

GENESEE & WYOMING INC
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number 001-31456

GENESEE & WYOMING INC.

(Exact name of registrant as specified in its charter)

Delaware 06-0984624
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Shares of common stock outstanding as of the close of business on November 1, 2018:

| Class | Number of Shares Outstanding |
|-------|------------------------------|
|-------|------------------------------|

| | |
|----------------------|------------|
| Class A Common Stock | 58,390,843 |
|----------------------|------------|

| | |
|----------------------|---------|
| Class B Common Stock | 541,138 |
|----------------------|---------|

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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 Securities and Exchange Commission.

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, which could result in shutdowns, derailments, railroad network and port 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; implementation of restructuring plans; economic, political and industry conditions, including employee strikes or work stoppages; retention and contract continuation; our ability to attract and retain skilled workers; 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 and outcome of various legal claims, lawsuits and arbitrations; increase in, or volatility associated with, expenses related to estimated claims, self-insured retention amounts and insurance coverage, collectability and 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; failure to maintain satisfactory working relationships with partners in Australia; failure to maintain an effective system of internal control over financial reporting as well as disclosure controls and procedures and other risks 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 2017 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.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2018 and DECEMBER 31, 2017 (Unaudited)

(dollars in thousands, except per share and share amounts)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 74,067 | \$ 80,472 |
| Accounts receivable, net | 441,105 | 416,705 |
| Materials and supplies | 52,517 | 57,750 |
| Prepaid expenses and other | 54,292 | 34,606 |
| Total current assets | 621,981 | 589,533 |
| PROPERTY AND EQUIPMENT, net | 4,613,295 | 4,656,921 |
| GOODWILL | 1,128,580 | 1,165,587 |
| INTANGIBLE ASSETS, net | 1,466,137 | 1,567,038 |
| DEFERRED INCOME TAX ASSETS, net | 3,883 | 3,343 |
| OTHER ASSETS | 70,122 | 52,475 |
| Total assets | \$ 7,903,998 | \$ 8,034,897 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 25,138 | \$ 27,853 |
| Accounts payable | 271,539 | 253,993 |
| Accrued expenses | 171,011 | 185,935 |
| Total current liabilities | 467,688 | 467,781 |
| LONG-TERM DEBT, less current portion | 2,300,556 | 2,303,442 |
| DEFERRED INCOME TAX LIABILITIES, net | 866,821 | 873,194 |
| DEFERRED ITEMS - grants from outside parties | 323,370 | 321,592 |
| OTHER LONG-TERM LIABILITIES | 162,993 | 172,796 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY: | | |
| Class A Common Stock, \$0.01 par value, one vote per share; 180,000,000 shares authorized at September 30, 2018 and December 31, 2017; 75,199,229 and 74,808,305 shares issued and 58,737,895 and 61,946,078 shares outstanding (net of 16,461,334 and 12,862,227 shares in treasury) on September 30, 2018 and December 31, 2017, respectively | 752 | 748 |
| Class B Common Stock, \$0.01 par value, ten votes per share; 30,000,000 shares authorized at September 30, 2018 and December 31, 2017; 541,138 and 701,138 shares issued and outstanding on September 30, 2018 and December 31, 2017, respectively | 5 | 7 |
| Additional paid-in capital | 1,779,168 | 1,757,332 |
| Retained earnings | 2,426,690 | 2,234,864 |
| Accumulated other comprehensive loss | (135,076) | (105,534) |
| Treasury stock, at cost | (510,245) | (236,951) |
| Total Genesee & Wyoming Inc. stockholders' equity | 3,561,294 | 3,650,466 |
| Noncontrolling interest | 221,276 | 245,626 |
| Total equity | 3,782,570 | 3,896,092 |
| Total liabilities and equity | \$ 7,903,998 | \$ 8,034,897 |

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| OPERATING REVENUES | \$603,304 | \$576,927 | \$1,772,955 | \$1,636,468 |
| OPERATING EXPENSES: | | | | |
| Labor and benefits | 175,853 | 169,576 | 539,407 | 500,936 |
| Equipment rents | 35,325 | 33,291 | 104,214 | 100,399 |
| Purchased services | 53,717 | 68,562 | 178,864 | 176,358 |
| Depreciation and amortization | 65,392 | 64,222 | 197,127 | 186,509 |
| Diesel fuel used in train operations | 45,713 | 34,535 | 137,487 | 105,718 |
| Electricity used in train operations | 2,742 | 765 | 7,020 | 6,072 |
| Casualties and insurance | 9,912 | 10,624 | 32,862 | 33,346 |
| Materials | 32,744 | 30,664 | 97,589 | 77,861 |
| Trackage rights | 22,838 | 22,632 | 67,119 | 66,652 |
| Net gain on sale and impairment of assets | (642 |) (315 |) (2,501 |) (1,096 |
| Restructuring costs | 3,286 | 2,628 | 12,931 | 8,744 |
| Other expenses, net | 28,604 | 29,901 | 82,978 | 89,494 |
| Total operating expenses | 475,484 | 467,085 | 1,455,097 | 1,350,993 |
| OPERATING INCOME | 127,820 | 109,842 | 317,858 | 285,475 |
| Interest income | 417 | 463 | 1,499 | 1,271 |
| Interest expense | (26,429 |) (28,281 |) (80,605 |) (80,431 |
| Other income/(loss), net | 1,515 | 1,868 | (237 |) 4,519 |
| Income before income taxes | 103,323 | 83,892 | 238,515 | 210,834 |
| Provision for income taxes | (31,013 |) (30,507 |) (41,569 |) (82,032 |
| Net income | \$72,310 | \$53,385 | \$196,946 | \$128,802 |
| Less: Net income attributable to noncontrolling interest | 2,720 | 3,145 | 8,090 | 6,317 |
| Net income attributable to Genesee & Wyoming Inc. | \$69,590 | \$50,240 | \$188,856 | \$122,485 |
| Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders: | \$1.18 | \$0.82 | \$3.13 | \$1.99 |
| Weighted average shares – Basic | 59,168 | 61,629 | 60,343 | 61,518 |
| Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders: | \$1.16 | \$0.80 | \$3.08 | \$1.96 |
| Weighted average shares – Diluted | 60,131 | 62,477 | 61,255 | 62,399 |

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
 (dollars in thousands)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| NET INCOME | \$72,310 | \$53,385 | \$196,946 | \$128,802 |
| OTHER COMPREHENSIVE INCOME/(LOSS): | | | | |
| Foreign currency translation adjustment | (9,501) | 32,902 | (59,042) | 100,054 |
| Net unrealized gain on qualifying cash flow hedges, net of tax (provision) of (\$1,583), (\$303), (\$4,612) and (\$567), respectively | 5,153 | 736 | 14,756 | 638 |
| Changes in pension and other postretirement benefits, net of tax (provision)/benefit of (\$14), (\$20), (\$42) and \$887, respectively | 43 | 38 | 129 | (2,149) |
| Other comprehensive (loss)/income | (4,305) | 33,676 | (44,157) | 98,543 |
| COMPREHENSIVE INCOME | \$68,005 | \$87,061 | \$152,789 | \$227,345 |
| Less: Comprehensive (loss)/income attributable to noncontrolling interest | (2,179) | 8,500 | (9,495) | 24,663 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO GENESEE & WYOMING INC. | \$70,184 | \$78,561 | \$162,284 | \$202,682 |

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

| | G&W Stockholders | | | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Treasury Stock | Non-controlling Interest | Total Equity |
|--|----------------------|----------------------|----------------------------|-------------------|---|----------------|--------------------------|--------------|
| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | | | | | |
| BALANCE, December 31, 2016 | \$ 742 | \$ 8 | \$ 1,709,615 | \$ 1,685,813 | \$ (197,316) | \$ (232,348) | \$ 220,607 | \$ 3,187,121 |
| Net income | — | — | — | 122,485 | — | — | 6,317 | 128,802 |
| Other comprehensive income | — | — | — | — | 80,197 | — | 18,346 | 98,543 |
| Conversion of 45,000 shares Class B Common Stock to Class A Common Stock | 1 | (1) | — | — | — | — | — | — |
| Value of stock issued for stock-based compensation - 296,580 shares Class A Common Stock | 2 | — | 8,001 | — | — | — | — | 8,003 |
| Settlement of deferred stock awards - 17,661 shares | — | — | 738 | — | — | — | — | 738 |
| Compensation cost related to stock-based compensation | — | — | 13,309 | — | — | — | — | 13,309 |
| Value of treasury stock repurchased - 44,114 shares | — | — | — | — | — | (3,275) | — | (3,275) |
| Other | — | — | 444 | — | — | — | (6) | 438 |
| BALANCE, September 30, 2017 | \$ 745 | \$ 7 | \$ 1,732,107 | \$ 1,808,298 | \$ (117,119) | \$ (235,623) | \$ 245,264 | \$ 3,433,679 |
| | G&W Stockholders | | | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Non-controlling Interest | Total Equity |
| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | | | | | |
| BALANCE, December 31, 2017 | \$ 748 | \$ 7 | \$ 1,757,332 | \$ 2,234,864 | \$ (105,534) | \$ (236,951) | \$ 245,626 | \$ 3,896,092 |
| Net income | — | — | — | 188,856 | — | — | 8,090 | 196,946 |
| Other comprehensive loss | — | — | — | — | (26,572) | — | (17,585) | (44,157) |
| Conversion of 160,000 shares Class B Common Stock to | 2 | (2) | — | — | — | — | — | — |

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| | | | | | | | | |
|--|--------------|-------------|--------------------|--------------------|---------------------|--------------------|-------------------|--------------------|
| Class A Common Stock | | | | | | | | |
| Value of stock issued for stock-based compensation - 209,357 shares Class A Common Stock | 2 | — | 7,812 | — | — | — | — | 7,814 |
| Settlement of deferred stock awards - 21,567 shares | — | — | 995 | — | — | — | — | 995 |
| Compensation cost related to stock-based compensation | — | — | 13,029 | — | — | — | — | 13,029 |
| Value of treasury stock repurchased - 3,599,107 shares | — | — | — | — | — | (273,294) | — | (273,294) |
| Distribution to noncontrolling interest | — | — | — | — | — | — | (14,898) | (14,898) |
| Amounts reclassified from accumulated other comprehensive loss to retained earnings related to the United States Tax Cuts and Jobs Act | — | — | — | 2,970 | (2,970) | — | — | — |
| Other | — | — | — | — | — | — | 43 | 43 |
| BALANCE, September 30, 2018 | \$752 | \$ 5 | \$1,779,168 | \$2,426,690 | \$(135,076) | \$(510,245) | \$ 221,276 | \$3,782,570 |

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

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GENESEE & WYOMING INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$196,946 | \$128,802 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 197,127 | 186,509 |
| Stock-based compensation | 13,029 | 13,354 |
| Deferred income taxes | 7,978 | 51,231 |
| Net gain on sale and impairment of assets | (2,501) | (1,096) |
| Changes in assets and liabilities which provided/(used) cash, net of effect of acquisitions: | | |
| Accounts receivable, net | (50,143) | (18,020) |
| Materials and supplies | 3,133 | 8,998 |
| Prepaid expenses and other | (11,663) | 14,257 |
| Accounts payable and accrued expenses | 33,818 | (41,529) |
| Other assets and liabilities, net | 9,750 | 7,883 |
| Net cash provided by operating activities | 397,474 | 350,389 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (194,132) | (149,105) |
| Grant proceeds from outside parties | 16,696 | 15,998 |
| Net cash paid for acquisitions, net of cash acquired | — | (107,586) |
| Proceeds from sale of business | 7,927 | — |
| Proceeds from sale of investment | — | 2,100 |
| Insurance proceeds for replacement of assets | 2,780 | 1,406 |
| Proceeds from disposition of property and equipment | 3,710 | 4,238 |
| Other investing activities | (2,921) | — |
| Net cash used in investing activities | (165,940) | (232,949) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on revolving line-of-credit, long-term debt and capital lease obligations | (766,713) | (498,925) |
| Proceeds from revolving line-of-credit and long-term borrowings | 821,666 | 418,735 |
| Debt amendment/issuance costs | (5,318) | — |
| Common share repurchases | (270,488) | — |
| Distribution to noncontrolling interest | (14,898) | — |
| Installment payments on Freightliner deferred consideration | (6,255) | — |
| Other financing related activities, net | 5,006 | 4,728 |
| Net cash used in financing activities | (237,000) | (75,462) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (939) | 5,980 |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (6,405) | 47,958 |
| CASH AND CASH EQUIVALENTS, beginning of period | 80,472 | 32,319 |
| CASH AND CASH EQUIVALENTS, end of period | \$74,067 | \$80,277 |
| 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, 2018 and 2017 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 2017 was derived from the audited financial statements in the Company's 2017 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, 2017 included in the Company's 2017 Annual Report on Form 10-K. Certain reclassifications and adjustments have been made to prior period balances to conform to the current year presentation as noted below.

On January 1, 2018, the Company adopted ASU 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Prior to the adoption of ASU 2017-07, the Company presented net pension costs within operating income on the same line item as other compensation costs arising from services rendered by the applicable employees. ASU 2017-07 requires that net pension costs, other than service cost, be presented outside of operating income. The Company applied these changes retrospectively to its consolidated statement of operations which resulted in a \$1.6 million and \$4.8 million decrease in operating income and a corresponding change in other income/(loss), net for the three and nine months ended September 30, 2017, respectively. The adjustments had no impact on net income.

On January 1, 2018, the Company adopted ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The current standard, ASC Topic 740, requires deferred tax liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from operations in the reporting period of the enactment date. The Tax Cuts and Jobs Act of 2017 (the TCJA) enacted by the United States federal government resulted in tax effects of items recorded within accumulated other comprehensive income (AOCI) or accumulated other comprehensive loss (AOCL), as the case may be, to be "stranded," as those items no longer reflect the appropriate tax rate. This amendment allows the reclassification from AOCI/AOCL to retained earnings for the stranded tax effects resulting from the new income tax rates. The Company applied the amendments as of January 1, 2018 by reclassifying \$3.0 million from AOCL to retained earnings, eliminating the stranded tax effects in AOCL resulting from the TCJA. This reclassification reduced AOCL and increased retained earnings by \$3.0 million. It is the Company's policy to release income tax effects from AOCI/AOCL using the item-by-item approach.

