GENESEE & WYOMING INC
Form 10-Q
November 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
or
o 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 001-31456

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GENESEE & WYOMING INC.
(Exact name of registrant as specified in its charter)

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| Delaware | 06-0984624 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

20 West Avenue, Darien, Connecticut 06820
(Address of principal executive offices)(Zip Code)
(203) 202-8900
(Registrant's telephone number, including area code)

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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. x Yes o 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). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer x | Accelerated filer o |
|---|---|
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

Shares of common stock outstanding as of the close of business on November 1, 2016:

| Class | Number of Shares Outstanding |
| --- | --- |
| Class A Common Stock | 57,300,131 |
| Class B Common Stock | 786,138 |

Table of Contents

INDEX


| | | Page |
|---|---|---|
| | Forward-Looking Statements | 3 |
| Part I | Financial Information | 4 |
| Item 1. | Financial Statements: | |
| | Consolidated Balance Sheets (Unaudited) - As of September 30, 2016 and December 31, 2015 | 4 |
| | Consolidated Statements of Operations (Unaudited) - For the Three and Nine Months Ended September 30, 2016 and 2015 | 5 |
| | Consolidated Statements of Comprehensive Income/(Loss) (Unaudited) - For the Three and Nine Months Ended September 30, 2016 and 2015 | 6 |
| | Consolidated Statements of Cash Flows (Unaudited) - For the Nine Months Ended September 30, 2016 and 2015 | 7 |
| | Notes to Consolidated Financial Statements (Unaudited) | 8 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 27 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 65 |
| Item 4. | Controls and Procedures | 65 |
| Part II | Other Information | 66 |
| Item 1. | Legal Proceedings | 66 |
| Item 1A. | Risk Factors | 66 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 67 |
| Item 3. | Defaults Upon Senior Securities | 67 |
| Item 4. | Mine Safety Disclosures | 67 |
| Item 5. | Other Information | 67 |
| Item 6. | Exhibits | 67 |
| Signatures | | 68 |
| Index to Exhibits | | 69 |

Table of Contents

Unless the context otherwise requires, when used in this Quarterly Report on Form 10-Q, the terms "Genesee & Wyoming," "G&W," the "Company," "we," "our" and "us" refer to Genesee & Wyoming Inc. and its subsidiaries. All references to currency amounts included in this Quarterly Report on Form 10-Q, including the financial statements, are in United States dollars unless specifically noted otherwise. The term carload represents physical railcars and the estimated railcar equivalents of commodities transported by metric ton or other measure, as well as intermodal units. From time to time, we may use our website as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at www.gwrr.com/investors. In addition, you may automatically receive email alerts and other information about us by enrolling your email address in the "Email Alerts" section of www.gwrr.com/investors. The information contained on or connected to our Internet website is not deemed to be incorporated by reference in this Quarterly Report or filed with the SEC.

Forward-Looking Statements

This report and other documents referred to in this report contain forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. that are based on current expectations, estimates and projections about our industry, our business and our performance, management's beliefs and assumptions made by management. Words such as "anticipates," "intends," "plans," "believes," "could," "should," "seeks," "expects," "will," "estimates," "trends," "outlook," variations of these words and similar expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast, including the following: risks related to the operation of our railroads; severe weather conditions and other natural occurrences that could result in shutdowns, derailments, railroad network congestion or other substantial disruption of operations; customer demand and changes in our operations or loss of important customers; exposure to the credit risk of customers and counterparties; changes in commodity prices; consummation and integration of acquisitions; economic, political and industry conditions, including employee strikes or work stoppages; retention and contract continuation; legislative and regulatory developments, including changes in environmental and other laws and regulations to which we or our customers are subject; increased competition in relevant markets; funding needs and financing sources, including our ability to obtain government funding for capital projects; international complexities of operations, currency fluctuations, finance, tax and decentralized management; challenges of managing rapid growth, including retention and development of senior leadership; unpredictability of fuel costs; susceptibility to various legal claims and lawsuits; increase in, or volatility associated with, expenses related to estimated claims, self-insured retention amounts and insurance coverage limits; consummation of new business opportunities; decrease in revenues and/or increase in costs and expenses; susceptibility to the risks of doing business in foreign countries; uncertainties arising from a referendum in which voters in the United Kingdom (U.K.) approved an exit from the European Union (E.U.), commonly referred to as Brexit; our ability to integrate acquired businesses successfully or to realize the expected synergies associated with acquisitions; risks associated with our substantial indebtedness and others including, but not limited to, those set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any, and those noted in our 2015 Annual Report on Form 10-K under "Risk Factors." Therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Forward-looking statements speak only as of the date of this report or as of the date they were made. We do not undertake, and expressly disclaim, any duty to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2016 and DECEMBER 31, 2015 (Unaudited)
(dollars in thousands, except per share and share amounts)

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 26,366 | $ 35,941 |
| Accounts receivable, net | 366,121 | 382,458 |
| Materials and supplies | 47,626 | 45,790 |
| Prepaid expenses and other | 47,018 | 43,197 |
| Total current assets | 487,131 | 507,386 |
| PROPERTY AND EQUIPMENT, net | 4,209,583 | 4,215,063 |
| GOODWILL | 824,957 | 826,575 |
| INTANGIBLE ASSETS, net | 1,053,664 | 1,128,952 |
| DEFERRED INCOME TAX ASSETS, net | 2,623 | 2,270 |
| OTHER ASSETS, net | 37,928 | 22,836 |
| Total assets | $ 6,615,886 | $ 6,703,082 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 85,841 | $ 75,966 |
| Accounts payable | 246,171 | 282,275 |
| Accrued expenses | 163,893 | 169,586 |
| Total current liabilities | 495,905 | 527,827 |
| LONG-TERM DEBT, less current portion | 1,977,649 | 2,205,785 |
| DEFERRED INCOME TAX LIABILITIES, net | 994,670 | 983,136 |
| DEFERRED ITEMS - grants from outside parties | 302,223 | 292,198 |
| OTHER LONG-TERM LIABILITIES | 185,749 | 174,675 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY: | | |
| Class A Common Stock, $0.01 par value, one vote per share; 180,000,000 shares authorized at September 30, 2016 and December 31, 2015; 70,071,227 and 69,674,185 shares issued and 57,290,856 and 56,945,384 shares outstanding (net of 12,780,371 and 12,728,801 shares in treasury) on September 30, 2016 and December 31, 2015, respectively | 701 | 697 |
| Class B Common Stock, $0.01 par value, ten votes per share; 30,000,000 shares authorized at September 30, 2016 and December 31, 2015; 793,138 shares issued and outstanding on September 30, 2016 and December 31, 2015 | 8 | 8 |
| Additional paid-in capital | 1,376,805 | 1,355,345 |
| Retained earnings | 1,676,879 | 1,544,676 |
| Accumulated other comprehensive loss | (163,831) | (153,457) |
| Treasury stock, at cost | (230,872) | (227,808) |
| Total equity | 2,659,690 | 2,519,461 |
| Total liabilities and equity | $ 6,615,886 | $ 6,703,082 |

The accompanying notes are an integral part of these consolidated financial statements.

4

Table of Contents

GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015 (Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| OPERATING REVENUES | $501,002 | $546,299 | $1,484,993 | $1,485,548 |
| OPERATING EXPENSES: | | | | |
| Labor and benefits | 156,235 | 158,675 | 475,297 | 456,089 |
| Equipment rents | 36,778 | 44,630 | 113,634 | 110,145 |
| Purchased services | 50,991 | 55,291 | 149,125 | 135,849 |
| Depreciation and amortization | 50,841 | 48,303 | 151,095 | 138,568 |
| Diesel fuel used in train operations | 30,134 | 34,264 | 83,851 | 101,856 |
| Electricity used in train operations | 3,226 | 5,164 | 9,895 | 10,530 |
| Casualties and insurance | 9,252 | 11,466 | 28,814 | 30,027 |
| Materials | 19,678 | 25,140 | 62,662 | 70,764 |
| Trackage rights | 22,781 | 21,765 | 64,509 | 57,270 |
| Net (gain)/loss on sale and impairment of assets | (524) | (1,174) | 11,993 | (1,981) |
| Restructuring costs | 223 | — | 6,320 | — |
| Other expenses | 29,536 | 25,216 | 91,757 | 86,801 |
| Total operating expenses | 409,151 | 428,740 | 1,248,952 | 1,195,918 |
| OPERATING INCOME | 91,851 | 117,559 | 236,041 | 289,630 |
| Interest income | 416 | 225 | 827 | 375 |
| Interest expense | (17,333) | (17,464) | (53,049) | (48,744) |
| Loss on settlement of foreign currency forward purchase contracts | — | — | — | (18,686) |
| Other income/(loss), net | 1,494 | (103) | 2,947 | 545 |
| Income before income taxes | 76,428 | 100,217 | 186,766 | 223,120 |
| Provision for income taxes | (19,643) | (36,855) | (54,563) | (83,017) |
| Net income | $56,785 | $63,362 | $132,203 | $140,103 |
| Basic earnings per common share | $0.99 | $1.12 | $2.31 | $2.47 |
| Weighted average shares - Basic | 57,266 | 56,819 | 57,160 | 56,673 |
| Diluted earnings per common share | $0.98 | $1.10 | $2.28 | $2.42 |
| Weighted average shares - Diluted | 58,180 | 57,846 | 58,083 | 57,833 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015 (Unaudited)
(dollars in thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| NET INCOME | $56,785 | $63,362 | $132,203 | $140,103 |
| OTHER COMPREHENSIVE INCOME/(LOSS): | | | | |
| Foreign currency translation adjustment | 5,108 | (64,147) | 3,618 | (69,990) |
| Net unrealized loss on qualifying cash flow hedges, net of tax benefit of $1,417, $2,835, $12,242 and $5,238, respectively | (2,127) | (4,253) | (18,364) | (7,857) |
| Changes in pension and other postretirement benefits, net of tax (provision)/benefit of ($392), $910, ($1,376) and $850, respectively | 1,449 | (1,618) | 4,372 | (1,512) |
| Other comprehensive income/(loss) | 4,430 | (70,018) | (10,374) | (79,359) |
| COMPREHENSIVE INCOME/(LOSS) | $61,215 | $(6,656) | $121,829 | $60,744 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015 (Unaudited)
(dollars in thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $132,203 | $140,103 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 151,095 | 138,568 |
| Stock-based compensation | 13,835 | 10,341 |
| Excess tax benefit from share-based compensation | (25) | (1,393) |
| Deferred income taxes | 25,088 | 46,795 |
| Net loss/(gain) on sale and impairment of assets | 11,993 | (1,981) |
| Insurance proceeds received | — | 103 |
| Loss on settlement of foreign currency forward purchase contracts | — | 18,686 |
| Changes in assets and liabilities which provided/(used) cash, net of effect of acquisitions: | | |
| Accounts receivable, net | (10,731) | 52,847 |
| Materials and supplies | (2,642) | (2,325) |
| Prepaid expenses and other | (1,930) | 14,929 |
| Accounts payable and accrued expenses | (29,484) | (71,446) |
| Other assets and liabilities, net | 14,156 | (970) |
| Net cash provided by operating activities | 303,558 | 344,257 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (159,523) | (276,150) |
| Grant proceeds from outside parties | 29,952 | 31,456 |
| Cash paid for acquisitions, net of cash acquired | — | (735,556) |
| Net payment from settlement of foreign currency forward purchase contracts related to an acquisition | — | (18,686) |
| Insurance proceeds for the replacement of assets | 10,319 | 9,658 |
| Proceeds from disposition of property and equipment | 2,003 | 3,223 |
| Net cash used in investing activities | (117,249) | (986,055) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on revolving line-of-credit, long-term debt and capital lease obligations | (501,087) | (502,839) |
| Proceeds from revolving line-of-credit and long-term borrowings | 300,495 | 1,139,511 |
| Debt amendment/issuance costs | — | (9,622) |
| Proceeds from employee stock purchases | 5,969 | 5,478 |
| Treasury stock purchases | (3,065) | (3,245) |
| Excess tax benefit from share-based compensation | 25 | 1,393 |
| Net cash (used in)/provided by financing activities | (197,663) | 630,676 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 1,779 | (9,632) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (9,575) | (20,754) |
| CASH AND CASH EQUIVALENTS, beginning of period | 35,941 | 59,727 |
| CASH AND CASH EQUIVALENTS, end of period | $26,366 | $38,973 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:
The interim consolidated financial statements presented herein include the accounts of Genesee & Wyoming Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. These interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and are unaudited. They do not contain all disclosures which would be required in a full set of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In the opinion of management, the unaudited financial statements for the three and nine months ended September 30, 2016 and 2015 are presented on a basis consistent with the audited financial statements and contain all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for the interim periods presented. The results of operations for interim periods are not necessarily indicative of results of operations for the full year. The consolidated balance sheet data for 2015 was derived from the audited financial statements in the Company's 2015 Annual Report on Form 10-K, but does not include all disclosures required by U.S. GAAP.
The results of operations of the foreign entities are maintained in the local currency of the respective subsidiary and translated into United States dollars at the applicable exchange rates for inclusion in the consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the United States dollar will impact the Company's results of operations.
The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2015 included in the Company's 2015 Annual Report on Form 10-K.
Certain reclassifications have been made to prior period balances to conform to the current year presentation, including (1) debt issuance costs, current portion of long-term debt and long-term debt, less current portion (see Note 5, Long-Term Debt) and (2) current deferred income tax assets, long-term deferred income tax assets and long-term deferred income tax liabilities (see Note 9, Income Taxes).
When comparing the Company's results of operations from one reporting period to another, it is important to consider that the Company has historically experienced fluctuations in revenues and expenses due to acquisitions, changing economic conditions, fluctuations in commodity prices, competitive forces, changes in foreign currency exchange rates, rail network congestion, one-time freight moves, fuel price fluctuations, customer plant expansions and shutdowns, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, high winds, droughts, heavy snowfall, unseasonably hot or cold weather, freezing and flooding, among other factors. In periods when these events occur, the Company's results of operations are not easily comparable from one period to another. Finally, certain of the Company's railroads have commodity shipments that are sensitive to general economic conditions, global commodity prices and foreign exchange rates, such as steel products, iron ore, paper products, lumber and forest products and agricultural products, as well as product specific market conditions, such as the availability of lower priced alternative sources of power generation (coal) and energy commodity price differentials (crude oil and natural gas liquids). Other shipments are relatively less affected by economic conditions and are more closely affected by other factors, such as winter weather (salt) and seasonal rainfall (agricultural products). As a result of these and other factors, the Company's results of operations in any reporting period may not be directly comparable to the Company's results of operations in other reporting periods.
2. CHANGES IN OPERATIONS:
Australia
Arrium Limited: Between 2011 and 2014, the Company's subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA) invested a total of approximately $78 million to purchase locomotives and railcars, as well as to construct a standard gauge rolling-stock maintenance facility to support iron ore shipments from Arrium Limited's (Arrium) Southern Iron mine and its Whyalla-based operations, which include the Middleback Range iron ore mines and the Whyalla steelworks.

