximately 350 thousand performance units to certain employees under a new long-term incentive plan ("LTIP") for the years 2018 through 2020, which was adopted under the CSX Stock and Incentive Award Plan. During third quarter 2018, there were immaterial grants of performance units to certain members of management. No performance units were granted during third quarter 2017.

Payouts of performance units for the cycle ending with fiscal year 2020 will be based on the achievement of goals related to both operating ratio and free cash flow, in each case excluding non-recurring items as disclosed in the Company's financial statements. The final year operating ratio and cumulative free cash flow over the plan period will each comprise 50% of the payout and will be measured independently of the other.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3. Share-Based Compensation, continued

Grants were made in performance units, with each unit representing the right to receive 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. Payouts for certain executive officers are subject to upward or downward adjustment by up to 25%, capped at an overall payout of 200%, based upon the Company's total shareholder return relative to specified comparable groups over the performance period. The fair value of the performance units awarded during the quarter and nine months ended September 30, 2018 was calculated using a Monte-Carlo simulation model with the following weighted-average assumptions:

	Third Quarter 2018		Nine Months 2018	
Weighted-average assumptions used:				
Annual dividend yield	1.2	%	1.6	%
Risk-free interest rate	2.7	%	2.3	%
Annualized volatility	27.9	%	29.1	%
Expected life (in years)	2.3		2.9	

Stock Options

Also, in February 2018, the Company granted approximately 950 thousand stock options along with the corresponding LTIP. The fair value of stock options on the date of grant was \$14.55 per option which was calculated using the Black-Scholes valuation model. Stock options have been granted with ten-year terms and vest three years after the date of grant. The exercise price for stock options granted equals the closing market price of the underlying stock on the date of grant. These awards are time-based and are not based upon attainment of performance goals. During third quarter 2018, there were immaterial grants of stock options to certain members of management. No stock options awards were granted during third quarter 2017.

The fair values of all stock option awards during the quarter and nine months ended September 30, 2018 and September 30, 2017 were estimated at the grant date with the following weighted average assumptions:

	Third Quarters		Nine Months	
	2018	2017	2018	2017
Weighted-average grant date fair value	\$20.52	\$ —	\$14.65	\$12.83
Stock options valuation assumptions:				
Annual dividend yield	1.2	%—%	1.5	%1.5 %
Risk-free interest rate	2.8	%—%	2.6	%2.2 %
Annualized volatility	25.5	%—%	27.0	%27.1 %
Expected life (in years)	6.5	—	6.5	6.3

Other pricing model inputs:

Weighted-average grant-date market price of CSX stock (strike price) \$74.84 \$ — \$54.19 \$49.60

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NOTE 3. Share-Based Compensation, continued

Restricted Stock Units

Finally, in February 2018, the Company granted approximately 85 thousand restricted stock units along with the corresponding LTIP. The restricted stock units vest three years after the date of grant. Participants receive cash dividend equivalents on the unvested shares during the restriction period. These awards are time-based and are not based upon attainment of performance goals. For information related to the Company's other outstanding long-term incentive compensation, see CSX's most recent annual report on Form 10-K. During third quarter 2018, there were immaterial grants of restricted stock units to certain members of management. No restricted stock units were granted during third quarter 2017.

Equity Award Modifications

In 2017, as part of an enhanced severance benefit under the management streamlining and realignment initiative discussed in Note 1, unvested performance units, restricted stock units and stock options for separated employees not eligible for retirement were permitted to vest on a pro-rata basis. Additionally, the terms of unvested equity awards for the former Chief Executive Officer, Michael J. Ward, and former President, Clarence W. Gooden, were modified prior to their retirements on March 6, 2017 to permit prorated vesting through May 31, 2018. These award modifications impacted approximately 70 employees and resulted in an increase to share-based compensation expense for revaluation of the affected awards of \$31 million for the nine months ended September 30, 2017. The expense associated with these award modifications was included in the 2017 restructuring charge. No significant award modifications took place in 2018 or in third quarter 2017.

NOTE 4. Casualty, Environmental and Other Reserves

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.

	September 30, 2018			December 31, 2017		
(Dollars in millions)	Current	Long-term	Total	Current	Long-term	Total
Casualty:						
Personal Injury	\$42	\$ 108	\$150	\$43	\$ 125	\$168
Occupational	7	47	54	6	54	60
Total Casualty	49	155	204	49	179	228
Environmental	37	52	89	31	59	90
Other	24	24	48	28	28	56
Total	\$110	\$ 231	\$341	\$108	\$ 266	\$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.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves of \$204 million and \$228 million as of September 30, 2018 and December 31, 2017, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. During second quarter 2018, the Company increased its self-insured retention amount for these claims from \$50 million to \$75 million per occurrence for claims occurring on or after June 1, 2018. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

Personal Injury

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

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 \$89 million and \$90 million as of September 30, 2018 and December 31, 2017, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 216 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.

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NOTE 4. Casualty, Environmental and Other Reserves, continued

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

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

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

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

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

Other

Other reserves of \$48 million and \$56 million as of September 30, 2018 and December 31, 2017, 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.

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NOTE 5. Commitments and Contingencies

Insurance

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

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 reasonably determined, 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 is likely to 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 \$118 million in aggregate at September 30, 2018. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

Fuel Surcharge Antitrust Litigation

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

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(Unaudited)

NOTE 5. Commitments and Contingencies, continued

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

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

Environmental

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

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

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

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NOTE 6. Employee Benefit Plans

The Company sponsors defined benefit pension plans principally for salaried, management personnel. CSX also sponsors a post-retirement medical plan and a life insurance plan that provide certain benefits to eligible employees hired prior to January 1, 2003. Independent actuaries 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.