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers, which supersedes previous revenue guidance. The standard requires that the Company recognize revenue when it transfers the promised goods or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company adopted ASU 2014-09 and all related amendments using the modified retrospective approach. Under the standard, the Company continues to recognize freight revenue

proportionally as a shipment moves from origin to destination. The adoption did not affect the Company's financial condition, results of operations or liquidity. Disclosures related to the nature, amount and timing of revenue and cash flows resulting from contracts with customers are included in Note 4, Revenue.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

On December 1, 2016, a subsidiary of the Company completed the acquisition of Glencore Rail (NSW) Pty Limited (GRail) and concurrently issued a 48.9% stake in G&W Australia Holdings LP (GWAHLP) (collectively, the Australia Partnership), which is the holding entity for all of the Company's Australian businesses, including GRail, to a consortium of funds and clients managed by Macquarie Infrastructure and Real Assets (MIRA), a large infrastructure investment firm. The Company, through wholly-owned subsidiaries, also made incremental investments and retained a 51.1% ownership in GWAHLP. The investments made by both the Company and MIRA consisted of equity and debt financing of GWAHLP in similar proportions. As MIRA's investments were made at the contemporaneous fair value of GWAHLP as of December 1, 2016, accounting for MIRA's noncontrolling interest in the Company's consolidated financial statements required adjustments to reflect a proportional interest in the net book value of GWAHLP. During the three months ended March 31, 2018, the Company determined that there was an error in its December 1, 2016 calculation of the noncontrolling interest for MIRA's 48.9% equity interest, which resulted in the following adjustment within the total equity section of the Company's consolidated balance sheet: a decrease in noncontrolling interest of \$71.9 million, an increase in additional paid-in capital of \$57.9 million and a decrease in AOCL of \$14.0 million. This revision has been reflected in the Company's consolidated balance sheet as of December 31, 2017 as well as the December 31, 2016 equity balances as disclosed in the Company's consolidated statements of changes in equity. There was no effect on any other section of the Company's balance sheet. This revision had no impact on the Company's consolidated statements of operations, comprehensive income or cash flows for the three and nine months ended September 30, 2018 and 2017. The Company does not consider this revision material to any previously issued consolidated financial statements.

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 issues and congestion, the ability to attract and retain skilled workers, 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) or congestion at ports (intermodal). 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:

North American Operations

Heart of Georgia Railroad, Inc.: On May 31, 2017, the Company completed the acquisition of all the outstanding shares of Atlantic Western Transportation, Inc., the parent company of Heart of Georgia Railroad, Inc. (HOG), for \$5.6 million in cash and contingent consideration valued at \$5.7 million. The contingent consideration is payable to the sellers upon satisfaction of certain conditions, which the Company expects to be paid in 2021. The results of operations from HOG have been included in the Company's consolidated statements of operations since the acquisition date.

HOG was founded in 1999 and operates 219 miles of track that runs across the State of Georgia. The track is leased from the Georgia Department of Transportation. It connects with the Company's Georgia Southwestern Railroad at Americus, Georgia, and with the Company's Georgia Central Railway at Vidalia, Georgia. HOG serves an inland intermodal terminal at Cordele, Georgia, providing five days per week, direct rail service via the Georgia Central

Railway to the Port of Savannah for auto, agricultural products and other merchandise customers. HOG has Class I railroad connections with CSX Corp. at Cordele and with Norfolk Southern at Americus and Helena, Georgia. HOG transports approximately 7,000 annual carloads of agricultural products, feed, fertilizer, and lumber and forest products.

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Australian Operations

Arrium Limited: On April 7, 2016, Genesee & Wyoming Australia's (GWA) customer, Arrium Limited (Arrium) announced it had entered into voluntary administration. As a result, during the first quarter of 2016, the Company recorded a \$13.0 million non-cash charge related to the impairment of GWA's idle rolling-stock maintenance facility and an allowance for doubtful accounts charge of \$8.1 million. Also, as a result of the voluntary administration, all payments to GWA associated with the rail haulage agreement for Arrium's Southern Iron mine ceased.

On August 31, 2017, Arrium was sold to GFG Alliance. The steel making business was rebranded as Liberty OneSteel, and the mining business was rebranded as SIMEC Mining (SIMEC). Although the Southern Iron mine is still mothballed, GWA continues to provide services and receive payments under the rail haulage agreement for SIMEC's Middleback Range operations. Pursuant to that rail haulage agreement, GWA serves several iron ore mines in the Middleback Range and the Whyalla steelworks operations.

In December 2017, the Company recovered \$0.9 million of cash in relation to the Company's previous agreements with Arrium. During the three and nine months ended September 30, 2018, the Company recorded \$0.9 million and \$7.3 million, respectively, of gains on settlement from additional cash recoveries of pre-petition claims associated with Arrium, which were recognized as offsets to other expenses, net in the Company's consolidated statement of operations.

U.K./European Operations

Continental Europe Intermodal Business: In 2017, the Company ceased all "open" train services from the port of Rotterdam, closed its Continental Europe intermodal business, ERS Railways B.V. (ERS), offices in Rotterdam and Frankfurt, and the ERS customer services function in Warsaw. The Company recorded restructuring charges of \$0.7 million and \$5.2 million for the three and nine months ended September 30, 2017, respectively, primarily related to severance costs and costs associated with surplus locomotive and railcar leases at ERS.

On June 5, 2018, the Company finalized the sale of ERS for gross cash proceeds of €11.2 million (or \$13.1 million at the exchange rate on June 5, 2018) or €6.8 million (or \$7.9 million at the exchange rate on June 5, 2018) net of €4.4 million (or \$5.2 million at the exchange rate on June 5, 2018) of cash on hand that transferred to the buyer. The sale resulted in a net loss of \$1.4 million recognized in the Company's consolidated statement of operations for the nine months ended September 30, 2018 within other income/(loss), net.

Pentalver Transport Limited: On May 3, 2017, the Company's subsidiary, GWI UK Acquisition Company Limited, purchased for cash all of the issued share capital of Pentalver Transport Limited (Pentalver) from a subsidiary of APM Terminals (a subsidiary of AP Møller-Maersk A/S) for £97.8 million (or \$126.2 million at the exchange rate on May 3, 2017) or £77.5 million (or \$100.1 million at the exchange rate on May 3, 2017) net of £20.2 million (or \$26.1 million at the exchange rate on May 3, 2017) of cash received in connection with the sale. The Company funded the acquisition with borrowings under the Company's Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement.

Headquartered in Southampton, U.K., Pentalver operates off-dock container terminals (most under long-term leases) strategically placed at each of the three major seaports of Felixstowe, Southampton and London Gateway, as well as an inland terminal located at Cannock, in the Midlands, near many of the nation's largest distribution centers. In addition to providing storage for loaded and empty containers on over 100 acres of land, Pentalver also operates a trucking haulage service with more than 150 trucks, primarily providing daily service between the seaports of Felixstowe and Southampton and its inland terminal at Cannock. Pentalver also provides services related to container customization, maintenance and repair (including refrigerated containers) and is one of the largest sellers of new and used containers in the U.K.

Pentalver's operations are complementary to those of the Company's Freightliner Group Limited (Freightliner) subsidiary, which is the largest rail maritime intermodal operator in the U.K. The logistics of maritime container transportation in the U.K. are highly competitive, whether by road, rail or short-sea, with a premium placed on timely, efficient and safe service. The results of operations from Pentalver have been included in the Company's consolidated statements of operations since the May 3, 2017 acquisition date.

The Company accounted for the acquisition as a business combination using the acquisition method of accounting under U.S. GAAP. The acquired assets and liabilities of Pentalver were recorded at their acquisition-date fair values and were consolidated with those of the Company as of the acquisition date. The foreign exchange rate used to translate the balance sheet to United States dollars was \$1.29 for one British pound.

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The acquisition date fair values were assigned to the acquired net assets as follows (amounts in thousands):

| | GBP | USD |
|--|---------|-----------|
| Cash and cash equivalents | £20,224 | \$26,117 |
| Accounts receivable | 16,849 | 21,759 |
| Materials and supplies | 13,360 | 17,253 |
| Prepaid expenses and other | 3,238 | 4,182 |
| Property and equipment | 20,649 | 26,666 |
| Goodwill | 8,592 | 11,096 |
| Intangible assets | 42,000 | 54,239 |
| Total assets | 124,912 | 161,312 |
| Accounts payable and accrued expenses | 21,341 | 27,560 |
| Deferred income tax liabilities, net | 5,220 | 6,741 |
| Deferred items-grants from outside parties | 601 | 776 |
| Net assets | £97,750 | \$126,235 |

The \$54.2 million of intangible assets relate to amortizable operational rights with contractual terms spanning up to 50 years and a weighted average amortization period of 33 years. The \$11.1 million of goodwill will not be deductible for tax purposes.

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, 2018 and 2017 (in thousands, except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Numerators: | | | | |
| Net income attributable to Genesee & Wyoming Inc. | \$69,590 | \$50,240 | \$188,856 | \$122,485 |
| Denominators: | | | | |
| Weighted average Class A common shares outstanding – Basic | 59,168 | 61,629 | 60,343 | 61,518 |
| Weighted average Class B common shares outstanding | 664 | 723 | 679 | 743 |
| Dilutive effect of employee stock-based awards | 299 | 125 | 233 | 138 |
| Weighted average shares – Diluted | 60,131 | 62,477 | 61,255 | 62,399 |
| Earnings per common share attributable to Genesee & Wyoming Inc. common stockholders: | | | | |
| Basic earnings per common share | \$1.18 | \$0.82 | \$3.13 | \$1.99 |
| Diluted earnings per common share | \$1.16 | \$0.80 | \$3.08 | \$1.96 |

The following total number of shares of Class A Common Stock 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, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Antidilutive shares | 704 | 1,245 | 1,045 | 1,302 |

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Share Repurchase

In September of 2015, the Company's Board of Directors authorized the repurchase of up to \$300 million of the Company's Class A Common Stock (the Repurchase Program), subject to certain limitations under the Company's credit facility. The table below presents information regarding shares repurchased by the Company under the Repurchase Program during the three and nine months ended September 30, 2018 (in thousands, except for per share amounts):

| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2018 |
|--|---|--|
| Class A Common Stock repurchased | 894 | 3,560 |
| Average price paid per share of Class A Common Stock repurchased | \$ 87.46 | \$ 75.99 |
| Shares excluded from weighted-average basic shares outstanding | 301 | 1,707 |

Repurchased shares are recorded in treasury stock, at cost, which includes any applicable commissions and fees. As of September 30, 2018, the remaining amount authorized for repurchase under the Repurchase Program was \$29.5 million. In October 2018, the Company completed the \$300 million Repurchase Program, and the Company's Board of Directors authorized a new \$500 million repurchase plan of Class A Common Stock, subject to certain limitations under the Company's credit facility. See Note 6, Long-Term Debt, for additional information regarding the Company's credit facility.

4. REVENUE:

The Company classifies its operating revenues into the following three categories: freight, freight-related and all other. Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for providing services. Certain of the countries in which the Company operates have a tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer. The Company records these taxes on a net basis.

The Company generates freight revenues from the haulage of freight by rail based on a per car, per container or per ton basis. Freight revenues are recognized over time as shipments move from origin to destination as the customer simultaneously receives and consumes the benefit. Related expenses are recognized as incurred.

The Company generates freight-related revenues from port terminal railroad operations and industrial switching (where the Company operates trains on a contract basis in facilities it does not own), as well as demurrage, storage, car hire, trucking haulage services, track access rights, transloading, crewing services, traction service (or hook and pull service that requires the Company to provide locomotives and drivers to move a customer's train between specified origin and destination points), and other ancillary revenues related to the movement of freight.

Freight-related revenues are recognized as services are performed or as contractual obligations are fulfilled.

The Company generates all other revenues from third-party railcar and locomotive repairs, container sales, property rentals and other ancillary revenues not directly related to the movement of freight. All other revenues are recognized as services are performed or as contractual obligations are fulfilled.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company's contracts may have a single performance obligation or multiple performance obligations. Contracts with multiple obligations are evaluated to define the specific performance obligations to the customer. The Company typically allocates the standalone selling price adjusted for any applicable variable consideration to each performance obligation to determine the transaction price.

For interline traffic, one railroad typically invoices a customer on behalf of all railroads participating in the route. The invoicing railroad then pays the other railroads their portion of the total amount invoiced on a monthly basis. When the Company is the invoicing railroad, it is exposed to customer credit risk for the total amount invoiced and is

required to pay the other railroads participating in the route even if the Company is not paid by the customer. The Company records revenue related to interline traffic that involves the services of another party or railroad on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as revenue.

The timing of revenue recognition, billings and cash collections result in trade accounts receivable, contract assets and contract liabilities. The Company's contract assets and liabilities are typically short-term in nature, with terms settled within a 12-month period. The Company had no material contract assets or contract liabilities recorded on the consolidated balance sheet as of September 30, 2018.

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Disaggregation of Revenue

The Company disaggregates its operating revenues into the following three categories: freight revenues, freight-related revenues and all other revenues. The Company further disaggregates its freight revenues into 14 commodity groups. Refer to Note 15, Segment Information, for the disaggregation of the Company's operating revenues by reportable segment for the three and nine months ended September 30, 2018 and 2017.

5. ACCOUNTS RECEIVABLE:

Accounts receivable consisted of the following as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Accounts receivable – trade | \$ 423,880 | \$ 401,723 |
| Accounts receivable – grants from outside parties | 14,610 | 17,734 |
| Accounts receivable – insurance and other third-party claims | 12,186 | 10,753 |
| Total accounts receivable | 450,676 | 430,210 |
| Less: Allowance for doubtful accounts | (9,571 |) (13,505 |
| Accounts receivable, net | \$ 441,105 | \$ 416,705 |

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 \$16.7 million and \$16.0 million for the nine months ended September 30, 2018 and 2017, 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, 2018 and 2017 (dollars in thousands):

| | Three Months | | Nine Months | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | Ended | Ended | Ended | Ended |
| | September 30, | September 30, | September 30, | September 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Amortization of deferred grants | \$3,173 | \$2,978 | \$8,776 | \$9,287 |

Insurance and Third-Party Claims

Accounts receivable from insurance and other third-party claims as of September 30, 2018 included \$6.4 million from the Company's U.K./European Operations and \$5.8 million from the Company's North American Operations. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with a personal injury that occurred in the U.K. in 2016. The balance from the Company's North American Operations resulted predominately from the Company's anticipated insurance recoveries associated with a bridge washout in Canada in January 2018. The Company received proceeds from insurance totaling \$2.8 million and \$1.4 million for the nine months ended September 30, 2018 and 2017, respectively.

