

CSX CORP
Form 10-Q
October 18, 2017
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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
OF 1934

For the quarterly period ended September 30, 2017

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, 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 and post such files).

Yes 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 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 893,723,083 shares of common stock outstanding on September 30, 2017 (the latest practicable date that is closest to the filing date).

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 FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
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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 | |
|---|----------------|---------|-------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | \$2,743 | \$2,710 | \$8,545 | \$8,032 |
| Expense | | | | |
| Labor and Fringe | 717 | 762 | 2,249 | 2,307 |
| Materials, Supplies and Other | 516 | 507 | 1,573 | 1,576 |
| Depreciation | 331 | 321 | 978 | 953 |
| Fuel | 205 | 174 | 621 | 496 |
| Equipment and Other Rents | 97 | 105 | 282 | 315 |
| Restructuring Charge (Note 1) | 1 | — | 296 | — |
| Total Expense | 1,867 | 1,869 | 5,999 | 5,647 |
| Operating Income | 876 | 841 | 2,546 | 2,385 |
| Interest Expense | (132) | (139) | (406) | (423) |
| Other Income - Net | 6 | 13 | 19 | 28 |
| Earnings Before Income Taxes | 750 | 715 | 2,159 | 1,990 |
| Income Tax Expense | (291) | (260) | (828) | (734) |
| Net Earnings | \$459 | \$455 | \$1,331 | \$1,256 |
| Per Common Share (Note 2) | | | | |
| Net Earnings Per Share, Basic | \$0.51 | \$0.48 | \$1.45 | \$1.32 |
| Net Earnings Per Share, Assuming Dilution | \$0.51 | \$0.48 | \$1.45 | \$1.32 |
| Average Shares Outstanding (In millions) | 902 | 942 | 916 | 952 |
| Average Shares Outstanding, Assuming Dilution (In millions) | 906 | 943 | 919 | 953 |
| Cash Dividends Paid Per Common Share | \$0.20 | \$0.18 | \$0.58 | \$0.54 |

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (Unaudited)

(Dollars in millions, except per share amounts)

| | Third Quarters | | Nine Months | |
|--|----------------|-------|-------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Total Comprehensive Earnings (Note 10) | \$467 | \$465 | \$1,410 | \$1,282 |

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, December 30, | |
| | 2017 | 2016 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 591 | \$ 603 |
| Short-term Investments | 113 | 417 |
| Accounts Receivable - Net (Note 1) | 981 | 938 |
| Materials and Supplies | 392 | 407 |
| Other Current Assets | 95 | 122 |
| Total Current Assets | 2,172 | 2,487 |
| Properties | 44,105 | 43,227 |
| Accumulated Depreciation | (12,526 |) (12,077 |
| Properties - Net | 31,579 | 31,150 |
| Investment in Conrail | 864 | 840 |
| Affiliates and Other Companies | 642 | 619 |
| Other Long-term Assets | 316 | 318 |
| Total Assets | \$ 35,573 | \$ 35,414 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 905 | \$ 806 |
| Labor and Fringe Benefits Payable | 601 | 545 |
| Casualty, Environmental and Other Reserves (Note 4) | 122 | 115 |
| Current Maturities of Long-term Debt (Note 7) | 19 | 331 |
| Income and Other Taxes Payable | 322 | 129 |
| Other Current Liabilities | 106 | 114 |
| Total Current Liabilities | 2,075 | 2,040 |
| Casualty, Environmental and Other Reserves (Note 4) | 253 | 259 |
| Long-term Debt (Note 7) | 11,788 | 10,962 |
| Deferred Income Taxes - Net | 9,789 | 9,596 |
| Other Long-term Liabilities | 766 | 863 |
| Total Liabilities | 24,671 | 23,720 |
| Shareholders' Equity: | | |
| Common Stock, \$1 Par Value | 894 | 928 |
| Other Capital | 227 | 138 |
| Retained Earnings | 10,327 | 11,253 |
| Accumulated Other Comprehensive Loss (Note 10) | (561 |) (640 |
| Noncontrolling Interest | 15 | 15 |
| Total Shareholders' Equity | 10,902 | 11,694 |
| Total Liabilities and Shareholders' Equity | \$ 35,573 | \$ 35,414 |

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 | |
|---|-------------|----------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net Earnings | \$1,331 | \$1,256 |
| Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities: | | |
| Depreciation | 978 | 953 |
| Restructuring Charge | 296 | — |
| Cash Payments for Restructuring Charge | (147) |)— |
| Deferred Income Taxes | 161 | 312 |
| Other Operating Activities | (13) |)(51) |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (78) |)68 |
| Other Current Assets | 47 |)(58) |
| Accounts Payable | 102 | 94 |
| Income and Other Taxes Payable | 180 |)(25) |
| Other Current Liabilities | 4 |)(61) |
| Net Cash Provided by Operating Activities | 2,861 | 2,488 |
| INVESTING ACTIVITIES | | |
| Property Additions | (1,462) |)(1,590) |
| Purchase of Short-term Investments | (645) |)(410) |
| Proceeds from Sales of Short-term Investments | 957 | 1,070 |
| Other Investing Activities | 71 | 37 |
| Net Cash Used In Investing Activities | (1,079) |)(893) |
| FINANCING ACTIVITIES | | |
| Long-term Debt Issued (Note 7) | 850 | — |
| Long-term Debt Repaid (Note 7) | (332) |)(19) |
| Dividends Paid | (530) |)(513) |
| Shares Repurchased | (1,763) |)(778) |
| Other Financing Activities | (19) |)(310) |
| Net Cash Used in Financing Activities | (1,794) |)(1,620) |
| Net Decrease in Cash and Cash Equivalents | (12) |)(25) |
| CASH AND CASH EQUIVALENTS | | |
| Cash and Cash Equivalents at Beginning of Period | 603 | 628 |
| Cash and Cash Equivalents at End of Period | \$591 | \$603 |

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 nine months ended September 30, 2017 and September 23, 2016;
- Consolidated comprehensive income statements for the nine months ended September 30, 2017 and September 23, 2016;
- Consolidated balance sheets at September 30, 2017 and December 30, 2016; and
- Consolidated cash flow statements for the nine months ended September 30, 2017 and September 23, 2016.

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.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Fiscal Year

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

Fiscal year 2017 commenced on December 31, 2016, as the fiscal year 2016 ended on December 30, 2016 under the 52/53 week fiscal calendar.

The third quarter 2017 commenced on July 1, 2017, as the second quarter 2017 ended on June 30, 2017 under the 52/53 week fiscal calendar, and ended on September 30, 2017. Third quarter 2017 includes one more day of business results than third quarter 2016.

The fourth quarter 2017 will commence on October 1, 2017 and end on December 31, 2017. Fourth quarter 2017 will include six fewer days of business results than fourth quarter 2016, which contained an extra week under the 52/53 week fiscal calendar.

Fiscal year 2017 will include 366 days of activity, five fewer days than fiscal year 2016, which was a 53 week fiscal year that began on December 26, 2015 and ended December 30, 2016.

