



LETTER FROM THE CHAIRMAN

Fellow Shareholder: 2004 was a year of change at CSX and the foundation was laid for further improvement in service, safety and financial results in 2005 and beyond. CSX financial results in 2004 were encouraging, our safety record improved, our business strategy is sound, and your company is actively pursuing continued growth in revenue and operating income.

2004 – A Year of Strong Growth and Positive Change

Operating income at CSX's core Surface Transportation units, CSX Transportation and CSX Intermodal, was \$993 million in 2004 compared to \$651 million in 2003. Each quarter of 2004 showed continuous, consistent improvement on a year-over-year basis.

A key driver in this improvement in operating income was strong revenue growth. In the fourth quarter of 2004, CSX delivered its 11th consecutive quarter of revenue growth. For the year, Surface Transportation revenue was an all-time record \$8.02 billion. This was an increase of \$581 million compared to 2003 revenue of \$7.44 billion.

These revenue results were driven by growth in the national economy, a growing demand for CSX's rail transportation services and the company's fuel surcharge program which helped to mitigate a portion of the dramatic increase in fuel costs in 2004.

However, in order for CSX to meet the increasing demand for rail transportation services and to capitalize on its long-term opportunities, we must improve our service. Improving service will allow CSX to better meet customer needs, increase the capacity of the network and improve its cost profile.

A key component of the company's service improvement program is the CSX ONE Plan, which was implemented in the third quarter of 2004. The ONE Plan was designed to simplify and optimize our operating network through reduced terminal handlings and more efficient routings. Early results of the ONE Plan are encouraging but realizing its full potential will require refinement of the plan and focused execution day by day.

The company's strategy to improve service throughout its network extended to CSX Intermodal, where the company conducted a Network Simplification Initiative in mid-2004 that specialized and simplified its network, reducing the amount of sorting required at key intermodal hubs and improving service on CSX's core service lanes.

While these service improvements are important to achieving CSX's business goals, safety remains our highest priority.

One of CSX's core values is "Safety is a Way of Life." In 2004, CSX made modest improvements in key safety measurements – personal injuries improved by 6%, FRA reportable train accidents were down 4% and grade crossing collisions improved by 7%. While these trends are encouraging, much remains to be done in our never-ending quest to create an environment of accountability for safety, both from our employees and for our customers and the communities where we operate.

In the past year, CSX completed a difficult, but necessary, restructuring initiative that reduced the management staff by approximately 900 positions. The organization is now leaner, more nimble and more responsive, and there