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Accounts receivable from insurance and other third-party claims at December 31, 2017 included \$5.9 million from the Company's North American Operations, \$4.3 million from the Company's U.K./European Operations and \$0.6 million from the Company's Australian Operations. The balance from the Company's North American Operations resulted predominately from the Company's anticipated insurance recoveries associated with a 2015 trestle fire in the United States and derailments in Canada. The balance from the Company's U.K./European Operations resulted primarily from the Company's anticipated insurance recoveries associated with an ERS rail-related collision in Germany in 2014 that occurred prior to the Company's acquisition of Freightliner. This receivable and the associated claim liability were removed from the Company's consolidated balance sheet with the sale of ERS in June 2018. See Note 2, Changes in Operations, for additional information regarding the sale of ERS.

6. LONG-TERM DEBT:

Credit Agreement Amendment

On June 5, 2018, the Company entered into Amendment No. 3 (the Amendment) to the Credit Agreement, the Third Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Amended Credit Agreement). At closing, the credit facilities under the Amended Credit Agreement were comprised of a \$1,423.0 million United States term loan, a £272.9 million (or \$365.2 million at the exchange rate on June 5, 2018) 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. The Amendment also extended the maturity date of the Company's credit facilities to June 5, 2023. In connection with entering into the Amendment, the Company wrote-off \$2.2 million of unamortized deferred financing fees and capitalized an additional \$5.3 million of new fees. Deferred financing costs are amortized as additional interest expense over the terms of the related debt using the effective-interest method for the term loan debt and the straight-line method for the revolving credit facility.

At the Company's election, at the time of entering into a specific borrowing, interest on that borrowing is calculated under a "LIBOR" or "Base Rate." LIBOR is the London Interbank Offered Rate. The applicable borrowing spread for the LIBOR Rate loans ranges from 1.00% to 2.00% depending on the Company's total leverage ratio. The applicable spread for the Base Rate loans ranges from 0.00% to 1.00% depending on the Company's total leverage ratio. In addition to paying interest on any outstanding borrowing under the Amended Credit Agreement, the Company is required to pay a commitment fee related to the unutilized portion of the commitments under the revolving credit facility. The commitment fee ranges from 0.20% to 0.30% depending on the Company's total leverage ratio as defined in the Amended Credit Agreement.

Since entering into the Amendment, the Company has made prepayments of \$120.0 million on its United States term loan and £25.0 million (or \$32.8 million at the exchange rate at the time the payments were made) on its U.K. term loan, which were applied towards its future quarterly installments. As of September 30, 2018, the Company had the following amounts of term loans outstanding under the Amended Credit Agreement (amounts in thousands, except percentages):

| | Local Currency | United States Dollar Equivalent | Interest Rate |
|----------------------|-------------------|--|------------------|
| United States dollar | \$1,303,000 | \$1,303,000 | 3.74 % |
| British pound | £247,932 | \$323,353 | 2.22 % |

The United States dollar-denominated and British pound-denominated term loans will amortize in quarterly installments, with the remaining principal balance payable upon maturity, as set forth below (amounts in thousands):

| Quarterly Payment Date | Principal Amount of Each Quarterly Installment |
|------------------------|--|
|------------------------|--|

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| | | |
|-----------------------|---|-------------|
| United States dollar: | March 31, 2020 | \$4,513 |
| | June 30, 2020 through March 31, 2023 | \$17,788 |
| | Maturity date - June 5, 2023 | \$1,085,031 |
| British pound: | June 30, 2020 | £2,293 |
| | September 30, 2020 through March 31, 2023 | £3,412 |
| | Maturity date - June 5, 2023 | £208,111 |

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The Company's availability to draw from the unused borrowing capacity is subject to covenant limitations as discussed below. As of September 30, 2018, the Company had the following unused borrowing capacity under its revolving credit facility (amounts in thousands):

| | September 30, 2018 |
|---|-----------------------|
| Total available borrowing capacity | \$ 625,000 |
| Outstanding revolving loans | \$ 6,304 |
| Outstanding letter of credit guarantees | \$ 2,086 |
| Unused borrowing capacity | \$ 616,610 |

As of September 30, 2018, the Company had the following outstanding revolving loans under its revolving credit facility (amounts in thousands, except percentages):

| | Local Currency | United States Dollar Equivalent | Interest Rate |
|---------------------------------------|-------------------|--|------------------|
| United States dollar (swingline loan) | \$ 5,000 | \$ 5,000 | 5.75 % |
| British pound (swingline loan) | £ 1,000 | \$ 1,304 | 2.20 % |

Under the Amended Credit Agreement, the Company is required to comply with specified maximum senior secured leverage ratios. The maximum senior secured leverage ratio is set at 4.25 to 1.00 through June 30, 2019, and then, except as described below, decreases to 4.00 to 1.00 for all periods thereafter, subject, if applicable, to netting of certain cash and cash equivalents of the Company. Following acquisitions by the Company in excess of \$500 million, subject to certain limitations, the senior secured leverage ratio will be set at a level of 4.50 to 1.00 for the four fiscal quarters immediately following the date of such applicable acquisition.

In addition, the Amended Credit Agreement contains a maximum total leverage ratio and a minimum interest coverage ratio. The maximum total leverage ratio is 4.50 to 1.00 and the minimum interest coverage ratio is 3.50 to 1.00 for the term of the Amended Credit Agreement.

The Amendment permits the Company to repurchase an unlimited amount of shares of the Company's Class A Common Stock if the Company's total leverage ratio after giving effect to such repurchases on a pro forma basis would be less than 3.25 to 1.00, subject to certain other restrictions and limitations. If the Company's total leverage ratio after giving effect to such repurchases on a pro forma basis would exceed 3.25 to 1.00, the Company may, subject to certain limitations, repurchase shares of the Company's Class A Common Stock with a value of up to the sum of \$500 million and the amount remaining under the Company's current share repurchase program, which was \$29.5 million as of September 30, 2018, if the Company maintains at least \$100 million of liquidity. See Note 3, Earnings Per Common Share, for additional information regarding the Company's common share repurchases.

As of September 30, 2018, the Company was in compliance with the covenants under the Amended Credit Agreement.

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7. U.K. OPERATIONS OPTIMIZATION:

In 2018, the Company reorganized its U.K. business into three service platforms: Rail (Intermodal and Heavy Haul), Road (former Freightliner and Pentalver road operations) and Terminals (former Freightliner and Pentalver terminals), with a single combined commercial organization responsible for selling all three services. The Company also announced a program to restructure and further optimize its operations in the U.K. that began in May 2018 and is intended to be completed by early 2019. The program includes the rationalization of the locomotive and railcar fleet, management restructuring (following the U.K. consultative process), and technology investments to upgrade systems to enhance productivity and service quality. Restructuring and related expenses associated with the optimization are expected to be approximately \$52 million (assuming the adjustment described in footnote (a) below does not occur and an exchange rate of \$1.30 for one British pound) and are comprised of the following, including the current estimate of the timing of the related charges, which is subject to change (dollars in thousands):

| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2018 | Estimated Total Restructuring and Related Costs |
|--|---|--|---|
| Rationalization of locomotive and railcar fleet ^(a) | \$ 379 | \$ 6,317 | \$ 28,000 |
| Management restructuring ^(b) | 1,610 | 3,739 | 10,000 |
| Productivity and automation investments | 1,502 | 2,790 | 14,000 |
| Total | \$ 3,491 | \$ 12,846 | \$ 52,000 |

(a) The emergence of new commercial opportunities may result in less restructuring and related expense.

(b) Subject to requisite U.K. consultative process.

Restructuring and related activity for the U.K. Operations Optimization program for the nine months ended September 30, 2018 was as follows (dollars in thousands):

| | Rationalization of Locomotive and Railcar Fleet | Management Restructuring | Productivity and Automation Investments | Total |
|--|--|-----------------------------|--|---------|
| Restructuring and related liability as of December 31, 2017 | \$ — | \$ — | \$ — | \$— |
| Restructuring and related costs incurred | 6,317 | 3,739 | 2,790 | 12,846 |
| Cash payments | (797) | (2,405) | (2,567) | (5,769) |
| Non-cash settlements | (897) | — | (223) | (1,120) |
| Restructuring and related liability as of September 30, 2018 | \$ 4,623 | \$ 1,334 | \$ — | \$5,957 |

8. DERIVATIVE FINANCIAL INSTRUMENTS:

On January 1, 2018, the Company adopted ASU 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities, which expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendment also includes certain improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The adoption of this guidance amended the Company's accounting for cross-currency swaps whereby interest expense accruals previously presented in an interest expense line item are presented as a gain/loss on currency conversion within other income/(loss), net in the non-operating section of the consolidated statement of operations. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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, accrued expenses or other long-term liabilities.

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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 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 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.

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 (amounts in thousands):

| Effective Date | Expiration Date | Notional Amount | | Pay Fixed Rate | Receive Variable Rate |
|----------------|-----------------|-----------------|------------|----------------|-----------------------|
| | | Date | Amount | | |
| 12/1/2016 | 12/1/2021 | 12/1/2021 | A\$372,600 | 2.44% | AUD-BBR |
| 12/1/2016 | 12/1/2021 | 12/1/2021 | A\$110,746 | 2.44% | AUD-BBR |
| 12/1/2016 | 12/1/2021 | 12/1/2021 | A\$34,155 | 2.44% | AUD-BBR |
| 8/31/2018 | 8/31/2021 | 8/31/2021 | \$ 100,000 | 2.70% | 1-month LIBOR |
| 8/31/2018 | 8/31/2021 | 8/31/2021 | \$ 100,000 | 2.71% | 1-month LIBOR |
| 8/31/2018 | 8/31/2048 | 8/31/2048 | \$ 100,000 | 2.84% | 1-month LIBOR |
| 8/31/2018 | 8/31/2048 | 8/31/2048 | \$ 100,000 | 2.87% | 1-month LIBOR |
| 8/31/2018 | 8/31/2048 | 8/31/2048 | \$ 100,000 | 2.84% | 1-month LIBOR |

During the three months ended September 30, 2018, the Company entered into multiple 30-year interest rate swap agreements to manage the exposure to changes in interest rates on the Company's variable rate debt. The swaps have a mandatory termination feature on August 31, 2023. These 30-year swaps 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.

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The following table summarizes the Company's interest rate swap agreements that were settled during the nine months ended September 30, 2018 (dollars in thousands):

| Effective Date | Settlement Date | Date | Notional Amount | Pay Fixed Rate | Receive Variable Rate |
|----------------|-----------------|-----------|-----------------|----------------|-----------------------|
| 9/30/2016 | 8/15/2018 | 9/30/2026 | \$100,000 | 2.76% | 1-month LIBOR |
| 9/30/2016 | 8/15/2018 | 9/30/2026 | \$100,000 | 2.74% | 1-month LIBOR |
| 9/30/2016 | 8/15/2018 | 9/30/2026 | \$100,000 | 2.73% | 1-month LIBOR |

The fair values of the Company's interest rate swap agreements were estimated based on Level 2 inputs. During the three and nine months ended September 30, 2018, \$0.5 million and \$1.2 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, 2017, \$0.6 million and \$1.5 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, 2018, it expects to realize \$0.2 million of existing net losses that are reported in AOCL into earnings within the next 12 months. See Note 13, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges.

Foreign Currency Exchange Rate Risk

As of September 30, 2018, the Company's foreign subsidiaries had \$1.0 billion 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.

The Company is also exposed to foreign currency exchange rate risk, including non-functional currency intercompany debt, typically 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. To mitigate currency exposures related to significant asset purchases in non-functional denominated currencies, foreign currency forward contracts may be entered into for periods consistent with the anticipated future outflow of cash. 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.

The following table summarizes the Company's outstanding foreign currency forward contracts associated with assets to be purchased by GWA in United States dollars within the next six months (dollars in thousands):

| Effective date | Settlement Date | Notional Amount | Exchange Rate (AUD to USD) |
|----------------|-----------------|-----------------|----------------------------|
| 5/2/2018 | 11/5/2018 | \$4,315 | 0.75 |
| 5/2/2018 | 12/21/2018 | \$5,753 | 0.75 |

The following table summarizes the Company's foreign currency forward contract that was settled during the nine months ended September 30, 2018 (dollars in thousands):

| Effective date | Settlement Date | Notional Amount |
|----------------|-----------------|-----------------|
|----------------|-----------------|-----------------|

| | | | Exchange Rate (AUD to USD) |
|-----------|----------|---------|-------------------------------|
| 4/18/2018 | 7/5/2018 | \$5,379 | 0.78 |

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The fair values of the Company's foreign currency forward contracts were estimated based on Level 2 inputs, as further described in Note 9, Fair Value of Financial Instruments. During the three and nine months ended September 30, 2018, \$0.4 million of net gains were recorded as other income/(loss), net in the consolidated statements of operations. Based on the Company's fair value assumptions as of September 30, 2018, it expects to realize \$0.4 million of existing net gains that are reported in AOCL into earnings within the next 12 months. See Note 13, Accumulated Other Comprehensive Loss, for additional information regarding the Company's cash flow hedges. On March 25, 2015, the Company closed on the Freightliner acquisition and paid cash consideration 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, 2018 of £28.1 million (or \$36.7 million at the exchange rate on September 30, 2018), 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. During the three and nine months ended September 30, 2018, \$0.2 million and \$0.5 million, respectively, of net gains were recorded as interest income in the consolidated statements of operations. During the three and nine months ended September 30, 2017, \$0.1 million and \$0.4 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, 2018, it expects to realize \$0.8 million of existing net gains that are reported in AOCL into earnings within the next 12 months. See Note 13, 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 (GBP to USD) |
|----------------|-----------------|-----------------|----------------------------|
| 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 |
| 12/30/2016 | 3/31/2020 | £1,989 | 1.28 |
| 3/31/2017 | 3/31/2020 | £1,975 | 1.30 |
| 6/30/2017 | 3/31/2020 | £2,026 | 1.34 |
| 10/2/2017 | 3/31/2020 | £2,079 | 1.36 |
| 12/29/2017 | 3/31/2020 | £2,111 | 1.39 |
| 3/29/2018 | 3/31/2020 | £2,096 | 1.44 |
| 6/29/2018 | 3/31/2020 | £2,151 | 1.36 |
| 9/28/2018 | 3/31/2020 | £2,207 | 1.34 |

On December 1, 2016, GWAHLP and the Company's subsidiary, GWI Holding B.V. (GWBV), entered into an A\$248.9 million non-recourse subordinated partner loan agreement (GRail Intercompany Loan), which is eliminated in consolidation. GWAHLP used the proceeds from this loan to fund a portion of the acquisition of GRail. To mitigate the foreign currency exchange rate risk related to the non-functional currency intercompany loan, the Company

entered into two Euro/Australian dollar floating-to-floating cross-currency swap agreements (the Swaps) on December 22, 2016, which effectively convert the A\$248.9 million intercompany loan receivable in the Netherlands into a €171.7 million loan receivable. These agreements do not qualify as hedges for accounting purposes and, accordingly, mark-to-market changes in the fair value of the Swaps relative to the underlying GRail Intercompany Loan will be recorded over the life of the agreements, which expire on June 30, 2019.