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

(Dollars in millions)	Pension Benefits			
	Third		Nine	
	Quarters		Months	
	2018	2017	2018	2017
Service Cost Included in Labor and Fringe	\$8	\$8	\$24	\$28
Interest Cost	23	23	69	69
Expected Return on Plan Assets	(44)	(43)	(131)	(128)
Amortization of Net Loss	10	10	30	31
Total Income Included in Other Income - Net	(11)	(10)	(32)	(28)
Net Periodic Benefit Cost	\$(3)	\$(2)	\$(8)	\$—
Restructuring Charges - Non Operating ^(a)	—	—	—	57
Total (Income) Expense	\$(3)	\$(2)	\$(8)	\$57

(Dollars in millions)	Other Post-retirement Benefits			
	Third		Nine	
	Quarters		Months	
	2018	2017	2018	2017
Service Cost Included in Labor and Fringe	\$—	\$—	\$1	\$1
Interest Cost	2	2	5	6
Total Expense Included in Other Income - Net	2	2	5	6
Net Periodic Benefit Cost	\$2	\$2	\$6	\$7
Restructuring Charges - Non Operating ^(a)	—	—	—	13
Total Expense	\$2	\$2	\$6	\$20

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

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. No contributions to the Company's qualified pension plans are required in 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of third quarter 2018 is shown in the table below. For fair value information related to the Company's long-term debt, see Note 9, Fair Value Measurements.

(Dollars in millions)	Current Long-term		Total
	Portion	Portion	
Long-term debt as of December 31, 2017	\$ 19	\$ 11,790	\$ 11,809
2018 activity:			
Long-term debt issued	—	2,000	2,000
Long-term debt repaid	(19)	—	(19)
Reclassifications	18	(18)	—
Discount, premium and other activity	—	(18)	(18)
Long-term debt as of September 30, 2018	\$ 18	\$ 13,754	\$ 13,772

Debt Issuance

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

Commercial Paper

On September 14, 2018, the Company established a commercial paper program, backed by the revolving credit facility, under which the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1.0 billion outstanding at any one time. Proceeds from issuances of the notes are expected to be used for general corporate purposes. At September 30, 2018, the Company had no outstanding debt under the commercial paper program.

Credit Facility

CSX has a \$1.0 billion unsecured, revolving credit facility backed by a diverse syndicate of banks. The facility allows same-day borrowings at floating (LIBOR-based) interest rates, plus a spread, depending upon CSX's senior unsecured debt ratings. LIBOR is the London Interbank Offered Rate which is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds. This facility expires in May 2020, and at September 30, 2018, the Company had no outstanding balances under this facility.

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. As of third quarter 2018, CSX was in compliance with all covenant requirements under this 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 a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. At September 30, 2018, the Company had no outstanding balances under this facility.

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(Unaudited)

NOTE 8. Income Taxes

The effective tax rate decreased to 23.1% from 38.4% for the nine months ended September 30, 2018 and September 30, 2017, respectively, primarily as a result of the significant reduction in the federal corporate income tax rate effective January 1, 2018. During third quarter 2018, the Company filed its 2017 Federal Income Tax return which resulted in an immaterial adjustment to the deferred tax liability and tax expense. Accordingly, the Company's accounting for the federal rate reduction under the Tax Cuts and Jobs Act ("the Act") is now complete. The Act has significant complexity and implementation guidance from the Internal Revenue Service and clarifications of state tax law, among other things, could impact the Company's accounting for provisions of the Act other than the federal rate reduction within the measurement period as defined in the SEC's Staff Accounting Bulletin No. 118 ("SAB 118"). As such, any resulting potential adjustments within the measurement period remain open under SAB 118. The Company does not believe potential adjustments in future periods would materially impact its financial condition or results of operations.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2017.

NOTE 9. 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 and long-term debt. Disclosure of the fair value of pension plan assets is only required annually. Also, this rule 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).

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(Unaudited)

NOTE 9. Fair Value Measurements, continued

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

Investments

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

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

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

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 \$705 million and \$95 million as of September 30, 2018 and December 31, 2017, respectively.

(Dollars in Millions)	September 30, December 31,	
	2018	2017
Certificates of Deposit and Commercial Paper	\$ 610	\$ —
Corporate Bonds	56	61
Government Securities	40	34
Total investments at fair value	\$ 706	\$ 95

These investments have the following maturities:

(Dollars in millions)	September 30, December 31,	
	2018	2017
Less than 1 year	\$ 615	\$ 18
1 - 5 years	17	11
5 - 10 years	25	26
Greater than 10 years	49	40
Total investments at fair value	\$ 706	\$ 95

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9. Fair Value Measurements, continued

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 an independent third party adviser that utilizes closing transactions, market quotes or market values of comparable debt. For those instruments not valued by the independent adviser, 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 independent adviser. 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. The fair value and carrying value of the Company's long-term debt is as follows:

(Dollars in millions)	September 30, 2018	December 31, 2017
Long-term Debt (Including Current Maturities):		
Fair Value	\$ 14,173	\$ 13,220
Carrying Value	13,772	11,809

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(Unaudited)

NOTE 10. 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 \$901 million and \$467 million for third quarters and \$2.4 billion and \$1.4 billion for nine months 2018 and 2017, 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 other income - net on the consolidated income statements. See Note 6, Employee Benefit Plans, for further information. Other primarily represents CSX's share of AOCI of equity method investees. Amounts reclassified in other to net earnings are included in equity earnings of affiliates on the consolidated income statements.