Arrium mothballed its Southern Iron mine in April 2015, citing the significant decline in the price of iron ore. During 2015, GWA carried approximately 8,300 carloads of iron ore from the Southern Iron mine and, in total, generated approximately A$83 million in freight and freight-related revenues (or approximately $62 million at the average exchange rate for the year ended December 31, 2015) under the fixed and variable payment structure that is customary in large contracts in Australia.

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

On April 7, 2016, Arrium announced it had entered into voluntary administration. As a result of this announcement, during the three months ended March 31, 2016, the Company recorded a $13.0 million non-cash charge related to the impairment of GWA's now idle rolling-stock maintenance facility and an allowance for doubtful accounts charge of $8.1 million associated with accounts receivable from Arrium. As a result of the voluntary administration, all payments to GWA associated with the Southern Iron rail haulage agreement have ceased. GWA is in the process of redeploying rolling-stock previously used to provide service under the Southern Iron rail haulage agreement to serve other customers.
GWA continues to receive payments and provide service under the remaining rail haulage agreement to serve several iron ore mines in the Middleback Range and the Whyalla Steelworks operations, which we expect will represent A$35 million (or approximately $27 million at the exchange rate on September 30, 2016) of annual revenue prospectively. Pending the outcome of the voluntary administration process, GWA could lose some or all of the revenue associated with the remaining rail haulage agreement. In the event of an adverse determination regarding the viability of the Middleback Range or the Whyalla Steelworks operations, or a termination of the remaining rail haulage agreement, all or a portion of GWA's assets deployed to provide service under this agreement, which consist largely of narrow gauge locomotives and wagons, could be redeployed elsewhere in Australia.
U.K./Europe
Freightliner Group Limited: On March 25, 2015, the Company completed the acquisition of all of the outstanding share capital of RailInvest Holding Company Limited, the parent company of London-based Freightliner Group Limited (Freightliner), pursuant to the terms of a Share Purchase Agreement dated February 24, 2015. Certain former management shareholders of Freightliner (Management Shareholders) retained an approximate 6% economic interest in Freightliner in the form of deferred consideration. The Company expects to settle the deferred consideration by the end of 2020.
Headquartered in London, England, Freightliner is an international freight rail operator with operations in the United Kingdom (U.K.), Poland, Germany, the Netherlands and Australia. Freightliner's principal business is located in the U.K. where it is the largest maritime intermodal operator and the second largest freight rail operator, providing service throughout England, Scotland and Wales. In Continental Europe, Freightliner Poland primarily serves aggregates and coal customers in Poland. In addition, Freightliner's ERS subsidiary, based in Rotterdam, provides cross-border intermodal services connecting the northern European ports of Rotterdam, Bremerhaven and Hamburg to key cities in Germany, Poland, Italy and beyond. In Australia, Freightliner currently transports coal and containerized agricultural products for its customers in New South Wales. As of the acquisition date, Freightliner employed approximately 2,500 people worldwide and had a fleet of primarily leased equipment, which included approximately 250 diesel locomotives, 45 electric locomotives and 5,500 railcars.
The Company funded the acquisition with borrowings under the Company's Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement, as amended (the Credit Agreement) (see Note 5, Long-Term Debt) and available cash. The foreign exchange rate used to translate the total consideration to United States dollars was $1.49 for one British pound (GBP). The calculation of the total consideration for the Freightliner acquisition is presented below (amounts in thousands):

| | GBP | USD |
|---|---|---|
| Cash consideration | £492,083 | $733,006 |
| Deferred consideration | 24,200 | 36,048 |
| Total consideration | £516,283 | $769,054 |

As of March 25, 2015, the Company recorded a contingent liability within other long-term liabilities of £24.2 million (or $36.0 million at the exchange rate on March 25, 2015). This contingent liability represented the aggregate fair value of the shares transferred to the Company by the Management Shareholders representing an economic interest of approximately 6% on the acquisition date at the Freightliner acquisition price per share, in exchange for the right to receive cash consideration for the representative economic interest in the future (deferred consideration). The Company will recalculate the estimated fair value of the deferred consideration in each reporting period until it is paid

in full by using a contractual formula designed to estimate the economic value of the Management Shareholders' retained interest in a manner consistent with that used to derive the Freightliner acquisition price per share on the acquisition date. Accordingly, a change in the fair value of the deferred consideration could have a material effect on the Company's results of operations for the period in which a change in estimate occurs. The fair value of the contingent liability has not materially changed since the March 25, 2015 acquisition date (see Note 7, Fair Value of Financial Instruments).



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Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The results of operations from Freightliner have been included in the Company's consolidated statements of operations since the March 25, 2015 acquisition date. U.K. and Continental Europe operations are included in the Company's U.K./European Operations segment and the results of Freightliner's Australia operations are included in the Company's Australian Operations segment (see Note 13, Segment Information). Freightliner contributed $363.5 million of total revenues and $21.4 million of operating income to the Company's consolidated results during the nine months ended September 30, 2015. The Company incurred $0.7 million and $14.0 million of acquisition and integration costs associated with Freightliner during the three and nine months ended September 30, 2015, respectively, which were included within other expenses in the Company's consolidated statements of operations. In addition, the Company recorded a loss of $18.7 million on the settlement of foreign currency forward purchase contracts during the nine months ended September 30, 2015, which were entered into in contemplation of the Freightliner acquisition (see Note 6, Derivative Financial Instruments).

Pro Forma Financial Results (Unaudited)

The following table summarizes the Company's unaudited pro forma operating results for the nine months ended September 30, 2015 as if the acquisition of Freightliner had been consummated as of January 1, 2014. The following pro forma financial information does not include the impact of any costs to integrate the operations or the impact of derivative instruments that the Company has entered into or may enter into to mitigate interest rate risk (dollars in thousands, except per share amounts):

| | Nine Months Ended September 30, 2015 |
|---|---|
| Operating revenues | $ 1,642,167 |
| Net income | $ 163,988 |
| Basic earnings per common share | $ 2.89 |
| Diluted earnings per common share | $ 2.84 |

The unaudited pro forma operating results included the acquisition of Freightliner adjusted, net of tax, for depreciation and amortization expense resulting from the determination of fair values of the acquired property and equipment and amortizable intangible assets, the inclusion of interest expense related to borrowings used to fund the acquisition, the amortization of debt issuance costs related to the Company's entry into the Credit Agreement and the elimination of Freightliner's interest expense related to debt not assumed in the acquisition. Since the pro forma financial results assume the acquisition was consummated on January 1, 2014, the 2015 unaudited pro forma operating results for the nine months ended September 30, 2015 excluded $12.6 million ($9.5 million, net of tax) of costs incurred by the Company related to the acquisition of Freightliner, $12.2 million ($9.1 million, net of tax) of transaction-related costs incurred by Freightliner and an $18.7 million ($11.6 million, net of tax) loss on settlement of foreign currency forward purchase contracts directly attributable to the acquisition of Freightliner.

Prior to the acquisition, Freightliner's fiscal year was based on a 52/53 week period ending on the nearest Saturday on or before March 31. Since Freightliner and the Company had different fiscal year end dates, the unaudited pro forma operating results were prepared based on comparable periods. The unaudited pro forma operating results for the nine months ended September 30, 2015 were based upon the Company's consolidated statement of operations for the nine months ended September 30, 2015 and the sum of Freightliner's historical operating results for the 12 weeks ended March 28, 2015, adjusted for the five days already included in the Company's first quarter results. The foreign exchange rate used to translate Freightliner's historical operating results to United States dollars was $1.51 for one British pound (which was calculated based on average daily exchange rates during the three month period ended March 31, 2015).

The pro forma financial information does not purport to be indicative of the results that actually would have been obtained had the transactions been completed as of January 1, 2014 and for the periods presented and are not intended to be a projection of future results or trends.

North America

Pinsly's Arkansas Division: On January 5, 2015, the Company completed the acquisition of certain subsidiaries of Pinsly Railroad Company (Pinsly) that constituted Pinsly's Arkansas Division (Pinsly Arkansas) for $41.3 million in cash. The Company funded the acquisition with borrowings under the Company's Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Prior Credit Agreement). The results of operations from Pinsly Arkansas have been included in the Company's consolidated statements of operations since the acquisition date within the Company's North American Operations segment.

GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Headquartered in Jones Mill, Arkansas, Pinsly Arkansas serves the Hot Springs and Little Rock areas, as well as the southwestern and southeastern portions of Arkansas and includes: (1) Arkansas Midland Railroad Company, Inc. (AKMD), which is comprised of seven non-contiguous branch lines; (2) The Prescott and Northwestern Railroad Company (PNW); (3) Warren & Saline River Railroad Company (WSR); and (4) two Arkansas transload operations. Operations are comprised of 137 miles of owned and leased track, 77 employees and 16 locomotives. The railroads currently haul approximately 30,000 carloads per year and serve a diverse customer base in industries including aluminum, forest products, aggregates, energy and carton board.

3. EARNINGS PER COMMON SHARE:

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2016 and 2015 (in thousands, except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income | $56,785 | $63,362 | $132,203 | $140,103 |
| Denominators: | | | | |
| Weighted average Class A common shares outstanding – Basic | 57,266 | 56,819 | 57,160 | 56,673 |
| Weighted average Class B common shares outstanding | 793 | 828 | 793 | 915 |
| Dilutive effect of employee stock-based awards | 121 | 199 | 130 | 245 |
| Weighted average shares – Diluted | 58,180 | 57,846 | 58,083 | 57,833 |
| Basic earnings per common share | $0.99 | $1.12 | $2.31 | $2.47 |
| Diluted earnings per common share | $0.98 | $1.10 | $2.28 | $2.42 |

The following total number of Class A Common Stock shares issuable under the assumed exercise of stock-based awards computed based on the treasury stock method were excluded from the calculation of diluted earnings per common share, as the effect of including these shares would have been antidilutive (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Antidilutive shares | 1,174 | 772 | 1,292 | 652 |

4. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following as of September 30, 2016 and December 31, 2015 (dollars in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Accounts receivable –trade | $ 355,289 | $ 339,100 |
| Accounts receivable – grants from outside parties | 10,750 | 22,997 |
| Accounts receivable – insurance and other third-party claims | 17,981 | 26,574 |
| Total accounts receivable | 384,020 | 388,671 |
| Less: Allowance for doubtful accounts | (17,899 ) | (6,213 ) |
| Accounts receivable, net | $ 366,121 | $ 382,458 |

As of September 30, 2016, A$10.9 million (or $8.3 million at the exchange rate on September 30, 2016) was included in the allowance for doubtful accounts associated with an Australian iron ore customer that entered into voluntary administration in April 2016 (see Note 2, Changes in Operations for additional information).

GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Grants from Outside Parties
The Company periodically receives grants for the upgrade and construction of rail lines and the upgrade of locomotives from federal, provincial, state and local agencies in the United States and provinces in Canada in which the Company operates. These grants typically reimburse the Company for 50% to 100% of the actual cost of specific projects. In total, the Company received grant proceeds of $30.0 million and $31.5 million for the nine months ended September 30, 2016 and 2015, respectively, from such grant programs. The proceeds were presented as cash inflows from investing activities within each of the applicable periods.
None of the Company's grants represent a future liability of the Company unless the Company abandons the rehabilitated or new track structure within a specified period of time or fails to maintain the upgraded or new track to certain standards, fails to make certain minimum capital improvements or ceases use of the locomotives within the specified geographic area and time period, or fails to comply with other grant provisions in each case, as set forth in the applicable grant agreement. As the Company intends to comply with the requirements of these agreements, the Company has recorded additions to track property and locomotives and has deferred the amount of the grants. The amortization of deferred grants is a non-cash offset to depreciation expense over the useful lives of the related assets.
The following table sets forth the offset to depreciation expense from the amortization of deferred grants recorded by the Company during the three and nine months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Amortization of deferred grants | $4,652 | $2,501 | $10,513 | $8,025 |

Insurance and Third-Party Claims
Accounts receivable from insurance and other third-party claims at September 30, 2016 included $6.9 million from the Company's North American Operations, $5.1 million from the Company's Australian Operations and $6.0 million from the Company's U.K./European Operations. The balance from the Company's North American Operations resulted predominately from the Company's anticipated insurance recoveries associated with a trestle fire in 2015 and a derailment in 2014 due to a washout. The balance from the Company's Australian Operations resulted primarily from the Company's anticipated insurance recoveries associated with derailments in Australia in 2012 and 2015. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with a rail-related collision in Germany in 2014 that occurred prior to the Company's acquisition of Freightliner. The Company received proceeds from insurance totaling $10.3 million and $9.8 million for the nine months ended September 30, 2016 and 2015, respectively.
5. LONG-TERM DEBT:
Credit Agreement
In anticipation of its acquisition of Freightliner, the Company entered into the Credit Agreement on March 20, 2015. The credit facilities under the Credit Agreement are comprised of a $1,782.0 million United States term loan, an A$324.6 million (or $252.5 million at the exchange rate on March 20, 2015) Australian term loan, a £101.7 million (or $152.2 million at the exchange rate on March 20, 2015) U.K. term loan and a $625.0 million revolving credit facility. The revolving credit facility includes borrowing capacity for letters of credit and swingline loans. In connection with entering into the Credit Agreement, the Company wrote-off $2.0 million of unamortized deferred financing fees and deferred $5.8 million of new fees. The maturity date of each of the Company's credit facilities under the Credit Agreement is March 31, 2020.
On January 1, 2016, the Company adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2015-03, Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The Company applied this guidance to all of its outstanding debt issuance costs retrospectively to all periods presented. The December 31, 2015 consolidated balance sheet and related disclosures were adjusted to

reflect the reclassification of $23.5 million of debt issuance costs from other assets to a reduction in current portion of long-term debt of $6.0 million and a reduction in long-term debt, less current portion, of $17.5 million. There was no other impact on the consolidated financial statements from the adoption of this guidance.