The Company does not expect that this change will materially impact comparability of the Company's financial results for fiscal year 2016 and fiscal year 2017. Accordingly, the change to a calendar fiscal year will be made on a prospective basis and operating results for prior periods will not be adjusted. The Company will not be required to file a transition report because this change is not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or Rule 15d-10 of the Securities Exchange Act of 1934 as the new fiscal year commences 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, 2017 and September 23, 2016, and references to "year-end" indicate the fiscal year ended December 30, 2016.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts on uncollectible amounts related to freight receivables, government reimbursement receivables, claims for damages and other various receivables. The allowance is based upon the creditworthiness of customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Allowance for doubtful accounts of \$24 million and \$33 million is included in the consolidated balance sheets as of September 30, 2017 and December 30, 2016, respectively.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

New Accounting Pronouncements

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

In March 2017, the FASB issued ASU Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that only the service cost component of net periodic benefit costs be recorded as compensation cost in the operating expense section of the income statement. All other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of net loss) will be presented in other income - net. This standard update is effective beginning with the first quarter 2018 and must be applied retrospectively. The Company does not believe this standard update will have a material effect on its financial condition, results of operations or liquidity.

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.

In May 2014, the FASB issued ASU Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. CSX will adopt this standard update in first quarter 2018 and plans to use a modified retrospective method of adoption.

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

Other Items

Management Workforce Reduction

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

Reimbursement Arrangements

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Restructuring Charge

In first quarter 2017, the former CEO and President of the Company announced their retirements, and the terms of their unvested equity awards were modified to permit prorated vesting through May 31, 2018. The total restructuring charge includes costs related to the management workforce reduction, reimbursement arrangements, the proration of equity awards and other advisory costs related to the leadership transition. Future charges related to this restructuring are not expected to be material. Expenses related to the management workforce reduction and other costs are shown in the following table.

| (Dollars in millions) | 2017 | | | |
|---|---------------|----------------|---------------|--------------|
| | First Quarter | Second Quarter | Third Quarter | Year-to-Date |
| Severance | \$81 | \$ 10 | \$ — | \$ 91 |
| Pension, Other Post-retirement Benefit and Other Non-cash Charges | 68 | 10 | — | 78 |
| Relocation | 6 | 2 | — | 8 |
| Subtotal Management Workforce Reduction | \$155 | \$ 22 | \$ — | \$ 177 |
| Reimbursement Arrangements | — | 84 | — | 84 |
| Non-cash Executive Equity Awards Proration | 8 | 16 | — | 24 |
| Other Charges Including Fees Related to Shareholder Matters | 10 | — | 1 | 11 |
| Total Restructuring Charge | \$173 | \$ 122 | \$ 1 | \$ 296 |

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

| (Dollars in millions) | 2017 | 2017 | Non-cash | Liability |
|--|---------|-----------|-----------|-----------|
| | Charges | Payments | Items | 9/30/2017 |
| Severance | \$ 91 | \$ (77) | — | \$ 14 |
| Pension, Other Post-retirement Benefit and Other Non-cash Charges ^(a) | 78 | — | (78) | — |
| Relocation | 8 | (4) | — | 4 |
| Subtotal Management Workforce Reduction | \$ 177 | \$ (81) | \$ (78) | \$ 18 |
| Reimbursement Arrangements | 84 | (55) | — | 29 |
| Non-cash Executive Equity Awards Proration | 24 | — | (24) | — |
| Other Charges Including Fees Related to Shareholder Matters | 11 | (11) | — | — |
| Total Restructuring Charge | \$ 296 | \$ (147) | \$ (102) | \$ 47 |

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

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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 | |
|--|-------------------|--------|-------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator (Dollars in millions): | | | | |
| Net Earnings | \$459 | \$455 | \$1,331 | \$1,256 |
| Dividend Equivalents on Restricted Stock | — | — | (1) | (1) |
| Net Earnings, Attributable to Common Shareholders | \$459 | 455 | \$1,330 | 1,255 |
| Denominator (Units in millions): | | | | |
| Average Common Shares Outstanding | 902 | 942 | 916 | 952 |
| Other Potentially Dilutive Common Shares | 4 | 1 | 3 | 1 |
| Average Common Shares Outstanding, Assuming Dilution | 906 | 943 | 919 | 953 |
| Net Earnings Per Share, Basic | \$0.51 | \$0.48 | \$1.45 | \$1.32 |
| Net Earnings Per Share, Assuming Dilution | \$0.51 | \$0.48 | \$1.45 | \$1.32 |

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, which is included in Note 3, Share-Based Compensation, because it is offset by shares CSX could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent. Approximately 10 million and 2.4 million of total average outstanding stock options for the third quarters ended September 30, 2017 and September 23, 2016, respectively, were excluded from the diluted earnings per share calculation because their effect was antidilutive.

Share Repurchases

In July 2017, the Board of Directors approved an additional \$500 million of share repurchase authority under the share repurchase program announced in April 2017, bringing the total program size to \$1.5 billion. As of October 2, 2017, the Company had completed all share repurchases under this program.

During the third quarters of 2017 and 2016, the Company repurchased approximately \$1 billion, or 20 million shares, and \$263 million, or 10 million shares, respectively. During the nine months of 2017 and 2016, the Company repurchased \$1.8 billion, or 35 million shares, and \$778 million, or 30 million shares, respectively.

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2. Earnings Per Share, continued

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. Generally, retained earnings is only impacted by net earnings and dividends.

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 the Company's non-management directors upon recommendation of the Governance Committee.

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

| (Dollars in millions) | Third | | Nine | |
|--|----------|--------|----------|--------|
| | Quarters | Months | Quarters | Months |
| | 2017 | 2016 | 2017 | 2016 |
| Share-Based Compensation Expense | | | | |
| Performance Units | \$ 3 | \$ 5 | \$41 | \$ 9 |
| Stock Options | 14 | 2 | 47 | 5 |
| Restricted Stock Units and Awards | 2 | 2 | 11 | 8 |
| Stock Awards for Directors | — | — | 2 | 2 |
| Total Share-Based Compensation Expense | \$ 19 | \$ 9 | \$101 | \$ 24 |
| Income Tax Benefit | \$ 7 | \$ 3 | \$32 | \$ 9 |

Long-term Incentive Plan

In February 2017, the Company granted approximately 600 thousand performance units to certain employees under a new long-term incentive plan ("LTIP") for the years 2017 through 2019, which was adopted under the CSX Stock and Incentive Award Plan. Payouts of performance units for the cycle ending with fiscal year 2019 will be based on the achievement of goals related to both operating ratio and return on assets in each case excluding non-recurring items as disclosed in the Company's financial statements. The cumulative operating ratio and average return on assets over the plan period will each comprise 50% of the payout and will be measured independently of the other.

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 downward adjustment by up to 30% based upon total shareholder return relative to specified comparable groups.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3. Share-Based Compensation, continued

Stock Options

Also, in February 2017, the Company granted approximately 1.3 million stock options along with the corresponding LTIP. The fair value of stock options on the date of grant was \$12.54 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.

Restricted Stock Units

Finally, in February 2017, the Company granted approximately 300 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.

CEO Stock Option Award

In March 2017, the Company granted 9 million stock options to the incoming CEO at a fair value of \$12.88 per option calculated using the Black-Scholes valuation model. These options were granted with a ten-year term and an exercise price equal to the closing market price of the underlying stock on the date of grant. Half of the options, or 4.5 million, will vest on the CEO's service anniversary in equal annual installments over four years. The other half will vest based on achievement of performance targets related to both operating ratio and earnings before interest, taxes, depreciation and amortization adjusted for certain items.