	Pension and Other Post-Employment Benefits	Other	Accumulated Other Comprehensive Income (Loss)
(Dollars in millions)			
Balance December 31, 2017, Net of Tax	\$ (440	) \$(46)	\$ (486
Other Comprehensive Income (Loss))
Loss Before Reclassifications	—	(2	)(2
Amounts Reclassified to Net Earnings	31	(4	)27
Tax (Expense) Benefit	(7	) 1	(6
Reclassification of Stranded Tax Effects	(108	) 1	(107
Total Other Comprehensive Loss	(84) (4)(88
Balance September 30, 2018, Net of Tax	\$ (524) \$(50)	\$ (574

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CSX CORPORATION

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(Unaudited)

NOTE 11. Revenues

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

	Third Quarters		Nine Months	
(Dollars in millions)	2018	2017	2018	2017
Chemicals	\$596	\$546	\$1,741	\$1,664
Agricultural and Food Products	325	288	959	941
Automotive	300	269	934	892
Forest Products	223	181	633	567
Metals and Equipment	205	178	589	546
Minerals	137	120	388	362
Fertilizers	104	106	332	353
Total Merchandise	1,890	1,688	5,576	5,325
Domestic Coal	347	350	937	1,029
Export Coal	241	164	723	537
Total Coal	588	514	1,660	1,566
Domestic Intermodal	331	297	948	896
International Intermodal	169	149	491	432
Total Intermodal	500	446	1,439	1,328
Other	151	95	432	326
Total	\$3,129	\$2,743	\$9,107	\$8,545

Revenue Recognition

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

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Revenues, continued

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

Revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move commodities and products from their origin to their final destination or interchange;

• Adjustments to revenue for billing corrections and billing discounts;

• Adjustments to revenue for overcharge claims filed by customers, which are based on historical payments to customers for rate overcharges as a percentage of total billing;

Incentive-based refunds to customers, which are primarily volume-related, are recorded as a reduction to revenue on the basis of the projected liability (this estimate is based on historical activity, current volume levels and forecasted future volume).

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

Other revenue, which includes revenue from regional subsidiary railroads, demurrage, switching and other incidental charges, is recorded upon completion of the service and accounted for 5% of the Company's total revenue in the third quarter and for the nine months ended September 30, 2018. Revenue from regional subsidiary railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held by a customer beyond a specified period of time. Switching revenue is primarily generated when the Company switches cars for a customer or another railroad.

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

Remaining Performance Obligations

Remaining performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unearned portion of billed and unbilled amounts for cancellable freight shipments in transit. The Company expects to recognize the unearned portion of revenue for freight services in transit within one week of the reporting date. As of September 30, 2018, the Company had no material remaining performance obligations.

Contract Balances and Accounts Receivable

The timing of revenue recognition, billings and cash collections results in accounts receivable and customer advances and deposits (contract liabilities) on the consolidated balance sheets. The Company had no material contract assets, contract liabilities or deferred contract costs recorded on the consolidated balance sheet as of September 30, 2018.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Revenues, continued

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

(Dollars in millions)	September 30, 2018	December 31, 2017
Freight Receivables	\$ 887	\$ 810
Freight Allowance for Doubtful Accounts	(17	) (17)
Freight Receivables, net	870	793
Non-Freight Receivables	230	186
Non-Freight Allowance for Doubtful Accounts	(10	) (9)
Non-Freight Receivables, net	220	177
Total Accounts Receivable, net	\$ 1,090	\$ 970

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

NOTE 12. Summarized Consolidating Financial Data

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements

(Dollars in millions)

Third Quarter 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 3,110	\$ 19	\$ 3,129
Expense	(86)	1,952	(30)	1,836
Operating Income	86	1,158	49	1,293
Equity in Earnings of Subsidiaries	953	—	(953)	—
Interest (Expense) / Benefit	(190)	(11)	39	(162)
Other Income / (Expense) - Net	6	35	(22)	19
Earnings Before Income Taxes	855	1,182	(887)	1,150
Income Tax Benefit / (Expense)	39	(278)	(17)	(256)
Net Earnings	\$ 894	\$ 904	\$ (904)	\$ 894
Total Comprehensive Earnings	\$ 901	\$ 903	\$ (903)	\$ 901
Third Quarter 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Revenue	\$ —	\$ 2,725	\$ 18	\$ 2,743
Expense	(129)	2,031	(27)	1,875
Operating Income	129	694	45	868
Equity in Earnings of Subsidiaries	472	—	(472)	—
Interest (Expense) / Benefit	(147)	(3)	18	(132)
Other Income / (Expense) - Net	1	19	(6)	14
Earnings Before Income Taxes	455	710	(415)	750
Income Tax Benefit / (Expense)	4	(277)	(18)	(291)
Net Earnings	\$ 459	\$ 433	\$ (433)	\$ 459
Total Comprehensive Earnings	\$ 467	\$ 433	\$ (433)	\$ 467

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Income Statements

(Dollars in millions)

Nine Months 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 9,050	\$ 57	\$ 9,107	
Expense	(248	) 5,843	(108	) 5,487
Operating Income	248	3,207	165	3,620	
Equity in Earnings of Subsidiaries	2,653	—	(2,653) —	
Interest (Expense) / Benefit	(535) (28) 95	(468)
Other Income / (Expense) - Net	16	87	(49	) 54
Earnings Before Income Taxes	2,382	3,266	(2,442	) 3,206
Income Tax (Expense) / Benefit	84	(776) (48) (740)
Net Earnings	\$ 2,466	\$ 2,490	\$ (2,490	) \$ 2,466
Total Comprehensive Earnings	\$ 2,378	\$ 2,484	\$ (2,484	) \$ 2,378
Nine Months 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated	
Revenue	\$ —	\$ 8,490	\$ 55	\$ 8,545	
Expense	(171	) 6,225	(103	) 5,951
Operating Income	171	2,265	158	2,594	
Equity in Earnings of Subsidiaries	1,506	—	(1,506) —	
Interest (Expense) / Benefit	(432) (21) 47	(406)
Other Income / (Expense) - Net	6	(21) (14) (29)
Earnings Before Income Taxes	1,251	2,223	(1,315	) 2,159
Income Tax (Expense) / Benefit	80	(844) (64) (828)
Net Earnings	\$ 1,331	\$ 1,379	\$ (1,379) \$ 1,331	
Total Comprehensive Earnings	\$ 1,410	\$ 1,378	\$ (1,378) \$ 1,410	

