CSX CORP
Form 10-K
February 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 26, 2014
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number 1-8022
CSX CORPORATION
(Exact name of registrant as specified in its charter)

Virginia	62-1051971
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Water Street, 15th Floor, Jacksonville, FL	32202	(904) 359-3200
(Address of principal executive offices)	(Zip Code)	(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes (X) No ( )
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ( ) No (X)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (X) No ( )
Indicate by check mark whether the registrant has submitted electronically 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 (X) No ( )
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (as defined in Exchange Act Rule 12b-2).
Large Accelerated Filer (X) Accelerated Filer ( ) Non-accelerated Filer ( ) Smaller reporting company ( )
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes ( ) No (X)

On June 27, 2014 (which is the last day of the second quarter and the required date to use), the aggregate market value of the Registrant's voting stock held by non-affiliates was approximately $31 billion (based on the New York Stock Exchange closing price on such date).

There were 990,564,824 shares of Common Stock outstanding on January 23, 2015 (the latest practicable date that is closest to the filing date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement (the "Proxy Statement") to be filed no later than 120 days after the end of the fiscal year with respect to its annual meeting of shareholders scheduled to be held on May 6, 2015.

1

CSX CORPORATION
FORM 10-K
TABLE OF CONTENTS

CSX CORPORATION
PART I

Item 1. Business
CSX Corporation ("CSX"), and together with its subsidiaries (the "Company"), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

The Company's annual average number of employees was approximately 32,000 in 2014, which includes approximately 26,000 union employees. Most of the Company's employees provide or support transportation services.

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

Lines of Business
During 2014, the Company services generated $12.7 billion of revenue and served three primary lines of business:

- The merchandise business shipped over 2.9 million carloads and generated approximately 60% of revenue and 42% of volume in 2014. The Company's merchandise business is the most diverse and transports aggregates (which include crushed stone, sand and gravel), metal, phosphate, fertilizer, food, consumer (manufactured goods and appliances), agricultural, automotive, paper and chemical products.
- The coal business shipped nearly 1.3 million carloads and accounted for nearly 22% of revenue and 18% of volume in 2014. The Company transports domestic coal, coke and iron ore to electricity-generating power plants, steel manufacturers and industrial plants as well as export coal to deep-water port facilities. Almost half of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.
- The intermodal business accounted for approximately 14% of revenue and 40% of volume in 2014. The intermodal line of business combines the superior economics of rail transportation with the short-haul flexibility of trucks and offers a competitive cost advantage over long-haul trucking. Through a network of more than 50 terminals, the intermodal business serves all major markets east of the Mississippi and transports mainly manufactured consumer goods in containers, providing customers with truck-like service for longer shipments.

Other revenue accounted for approximately 4% of the Company's total revenue in 2014. This revenue category includes revenue from regional subsidiary railroads, demurrage, revenue for customer volume commitments not met, switching and other incidental charges. Revenue from regional railroads includes shipments by railroads that the Company does not directly operate. Demurrage represents charges assessed when freight cars are held beyond a specified period of time. Switching revenue is primarily generated when CSXT switches cars for a customer or another railroad.

CSX CORPORATION
PART I

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 CSXT 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. Today, the biggest Transflo markets are chemicals and agriculture, which includes shipments of plastics and ethanol. CSX Technology and other subsidiaries provide support services for the Company.

CSX's other holdings include CSX Real Property, Inc., a subsidiary responsible for the Company's real estate sales, leasing, acquisition and management and development activities. These activities are classified in other income because they are not considered by the Company to be operating activities. Results of these activities fluctuate with the timing of non-operating real estate transactions.

Financial Information
See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for operating revenue, operating income and total assets for each of the last three fiscal years.

Company History
A leader in freight rail transportation for more than 185 years, the Company's heritage dates back to the early nineteenth century when The Baltimore and Ohio Railroad Company ("B&O") – the nation's first common carrier – was chartered in 1827. Since that time, the Company has built on this foundation to create a railroad that could safely and reliably service the ever-increasing demands of a growing nation.

Since its founding, numerous railroads have combined with the former B&O through merger and consolidation to create what has become CSX. Each of the railroads that combined into the CSX family brought new geographical reach to valuable markets, gateways, cities, ports and transportation corridors.

CSX was incorporated in 1978 under Virginia law. In 1980, the Company completed the merger of the Chessie System and Seaboard Coast Line Industries into CSX. The merger allowed the Company to connect northern population centers and Appalachian coal fields to growing southeastern markets. Later, the Company's acquisition of key portions of Conrail, Inc. ("Conrail") allowed CSXT to link the northeast, including New England and the New York metropolitan area, with Chicago and midwestern markets as well as the growing areas in the Southeast already served by CSXT. This current rail network allows the Company to directly serve every major market in the eastern United States with safe, dependable, environmentally responsible and fuel efficient freight transportation and intermodal service.

Competition
The business environment in which the Company operates is highly competitive. Shippers typically select transportation providers that offer the most compelling combination of service and price. Service requirements, both in terms of transit time and reliability, vary by shipper and commodity. As a result, the Company's primary competition varies by commodity, geographic location and mode of available transportation.

CSXT's primary rail competitor is Norfolk Southern Railway, which operates throughout much of the Company's territory. Other railroads also operate in parts of the Company's territory. Depending on the specific market, competing railroads and deregulated motor carriers may exert pressure on price and service levels. For further discussion on the risk of competition to the Company, see Item 1A. Risk Factors.

Regulatory Environment

The Company's operations are subject to various federal, state, provincial (Canada) and local laws and regulations generally applicable to businesses operating in the United States and Canada. In the U.S, the railroad operations conducted by the Company's subsidiaries, including CSXT, are subject to the regulatory jurisdiction of the Surface Transportation Board ("STB"), the Federal Railroad Administration ("FRA"), and its sister agency within the U.S. Department of Transportation, the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). Together, FRA and PHMSA have broad jurisdiction over railroad operating standards and practices, including track, freight cars, locomotives and hazardous materials requirements. In addition, the U.S. Environmental Protection Agency ("EPA") has regulatory authority with respect to matters that impact the Company's properties and operations. The EPA is considering regulatory action directed towards the railroad industry governing the disposal of creosote cross-ties and seeking to increase air emission regulations that may impact our operations or increase costs. Similarly, the Transportation Security Administration ("TSA"), a component of the Department of Homeland Security, has broad authority over railroad operating practices that may have homeland security implications. In Canada, the railroad operations conducted by the Company's subsidiaries, including CSXT, are subject to the regulatory jurisdiction of the Canadian Transportation Agency.

Although the Staggers Act of 1980 significantly deregulated the U.S. rail industry, the STB has broad jurisdiction over rail carriers. The STB regulates routes, fuel surcharges, conditions of service, rates for non-exempt traffic, acquisitions of control over rail common carriers and the transfer, extension or abandonment of rail lines, among other railroad activities.

Positive Train Control

In 2008, Congress enacted the Rail Safety Improvement Act (the "RSIA"). The legislation includes a mandate that all Class I freight railroads implement an interoperable positive train control system ("PTC") by December 31, 2015. Implementation of a PTC system is designed to prevent train-to-train collisions, over-speed derailments, incursions into established work-zone limits, and train diversions onto another set of tracks. In 2012, the Association of American Railroads ("AAR") advised the FRA on behalf of the industry that a nationwide interoperable PTC network could not be completed by the deadline. In 2012, the FRA revised its final rule on the design, operational requirements and implementation of PTC technology, and is now re-examining certain additional aspects of the rule in response to rail industry concerns. In 2012, the FRA filed a report with Congress stating that it also believed that the majority of railroads would not be able to complete PTC implementation by the 2015 deadline and recommending that Congress amend the RSIA to allow the FRA to grant conditional extensions of the 2015 deadline. As of the date of this filing, Congress has taken no action to extend the statutory deadline.