Fair Value of All Stock Option Awards

No stock option awards were granted during third quarters 2017 and 2016. The fair values of all stock option awards during the nine months ended September 30, 2017, including those granted along with 2017 - 2019 LTIP and the CEO stock option award, were estimated at the grant date with the following weighted average assumptions:

| | Nine Months | | |
|--|-------------|---------|---|
| | 2017 | 2016 | |
| Weighted-average grant date fair value | \$12.83 | \$4.68 | |
| Stock options valuation assumptions: | | | |
| Annual dividend yield | 1.5 | %3.0 | % |
| Risk-free interest rate | 2.2 | %1.4 | % |
| Annualized volatility | 27.1 | %27.3 | % |
| Expected life (in years) | 6.3 | 6.5 | |
| Other pricing model inputs: | | | |
| Weighted-average grant-date market price of CSX stock (strike price) | \$49.60 | \$24.13 | |

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(Unaudited)

NOTE 3. Share-Based Compensation, continued

Equity Award Modifications

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

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

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. No significant award modifications took place in third quarter 2017.

NOTE 4. Casualty, Environmental and Other Reserves

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

| | September 30, 2017 | | December 30, 2016 | | | |
|-----------------------------|-----------------------|-----------|----------------------|---------|-----------|-------|
| (Dollars in millions) | Current | Long-term | Total | Current | Long-term | Total |
| Casualty: | | | | | | |
| Personal Injury | \$45 | \$ 120 | \$165 | \$46 | \$ 124 | \$170 |
| Occupational ^(a) | 4 | 55 | 59 | 7 | 52 | 59 |
| Total Casualty | 49 | 175 | 224 | 53 | 176 | 229 |
| Environmental | 43 | 46 | 89 | 42 | 53 | 95 |
| Other | 30 | 32 | 62 | 20 | 30 | 50 |
| Total | \$122 | \$ 253 | \$375 | \$115 | \$ 259 | \$374 |

^(a) Occupational reserves include asbestos-related diseases and occupational injuries.

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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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Casualty

Casualty reserves of \$224 million and \$229 million as of September 30, 2017 and December 30, 2016, respectively, represent accruals for personal injury, occupational disease and occupational injury claims. The Company's self-insured retention amount for these claims is \$50 million per occurrence. Currently, no individual claim is expected to exceed the self-insured retention amount. In accordance with the Contingencies Topic in the ASC, to the extent the value of an individual claim exceeds the self-insured retention amount, the Company would present the liability on a gross basis with a corresponding receivable for insurance recoveries. These reserves fluctuate based upon the timing of payments as well as changes in estimate. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Most of the Company's casualty claims relate to CSXT unless otherwise noted below. Defense and processing costs, which historically have been insignificant and are anticipated to be insignificant in the future, are not included in the recorded liabilities.

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"). In addition to FELA liabilities, employees of other current or former CSX subsidiaries are covered by various state workers' compensation laws, the Federal Longshore and Harbor Workers' Compensation Program or the Maritime Jones Act.

CSXT retains an independent actuary to assist management in assessing the value of personal injury claims. An analysis is performed by the actuary quarterly and is reviewed by management. 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. It is 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.

The greatest possible exposure to asbestos for employees resulted from work conducted in and around steam locomotive engines that were largely phased out beginning around the 1950s. Other types of exposures, however, including exposure from locomotive component parts and building materials, continued until these exposures were substantially eliminated by 1985. Diseases associated with asbestos typically have long latency periods (amount of time between exposure to asbestos and the onset of the disease) which can range from 10 to 40 years after exposure.

Management reviews asserted asbestos claims quarterly. Unasserted or incurred but not reported ("IBNR") asbestos claims are analyzed by a third-party specialist and reviewed by management annually. CSXT's historical claim filings, settlement amounts, and dismissal rates are analyzed to determine future anticipated claim filing rates and average settlement values for asbestos claims reserves. The potentially exposed population is estimated by using CSXT's employment records and industry data. From this analysis, the specialist estimates the IBNR claims liabilities.

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(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Environmental

Environmental reserves were \$89 million and \$95 million as of September 30, 2017 and December 30, 2016, respectively. The Company is a party to various proceedings related to environmental issues, including administrative and judicial proceedings involving private parties and regulatory agencies. The Company has been identified as a potentially responsible party at approximately 219 environmentally impaired sites. Many of these are, or may be, subject to remedial action under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), also known as the Superfund Law, or similar state statutes. Most of these proceedings arose from environmental conditions on properties used for ongoing or discontinued railroad operations. A number of these proceedings, however, are based on allegations that the Company, or its predecessors, sent hazardous substances to facilities owned or operated by others for treatment, recycling or disposal. In addition, some of the Company's land holdings were leased to others for commercial or industrial uses that may have resulted in releases of hazardous substances or other regulated materials onto the property and could give rise to proceedings against the Company.

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

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

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

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

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

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4. Casualty, Environmental and Other Reserves, continued

Other

Other reserves of \$62 million and \$50 million as of September 30, 2017 and December 30, 2016, respectively, include liabilities for various claims, such as property, automobile and general liability. Also included in other reserves are longshoremen disability claims related to a previously owned international shipping business (these claims are in runoff) as well as claims for current port employees.

NOTE 5. Commitments and Contingencies

Purchase Commitments

CSXT has a commitment under a long-term maintenance program agreement that covers a portion of CSXT's fleet of locomotives. The program costs are based on the maintenance cycle for each covered locomotive, which is determined by the asset's age and type. Expected future costs may change as required maintenance schedules are revised and locomotives are placed into or removed from service. Under CSXT's current obligations, the agreement will expire no earlier than 2031. On August 9, 2017, the Company exercised certain rights under the agreement, which resulted in a reduction of the locomotive fleet covered from 50% as of December 30, 2016 to an estimated 34% of locomotives beginning August 2018. As a result, the total remaining payments decreased from approximately \$5.0 billion at December 30, 2016 to an estimated \$1.7 billion at September 30, 2017.

Insurance

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

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 \$116 million in aggregate at September 30, 2017. This estimated aggregate range is based upon currently available information and is subject to significant judgment and a variety of assumptions. Accordingly, the Company's estimate will change from time to time, and actual losses may vary significantly from the current estimate.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5. Commitments and Contingencies, continued

Fuel Surcharge Antitrust Litigation

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

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

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, which was based on a Focused Feasibility Study. EPA has estimated that it will take the potentially responsible parties approximately ten years to complete the work. 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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(Unaudited)

NOTE 6. Employee Benefit Plans

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

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

The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to these plans subject to the assumptions that the Company determines are appropriate based on historical trends, current market rates and future projections. These amounts are reviewed by management. The following table describes the components of expense / (income) related to net benefit expense recorded in labor and fringe on the income statement.