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

September 30, 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 537	\$ 116	\$ 10	\$ 663
Short-term Investments	610	—	5	615
Accounts Receivable - Net	1	221	868	1,090
Receivable from Affiliates	960	5,256	(6,216)) —
Materials and Supplies	—	283	—	283
Other Current Assets	—	115	18	133
Total Current Assets	2,108	5,991	(5,315)	) 2,784
Properties	1	41,629	2,855	44,485
Accumulated Depreciation	(1	) (11,043	) (1,570	) (12,614)
Properties - Net	—	30,586	1,285	31,871
Investments in Conrail	—	—	941	941
Affiliates and Other Companies	(39	) 846	16	823
Investments in Consolidated Subsidiaries	31,288	—	(31,288) —
Other Long-term Assets	77	613	(248	) 442
Total Assets	\$ 33,434	\$ 38,036	\$ (34,609	) \$ 36,861
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable	\$ 189	\$ 753	\$ 40	\$ 982
Labor and Fringe Benefits Payable	40	434	43	517
Payable to Affiliates	6,339	397	(6,736) —
Casualty, Environmental and Other Reserves	—	97	13	110
Current Maturities of Long-term Debt	—	18	—	18
Income and Other Taxes Payable	(415	) 542	39	166
Other Current Liabilities	1	148	2	151
Total Current Liabilities	6,154	2,389	(6,599	) 1,944
Casualty, Environmental and Other Reserves	—	191	40	231
Long-term Debt	13,043	711	—	13,754
Deferred Income Taxes - Net	(99	) 6,484	199	6,584
Other Long-term Liabilities	617	300	(304	) 613
Total Liabilities	\$ 19,715	\$ 10,075	\$ (6,664) \$ 23,126
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 844	\$ 181	\$ (181) \$ 844

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Other Capital	129	5,096	(5,096) 129
Retained Earnings	13,320	22,679	(22,679) 13,320
Accumulated Other Comprehensive Loss	(574	) (11	) 11	(574)
Noncontrolling Interest	—	16	—	16
Total Shareholders' Equity	\$ 13,719	\$ 27,961	\$ (27,945) \$ 13,735
Total Liabilities and Shareholders' Equity	\$ 33,434	\$ 38,036	\$ (34,609) \$ 36,861

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

December 31, 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
ASSETS				
Current Assets				
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
Total Current Assets	1,498	4,456	(4,039	) 1,915
Properties				
Accumulated Depreciation	(1	) (11,017	) (1,542	) (12,560
Properties - Net	—	30,462	1,302	31,764
Investments in Conrail				
Affiliates and Other Companies	(39	) 800	18	779
Investment in Consolidated Subsidiaries	29,405	—	(29,405) —
Other Long-term Assets	39	596	(261	) 374
Total Assets	\$ 30,903	\$ 36,314	\$ (31,478	) \$ 35,739
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
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
Total Current Liabilities	4,628	2,476	(5,210	) 1,894
Casualty, Environmental and Other Reserves				
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
Total Liabilities	\$ 16,198	\$ 10,093	\$ (5,273	) \$ 21,018
Shareholders' Equity				
Common Stock, \$1 Par Value	\$ 890	\$ 181	\$ (181) \$ 890
Other Capital	217	5,096	(5,096) 217

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Retained Earnings	14,084	20,933	(20,933)	14,084
Accumulated Other Comprehensive Loss	(486)	(5)	5	(486)
Noncontrolling Minority Interest	—	16	—	16
Total Shareholders' Equity	\$ 14,705	\$ 26,221	\$ (26,205)	\$ 14,721
Total Liabilities and Shareholders' Equity	\$ 30,903	\$ 36,314	\$ (31,478)	\$ 35,739

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements

(Dollars in millions)

Nine Months 2018	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$ 2,417	\$ 1,792	\$ (803)	\$ 3,406
Investing Activities				
Property Additions	—	(1,134	) (106	) (1,240)
Proceeds from Property Dispositions	—	257	—	257
Purchases of Short-term Investments	(609	) —	(2	) (611)
Proceeds from Sales of Short-term Investments	—	—	15	15
Other Investing Activities	(1	) (149	) 142	(8)
Net Cash Provided by (Used in) Investing Activities	(610	) (1,026	) 49	(1,587)
Financing Activities				
Long-term Debt Issued	2,000	—	—	2,000
Long-term Debt Repaid	—	(19	) —	(19)
Dividends Paid	(570	) (750	) 750	(570)
Shares Repurchased	(2,816	) —	—	(2,816)
Accelerated Share Repurchase Pending Final Settlement	(100	) —	—	(100)
Other Financing Activities	(58	) (2	) 8	(52)
Net Cash Provided by (Used in) Financing Activities	(1,544	) (771	) 758	(1,557)
Net Increase (Decrease) in Cash and Cash Equivalents	263	(5	) 4	262
Cash and Cash Equivalents at Beginning of Period	274	121	6	401
Cash and Cash Equivalents at End of Period	\$ 537	\$ 116	\$ 10	\$ 663

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements

(Dollars in millions)

