

# **CSX CORPORATION**

## **Board of Directors**

### **Audit Committee Charter**

#### **Purpose**

The Audit Committee's ("Committee") primary purpose is to oversee the accounting and financial reporting processes of CSX Corporation ("Corporation") and the audits of the financial statements of the Corporation. The Committee shall assist the Board of Directors' ("Board") oversight of: (i) the integrity of the Corporation's financial statements and accounting methodology, (ii) the Corporation's compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, and (iv) the performance of the independent auditors and the Corporation's internal audit function.

The Committee shall also meet for the purpose of preparing an audit committee report as required by the rules and regulations of the Securities and Exchange Commission ("SEC") to be included in the Corporation's annual proxy statement.

#### **Membership and Operations**

The Committee shall consist of no fewer than three directors. Each member shall meet the independence requirements of the NASDAQ Stock Market ("NASDAQ") and Rule 10A-3 under the Securities Exchange Act of 1934, as such rules and provisions may be amended from time to time. No member of the Committee may (i) have accepted any direct or indirect consulting, advisory or other compensatory fee from the Corporation other than compensation for director service, (ii) be affiliated with the Corporation or its subsidiaries or (iii) have participated in the preparation of the financial statements of the Corporation or any of its current subsidiaries in the past three years. Each member of the Committee shall be able to read and understand fundamental financial statements, including the Corporation's balance sheet, income statement and cash flow statement. In addition, at least one member of the Committee shall be an audit committee financial expert as defined in the rules and regulations of the SEC, as such qualifications are interpreted by the Board in its business judgment or have such other additional experience and financial sophistication as is required under NASDAQ rules. No member of the Committee may serve simultaneously on the audit committees of more than three public companies (including the Committee).

Members of the Committee and the Committee Chair shall be elected by the Board annually after reviewing the recommendation of the Governance Committee. Members shall serve until their successors have been duly elected and qualified. Any member of the Committee may resign at any time by giving written notice of his or her intention to do so to the Chairman of the Board or the Corporate Secretary, or may be removed, with or without cause, at any time by the Board.

The Committee shall meet at least once every fiscal quarter, or more frequently if circumstances dictate, and shall meet periodically without management present. The Committee periodically shall meet separately with management, with internal auditors and with independent auditors to discuss any matters that the Committee or any of these persons or firms believes should be discussed privately. The Committee Chair shall prepare or approve an agenda in advance of each meeting. Each member is free to suggest the inclusion of items not on the agenda.

A majority of the members of the Committee shall constitute a quorum for the transaction of business, and the affirmative vote of the majority of those present shall be necessary for any action by the Committee.

The Committee shall keep minutes, report its activities to the full Board on a regular basis and make recommendations with respect to the matters covered by this Charter and other matters as the Committee may deem necessary or appropriate (including reviewing with the Board any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditors or the performance of the internal audit department).

### **Duties and Responsibilities**

The Committee's primary responsibility is oversight. The Corporation's management is responsible for the preparation, presentation and integrity of the Corporation's financial statements, and, with the Controller's and internal audit departments, is responsible for maintaining appropriate accounting and financial reporting policies and internal controls and procedures that provide for compliance with accounting standards, applicable laws and regulations relating to disclosures and financial reporting.

The Corporation's independent auditors shall report directly to the Committee and are accountable to the Committee and the Board. The independent auditors are responsible for planning and executing a proper audit of the Corporation's annual financial statements, reviews of the Corporation's quarterly financial statements prior to the filing of each quarterly report and other procedures. In this regard, the Committee members are not, and do not represent themselves as performing the functions of, auditors or accountants.

In carrying out its oversight responsibilities, the Committee shall have the following duties and authority:

#### ***Independent Auditors***

1. The Committee shall pre-approve, or adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the Corporation's independent auditors.
2. The Committee, in its capacity as a committee of the Board, shall directly appoint, retain, compensate and oversee the work of the independent auditors. The Committee shall have sole authority to approve all compensation and fees paid to the independent auditors for audit and non-audit work, and to resolve disagreements between management and the auditor regarding financial reporting. Neither the Corporation nor its subsidiaries shall employ the independent auditors' firm to perform prohibited non-audit work.
3. The Committee shall review, at least annually, the qualifications, performance and independence of the independent auditors, including the lead partner of the independent auditors. The Committee shall then present its conclusions to the full Board. In conducting such a review, the Committee shall (i) take into account the opinions of management and the internal auditors, (ii) actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and (iii) obtain and review a report prepared by the independent auditors, describing:
  - (a) the independent auditors' internal quality control procedures;
  - (b) any material issues raised by:
    - the most recent internal quality control review, or peer review, of the independent auditors,

- any inquiry or investigation by governmental or professional authorities, within the previous 5 years, respecting any independent audits conducted by the independent auditors, and
- any steps taken to deal with any such issues;

(c) all relationships between the independent auditors, or any of their affiliates, and the Corporation including a statement of the fees billed in each of the last two fiscal years by category of service.