PTC must be installed on all main lines with passenger and commuter operations as well as most of those over which toxic-by-inhalation hazardous materials are transported. The Company expects to incur significant capital costs in connection with the implementation of PTC as well as related ongoing operating expenses. CSX currently estimates that the total multi-year cost of PTC implementation will be at least $1.9 billion for the Company. Total PTC spending through 2014 was $1.2 billion.

STB Proceedings

In 2012, the STB announced it would accept comments on a proposal by the National Industrial Transportation League that would require Class I railroads to provide a form of "competitive access" to customers served solely by one railroad. Under this proposal, CSX would be required to allow a competing railroad to access certain customers that are currently solely served by CSX's network. In early 2013, shippers, railroads and other parties submitted comments on the proposal, and the STB held a hearing in March 2014. Since the hearing, the STB has taken no further action in the proceeding.

In July 2013, the STB released a decision that raised the limitations on the monetary recovery that a shipper may obtain when bringing a simplified rate reasonableness case. CSX and Norfolk Southern filed a joint appeal to the D.C. Circuit. In August 2014, the D.C. Circuit upheld the STB's decision to raise the limitations in simplified rate reasonableness cases.

In April 2014, the STB announced it would receive comments to explore its methodology for determining railroad revenue adequacy. The revenue adequacy standard represents the level of profitability for a healthy carrier. Shippers, railroads and other parties filed opening comments in September 2014 and filed reply comments in November 2014.

New rules regarding competitive access or revenue adequacy could have a material adverse effect on the Company's financial condition, results of operations and liquidity as well as its ability to invest in enhancing and maintaining vital infrastructure. For further discussion on regulatory risks to the Company, see Item 1A. Risk Factors.

Other Information

CSX makes available on its website www.csx.com, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission ("SEC"). The information on the CSX website is not part of this annual report on Form 10-K. Additionally, the Company has posted its code of ethics on its website, which is also available to any shareholder who requests it. This Form 10-K and other SEC filings made by CSX are also accessible through the SEC's website at www.sec.gov.

CSX has included the certifications of its Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") required by Section 302 of the Sarbanes-Oxley Act of 2002 ("the Act") as Exhibit 31, as well as Section 906 of the Act as Exhibit 32 to this Form 10-K report. Additionally, on June 3, 2014, CSX filed its annual CEO certification with the New York Stock Exchange ("NYSE") confirming CSX's compliance with the NYSE Corporate Governance Listing Standards. The CEO was not aware of any violations of these standards by CSX as of February 11, 2015. This certification is also included as Exhibit 99 to this Form 10-K.

The information set forth in Item 6. Selected Financial Data is incorporated herein by reference. For additional information concerning business conducted by the Company during 2014, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

6

Item 1A. Risk Factors

The risks set forth in the following risk factors could have a materially adverse effect on the Company's financial condition, results of operations or liquidity, and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements. Additional risks and uncertainties not currently known to the Company or that the Company currently does not deem to be material also may materially impact the Company's financial condition, results of operations or liquidity.

New legislation or regulatory changes could impact the Company's earnings or restrict its ability to independently negotiate prices.

Legislation passed by Congress or new regulations issued by federal agencies can significantly affect the revenues, costs and profitability of the Company's business. For instance, several of the proposals under consideration by the STB could have a significant negative impact on the Company's ability to negotiate prices for the value of rail services provided and meet service standards, which could force a reduction in capital spending. In addition, statutes imposing price constraints or affecting rail-to-rail competition could adversely affect the Company's profitability.

Government regulation and compliance risks may adversely affect the Company's operations and financial results.

The Company is subject to the jurisdiction of various regulatory agencies, including the STB, FRA, PHMSA, TSA, EPA and other state, provincial and federal regulatory agencies for a variety of economic, health, safety, labor, environmental, tax, legal and other matters. New rules or regulations by these agencies could increase the Company's operating costs or reduce operating efficiencies. For example, the RSIA mandated that the installation of PTC be completed by December 31, 2015 on main lines that carry certain hazardous materials and on lines that have commuter or passenger operations. Noncompliance with these and other applicable laws or regulations could erode public confidence in the Company and can subject the Company to fines, penalties and other legal or regulatory sanctions.

Climate change and other emissions-related legislation and regulation could adversely affect the Company's operations and financial results.

Climate change and other emissions-related legislation and regulation have been proposed and, in some cases adopted, on the federal, state, provincial and local levels. These final and proposed laws and regulations take the form of restrictions, caps, taxes or other controls on emissions. In particular, the EPA has issued various regulations and is expected to issue additional regulations targeting emissions, including rules and standards governing emissions from certain stationary sources and from vehicles.

Any of these pending or proposed laws or regulations could adversely affect the Company's operations and financial results by, among other things: (i) reducing coal-fired electricity generation due to mandated emission standards; (ii) reducing the consumption of coal as a viable energy resource in the United States; (iii) increasing the Company's fuel, capital and other operating costs and negatively affecting operating and fuel efficiencies; and (iv) making it difficult for the Company's customers in the U.S. and Canada to produce products in a cost competitive manner (particularly in the absence of similar regulations in other manufacturing countries). Any of these factors could reduce the amount of shipments the Company handles and have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Capacity constraints could have a negative impact on service and operating efficiency.

CSXT may experience rail network difficulties related to: (i) increased volume; (ii) locomotive or crew shortages; (iii) extreme weather conditions; (iv) increased passenger activities, including high-speed rail; or (v) regulatory changes impacting when CSXT can transport freight or maintain routes, which could have a negative effect on CSXT's operational fluidity, leading to deterioration of service, asset utilization and overall efficiency.

CSX CORPORATION
PART I

Global economic conditions could negatively affect demand for commodities and other freight.
A decline or disruption in general domestic and global economic conditions that affects demand for the commodities and products the Company transports, including import and export volume, could reduce revenues or have other adverse effects on the Company's cost structure. For example, if the rate of economic growth in Asia slows or if European economies contract, U.S. export coal volume could be adversely impacted resulting in lower revenue for CSX. If the Company experiences significant declines in demand for its transportation services with respect to one or more commodities and products, the Company may experience reduced revenue and increased operating costs associated with the storage of locomotives, railcars and other equipment, workforce adjustments, and other related activities, which could have a material adverse effect on operations, financial condition and liquidity.

Changing dynamics in the U.S. and global energy markets could negatively impact profitability.
Domestic energy production continues to evolve creating both opportunities and challenges for CSX. Increased production of crude oil from the new domestic oil fields, particularly those located in the Bakken Shale region of North Dakota, has created opportunities for CSX to transport crude oil by rail to East Coast refineries. Crude oil production from this region is subject to the volatility of global crude oil prices. Depressed crude oil prices due to increased supply or lower demand could result in a decrease in domestic crude oil production, which could have an adverse effect on crude oil volumes for CSX. In addition, new regulations related to the shipment of crude oil by rail, including proposed rail car safety standards, could increase costs for CSX, negatively impact network fluidity or have an adverse impact on customers.

Over the past few years, production of natural gas in the U.S. has also increased dramatically, which has resulted in lower natural gas prices. As a result of sustained low natural gas prices, coal-fired power plants have been displaced by natural gas-fired power generation facilities. If natural gas prices were to remain low, additional coal-fired plants could be displaced, which could further reduce the Company's domestic coal volumes and revenues.

CSXT, as a common carrier by rail, is required by law to transport hazardous materials, which could expose the Company to significant costs and claims.
A train accident involving the transport of hazardous materials could result in significant claims arising from personal injury, property or natural resource damage, environmental penalties and remediation obligations. Such claims, if insured, could exceed existing insurance coverage or insurance may not continue to be available at commercially reasonable rates. Under federal regulations, CSXT is required to transport hazardous materials under the legal duty referred to as the common carrier mandate.