Nine Months 2017	CSX Corporation	CSX Transportation	Eliminations and Other	Consolidated
Operating Activities				
Net Cash Provided by (Used in) Operating Activities	\$ 1,590	\$ 1,544	\$ (273)	) \$ 2,861
Investing Activities				
Property Additions	—	(1,311	) (151	) (1,462)
Proceeds from Property Dispositions	—	38	—	38
Purchases of Short-term Investments	(639	) —	(6	) (645)
Proceeds from Sales of Short-term Investments	955	—	2	957
Other Investing Activities	(2	) 60	(25	) 33
Net Cash Provided by (Used in) Investing Activities	314	(1,213	) (180	) (1,079)
Financing Activities				
Long-term Debt Issued	850	—	—	850
Long-term Debt Repaid	(312	) (20	) —	(332)
Dividends Paid	(530	) (450	) 450	(530)
Shares Repurchased	(1,763	) —	—	(1,763)
Other Financing Activities	(21	) 5	(3	) (19)
Net Cash Provided by (Used in) Financing Activities	(1,776	) (465	) 447	(1,794)
Net Increase (Decrease) in Cash and Cash Equivalents	128	(134	) (6	) (12)
Cash and Cash Equivalents at Beginning of Period	305	281	17	603
Cash and Cash Equivalents at End of Period	\$ 433	\$ 147	\$ 11	\$ 591

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIRD QUARTER 2018 HIGHLIGHTS

Revenue increased \$386 million to \$3.1 billion, or 14% year over year.

Expenses decreased \$39 million to \$1.8 billion, or 2% year over year.

Operating income of \$1.3 billion increased \$425 million, or 49% year over year.

Operating ratio of 58.7% improved 970 basis points versus last year's quarter.

Earnings per diluted share of \$1.05 increased \$0.54, or 106% year over year.

	Third Quarters				Nine Months			
	2018	2017	Fav / (Unfav)	% Change	2018	2017	Fav / (Unfav)	% Change
Volume (in thousands)	1,656	1,587	69	4%	4,834	4,799	35	1%
(in millions)								
Revenue	\$3,129	\$2,743	\$ 386	14%	\$9,107	\$8,545	\$ 562	7%
Expense	1,836	1,875	39	2%	5,487	5,951	464	8%
Operating Income	\$1,293	\$868	\$ 425	49%	\$3,620	\$2,594	\$ 1,026	40%
Operating Ratio	58.7	% 68.4	% 970	bps	60.3	% 69.6	% 930	bps
Earnings Per Diluted Share	\$1.05	\$0.51	\$ 0.54	106%	\$2.83	\$1.45	\$ 1.38	95%

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Volume and Revenue (Unaudited)

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

Third Quarters

	Volume			Revenue			Revenue Per Unit		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Chemicals	172	164	5 %	\$596	\$546	9 %	\$3,465	\$3,329	4 %
Agricultural and Food Products	112	106	6	325	288	13	2,902	2,717	7
Automotive	111	105	6	300	269	12	2,703	2,562	6
Minerals	85	80	6	137	120	14	1,612	1,500	7
Forest Products	74	64	16	223	181	23	3,014	2,828	7
Metals and Equipment	69	64	8	205	178	15	2,971	2,781	7
Fertilizers	60	68	(12)	104	106	(2)	1,733	1,559	11
Total Merchandise	683	651	5	1,890	1,688	12	2,767	2,593	7
Coal	234	218	7	588	514	14	2,513	2,358	7
Intermodal	739	718	3	500	446	12	677	621	9
Other	—	—	—	151	95	59	—	—	—
Total	1,656	1,587	4 %	\$3,129	\$2,743	14 %	\$1,889	\$1,728	9 %

Nine Months

	Volume			Revenue			Revenue Per Unit		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Chemicals	503	508	(1)%	\$1,741	\$1,664	5 %	\$3,461	\$3,276	6 %
Agricultural and Food Products	331	341	(3)	959	941	2	2,897	2,760	5
Automotive	341	340	—	934	892	5	2,739	2,624	4
Minerals	237	233	2	388	362	7	1,637	1,554	5
Forest Products	212	198	7	633	567	12	2,986	2,864	4
Metals and Equipment	202	201	—	589	546	8	2,916	2,716	7
Fertilizers	188	223	(16)	332	353	(6)	1,766	1,583	12
Total Merchandise	2,014	2,044	(1)	5,576	5,325	5	2,769	2,605	6
Coal	657	631	4	1,660	1,566	6	2,527	2,482	2
Intermodal	2,163	2,124	2	1,439	1,328	8	665	625	6
Other	—	—	—	432	326	33	—	—	—
Total	4,834	4,799	1 %	\$9,107	\$8,545	7 %	\$1,884	\$1,781	6 %

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Third Quarter 2018

Revenue

Total revenue increased 14 percent for third quarter 2018 when compared to third quarter 2017, due to volume growth in most markets, increases in fuel recovery, favorable mix, higher other revenue and price increases.

Merchandise

Chemicals - Volume increased as stronger crude oil, waste and core chemicals shipments more than offset reduced fly ash and sand shipments.

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

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

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

Forest Products - Volume increased due to strength in building products as well as e-commerce driven pulpboard demand.

Metals and Equipment - Volume increased due to stronger metals shipments driven by truck conversions to rail, higher mill capacity utilization and greater demand for construction and pipe.

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

Coal

Domestic - Utility coal volume declined reflecting strong competition from natural gas. Coke, iron ore and other volume increased primarily driven by stronger domestic steel production.

Export - Volume increased as global supply levels and elevated global benchmark prices supported continued demand for U.S. coal.

Intermodal

Domestic - Volume increased as tight truck supply drove growth with existing customers, which was partially offset by the rationalization of low-density lanes in late 2017.

International - Volume increased driven by new customers and strong performance with existing customers, which more than offset losses from the rationalization of low-density lanes in late 2017.

Other Revenue

Other revenue increased \$56 million versus prior year primarily due to increases in incidental charges.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Expenses

Expenses of \$1.8 billion decreased \$39 million, or two percent, year over year, primarily driven by gains from line and real estate sales and reductions in workforce and crew starts as a result of implementing scheduled railroading, partially offset by fuel price increases.