| (Dollars in millions) | Pension Benefits | | | |
|---|------------------|--------|----------|--------|
| | Third | | Nine | |
| | Quarters | Months | Quarters | Months |
| | 2017 | 2016 | 2017 | 2016 |
| Service Cost | \$8 | \$12 | \$28 | \$36 |
| Interest Cost | 23 | 29 | 69 | 89 |
| Expected Return on Plan Assets | (43) | (39) | (128) | (118) |
| Amortization of Net Loss | 10 | 12 | 31 | 36 |
| Net Periodic Benefit Cost | \$(2) | \$14 | \$— | \$43 |
| Special Termination Benefits - Management Workforce Reduction/Curtailment | — | — | 57 | — |
| Total Expense | \$(2) | \$14 | \$57 | \$43 |

| (Dollars in millions) | Other | | | |
|---|-----------------|--------|----------|--------|
| | Post-retirement | | Benefits | |
| | Third | Nine | Third | Nine |
| | Quarters | Months | Quarters | Months |
| | 2017 | 2016 | 2017 | 2016 |
| Service Cost | \$— | \$— | \$1 | \$1 |
| Interest Cost | 2 | 3 | 6 | 9 |
| Amortization of Net Loss | — | 1 | — | 2 |
| Net Periodic Benefit Cost | \$2 | \$4 | \$7 | \$12 |
| Special Termination Benefits - Management Workforce Reduction/Curtailment | — | — | 13 | — |
| Total Expense | \$2 | \$4 | \$20 | \$12 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6. Employee Benefit Plans, continued

As a result of the management workforce reductions in 2017, charges were incurred related to special termination benefits and curtailment costs. (For additional information regarding the management workforce reductions, see Note 1, Nature of Operations and Significant Accounting Policies.) In first quarter 2017, the Company remeasured the other post-retirement benefits obligation and recorded a curtailment loss of \$13 million in restructuring charge on the income statement. The remeasurement did not have a material impact on the other post-retirement benefits obligation. In connection with this remeasurement, the effective discount rate assumption was updated to 3.59% from 3.71%.

In the second quarter of 2017, the Company remeasured the pension benefits obligation and pension plan assets and recorded a curtailment loss of \$4 million in restructuring charge on the income statement. This remeasurement resulted in a decrease to the liabilities for pension benefits of approximately \$86 million and a corresponding decrease to accumulated other comprehensive loss. In connection with this remeasurement, the effective discount rate assumption was updated to 3.94% from 4.08%. There were no other changes to assumptions used to value pension benefits obligation and expense.

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 expected in 2017.

NOTE 7. Debt and Credit Agreements

Total activity related to long-term debt as of the end of third quarter 2017 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 Portion | Long-term Portion | Total |
|---|--------------------|----------------------|-----------|
| Long-term debt as of December 30, 2016 | \$ 331 | \$ 10,962 | \$ 11,293 |
| 2017 activity: | | | |
| Long-term debt issued | — | 850 | 850 |
| Long-term debt repaid | (332) | — | (332) |
| Reclassifications | 20 | (20) | — |
| Discount, premium and other activity | | (4) | (4) |
| Long-term debt as of September 30, 2017 | \$ 19 | \$ 11,788 | \$ 11,807 |

Debt Issuance

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

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(Unaudited)

NOTE 7. Debt and Credit Agreements, continued

Credit Facility

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

Commitment fees and interest rates payable under the facility were similar to fees and rates available to comparably rated investment-grade borrowers. As of third quarter 2017, 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 an alternative to commercial paper and a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. As of the date of this filing, the Company has no outstanding balances under this facility.

NOTE 8. Income Taxes

There have been no material changes to the balance of unrecognized tax benefits reported at December 30, 2016.

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 \$186 million and \$500 million as of September 30, 2017 and December 30, 2016, respectively.

| (Dollars in Millions) | September 30, December 30, | |
|--|----------------------------|--------|
| | 2017 | 2016 |
| Certificates of Deposit and Commercial Paper | \$ 100 | \$ 415 |
| Corporate Bonds | 60 | 63 |
| Government Securities | 29 | 22 |
| Total investments at fair value | \$ 189 | \$ 500 |

These investments have the following maturities:

| (Dollars in millions) | September 30, December 30, | |
|---------------------------------|----------------------------|--------|
| | 2017 | 2016 |
| Less than 1 year | \$ 113 | \$ 417 |
| 1 - 2 years | 5 | 12 |
| 2 - 5 years | 10 | 4 |
| Greater than 5 years | 61 | 67 |
| Total investments at fair value | \$ 189 | \$ 500 |

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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, 2017 | December 30, 2016 |
|--|-----------------------|----------------------|
| Long-term Debt (Including Current Maturities): | | |
| Fair Value | \$ 13,082 | \$ 12,096 |
| Carrying Value | 11,807 | 11,293 |

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 \$467 million and \$465 million for third quarters and \$1.4 billion and \$1.3 billion for nine months 2017 and 2016, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 10. Other Comprehensive Income (Loss), continued

Changes in the AOCI balance by component are shown in the table below. Amounts reclassified in pension and other post-employment benefits to net earnings relate to the amortization of actuarial losses and are included in labor and fringe on the consolidated income statements. See Note 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 materials, supplies and other on the consolidated income statements.

| | Pension and Other Post-Employment Benefits | Other | Accumulated Other Comprehensive Income (Loss) |
|--|--|---------|--|
| (Dollars in millions) | | | |
| Balance December 30, 2016, Net of Tax | \$ (580) | \$ (60) | \$ (640) |
| Other Comprehensive Income (Loss) | | | |
| Income Before Reclassifications | 86 | 2 | 88 |
| Amounts Reclassified to Net Earnings | 33 | 2 | 35 |
| Tax Expense | (43) | (1) | (44) |
| Total Other Comprehensive Income | 76 | 3 | 79 |
| Balance September 30, 2017, Net of Tax | \$ (504) | \$ (57) | \$ (561) |

NOTE 11. 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 11. Summarized Consolidating Financial Data, continued

Consolidating Income Statements

(Dollars in millions)

| Third Quarter 2017 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated | |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|---|
| Revenue | \$ — | \$ 2,725 | \$ 18 | \$ 2,743 | |
| Expense | (129 |) 2,025 | (29 |) 1,867 | |
| Operating Income | 129 | 700 | 47 | 876 | |
| Equity in Earnings of Subsidiaries | 472 | — | (472 |) — | |
| Interest (Expense) / Benefit | (147 |) (3 |) 18 | (132 |) |
| Other Income / (Expense) - Net | 1 | 13 | (8 |) 6 | |
| 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 | |
| Third Quarter 2016 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated | |
| Revenue | \$ — | \$ 2,691 | \$ 19 | \$ 2,710 | |
| Expense | (63 |) 1,960 | (28 |) 1,869 | |
| Operating Income | 63 | 731 | 47 | 841 | |
| Equity in Earnings of Subsidiaries | 505 | 1 | (506 |) — | |
| Interest (Expense) / Benefit | (141 |) (7 |) 9 | (139 |) |
| Other Income / (Expense) - Net | — | 9 | 4 | 13 | |
| Earnings Before Income Taxes | 427 | 734 | (446 |) 715 | |
| Income Tax (Expense) / Benefit | 28 | (268 |) (20 |) (260 |) |
| Net Earnings | \$ 455 | \$ 466 | \$ (466 |) \$ 455 | |
| Total Comprehensive Earnings | \$ 465 | \$ 467 | \$ (467 |) \$ 465 | |