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The first swap requires the Company to pay Australian dollar BBR plus 4.50% based on a notional amount of A\$123.9 million and allows the Company to receive EURIBOR plus 2.68% based on a notional amount of €85.5 million on a semi-annual basis. BBR is the Bankers Buyers Rate and EURIBOR is the Euro Interbank Offered Rate, which the Company believes are generally considered equivalents to LIBOR. The second swap requires the Company to pay Australian dollar BBR plus 4.50% based on a notional amount of A\$125.0 million and allows the Company to receive EURIBOR plus 2.90% based on a notional amount of €86.3 million on a semi-annual basis. The Swaps require semi-annual net settlement payments. During the three and nine months ended September 30, 2018, \$2.4 million and \$4.9 million of net expense, respectively, was realized within other income/(loss), net in the consolidated statement of operations as a result of the mark-to-market impact of the GRail Intercompany Loan compared to the mark-to-market of the Swaps.

During the three and nine months ended September 30, 2017, \$0.8 million and \$4.5 million, respectively, of net expense was realized within other income/(loss), net in the consolidated statements of operations as a result of the mark-to-market impact of the GRail Intercompany Loan compared to the mark-to-market of the Swaps. Over the life of the Swaps, the Company expects the cumulative impact of net gains and losses from the mark-to-market of the GRail Intercompany Loan and Swaps to be approximately zero.

The following table summarizes the fair value of the Company's derivative instruments recorded in the consolidated balance sheets as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | Balance Sheet Location | Fair Value | |
|--|-----------------------------|--------------------|-------------------|
| | | September 30, 2018 | December 31, 2017 |
| Asset Derivatives: | | | |
| Derivatives designated as hedges: | | | |
| Interest rate swap agreements | Prepaid expenses and other | \$ 527 | \$ — |
| Foreign currency forward contracts | Prepaid expenses and other | 383 | — |
| Interest rate swap agreements | Other assets | 6,596 | — |
| British pound forward contracts | Other assets | 20,803 | 13,657 |
| Total derivatives designated as hedges | | \$28,309 | \$ 13,657 |
| Derivatives not designated as hedges: | | | |
| Cross-currency swap contract | Prepaid expenses and other | \$ 16,648 | \$ 5,775 |
| Cross-currency swap contract | Other assets | — | 2,887 |
| Total derivatives not designated as hedges | | \$ 16,648 | \$ 8,662 |
| Liability Derivatives: | | | |
| Derivatives designated as hedges: | | | |
| Interest rate swap agreements | Accrued expenses | \$ 755 | \$ 1,972 |
| Interest rate swap agreements | Other long-term liabilities | 1,706 | 12,410 |
| British pound forward contracts | Other long-term liabilities | 246 | 829 |
| Total derivatives designated as hedges | | \$ 2,707 | \$ 15,211 |

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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, 2018 and 2017 in other comprehensive income (OCI) (dollars in thousands):

| | Total Cash Flow Hedge OCI Activity, Net of Tax | | | |
|---|--|---|--|---|
| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 |
| Derivatives Designated as Cash Flow Hedges: | | | | |
| Effective portion of net changes in fair value recognized in OCI, net of tax: | | | | |
| Interest rate swap agreements | \$4,816 | \$388 | \$14,396 | \$(1,382) |
| Foreign currency forward contracts | (13) | — | 275 | — |
| British pound forward contracts, net ^(a) | 350 | 348 | 85 | 2,020 |
| | \$5,153 | \$736 | \$14,756 | \$638 |

The three and nine months ended September 30, 2018 represented a net gain of \$2.0 million and \$5.5 million, respectively, for the mark-to-market of the British pound forward contracts, offset by a net loss of \$1.7 million and \$5.4 million, respectively, for the mark-to-market of the U.K. intercompany loan. The three and nine months ended ^(a) September 30, 2017 represented a net gain of \$3.2 million and \$8.6 million, respectively, for the mark-to-market of the U.K. intercompany loan, offset by a net loss of \$2.8 million and \$6.6 million, respectively, for the mark-to-market of the British pound forward contracts.

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, 2018 and 2017 in the consolidated statements of operations (dollars in thousands):

| | Location of Amount Recognized in Earnings | Amount Recognized in Earnings | | | |
|---|--|--|---|--|---|
| | | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 |
| Derivative Instruments Not Designated as Hedges: | | | | | |
| Cross-currency swap agreements | Interest expense | \$— | \$(1,887) | \$— | \$(1,887) |
| Cross-currency swap agreements, net ^(a) | Other income/(loss), net | (2,410) | (842) | (4,900) | (4,510) |
| | | \$(2,410) | \$(2,729) | \$(4,900) | \$(6,397) |

The three months ended September 30, 2018 represented a net gain of \$0.6 million for the mark-to-market of the Swaps, offset by a net loss of \$3.0 million for the mark-to-market of the GRail Intercompany Loan. The nine months ended September 30, 2018 represented a net gain of \$3.2 million for the mark-to-market of the Swaps, ^(a) partially offset by a net loss of \$8.1 million for the mark-to-market of the GRail Intercompany Loan. The three and nine months ended September 30, 2017 represented a net gain of \$1.7 million and \$2.0 million, respectively, for the mark-to-market of the Swaps, offset by a net loss of \$2.5 million and \$6.5 million, respectively, for the mark-to-market of the GRail Intercompany Loan.

9. 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.

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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.

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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, foreign currency forward contracts and cross-currency swap agreements. The Company estimated the fair value of its interest rate swap agreements based on Level 2 valuation inputs, including fixed interest rates, LIBOR and BBR 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 estimated the fair value of its foreign currency forward contracts based on Level 2 valuation inputs, including BBR implied forward interest rates and the remaining time to maturity. The Company estimated the fair value of its cross-currency swap agreements based on Level 2 valuation inputs, including EURIBOR implied forward interest rates, BBR implied forward interest rates and the remaining time to maturity. The Company's recurring fair value measurements using significant unobservable inputs (Level 3) relate to the Company's deferred consideration from the HOG acquisition in 2017. The fair values of the deferred consideration liabilities were 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, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Financial instruments carried at fair value using Level 2 inputs: | | |
| Financial assets carried at fair value: | | |
| Interest rate swap agreements | \$ 7,123 | \$ — |
| Foreign currency forward contracts | 383 | — |
| British pound forward contracts | 20,803 | 13,657 |
| Cross-currency swap contracts | 16,648 | 8,662 |
| Total financial assets carried at fair value | \$ 44,957 | \$ 22,319 |
| Financial liabilities carried at fair value: | | |
| Interest rate swap agreements | \$ 2,461 | \$ 14,382 |
| British pound forward contracts | 246 | 829 |
| Total financial liabilities carried at fair value | \$ 2,707 | \$ 15,211 |

The following table presents the Company's financial instrument carried at fair value using Level 3 inputs as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Financial instrument carried at fair value using Level 3 inputs: | | |
| Financial liabilities carried at fair value: | | |
| Accrued deferred consideration – HOG | \$ 6,368 | \$ 5,974 |

At the date of acquisition of HOG in 2017, the contingent liability represented the fair value of the deferred consideration payable to the sellers upon satisfaction of certain conditions, which the Company expects to be paid in 2021. See Note 2, Changes in Operations, for additional information regarding HOG.

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As of September 30, 2017, the Company also had a \$37.2 million deferred consideration liability associated with the 2015 acquisition of Freightliner. At the date of acquisition of Freightliner, the contingent liability represented the aggregate fair value of the shares transferred to the Company by certain former management shareholders of Freightliner (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).

The Company's contingent liabilities have been adjusted each period since the acquisition dates to represent the fair value of the deferred consideration as of each balance sheet date. To do so, the Company recalculated the estimated fair value of the Freightliner deferred consideration in each reporting period 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. The Company bought out the Freightliner deferred consideration in November 2017. In addition, the Company recalculates the HOG's deferred consideration based on the contractual formula as defined in the stock purchase agreement. These calculations effectively represent the present value of the expected payment to be made upon settlement of the deferred consideration. Accordingly, such recalculations 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. The Company expects to recognize future changes in HOG's contingent liability for the estimated fair value of the deferred consideration through other expenses within the Company's consolidated statement of operations. This future change in the estimated fair value of the deferred consideration is not expected to be deductible for tax purposes.

The following table presents the amounts recognized, through other expenses, net within the Company's consolidated statements of operations during the three and nine months ended September 30, 2018 and 2017, as a result of the change in the estimated fair value of the deferred consideration, which primarily represented the time value of money (dollars in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Freightliner | \$— | \$859 | \$— | \$2,405 |
| HOG | \$137 | \$126 | \$394 | \$166 |

The following table presents the carrying value, net of debt issuance costs and fair value using Level 2 inputs of the Company's financial instruments carried at historical cost as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | December 31, 2017 | |
|---|--------------------|-------------|-------------------|-------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial liabilities carried at historical cost: | | | | |
| United States term loan | \$1,295,234 | \$1,302,650 | \$1,204,714 | \$1,208,657 |
| U.K. term loan | 322,526 | 325,565 | 124,747 | 126,480 |
| Australian credit agreement | 465,547 | 473,331 | 513,192 | 528,105 |
| Australia subordinated shareholder loan from MIRA | 172,296 | 170,173 | 186,085 | 184,750 |
| Revolving credit facility | 2,395 | 6,304 | 225,155 | 229,483 |
| Other debt | 2,375 | 2,363 | 2,419 | 2,426 |
| Total | \$2,260,373 | \$2,280,386 | \$2,256,312 | \$2,279,901 |

10. U.K. PENSION PLAN:

Through its Freightliner subsidiary, the Company has a defined benefit pension plan for Freightliner's eligible 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 participating members, 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.

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The following tables summarize the components of the Pension Program related to the net benefit costs recognized in labor and benefits and other income/(loss), net in the Company's consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---|--|----------|---|-----------|
| Operating expense: | | | | |
| Service cost ^(a) | \$3,610 | \$3,909 | \$11,235 | \$11,434 |
| Nonoperating income, net: | | | | |
| Interest cost | 2,383 | 2,588 | 7,416 | 7,569 |
| Expected return on plan assets | (4,572) | (4,327) | (14,231) | (12,655) |
| Total nonoperating income, net ^(b) | (2,189) | (1,739) | (6,815) | (5,086) |
| Net periodic benefit cost | \$1,421 | \$2,170 | \$4,420 | \$6,348 |

(a) Included in labor and benefits within the Company's consolidated statement of operations.

(b) Included in other income/(loss), net within the Company's consolidated statement of operations.

During the nine months ended September 30, 2018, the Company contributed £4.5 million (or \$6.0 million at the exchange rate when the payments were made) to fund the Pension Program. The Company expects to contribute £2.9 million (or \$3.8 million at the September 30, 2018 exchange rate) to the Pension Program for the remainder of 2018.

The Pension Program's assets may undergo significant changes over time as a result of market conditions, and its assets and liabilities are formally valued on an independent actuarial basis every three years to assess the adequacy of funding levels. A key element of the valuation process is an assessment of the creditworthiness of the participating employer. In March 2018, the Company completed its triennial valuation based on the program's funding position as of December 31, 2016, which did not have and is not expected to have a material impact on its consolidated financial statements. 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.

11. INCOME TAXES:

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was enacted into law, and the SEC's staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of the TCJA on accounting for income taxes in the period which includes the enactment date. Specifically, when the initial accounting for items under the TCJA is incomplete, SAB 118 allows companies to include provisional amounts when reasonable estimates can be made. SAB 118 provides for an up to one-year measurement period during which the tax effect of the TCJA can be recomputed based on additional guidance and analysis. Any adjustment will be recorded as a tax expense or benefit in the reporting period during which the amounts are determined. As a result, during the three months ended September 30, 2018, the Company made a \$1.6 million measurement period adjustment to increase the one-time transition (toll) tax on earnings of certain foreign subsidiaries. The Company will continue to refine its estimates as additional guidance and information is available including deferred taxes related to certain equity compensation arrangements.

The Company's provision for income taxes for the three months ended September 30, 2018 was \$31.0 million, compared with \$30.5 million for the three months ended September 30, 2017. The Company's effective income tax rate for the three months ended September 30, 2018 was 30.0%, including the \$1.6 million TCJA measurement period adjustment, compared with 36.4% for the three months ended September 30, 2017. The Company's provision for income taxes for the three months ended September 30, 2017 included the recognition of \$3.3 million of previously unrecognized tax benefits resulting from the lapse of the statute of limitations on acquired liabilities for uncertain tax

positions. The decrease in the Company's effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%.