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

During the nine months ended September 30, 2016, the Company made prepayments on its United States term loan of $194.0 million, Australian term loan of A$30.4 million (or $22.8 million at the exchange rates on the dates the payments were made) and United Kingdom term loan of £0.7 million (or $0.9 million at the exchange rates on the dates the payments were made). The Company also made scheduled quarterly principal payments of $14.2 million on the United States term loan, A$4.1 million (or $3.1 million at the exchange rates on the dates the payments were made) on the Australian term loan and £1.3 million (or $1.6 million at the exchange rates on the dates the payments were made) on the United Kingdom term loan.
The United States dollar-denominated, Australian dollar-denominated and the British pound-denominated term loans began to amortize in quarterly installments during the three months ended September 30, 2016, with the remaining principal balance payable upon maturity, as set forth below (dollars in thousands):

| | Quarterly Payment Date | Principal Amount of Each Quarterly Installment | |
|---|---|---|---|
| United States dollar: | December 31, 2016 through June 30, 2018 | $ | 12,711 |
| | September 30, 2018 through December 31, 2019 | $ | 25,421 |
| | Maturity date - March 31, 2020 | $ | 1,336,500 |
| Australian dollar: | December 31, 2016 through June 30, 2018 | A$ | 4,058 |
| | September 30, 2018 through December 31, 2019 | A$ | 8,116 |
| | Maturity date - March 31, 2020 | A$ | 178,028 |
| British pound: | December 31, 2016 through June 30, 2018 | £ | 1,271 |
| | September 30, 2018 through December 31, 2019 | £ | 2,542 |
| | Maturity date - March 31, 2020 | £ | 75,532 |

As of September 30, 2016, the Company had the following outstanding term loans (amounts in thousands, except percentages):

| | Local Currency | United States Dollar Equivalent | Interest Rate |
|---|---|---|---|

| | | | |
|---|---|---|---|
| United States dollar | $ 1,578,000 | $1,578,000 | 2.52 % |
| Australian dollar | A$255,127 | $195,478 | 3.67 % |
| British pound | £ 99,681 | $129,296 | 2.27 % |

The Company's availability to draw from the unused borrowing capacity is subject to covenant limitations. As of September 30, 2016, the Company had the following unused borrowing capacity under its revolving credit facility (amounts in thousands):

| | September 30, 2016 |
|---|---|
| Total available borrowing capacity | $ 625,000 |
| Less: Outstanding revolving loans | 84,570 |
| Less: Outstanding letter of credit guarantees | 7,146 |
| Total unused borrowing capacity | $ 533,284 |

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of September 30, 2016, the Company had the following outstanding revolving loans (amounts in thousands, except percentages):

| | Local Currency | United States Dollar Equivalent | Interest Rate |
|---|---|---|---|
| British pound (swingline loan) | £ 2,000 | $ 2,594 | 2.48 % |
| British pound | £ 37,000 | $ 47,993 | 2.27 % |
| Canadian dollar | C$13,500 | $ 10,292 | 2.87 % |
| Euro | € 21,100 | $ 23,691 | 2.00 % |

As of September 30, 2016, the Company was in compliance with the covenants under the Credit Agreement.

6. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company actively monitors its exposure to interest rate and foreign currency exchange rate risks and uses derivative financial instruments to manage the impact of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use derivative instruments with the objective of earning financial gains on the interest rate or exchange rate fluctuations alone, nor does the Company use derivative instruments where it does not have underlying exposures. Complex instruments involving leverage or multipliers are not used. The Company manages its hedging position and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. The Company's instruments are recorded in the consolidated balance sheets at fair value in prepaid expenses and other, other assets, net, accrued expenses or other long-term liabilities.

The Company may designate derivatives as a hedge of a forecasted transaction or a hedge of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). The portion of the changes in the fair value of the derivative used as a cash flow hedge that is offset by changes in the expected cash flows related to a recognized asset or liability (the effective portion) is recorded in other comprehensive income/(loss). As the hedged item is realized, the gain or loss included in accumulated other comprehensive income/(loss) is reported in the consolidated statements of operations on the same line item as the hedged item. The portion of the changes in the fair value of derivatives used as cash flow hedges that is not offset by changes in the expected cash flows related to a recognized asset or liability (the ineffective portion) is immediately recognized in earnings on the same line item as the hedged item.

The Company matches the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At inception of the hedge and at least quarterly thereafter, the Company assesses whether the derivatives used to hedge transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. When it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting, and any gains or losses on the derivative instrument thereafter are recognized in earnings during the period in which it no longer qualifies for hedge accounting.

From time to time, the Company may enter into certain derivative instruments that may not be designated as hedges for accounting purposes. For example, to mitigate currency exposures related to intercompany debt, cross-currency swap contracts may be entered into for periods consistent with the underlying debt. The Company believes such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from the changes in the fair value of derivative instruments not accounted for using hedge accounting are recognized in current period earnings within other income/(loss), net. Derivative instruments entered into in conjunction with contemplated acquisitions also do not qualify as hedges for accounting purposes.

Interest Rate Risk Management

The Company uses interest rate swap agreements to manage its exposure to the changes in interest rates on the Company's variable rate debt. These swap agreements are recorded in the consolidated balance sheets at fair value. Changes in the fair value of the swap agreements are recorded in net income or other comprehensive income/(loss), based on whether the agreements are designated as part of a hedge transaction and whether the agreements are effective in offsetting the change in the value of the future interest payments attributable to the underlying portion of the Company's variable rate debt. Interest payments accrued each reporting period for these interest rate swaps are recognized in interest expense. The Company formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in counterparty to a derivative contract in and of itself, does not require the dedesignation of a hedging relationship. ASU 2016-05 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted and entities have the option of adopting this guidance on a prospective basis to new derivative contracts or on a modified retrospective basis. The Company elected to early adopt ASU 2016-05 on July 1, 2016, on a prospective basis and there was no impact to the Company’s consolidated financial statements.

The following table summarizes the terms of the Company's outstanding interest rate swap agreements entered into to manage the Company's exposure to changes in interest rates on its variable rate debt (dollars in thousands):

| | | Notional Amount | | | |
|---|---|---|---|---|---|
| Effective Date | Expiration Date | Date | Amount | Pay Fixed Rate | Receive Variable Rate |
| 9/30/2016 | 9/30/2026 | 9/30/2026 | $ 100,000 | 2.76% | 1-month LIBOR |
| 9/30/2016 | 9/30/2026 | 9/30/2026 | $ 100,000 | 2.74% | 1-month LIBOR |
| 9/30/2016 | 9/30/2026 | 9/30/2026 | $ 100,000 | 2.73% | 1-month LIBOR |

On November 9, 2012, the Company entered into multiple 10-year forward starting interest rate swap agreements to manage the exposure to changes in interest rates on the Company's variable rate debt. On September 30, 2016, the Company amended its forward starting swaps which included moving the mandatory settlement date from September 30, 2016 to September 30, 2020, changing from 3-month LIBOR to 1-month LIBOR and adjusting the fixed rate. The amended forward starting swaps continue to qualify for hedge accounting. In addition, it remains probable that the Company will either issue $300.0 million of fixed-rate debt or have $300.0 million of variable-rate debt under the Company's commercial banking lines throughout the term of the outstanding swap agreements. The Company expects to amortize any gains or losses on the settlements over the life of the respective swap.

The following table summarizes the Company's interest rate swap agreements that expired during 2016 (dollars in thousands):

| | | Notional Amount | | | |
|---|---|---|---|---|---|
| Effective Date | Expiration Date | Date | Amount | Pay Fixed Rate | Receive Variable Rate |
| 9/30/2015 | 9/30/2016 | 9/30/2015 | $ 350,000 | 0.93% | 1-month LIBOR |

The fair values of the Company's interest rate swap agreements were estimated based on Level 2 inputs. The Company's effectiveness testing during the three and nine months ended September 30, 2016 and 2015 resulted in no amount of gain or loss reclassified from accumulated other comprehensive loss into earnings due to ineffectiveness. During the three and nine months ended September 30, 2016, $0.4 million and $1.1 million, respectively, of existing net losses were realized and recorded as interest expense in the consolidated statements of operations. During the three and nine months ended September 30, 2015, $0.9 million and $2.5 million, respectively, of existing net losses were realized and recorded as interest expense in the consolidated statements of operations. Based on the Company's fair value assumptions as of September 30, 2016, it expects to realize $4.1 million of existing net losses that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 11, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

Foreign Currency Exchange Rate Risk

As of September 30, 2016, the Company's foreign subsidiaries had $487.3 million of third-party debt, including capital leases, denominated in the local currencies in which the Company's foreign subsidiaries operate, including the Australian dollar, the British pound, the Canadian dollar and the Euro. The debt service obligations associated with

this foreign currency debt are generally funded directly from those foreign operations. As a result, foreign currency risk related to this portion of the Company's debt service payments is limited. However, in the event the foreign currency debt service is not paid by the Company's foreign subsidiaries and is paid by its United States subsidiaries, the Company may face exchange rate risk if the Australian dollar, the British pound, the Canadian dollar or the Euro were to appreciate relative to the United States dollar and require higher United States dollar equivalent cash.

GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company is also exposed to foreign currency exchange rate risk related to its foreign subsidiaries, including non-functional currency intercompany debt, typically associated with intercompany debt from the Company's United States subsidiaries to its foreign subsidiaries, associated with acquisitions and any timing difference between announcement and closing of an acquisition of a foreign business. To mitigate currency exposures of non-United States dollar-denominated acquisitions, the Company may enter into foreign currency forward purchase contracts. To mitigate currency exposures related to non-functional currency denominated intercompany debt, cross-currency swaps or foreign currency forward contracts may be entered into for periods consistent with the underlying debt. In determining the fair value of the derivative contract, the significant inputs to valuation models are quoted market prices of similar instruments in active markets. However, cross-currency swap contracts and foreign currency forward contracts used to mitigate exposures on foreign currency intercompany debt may not qualify for hedge accounting. In cases where the cross-currency swap contracts and foreign currency forward contracts do not qualify for hedge accounting, the Company believes that such instruments are closely correlated with the underlying exposure, thus reducing the associated risk. The gains or losses from changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized in current period earnings within other income/(loss), net.

On February 25, 2015, the Company announced its entry into an agreement to acquire all of the outstanding share capital of RailInvest Holding Company Limited, the parent company of Freightliner, for cash consideration of approximately £490 million (or approximately $755 million at the exchange rate on February 25, 2015). Shortly after the announcement of the acquisition, the Company entered into British pound forward purchase contracts to fix £307.1 million of the purchase price to US$475.0 million and £84.7 million of the purchase price to A$163.8 million. The subsequent decrease in value of the British pound versus the United States and Australian dollars between the dates the British pound forward purchase contracts were entered into and March 23, 2015, the date that the £391.8 million in funds were delivered, resulted in a loss on settlement of foreign currency forward purchase contracts of $18.7 million for the nine months ended September 30, 2015.

On March 25, 2015, the Company closed on the Freightliner transaction and paid cash consideration for the acquisition of £492.1 million (or $733.0 million at the exchange rate on March 25, 2015). The Company financed the acquisition through a combination of available cash and borrowings under the Company's Credit Agreement. A portion of the funds were transferred from the United States to the U.K. through an intercompany loan with a notional amount of £120.0 million (or $181.0 million at the exchange rate on the effective date of the loan) and accrued interest as of September 30, 2016 of £11.5 million (or $14.9 million at the exchange rate on September 30, 2016), each of which are expected to remain until maturity of the loan. To mitigate the foreign currency exchange rate risk related to this non-functional currency intercompany loan and the related interest, the Company entered into British pound forward contracts, which are accounted for as cash flow hedges.