CSXT is also required to comply with regulations regarding the handling of hazardous materials. In November 2008, the TSA issued final rules placing significant new security and safety requirements on passenger and freight railroad carriers, rail transit systems and facilities that ship hazardous materials by rail. Noncompliance with these rules can subject the Company to significant penalties and could be a factor in litigation arising out of a train accident. Finally, legislation preventing the transport of hazardous materials through certain cities could result in network congestion and increase the length of haul for hazardous substances, which could increase operating costs, reduce operating efficiency or increase the risk of an accident involving the transport of hazardous materials.

The Company is subject to environmental laws and regulations that may result in significant costs.
The Company is subject to wide-ranging federal, state, provincial and local environmental laws and regulations concerning, among other things, emissions into the air, ground and water; the handling, storage, use, generation, transportation and disposal of waste and other materials; the clean-up of hazardous material and petroleum releases and the health and safety of our employees. If the Company violates or fails to comply with these laws and regulations, CSX could be fined or otherwise sanctioned by regulators. The Company can also be held liable for consequences arising out of human exposure to any hazardous substances for which CSX is responsible. In certain circumstances, environmental liability can extend to formerly owned or operated properties, leased properties, adjacent properties and properties owned by third parties or Company predecessors, as well as to properties currently owned, leased or used by the Company.

The Company has been, and may in the future be, subject to allegations or findings to the effect that it has violated, or is strictly liable under, environmental laws or regulations, and such violations can result in the Company's incurring fines, penalties or costs relating to the clean-up of environmental contamination. Although the Company believes it has appropriately recorded current and long-term liabilities for known and reasonably estimable future environmental costs, it could incur significant costs that exceed reserves or require unanticipated cash expenditures as a result of any of the foregoing. The Company also may be required to incur significant expenses to investigate and remediate known, unknown or future environmental contamination.

The Company relies on the stability and availability of its technology systems to operate its business.
The Company relies on information technology in all aspects of its business. The performance and reliability of the Company's technology systems are critical to its ability to operate and compete safely and effectively. A cybersecurity attack, which is a deliberate theft of data or impairment of information technology systems, or other significant disruption or failure, could result in a service interruption, train accident, misappropriation of confidential information, process failure, security breach or other operational difficulties. Such an event could result in increased capital, insurance or operating costs, including increased security costs to protect the Company's infrastructure. A disruption or compromise of the Company's information technology systems, even for short periods of time, could have a material adverse effect on the Company.

Disruption of the supply chain could negatively affect operating efficiency and increase costs.
The capital intensive nature and sophistication of core rail equipment (including rolling stock equipment, locomotives, rail, and ties) limits the number of railroad equipment suppliers. If any of the current manufacturers stops production or experiences a supply shortage, CSXT could experience a significant cost increase or material shortage. In addition, a few critical railroad suppliers are foreign and, as such, adverse developments in international relations, new trade regulations, disruptions in international shipping or increases in global demand could make procurement of these supplies more difficult or increase CSXT's operating costs. Additionally, if a fuel supply shortage were to arise, whether due to production restrictions, lower refinery outputs, a disruption of oil imports, adverse political developments or otherwise, the Company would be negatively impacted.

Failure to complete negotiations on collective bargaining agreements could result in strikes and/or work stoppages.

Most of CSX's employees are represented by labor unions and are covered by collective bargaining agreements. Most of these agreements are bargained for nationally by the National Carriers Conference Committee and negotiated over the course of several years and previously have not resulted in any extended work stoppages. Under the Railway Labor Act's procedures (which include mediation, cooling-off periods and the possibility of Presidential intervention), during negotiations neither party may take action until the procedures are exhausted. If, however, CSX is unable to negotiate acceptable agreements, or if terms of existing agreements are disputed, the employees covered by the Railway Labor Act could strike, which could result in loss of business and increased operating costs as a result of higher wages or benefits paid to union members.

The Company faces competition from other transportation providers.

The Company experiences competition in pricing, service, reliability and other factors from various transportation providers including railroads and motor carriers that operate similar routes across its service area and, to a less significant extent, barges, ships and pipelines. Other transportation providers generally use public rights-of-way that are built and maintained by governmental entities, while CSXT and other railroads must build and maintain rail networks largely using internal resources. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation providing for less stringent size or weight restrictions on trucks, could negatively impact the Company's competitive position.

Future acts of terrorism, war or regulatory changes to combat the risk of terrorism may cause significant disruptions in the Company's operations.

Terrorist attacks, along with any government response to those attacks, may adversely affect the Company's financial condition, results of operations or liquidity. CSXT's rail lines or other key infrastructure may be direct targets or indirect casualties of acts of terror or war. This risk could cause significant business interruption and result in increased costs and liabilities and decreased revenues. In addition, premiums charged for some or all of the insurance coverage currently maintained by the Company could increase dramatically, or the coverage may no longer be available.

Furthermore, in response to the heightened risk of terrorism, federal, state and local governmental bodies are proposing and, in some cases, have adopted legislation and regulations relating to security issues that impact the transportation industry. For example, the Department of Homeland Security adopted regulations that require freight railroads to implement additional security protocols when transporting hazardous materials. Complying with these or future regulations could continue to increase the Company's operating costs and reduce operating efficiencies.

Severe weather or other natural occurrences could result in significant business interruptions and expenditures in excess of available insurance coverage.

The Company's operations may be affected by external factors such as severe weather and other natural occurrences, including floods, fires, hurricanes and earthquakes. As a result, the Company's rail network may be damaged, its workforce may be unavailable, fuel costs may rise and significant business interruptions could occur. In addition, the performance of locomotives and railcars could be adversely affected by extreme weather conditions. Insurance maintained by the Company to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of the Company's damages or damages to others, and this insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of service, the Company may not be able to restore service without a significant interruption in operations.

CSX CORPORATION
PART I

The Company may be subject to various claims and lawsuits that could result in significant expenditures.

As part of its railroad operations, the Company is subject to various claims and lawsuits related to disputes over commercial practices, labor and unemployment matters, occupational and personal injury claims, property damage, environmental and other matters. The Company may experience material judgments or incur significant costs to defend existing and future lawsuits. Although the Company establishes reserves and maintains insurance to cover these types of claims, final amounts determined to be due on any outstanding matters may differ materially from the recorded reserves and exceed the Company's insurance coverage. Additionally, the Company is subject to adverse developments not currently reflected in the Company's reserve estimates.

The unavailability of critical resources could adversely affect the Company’s operational efficiency and ability to meet demand.

Marketplace conditions for resources like locomotives as well as the availability of qualified personnel, particularly engineers and trainmen, could each have a negative impact on the Company’s ability to meet demand for rail service. Although the Company believes that it has adequate personnel for the current business environment, unpredictable increases in demand for rail services or extreme weather conditions may exacerbate such risks, which could have a negative impact on the Company’s operational efficiency and otherwise have a material adverse effect on the Company’s financial position, results of operations, or liquidity in a particular year or quarter.

Weaknesses in the capital and credit markets could negatively impact the Company’s access to capital.

Due to the significant capital expenditures required to operate and maintain a safe and efficient railroad, the Company regularly relies on capital markets for the issuance of long-term debt instruments as well as on bank financing from time to time. Instability or disruptions of the capital markets, including credit markets, or the deterioration of the Company’s financial condition due to internal or external factors, could restrict or prohibit access and could increase the cost of financing sources. A significant deterioration of the Company’s financial condition could also reduce credit ratings and could limit or affect its access to external sources of capital and increase the costs of short and long-term debt financing.