The report shall also include all written disclosures required by the Public Company Accounting Oversight Board or any other applicable regulatory authority regarding the independent auditors' independence.

4. The Committee shall assure that rotation of the independent auditors' audit partners satisfies applicable regulatory requirements and Corporation policies and shall periodically consider whether rotation of the independent auditor is necessary or appropriate to assure continuing auditor independence.
5. The Committee shall establish policies for the Corporation's hiring of employees or former employees of the independent auditors, including prohibitions as required by the SEC regulations.

***Internal Auditors***

6. At least annually, the Committee shall review the performance and responsibilities, of the internal audit department, including the proposed audit plans for the coming year and the results of internal audits, along with any significant reports and management's responses thereto.
7. The Committee shall review activities, organizational structure and resources of the internal audit function.
8. At least annually, the Committee shall evaluate the performance of the Vice President – Internal Audit and Compliance and make recommendations regarding the responsibilities of such officer.
9. The Committee shall make the final decision with respect to the selection and retention of the Vice President – Internal Audit and Compliance.

***Financial Reporting Principles and Policies; Internal Controls and Procedures***

10. The Committee shall meet with the independent auditors, internal auditors and the Corporation's senior management to review the scope and methodology of the proposed audits. Independent auditors and internal auditors shall provide regular reports to the Committee during the year on the underlying process and status of their audits and any findings or preliminary conclusions that have been reached.
11. Management and the independent auditors shall review and discuss with the Committee the Corporation's annual and quarterly financial statements, including the Corporation's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its SEC reports prior to the filing of such reports. The Committee shall recommend to the Board whether the Corporation's financial statements should be accepted for inclusion in the Corporation's annual report on Form 10-K.

12. Throughout the year, the independent auditors shall review with the Committee their assessment as to the adequacy of the Corporation's structure of internal control over financial accounting and reporting, and their qualitative judgments as to accounting principles employed by the Corporation and the conclusions expressed in the Corporation's financial reports. The independent auditors shall review with the Committee significant issues and judgments made by management in the preparation of the financial statements, including a periodic review of the use of non-GAAP measures.
13. The Committee shall review significant issues regarding accounting principles and financial statement presentations, including any material changes in the Corporation's selection or application of accounting principles.
14. The Committee shall review significant issues related to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies.
16. The Committee shall review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.
17. The Committee shall discuss with the independent auditors any difficulties encountered in the course of the audit and management's response, including any:
  - restrictions on the scope of the independent auditors' activities;
  - difficulties accessing requested information;
  - disagreements between management and the independent auditors;
  - accounting adjustments that were noted or proposed by the independent auditors but "passed" (as immaterial or otherwise);
  - communications between the independent audit team and the independent audit firm's national office regarding auditing or accounting issues presented by the engagement; or
  - any management or internal control letter issued, or proposed to be issued, by the independent auditors.
18. The Committee shall discuss with the independent auditors the responsibilities, budget and staffing of the Corporation's internal audit function.
19. The Committee shall discuss with the independent auditors the matters required to be discussed by Auditing Standard No. 1301 or any successor standard thereto and the written disclosures required by the Public Company Accounting Oversight Board regarding the auditors' independence.
20. The independent auditors, internal auditors, and management shall identify to the Committee significant business, financial, or legal issues that may significantly impact the Corporation's financial statements and internal control systems. As necessary, management shall report to the Committee all significant litigation in which the Corporation and its subsidiaries are engaged, as well as the anticipated impact of such litigation on the Corporation.