Labor and Fringe expense decreased \$30 million primarily due to the following:

- Lower headcount and crew starts drove a \$39 million reduction in expense, despite higher volume and inflation.
- Incentive compensation increased \$11 million due to higher projected payouts.

Materials, Supplies and Other expense decreased \$49 million primarily driven by gains from line and real estate sales, which were \$52 million higher than prior year.

Depreciation expense slightly increased primarily due to a larger asset base.

Fuel expense increased \$63 million due to the following:

- A 27 percent price increase drove \$57 million in additional fuel expense.
- Higher volume-related fuel costs were partially offset by cost savings from fuel efficiency initiatives.

Equipment and Other Rents expense decreased \$20 million primarily due to reduced days per load for merchandise and automotive markets, partially offset by volume-related costs.

Equity Earnings of Affiliates increased \$5 million primarily due to higher net earnings at TTX and Conrail.

Interest expense increased \$30 million primarily due to higher average debt balances, partially offset by lower average interest rates.

Other income - net increased \$5 million primarily due to increased yields on investment securities.

Income tax expense decreased \$35 million primarily due to the reduction of the federal income tax rate, resolution of a state tax matter and a federal deferred tax adjustment, partially offset by increased earnings before income taxes. The effective tax rate decreased to 22.3% from 38.8% year over year primarily as a result of the significant reduction in the federal corporate income tax rate due to tax reform effective January 1, 2018.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Nine Months Results of Operations

Revenue increased \$562 million primarily due to higher fuel recovery, price increases across most markets, higher other revenue and volume growth.

Expenses decreased \$464 million primarily driven by reductions in workforce, crew starts and the active locomotive fleet as a result of implementing scheduled railroading, a restructuring charge of \$226 million in 2017 and gains from real estate and line sales, partially offset by fuel price increases of \$174 million.

Interest expense increased \$62 million primarily due to higher average debt balances, partially offset by lower average interest rates.

Other income - net increased \$13 million primarily due to increased yields on investment securities.

Income tax expense decreased \$88 million primarily due to the reduction of the federal income tax rate, partially offset by increased earnings before income taxes. The effective tax rate decreased to 23.1% from 38.4% year over year primarily as a result of the significant reduction in the federal corporate income tax rate due to tax reform effective January 1, 2018.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-GAAP Measures - Unaudited

CSX reports its financial results in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). CSX also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results. Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, CSX's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with GAAP. Reconciliations of non-GAAP measures to corresponding GAAP measures are below.

Prior Year Adjusted Operating Results

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

The impact of the restructuring charge and retrospective impact of adoption of a new accounting standard for the third quarter and nine months ended 2017 are shown in the following tables. As noted in Note 1. Nature of Operations and Significant Accounting Policies, the Company adopted the provisions of an accounting standard related to the presentation of net pension and other post-retirement benefit costs during the first quarter 2018 and applied them retrospectively.

(in millions, except operating ratio and net earnings per share, assuming dilution)	Third Quarter 2017				
	Operating Income	Operating Ratio	Net Earnings	Net Earnings Per Share, Assuming Dilution	
As Previously Reported - GAAP	\$876	68.1 %	\$ 459	\$ 0.51	
Reclassification of Net Pension and Other Post-Retirement Expense (Benefit)	(8)	0.3 %	—	—	
As Reclassified - GAAP	\$868	68.4 %	\$ 459	\$ 0.51	
Restructuring Charge ^(a)	1	(0.1)%	4	—	
Adjusted Operating Results (non-GAAP)	\$869	68.3 %	\$ 463	\$ 0.51	
(in millions, except operating ratio and net earnings per share, assuming dilution)	Nine Months 2017				
	Operating Income	Operating Ratio	Net Earnings	Net Earnings Per Share, Assuming Dilution	
As Previously Reported - GAAP	\$2,546	70.2 %	\$ 1,331	\$ 1.45	
Reclassification of Net Pension and Other Post-Retirement Expense (Benefit)	48	(0.6)%	—	—	
As Reclassified - GAAP	\$2,594	69.6 %	\$ 1,331	\$ 1.45	
Restructuring Charge ^{(a)(b)}	226	(2.6)%	193	0.21	
Adjusted Operating Results (non-GAAP)	\$2,820	67.0 %	\$ 1,524	\$ 1.66	

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- (a) The restructuring charge was tax effected using rates reflective of the applicable tax amounts for each component of the restructuring charge.
- (b) For nine months ended 2017, \$70 million of the \$296 million restructuring charge was reclassified to non-operating income (expense).

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Adjusted Free Cash Flow

Management believes that free cash flow is supplemental information useful to investors as it is important in evaluating the Company's financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principal reduction on outstanding debt. Free cash flow should be considered in addition to, rather than a substitute for, cash provided by operating activities. Free cash flow is calculated by using net cash from operations and adjusting for property additions and certain other investing activities, which includes proceeds from property dispositions. The following table reconciles cash provided by operating activities (GAAP measure) to adjusted free cash flow after restructuring, before dividends (non-GAAP measure). The restructuring charge impact to free cash flow was tax effected using the Company's applicable tax rate.

	Nine Months	
(Dollars in millions)	2018	2017
Net cash provided by operating activities	\$3,406	\$2,861
Property Additions	(1,240)	(1,462)
Other Investing Activities	249	71
Free Cash Flow (before payment of dividends)	2,415	1,470
Add back: Cash Payments for Restructuring Charge (after-tax) ^(a)	11	96
Adjusted Free Cash Flow Before Dividends (non-GAAP)	\$2,426	\$1,566

(a) The Company made cash payments related to the restructuring charge of \$14 million and \$147 million in nine months ended 2018 and 2017, respectively. The Company also made a \$7 million payment in 2017 to the former CEO and President for previously accrued non-qualified pension benefits that is not included in the restructuring charge.