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The Company's provision for income taxes for the nine months ended September 30, 2018 was \$41.6 million, compared with \$82.0 million for the nine months ended September 30, 2017. The provision for income taxes for the nine months ended September 30, 2018 included a \$31.6 million benefit from the retroactive extension of the United States Short Line Tax Credit for fiscal year 2017, which was enacted in February 2018. In addition, the provision for income taxes for the nine months ended September 30, 2018, included an adjustment to record a reserve for uncertain tax positions of \$5.5 million related to tax deductions on intercompany financing arrangements in the U.K., of which \$3.7 million related to the period from March 25, 2015, the date of the Freightliner acquisition when the arrangements were established, through December 31, 2017. Excluding the benefit from the retroactive extension and the reserve for uncertain tax positions, the effective income tax rate for the nine months ended September 30, 2018 was 28.4%. The Company's effective income tax rate for the nine months ended September 30, 2017 was 38.9%. The decrease in the effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%.

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 United States Short Line Tax Credit was initially enacted for a three-year period, 2005 through 2007, and was subsequently extended a series of times with the last extension enacted in February 2018. The February 2018 extension provided a retroactive credit, solely for fiscal year 2017. Legislation is currently pending that seeks to make the United States Short Line Tax Credit permanent for fiscal year 2018 and beyond.

12. COMMITMENTS AND CONTINGENCIES:

From time to time, the Company is a defendant in certain lawsuits and a party to certain arbitrations 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. Management believes there are adequate provisions in the financial statements for any probable liabilities that may result from disposition of the pending lawsuits and arbitrations. However, any material changes to pending litigation or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injuries or environmental liability or other claims or disputes that are not covered by insurance could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

In November 2014, the Company received a notice from the United States Environmental Protection Agency (EPA) requesting information under the Clean Water Act related to the discharge of crude oil as a result of a derailment of an Alabama & Gulf Coast Railway LLC (AGR) freight train in November 2013 in the vicinity of Aliceville, Alabama. In May 2018, the EPA notified the AGR of a maximum civil payment of up to \$14.1 million, based on the amount of oil allegedly discharged and other relevant factors considered under the applicable regulation. The Company's evaluation of its defenses, settlement options and insurance coverage is ongoing.

The Company has also been involved in several arbitrations related to contractual disputes that are not covered by insurance, which have been resolved during the three months ended September 30, 2018. In March 2017, CSX Transportation, Inc. (CSXT) initiated arbitration against several of the Company's subsidiaries associated with freight revenue factors (or divisions) under certain operating agreements associated with leased railroads. During the three months ended September 30, 2018, a final award was issued in the CSXT arbitration that denied CSXT's request to reduce freight revenue factors and resolved the related contractual disputes with no material impact on the Company's subsidiaries. The pending arbitration related to the AGR's collection of approximately \$13 million of liquidated damages under a volume commitment contract with a customer was also favorably resolved during the three months

ended September 30, 2018, and all outstanding amounts due to AGR, plus interest, were collected in October 2018.

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13. ACCUMULATED OTHER COMPREHENSIVE LOSS:

The following tables set forth the components of AOCL attributable to Genesee & Wyoming Inc. included in the consolidated balance sheets and consolidated statements of comprehensive income (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, 2017 | \$ (74,617) | \$ (19,601) | \$ (11,316) | \$ (105,534) |
| Other comprehensive (loss)/income before reclassifications | (41,395) | — | 14,926 | (26,469) |
| Amounts reclassified from accumulated other comprehensive loss, net of tax (provision)/benefit of (\$42) and \$76, respectively | — | 129 | (a)(232) | (b)(103) |
| Current period change | (41,395) | 129 | 14,694 | (26,572) |
| Amounts reclassified from accumulated other comprehensive loss to retained earnings related to the United States Tax Cuts and Jobs Act | — | (132) | (2,838) | (2,970) |
| Balance, September 30, 2018 | \$ (116,012) | \$ (19,604) | \$ 540 | \$ (135,076) |
| | Foreign Currency Translation Adjustment | Defined Benefit Plans | Net Unrealized Gain/(Loss) on Cash Flow Hedges | Accumulated Other Comprehensive Loss |
| Balance, December 31, 2016 | \$ (163,642) | \$ (19,948) | \$ (13,726) | \$ (197,316) |
| Other comprehensive income/(loss) before reclassifications | 81,412 | (2,262) | (7,003) | 72,147 |
| Amounts reclassified from accumulated other comprehensive loss, net of tax (provision) of (\$60) and (\$5,347), respectively | — | 113 | (a)7,937 | (b)8,050 |
| Current period change | 81,412 | (2,149) | 934 | 80,197 |
| Balance, September 30, 2017 | \$ (82,230) | \$ (22,097) | \$ (12,792) | \$ (117,119) |

(a) Existing net gains realized were recorded in labor and benefits on the consolidated statements of operations.

(b) Existing net gains/(losses) realized were recorded in interest expense on the consolidated statements of operations (see Note 8, Derivative Financial Instruments).

Comprehensive Income/(Loss) Attributable to Noncontrolling Interest

The following table sets forth comprehensive income attributable to noncontrolling interest for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | | 2017 | |
|---|--|---------|---|---------|------|--|
| Net income attributable to noncontrolling interest | \$2,720 | \$3,145 | \$8,090 | \$6,317 | | |
| Other comprehensive income/(loss): | | | | | | |
| Foreign currency translation adjustment | (4,804) | 4,972 | (17,647) | 18,642 | | |
| Net unrealized gain/(loss) on qualifying cash flow hedges, net of tax (provision)/benefit of \$41, (\$164), (\$26), and \$127, respectively | (95) | 383 | 62 | (296) | | |

| | | | | | |
|---|--|--|--|--|--|
| Comprehensive (loss)/income attributable to noncontrolling interest | | | | | |
| | | | | | |

14. SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of September 30, 2018 and 2017, the Company had outstanding accounts receivable from outside parties for the funding of capital expenditures of \$14.6 million and \$12.2 million, respectively. As of September 30, 2018 and 2017, the Company also had \$16.1 million and \$12.3 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.

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15. SEGMENT INFORMATION:

The Company presents the financial results of its nine operating regions as three reportable segments: North American Operations, Australian Operations and U.K./European Operations. The Company's seven North American regions are aggregated into one segment as a result of having similar economic and operating characteristics. 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 Australian business underwent a transformational change on December 1, 2016, with the acquisition of GRail and the formation of the Australia Partnership, which the Company controls through its 51.1% interest. The GRail acquisition significantly expanded the Company's operations in New South Wales. In conjunction with the GRail acquisition, the Company issued a 48.9% equity stake in its Australian subsidiary, GWAHLP, to MIRA. The Company retained a 51.1% controlling interest in GWAHLP and continues to consolidate 100% of its Australian Operations in the Company's financial statements and reports a noncontrolling interest for MIRA's 48.9% equity ownership. As a result, (1) 100% of the assets and liabilities of the Company's Australian Operations, after the elimination of intercompany balances, were included in the Company's consolidated balance sheets as of September 30, 2018 and December 31, 2017, with MIRA's 48.9% noncontrolling interest reflected in the equity section, (2) the Company's operating revenues and operating income for the three and nine months ended September 30, 2018 and 2017 included 100% of the Australian Operations, while net income attributable to G&W reflected the Company's 51.1% ownership position in the Australian Operations since the formation of the partnership on December 1, 2016 and (3) 100% of the cash flows of the Australian Operations, after the elimination of intercompany items, were included in the Company's consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017. Accordingly, any payments between the Company's Australian Operations and its other businesses are eliminated in consolidation, while the Company's cash flows reflect 100% of any cash flows between the Australian Operations and MIRA.

In accordance with the Australia Partnership agreement, the cash and cash equivalents of the Company's Australian Operations can be used to make payments in the usual and regular course of business, to pay down debt of the Australia Partnership and to make distributions to the partners in proportion to their investments. During the nine months ended September 30, 2018, the Australia Partnership made a A\$40.0 million distribution, of which A\$20.4 million (or \$15.6 million at the exchange rate at the time the payment was made) and A\$19.6 million (or \$14.9 million at the exchange rate at the time the payment was made) were distributed to the Company and MIRA, respectively, and no such distributions were made for the nine months ended September 30, 2017.

The results of operations of the Company's 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 tables reflect the balance sheet exchange rates as of September 30, 2018 and December 31, 2017 and the average exchange rates for the three and nine months ended September 30, 2018 and 2017 used to translate the foreign entities respective local currency balance sheet and results of operations into United States dollars for the respective period:

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| United States dollar per Australian dollar | \$ 0.72 | \$ 0.78 |
| United States dollar per British pound | \$ 1.30 | \$ 1.35 |
| United States dollar per Canadian dollar | \$ 0.77 | \$ 0.80 |
| United States dollar per Euro | \$ 1.16 | \$ 1.20 |

| | Three Months | Nine Months Ended September 30, |
|--|-----------------|------------------------------------|
|--|-----------------|------------------------------------|

| | Ended | | | |
|--|-----------|--------|--------|---------|
| | September | | | |
| | 30, | | | |
| | 2018 | 2017 | 2018 | 2017 |
| United States dollar per Australian dollar | \$0.73 | \$0.79 | \$0.76 | \$ 0.77 |
| United States dollar per British pound | \$1.30 | \$1.31 | \$1.35 | \$ 1.28 |
| United States dollar per Canadian dollar | \$0.77 | \$0.80 | \$0.78 | \$ 0.77 |
| United States dollar per Euro | \$1.16 | \$1.17 | \$1.19 | \$ 1.11 |

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The following tables set forth select financial data for the Company's reportable segments, including operating revenues by commodity group, for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands) (prior period revenue amounts have not been adjusted under the modified retrospective method):

| | Three Months Ended September 30, 2018 | | | |
|---|---------------------------------------|-----------------------|--------------------------|------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues by commodity group: | | | | |
| Agricultural Products | \$30,565 | \$ 4,150 | \$ 1,053 | \$ 35,768 |
| Autos & Auto Parts | 5,513 | — | — | 5,513 |
| Chemicals & Plastics | 38,436 | — | — | 38,436 |
| Coal & Coke | 23,006 | 32,357 | 2,588 | 57,951 |
| Food & Kindred Products | 8,761 | — | — | 8,761 |
| Intermodal | 514 | 17,538 | 58,609 | 76,661 |
| Lumber & Forest Products | 24,113 | — | — | 24,113 |
| Metallic Ores | 3,573 | 8,914 | — | 12,487 |
| Metals | 34,904 | — | — | 34,904 |
| Minerals & Stone | 38,570 | 2,066 | 22,344 | 62,980 |
| Petroleum Products | 18,236 | 224 | 99 | 18,559 |
| Pulp & Paper | 31,961 | — | — | 31,961 |
| Waste | 8,089 | — | — | 8,089 |
| Other | 7,191 | — | — | 7,191 |
| Total freight revenues | 273,432 | 65,249 | 84,693 | 423,374 |
| Freight-related revenues | 66,045 | 10,136 | 69,269 | 145,450 |
| All other revenues | 16,232 | 1,318 | 16,930 | 34,480 |
| Total operating revenues | \$355,709 | \$ 76,703 | \$ 170,892 | \$ 603,304 |
| Operating income | \$102,484 | \$ 20,713 | \$ 4,623 | \$ 127,820 |
| Depreciation and amortization | \$41,388 | \$ 14,937 | \$ 9,067 | \$ 65,392 |
| Interest expense, net | \$10,339 | \$ 12,780 | \$ 2,893 | \$ 26,012 |
| Provision for income taxes | \$26,323 | \$ 2,398 | \$ 2,292 | \$ 31,013 |
| Cash expenditures for additions to property & equipment, net of grants from outside parties | \$42,120 | \$ 8,185 | \$ 6,704 | \$ 57,009 |

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| | Three Months Ended September 30, 2017 | | | |
|---|---------------------------------------|--------------------------|-----------------------------|---------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues by commodity group: | | | | |
| Agricultural Products | \$28,699 | \$ 6,059 | \$ 964 | \$ 35,722 |
| Autos & Auto Parts | 6,079 | — | — | 6,079 |
| Chemicals & Plastics | 36,745 | — | — | 36,745 |
| Coal & Coke | 20,008 | 29,013 | 2,345 | 51,366 |
| Food & Kindred Products | 8,257 | — | — | 8,257 |
| Intermodal | 311 | 19,012 | 67,374 | 86,697 |
| Lumber & Forest Products | 22,204 | — | — | 22,204 |
| Metallic Ores | 3,703 | 11,305 | — | 15,008 |
| Metals | 26,008 | — | — | 26,008 |
| Minerals & Stone | 34,769 | 792 | 20,680 | 56,241 |
| Petroleum Products | 16,425 | 223 | — | 16,648 |
| Pulp & Paper | 28,135 | — | — | 28,135 |
| Waste | 6,662 | — | — | 6,662 |
| Other | 4,963 | — | — | 4,963 |
| Total freight revenues | 242,968 | 66,404 | 91,363 | 400,735 |
| Freight-related revenues | 60,286 | 12,880 | 67,757 | 140,923 |
| All other revenues | 15,673 | 1,986 | 17,610 | 35,269 |
| Total operating revenues | \$318,927 | \$ 81,270 | \$ 176,730 | \$ 576,927 |
| Operating income | \$82,203 | \$ 22,276 | \$ 5,363 | \$ 109,842 |
| Depreciation and amortization | \$40,036 | \$ 15,753 | \$ 8,433 | \$ 64,222 |
| Interest expense, net | \$9,817 | \$ 13,678 | \$ 4,323 | \$ 27,818 |
| Provision for income taxes | \$28,270 | \$ 2,013 | \$ 224 | \$ 30,507 |
| Cash expenditures for additions to property & equipment, net of grants from outside parties | \$41,713 | \$ 4,545 | \$ 6,981 | \$ 53,239 |