Item 1B. Unresolved Staff Comments

None

CSX CORPORATION
PART I

Item 2. Properties

The Company's properties primarily consist of track and its related infrastructure, locomotives and freight cars and equipment. These categories and the geography of the network are described below.

Track and Infrastructure

Serving 23 states, the District of Columbia, and the Canadian provinces of Ontario and Quebec, the CSXT rail network serves, among other markets, New York, Philadelphia and Boston in the Northeast and Mid-Atlantic, the southeast markets of Atlanta, Miami and New Orleans, and the midwestern cities of St. Louis, Memphis and Chicago.

CSXT's track structure includes main thoroughfares, connecting terminals and yards (known as mainline track), track within terminals and switching yards, track adjacent to the mainlines used for passing trains, track connecting the mainline track to customer locations and track that diverts trains from one track to another known as turnouts. Total track miles are greater than CSXT's approximately 21,000 route miles, which reflect the size of CSXT's network that connects markets, customers and western railroads. At December 2014, the breakdown of track miles was as follows:

	Track Miles
Mainline track	26,391
Terminals and switching yards	9,397
Passing sidings and turnouts	923
Total	36,711

In addition to its physical track structure, CSXT operates numerous yards and terminals. These serve as hubs between CSXT and its local customers and as sorting facilities where railcars often are received, re-sorted and placed onto new outbound trains. The Company's ten largest yards and terminals based on annual volume (number of railcars or intermodal containers processed) are listed below:

Yards and Terminals	Annual Volume (number of units processed)
Chicago, IL	1,039,431
Waycross, GA	648,206
Selkirk, NY	578,414
Willard, OH	550,170
Cincinnati, OH	534,214
Indianapolis, IN	532,368
Nashville, TN	482,932
Hamlet, NC	457,251
Louisville, KY	387,614
Toledo, OH	376,261

Network Geography

CSXT's operations are primarily focused on four major transportation networks and corridors which are defined geographically and by commodity flows below.

Interstate 90 (I-90) Corridor – This CSXT corridor links Chicago and the Midwest to metropolitan areas in New York and New England. This route, also known as the "waterlevel route," has minimal hills and grades and nearly all of it has two main tracks (referred to as double track). These superior engineering attributes permit the corridor to support consistent, high-speed intermodal, automotive and merchandise service. This corridor is a primary route for import traffic coming from the far east through western ports moving eastward across the country, through Chicago and into the population centers in the Northeast. The I-90 Corridor is also a critical link between ports in New York, New Jersey, and Pennsylvania and consumption markets in the Midwest. This route carries consumer goods from all three of the Company's major markets – merchandise, coal and intermodal.

Interstate 95 (I-95) Corridor – The CSXT I-95 Corridor connects Charleston, Jacksonville, Miami and many other cities throughout the Southeast with the heavily populated mid-Atlantic and northeastern cities of Baltimore, Philadelphia and New York. CSXT primarily transports food and consumer products, as well as metals and chemicals along this line. It is the only rail corridor along the eastern seaboard south of the District of Columbia, and provides access to major eastern ports.

Southeastern Corridor – This critical part of the network runs between CSXT's western gateways of Chicago, St. Louis and Memphis through the cities of Nashville, Birmingham, and Atlanta and markets in the Southeast. The Southeastern Corridor is the premier rail route connecting these key cities, gateways, and markets and positions CSXT to efficiently handle projected traffic volumes of intermodal, automotive and general merchandise traffic. The corridor also provides direct rail service between the coal reserves of the southern Illinois basin and the demand for coal in the Southeast.

Coal Network – The CSXT coal network connects the coal mining operations in the Appalachian mountain region and Illinois basin with industrial areas in the Northeast and Mid-Atlantic, as well as many river, lake, and deep water port facilities. CSXT's coal network is well positioned to supply utility markets in both the Northeast and Southeast and to transport coal shipments for export outside of the U.S. Almost half the tons of export coal and nearly all of the domestic coal that the Company transports is used for generating electricity.

See the following page for a map of the CSX Rail Network.

CSX Rail Network

Locomotives

CSXT owns and long-term leases more than 4,000 locomotives, over which 98% are owned by CSXT. From time to time, the Company also short-term leases locomotives based on business needs. Freight locomotives are the power source used primarily to pull trains. Switching locomotives are used in yards to sort railcars so that the right railcar is attached to the right train in order to deliver it to its final destination. Auxiliary units are typically used to provide extra traction for heavy trains in hilly terrain. At December 2014, CSXT's fleet of owned and long-term leased locomotives consisted of the following types of locomotives:

	Locomotives	%		Average Age (years)
Freight	3,719	87	%	21
Switching	329	8	%	35
Auxiliary Units	209	5	%	22
Total	4,257	100	%	21

Equipment

In 2014, the average daily fleet of cars on line consisted of approximately 203,000 cars. At any time over half of the railcars on the CSXT system are not owned or leased by the Company. Examples of these non-CSXT railcars are as follows: railcars owned by other railroads (which are utilized by CSXT), shipper-furnished or private cars (which are generally used only in that shipper's service) and multi-level railcars used to transport automobiles (which are shared among railroads).

The Company's revenue generating equipment (either owned or long-term leased) consists of freight cars and containers as described below.

Gondolas – Support CSXT's metals markets and provide transport for woodchips and other bulk commodities. Some gondolas are equipped with special hoods for protecting products like coil and sheet steel.

Open-top hoppers – Transport heavy dry bulk commodities such as coal, coke, stone, sand, ores and gravel that are resistant to weather conditions.

Box cars – Include a variety of tonnages, sizes, door configurations and heights to accommodate a wide range of finished products, including paper, auto parts, appliances and building materials. Insulated box cars deliver food products, canned goods, beer and wine.

Covered hoppers – Have a permanent roof and are segregated based upon commodity density. Lighter bulk commodities such as grain, fertilizer, flour, salt, sugar, clay and lime are shipped in large cars called jumbo covered hoppers. Heavier commodities like cement, ground limestone and sand are shipped in small cube covered hoppers.

Multi-level flat cars – Transport finished automobiles and are differentiated by the number of levels: bi-levels for large vehicles such as pickup trucks and SUVs and tri-levels for sedans and smaller automobiles.

Flat cars – Used for shipping intermodal containers and trailers or bulk and finished goods, such as lumber, pipe, plywood, drywall and pulpwood.

Containers – Weather-proof boxes used for bulk shipment of freight.

Other cars on the network consist primarily of refrigerated boxcars for transporting perishable items.

CSX CORPORATION
PART I

At December 2014, the Company’s owned and long-term leased equipment consisted of the following:

Equipment	Number of Units	%	
Gondolas	25,275	38	%
Open-top hoppers	11,555	17	%
Multi-level flat cars	11,455	17	%
Covered hoppers	10,153	16	%
Box cars	7,569	11	%
Flat cars	690	1	%
Other cars	315	—	%
Subtotal freight cars	67,012	100	%
Containers	17,284		
Total equipment	84,296		

Item 3. Legal Proceedings

For further details, please refer to Note 7. Commitments and Contingencies of this annual report on Form 10-K.

Item 4. Mine Safety Disclosure

Not Applicable

Executive Officers of the Registrant

Executive officers of the Company are elected by the CSX Board of Directors and generally hold office until the next annual election of officers. There are no family relationships or any arrangement or understanding between any officer and any other person pursuant to which such officer was elected. As of the date of this filing, the executive officers’ names, ages and business experience are:

Name and Age	Business Experience
Michael J. Ward, 64 Chairman, President and Chief Executive Officer	A 37-year veteran of the Company, Ward has served as Chairman, President and Chief Executive Officer of CSX since January 2003. Ward’s distinguished railroad career has included key executive positions in nearly all aspects of the Company’s business, including sales and marketing, operations and finance.
Fredrik J. Eliasson, 44 Executive Vice President and Chief Financial Officer	Eliasson has served as Executive Vice President and Chief Financial Officer of CSX since 2012 and is responsible for management and oversight of all financial and strategic planning activities, including accounting, financial planning, tax, treasury and investor relations. He also oversees the Company's business risk management processes, including the insurance function.