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Income Statements

(Dollars in millions)

| Nine Months 2017 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated |
|------------------------------------|--------------------|-----------------------|---------------------------|--------------|
| Revenue | \$ — | \$ 8,490 | \$ 55 | \$ 8,545 |
| Expense | (171) |) 6,278 | (108) |) 5,999 |
| Operating Income | 171 | 2,212 | 163 | 2,546 |
| Equity in Earnings of Subsidiaries | 1,506 | — | (1,506) |) — |
| Interest (Expense) / Benefit | (432) |) (21) |) 47 | (406) |
| Other Income / (Expense) - Net | 6 | 32 | (19) |) 19 |
| 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 |
| Nine Months 2016 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated |
| Revenue | \$ — | \$ 7,974 | \$ 58 | \$ 8,032 |
| Expense | (202) |) 5,985 | (136) |) 5,647 |
| Operating Income | 202 | 1,989 | 194 | 2,385 |
| Equity in Earnings of Subsidiaries | 1,399 | 1 | (1,400) |) — |
| Interest (Expense) / Benefit | (425) |) (27) |) 29 | (423) |
| Other Income / (Expense) - Net | 1 | 24 | 3 | 28 |
| Earnings Before Income Taxes | 1,177 | 1,987 | (1,174) |) 1,990 |
| Income Tax (Expense) / Benefit | 79 | (735) |) (78) |) (734) |
| Net Earnings | \$ 1,256 | \$ 1,252 | \$ (1,252) |) \$ 1,256 |
| Total Comprehensive Earnings | \$ 1,282 | \$ 1,253 | \$ (1,253) |) \$ 1,282 |

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

| September 30, 2017 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated |
|---|--------------------|-----------------------|---------------------------|--------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 433 | \$ 147 | \$ 11 | \$ 591 |
| Short-term Investments | 100 | — | 13 | 113 |
| Accounts Receivable - Net | (1 |) 277 | 705 | 981 |
| Receivable from Affiliates | 1,012 | 3,004 | (4,016 |) — |
| Materials and Supplies | — | 392 | — | 392 |
| Other Current Assets | 2 | 76 | 17 | 95 |
| Total Current Assets | 1,546 | 3,896 | (3,270 |) 2,172 |
| Properties | 1 | 41,292 | 2,812 | 44,105 |
| Accumulated Depreciation | (1 |) (11,014 |) (1,511 |) (12,526 |
| Properties - Net | — | 30,278 | 1,301 | 31,579 |
| Investments in Conrail | — | — | 864 | 864 |
| Affiliates and Other Companies | (39 |) 667 | 14 | 642 |
| Investments in Consolidated Subsidiaries | 25,221 | — | (25,221 |) — |
| Other Long-term Assets | 9 | 592 | (285 |) 316 |
| Total Assets | \$ 26,737 | \$ 35,433 | \$ (26,597 |) \$ 35,573 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current Liabilities | | | | |
| Accounts Payable | \$ 178 | \$ 695 | \$ 32 | \$ 905 |
| Labor and Fringe Benefits Payable | 76 | 483 | 42 | 601 |
| Payable to Affiliates | 4,148 | 382 | (4,530 |) — |
| Casualty, Environmental and Other Reserves | — | 109 | 13 | 122 |
| Current Maturities of Long-term Debt | — | 19 | — | 19 |
| Income and Other Taxes Payable | (115 |) 418 | 19 | 322 |
| Other Current Liabilities | — | 103 | 3 | 106 |
| Total Current Liabilities | 4,287 | 2,209 | (4,421 |) 2,075 |
| Casualty, Environmental and Other Reserves | — | 207 | 46 | 253 |
| Long-term Debt | 11,053 | 735 | — | 11,788 |
| Deferred Income Taxes - Net | (198 |) 9,697 | 290 | 9,789 |
| Other Long-term Liabilities | 708 | 375 | (317 |) 766 |
| Total Liabilities | \$ 15,850 | \$ 13,223 | \$ (4,402 |) \$ 24,671 |
| Shareholders' Equity | | | | |
| Common Stock, \$1 Par Value | \$ 894 | \$ 181 | \$ (181 |) \$ 894 |

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| | | | | |
|--|-----------|-----------|------------|-------------|
| Other Capital | 227 | 5,096 | (5,096 |) 227 |
| Retained Earnings | 10,327 | 16,938 | (16,938 |) 10,327 |
| Accumulated Other Comprehensive Loss | (561 |) (20 |) 20 | (561) |
| Noncontrolling Interest | — | 15 | — | 15 |
| Total Shareholders' Equity | \$ 10,887 | \$ 22,210 | \$ (22,195 |) \$ 10,902 |
| Total Liabilities and Shareholders' Equity | \$ 26,737 | \$ 35,433 | \$ (26,597 |) \$ 35,573 |

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Balance Sheet

(Dollars in millions)

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

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| | | | | | |
|--|-----------|-----------|------------|-------------|---|
| Retained Earnings | 11,253 | 15,994 | (15,994 |) 11,253 | |
| Accumulated Other Comprehensive Loss | (640 |) (19 |) 19 | (640 |) |
| Noncontrolling Minority Interest | — | 15 | — | 15 | |
| Total Shareholders' Equity | \$ 11,679 | \$ 21,266 | \$ (21,251 |) \$ 11,694 | |
| Total Liabilities and Shareholders' Equity | \$ 26,021 | \$ 34,494 | \$ (25,101 |) \$ 35,414 | |

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CSX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. 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) |
| Purchases of Short-term Investments | (639) | — | (6) | (645) |
| Proceeds from Sales of Short-term Investments | 955 | — | 2 | 957 |
| Other Investing Activities | (2) | 98) | (25) | 71 |
| 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 11. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements

(Dollars in millions)

| Nine Months 2016 | CSX Corporation | CSX Transportation | Eliminations and Other | Consolidated |
|--|--------------------|-----------------------|---------------------------|--------------|
| Operating Activities | | | | |
| Net Cash Provided by (Used in) Operating Activities | \$ 644 | \$ 2,089 | \$ (245) | \$ 2,488 |
| Investing Activities | | | | |
| Property Additions | — | (1,469) | (121) | (1,590) |
| Purchases of Short-term Investments | (410) | — | — | (410) |
| Proceeds from Sales of Short-term Investments | 1,070 | — | — | 1,070 |
| Other Investing Activities | (3) | 107) | (67) | 37 |
| Net Cash Provided by (Used in) Investing Activities | 657 | (1,362) | (188) | (893) |
| Financing Activities | | | | |
| Long-term Debt Issued | — | — | — | — |
| Long-term Debt Repaid | — | (18) | (1) | (19) |
| Dividends Paid | (513) | (450) | 450 | (513) |
| Shares Repurchased | (778) | — | — | (778) |
| Other Financing Activities | (6) | (304) | — | (310) |
| Net Cash Provided by (Used in) Financing Activities | (1,297) | (772) | 449 | (1,620) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 4 | (45) | 16 | (25) |
| Cash and Cash Equivalents at Beginning of Period | 444 | 175 | 9 | 628 |
| Cash and Cash Equivalents at End of Period | \$ 448 | \$ 130 | \$ 25 | \$ 603 |

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CSX CORPORATION

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

THIRD QUARTER 2017 HIGHLIGHTS

Revenue increased \$33 million to \$2.7 billion, or 1 percent year over year.

Expenses decreased \$2 million to \$1.9 billion.

Operating income of \$876 million increased \$35 million, or 4 percent year over year.

Operating ratio of 68.1% improved 90 basis points versus last year's quarter.