The fair values of the Company's British pound forward contracts were estimated based on Level 2 inputs. The Company's effectiveness testing during the three and nine months ended September 30, 2016 and 2015 resulted in no amount of gain or loss reclassified from accumulated other comprehensive loss into earnings due to ineffectiveness. During the three and nine months ended September 30, 2016, $3.9 million ($2.3 million, net of tax) and $22.8 million ($13.7 million, net of tax), respectively, of net gains were recorded as other income in the consolidated statements of operations fully offsetting the corresponding foreign currency losses on the intercompany loan and accrued interest. During the three and nine months ended September 30, 2016, $0.3 million and $0.5 million, respectively, of net gains were recorded as interest income in the consolidated statements of operations. Based on the Company's fair value assumptions as of September 30, 2016, it expects to realize $0.6 million of existing net gains that are reported in accumulated other comprehensive loss into earnings within the next 12 months. See Note 11, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

The following table summarizes the Company's outstanding British pound forward contracts (British pounds in thousands):

| Effective Date | Settlement Date | Notional Amount | Exchange Rate |
|---|---|---|---|
| 3/25/2015 | 3/31/2020 | £60,000 | 1.51 |

| | | | |
|---|---|---|---|
| 3/25/2015 | 3/31/2020 | £60,000 | 1.50 |
| 6/30/2015 | 3/31/2020 | £2,035 | 1.57 |
| 9/30/2015 | 3/31/2020 | £1,846 | 1.51 |
| 12/31/2015 | 3/31/2020 | £1,873 | 1.48 |
| 3/31/2016 | 3/31/2020 | £1,881 | 1.45 |
| 6/30/2016 | 3/31/2020 | £1,909 | 1.35 |
| 9/30/2016 | 3/31/2020 | £1,959 | 1.33 |

GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the fair value of the Company's derivative instruments recorded in the consolidated balance sheets as of September 30, 2016 and December 31, 2015 (dollars in thousands):

| | Balance Sheet Location | Fair Value | |
|---|---|---|---|
| | | September 30, 2016 | December 31, 2015 |
| Asset Derivatives: | | | |
| Derivatives designated as hedges: | | | |
| British pound forward contracts | Other assets, net | $20,260 | $ 1,530 |
| Total derivatives designated as hedges | | $20,260 | $ 1,530 |
| Liability Derivatives: | | | |
| Derivatives designated as hedges: | | | |
| Interest rate swap agreements | Accrued expenses | $4,142 | $ 846 |
| Interest rate swap agreements | Other long-term liabilities | 34,647 | 11,655 |
| British pound forward contracts | Other long-term liabilities | 17 | — |
| Total liability derivatives designated as hedges | | $38,806 | $ 12,501 |

The following table shows the effect of the Company's derivative instruments designated as cash flow hedges for the three and nine months ended September 30, 2016 and 2015 in other comprehensive income/(loss) (OCI) (dollars in thousands):

| | Total Cash Flow Hedge OCI Activity, Net of Tax | | | |
|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Derivatives Designated as Cash Flow Hedges: | | | | |
| Effective portion of net changes in fair value recognized in OCI, net of tax: | | | | |
| Interest rate swap agreements | $(1,414) | $(8,734) | $(15,780) | $(7,052) |
| British pound forward contracts | (713) | 4,481 | (2,584) | (805) |
| | $(2,127) | $(4,253) | $(18,364) | $(7,857) |

The following table shows the effect of the Company's derivative instruments not designated as hedges for the three and nine months ended September 30, 2016 and 2015 in the consolidated statements of operations (dollars in thousands):

| | Location of Amount Recognized in Earnings | Amount Recognized in Earnings | | | |
|---|---|---|---|---|---|
| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | | 2016 | 2015 | 2016 | 2015 |
| Derivative Instruments Not Designated as Hedges: | | | | | |
| British pound forward purchase contracts | Loss on settlement of foreign currency forward purchase contracts | $— | $ — | $— | $(18,686) |
| | | $— | $ — | $— | $(18,686) |

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS:
The Company applies the following three-level hierarchy of valuation inputs for measuring fair value:

- Level 1 - Quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable market data.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments held by the Company:
Financial Instruments Carried at Fair Value: Derivative instruments are recorded on the consolidated balance sheets as either assets or liabilities measured at fair value. During the reporting period, the Company's derivative financial instruments consisted of interest rate swap agreements and foreign currency forward contracts. The Company estimated the fair value of its interest rate swap agreements based on Level 2 valuation inputs, including fixed interest rates, LIBOR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its British pound forward contracts based on Level 2 valuation inputs, including LIBOR implied forward interest rates, British pound LIBOR implied forward interest rates and the remaining time to maturity.
The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate solely to the Company's deferred consideration from the Freightliner acquisition. The fair value of the deferred consideration liability was estimated by discounting, to present value, contingent payments expected to be made.
Financial Instruments Carried at Historical Cost: Since the Company's long-term debt is not actively traded, fair value was estimated using a discounted cash flow analysis based on Level 2 valuation inputs, including borrowing rates the Company believes are currently available to it for loans with similar terms and maturities.
The following table presents the Company's financial instruments carried at fair value using Level 2 inputs as of September 30, 2016 and December 31, 2015 (dollars in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Financial instruments carried at fair value using Level 2 inputs: | | |
| Financial assets carried at fair value: | | |
| British pound forward contracts | $ 20,260 | $ 1,530 |
| Total financial assets carried at fair value | $ 20,260 | $ 1,530 |
| Financial liabilities carried at fair value: | | |
| Interest rate swap agreements | $ 38,789 | $ 12,501 |
| British pound forward contracts | 17 | — |
| Total financial liabilities carried at fair value | $ 38,806 | $ 12,501 |

The following table presents the Company's financial instrument carried at fair value using Level 3 inputs as of September 30, 2016 and December 31, 2015 (amounts in thousands):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | GBP | USD | GBP | USD |
| Financial instrument carried at fair value using Level 3 inputs: | | | | |
| Financial liabilities carried at fair value: | | | | |
| Accrued deferred consideration | £25,671 | $33,298 | £24,200 | $35,680 |

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate solely to the Company's deferred consideration from the Freightliner acquisition. At the date of acquisition, this contingent liability represented the aggregate fair value of the shares transferred to the Company by the Management Shareholders in exchange for the right to receive cash consideration for the representative economic interest of approximately 6% in Freightliner in the future (deferred consideration). Each of the Management Shareholders may elect to receive one third of their respective deferred consideration valued as of March 31, 2018, 2019 and 2020. The remaining portion of the deferred consideration will be valued as of March 31, 2020 and paid by the end of 2020.
The contingent liability is adjusted each period to represent the fair value of the deferred consideration as of the balance sheet date. To do so, the Company recalculates the estimated fair value of the deferred consideration in each reporting period until it is paid in full by using a contractual formula designed to estimate the economic value of the Management Shareholders' retained interest in a manner consistent with that used to derive the Freightliner acquisition price per share on the acquisition date. This calculation effectively represents the present value of the expected payment to be made upon settlement of the deferred consideration. Accordingly, such recalculations will reflect both the impact of the time value of money and the impact of changes in the expected future performance of the acquired business, as applicable. During the three and nine months ended September 30, 2016, the Company recognized $0.9 million and $2.0 million, respectively, through other expenses within the Company's consolidated statements of operations as a result of the change in the estimated fair value of the deferred consideration, which primarily represented the time value of money. The Company expects to recognize future changes in the contingent liability for the estimated fair value of the deferred consideration through other expenses within the Company's consolidated statement of operations. These future changes in the estimated fair value of the deferred consideration are not expected to be deductible for tax purposes.
The following table presents the carrying value and fair value using Level 2 inputs of the Company's financial instruments carried at historical cost as of September 30, 2016 and December 31, 2015 (dollars in thousands):

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial liabilities carried at historical cost: | | | | |
| United States term loan | $1,564,818 | $1,564,671 | $1,755,736 | $1,750,040 |
| Australian term loan | 194,005 | 194,620 | 209,242 | 210,128 |
| U.K. term loan | 128,989 | 128,958 | 149,500 | 150,030 |
| Revolving credit facility | 80,435 | 84,550 | 39,737 | 44,833 |
| Other debt | 3,026 | 3,004 | 3,123 | 3,090 |
| Total | $1,971,273 | $1,975,803 | $2,157,338 | $2,158,121 |

8. U.K. PENSION PLAN:
In connection with the acquisition of Freightliner, the Company assumed a defined benefit pension plan for its U.K. employees through a standalone shared cost arrangement within the Railways Pension Scheme (Pension Program). The Pension Program is managed and administered by a professional pension administration company and is overseen by trustees with professional advice from independent actuaries and other advisers. The Pension Program is a shared cost arrangement with required contributions shared between Freightliner and its employees, with Freightliner contributing 60% and the remaining 40% contributed by active employees. The Company engages independent actuaries to compute the amounts of liabilities and expenses relating to the Pension Program subject to the assumptions that the Company selects.
The following tables summarize the components of the Pension Program related to the net benefit costs recognized in labor and benefits in the Company's consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |

| | GBP | USD | GBP | USD |
|---|---|---|---|---|
| Service cost | £2,394 | $3,143 | £2,767 | $4,286 |
| Interest cost | 2,227 | 2,923 | 2,223 | 3,444 |
| Expected return on plan assets | (2,846 ) | (3,737 ) | (2,738 ) | (4,241 ) |
| Net periodic benefit cost | £1,775 | $2,329 | £2,252 | $3,489 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | GBP | USD | GBP | USD |
| Service cost | £7,182 | $10,006 | £5,232 | $8,061 |
| Interest cost | 6,681 | 9,308 | 3,977 | 6,132 |
| Expected return on plan assets | (8,538 ) | (11,896 ) | (5,478 ) | (8,438 ) |
| Net periodic benefit cost | £5,325 | $7,418 | £3,731 | $5,755 |

During the nine months ended September 30, 2016, the Company contributed £5.0 million (or $6.5 million at the September 30, 2016 exchange rate) to fund the Pension Program. The Company expects to contribute £1.7 million (or $2.2 million at the September 30, 2016 exchange rate) to the Pension Program for the remainder of 2016. The Pension Program's assets may undergo significant changes over time as a result of market conditions. In the event that the Pension Program's projected assets and liabilities reveal additional funding requirements, the shared cost arrangement generally means that the Company will be required to pay 60% of any additional contributions, with active members contributing the remaining 40%, in each case over an agreed recovery period. If the Pension Program was to be terminated and wound up, any deficit would fall entirely on the Company and could not be shared with active members. Currently, the Company has no intention of terminating the Pension Program.

9. INCOME TAXES:

The Company's effective income tax rate for the three months ended September 30, 2016 was 25.7%, compared with 36.8% for the three months ended September 30, 2015. The Company's effective income tax rate for the nine months ended September 30, 2016 was 29.2% compared with 37.2% for the nine months ended September 30, 2015. The Company's provision for income taxes for the three and nine months ended September 30, 2016 included an income tax benefit of $7.8 million and $21.4 million, respectively, associated with the United States Short Line Tax Credit. In December 2015, the United States Short Line Tax Credit (which had previously expired on December 31, 2014), was extended for fiscal years 2015 and 2016. As the extension was passed in December 2015 for the full 2015 fiscal year, the United States Short Line Tax Credit associated with results for the three and nine months ended September 30, 2015 was recorded in the fourth quarter of 2015.

The United States Short Line Tax Credit is an income tax track maintenance credit for Class II and Class III railroads to reduce their federal income tax based on qualified railroad track maintenance expenditures. Qualified expenditures include amounts incurred for maintaining track, including roadbed, bridges and related track structures owned or leased by a Class II or Class III railroad. The credit is equal to 50% of the qualified expenditures, subject to an annual limitation of $3,500 multiplied by the number of miles of railroad track owned or leased by the Class II or Class III railroad as of the end of its tax year.

The Company's provision for income taxes for the three and nine months ended September 30, 2016 also included a $4.3 million income tax benefit as a result of the Company remeasuring its deferred income tax assets and liabilities in the U.K. based on the newly enacted change to the corporate income tax rate by the U.K. government that will apply when the temporary differences are expected to be realized or settled. The Company's provision for income taxes for the nine months ended September 30, 2016 also included a valuation allowance of A$2.6 million (or $2.0 million at the average exchange rate in March of 2016) associated with the impairment of GWA's now idle rolling-stock maintenance facility (see Note 2, Changes in Operations) that was formerly used in connection with the Southern Iron rail haulage agreement.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. For public entities, the amendments in this guidance are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. The Company early adopted the provisions of this ASU as of January 1, 2016 and applied it retrospectively to all periods presented. The December 31, 2015 consolidated balance sheet was adjusted to reflect a reduction of current deferred income tax

assets of $69.2 million, an increase in non-current deferred income tax assets of $0.2 million and a reduction in non-current deferred income tax liabilities of $69.0 million. There was no other impact on the consolidated financial statements from the adoption of this guidance.

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

10. COMMITMENTS AND CONTINGENCIES:
From time to time, the Company is a defendant in certain lawsuits resulting from the Company's operations in the ordinary course as the nature of the Company's business exposes it to the potential for various claims and litigation, including those related to property damage, personal injury, freight loss, labor and employment, environmental and other matters. The Company maintains insurance policies to mitigate the financial risk associated with such claims. Any material changes to pending litigation or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injury and environmental liability or other claims against the Company that are not covered by insurance could have a material adverse effect on the Company's results of operations, financial condition and liquidity.
Management believes there are adequate provisions in the financial statements for any probable liabilities that may result from disposition of the pending lawsuits. Based upon currently available information, the Company does not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to the Company's results of operations or have a material adverse effect on the Company's financial position or liquidity.
11. ACCUMULATED OTHER COMPREHENSIVE LOSS:
The following tables set forth the components of accumulated other comprehensive loss included in the consolidated balance sheets and consolidated statements of comprehensive income/(loss) (dollars in thousands):

| | Foreign Currency Translation Adjustment | Defined Benefit Plans | | Net Unrealized Gain/(Loss) on Cash Flow Hedges | | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ (156,146 ) | $ 11,005 | | $ (8,316 ) | | $ (153,457 ) |
| Other comprehensive income/(loss) before reclassifications | 3,618 | 4,305 | | (4,349 ) | | 3,574 |
| Amounts reclassified from accumulated other comprehensive loss, net of tax (provision)/benefit of ($37) and $9,343, respectively | — | 67 | (a) | (14,015 ) | (b) | (13,948 ) |
| Current period change | 3,618 | 4,372 | | (18,364 ) | | (10,374 ) |
| Balance, September 30, 2016 | $ (152,528 ) | $ 15,377 | | $ (26,680 ) | | $ (163,831 ) |

| | Foreign Currency Translation Adjustment | Defined Benefit Plans | | Net Unrealized Gain/(Loss) on Cash Flow Hedges | | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | $ (70,746 ) | $ 1,405 | | $ (2,911 ) | | $ (72,252 ) |
| Other comprehensive loss before reclassifications | (69,990 ) | (1,488 ) | | (6,386 ) | | (77,864 ) |
| Amounts reclassified from accumulated other comprehensive loss, net of tax benefit of $13 and $980, respectively | — | (24 ) | (a) | (1,471 ) | (b) | (1,495 ) |
| Current period change | (69,990 ) | (1,512 ) | | (7,857 ) | | (79,359 ) |
| Balance, September 30, 2015 | $ (140,736 ) | $ (107 ) | | $ (10,768 ) | | $ (151,611 ) |

(a) Existing net gains realized were recorded in labor and benefits on the consolidated statements of operations.
(b) Existing net losses realized were recorded in interest expense on the consolidated statements of operations (see Note 6, Derivative Financial Instruments).
12. SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:
As of September 30, 2016 and 2015, the Company had outstanding receivables from outside parties for the funding of capital expenditures of $10.8 million and $25.0 million, respectively. At September 30, 2016 and 2015, the Company

also had $14.9 million and $24.6 million, respectively, of purchases of property and equipment that were not paid and, accordingly, were accrued in accounts payable in the normal course of business.