During his 19-year tenure with the Company, he has also served as Vice President of Sales and Marketing for CSX's chemicals and fertilizer business, Vice President of Emerging Markets, Vice President of Commercial Finance, and Vice President of Financial Planning and Analysis.

CSX CORPORATION
PART I

Name and Age	Business Experience
Oscar Munoz, 56 Executive Vice President and Chief Operating Officer	Munoz has been the Executive Vice President and Chief Operating Officer of CSXT since January 2012. He manages all aspects of the Company's operations across its 21,000 route-mile rail network, including transportation, service design, customer service, engineering, mechanical and technology. During his eleven-year tenure with the Company, he has also served as CSX's Executive Vice President and Chief Financial Officer. Munoz brings to the Company more than 25 years of experience from a variety of industries. Before joining CSX in 2003, Munoz served as Chief Financial Officer and Vice President of AT&T Consumer Services. He also has held key executive positions with other consumer products companies, including the Coca-Cola Company and Pepsico Corporation.
Clarence W. Gooden, 63 Executive Vice President of Sales and Marketing and Chief Commercial Officer	Gooden has been the Executive Vice President and Chief Commercial Officer of CSX since April 2004. He is responsible for generating customer revenue, forecasting business trends and developing CSX's model for future revenue growth. An employee of the Company for 44 years, Gooden has held key executive positions in both operations and sales and marketing.
Ellen M. Fitzsimmons, 54 Executive Vice President of Law and Public Affairs, General Counsel and Corporate Secretary	Fitzsimmons has been the Executive Vice President of Law and Public Affairs, General Counsel, and Corporate Secretary of CSX since December 2003. She serves as the Company's Chief Legal Officer and oversees all government relations and public affairs activities as well as internal audit and other risk management functions. During her 23-year tenure with the Company, her broad responsibilities have included key roles in major risk and corporate governance-related areas.
Lisa A. Mancini, 55 Senior Vice President and Chief Administrative Officer	Mancini has been Senior Vice President and Chief Administrative Officer of CSX since January 2009. She is responsible for employee compensation and benefits, labor relations, employee staffing and development activities, purchasing, real estate, and facilities management. She previously served as Vice President-Strategic Infrastructure Initiatives from 2007 to 2009 and, prior to that, Vice President – Labor Relations. Prior to joining CSX in 2003, Mancini served as Chief Operating Officer of the San Francisco Municipal Railway.
Carolyn T. Sizemore, 52 Vice President and Controller	Sizemore has served as Vice President and Controller of CSX since April 2002. She is responsible for financial and regulatory reporting, freight billing and collections, payroll, accounts payable and various other accounting processes.

Sizemore's responsibilities during her 25-year tenure with the Company have included roles in finance and audit-related areas including a variety of positions in accounting, finance strategies, budgets and performance analysis.

CSX CORPORATION
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information
CSX's common stock is listed on the NYSE, which is its principal trading market, and is traded over-the-counter and on exchanges nationwide. The official trading symbol is "CSX."

Description of Common and Preferred Stock
A total of 1.8 billion shares of common stock are authorized, of which 991,590,969 shares were outstanding as of December 2014. Each share is entitled to one vote in all matters requiring a vote of shareholders. There are no pre-emptive rights, which are privileges extended to select shareholders that would allow them to purchase additional shares before other members of the general public in the event of an offering. At January 23, 2015, the latest practicable date, there were 31,684 common stock shareholders of record. The weighted average of common shares outstanding, which was used in the calculation of diluted earnings per share, was approximately 1 billion as of December 26, 2014. (See Note 2, Earnings Per Share.) A total of 25 million shares of preferred stock is authorized, none of which is currently outstanding.

The following table sets forth, for the quarters indicated, the dividends declared and the high and low share prices of CSX common stock.

	Quarter				
	1st	2nd	3rd	4th	Year
2014					
Dividends	$0.15	$0.16	$0.16	$0.16	$0.63
Common Stock Price					
High	$29.45	$31.09	$32.66	$37.99	$37.99
Low	$25.84	$27.14	$29.07	$29.75	$25.84
2013					
Dividends	$0.14	$0.15	$0.15	$0.15	$0.59
Common Stock Price					
High	$24.67	$26.36	$26.90	$28.56	$28.56
Low	$19.36	$22.40	$22.89	$25.04	$19.36

CSX CORPORATION
PART II

Stock Performance Graph

The cumulative shareholder returns, assuming reinvestment of dividends, on $100 invested at December 31, 2009 are illustrated on the graph below. The Company references the Standard & Poor 500 Stock Index (“S&P 500”), which is a registered trademark of the McGraw-Hill Companies, Inc., and the Dow Jones U.S. Transportation Average Index, which provide comparisons to a broad-based market index and other companies in the transportation industry. As shown in the graph, CSX's five-year stock returns significantly outpaced those of the S&P 500.

CSX CORPORATION
PART II

CSX Purchases of Equity Securities
CSX is required to disclose any purchases of its own common stock for the most recent quarter. 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 April 2013, the Company announced a new $1 billion share repurchase program, which is expected to be completed by April 2015. 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. During 2014 and 2013, CSX repurchased $517 million, or 17 million shares, and $353 million, or 14 million shares, respectively, of common stock under this program.

Share repurchase activity of $129 million for the fourth quarter 2014 was as follows:

	CSX Purchases of Equity Securities for the Quarter			
Fourth Quarter [a]	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance				$259,283,292
October	1,294,275	$32.09	1,293,900	217,766,633
November	1,165,600	35.61	1,165,300	176,267,691
December	1,258,600	36.26	1,258,600	130,625,331
Ending Balance	3,718,475	$34.61	3,717,800	$130,625,331

(a) Fourth quarter 2014 consisted of the following fiscal periods: October (September 27, 2014 - October 24, 2014), November (October 25, 2014 - November 21, 2014), and December (November 22, 2014 - December 26, 2014).

(b) The difference of 675 shares between the "Total Number of Shares Repurchase" 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.

20

CSX CORPORATION
PART II

Item 6. Selected Financial Data
Selected financial data related to the Company's financial results for the last five fiscal years are listed below.

	Fiscal Years				
(Dollars and Shares in Millions, Except Per Share Amounts)	2014	2013	2012	2011	2010
Financial Performance					
Revenue	$12,669	$12,026	$11,763	$11,795	$10,636
Expense	9,056	8,553	8,299	8,325	7,565
Operating Income	$3,613	$3,473	$3,464	$3,470	$3,071
Net Earnings from Continuing Operations	1,927	1,864	1,863	1,854	1,563
Operating Ratio	71.5 %	71.1 %	70.6 %	70.6 %	71.1 %
Net Earnings Per Share:					
From Continuing Operations, Basic	$1.93	$1.83	$1.80	$1.71	$1.37
From Continuing Operations, Assuming Dilution	1.92	1.83	1.79	1.70	1.35
Average Common Shares Outstanding					
Basic	1,001	1,019	1,038	1,083	1,143
Assuming Dilution	1,002	1,019	1,040	1,089	1,154
Financial Position					
Cash, Cash Equivalents and Short-term Investments	$961	$1,079	$1,371	$1,306	$1,346
Total Assets	33,053	31,782	30,723	29,491	28,026
Long-term Debt	9,514	9,022	9,052	8,734	8,051
Shareholders' Equity	11,176	10,504	9,136	8,598	8,798
Dividend Per Share	$0.63	$0.59	$0.54	$0.45	$0.33
Additional Data					
Capital Expenditures [(a)]	$2,449	$2,313	$2,341	$2,297	$1,840
Employees -- Annual Averages	31,511	31,254	32,120	31,344	30,066

(a) Capital expenditures include investments related to reimbursable public-private partnerships. These partnership investments of $8 million, $40 million, $166 million, $102 million and $15 million in 2014, 2013, 2012, 2011 and 2010, respectively, are projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore, the timing of receipts may differ from the timing of the investment. See the capital expenditures table on page 38 for additional information.