Earnings per share of \$0.51 increased \$0.03, or 6 percent year over year.

| | Third Quarters | | | | Nine Months | | | |
|----------------------------|----------------|---------|------------------|----------|-------------|---------|------------------|----------|
| | 2017 | 2016 | Fav / (Unfav) | % Change | 2017 | 2016 | Fav / (Unfav) | % Change |
| Volume (in thousands) | 1,587 | 1,574 | 13 | 1% | 4,799 | 4,720 | 79 | 2% |
| (in millions) | | | | | | | | |
| Revenue | \$2,743 | \$2,710 | \$ 33 | 1% | \$8,545 | \$8,032 | \$ 513 | 6% |
| Expense | 1,867 | 1,869 | 2 | —% | 5,999 | 5,647 | (352) | (6)% |
| Operating Income | \$876 | \$841 | \$ 35 | 4% | \$2,546 | \$2,385 | \$ 161 | 7% |
| Operating Ratio | 68.1 | %69.0 | %90 | bps | 70.2 | %70.3 | %10 | bps |
| Earnings Per Diluted Share | \$0.51 | \$0.48 | \$ 0.03 | 6% | \$1.45 | \$1.32 | \$ 0.13 | 10% |

In third quarter 2017, the Company continued implementation of Precision Scheduled Railroading. As a result, CSX is adjusting its strategy to successfully execute this new plan, relentlessly focusing on improving customer service, controlling costs, optimizing asset utilization, operating safely, and developing and valuing employees.

The restructuring charge was \$1 million in third quarter 2017 and \$296 million year-to-date, which includes costs related to the management workforce reduction program announced earlier this year. The Company expects estimated pre-tax savings on both future earnings and cash flows resulting from this program to be approximately \$200 million per year.

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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 | | | |
|--------------------------------|--------|-------|----------|---------|---------|----------|------------------|---------|----------|---|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change | 2017 | 2016 | % Change | |
| Agricultural | | | | | | | | | | |
| Agricultural and Food Products | 106 | 109 | (3)% | \$288 | \$295 | (2)% | \$2,717 | \$2,706 | — | % |
| Fertilizers | 68 | 72 | (6) | 106 | 104 | 2 | 1,559 | 1,444 | 8 | |
| Industrial | | | | | | | | | | |
| Chemicals | 164 | 173 | (5) | 546 | 542 | 1 | 3,329 | 3,133 | 6 | |
| Automotive | 105 | 115 | (9) | 269 | 304 | (12) | 2,562 | 2,643 | (3) | |
| Metals and Equipment | 64 | 63 | 2 | 178 | 180 | (1) | 2,781 | 2,857 | (3) | |
| Housing and Construction | | | | | | | | | | |
| Minerals | 80 | 86 | (7) | 120 | 125 | (4) | 1,500 | 1,453 | 3 | |
| Forest Products | 64 | 68 | (6) | 181 | 191 | (5) | 2,828 | 2,809 | 1 | |
| Total Merchandise | 651 | 686 | (5) | 1,688 | 1,741 | (3) | 2,593 | 2,538 | 2 | |
| Coal | 218 | 207 | 5 | 514 | 467 | 10 | 2,358 | 2,256 | 5 | |
| Intermodal | 718 | 681 | 5 | 446 | 425 | 5 | 621 | 624 | — | |
| Other | — | — | — | 95 | 77 | 23 | — | — | — | |
| Total | 1,587 | 1,574 | 1 % | \$2,743 | \$2,710 | 1 % | \$1,728 | \$1,722 | — | % |

Nine Months

| | Volume | | | Revenue | | | Revenue Per Unit | | |
|--------------------------------|--------|-------|----------|---------|---------|----------|------------------|---------|----------|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change | 2017 | 2016 | % Change |
| Agricultural | | | | | | | | | |
| Agricultural and Food Products | 341 | 346 | (1)% | \$941 | \$925 | 2 % | \$2,760 | \$2,673 | 3 % |
| Fertilizers | 223 | 220 | 1 | 353 | 345 | 2 | 1,583 | 1,568 | 1 |
| Industrial | | | | | | | | | |
| Chemicals | 508 | 520 | (2) | 1,664 | 1,622 | 3 | 3,276 | 3,119 | 5 |
| Automotive | 340 | 349 | (3) | 892 | 907 | (2) | 2,624 | 2,599 | 1 |
| Metals and Equipment | 201 | 196 | 3 | 546 | 531 | 3 | 2,716 | 2,709 | — |
| Housing and Construction | | | | | | | | | |
| Minerals | 233 | 230 | 1 | 362 | 345 | 5 | 1,554 | 1,500 | 4 |
| Forest Products | 198 | 204 | (3) | 567 | 572 | (1) | 2,864 | 2,804 | 2 |
| Total Merchandise | 2,044 | 2,065 | (1) | 5,325 | 5,247 | 1 | 2,605 | 2,541 | 3 |
| Coal | 631 | 602 | 5 | 1,566 | 1,282 | 22 | 2,482 | 2,130 | 17 |
| Intermodal | 2,124 | 2,053 | 3 | 1,328 | 1,249 | 6 | 625 | 608 | 3 |
| Other | — | — | — | 326 | 254 | 28 | — | — | — |
| Total | 4,799 | 4,720 | 2 % | \$8,545 | \$8,032 | 6 % | \$1,781 | \$1,702 | 5 % |

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CSX CORPORATION

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

Third Quarter 2017

Revenue

Revenue for the third quarter increased \$33 million or one percent when compared to the previous year. This growth was primarily driven by gains in coal and intermodal, partially offset by declines in the majority of the merchandise markets.

Merchandise

Agricultural Sector

Agricultural and Food Products - Volume declined due to challenges in the export market as well as a large southeastern grain crop leading to local truck sourcing to feed mills. These declines were partially offset by gains in ethanol driven by higher production levels and new business wins.

Fertilizers - Volume declined predominantly due to Hurricane Irma's impact on Central Florida phosphate operations causing reduced production levels and supply chain disruptions.

Industrial Sector

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

Automotive - Volume declined as North American vehicle production fell. Dealership inventory ended the quarter consistent with the prior four-year average.

Metals and Equipment - Volume increased slightly as an increase in equipment moves more than offset declines in steel sheet and scrap.

Housing and Construction Sector

Minerals - Volume fell, reflecting short-term competitive losses to other modes as the Company transitions its customers to the new operating plan.

Forest Products - Volume declined as mill closures and truck competition negatively impacted shipments of paper products. Additionally, lumber shipments were challenged due to the enforcement of duties on Canadian lumber.

Coal

Domestic Utility Coal - Volume declined reflecting the competitive loss of short-haul interchange traffic and challenges from Hurricane Irma, which caused outages at southeastern customer facilities.

Domestic Coke, Iron Ore and Other - Volume was down, primarily driven by iron ore shipments, as a large customer continued to idle its production.

Export Coal - Volume increased as global supply levels and pricing conditions supported strong growth in U.S. coal exports.

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CSX CORPORATION

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

Intermodal

Domestic - Volume increased one percent as growth with existing customers and ongoing success of CSX's highway-to-rail conversion initiative more than offset a prior year short-haul competitive loss which cycled mid-quarter and other competitive losses as the Company transitions its customers to the new operating plan.

International - Volume was up 11 percent driven by new customers and strong performance with existing customers as eastern port volumes increased.

Other

Other revenue increased \$18 million versus the prior year primarily due to higher incidental charges and lower volume-based refunds.