Operating Statistics (Estimated)

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

The methodologies used to calculate train velocity and terminal dwell are consistent with the principles of scheduled railroading, but differ from those prescribed by the Surface Transportation Board ("STB"). Train velocity and dwell will continue to be reported, using the prescribed methodology, to the STB on a weekly basis.

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CSX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operating performance continued to improve in third quarter 2018, as train velocity and car dwell achieved record levels for the third consecutive quarter despite network impacts from Hurricane Florence. The Company remains focused on delivering further service gains, improving transit times and driving asset utilization while controlling costs.

From a safety perspective, the FRA reportable personal injury frequency index of 0.84 for third quarter 2018 improved year over year driven by a reduction in the number of personal injuries. The FRA train accident frequency rate of 2.76 for the quarter was favorable as a reduction in train accidents outpaced a decline in train miles due to implementing scheduled railroading and more direct routing across the network.

The Company is committed to continuous safety improvement and remains focused on reducing risk and enhancing the overall safety of its employees, customers and communities in which the Company operates.

	Third Quarters				Nine Months			
	2018	2017	Improvement/ (Deterioration)		2018	2017	Improvement/ (Deterioration)	
Operations Performance								
Train Velocity (Miles per hour) ^(a)	17.9	14.0	28	%	17.5	14.7	19	%
Dwell (Hours) ^(a)	9.0	12.1	26	%	9.7	11.5	16	%
Revenue Ton-Miles (Billions)								
Merchandise	32.0	29.7	8	%	96.2	92.7	4	%
Coal	12.0	10.9	10	%	34.1	32.1	6	%
Intermodal	7.3	7.2	1	%	22.0	21.6	2	%
Total Revenue Ton-Miles	51.3	47.8	7	%	152.3	146.4	4	%
Total Gross Ton-Miles (Billions)								
	102.1	97.0	5	%	301.8	298.3	1	%
On-Time Originations	85	%74	%15	%	84	%81	%4	%
On-Time Arrivals	64	%48	%33	%	61	%57	%7	%
Safety								
FRA Personal Injury Frequency Index	0.84	1.48	43	%	0.97	1.20	19	%
FRA Train Accident Rate	2.76	3.85	28	%	3.51	2.99	(17))%

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

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

Key Performance Measures Definitions

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

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

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

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

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

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

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

The following are material changes in the consolidated balance sheets and sources of liquidity and capital, which provide an update to the discussion included in CSX's most recent annual report on Form 10-K.

Material Changes in Consolidated Balance Sheets and Significant Cash Flows

Consolidated Balance Sheets

Total assets increased \$1.1 billion from year end primarily due to the net increase in cash and short-term investments of \$859 million as a result of cash from operations of \$3.4 billion and the issuance of \$2.0 billion in long-term debt, partially offset by settled and pending share repurchases of \$2.9 billion, property additions of \$1.2 billion and dividends paid of \$570 million. Total liabilities and shareholders' equity combined increased \$1.1 billion from year end primarily due to the issuance of \$2.0 billion in long-term debt and net earnings of \$2.5 billion, partially offset by settled and pending share repurchases of \$2.9 billion and dividends paid of \$570 million.

Significant Cash Flows

The following chart highlights the components of the net increase of \$262 million and net decrease of \$12 million in cash and cash equivalents for operating, investing and financing activities for nine months ended 2018 and 2017, respectively.

Cash provided by operating activities increased \$545 million primarily driven by higher cash-generating income, partially offset by lower working capital and other activities, which includes the impact of a temporary tax payment extension in the prior year that was not available in the current year.

Cash used in investing activities increased \$508 million primarily driven by an increase in net investment purchases in the current year, partially offset by lower property additions and higher proceeds from property dispositions.

Cash used in financing activities decreased \$237 million primarily due to higher net debt issued, partially offset by increased share repurchases.

The Company's approved capital plan for 2018 is \$1.7 billion, including approximately \$200 million for Positive Train Control ("PTC"). Of the 2018 investment, the majority will be used to sustain the core infrastructure. The remaining amounts will be allocated to projects supporting productivity initiatives, service enhancements and profitable growth. CSX intends to fund capital investments through cash generated from operations.

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

Liquidity and Working Capital

As of the end of third quarter 2018, CSX had \$1.3 billion of cash, cash equivalents and short-term investments. CSX uses current cash balances for general corporate purposes, which may include reduction or refinancing of outstanding indebtedness, capital expenditures, working capital requirements, contributions to the Company's qualified pension plan, redemptions and repurchases of CSX common stock and dividends to shareholders. See Note 7, Debt and Credit Agreements.

CSX has a \$1.0 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in May 2020 and at September 30, 2018, the Company had no outstanding balances under this facility. The Company also has a commercial paper program, backed by the revolving credit facility, under which the Company may issue unsecured commercial paper notes up to a maximum aggregate principal amount of \$1.0 billion outstanding at any one time. At September 30, 2018, the Company had no outstanding debt under the commercial paper program.

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 a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. At September 30, 2018, the Company had no outstanding balances under this facility.

Working capital can also be considered a measure of a company's ability to meet its short-term needs. CSX had a working capital surplus of \$840 million and \$21 million as of September 30, 2018 and December 31, 2017, respectively. The increase in working capital since year end of \$819 million is primarily the result of cash from operations of \$3.4 billion, the issuance of \$2.0 billion in long-term debt and proceeds from property dispositions of \$257 million. These increases were partially offset by cash used for settled and pending share repurchases of \$2.9 billion, property additions of \$1.2 billion and dividend payments of \$570 million.