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

13. SEGMENT INFORMATION:
The Company presents the financial results of its 10 operating regions as three reportable segments: North American Operations, Australian Operations and U.K./European Operations. Each of the Company's segments generates the following three categories of revenues from external customers: freight revenues, freight-related revenues and all other revenues. The Company's eight North American regions are aggregated into one segment as a result of having similar economic and operating characteristics. During the second quarter of 2016, the Company's Ohio Valley Region railroads were consolidated into the Company's Northeast and Midwest regions. This consolidation reduced the Company's number of operating regions from 11 to 10.
During 2016, the Company incurred restructuring costs of $6.3 million for the nine months ended September 30, 2016, including $4.7 million in our U.K./European Operations, $0.8 million in our Australian Operations and $0.8 million in our North American Operations.
The results of operations of the foreign entities are maintained in the respective local currency (the Australian dollar, the British pound, the Canadian dollar and the Euro) and then translated into United States dollars at the applicable exchange rates for inclusion in the consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the United States dollar will impact the Company's results of operations.
The following table reflects the average exchange rates used to translate the foreign entities respective local currency results of operations into United States dollars for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| United States dollar per Australian dollar | $0.76 | $0.73 | $0.74 | $0.76 |
| United States dollar per British pound | $1.31 | $1.55 | $1.39 | $1.53 |
| United States dollar per Canadian dollar | $0.77 | $0.76 | $0.76 | $0.79 |
| United States dollar per Euro | $1.12 | $1.11 | $1.12 | $1.12 |

The following tables set forth selected financial data for the Company's reportable segments for the three and nine months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $232,247 | $ 29,219 | $ 88,341 | $349,807 |
| Freight-related revenues | 62,124 | 23,523 | 43,873 | 129,520 |
| All other revenues | 15,823 | 1,408 | 4,444 | 21,675 |
| Total operating revenues | $310,194 | $ 54,150 | $ 136,658 | $501,002 |
| Operating income | $87,153 | $ 4,372 | $ 326 | $91,851 |
| Depreciation and amortization | $37,085 | $ 7,129 | $ 6,627 | $50,841 |
| Interest expense, net | $9,600 | $ 2,170 | $ 5,147 | $16,917 |
| Provision for/(benefit from) income taxes | $22,392 | $ 798 | $ (3,547) | $19,643 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $30,343 | $ 2,440 | $ 9,457 | $42,240 |

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $241,410 | $ 32,780 | $ 104,746 | $378,936 |
| Freight-related revenues | 56,823 | 26,206 | 62,479 | 145,508 |
| All other revenues | 16,330 | 2,027 | 3,498 | 21,855 |
| Total operating revenues | $314,563 | $ 61,013 | $ 170,723 | $546,299 |
| Operating income | $90,564 | $ 14,966 | $ 12,029 | $117,559 |
| Depreciation and amortization | $35,158 | $ 7,151 | $ 5,994 | $48,303 |
| Interest expense, net | $9,788 | $ 2,055 | $ 5,396 | $17,239 |
| Provision for income taxes | $32,333 | $ 3,896 | $ 626 | $36,855 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $86,620 | $ 6,354 | $ 14,195 | $107,169 |

| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $681,154 | $80,390 | $ 255,459 | $1,017,003 |
| Freight-related revenues | 184,627 | 76,142 | 135,897 | 396,666 |
| All other revenues | 48,766 | 4,699 | 17,859 | 71,324 |
| Total operating revenues | $914,547 | $161,231 | $ 409,215 | $1,484,993 |
| Operating income/(loss) | $236,154 | $2,002 | $ (2,115) | $236,041 |
| Depreciation and amortization | $110,398 | $21,018 | $ 19,679 | $151,095 |
| Interest expense, net | $29,730 | $6,963 | $ 15,529 | $52,222 |
| Provision for/(benefit from) income taxes | $59,354 | $521 | $ (5,312) | $54,563 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $95,282 | $8,094 | $ 26,195 | $129,571 |

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $722,593 | $118,602 | $ 210,565 | $1,051,760 |
| Freight-related revenues | 170,473 | 62,243 | 128,808 | 361,524 |
| All other revenues | 50,101 | 6,918 | 15,245 | 72,264 |
| Total operating revenues | $943,167 | $187,763 | $ 354,618 | $1,485,548 |
| Operating income | $224,266 | $44,333 | $ 21,031 | $289,630 |
| Depreciation and amortization | $105,399 | $20,771 | $ 12,398 | $138,568 |
| Interest expense, net | $30,149 | $6,659 | $ 11,561 | $48,369 |
| Loss on settlement of foreign currency forward purchase contracts | $16,374 | $2,312 | $ — | $18,686 |
| Provision for income taxes | $71,559 | $10,653 | $ 805 | $83,017 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $205,330 | $20,128 | $ 19,236 | $244,694 |

23

Table of Contents
GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following tables set forth the property and equipment recorded in the consolidated balance sheets for the Company's reportable segments as of September 30, 2016 and December 31, 2015 (dollars in thousands):

| | September 30, 2016 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Property and equipment, net | $3,457,892 | $461,023 | $290,668 | $4,209,583 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Property and equipment, net | $3,433,669 | $465,123 | $316,271 | $4,215,063 |

14. RECENTLY ISSUED ACCOUNTING STANDARDS:

Accounting Standards Not Yet Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and includes the specific steps for recognizing revenue and disclosure requirements. In August 2015, the FASB issued ASU 2015-14, which approved a one-year deferral of the effective date of the new revenue recognition standard. In March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, which provides clarification when identifying performance obligations and providing implementation guidance on licensing. In May 2016, the FASB issued ASU 2016-12, which clarifies the objective of the collectability criterion. The new standards will become effective for the Company on January 1, 2018, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require lessees to recognize leases on their balance sheets as a right-of-use asset with a corresponding liability. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of 12 months or less. Lessor accounting under the provisions of the standard is substantially unchanged. Additional qualitative and quantitative disclosures, including significant judgments made by management, will also be required. The amendments are effective for fiscal years beginning after December 15, 2018, requiring a modified retrospective transition approach and include a number of practical expedients. Early application is permitted. The standard will become effective for the Company beginning January 1, 2019. The Company is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based compensation arrangements, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The amendments will be effective for the Company January 1, 2017. The Company is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight targeted changes with respect to how cash receipts and cash payments are classified in the statements of cash flows. The amendments will be effective for the Company January 1, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

15. SUBSEQUENT EVENTS:

Acquisition of Providence and Worcester Railroad Company

On November 1, 2016, the Company completed the acquisition of Providence and Worcester Railroad Company (P&W) for $25.00 per share, or $126.2 million. Immediately following the closing of the acquisition, control of the P&W shares was placed into a voting trust, which will remain in effect until the United States Surface Transportation Board (STB) issues its decision on the Company's pending application to control P&W. Upon receipt of STB approval, P&W would be managed as part of the Company's Northeast Region. The acquisition was funded with borrowings under the Company's revolving credit facility.

Headquartered in Worcester, Massachusetts, P&W is contiguous with G&W's New England Central Railroad (NECR) and Connecticut Southern Railroad (CSO). Rail service is provided by approximately 140 P&W employees with 32 locomotives across 163 miles of owned track and over approximately 350 miles under track access agreements, including exclusive freight access over Amtrak's Northeast Corridor between New Haven, Connecticut, and Providence, Rhode Island, and trackage rights over Metro-North Commuter Railroad, Amtrak and CSX Corp. between New Haven, Connecticut, and Queens, New York. P&W interchanges with G&W's NECR and CSO railroads, as well as with CSX, Norfolk Southern, Pan Am Railways, Pan Am Southern, the Housatonic Railroad and the New York and Atlantic Railroad, and also connects to Canadian National and Canadian Pacific via NECR.

P&W serves a diverse mix of aggregates, auto, chemicals, metals and lumber customers in southeastern New England, handling approximately 43,000 carloads and intermodal units annually. In addition, P&W provides rail service to three ports (Providence and Davisville, Rhode Island and New Haven, Connecticut) and to a United States Customs bonded intermodal terminal in Worcester, Massachusetts, that receives inbound intermodal containers for distribution in New England. P&W also owns approximately 45 acres of undeveloped waterfront land in East Providence, Rhode Island, that was initially created as deep water, rail served port through a $12 million investment. The Company expects to sell this undeveloped land.

In connection with the acquisition of the P&W, in September 2016, four shareholder class action lawsuits were commenced in the Rhode Island Superior Court for Providence County against the Company, P&W and P&W's directors. Among other matters, the purported class actions challenge the sale of P&W to the Company, and allege that the P&W's board of directors breached its fiduciary duties to the P&W's shareholders by failing to maximize shareholder value in approving the merger agreement associated with the acquisition. The lawsuits also assert that P&W and the Company aided and abetted the alleged breach of fiduciary duty. The Company does not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to the Company's results of operations or have a material adverse effect on the Company's financial position or liquidity. The Company, along with the other defendants, vigorously denies all of the allegations in the purported class actions.

Agreement to Acquire Glencore Rail and Partner with Macquarie Infrastructure and Real Assets

On October 20, 2016, the Company announced that its subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA), has entered into agreements to acquire Glencore Rail Pty Limited (GRail) for A$1.14 billion (or approximately $866 million at an exchange rate of $0.76 for one Australian dollar) and concurrently issue a 49% equity stake in GWA to funds managed by Macquarie Infrastructure and Real Assets (MIRA) (the GRail Transactions). The GRail Transactions are expected to close in the fourth quarter of 2016, subject to Australian Foreign Investment Review Board approval. The sources and uses to accomplish the GRail Transactions are expected to be as follows (A$ in millions):

| Sources | Amount | Uses | Amount |
|---|---|---|---|
| New Australian term loan | A$690 | GRail purchase | A$1,140 |
| MIRA (cash & shareholder loan) | 644 | Repay GWA term loan | 250 |
| GWA equity (contributed) | 597 | GWA equity (contributed) | 597 |
| G&W cash | 88 | Estimated transaction costs | 32 |
| Total sources | A$2,019 | Total uses | A$2,019 |

In connection with the GRail Transactions, the Company entered into a debt commitment letter for debt financing, pursuant to which, subject to the terms and conditions set forth therein, the lenders have committed to provide the Company up to A$690 million (or approximately $524 million at an exchange rate of $0.76 for one Australian dollar) in non-recourse five-year senior secured term loan facilities and up to A$50 million (or approximately $38 million at an exchange rate of $0.76 for one Australian dollar) in the form of a revolving loan facility.

On October 20, 2016, the Company entered into Amendment No. 2 (the Amendment Agreement) to the Credit Agreement. The Amendment Agreement permits, among other things, the Company to enter into the GRail Transactions and also permits the repayment in full and termination of all obligations of GWA under the Credit Agreement.

Table of Contents


GRail's coal haulage business was established in 2010 as an alternative rail service provider to the incumbent railroads in the Hunter Valley and has grown to be the third largest coal haulage business in Australia. G&W's Freightliner Australia subsidiary (acquired by the Company in March 2015) has been the rail operator of GRail since inception and presently provides haulage and logistics services for approximately 40 million tonnes per year of steam coal that is among the lowest cost and highest quality coal in the world sold principally to customers in Japan, Korea and Taiwan. These services will continue following the GRail Transactions. The Company will continue to consolidate 100% of GWA in its financial statements upon completion of the GRail Transactions, and will record a noncontrolling interest for MIRA's 49% equity ownership.

In conjunction with the acquisition of GRail, GWA will enter into a new 20-year rail haulage contract with Glencore Coal Pty Limited (GC). The rail haulage contract will contain rights, subject to certain limitations, to exclusively haul all coal produced at GC's existing mines in the Hunter Valley to the Port of Newcastle and will have minimum guaranteed volumes over the first 18 years. Initial volumes under the rail haulage contract are expected to be approximately 40 million tonnes per year. GC's obligations under the contract will be guaranteed by Glencore plc (LON:GLEN). GRail currently has nine train sets (30 locomotives and 894 wagons). Rail haulage service is operated on government-owned, open-access track that is coordinated by a neutral third party.

Table of Contents

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

The following discussion should be read in conjunction with our consolidated financial statements, related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and our 2015 Annual Report on Form 10-K. When comparing our results of operations from one reporting period to another, it is important to consider that we have historically experienced fluctuations in revenues and expenses due to acquisitions, changing economic conditions, commodity prices, competitive forces, changes in foreign currency exchange rates, rail network congestion, one-time freight moves, fuel price fluctuations, customer plant expansions and shutdowns, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, high winds, droughts, heavy snowfall, unseasonably hot or cold weather, freezing and flooding, among other factors. In periods when these events occur, our results of operations are not easily comparable from one period to another. Finally, certain of our railroads have commodity shipments that are sensitive to general economic conditions, global commodity prices and foreign exchange rates, such as steel products, iron ore, paper products, lumber and forest products and agricultural products, as well as product specific market conditions, such as the availability of lower priced alternative sources of power generation (coal) and energy commodity price differentials (crude oil and natural gas liquids). Other shipments are relatively less affected by economic conditions and are more closely affected by other factors, such as winter weather (salt) and seasonal rainfall (agricultural products). As a result of these and other factors, our results of operations in any reporting period may not be directly comparable to our results of operations in other reporting periods. When we discuss foreign exchange impact, we are referring to the change in our results due to the change in foreign currency exchange rates. We calculate foreign exchange impact by comparing the prior period results translated from local currency to United States dollars using current period exchange rates to the prior period results in United States dollars as reported. Constant currency, which is a non-GAAP measure, reflects the prior period results translated at the current period exchange rates. When we discuss results from existing operations or same railroad operations, we are referring to the change in our results, period-over-period, associated with operations that we managed in both periods (i.e., excluding the impact of acquisitions).