Expenses

Expenses of approximately \$1.9 billion remained relatively consistent, decreasing \$2 million year over year. This decrease was due to efficiency savings of \$95 million and lower volume related costs of \$13 million due to a decrease in gross ton-miles, nearly offset by inflation of \$53 million, fuel price increases of \$32 million and other items.

Labor and Fringe expense decreased \$45 million due to the following:

• Inflation of \$43 million was driven primarily by increased health and welfare and wage increases.

• Efficiency savings of \$73 million were driven by reduced management headcount as a result of the 2017 restructuring initiative, as well as lower operating support costs.

• Volume-related costs decreased by \$4 million.

• Other costs decreased by \$11 million primarily due to a decrease in pension expense partially offset by other items, none of which were individually significant.

Materials, Supplies and Other expense increased \$9 million due to the following:

• Additional expense of \$13 million resulted from train accidents during the quarter.

• Inflation resulted in \$8 million of additional cost.

• Technology-related asset impairment charges were \$5 million.

• Efficiency savings of \$30 million were primarily related to lower maintenance costs from the reduction in the active locomotive fleet and a reduction in contingent workers.

• Volume-related costs decreased by \$4 million.

• Other costs increased \$17 million due to relocation costs and other items, none of which were individually significant.

Depreciation expense increased \$10 million primarily due to a larger asset base.

Fuel expense increased \$31 million due to the following:

• A 19 percent price increase drove \$32 million in additional fuel expense.

• Efficiency savings were \$1 million.

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CSX CORPORATION

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

Equipment and Other Rents expense decreased \$8 million due to the following:

• Efficiency losses of \$9 million were due to increased days per load for automotive and merchandise markets.

• Inflation resulted in \$2 million of additional cost due to higher rates across most car types.

• Volume-related costs were \$5 million lower.

Other costs decreased \$14 million primarily due to rental income that was previously classified as other income in the prior years being reclassified to operating expense in the current year as well as other items, none of which were individually significant.

Restructuring charge of \$1 million was incurred during the quarter.

Interest expense decreased \$7 million primarily due to lower average interest rates partially offset by higher average debt balances.

Other income - net decreased \$7 million primarily due to prior quarter income from non-operating real estate transactions, which are now included in operating income.

Income tax expense increased \$31 million primarily due to increased earnings before income taxes, state legislative changes and non-deductible executive compensation.

Nine Months Results of Operations

Revenue increased \$513 million reflecting pricing gains, volume growth, higher fuel recoveries and a \$58 million settlement in 2017 related to a customer that did not meet historical volume commitments.

Expenses were higher by \$352 million driven primarily by a restructuring charge of \$296 million, inflation of \$153 million and fuel price increases of \$127 million, partially offset by efficiency savings of \$308 million.

Operating income increased \$161 million primarily due to pricing gains, volume growth and efficiency savings, partially offset by restructuring charges, inflation and increases in fuel price.

Interest expense decreased \$17 million primarily due to lower average interest rates partially offset by higher average debt balances.

Other income - net decreased \$9 million primarily due to prior quarter income from non-operating real estate transactions, which are now included in operating income, and other non-operating items, none of which were individually significant.

Income tax expense increased \$94 million primarily due to increased earnings before income taxes, non-deductible executive compensation, and state legislative changes.

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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.

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 restructuring charge was tax effected using rates reflective of the applicable tax amounts for each component of the restructuring charge, including an adjustment for the non-deductibility of executive compensation.

For the Quarter ended September 30, 2017

(in millions,
except operating
ratio and net
earnings per
share, assuming
dilution)

| | Operating Income | Operating Ratio | Net Earnings | Net Earnings Per Share, Assuming Dilution |
|---------------------------------------|---------------------|-----------------|--------------|---|
| GAAP Operating Results | \$ 876 | 68.1 % | \$ 459 | \$ 0.51 |
| Restructuring Charge ^(a) | 1 | (0.1)% | 4 | — |
| Adjusted Operating Results (non-GAAP) | \$ 877 | 68.0 % | \$ 463 | \$ 0.51 |

For the Nine Months Ended September 30, 2017

(in millions,
except operating
ratio and net
earnings per
share, assuming
dilution)

| Operating Income | Operating Ratio | Net Earnings | Net Earnings Per Share, Assuming Dilution |
|------------------|-----------------|--------------|---|
|------------------|-----------------|--------------|---|

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| | | | | | |
|---------------------------------------|----------|------|----|----------|---------|
| GAAP Operating Results | \$ 2,546 | 70.2 | % | \$ 1,331 | \$ 1.45 |
| Restructuring Charge ^(a) | 296 | (3.5 |)% | 193 | 0.21 |
| Adjusted Operating Results (non-GAAP) | \$ 2,842 | 66.7 | % | \$ 1,524 | \$ 1.66 |

(a) See Note 1, Nature of Operations and Significant Accounting Policies - Other Items - Restructuring Charge, for additional information.

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CSX CORPORATION

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

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.

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 applicable tax rate of the charge.

| (Dollars in millions) | Nine Months | |
|---|-------------|----------|
| | 2017 | 2016 |
| Net cash provided by operating activities | \$2,861 | \$2,488 |
| Property additions | (1,462) | (1,590) |
| Other investing activities | 71 | 37 |
| Free Cash Flow (before payment of dividends) | 1,470 | 935 |
| Add back: Cash Payments for Restructuring Charge (after-tax) ^(a) | 96 | — |
| Adjusted Free Cash Flow Before Dividends (non-GAAP) | \$1,566 | \$935 |

(a) During the nine months ended September 30, 2017, the Company made cash payments of \$147 million related to the restructuring charge. The Company also made \$7 million in payments to the former CEO and President for previously accrued non-qualified pension benefits that are not included in the restructuring charge.

Operating Statistics (Estimated)

The Company measures and reports safety and service performance. The Company strives for continuous improvement in these measures through training, innovation and investment. Investment in training and technology also is designed to allow CSX employees to have an additional layer of protection that can detect and avoid many types of human factor incidents. The Company's 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.

In order to more accurately represent the Company's operating performance, CSX has revised the way it calculates train velocity and terminal dwell effective third quarter 2017. These revisions are consistent with the principles of Precision Scheduled Railroading. Updated definitions for each key performance measure are included beneath the Operating Statistics table. Prior periods have been restated to conform to the current methodology. Details of the changes are as follows:

• Train velocity has been expanded to include intermediate dwell, now measuring end-to-end transit time.

• Dwell has been expanded to include car dwell time at terminals on through trains, now measuring all car dwell time on an end-to-end trip.

These revisions differ from the methodology prescribed by the Surface Transportation Board ("STB") for reporting train velocity and dwell. CSX will continue to report train velocity and dwell, using the prescribed methodology, to the STB on a weekly basis. At the STB's request, CSX is providing additional operating measures on a weekly basis that are available on the Company's website. CSX participated in a public listening session on October 11, 2017 at the STB regarding CSX's rail service. Information related to this session is available at the STB under matter E.P. 742.

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

CSX's operating performance declined in the third quarter of 2017 compared to 2016 due to network fluidity challenges, train accidents and the impacts from Hurricane Irma. Network fluidity was unfavorably impacted early in the quarter as the Company's operations adjusted to the implementation of a new, balanced train plan. The Company expects to improve its level of performance through increased efficiency within terminals and refinement of the operating plan.