The Company's working capital balance varies due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances as discussed above. The Company continues to maintain adequate liquidity to satisfy current liabilities and maturing obligations when they come due. CSX has sufficient financial capacity, including its revolving credit facility, commercial paper program, trade receivable facility and shelf registration statement to manage its day-to-day cash requirements and any anticipated obligations. The Company from time to time accesses the credit markets for additional liquidity. CSX is committed to ongoing shareholder distributions, supported by an investment grade credit profile. Management's assessment of market conditions and other factors guides 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. Of the \$5 billion total share repurchases authorized, \$100 million is pending final settlement and the remaining \$1.9 billion is expected to be completed by the end of first quarter 2019.

LABOR AGREEMENTS

The U.S. Class I railroads have been in collective bargaining with rail labor unions since January 2015. As of September 30, 2018, all 13 rail unions participating in national bargaining have reached national agreements with the Class I railroads via ratification, executive action or interest arbitration. These agreements are effective January 1,

2015 through December 31, 2019.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Consistent with the prior year, significant estimates using management judgment are made for the areas below. For further discussion of CSX's critical accounting estimates, see the Company's most recent annual report on Form 10-K.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by any forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update any forward-looking statement, no inference should be drawn that the Company will make additional updates with respect to that statement or any other forward-looking statements. The following important factors, in addition to those discussed in Part I, Item 1A Risk Factors of CSX's most recent annual report on Form 10-K and elsewhere in this report, may cause actual results to differ materially from those contemplated by any forward-looking statements:

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

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

the Company's success in implementing its strategic, financial and operational initiatives;
the impact of conditions in the real estate market on the Company's ability to sell assets;
changes in operating conditions and costs or commodity concentrations; and
the inherent uncertainty associated with projecting economic and business conditions.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, which are accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com. The information on the CSX website is not part of this quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under Part II, Item 7A (Quantitative and Qualitative Disclosures about Market Risk) of CSX's most recent annual report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2018, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the third quarter of 2018 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For further details, please refer to Note 5. Commitments and Contingencies of this quarterly report on Form 10-Q. Also refer to Part I, Item 3. Legal Proceedings in CSX's most recent annual report on Form 10-K.

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

In connection with a CSXT train derailment in Mount Carbon, West Virginia in February 2015, the Company has agreed to pay a penalty of \$1.2 million to the U.S. Department of Justice and U.S. Environmental Protection Agency and a penalty of \$1.0 million to the State of West Virginia.

Item 1A. Risk Factors

For information regarding factors that could affect the Company's results of operations, financial condition and liquidity, see the risk factors discussed under Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of CSX's most recent annual report on Form 10-K. See also Part I, Item 2 (Forward-Looking Statements) of this quarterly report on Form 10-Q.

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CSX CORPORATION

PART II

Item 2. CSX Purchases of Equity Securities

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

In February 2018, the Company announced an increase to the \$1.5 billion share repurchase program first announced in October 2017, bringing the total authorized to \$5.0 billion. This program is expected to be completed by the end of first quarter 2019. During the third quarters of 2018 and 2017, the Company repurchased approximately \$1.0 billion, or 15 million shares, and \$1.0 billion, or 20 million shares, respectively.

On July 19, 2018, the Company entered into an accelerated share repurchase agreement to repurchase shares of the Company's common stock. Under this agreement, the Company made a prepayment of \$500 million to a financial institution and received an initial delivery of 6 million shares valued at \$400 million. The remaining balance of \$100 million was settled through receipt of additional shares on October 11, 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under the agreement.

Under an accelerated share repurchase agreement in April 2018, the Company made a prepayment of \$450 million to a financial institution and received an initial delivery of 6 million shares valued at \$360 million. The remaining balance of \$90 million was settled through receipt of additional shares in July 2018, with the final net number of shares calculated based on the volume-weighted average price of the Company's common stock over the term of the agreement, less a discount. Approximately 7 million total shares were repurchased under the agreement.

Management's assessment of market conditions and other factors guides 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. Share repurchase activity for the third quarter 2018 was as follows:

CSX Purchases of Equity Securities for the Quarter				
Third Quarter	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				\$2,990,125,207
July 1 - July 31, 2018	9,859,627	\$ 68.66	9,750,647	2,320,699,511
August 1 - August 31, 2018	2,376,108	72.91	2,375,978	2,147,461,903
September 1 - September 30, 2018	2,214,111	73.99	2,214,111	1,983,650,599
Ending Balance	14,449,846	\$ 70.18	14,340,736	\$ 1,983,650,599

(a) The difference of 109,110 shares between the "Total Number of Shares Purchased" and the "Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs" for the quarter represents shares purchased to

fund the Company's contribution to a 401(k) plan that covers certain union employees.

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CSX CORPORATION

PART II

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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CSX CORPORATION

PART II

Item 6. Exhibits

Exhibit designation	Nature of exhibit
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Previously
filed as
exhibit to

Officer certifications:

31*	<u>Rule 13a-14(a) Certifications</u>
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32*	<u>Section 1350 Certifications</u>
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Interactive data files:

101*	The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 filed with the SEC on October 16, 2018, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended September 30, 2018 and September 30, 2017, (ii) condensed consolidated comprehensive income statements for the fiscal periods ended September 30, 2018 and September 30, 2017 (iii) consolidated balance sheets at September 30, 2018 and December 31, 2017, (iv) consolidated cash flow statements for the fiscal periods ended September 30, 2018 and September 30, 2017, and (v) the notes to consolidated financial statements.
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* Filed
herewith

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CSX CORPORATION

PART II

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CSX CORPORATION

(Registrant)

By: /s/ ANGELA C. WILLIAMS

Angela C. Williams

Vice President and Controller

(Principal Accounting Officer)

Dated: October 16, 2018

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