Overview

We own or lease 121 freight railroads worldwide that are organized in 10 operating regions with approximately 7,200 employees and more than 2,800 customers. During the second quarter of 2016, our Ohio Valley Region railroads were consolidated into our Northeast and Midwest regions. This consolidation reduced the number of our operating regions from 11 to 10.

The financial results of our 10 operating regions are reported in the following three reportable segments:

- Our North American Operations segment includes eight operating regions that serve 41 U.S. states and four Canadian provinces. This segment includes 113 short line and regional freight railroads with more than 13,000 track-miles.
- Our Australian Operations segment provides rail freight services in South Australia, the Northern Territory and New South Wales. Included in the Australian Operations segment is our operation of the 1,400-mile Tarcoola-to-Darwin rail line, which is the sole inland north-south rail corridor and primarily carries intermodal and commodity freight.
- Our U.K./European Operations segment includes the majority of the operations of Freightliner Group Limited (Freightliner), which we acquired in March 2015. Freightliner is the United Kingdom's (U.K.) largest rail maritime intermodal operator and the U.K.'s second-largest rail freight company. Our U.K./European Operations segment also includes heavy-haul freight operations in Poland and Germany and cross-border intermodal services connecting Northern European seaports with key industrial regions throughout the continent.

Recent Developments

Providence and Worcester Railroad Company: On November 1, 2016, we completed the acquisition of Providence and Worcester Railroad Company (P&W) for $25.00 per share, or $126.2 million. Immediately following the closing of the acquisition, control of the P&W shares was placed into a voting trust, which will remain in effect until the United States Surface Transportation Board (STB) issues its decision on our pending application to control P&W. Upon receipt of STB approval, P&W would be managed as part of our Northeast Region. The acquisition was funded with borrowings under our revolving credit facility. For additional information regarding the P&W acquisition, see Note 15, Subsequent Events, to our Consolidated Financial Statements.

27

Table of Contents

Glencore Rail Pty Limited: On October 20, 2016, we announced that our subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA), has entered into agreements to acquire Glencore Rail Pty Limited (GRail) for A$1.14 billion (or approximately $866 million at an exchange rate of $0.76 for one Australian dollar) and concurrently issue a 49% equity stake in GWA to funds managed by Macquarie Infrastructure and Real Assets (MIRA) (the GRail Transactions). The GRail Transactions are expected to close in the fourth quarter of 2016, subject to Australian Foreign Investment Review Board approval. To create an A$2 billion enterprise value partnership, we and MIRA are contributing a combined A$1.3 billion in the form of cash, shareholder loans and contributed equity, and GWA is entering into a new five-year A$690 million senior secured term loan facility that is non-recourse to us and MIRA. The contributions and the proceeds from the borrowings under GWA's new senior secured term loan facility will be used, among other things, to acquire GRail for A$1.14 billion, repay GWA's existing A$250 million term loan (under our Credit Agreement) and pay A$32 million of transaction costs. For additional information regarding the GRail Transactions, see Note 15, Subsequent Events, to our Consolidated Financial Statements.

Overview of Three-Month Results

Our operating revenues decreased $45.3 million, or 8.3%, to $501.0 million for the three months ended September 30, 2016, compared with $546.3 million for the three months ended September 30, 2015. Operating income for the three months ended September 30, 2016 was $91.9 million, compared with $117.6 million for the three months ended September 30, 2015. Our operating ratio, defined as operating expenses divided by operating revenues, was 81.7% for the three months ended September 30, 2016, compared with 78.5% for the three months ended September 30, 2015. Net income for the three months ended September 30, 2016 was $56.8 million, compared with net income of $63.4 million for the three months ended September 30, 2015. Our diluted earnings per common share (EPS) for the three months ended September 30, 2016 were $0.98 with 58.2 million weighted average shares outstanding, compared with diluted EPS of $1.10 with 57.8 million weighted average shares outstanding for the three months ended September 30, 2015.

Our results for the three months ended September 30, 2016 and 2015 included certain items affecting comparability between the periods that are set forth below (dollars in millions, except per share amounts):

| | Income/(Loss) Before Taxes Impact | After-Tax Net Income/(Loss) Impact | Diluted Earnings/(Loss) Per Common Share Impact |
|---|---|---|---|
| Three Months Ended September 30, 2016 | | | |
| Corporate development and related costs | $ (4.3) | $ (3.1) | $ (0.05) |
| Restructuring costs | $ (0.2) | $ (0.2) | $ — |
| Net gain on sale of assets | $ 0.5 | $ 0.4 | $ 0.01 |
| Impact of reduction in U.K. income tax rate | $ — | $ 4.3 | $ 0.07 |
| Short Line Tax Credit | $ — | $ 7.8 | $ 0.13 |
| | | | |
| Three Months Ended September 30, 2015 | | | |
| Corporate development and related costs | $ (2.0) | $ (1.3) | $ (0.02) |
| Net gain on sale of assets | $ 1.2 | $ 0.9 | $ 0.02 |

For the three months ended September 30, 2016, our results included corporate development and related costs of $4.3 million, primarily associated with the GRail and P&W transactions, restructuring costs of $0.2 million and a net gain on the sale of assets of $0.5 million. The three months ended September 30, 2016 also included an income tax benefit of $7.8 million associated with the United States Short Line Tax Credit, which was not in effect for the three months ended September 30, 2015, as well as an income tax benefit of $4.3 million associated with a reduction in the U.K. income tax rate, which was enacted in September 2016. The Short Line Tax Credit was extended retroactively in the fourth quarter of 2015 for fiscal years 2015 and 2016.

For the three months ended September 30, 2015, our results included corporate development and related costs of $2.0 million, primarily related to the integration of Freightliner, and a net gain on the sale of assets of $1.2 million.

Operating revenues from our North American Operations decreased $4.4 million, or 1.4%, to $310.2 million for the three months ended September 30, 2016, compared with $314.6 million for the three months ended September 30, 2015. The decrease in North America's operating revenues was primarily due to lower fuel surcharges and a decline in coal shipments.

North American Operations traffic decreased 17,572 carloads, or 4.2%, to 401,999 carloads for the three months ended September 30, 2016. The traffic decrease was principally due to decreases of 8,169 carloads of coal and coke traffic (primarily in the Central, Northeast and Midwest regions), 3,549 carloads of pulp and paper traffic (primarily in the Southern, Canada and Northeast regions), 3,447 carloads of minerals and stone traffic (primarily in the Northeast region), 2,529 carloads of metals traffic (primarily in the Southern, Coastal and Canada regions) and 2,257 carloads of other traffic (primarily in the Southern and Canada regions), partially offset by an increase of 3,014 carloads of agricultural products traffic (primarily in the Central and Pacific regions). All remaining traffic decreased by a net 635 carloads.

Operating income from our North American Operations for the three months ended September 30, 2016 was $87.2 million, compared with $90.6 million for the three months ended September 30, 2015. The operating ratio from our North American Operations for the three months ended September 30, 2016 was 71.9%, compared with 71.2% for the three months ended September 30, 2015. Operating income for the three months ended September 30, 2016 included $1.0 million of corporate development and related costs, primarily associated with the P&W and GRail transactions. Operating income for the three months ended September 30, 2015 included $1.2 million of corporate development and related costs, primarily associated with the integration of Freightliner.

Operating revenues from our Australian Operations decreased $6.9 million, or 11.2%, to $54.2 million for the three months ended September 30, 2016, compared with $61.0 million for the three months ended September 30, 2015. Excluding a $2.7 million increase from the impact of foreign currency appreciation, our Australian Operations operating revenues decreased $9.6 million, or 15.0%, primarily due to the loss of a fixed fee payment associated with a now closed iron ore mine that we previously served and lower metallic ores shipments.

Australian Operations traffic decreased 5,000 carloads, or 10.3%, to 43,532 carloads for the three months ended September 30, 2016. The traffic decrease was principally due to decreases of 2,818 carloads of agricultural products traffic, 878 carloads of metallic ores traffic, 657 carloads of minerals and stone traffic and 628 carloads of intermodal traffic.

Operating income from our Australian Operations for the three months ended September 30, 2016 was $4.4 million, compared with $15.0 million for the three months ended September 30, 2015. Operating income for the three months ended September 30, 2016 included $2.9 million of corporate development and related costs, primarily associated with the GRail Transactions.

Operating revenues from our U.K./European Operations decreased $34.1 million, or 20.0%, to $136.7 million for the three months ended September 30, 2016, compared with $170.7 million for the three months ended September 30, 2015. Excluding an $18.1 million decrease due to the impact of foreign currency depreciation, U.K./European revenues decreased $16.0 million, or 10.5%, primarily due to lower intermodal services and coal shipments.

U.K./European Operations traffic decreased 10,264 carloads, or 3.4%, to 294,283 carloads for the three months ended September 30, 2016. The traffic decrease was principally due to decreases of 8,402 carloads of coal and coke traffic (primarily in the U.K. and Poland) and 4,106 carloads of intermodal traffic (primarily in the U.K.), partially offset by an increase of 1,761 carloads of minerals and stone traffic.

Operating income from our U.K./European Operations for the three months ended September 30, 2016 was $0.3 million, compared with operating income of $12.0 million for the three months ended September 30, 2015. The decrease in operating income from our U.K./European Operations for the three months ended September 30, 2016 was primarily due to lower U.K. intermodal and infrastructure services of approximately $4 million resulting from port congestion and timing of rail projects and a loss of approximately $3 million from Continental Europe intermodal due to business restructuring, exiting traffic lanes and surplus equipment. In addition, our U.K. coal business had residual surplus equipment costs of approximately $2 million and our overall U.K./European Operations had a negative impact from the depreciation of foreign currencies relative to the United States dollar of approximately $2 million.

Overview of Nine-Month Results

Our operating revenues decreased $0.6 million, to $1,485.0 million for the nine months ended September 30, 2016, compared with $1,485.5 million for the nine months ended September 30, 2015. Operating income for the nine months ended September 30, 2016 was $236.0 million, compared with $289.6 million for the nine months ended September 30, 2015, a decrease of $53.6 million, or 18.5%. Our operating ratio was 84.1% for the nine months ended

September 30, 2016, compared with 80.5% for the nine months ended September 30, 2015. Our same railroad operating ratio for the nine months ended September 30, 2016 was 82.7%, compared with 80.5% for the nine months ended September 30, 2015. When we discuss either operating ratios from existing operations or same railroad operating ratios, we are referring to the change in our operating ratio, period-over-period, associated with operations that we managed in both periods (i.e., excluding the impact of acquisitions, such as Freightliner for the period January 1, 2016 through March 24, 2016).



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Table of Contents

Net income for the nine months ended September 30, 2016 was $132.2 million, compared with net income of $140.1 million for the nine months ended September 30, 2015. Our diluted EPS for the nine months ended September 30, 2016 were $2.28 with 58.1 million weighted average shares outstanding, compared with diluted EPS of $2.42 with 57.8 million weighted average shares outstanding for the nine months ended September 30, 2015. Our results for the nine months ended September 30, 2016 included an income tax benefit of $21.4 million associated with the United States Short Line Tax Credit, which was not in effect for the nine months ended September 30, 2015.

Our results for the nine months ended September 30, 2016 and 2015 included certain items affecting comparability between the periods that are set forth below (dollars in millions, except per share amounts):

| | Income/(Loss) Before Taxes Impact | After-Tax Net Income/(Loss) Impact | Diluted Earnings/(Loss) Per Common Share Impact |
|---|---|---|---|
| Nine Months Ended September 30, 2016 | | | |
| Australia impairment and related costs | $ (21.1 ) | $ (16.8 ) | $ (0.29 ) |
| Restructuring costs | $ (6.3 ) | $ (5.0 ) | $ (0.09 ) |
| Corporate development and related costs | $ (7.3 ) | $ (5.2 ) | $ (0.09 ) |
| Net gain on sale of assets | $ 1.0 | $ 0.7 | $ 0.01 |
| Impact of reduction in U.K. income tax rate | $ — | $ 4.3 | $ 0.07 |
| Short Line Tax Credit | $ — | $ 21.4 | $ 0.37 |
| | | | |
| Nine Months Ended September 30, 2015 | | | |
| Loss on settlement of foreign currency forward purchase contracts | $ (18.7 ) | $ (11.6 ) | $ (0.20 ) |
| Freightliner acquisition/integration costs | $ (14.0 ) | $ (10.3 ) | $ (0.18 ) |
| Australia severance | $ (2.3 ) | $ (1.6 ) | $ (0.03 ) |
| Credit facility refinancing-related costs | $ (2.0 ) | $ (1.3 ) | $ (0.02 ) |
| Corporate development and related costs | $ (0.8 ) | $ (0.5 ) | $ (0.01 ) |
| Net gain on sale of assets | $ 2.0 | $ 1.5 | $ 0.03 |

During the nine months ended September 30, 2016, we generated $303.6 million in cash flows from operating activities. During the same period, we purchased $159.5 million of property and equipment, including $9.3 million for new business investments, partially offset by $30.0 million in cash received from government grants and other outside parties for capital spending. We also paid $200.6 million in net payments on our outstanding debt obligations.