CSX CORPORATION
PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

STRATEGIC OVERVIEW

CSX provides rail-based freight transportation services including traditional rail service, the transport of intermodal containers and trailers as well as other transportation services such as rail-to-truck transfers and bulk commodity operations with its approximately 32,000 dedicated employees. The Company and the rail industry provide customers with access to an expansive and interconnected transportation network that plays a key role in North American commerce and is critical to the economic success and improved global competitiveness of the United States. This improved competitiveness is driven by lower natural gas prices, increased foreign labor costs and supply chain factors.

The rail industry benefits from this improved global competitiveness, continued economic growth and the shift towards more rail-based solutions. U.S. demand to move more goods by rail is expected to rise and freight railroads provide the most environmentally efficient and economical means to meet this growing demand. CSX can move a ton of freight about 450 miles on one gallon of diesel fuel, as trains are four times more fuel efficient than trucks on average. Shipping freight by rail also alleviates highway congestion, eases air pollution and saves energy.

CSX's network reaches nearly two-thirds of the U.S. population, which accounts for the majority of the nation's consumption of goods. Through this network, the Company transports a diverse portfolio of commodities and products to meet the country's needs. These products range from agricultural goods, such as grains, to chemicals, automobiles, metals, building materials, paper, consumer products, and energy sources like coal, ethanol and crude oil. The Company categorizes these products into three primary lines of business: merchandise, intermodal and coal. CSX's transportation solutions connect industries and population centers across the United States with each other and with global markets through access to over 70 port facilities whereby meeting the transportation needs of energy producers, manufacturers, industrial producers, construction companies, farmers and feed mills, wholesalers and retailers and the United States Armed Forces.

Operating Initiatives

To support long-term growth, CSX is focused on meeting customers’ needs while improving profitability. Several key operating initiatives have been implemented over the past several years that lay a foundation for meeting these objectives. The overall goal is sustained high customer service levels, which is in part achieved through a relentless focus on using advanced network modeling analytics and tools to create a disciplined, scheduled approach to designing and running CSX's network. The Company continues to identify the most efficient, cost-effective routes for CSXT customers' traffic while providing timely service with the fewest handlings and car miles possible.

Through the Service Excellence initiative, CSX is building a culture that engages all employees and focuses on the value delivered to customers through improved service. This initiative increases employee communication and dialogue to help identify and resolve customer issues at the lowest level, improving the customer experience and allowing CSX to grow the business. This process involves engagement from all operating employees, as well as collaboration with sales and marketing employees and, ultimately, with the Company’s customers. Higher levels of customer service and satisfaction support CSX’s ability to profitably grow the business by increasing customer retention, price sustainability and asset utilization.

In addition, Total Service Integration (“TSI”) is intended to align operating capabilities with customers' needs to reduce loading and unloading times and create more capacity. TSI was first implemented on the unit train network, where it has successfully increased the average number of cars per train and improved asset utilization. CSX is implementing TSI for the carload network, which focuses on improving the “first and last mile” service experience for carload customers, providing a more consistent and reliable service product. The carload network is connected to more than 5,000 customer facilities and has a high degree of variability each day. New tools and technology are allowing the company to more effectively communicate with customers, not only providing the service the Company has promised to deliver but proactively notifying the customer of service status. Applying TSI to the carload network will improve service consistency for each merchandise shipper.

Finally, Enterprise Asset Management (“EAM”) focuses on improving the utilization of the company’s most critical assets, namely, crews, locomotives, cars and track infrastructure. Projects are currently in place to deploy technology, improve processes and reduce unproductive time. Because the railroad is an asset intensive industry, EAM helps reduce the overall expense associated with asset ownership by monitoring the overall condition of equipment, helping proactively schedule maintenance, increasing utilization and also effectively managing the investment required for new or replacement assets. By improving asset utilization, CSX expects to sustain long-term operating efficiencies and reduce future capital expenditures associated with asset replacement.

In summary, these initiatives are designed to improve service levels in a cost effective manner and enhance the reliability of rail transportation. These improvements to operational processes, customer communication and service are better aligning CSX's operating capabilities with customers' needs and are enabling the Company to capitalize on the growth opportunities described below.

Strategic Growth Opportunities
Intermodal
CSX’s intermodal business is an economical and environmentally friendly alternative to transporting freight on highways via truck. CSX’s intermodal network connects all major population centers east of the Mississippi River and is over 90% cleared for the use of double-stack (two containers high) intermodal movements. This positions the Company to capture a significant share of the incremental domestic intermodal market opportunity, estimated at nine million truckloads in the eastern United States that move over 550 miles. The Company’s highway-to-rail initiatives assist in capturing this traffic and also help customers identify conversion opportunities for both domestic moves and the U.S. portion of international moves.

CSX is also building new terminals and increasing network capacity to broaden its market presence in key growth areas. The Company's Northwest Ohio intermodal terminal, which started operations in 2011 and was expanded in 2014, is part of the National Gateway Initiative discussed below. This high-capacity terminal expands service offerings to customers, improves market access to and from east coast ports, reduces interchanges in Chicago and enhances the fluidity of the network. During 2014, the Company opened terminals in Winter Haven, FL and Quebec, Canada. The Company expects to begin construction on a new terminal near Pittsburgh, PA in 2015 enhancing the Company’s intermodal reach and supporting future growth.

Illinois Basin Coal Shift
Energy markets have shifted over the past few years and continue to evolve. In spite of declines in domestic utility coal consumption over the last few years, CSX coal volumes have recently grown as a result of colder winter weather. In the longer term, downward pressure on domestic coal volumes could resume as the result of increasingly stringent proposed environmental regulations and continued low natural gas prices. In addition, mining economics are causing a shift from Central Appalachian coal to thermal coal in the Illinois Basin and the Powder River Basin. To capitalize on these shifts, CSX continues to enhance its network to support these changes, such as adding sidings (track which enables trains on the same line to pass) and increasing yard capacity.

Export Coal
CSX export coal volume and pricing is subject to a high degree of volatility as a result of changes in the global economy, competition from foreign coal producers and regulatory shifts. Over the past few years, CSX has capitalized on the global coal demand in both steel manufacturing and power generation. Currently, both global thermal and metallurgical coal prices are low due to oversupply, but CSX sees long-term growth in global demand as developing countries become more urbanized. The Company remains opportunistic based on the global markets and the resulting level of demand. In addition to the Company's ready access to large U.S. coal suppliers and multiple port facilities, CSX expects to continue to enhance the operating efficiency of its export coal network which will favorably position the Company to capitalize on growth as it is made available.

New Energy Markets
The ongoing surge in shale drilling for the extraction of oil and natural gas has created the opportunity for CSX to serve new energy markets such as crude oil, liquefied petroleum gases ("LPG"), frac sand and other related materials. For example, CSX is capitalizing on the opportunity to move the growing supply of crude oil from the new domestic oil fields, particularly those located in the Bakken Shale region of North Dakota, to customers at eastern refineries. This service also provides greater flexibility in source locations as compared to pipelines.

CSX's LPG market is also benefiting from drilling in Ohio, Pennsylvania and West Virginia within the Utica shale region. Midstream energy companies, which are involved in the transportation, storage and wholesale of refined petroleum products, are taking advantage of the abundance of inexpensive wet gas with newly constructed gas processing plants (or "fractionators") in the region. Rail will also play a vital role in moving LPG products from the fractionators to the market.