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Nine Months Ended September 30, 2018

| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
|--|---------------------------------|--------------------------|-----------------------------|---------------------|
|--|---------------------------------|--------------------------|-----------------------------|---------------------|

| | | | | |
|---|-------------|------------|------------|--------------|
| Operating revenues: | | | | |
| Freight revenues by commodity group: | | | | |
| Agricultural Products | \$91,630 | \$ 15,639 | \$ 3,073 | \$ 110,342 |
| Autos & Auto Parts | 16,686 | — | — | 16,686 |
| Chemicals & Plastics | 113,625 | — | — | 113,625 |
| Coal & Coke | 62,038 | 96,506 | 8,751 | 167,295 |
| Food & Kindred Products | 25,587 | — | — | 25,587 |
| Intermodal | 1,203 | 50,613 | 192,413 | 244,229 |
| Lumber & Forest Products | 70,362 | — | — | 70,362 |
| Metallic Ores | 10,816 | 24,770 | — | 35,586 |
| Metals | 95,791 | — | — | 95,791 |
| Minerals & Stone | 107,122 | 6,247 | 63,849 | 177,218 |
| Petroleum Products | 52,870 | 560 | 107 | 53,537 |
| Pulp & Paper | 90,346 | — | — | 90,346 |
| Waste | 21,316 | — | — | 21,316 |
| Other | 19,325 | — | — | 19,325 |
| Freight revenues | 778,717 | 194,335 | 268,193 | 1,241,245 |
| Freight-related revenues | 193,344 | 32,214 | 203,491 | 429,049 |
| All other revenues | 48,835 | 4,017 | 49,809 | 102,661 |
| Total operating revenues | \$1,020,896 | \$ 230,566 | \$ 521,493 | \$ 1,772,955 |
| Operating income/(loss) | \$255,918 | \$ 62,585 | \$ (645 |) \$317,858 |
| Depreciation and amortization | \$123,266 | \$ 46,232 | \$ 27,629 | \$ 197,127 |
| Interest expense, net | \$30,572 | \$ 38,914 | \$ 9,620 | \$ 79,106 |
| Provision for income taxes | \$26,930 | \$ 7,120 | \$ 7,519 | \$ 41,569 |
| Cash expenditures for additions to property & equipment, net of grants from outside parties | \$129,607 | \$ 27,936 | \$ 19,893 | \$ 177,436 |

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| | Nine Months Ended September 30, 2017 | | | |
|---|--------------------------------------|--------------------------|-----------------------------|---------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues by commodity group: | | | | |
| Agricultural Products | \$92,956 | \$ 17,737 | \$ 3,532 | \$114,225 |
| Autos & Auto Parts | 17,019 | — | — | 17,019 |
| Chemicals & Plastics | 111,660 | — | — | 111,660 |
| Coal & Coke | 57,123 | 86,292 | 7,464 | 150,879 |
| Food & Kindred Products | 24,856 | — | — | 24,856 |
| Intermodal | 726 | 52,113 | 190,163 | 243,002 |
| Lumber & Forest Products | 64,903 | — | — | 64,903 |
| Metallic Ores | 10,519 | 29,595 | — | 40,114 |
| Metals | 78,681 | — | — | 78,681 |
| Minerals & Stone | 97,446 | 4,787 | 49,823 | 152,056 |
| Petroleum Products | 50,696 | 507 | — | 51,203 |
| Pulp & Paper | 79,690 | — | — | 79,690 |
| Waste | 19,000 | — | — | 19,000 |
| Other | 14,347 | — | — | 14,347 |
| Freight revenues | \$719,622 | \$ 191,031 | \$ 250,982 | \$1,161,635 |
| Freight-related revenues | 186,814 | 36,089 | 164,978 | 387,881 |
| All other revenues | 47,641 | 4,866 | 34,445 | 86,952 |
| Total operating revenues | \$954,077 | \$ 231,986 | \$ 450,405 | \$1,636,468 |
| Operating income/(loss) | \$229,545 | \$ 59,685 | \$ (3,755) |) \$285,475 |
| Depreciation and amortization | \$117,822 | \$ 45,915 | \$ 22,772 | \$186,509 |
| Interest expense, net | \$29,928 | \$ 41,500 | \$ 7,732 | \$79,160 |
| Provision for/(benefit from) income taxes | \$78,133 | \$ 4,805 | \$ (906) |) \$82,032 |
| Cash expenditures for additions to property & equipment, net of grants from outside parties | \$105,940 | \$ 9,721 | \$ 17,446 | \$133,107 |

The following tables set forth select balance sheet data for the Company's reportable segments as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, 2018 | | | |
|-----------------------------|---------------------------------|--------------------------|-----------------------------|---------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Cash and cash equivalents | \$7,624 | \$ 52,568 | \$ 13,875 | \$74,067 |
| Property and equipment, net | \$3,674,865 | \$ 617,960 | \$ 320,470 | \$4,613,295 |
| | December 31, 2017 | | | |
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Cash and cash equivalents | \$13,584 | \$ 52,407 | \$ 14,481 | \$80,472 |
| Property and equipment, net | \$3,657,801 | \$ 664,367 | \$ 334,753 | \$4,656,921 |

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16. RECENTLY ISSUED ACCOUNTING STANDARDS:

Accounting Standards Not Yet Effective

In February 2016, the Financial Accounting Standards Board (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. Additional qualitative and quantitative disclosures, including significant judgments made by management, will also be required.

The new standard will become effective for the Company beginning January 1, 2019, and previously required the use of a modified retrospective adoption approach. In July 2018, the FASB approved another, optional, transition method that would instead allow companies to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to elect the cumulative-effect adjustment transition method. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements are being assessed. The Company is currently implementing a lease management system to support the new accounting requirements. At December 31, 2017, the Company disclosed approximately \$615 million in aggregate future minimum operating lease payments and continues to evaluate those contracts as well as other existing arrangements to determine whether a right-of-use asset or lease liability will need to be recognized under the new standard and will assess new contracts entered into prior to the adoption of the new standard. The adoption of the new standard will result in a material increase to right of use assets and lease liabilities on the Company's consolidated balance sheet, primarily as a result of operating leases currently not recognized on the balance sheet. The Company, however, does not anticipate a material impact to its operating results or liquidity as a result of the adoption of this new standard and is currently evaluating disclosure requirements. In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments will become effective for the Company beginning January 1, 2020. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), Land Easement Practical Expedient for Transition to Topic 842, which permits an entity to make an election not to apply Topic 842 to land easements that existed or expired before the effective date of Topic 842 provided that they were not previously assessed under ASC 840, Leases. Effective January 1, 2019, Topic 842 will be applied to new and modified land easements to determine whether the arrangement should be accounted for as a lease. Upon the Company's adoption of Topic 842, the Company intends to apply this guidance by making an election to not apply Topic 842 to its land easements that existed or expired before January 1, 2019.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure for Fair Value Measurement. The amendments modify the disclosure requirements for fair value measurements in ASC 820 based on revisions to the FASB Concepts Statement, Conceptual Framework for Financial Reporting (Concepts Statement), and cost/benefit considerations. The amendments will become effective for the Company beginning January 1, 2020. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its disclosure requirements.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement benefit plans to make disclosure requirements more consistent with the revisions to the Concepts Statement. The amendments will become effective for the Company beginning January 1, 2021. Early adoption is permitted on a retrospective basis to all periods presented. The Company is still evaluating the impact of this guidance on disclosure requirements.

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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 and related notes set forth in this Quarterly Report on Form 10-Q and our 2017 Annual Report on Form 10-K. Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

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 issues and congestion, the ability to attract and retain skilled workers, 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) or congestion at ports (intermodal). 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 and divestitures).

Overview

We own or lease 121 freight railroads organized in nine locally managed operating regions with 8,000 employees serving 3,000 customers.

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

North American Operations: Our seven North American regions serve 41 U.S. states and four Canadian provinces and include 115 short line and regional freight railroads with more than 13,000 track-miles.

Australian Operations: Our Australia Region serves New South Wales, the Northern Territory, and South Australia and operates the 1,400-mile Tarcoola-to-Darwin rail line. The Australia Region is 51.1% owned by us and 48.9% owned by a consortium of funds and clients managed by Macquarie Infrastructure and Real Assets (MIRA).

U.K./European Operations: Our U.K./European Region includes the United Kingdom's (U.K.) largest rail maritime intermodal operator and the second-largest freight rail provider, as well as regional rail services in Continental Europe.

Our subsidiaries and joint ventures also provide rail service at more than 40 major ports, rail-ferry service between the U.S. Southeast and Mexico, transload services, contract coal loading, and industrial railcar switching and repair.

Outlook for Q4 2018

In October 2018, our North American Operations took a direct hit from Hurricane Michael. The hurricane struck the Florida Panhandle and our Bay Line Railroad in Panama City, Florida, causing significant damage to our buildings and resulting in thousands of trees down on the tracks of our Florida and Georgia railroads. As a result, we expect to reach our insurance deductible and experience lower revenue due to damage to our customers' facilities in the fourth quarter of 2018. We expect a portion of the lost income from the hurricane to be recoverable in 2019 under our business interruption insurance policy.

In our Australian Operations, we have a new train set that is now serving spot coal volumes and a second train set is expected to arrive at the end of the fourth quarter of 2018. However, we expect delays in certain coal shipments that we expect will shift from the fourth quarter of 2018 into early 2019.

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Our U.K./European Operations continue to experience operational challenges at the Port of Felixstowe, as well as a near-term locomotive driver shortage in the U.K. The driver shortage recently emerged due to a rapid increase in retirements, as well as hiring pressure from passenger services. We expect our U.K./European operating margins in the fourth quarter of 2018 will be reduced as we actively ramp up hiring and training drivers in the U.K. to not only fill the immediate driver need, but also to handle a commercial pipeline that continues to build.

Overview of Three-Month Results

Consolidated Results

Our operating revenues increased \$26.4 million, or 4.6%, to \$603.3 million for the three months ended September 30, 2018, compared with \$576.9 million for the three months ended September 30, 2017. Operating income for the three months ended September 30, 2018 was \$127.8 million, compared with \$109.8 million for the three months ended September 30, 2017, an increase of \$18.0 million, or 16.4%. Our operating ratio, defined as operating expenses divided by operating revenues, was 78.8% for the three months ended September 30, 2018, compared with 81.0% for the three months ended September 30, 2017.

Our effective income tax rate for the three months ended September 30, 2018 was 30.0%, compared with 36.4% for the three months ended September 30, 2017. The decrease in our effective income tax rate was primarily a result of the Tax Cuts and Jobs Act of 2017 (TCJA), which decreased the United States federal corporate income tax rate from 35% to 21%.

Net income attributable to G&W for the three months ended September 30, 2018 was \$69.6 million, compared with net income of \$50.2 million for the three months ended September 30, 2017. Our diluted earnings per common share (EPS) for the three months ended September 30, 2018 were \$1.16 with 60.1 million weighted average shares outstanding, compared with diluted EPS of \$0.80 with 62.5 million weighted average shares outstanding for the three months ended September 30, 2017.

Items Affecting Comparability

Our results for the three months ended September 30, 2018 and 2017 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) Attributable to G&W Impact | Diluted Earnings/(Loss) Per Common Share Impact |
|---|---|---|--|
| Three Months Ended September 30, 2018 | | | |
| Corporate development and related costs | \$ (0.3) | \$ (0.3) | \$ — |
| Restructuring and related costs | \$ (3.3) | \$ (2.7) | \$ (0.04) |
| Gain on settlement | \$ 0.9 | \$ 0.3 | \$ 0.01 |
| TCJA measurement period adjustment | \$ — | \$ (1.6) | \$ (0.03) |

Three Months Ended September 30, 2017

| | | | |
|--|-----------|-----------|------------|
| Corporate development and related costs | \$ (1.7) | \$ (1.4) | \$ (0.02) |
| Restructuring costs | \$ (2.6) | \$ (2.2) | \$ (0.04) |
| Recognition of unrecognized tax benefits | \$ — | \$ 3.3 | \$ 0.05 |

For the three months ended September 30, 2018, our results included restructuring and related costs of \$3.3 million, primarily driven by our optimization activities in the U.K., corporate development and related costs of \$0.3 million and a gain on settlement of \$0.9 million from the recovery of pre-petition claims associated with Arrium Limited's (Arrium) voluntary administration in the second quarter of 2016. As a result of the TCJA, the results for the three months ended September 30, 2018 also included a \$1.6 million measurement period adjustment to the one-time transition (toll) tax on earnings of certain foreign subsidiaries.

For the three months ended September 30, 2017, our results included restructuring costs of \$2.6 million, primarily in our U.K./European Region, as well as corporate development and related costs of \$1.7 million, primarily related to the acquisition and integration of Pentalver Transport Limited (Pentalver). The results for the three months ended September 30, 2017 also included the recognition of \$3.3 million of previously unrecognized tax benefits resulting

from the lapse of the statute of limitations on acquired liabilities for uncertain tax positions.

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Results by Segment

North America

Operating revenues from our North American Operations increased \$36.8 million, or 11.5%, to \$355.7 million for the three months ended September 30, 2018, compared with \$318.9 million for the three months ended September 30, 2017. Excluding a \$1.0 million decrease due to the impact of foreign currency depreciation, North American Operations operating revenues increased \$37.8 million, or 11.9%, primarily due to an increase in freight revenues. North American Operations traffic increased 38,522 carloads, or 9.4%, to 446,219 carloads for the three months ended September 30, 2018. The traffic increase was principally due to increases of 9,749 carloads of metals traffic (primarily in the Southern, Midwest and Canada regions), 9,450 carloads of coal and coke traffic (primarily in the Midwest, Northeast and Central regions), 4,079 carloads of other commodity traffic (primarily in the Southern and Midwest regions), 3,401 carloads of agricultural products traffic (primarily in the Western Region), 3,392 carloads of minerals and stone traffic (primarily in the Southern, Coastal and Canada regions), 2,159 carloads of pulp and paper traffic (primarily in the Coastal Region), 1,777 carloads of intermodal traffic (primarily in the Northeast and Canada regions), 1,529 carloads of waste traffic (primarily in the Northeast Region), 1,482 carloads of lumber and forest products traffic (primarily in the Western Region) and 1,459 carloads of petroleum products traffic (primarily in the Canada and Northeast regions). All remaining traffic increased by a net 45 carloads.