Changes in Operations

Australia

Arrium Limited: Between 2011 and 2014, our subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA) invested a total of approximately $78 million to purchase locomotives and railcars, as well as to construct a standard gauge rolling-stock maintenance facility to support iron ore shipments from Arrium Limited's (Arrium) Southern Iron mine and its Whyalla-based operations, which include the Middleback Range iron ore mines and the Whyalla steelworks. Arrium mothballed its Southern Iron mine in April 2015, citing the significant decline in the price of iron ore. During 2015, GWA carried approximately 8,300 carloads of iron ore from the Southern Iron mine and, in total, generated approximately A$83 million in freight and freight-related revenues (or approximately $62 million at the average exchange rate for the year ended December 31, 2015) under the fixed and variable payment structure that is customary in large contracts in Australia.

On April 7, 2016, Arrium announced it had entered into voluntary administration. As a result of this announcement, during the three months ended March 31, 2016, we recorded a $13.0 million non-cash charge related to the impairment of GWA's now idle rolling-stock maintenance facility and an allowance for doubtful accounts of $8.1 million associated with accounts receivable from Arrium. As a result of the voluntary administration, all payments to GWA associated with the Southern Iron rail haulage agreement have ceased. GWA is in the process of redeploying rolling-stock previously used to provide service under the Southern Iron rail haulage agreement to serve other customers.

30

Table of Contents

GWA continues to receive payments and provide service under GWA's remaining rail haulage agreement to serve several iron ore mines in the Middleback Range and the Whyalla Steelworks operations, which we expect will represent A$35 million (or approximately $27 million at the exchange rate on September 30, 2016) of annual revenue prospectively. Pending the outcome of the voluntary administration process, GWA could lose some or all of the revenue associated with the remaining rail haulage agreement. In the event of an adverse determination regarding the viability of the Middleback Range or the Whyalla Steelworks operations, or a termination of the remaining rail haulage agreement, all or a portion of GWA's assets deployed to provide service under this agreement, which consist largely of narrow gauge locomotives and wagons, could be redeployed elsewhere in Australia.

Europe

Freightliner Group Limited: On March 25, 2015, we completed the acquisition of all of the outstanding share capital of RailInvest Holding Company Limited, the parent company of London-based Freightliner, pursuant to the terms of a Share Purchase Agreement dated February 24, 2015. Certain former management shareholders of Freightliner (Management Shareholders) retained an approximate 6% economic interest in Freightliner in the form of deferred consideration. We expect to settle the deferred consideration by the end of 2020.

Headquartered in London, England, Freightliner is an international freight rail operator with operations in the United Kingdom (U.K.), Poland, Germany, the Netherlands and Australia. Freightliner's principal business is located in the U.K. where it is the largest maritime intermodal operator and the second largest freight rail operator, providing service throughout England, Scotland and Wales. In Continental Europe, Freightliner Poland primarily serves aggregates and coal customers in Poland. In addition, Freightliner's ERS subsidiary, based in Rotterdam, provides cross-border intermodal services connecting the northern European ports of Rotterdam, Bremerhaven and Hamburg to key cities in Germany, Poland, Italy and beyond. In Australia, Freightliner currently transports coal and containerized agricultural products for its customers in New South Wales. As of the acquisition date, Freightliner employed approximately 2,500 people worldwide and had a fleet of primarily leased equipment, which included approximately 250 diesel locomotives, approximately 45 electric locomotives and 5,500 railcars.

We funded the acquisition with borrowings under the Credit Agreement (see Note 5, Long-Term Debt, to our Consolidated Financial Statements) and available cash. The foreign exchange rate used to translate the total consideration to United States dollars was $1.49 for one British pound. The calculation of the total consideration for the Freightliner acquisition is presented below (amounts in thousands):

| | GBP | USD |
|---|---|---|
| Cash consideration | £492,083 | $733,006 |
| Deferred consideration | 24,200 | 36,048 |
| Total consideration | £516,283 | $769,054 |

For additional information regarding the acquisition of Freightliner, see Note 2, Changes in Operations, to our Consolidated Financial Statements.

North America

Pinsly's Arkansas Division: On January 5, 2015, we completed the acquisition of certain subsidiaries of Pinsly Railroad Company (Pinsly) that constituted Pinsly's Arkansas Division (Pinsly Arkansas) for $41.3 million in cash. We funded the acquisition with borrowings under our Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Prior Credit Agreement). The results of operations from Pinsly Arkansas have been included in our consolidated statements of operations since the acquisition date within our North American Operations segment. For additional information regarding Pinsly Arkansas, see Note 2, Changes in Operations, to our Consolidated Financial Statements.

Table of Contents

Three Months Ended September 30, 2016 Compared with Three Months Ended September 30, 2015

Consolidated Operating Results

Operating Revenues

The following table sets forth our operating revenues and carloads for the three months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, | | Decrease in Total Operations | | Currency Impact |
|---|---|---|---|---|---|
| | 2016 | 2015 | Amount | % | |
| Freight revenues | $349,807 | $378,936 | $(29,129) | (7.7)% | $(10,227) |
| Freight-related revenues | 129,520 | 145,508 | (15,988) | (11.0)% | (4,659) |
| All other revenues | 21,675 | 21,855 | (180) | (0.8)% | (417) |
| Total operating revenues | $501,002 | $546,299 | $(45,297) | (8.3)% | $(15,303) |
| Carloads | 739,814 | 772,650 | (32,836) | (4.2)% | |

Operating Expenses

Total operating expenses for the three months ended September 30, 2016 decreased $19.6 million, or 4.6%, to $409.2 million, compared with $428.7 million for the three months ended September 30, 2015. The decrease was primarily due to a $14.3 million decrease from the net depreciation of foreign currencies relative to the United States dollar as well as decreases of $5.5 million in equipment rents, $4.4 million in materials, $3.0 million in diesel fuel used in train operations and $2.8 million in purchased services. These decreases were partially offset by increases of $4.8 million in other expenses, primarily due to corporate development and related costs associated with the GRail and P&W transactions, $3.5 million in labor and benefits and $3.0 million in depreciation and amortization.

The following table sets forth our total operating expenses for the three months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | | | | |
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | Increase/(Decrease) | Currency Impact | 2015 Constant Currency* | Increase/(Decrease)Cons Currency* |
| Labor and benefits | $156,235 | 31.2 % | $158,675 | 29.1 % | $ (2,440) | $(5,924) | $152,751 | $ 3,484 |
| Equipment rents | 36,778 | 7.3 % | 44,630 | 8.2 % | (7,852) | (2,351) | 42,279 | (5,501) |
| Purchased services | 50,991 | 10.2 % | 55,291 | 10.1 % | (4,300) | (1,497) | 53,794 | (2,803) |
| Depreciation and amortization | 50,841 | 10.2 % | 48,303 | 8.8 % | 2,538 | (442) | 47,861 | 2,980 |
| Diesel fuel used in train operations | 30,134 | 6.1 % | 34,264 | 6.3 % | (4,130) | (1,133) | 33,131 | (2,997) |
| Electricity used in train operations | 3,226 | 0.6 % | 5,164 | 0.9 % | (1,938) | (239) | 4,925 | (1,699) |
| Casualties and insurance | 9,252 | 1.9 % | 11,466 | 2.1 % | (2,214) | (248) | 11,218 | (1,966) |
| Materials | 19,678 | 3.9 % | 25,140 | 4.6 % | (5,462) | (1,051) | 24,089 | (4,411) |
| Trackage rights | 22,781 | 4.5 % | 21,765 | 4.0 % | 1,016 | (906) | 20,859 | 1,922 |
| Net gain on sale of assets | (524) | (0.1)% | (1,174) | (0.2)% | 650 | — | (1,174) | 650 |
| Restructuring costs | 223 | — % | — | — % | 223 | — | — | 223 |
| Other expenses | 29,536 | 5.9 % | 25,216 | 4.6 % | 4,320 | (488) | 24,728 | 4,808 |
| Total operating expenses | $409,151 | 81.7 % | $428,740 | 78.5 % | $ (19,589) | $(14,279) | $414,461 | $ (5,310) |

* Constant currency amounts reflect the prior period results translated at the current period exchange rates.

Table of Contents

Operating Income/Operating Ratio

Operating income was $91.9 million for the three months ended September 30, 2016, compared with $117.6 million for the three months ended September 30, 2015. Operating income for the three months ended September 30, 2016 included corporate development and related costs of $4.3 million, primarily associated with the GRail and P&W transactions, a net gain on the sale of assets of $0.5 million and restructuring costs of $0.2 million. Operating income for the three months ended September 30, 2015 included corporate development and related costs of $2.0 million, primarily associated with the integration of Freightliner, and a net gain on the sale of assets of $1.2 million. Our operating ratio was 81.7% for the three months ended September 30, 2016, compared with 78.5% for the three months ended September 30, 2015.

Interest Expense

Interest expense was $17.3 million for the three months ended September 30, 2016, compared with $17.5 million for the three months ended September 30, 2015.

Provision for Income Taxes

Our effective income tax rate for the three months ended September 30, 2016 was 25.7%, compared with 36.8% for the three months ended September 30, 2015. Our provision for income taxes for the three months ended September 30, 2016 included an income tax benefit of $7.8 million associated with the United States Short Line Tax Credit, as well as an income tax benefit of $4.3 million associated with a reduction in the U.K. income tax rate, which was enacted in September 2016. The Short Line Tax Credit was in existence from 2005 through 2014 and was further extended in December 2015 for fiscal years 2015 and 2016. As the extension was passed in December 2015 for the full 2015 fiscal year, the Short Line Tax Credit associated with results for the three months ended September 30, 2015 was recorded in the fourth quarter of 2015. For additional information regarding our provision for income taxes, see Note 9, Income Taxes, to our Consolidated Financial Statements.

Net Income and Earnings Per Common Share

Net income for the three months ended September 30, 2016 was $56.8 million, compared with $63.4 million for the three months ended September 30, 2015. Our basic EPS were $0.99 with 57.3 million weighted average shares outstanding for the three months ended September 30, 2016, compared with basic EPS of $1.12 with 56.8 million weighted average shares outstanding for the three months ended September 30, 2015. Our diluted EPS for the three months ended September 30, 2016 were $0.98 with 58.2 million weighted average shares outstanding, compared with diluted EPS of $1.10 with 57.8 million weighted average shares outstanding for the three months ended September 30, 2015. Our results for the three months ended September 30, 2016 and 2015 included certain items affecting comparability between the periods as previously presented in the "Overview."

Operating Results by Segment

Our various rail operations are organized into 10 operating regions. We present our financial information as three reportable segments: North American Operations, Australian Operations and U.K./European Operations. Each of our segments generates the following three categories of revenues from external customers: freight revenues, freight-related revenues and all other revenues. Our eight North American regions are aggregated into one segment as a result of having similar economic and operating characteristics.

The results of operations of our foreign entities are maintained in the respective local currency (the Australian dollar, the British pound, the Canadian dollar and the Euro) and then translated into United States dollars at the applicable exchange rates for inclusion in our consolidated financial statements. As a result, any appreciation or depreciation of these currencies against the United States dollar can impact our results of operations.

Table of Contents

The following tables set forth our North American Operations, Australian Operations and U.K./European Operations for the three months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $232,247 | $29,219 | $ 88,341 | $349,807 |
| Freight-related revenues | 62,124 | 23,523 | 43,873 | 129,520 |
| All other revenues | 15,823 | 1,408 | 4,444 | 21,675 |
| Total operating revenues | $310,194 | $54,150 | $ 136,658 | $501,002 |
| Operating expenses: | | | | |
| Labor and benefits | $97,426 | $16,753 | $ 42,056 | $156,235 |
| Equipment rents | 14,207 | 1,559 | 21,012 | 36,778 |
| Purchased services | 15,207 | 6,083 | 29,701 | 50,991 |
| Depreciation and amortization | 37,085 | 7,129 | 6,627 | 50,841 |
| Diesel fuel used in train operations | 14,217 | 5,467 | 10,450 | 30,134 |
| Electricity used in train operations | — | — | 3,226 | 3,226 |
| Casualties and insurance | 6,145 | 1,938 | 1,169 | 9,252 |
| Materials | 12,222 | 2,744 | 4,712 | 19,678 |
| Trackage rights | 9,047 | 2,884 | 10,850 | 22,781 |
| Net (gain)/loss on sale of assets | (456) | 10 | (78) | (524) |
| Restructuring costs | 111 | 73 | 39 | 223 |
| Other expenses | 17,830 | 5,138 | 6,568 | 29,536 |
| Total operating expenses | 223,041 | 49,778 | 136,332 | 409,151 |
| Operating income | $87,153 | $4,372 | $ 326 | $91,851 |
| Operating ratio | 71.9 % | 91.9 % | 99.8 % | 81.7 % |
| Interest expense, net | $9,600 | $2,170 | $ 5,147 | $16,917 |
| Provision for/(benefit from) income taxes | $22,392 | $798 | $ (3,547) | $19,643 |
| Carloads | 401,999 | 43,532 | 294,283 | 739,814 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $30,343 | $2,440 | $ 9,457 | $42,240 |