CSX's FRA reportable personal injury frequency index of 1.41 for the third quarter of 2017 was 11 percent unfavorable to the prior year as a decline in overall injuries was offset by a significant decline in man-hours from fewer employees. The FRA train accident frequency rate of 3.82 for the quarter was 46 percent unfavorable to the prior year. CSX remains committed to ongoing safety improvement, with a focus on reducing injury severity and avoiding catastrophic events.

| | Third Quarters | | | Nine Months | | |
|--|----------------|------|---------------------------------|-------------|------|---------------------------------|
| | 2017 | 2016 | Improvement/ (Deterioration) | 2017 | 2016 | Improvement/ (Deterioration) |
| Operations Performance | | | | | | |
| Train Velocity (Miles per hour) ^(a) | 14.0 | 14.9 | (6)% | 14.7 | 15.2 | (3)% |
| Dwell (Hours) ^(a) | 12.1 | 11.2 | (8)% | 11.5 | 11.2 | (3)% |
| On-Time Originations | 74 | %84 | %(12)% | 81 | %84 | %(4)% |
| On-Time Arrivals | 48 | %54 | %(11)% | 57 | %56 | %2 % |
| Safety | | | | | | |
| FRA Personal Injury Frequency Index | 1.41 | 1.27 | (11)% | 1.17 | 1.04 | (13)% |
| FRA Train Accident Rate | 3.82 | 2.61 | (46)% | 2.99 | 2.69 | (11)% |

(a) The methodology for calculating train velocity and dwell differ from that prescribed by the STB. CSX will continue to report train velocity and dwell, using the prescribed methodology, to the STB on a weekly basis.

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).

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

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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CSX CORPORATION

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 \$159 million from year end primarily due to an increase in net properties of \$429 million, partially offset by a decrease in cash and short-term investment activity of \$316 million. Total liabilities and shareholders' equity combined increased \$159 million from year end primarily due to net earnings of \$1.3 billion, an increase in net debt of \$514 million and an increase in taxes payable of \$193 million mostly due to a temporary tax payment extension for companies in areas affected by Hurricane Irma. These increases were partially offset by share repurchases of \$1.8 billion.

Significant Cash Flows

The following chart highlights the net decrease in cash and cash equivalents of \$12 million as compared to a net decrease of \$25 million for operating, investing and financing activities for nine months ended 2017 and 2016, respectively.

Cash provided by operating activities increased \$373 million primarily driven by a temporary tax payment extension for companies in areas affected by Hurricane Irma, higher working capital and other activities, and higher net earnings. These increases were partially offset by payments related to restructuring activities.

Cash used in investing activities increased \$186 million primarily driven by higher net purchases of short-term investments partially offset by lower property additions.

Cash used in financing activities increased \$174 million primarily due to higher share repurchases, partially offset by higher net debt issued and a prior year repayment of seller-financed assets that did not repeat in the current year.

Projected capital investments for 2017 are expected to be \$2.1 billion, including approximately \$270 million for Positive Train Control ("PTC"). Of the 2017 investment, over half 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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CSX CORPORATION

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

The Company has incurred significant capital costs in connection with the implementation of PTC and has substantial work ahead. 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 2017 was \$2.0 billion.

Liquidity and Working Capital

As of the end of third quarter 2017, CSX had \$704 million of cash, cash equivalents and short-term investments. CSX has a \$1.0 billion unsecured revolving credit facility backed by a diverse syndicate of banks. This facility expires in May 2020 and as of the date of this filing, the Company has no outstanding balances under this facility. 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.

The Company has a receivables securitization facility with a three-year term scheduled to expire in September 2019. The purpose of this facility is to provide an alternative to commercial paper and a low cost source of short-term liquidity of up to \$200 million, depending on eligible receivables balances. As of the date of this filing, the Company has 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 \$97 million and \$447 million as of September 30, 2017 and December 30, 2016, respectively. The decrease in working capital since year end of \$350 million is primarily due to share repurchases of \$1.8 billion, property additions of \$1.5 billion and dividends paid of \$530 million. These decreases were partially offset by cash provided from operations of \$2.9 billion and net debt issued of \$518 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, 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 currently reviewing its cash deployment strategy with respect to capital structure and shareholder distributions and is committed to an investment grade credit profile.

Contractual Obligations and Commercial Commitments

CSXT has a commitment under a long-term maintenance program agreement that covers a portion of CSXT's fleet of locomotives. The program costs are based on the maintenance cycle for each covered locomotive, which is determined by the asset's age and type. Expected future costs may change as required maintenance schedules are revised and locomotives are placed into or removed from service. Under CSXT's current obligations, the agreement will expire no earlier than 2031. On August 9, 2017, the Company exercised certain rights under the agreement, which resulted in a reduction of the locomotive fleet covered from 50% as of December 30, 2016 to an estimated 34% of locomotives beginning August 2018. As a result, the total remaining payments decreased from approximately \$5.0 billion at December 30, 2016 to an estimated \$1.7 billion at September 30, 2017.

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CSX CORPORATION

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.

casualty, 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 SEC, 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, 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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CSX CORPORATION

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 II, 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 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 or equipment;
- 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;
- 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;

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CSX CORPORATION

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

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;

the Company's success in implementing its strategic, financial and operational initiatives, including Precision Scheduled Railroading;

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, 2017, 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, 2017, 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 2017 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.

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 July 2017, the Board of Directors approved an additional \$500 million of share repurchase authority under the share repurchase program announced in April 2017, bringing the total program size to \$1.5 billion. As of October 2, 2017, the Company had completed all share repurchases under this program. During the third quarters of 2017 and 2016, the Company repurchased approximately \$1 billion, or 20 million shares, and \$263 million, or 10 million shares, respectively.

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. Generally, retained earnings is only impacted by net earnings and dividends.

Share repurchase activity for the third quarter 2017 was as follows:

| | CSX Purchases of Equity Securities for the 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 |
| Third Quarter | | | | |
| Beginning Balance | | | | \$512,661,389 |
| July 1 - July 31, 2017 | 9,920,229 | \$ 52.24 | 9,805,644 | 500,360,263 |
| August 1 - August 31, 2017 | 6,642,545 | 49.85 | 6,642,545 | 169,256,400 |
| September 1 - September 30, 2017 | 3,129,053 | 51.64 | 3,128,708 | 7,696,097 |
| Ending Balance | 19,691,827 | \$ 51.34 | 19,576,897 | \$7,696,097 |

(a) The difference of 114,930 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.

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 | Previously filed as exhibit to |
|---------------------|-------------------|--------------------------------|
|---------------------|-------------------|--------------------------------|

Officer certifications:

31* Rule 13a-14(a) Certifications

32* Section 1350 Certifications

Interactive data files:

101* The following financial information from CSX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 filed with the SEC on October 18, 2017, formatted in XBRL includes: (i) consolidated income statements for the fiscal periods ended September 30, 2017 and September 23, 2016, (ii) consolidated comprehensive income statements for the fiscal periods ended September 30, 2017 and September 23, 2016 (iii) consolidated balance sheets at September 30, 2017 and December 30, 2016, (iv) consolidated cash flow statements for the fiscal periods ended September 30, 2017 and September 23, 2016, and (v) the notes to consolidated financial statements.

* 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/ ANDREW L. GLASSMAN

Andrew L. Glassman

Vice President and Controller

(Principal Accounting Officer)

Dated: October 18, 2017

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