Operating income from our North American Operations for the three months ended September 30, 2018 was \$102.5 million, compared with \$82.2 million for the three months ended September 30, 2017. The operating ratio for our North American Operations for the three months ended September 30, 2018 was 71.2%, compared with 74.2% for the three months ended September 30, 2017.

Australia

Operating revenues from our Australian Operations decreased \$4.6 million, or 5.6%, to \$76.7 million for the three months ended September 30, 2018, compared with \$81.3 million for the three months ended September 30, 2017. Excluding a \$6.0 million decrease due to the impact of foreign currency depreciation, Australian Operations' operating revenues increased \$1.4 million, or 1.9%, primarily due to an increase in freight revenues.

Australian Operations traffic increased 27,667 carloads, or 22.4%, to 151,318 carloads for the three months ended September 30, 2018. The traffic increase was principally due to increases of 25,667 carloads of coal and coke traffic and 11,325 carloads of minerals and stone traffic, partially offset by decreases of 6,634 carloads of agricultural products traffic and 1,890 carloads of metallic ores traffic. All remaining traffic decreased by a net 801 carloads.

Operating income from our Australian Operations for the three months ended September 30, 2018 was \$20.7 million, compared with \$22.3 million for the three months ended September 30, 2017. The operating ratio for our Australian Operations was 73.0% for the three months ended September 30, 2018, compared with an operating ratio of 72.6% for the three months ended September 30, 2017. The operating income for the three months ended September 30, 2018 included a gain on settlement of \$0.9 million related to Arrium's voluntary administration in the second quarter of 2016.

U.K./Europe

Operating revenues from our U.K./European Operations decreased \$5.8 million, or 3.3%, to \$170.9 million for the three months ended September 30, 2018, compared with \$176.7 million for the three months ended September 30, 2017. Excluding \$13.7 million of revenues from our divested operations for 2017 and a \$1.2 million decrease due to the impact of foreign currency depreciation, U.K./European same railroad revenues increased \$9.1 million, or 5.6%, primarily due to increases in freight-related and freight revenues in the U.K. and Poland.

U.K./European Operations traffic decreased 41,398 carloads, or 14.6%, to 241,382 carloads for the three months ended September 30, 2018. Excluding traffic from our divested operations for 2017, same railroad traffic decreased 10,159 carloads, or 4.0%, to 241,382 carloads. The same railroad traffic decrease was principally due to decreases of 9,818 carloads of intermodal traffic in the U.K. and 1,035 carloads of minerals and stone traffic (primarily in Poland), partially offset by increases of 473 carloads in coal and coke traffic and 222 carloads of petroleum products traffic.

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Operating income from our U.K./European Operations was \$4.6 million for the three months ended September 30, 2018, compared with operating income of \$5.4 million for the three months ended September 30, 2017. The operating ratio for our U.K./European Operations was 97.3% for the three months ended September 30, 2018, compared with an operating ratio of 97.0% for the three months ended September 30, 2017. Our operating income for the three months ended September 30, 2018 included restructuring and related costs of \$3.3 million, primarily driven by our optimization activities in the U.K. Our operating income for the three months ended September 30, 2017 included restructuring costs of \$2.3 million, primarily related to severance costs associated with our 2017 restructuring of our Continental Europe intermodal business, ERS Railways B.V. (ERS).

Overview of Nine-Month Results

Our operating revenues increased \$136.5 million, or 8.3%, to \$1,773.0 million for the nine months ended September 30, 2018, compared with \$1,636.5 million for the nine months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 was \$317.9 million, compared with \$285.5 million for the nine months ended September 30, 2017, an increase of \$32.4 million, or 11.3%. Our operating ratio was 82.1% for the nine months ended September 30, 2018, compared with 82.6% for the nine months ended September 30, 2017. Our same railroad operating ratio for the nine months ended September 30, 2018 was 81.5%, compared with 81.8% for the nine months ended September 30, 2017. 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 and divestitures).

Net income for the nine months ended September 30, 2018 was \$196.9 million, compared with net income of \$128.8 million for the nine months ended September 30, 2017. Our diluted EPS for the nine months ended September 30, 2018 was \$3.08 with 61.3 million weighted average shares outstanding, compared with diluted EPS of \$1.96 with 62.4 million weighted average shares outstanding for the nine months ended September 30, 2017. Our results for the nine months ended September 30, 2018 included an income tax benefit of \$31.6 million associated with the retroactive extension of the United States Short Line Tax Credit for fiscal year 2017, which was enacted in February 2018. Based on developments during the nine months ended September 30, 2018, we recorded a reserve for uncertain tax positions of \$5.5 million related to tax deductions on intercompany financing arrangements in the U.K., of which \$3.7 million related to the period from March 25, 2015, the date of the Freightliner acquisition when the arrangements were established, through December 31, 2017. The reserve for uncertain tax positions was included in our provision for income taxes for the nine months ended September 30, 2018. Excluding the benefit from the retroactive extension and the prior period portion of the reserve for uncertain tax positions, our effective income tax rate for the nine months ended September 30, 2018 was 28.4%. Our effective income tax rate for the nine months ended September 30, 2017 was 38.9%. The decrease in our effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%.

During the nine months ended September 30, 2018, we generated \$397.5 million in cash flows from operating activities. During the same period, we purchased \$194.1 million of property and equipment, including \$33.9 million for new business investments, partially offset by \$16.7 million in cash received from government grants and other outside parties for capital spending. We also repurchased 3.6 million shares of our common stock for \$270.5 million. In addition, Genesee & Wyoming Australia (GWA) made a distribution of \$14.9 million to its noncontrolling interest holders, and we received \$55.0 million in net proceeds from the net increase in outstanding debt.

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Items Affecting Comparability

Our results for the nine months ended September 30, 2018 and 2017 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) Attributable to G&W Impact | Diluted Earnings/(Loss) Per Common Share Impact |
|---|---|---|--|
| Nine Months Ended September 30, 2018 | | | |
| Restructuring and related costs | \$ (12.9) | \$ (10.5) | \$ (0.17) |
| Credit facility refinancing-related costs | \$ (2.7) | \$ (2.0) | \$ (0.03) |
| Loss on sale of ERS | \$ (1.4) | \$ (1.4) | \$ (0.02) |
| Corporate development and related costs | \$ (0.9) | \$ (0.6) | \$ (0.01) |
| Gain on settlement | \$ 7.3 | \$ 2.6 | \$ 0.04 |
| 2017 Short Line Tax Credit | \$ — | \$ 31.6 | \$ 0.52 |
| Prior period tax adjustment | \$ — | \$ (3.7) | \$ (0.06) |
| TCJA measurement period adjustment | \$ — | \$ (1.6) | \$ (0.03) |
| Nine Months Ended September 30, 2017 | | | |
| Corporate development and related costs | \$ (10.8) | \$ (7.4) | \$ (0.12) |
| Restructuring costs | \$ (8.7) | \$ (7.8) | \$ (0.13) |
| Gain on sale of investment | \$ 1.6 | \$ 1.0 | \$ 0.02 |
| Recognition of unrecognized tax benefits | \$ — | \$ 3.3 | \$ 0.05 |

Changes in Operations

North American Operations

Heart of Georgia Railroad, Inc.: On May 31, 2017, we completed the acquisition of all the outstanding shares of Atlantic Western Transportation, Inc., the parent company of Heart of Georgia Railroad, Inc. (HOG), for \$5.6 million in cash and contingent consideration of \$5.7 million. The contingent consideration is payable to the sellers upon satisfaction of certain conditions, which we expect to be paid in 2021. The results of operations from HOG have been included in our consolidated statements of operations since the acquisition date. For additional information regarding HOG, see Note 2, Changes in Operations, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

Australian Operations

Arrium Limited: On April 7, 2016, GWA's customer, Arrium announced it had entered into voluntary administration. As a result, during the first quarter of 2016, we recorded a \$13.0 million non-cash charge related to the impairment of GWA's idle rolling-stock maintenance facility and an allowance for doubtful accounts charge of \$8.1 million. Also, as a result of the voluntary administration, all payments to GWA associated with the rail haulage agreement for Arrium's Southern Iron mine ceased.

On August 31, 2017, Arrium was sold to GFG Alliance. The steel making business was rebranded as Liberty OneSteel, and the mining business was rebranded as SIMEC Mining (SIMEC). Although the Southern Iron mine is still mothballed, GWA continues to provide services and receive payments under the rail haulage agreement for SIMEC's Middleback Range operations. Pursuant to that rail haulage agreement, GWA serves several iron ore mines in the Middleback Range and the Whyalla steelworks operations.

In December 2017, GWA recovered \$0.9 million of cash in relation to our previous agreements with Arrium. During the three and nine months ended September 30, 2018, GWA recorded \$0.9 million and \$7.3 million, respectively, of gains on settlement from additional cash recoveries of pre-petition claims associated with Arrium, which were recognized as offsets to other expenses, net in our consolidated statement of operations.

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U.K./European Operations

Continental Europe Intermodal Business: In 2017, we ceased all "open" train services from the port of Rotterdam, closed our Continental Europe intermodal business, ERS, offices in Rotterdam and Frankfurt, and the ERS customer services function in Warsaw. We recorded restructuring charges of \$0.7 million and \$5.2 million for the three and nine months ended September 30, 2017, respectively, primarily related to severance costs and costs associated with surplus locomotive and railcar leases.

On June 5, 2018, we finalized the sale of ERS for gross cash proceeds of €11.2 million (or \$13.1 million at the exchange rate on June 5, 2018) or €6.8 million (or \$7.9 million at the exchange rate on June 5, 2018) net of €4.4 million (or \$5.2 million at the exchange rate on June 5, 2018) of cash on hand that transferred to the buyer. The sale resulted in a net loss of \$1.4 million recognized in our consolidated statement of operations for the nine months ended September 30, 2018 within other income/(loss), net.

Pentalver Transport Limited: On May 3, 2017, our subsidiary, GWI UK Acquisition Company Limited, purchased for cash all of the issued share capital of Pentalver from a subsidiary of APM Terminals (a subsidiary of AP Møller-Maersk A/S) for £97.8 million (or \$126.2 million at the exchange rate on May 3, 2017) or £77.5 million (or \$100.1 million at the exchange rate on May 3, 2017) net of £20.2 million (or \$26.1 million at the exchange rate on May 3, 2017) of cash received in connection with the sale. We funded the acquisition with borrowings under our Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement.

Headquartered in Southampton, U.K., Pentalver operates off-dock container terminals (most under long-term leases) strategically placed at each of the three major seaports of Felixstowe, Southampton and London Gateway, as well as an inland terminal located at Cannock, in the Midlands, near many of the nation's largest distribution centers. In addition to providing storage for loaded and empty containers on over 100 acres of land, Pentalver also operates a trucking haulage service with more than 150 trucks, primarily providing daily service between the seaports of Felixstowe and Southampton and its inland terminal at Cannock. Pentalver also provides services related to container customization, maintenance and repair (including refrigerated containers) and is one of the largest sellers of new and used containers in the U.K.

The results of operations from Pentalver have been included in our consolidated statements of operations since the May 3, 2017 acquisition date. For additional information regarding the acquisition of Pentalver, see Note 2, Changes in Operations, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

Three Months Ended September 30, 2018 Compared with Three Months Ended September 30, 2017

Consolidated Operating Results

Operating Revenues

The following table sets forth our total operating revenues and carloads for the three months ended September 30, 2018 and 2017. In June 2018, we sold our Continental Europe intermodal business, ERS. The table below also reflects the calculation of our total existing operations by subtracting the revenues and carloads from the divested ERS operations from our total operations for the three months ended September 30, 2017 (dollars in thousands):

| | Three Months Ended September 30, | | | Increase/(Decrease) | | Increase/(Decrease) | | Currency Impact | Currency Impact on Total Existing Operations | |
|--------------------------|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------|------------------------|----------|-----------------|--|-----------|
| | 2017 | | Total Existing/Ongoing Operations | in Total Operations | | in Existing Operations | | | | |
| 2018 | Total Operations | Divested Operations | | Total Existing/Ongoing Operations | Amount | % | Amount | % | | |
| Freight revenues | \$423,374 | \$400,735 | \$10,590 | \$390,145 | \$22,639 | 5.6 % | \$33,229 | 8.5 % | \$(6,300) | \$(6,198) |
| Freight-related revenues | 145,450 | 140,923 | 3,276 | 137,647 | 4,527 | 3.2 % | 7,803 | 5.7 % | (1,544) | (1,520) |
| All other revenues | 34,480 | 35,269 | 4 | 35,265 | (789) | (2.2)% | (785) | (2.2)% | (360) | (360) |
| | \$603,304 | \$576,927 | \$13,870 | \$563,057 | \$26,377 | 4.6 % | \$40,247 | 7.1 % | \$(8,204) | \$(8,078) |

Total operating
revenues

| | | | | | | | | |
|----------|---------|---------|--------|---------|--------|-------|--------|-------|
| Carloads | 838,919 | 814,128 | 31,239 | 782,889 | 24,791 | 3.0 % | 56,030 | 7.2 % |
|----------|---------|---------|--------|---------|--------|-------|--------|-------|

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Operating Expenses

Total operating expenses for the three months ended September 30, 2018 increased \$8.4 million, or 1.8%, to \$475.5 million, compared with \$467.1 million for the three months ended September 30, 2017. The increase consisted of \$19.7 million from existing operations, partially offset by an \$11.3 million decrease from divested operations. The increase from existing operations included increases of \$11.8 million in diesel fuel used in train operations, \$8.7 million in labor and benefits, \$3.3 million in equipment rents, \$2.6 million in depreciation and amortization and \$2.5 million in materials expense, partially offset by a decrease of \$3.4 million in purchased services expense. The change from existing operations also included a \$6.3 million decrease from the net depreciation of foreign currencies relative to the United States dollar.