CSX's frac sand market (a key input in the drilling process) has also expanded rapidly over the last few years. The Company has invested in new operating capacity, such as railcars and terminals, to accommodate this growth, which has been concentrated mainly in the region of the Utica shale and the western Marcellus shale (which covers most of western Pennsylvania and northern West Virginia). The CSX network not only provides access to many frac sand transload terminals located near the drilling activity but also offers the advantage of CSX-direct routes from several key sand producing regions to the frac sand terminals.

Over the longer term, the improved energy supply outlook for the U.S. will create a sustainable competitive advantage for domestic chemical producers and generate additional growth opportunities for rail. Since natural gas is the primary component in the production of a wide range of petrochemicals, the supply growth and the resulting lower prices have now placed the U.S. amongst the lowest cost production regions in the world. This increased competitiveness is sparking significant investment in new U.S. chemical industry capacity for the first time in more than a decade. CSX is well-positioned to participate in this growing chemical business over the next several years.

Public-Private Partnerships

Expanding capacity on U.S. rail networks provides substantial public benefits including job creation, increased business activity at U.S. ports, reduced highway congestion and lower air emissions. Therefore, CSX and its government partners are jointly working to invest in multi-year rail infrastructure projects such as the National Gateway. This initiative is a public-private partnership which will increase intermodal capacity and create substantial environmental and efficiency advantages by clearing key corridors between mid-Atlantic ports and the Midwest for double-stack intermodal trains.

As part of the National Gateway project, CSX expects to break ground on the modernization of the Virginia Avenue Tunnel in Washington, D.C. in 2015.This project will improve the flow of freight traffic through the District of Columbia and will eliminate a rail-traffic bottleneck that also impacts commuter and passenger trains in the region. The new structure will provide double-stack train clearances in Maryland, West Virginia and the District of Columbia. Going forward, CSX will continue to explore other opportunities to partner with the public sector to maximize the many public benefits of freight rail.

Balanced Approach to Cash Deployment

CSX remains highly committed to delivering value to shareholders through a balanced approach to deploying cash that includes investments in the business, dividend growth and share repurchases. In 2014, the Company invested $2.4 billion to further enhance the capacity, quality, safety and flexibility of its network. In addition, CSX continues to return value to its shareholders in the form of dividends and share repurchases. During 2014, the Company announced a 7 percent increase in the quarterly cash dividend to $0.16 per common share. The Company has increased its quarterly cash dividend 12 times over the last nine years which represents a 27 percent compounded annual growth rate. Also in 2014, CSX continued share repurchases under its $1 billion program which began in 2013 and is expected to be completed in 2015 based on market and business decisions. CSX repurchased $517 million, or 17 million shares, during 2014 under this program. Since 2006, CSX has repurchased 493 million shares (adjusted for stock splits) for $8.8 billion, which represents about one-half of total shares outstanding. As part of this balanced approach, the Company is committed to maintaining a credit profile consistent with a BBB+ rating by Standard & Poor’s and a Baa1 rating by Moody’s Investment Services.

Summary

These operating initiatives, strategic growth areas, long-term investments and shareholder returns discussed above provide a foundation for volume growth, productivity improvement, enhanced customer service and continued advancements in the safety and reliability of operations. To continue these types of investments, the Company must be able to operate in an environment in which it can generate adequate returns and drive shareholder value. CSX will continue to advocate for a fair and balanced regulatory environment to ensure that the value of the Company's rail service would be reflected in any potential new legislation or policies.

CSX CORPORATION
PART II

2014 HIGHLIGHTS

• Revenue of $12.7 billion increased $643 million or 5% year over year driven by 6% volume growth across nearly all markets.

• Expenses of $9.1 billion increased $503 million or 6% year over year primarily as a result of volume-related costs, inflation and network performance costs.

• Operating income of $3.6 billion increased $140 million or 4%.

• Operating ratio of 71.5% increased 40 basis points from 71.1%.

• Earnings per diluted share of $1.92 increased $0.09 or 5%.

	Fiscal Years		
(in Thousands)	2014	2013	2012
Volume	6,922	6,539	6,409
(in Millions)			
Revenue	$12,669	$12,026	$11,763
Expense	9,056	8,553	8,299
Operating Income	$3,613	$3,473	$3,464
Operating Ratio	71.5 %	71.1 %	70.6 %
Earnings per diluted share	$1.92	$1.83	$1.79

For additional information, refer to Results of Operations discussed on pages 28 to 35.

CSX CORPORATION
PART II

Free Cash Flow (Non-GAAP Measure)
Free cash flow is considered a non-GAAP financial measure under SEC Regulation G, Disclosure of Non-GAAP Measures. Management believes that free cash flow is useful to investors as it is important in evaluating the Company's financial performance. More specifically, free cash flow measures cash generated by the business after reinvestment. This measure represents cash available for both equity and bond investors to be used for dividends, share repurchases or principle 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. As described below, free cash flow before dividends increased $24 million year over year to $919 million. The primary reason for the increase in free cash flow from the prior year is primarily due to the following:

- Higher operating income of $140 million
- Lower taxes paid of $83 million
- Partially offsetting these increases were higher property additions of $136 million

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure).

	Fiscal Years		
	2014	2013	2012
(Dollars in Millions)			
Net cash provided by operating activities	$3,343	$3,267	$2,946
Property additions [a]	(2,449)	(2,313)	(2,341)
Proceeds from property dispositions	62	53	186
Other investing activities	(37)	(112)	(70)
Free Cash Flow (before payment of dividends)	$919	$895	$721

(a) Property additions include investments related to reimbursable public-private partnerships. These partnership investments of $8 million, $40 million and $166 million in 2014, 2013 and 2012 respectively, are projects that are partially or wholly reimbursed to CSX through either government grants or other funding sources such as cash received from a property sale. These reimbursements may not be fully received in a given year; therefore the timing of receipts may differ from the timing of the investment.

CSX CORPORATION
PART II

RESULTS OF OPERATIONS

2014 vs. 2013 Results of Operations

	Fiscal Years			
	2014	2013	$ Change	% Change
(Dollars in Millions)				
Revenue	$12,669	$12,026	$643	5 %
Expense				
Labor and Fringe	3,377	3,138	(239)	(8)
Materials, Supplies and Other	2,484	2,275	(209)	(9)
Fuel	1,616	1,656	40	2
Depreciation	1,151	1,104	(47)	(4)
Equipment and Other Rents	428	380	(48)	(13)
Total Expense	9,056	8,553	(503)	(6)
Operating Income	3,613	3,473	140	4
Interest Expense	(545)	(562)	17	3
Other Income - Net	(24)	11	(35)	(318)
Income Tax Expense	(1,117)	(1,058)	(59)	(6)
Net Earnings	$1,927	$1,864	$63	3
Earnings Per Diluted Share:				
Net Earnings	$1.92	$1.83	$0.09	5 %
Operating Ratio	71.5 %	71.1 %		(40) bps

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

	Volume			Revenue			Revenue Per Unit		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Agricultural									
Agricultural Products	419	390	7 %	$1,130	$1,013	12 %	$2,697	$2,597	4 %
Phosphates and Fertilizers	330	327	1	534	527	1	1,618	1,612	—
Food and Consumer	94	96	(2)	265	269	(1)	2,819	2,802	1
Industrial									
Chemicals	620	532	17	2,178	1,896	15	3,513	3,564	(1)
Automotive	435	432	1	1,213	1,217	—	2,789	2,817	(1)
Metals	276	262	5	701	644	9	2,540	2,458	3
Housing and Construction									
Forest Products	307	298	3	819	775	6	2,668	2,601	3
Minerals	293	275	7	459	432	6	1,567	1,571	—
Waste and Equipment	158	150	5	309	264	17	1,956	1,760	11
Total Merchandise	2,932	2,762	6	7,608	7,037	8	2,595	2,548	2
Coal	1,262	1,195	6	2,849	2,895	(2)	2,258	2,423	(7)
Intermodal	2,728	2,582	6	1,790	1,697	5	656	657	—
Other	—	—	—	422	397	6	—	—	—

Total	6,922	6,539	6 %	$12,669	$12,026	5 %	$1,830	$1,839	— %

28

CSX CORPORATION
PART II

2014 vs. 2013 Results of Operations
Revenue
Volume increased 6% year over year with growth across most markets. Revenue increased by 5% year over year driven by this broad-based volume growth.