Table of Contents

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | $241,410 | $32,780 | $ 104,746 | $378,936 |
| Freight-related revenues | 56,823 | 26,206 | 62,479 | 145,508 |
| All other revenues | 16,330 | 2,027 | 3,498 | 21,855 |
| Total operating revenues | $314,563 | $61,013 | $ 170,723 | $546,299 |
| Operating expenses: | | | | |
| Labor and benefits | 93,887 | 16,078 | 48,710 | 158,675 |
| Equipment rents | 16,669 | 3,083 | 24,878 | 44,630 |
| Purchased services | 17,263 | 5,080 | 32,948 | 55,291 |
| Depreciation and amortization | 35,158 | 7,151 | 5,994 | 48,303 |
| Diesel fuel used in train operations | 16,444 | 6,004 | 11,816 | 34,264 |
| Electricity used in train operations | — | — | 5,164 | 5,164 |
| Casualties and insurance | 7,547 | 1,696 | 2,223 | 11,466 |
| Materials | 13,704 | 2,964 | 8,472 | 25,140 |
| Trackage rights | 6,023 | 2,457 | 13,285 | 21,765 |
| Net gain on sale of assets | (1,025 ) | (7 ) | (142 ) | (1,174 ) |
| Other expenses | 18,329 | 1,541 | 5,346 | 25,216 |
| Total operating expenses | 223,999 | 46,047 | 158,694 | 428,740 |
| Operating income | $90,564 | $14,966 | $ 12,029 | $117,559 |
| Operating ratio | 71.2 % | 75.5 % | 93.0 % | 78.5 % |
| Interest expense, net | $9,788 | $2,055 | $ 5,396 | $17,239 |
| Provision for income taxes | $32,333 | $3,896 | $ 626 | $36,855 |
| Carloads | 419,571 | 48,532 | 304,547 | 772,650 |
| Expenditures for additions to property & equipment, net of grants from outside parties | $86,620 | $6,354 | $ 14,195 | $107,169 |

North American Operations

Operating Revenues

The following table sets forth our North American Operations operating revenues and carloads for the three months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, | | Increase/(Decrease) in Total Operations | | Currency Impact |
|---|---|---|---|---|---|
| | 2016 | 2015 | Amount | % | |
| Freight revenues | $232,247 | $241,410 | $ (9,163 ) | (3.8 )% | $ 52 |
| Freight-related revenues | 62,124 | 56,823 | 5,301 | 9.3 % | 17 |
| All other revenues | 15,823 | 16,330 | (507 ) | (3.1 )% | 6 |
| Total operating revenues | $310,194 | $314,563 | $ (4,369 ) | (1.4 )% | $ 75 |
| Carloads | 401,999 | 419,571 | (17,572 ) | (4.2 )% | |

Table of Contents

Freight Revenues

The following table sets forth the changes in our North American Operations freight revenues by commodity group for the three months ended September 30, 2016, compared with the three months ended September 30, 2015 (dollars in thousands):

| | Three Months Ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | | | 2015 | Increase/(Decrease) |
| Commodity Group | Amount | % of Total | Amount | % of Total | Increase/(Decrease) | Currency Impact | Constant Currency* | Constant Currency* |
| Agricultural Products | $29,367 | 12.6 % | $29,643 | 12.3 % | $ (276) | $ 3 | $29,646 | $ (279) |
| Autos & Auto Parts | 4,358 | 1.9 % | 4,302 | 1.8 % | 56 | 4 | 4,306 | 52 |
| Chemicals & Plastics | 34,078 | 14.7 % | 34,942 | 14.5 % | (864) | 9 | 34,951 | (873) |
| Coal & Coke | 21,434 | 9.2 % | 24,609 | 10.2 % | (3,175) | 2 | 24,611 | (3,177) |
| Food & Kindred Products | 8,549 | 3.7 % | 8,712 | 3.6 % | (163) | — | 8,712 | (163) |
| Intermodal | 10 | — % | 6 | — % | 4 | — | 6 | 4 |
| Lumber & Forest Products | 21,301 | 9.2 % | 20,154 | 8.3 % | 1,147 | — | 20,154 | 1,147 |
| Metallic Ores | 3,401 | 1.4 % | 4,897 | 2.0 % | (1,496) | 3 | 4,900 | (1,499) |
| Metals | 24,127 | 10.4 % | 26,522 | 11.0 % | (2,395) | 10 | 26,532 | (2,405) |
| Minerals & Stone | 31,144 | 13.4 % | 31,411 | 13.0 % | (267) | 5 | 31,416 | (272) |
| Petroleum Products | 16,882 | 7.3 % | 16,365 | 6.8 % | 517 | 4 | 16,369 | 513 |
| Pulp & Paper | 26,897 | 11.6 % | 29,348 | 12.2 % | (2,451) | 10 | 29,358 | (2,461) |
| Waste | 6,213 | 2.7 % | 5,386 | 2.2 % | 827 | 1 | 5,387 | 826 |
| Other | 4,486 | 1.9 % | 5,113 | 2.1 % | (627) | 1 | 5,114 | (628) |
| Total freight revenues | $232,247 | 100.0% | $241,410 | 100.0% | $ (9,163) | $ 52 | $241,462 | $ (9,215) |

* Constant currency amounts reflect the prior period results translated at the current period exchange rates.

Table of Contents

The following table sets forth our North American Operations freight revenues, carloads and average freight revenues per carload for the three months ended September 30, 2016 and 2015 (dollars in thousands, except average freight revenues per carload):

| | Freight Revenues | | | | Carloads | | Average Freight Revenues Per Carload | | |
|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | Three Months Ended September 30, | | Three Months Ended September 30, | | |
| | 2016 | | 2015 Constant Currency* | | | | | | |
| Commodity Group | Amount | % of Total | Amount | % of Total | 2016 | 2015 | 2016 | 2015 | 2015 Constant Currency* |
| Agricultural Products | $29,367 | 12.6 % | $29,646 | 12.3 % | 54,024 | 51,010 | $544 | $581 | $ 581 |
| Autos & Auto Parts | 4,358 | 1.9 % | 4,306 | 1.8 % | 7,035 | 6,997 | 619 | 615 | 615 |
| Chemicals & Plastics | 34,078 | 14.7 % | 34,951 | 14.5 % | 42,402 | 43,829 | 804 | 797 | 797 |
| Coal & Coke | 21,434 | 9.2 % | 24,611 | 10.2 % | 63,028 | 71,197 | 340 | 346 | 346 |
| Food & Kindred Products | 8,549 | 3.7 % | 8,712 | 3.6 % | 15,557 | 15,261 | 550 | 571 | 571 |
| Intermodal | 10 | — % | 6 | — % | 112 | 66 | 89 | 91 | 91 |
| Lumber & Forest Products | 21,301 | 9.2 % | 20,154 | 8.3 % | 35,253 | 34,770 | 604 | 580 | 580 |
| Metallic Ores | 3,401 | 1.4 % | 4,900 | 2.0 % | 4,536 | 6,291 | 750 | 778 | 779 |
| Metals | 24,127 | 10.4 % | 26,532 | 11.0 % | 31,978 | 34,507 | 754 | 769 | 769 |
| Minerals & Stone | 31,144 | 13.4 % | 31,416 | 13.0 % | 53,530 | 56,977 | 582 | 551 | 551 |
| Petroleum Products | 16,882 | 7.3 % | 16,369 | 6.8 % | 24,959 | 25,242 | 676 | 648 | 648 |
| Pulp & Paper | 26,897 | 11.6 % | 29,358 | 12.2 % | 41,721 | 45,270 | 645 | 648 | 649 |
| Waste | 6,213 | 2.7 % | 5,387 | 2.2 % | 13,420 | 11,453 | 463 | 470 | 470 |
| Other | 4,486 | 1.9 % | 5,114 | 2.1 % | 14,444 | 16,701 | 311 | 306 | 306 |
| Total | $232,247 | 100.0% | $241,462 | 100.0% | 401,999 | 419,571 | $578 | $575 | $ 575 |

* Constant currency amounts reflect the prior period results translated at the current period exchange rates.

Total traffic from our North American Operations decreased 17,572 carloads, or 4.2%, for the three months ended September 30, 2016, compared with the same period in 2015. The decline in traffic was principally due to decreases of 8,169 carloads of coal and coke traffic, 3,549 carloads of pulp and paper traffic, 3,447 carloads of minerals and stone traffic, 2,529 carloads of metals traffic and 2,257 carloads of other traffic, partially offset by 3,014 carloads of agricultural products traffic. All remaining traffic decreased by a net 635 carloads.

The following information discusses the significant changes in our North American Operations freight revenues by commodity group excluding the impact of foreign currency. Other changes in average freight revenues per carload in a commodity group can be impacted by changes in customer rates and fuel surcharges, as well as changes in the mix of customer traffic within a commodity group.

Average freight revenues per carload from our North American Operations increased 0.5% to $578 for the three months ended September 30, 2016, compared with the same period in 2015. A change in the mix of commodities increased average freight revenues per carload by 0.4%, while lower fuel surcharges decreased average freight revenues per carload by 1.7%. Excluding these factors, average freight revenues per carload increased 1.8%.

Agricultural products revenues decreased $0.3 million, or 0.9%. Agricultural products average freight revenues per carload decreased 6.4%, which decreased revenues by $1.9 million, while traffic increased 3,014 carloads, or 5.9%, which increased revenues by $1.6 million. The decrease in average freight revenues per carload was primarily driven by changes in the customer mix and lower fuel surcharges. The carload increase was primarily due to increased shipments in the central United States to provide storage for the fall harvest and increased agricultural products shipments in the midwestern and western United States.

Table of Contents

Coal and coke revenues decreased $3.2 million, or 12.9%. Coal and coke traffic decreased 8,169 carloads, or 11.5%, which decreased revenues by $2.8 million, and average freight revenues per carload decreased 1.7%, which decreased revenues by $0.4 million. The decrease was primarily due to lower demand for steam coal as a result of competition from natural gas power generation.

Metallic ores revenues decreased $1.5 million, or 30.6%, primarily due to a traffic decrease of 1,755 carloads, or 27.9%. The carload decrease was primarily due to the planned idling of an alumina customer facility in the southern United States and lower production at a copper facility.

Metals revenues decreased $2.4 million, or 9.1%. Metals traffic decreased 2,529 carloads, or 7.3%, which decreased revenues by $1.9 million, and average freight revenues per carload decreased 2.0%, which decreased revenues by $0.5 million. The carload decrease was primarily due to rail competition, plant production issues and depressed product demand. The decrease in average freight revenues per carload was primarily due to lower fuel surcharges.

Minerals and stone revenues decreased $0.3 million, or 0.9%. Minerals and stone traffic decreased 3,447 carloads, or 6.0%, which decreased revenues by $2.0 million, while average freight revenues per carload increased 5.6%, which increased revenues by $1.7 million. The carload decrease was primarily due to weaker rock salt shipments due to the mild 2015 winter and lower frac sand shipments in the northeastern United States, partially offset by stronger aggregates shipments in the southeastern United States. The increase in average freight revenues per carload was primarily due to the change in customer mix.

Pulp and paper revenues decreased $2.5 million, or 8.4%, primarily due to a traffic decrease of 3,549 carloads, or 7.8%. The carload decrease was primarily due to truck competition and the closure of several plants we served due to consolidation within the paper industry.

Waste revenues increased $0.8 million, or 15.3%, primarily due to a traffic increase of 1,967 carloads or 17.2%. The carload increase was primarily due to new contracts in the western and northeastern United States.

Freight revenues from all remaining commodities combined increased by a net $0.1 million.

Freight-Related Revenues

Freight-related revenues from our North American Operations, which includes revenues from railcar switching, track access fees, crewing services, storage and other ancillary revenues related to the movement of freight, increased $5.3 million, or 9.3%, to $62.1 million for the three months ended September 30, 2016. The increase was primarily driven by a change in the presentation of revenues from certain of our port terminal operations, which were previously presented net of the related costs incurred.

All Other Revenues

All other revenues from our North American Operations, which includes revenues from third-party railcar and locomotive repairs, property rentals, railroad construction and other ancillary revenues not directly related to the movement of freight, decreased $0.5 million, or 3.1%, to $15.8 million for the three months ended September 30, 2016.

Operating Expenses

Total operating expenses from our North American Operations decreased $1.0 million, or 0.4%, to $223.0 million for the three months ended September 30, 2016, compared with $224.0 million for the three months ended September 30, 2015. The decrease in operating expenses for the three months ended September 30, 2016 was primarily due to lower freight volumes and effective management of operating costs, partially offset by corporate development and related costs, primarily associated with the P&W and GRail transactions.

Table of Contents

The following table sets forth operating expenses from our North American Operations for the three months ended September 30, 2016 and 2015 (dollars in thousands):

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | | | | |
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | Increase/(Decrease) | Currency Impact | 2015 Constant Currency* | Increase/(Decrease) Constant Currency* |
| Labor and benefits | $97,426 | 31.4 % | $93,887 | 29.8 % | $ 3,539 | $ 24 | $93,911 | $ 3,515 |
| Equipment rents | 14,207 | 4.6 % | 16,669 | 5.3 % | (2,462 ) | 2 | 16,671 | (2,464 ) |
| Purchased services | 15,207 | 4.9 % | 17,263 | 5.5 % | (2,056 ) | 3 | 17,266 | (2,059 ) |
| Depreciation and amortization | 37,085 | 12.0 % | 35,158 | 11.2 % | 1,927 | 14 | 35,172 | 1,913 |
| Diesel fuel used in train operations | 14,217 | 4.6 % | 16,444 | 5.2 % | (2,227 ) | 5 | 16,449 | (2,232 ) |
| Casualties and insurance | 6,145 | 2.0 % | 7,547 | 2.4 % | (1,402 ) | 1 | 7,548 | (1,403 ) |
| Materials | 12,222 | 3.9 % | 13,704 | 4.4 % | (1,482 ) | 2 | 13,706 | (1,484 ) |
| Trackage rights | 9,047 | 2.9 % | 6,023 | 1.9 % | 3,024 | — | 6,023 | 3,024 |
| Net gain on sale of assets | (456 ) | (0.1 )% | (1,025 ) | (0.3 )% | 569 | (10 ) | (1,035 ) | 579 |
| Restructuring costs | 111 | — % | — | — % | 111 | — | — | 111 |
| Other expenses | 17,830 | 5.7 % | 18,329 | 5.8 % | (499 ) | 5 | 18,334 | (504 ) |
| Total operating expenses | $223,041 | 71.9 % | $223,999 | 71.2 % | $ (958 ) | $ 46 | $224,045 | $ (1,004 ) |

* Constant currency amounts reflect the prior period results translated at the current period exchange rates.

The following information discusses the significant changes in operating expenses of our North American Operations excluding the impact of foreign currency appreciation.

Labor and benefits expense was $97.4 million for the three months ended