21. The Committee shall discuss the Corporation's earnings press releases, as well as the type and presentation of financial information and earnings guidance provided to analysts and rating agencies, including the presentation of "pro-forma" or "adjusted" non-GAAP information.
22. Independent auditors and internal auditors shall report as soon as possible to the Committee any material weaknesses in internal control systems.
23. The Committee shall review disclosures by the Corporation's CEO and CFO during the certification process for the SEC Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls over financial reporting or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.
24. The Committee shall review and discuss with the independent auditors (i) all critical accounting policies and practices to be used in the audit; (ii) all alternative treatments of financial information within GAAP that have been discussed with management, the ramifications of the use of such alternative treatments and the treatment preferred by the auditors; and (iii) other material written communications between the auditors and management, such as any management letter or schedule of unadjusted differences.
25. The Committee shall establish and maintain procedures for the receipt, retention and treatment of complaints regarding the Corporation's accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable auditing or accounting matters.
26. The Committee shall review with management the Corporation's procedures established for reviewing and addressing conflicts of interest and related party transactions. In addition, the Committee shall be responsible for conducting an appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis and approving or ratifying, as may be required by NASDAQ, any related party transactions.
27. Management and the independent auditors shall review and discuss with the Committee their evaluation of the Company's identification of, accounting for, and disclosure of its relationships and transactions with related parties and other significant matters arising from the audit regarding the Company's relationships and transactions with related parties.

### ***Risk Oversight***

28. The Committee shall discuss guidelines and policies governing the process by which senior management of the Corporation and the relevant departments of the Corporation assess and manage the Corporation's exposure to risk, the Corporation's major risk exposures and the steps management has taken to monitor and mitigate such exposures.
29. The Committee shall coordinate with the Chief Compliance Officer, other members of management and the risk oversight committee to help ensure that both the Committee and the risk oversight committee have received the information necessary to permit them to fulfill their duties and responsibilities with respect to oversight of risk management.

30. The Committee shall review reports from management on the status of and changes to risk exposures, policies, procedures and practices.

***Other***

31. The Committee shall provide over the names of the Committee members the audit committee report required to be included in the Corporation's Proxy Statement for the Corporation's Annual Meeting of Shareholders.
32. The Committee shall discuss with the internal auditors the Corporation's anti-fraud program and efforts undertaken to prevent and detect fraud.
33. The Chief Legal Officer shall report to the Committee on a yearly basis, in executive session, the status of all employee compliance-related training.
34. As needed, the Committee shall periodically review, make recommendations regarding any modifications to, and receive reports as to material violations of the Corporation's Code of Business Conduct and Ethics and other compliance responsibilities. At least annually, the internal auditors shall review with the Committee the Corporation's monitoring of the Code of Business Conduct and Ethics and procedures to ensure compliance with laws and governmental regulations. Waivers to the Code of Business Conduct and Ethics for directors or executive officers must be approved by the Board and promptly disclosed to shareholders.
35. The Committee shall review and assess the adequacy of this Charter on an annual basis with the advice of the Governance Committee and recommend any changes to the full Board.
36. In addition to the foregoing, the Committee shall perform such other functions as may be committed to it under the resolutions and other directives of the Board.

In fulfilling his or her responsibility, each member of the Committee is entitled to rely in good faith upon the Corporation's records and upon information, opinions, reports or statements presented by any of the Corporation's officers or employees, or by any other person as to matters the member reasonably believes are within such other persons professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation. Each member of the Committee also may rely in good faith upon actions taken by other committees of the Board as committed to such committees under the resolutions and other directives of the Board.

**Delegation to Subcommittee**

The Committee may, as appropriate and consistent with applicable regulations, laws and listing standards, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee. The Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Committee at its next scheduled meeting. Any such delegation shall be by majority vote of the Committee.

**Evaluation**

The Committee shall prepare and review with the Board an annual performance evaluation of the Committee. The evaluation shall compare the performance of the Committee with the requirements of this Charter. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the Committee Chair or any other member of the Committee designated by the Committee to make this report.

## **Resources and Authority**

The Committee shall have available to it the resources and authority appropriate to discharge its duties and responsibilities, including support from management staff, including the Chief Financial Officer of the Corporation or such officer's designee. The Committee shall also have the sole authority to select, retain and terminate (and approve or ratify the fees and other retention terms of) outside auditors, special or independent counsel, accountants, consultants and other advisors, as it deems necessary or appropriate without seeking approval of the Board or management. The Corporation shall provide appropriate funding to the Committee to allow the Committee to compensate the Corporation's independent auditors, to compensate any advisors retained by the Committee and to pay for ordinary administrative expenses of the Committee.