Merchandise
Agricultural
Agricultural Products - Volume growth was driven by increased shipments of grain and ethanol. A combined record corn and soybean crop in 2013 led to higher grain shipments and reduced U.S. corn prices resulting in increased ethanol production in 2014.

Phosphates and Fertilizers - Volume growth was driven by increased shipments of finished fertilizer products to replenish inventories and phosphate rock shipments due to capacity at a customer facility returning to normal levels.

Food and Consumer - Volume declined due to lower shipments of canned goods and rice. The decline in canned goods was driven by market losses, while rice shipments were lower as customers substituted lower-priced corn. This decline was partially offset by growth in alcoholic beverage shipments due to a customer's gain in market share.

Industrial
Chemicals - Volume growth was driven by an increase in energy-related shipments that included crude oil, liquefied petroleum gas (LPG) and frac sand. The rise in crude oil shipments to East Coast refineries was due to increased supply of low-cost crude oil from shale drilling activity.

Automotive - Volume increased as North American light vehicle production grew, but rail equipment shortages due to network performance in early 2014 tempered this growth.

Metals - Volume growth was driven by an increase in sheet steel shipments due to growth in automotive production and market gains.

Housing and Construction
Forest Products -Volume increased due to increased shipments of building products and pulpboard. Building products was driven by the continued recovery in the residential housing market. Pulpboard shipments increased due to modal conversions and inventory replenishments that resulted from reduced production late last year.

Minerals - Volume growth was driven by increased shipments of aggregates (which include crushed stone, sand and gravel) and salt. Aggregates was driven by the continued recovery in construction activity, while salt shipments grew due to increased application of road salt and inventory replenishment as a result of the severe winter weather in early 2014.

Waste and Equipment - Volume increased due to growth in machinery shipments of wind energy components and municipal solid waste shipments from a new service offering to a customer location. This growth was partially offset by lower industrial waste shipments due to the completion of one-time remediation projects.

CSX CORPORATION
PART II

Coal
Domestic volume increased due to higher shipments attributable to higher natural gas prices, marketplace gains and utilities replenishing stockpiles. This growth was partially offset by a decrease in export coal as a result of softening global market conditions.

Intermodal
Domestic volume increased as a result of growth with existing customers and continued success with highway-to-rail conversions. International volume also increased due to growth with customers in global container shipments moving to inland destinations.

Other
Other revenue increased primarily due to higher incidental revenue associated with higher volume partially offset by decline in revenue from customers who did not meet minimum contractual volumes.

Expense
In 2014, total expenses increased $503 million, or 6%, compared to prior year. Descriptions of each expense category as well as significant year-over-year changes are described below.

Labor and Fringe expenses include employee wages and related payroll taxes, health and welfare costs, pension, other post-retirement benefits and incentive compensation. These expenses increased $239 million primarily due to the following items:

- Volume-related costs were $71 million higher primarily due to increased workforce levels to capture strong customer demand.
- Inflation was $67 million higher.
- Labor costs were $49 million higher due to overtime and relief crews associated with weather disruptions earlier in the year and efforts to improve network performance.
- An initial charge for $39 million was recognized in the fourth quarter of 2014 as a result of an initiative to reduce the management workforce.
- Labor costs were $30 million higher due to an amended locomotive maintenance service agreement where CSX now provides oversight of the labor force. Outside service costs shifted from materials, supplies and other to labor and fringe. Overall expense is neutral for the year.
- Other costs were $17 million lower primarily due to reduced pension costs and incentive compensation costs that reflect lower award payments.

Materials, Supplies and Other expenses consist primarily of contracted services to maintain infrastructure and equipment, terminal services at automotive facilities and professional services. This category also includes costs related to materials, travel, casualty claims, environmental remediation, train accidents, property and sales tax, utilities and other items. Total materials, supplies and other expenses increased$209 million primarily driven by the following:

- Prior year real estate gains were $85 million. No gains were recognized in the current year.
- Volume-related costs rose $58 million primarily due to increased resource levels in response to the 6% volume growth to help capture strong customer demand.
- Utilities, materials and foreign locomotive costs were $44 million higher in response to weather-related service challenges earlier in the year and efforts to improve network performance.
- Inflation was $39 million higher.
- Risk-related costs increased by $13 million due to higher derailments earlier in the year, which reflect the increase in the FRA train accident frequency rate.

30

- Partially offsetting these increases was the amended locomotive maintenance agreement which shifted $30 million to labor and fringe as referenced above.

Fuel expense includes locomotive diesel fuel as well as non-locomotive fuel. This expense is driven by the market price and locomotive consumption of diesel fuel. Fuel expense decreased $40 million driven by the following:

- Average fuel price per gallon decreased $0.22 to $2.95 per gallon versus the prior year which reduced expenses by $112 million.
- Improved efficiency reduced expenses by $19 million.
- Volume-related costs were $99 million higher.
- Other fuel savings were $8 million.

Depreciation expense primarily relates to recognizing the costs of a capital asset, such as locomotives, railcars and track structure, over its useful life. This expense is impacted primarily by the capital expenditures made each year. Depreciation expense increased $47 million primarily due to a larger asset base.

Equipment and Other includes rent paid for freight cars owned by other railroads or private companies, net of rents received by CSXT for use of its equipment. This category of expenses also includes lease expenses for locomotives, railcars, containers and trailers, offices and other rentals. These expenses increased $48 million driven by the following:

- Car hire costs were $31 million higher due to volume, longer car cycle times and network performance.
- Inflation resulted in $18 million of additional costs related to rates on automotive, intermodal and coal cars.
- Other costs improved $1 million.

Interest expense decreased $17 million to $545 million primarily due to lower average interest rates partially offset by higher average debt balances.

Other (expense) income - net decreased $35 million to an expense of $24 million primarily due to an increase in estimated environmental cleanup costs of $17 million related to non-operating activities as well as costs of $16 million associated with the early redemption of long-term debt.

Income tax expense increased $59 million to $1.1 billion primarily due to higher earnings partially offset by favorable state legislative changes.

Net earnings increased $63 million to $1.9 billion, and earnings per diluted share increased $0.09 to $1.92 due to the factors mentioned above. Lower average shares outstanding also had a positive impact on earnings per diluted share.

CSX CORPORATION
PART II

2013 vs. 2012 Results of Operations

	Fiscal Years			
	2013	2012	$ Change	% Change
(Dollars in Millions)				
Revenue	$12,026	$11,763	$263	2 %
Expense				
Labor and Fringe	3,138	3,020	(118)	(4)
Materials, Supplies and Other	2,275	2,156	(119)	(6)
Fuel	1,656	1,672	16	1
Depreciation	1,104	1,059	(45)	(4)
Equipment and Other Rents	380	392	12	3
Total Expense	8,553	8,299	(254)	(3)
Operating Income	3,473	3,464	9	—
Interest Expense	(562)	(566)	4	1
Other Income - Net	11	73	(62)	(85)
Income Tax Expense	(1,058)	(1,108)	50	5
Net Earnings	$			