The following table sets forth our total operating expenses for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, | | | | Increase/(Decrease) | Currency Impact | 2017 Constant Currency* | Increase/(Decrease)Const Currency* |
|---|----------------------------------|-----------|-----------------------|-----------------------|---------------------|--------------------|-------------------------------|---------------------------------------|
| | 2018 | 2017 | % of | % of | | | | |
| | Amount | Amount | Operating Revenues | Operating Revenues | | | | |
| Labor and benefits | \$175,853 | \$169,576 | 29.1 % | 29.4 % | \$ 6,277 | \$(1,872) | \$167,704 | \$ 8,149 |
| Equipment rents | 35,325 | 33,291 | 5.9 % | 5.8 % | 2,034 | (305) | 32,986 | 2,339 |
| Purchased services | 53,717 | 68,562 | 8.9 % | 11.9 % | (14,845) | (880) | 67,682 | (13,965) |
| Depreciation and amortization | 65,392 | 64,222 | 10.9 % | 11.1 % | 1,170 | (1,464) | 62,758 | 2,634 |
| Diesel fuel used in train operations | 45,713 | 34,535 | 7.6 % | 6.0 % | 11,178 | (607) | 33,928 | 11,785 |
| Electricity used in train operations | 2,742 | 765 | 0.5 % | 0.1 % | 1,977 | (30) | 735 | 2,007 |
| Casualties and insurance | 9,912 | 10,624 | 1.6 % | 1.9 % | (712) | (117) | 10,507 | (595) |
| Materials | 32,744 | 30,664 | 5.4 % | 5.3 % | 2,080 | (378) | 30,286 | 2,458 |
| Trackage rights | 22,838 | 22,632 | 3.8 % | 3.9 % | 206 | (366) | 22,266 | 572 |
| Net gain on sale and impairment of assets | (642) | (315) | (0.1)% | (0.1)% | (327) | 7 | (308) | (334) |
| Restructuring costs | 3,286 | 2,628 | 0.5 % | 0.5 % | 658 | (22) | 2,606 | 680 |
| Other expenses, net | 28,604 | 29,901 | 4.7 % | 5.2 % | (1,297) | (363) | 29,538 | (934) |
| Total operating expenses | \$475,484 | \$467,085 | 78.8 % | 81.0 % | \$ 8,399 | \$(6,397) | \$460,688 | \$ 14,796 |

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

Operating Income/Operating Ratio

Operating income was \$127.8 million for the three months ended September 30, 2018, compared with \$109.8 million for the three months ended September 30, 2017. Operating income for the three months ended September 30, 2018 included restructuring and related costs of \$3.3 million, primarily driven by our optimization activities in the U.K., corporate development and related costs of \$0.3 million and a gain on settlement of \$0.9 million from the recovery of pre-petition claims associated with Arrium's voluntary administration in the second quarter of 2016. Operating income for the three months ended September 30, 2017 included restructuring and related costs of \$2.6 million, primarily related to severance costs associated with our 2017 restructuring of ERS, as well as corporate development and related costs of \$1.7 million, primarily related to the acquisition and integration of Pentalver. Our operating ratio was 78.8% for the three months ended September 30, 2018, compared with 81.0% for the three months ended September 30, 2017.

Interest Expense

Interest expense was \$26.4 million for the three months ended September 30, 2018, compared with \$28.3 million for the three months ended September 30, 2017. The three months ended September 30, 2017 included approximately \$1.9 million related to an unrealized revaluation loss on a cross currency swap.

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Provision for Income Taxes

Our provision for income taxes for the three months ended September 30, 2018 was \$31.0 million, compared with \$30.5 million for the three months ended September 30, 2017. As a result of the TCJA, included in our provision for income taxes for the three months ended September 30, 2018 was a \$1.6 million measurement period adjustment to the one-time transition (toll) tax on earnings of certain foreign subsidiaries. Our provision for income taxes for the three months ended September 30, 2017 included the recognition of \$3.3 million of previously unrecognized tax benefits resulting from the lapse of the statute of limitations on acquired liabilities for uncertain tax positions. Our effective income tax rate for the three months ended September 30, 2018 was 30.0%, compared with 36.4% for the three months ended September 30, 2017. The decrease in our effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%. For additional information regarding our provision for income taxes, see Note 11, Income Taxes, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

Net Income Attributable to G&W and Earnings Per Common Share

Net income attributable to G&W for the three months ended September 30, 2018 was \$69.6 million, compared with \$50.2 million for the three months ended September 30, 2017. Our basic EPS were \$1.18 with 59.2 million weighted average shares outstanding for the three months ended September 30, 2018, compared with basic EPS of \$0.82 with 61.6 million weighted average shares outstanding for the three months ended September 30, 2017. Our diluted EPS for the three months ended September 30, 2018 were \$1.16 with 60.1 million weighted average shares outstanding, compared with diluted EPS of \$0.80 with 62.5 million weighted average shares outstanding for the three months ended September 30, 2017. Our results for the three months ended September 30, 2018 and 2017 included certain items affecting comparability between the periods as previously presented in the "Overview—Overview of Three-Month Results—Items Affecting Comparability."

Net Income Attributable to Noncontrolling Interest

We own a 51.1% controlling interest in our Australian Operations. As such, we include 100% of the revenues and expenses from our Australian Operations within our consolidated financial statements and report a noncontrolling interest for MIRA's 48.9% equity ownership. Net income attributable to noncontrolling interest for the three months ended September 30, 2018 was \$2.7 million, compared with \$3.1 million for three months ended September 30, 2017.

Operating Results by Segment

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

Our Australian business underwent a transformational change on December 1, 2016, with the acquisition of Glencore Rail (NSW) Pty Limited (GRail) and the formation of a partnership with MIRA, which we control through our 51.1% interest (the Australia Partnership). The GRail acquisition significantly expanded our operations in New South Wales. In conjunction with the GRail acquisition, we issued a 48.9% equity stake in our Australian subsidiary, G&W Australia Holdings LP (GWAHLP), to MIRA, which formed the Australia Partnership. We retained a 51.1% controlling interest in GWAHLP and continue to consolidate 100% of our Australian Operations in our financial statements and report a noncontrolling interest for MIRA's 48.9% equity ownership. As a result, (1) 100% of the assets and liabilities of our Australian Operations, after the elimination of intercompany balances, were included in our consolidated balance sheets as of September 30, 2018 and December 31, 2017, with MIRA's 48.9% noncontrolling interest reflected in the equity section, (2) our operating revenues and operating income for the three and nine months ended September 30, 2018 and 2017 included 100% of our Australian Operations, while net income attributable to G&W reflected our 51.1% ownership position in our Australian Operations since the formation of the partnership on December 1, 2016 and (3) 100% of the cash flows of our Australian Operations, after the elimination of intercompany items, were included in our consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017. Accordingly, any payments between our Australian Operations and our other businesses are eliminated in consolidation, while our cash flows reflect 100% of any cash flows between our Australian Operations and MIRA.

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.

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The following tables set forth results from our North American Operations, Australian Operations and U.K./European Operations for the three months ended September 30, 2018 and 2017 (dollars in thousands):

Three Months Ended September 30, 2018

| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
|--|---------------------------------|--------------------------|-----------------------------|---------------------|
|--|---------------------------------|--------------------------|-----------------------------|---------------------|

| | | | | |
|--|-----------|----------|----------|-----------|
| Operating revenues: | | | | |
| Freight revenues | \$273,432 | \$65,249 | \$84,693 | \$423,374 |
| Freight-related revenues | 66,045 | 10,136 | 69,269 | 145,450 |
| All other revenues | 16,232 | 1,318 | 16,930 | 34,480 |
| Total operating revenues | 355,709 | 76,703 | 170,892 | 603,304 |
| Operating expenses: | | | | |
| Labor and benefits | 107,940 | 17,400 | 50,513 | 175,853 |
| Equipment rents | 15,441 | 1,452 | 18,432 | 35,325 |
| Purchased services | 14,968 | 6,319 | 32,430 | 53,717 |
| Depreciation and amortization | 41,388 | 14,937 | 9,067 | 65,392 |
| Diesel fuel used in train operations | 23,230 | 8,074 | 14,409 | 45,713 |
| Electricity used in train operations | — | — | 2,742 | 2,742 |
| Casualties and insurance | 6,636 | 1,651 | 1,625 | 9,912 |
| Materials | 12,836 | 3,003 | 16,905 | 32,744 |
| Trackage rights | 10,586 | 1,932 | 10,320 | 22,838 |
| Net gain on sale and impairment of assets | (506) | (20) | (116) | (642) |
| Restructuring costs | 1 | — | 3,285 | 3,286 |
| Other expenses, net | 20,705 | 1,242 | 6,657 | 28,604 |
| Total operating expenses | 253,225 | 55,990 | 166,269 | 475,484 |
| Operating income | \$102,484 | \$20,713 | \$4,623 | \$127,820 |
| Operating ratio | 71.2 % | 73.0 % | 97.3 % | 78.8 % |
| Interest expense, net | \$10,339 | \$12,780 | \$2,893 | \$26,012 |
| Provision for income taxes | \$26,323 | \$2,398 | \$2,292 | \$31,013 |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$42,120 | \$8,185 | \$6,704 | \$57,009 |
| Carloads | 446,219 | 151,318 | 241,382 | 838,919 |

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| | Three Months Ended September 30, 2017 | | | |
|--|---------------------------------------|--------------------------|-----------------------------|---------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | \$242,968 | \$66,404 | \$ 91,363 | \$400,735 |
| Freight-related revenues | 60,286 | 12,880 | 67,757 | 140,923 |
| All other revenues | 15,673 | 1,986 | 17,610 | 35,269 |
| Total operating revenues | 318,927 | 81,270 | 176,730 | 576,927 |
| Operating expenses: | | | | |
| Labor and benefits | 102,692 | 17,618 | 49,266 | 169,576 |
| Equipment rents | 12,623 | 1,480 | 19,188 | 33,291 |
| Purchased services | 15,254 | 7,139 | 46,169 | 68,562 |
| Depreciation and amortization | 40,036 | 15,753 | 8,433 | 64,222 |
| Diesel fuel used in train operations | 16,934 | 6,003 | 11,598 | 34,535 |
| Electricity used in train operations | — | — | 765 | 765 |
| Casualties and insurance | 8,488 | 1,367 | 769 | 10,624 |
| Materials | 11,889 | 3,398 | 15,377 | 30,664 |
| Trackage rights | 10,025 | 3,500 | 9,107 | 22,632 |
| Net gain on sale and impairment of assets | (110) | (37) | (168) | (315) |
| Restructuring costs | 316 | — | 2,312 | 2,628 |
| Other expenses, net | 18,577 | 2,773 | 8,551 | 29,901 |
| Total operating expenses | 236,724 | 58,994 | 171,367 | 467,085 |
| Operating income | \$82,203 | \$22,276 | \$ 5,363 | \$109,842 |
| Operating ratio | 74.2 % | 72.6 % | 97.0 % | 81.0 % |
| Interest expense, net | \$9,817 | \$13,678 | \$ 4,323 | \$27,818 |
| Provision for income taxes | \$28,270 | \$2,013 | \$ 224 | \$30,507 |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$41,713 | \$4,545 | \$ 6,981 | \$53,239 |
| Carloads | 407,697 | 123,651 | 282,780 | 814,128 |
| 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, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, | | Increase/(Decrease) in Total Operations | | Currency Impact |
|--------------------------|--|-----------|--|--------|--------------------|
| | 2018 | 2017 | Amount | % | |
| Freight revenues | \$273,432 | \$242,968 | \$ 30,464 | 12.5 % | \$(690) |
| Freight-related revenues | 66,045 | 60,286 | 5,759 | 9.6 % | (225) |
| All other revenues | 16,232 | 15,673 | 559 | 3.6 % | (123) |
| Total operating revenues | \$355,709 | \$318,927 | \$ 36,782 | 11.5 % | \$(1,038) |
| Carloads | 446,219 | 407,697 | 38,522 | 9.4 % | |

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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, 2018 and 2017 (dollars in thousands):

| Commodity Group | Three Months Ended September 30, | | Increase/(Decrease) in Total Operations | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|--------------------------|----------------------------------|-----------|---|-----------------|-------------------------|--|
| | 2018 | 2017 | | | | |
| Agricultural Products | \$30,565 | \$28,699 | \$ 1,866 | \$ (38) | \$ 28,661 | \$ 1,904 |
| Autos & Auto Parts | 5,513 | 6,079 | (566) | (33) | 6,046 | (533) |
| Chemicals & Plastics | 38,436 | 36,745 | 1,691 | (118) | 36,627 | 1,809 |
| Coal & Coke | 23,006 | 20,008 | 2,998 | (32) | 19,976 | 3,030 |
| Food & Kindred Products | 8,761 | 8,257 | 504 | (11) | 8,246 | 515 |
| Intermodal | 514 | 311 | 203 | (1) | 310 | 204 |
| Lumber & Forest Products | 24,113 | 22,204 | 1,909 | (44) | 22,160 | 1,953 |
| Metallic Ores | 3,573 | 3,703 | (130) | (44) | 3,659 | (86) |
| Metals | 34,904 | 26,008 | 8,896 | (84) | 25,924 | 8,980 |
| Minerals & Stone | 38,570 | 34,769 | 3,801 | (44) | 34,725 | 3,845 |
| Petroleum Products | 18,236 | 16,425 | 1,811 | (62) | 16,363 | 1,873 |
| Pulp & Paper | 31,961 | 28,135 | 3,826 | (144) | 27,991 | 3,970 |
| Waste | 8,089 | 6,662 | 1,427 | (9) | 6,653 | 1,436 |
| Other | 7,191 | 4,963 | 2,228 | (26) | 4,937 | 2,254 |
| Total freight revenues | \$273,432 | \$242,968 | \$ 30,464 | \$ (690) | \$ 242,278 | \$ 31,154 |

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

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, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Commodity Group | Amount | % of Total | Freight Revenues | | Carloads | | Average Freight Revenues Per Carload | | |
|-------------------------|----------|------------|---------------------------------------|-------------------------|---------------------------------------|--------|--|-------|--------|
| | | | Three Months Ended September 30, 2018 | 2017 Constant Currency* | Three Months Ended September 30, 2018 | 2017 | Three Months Ended September 30, 2017 Constant Currency* | | |
| Agricultural Products | \$30,565 | 11.2 % | \$28,661 | 11.8 % | 50,989 | 47,588 | \$599 | \$603 | \$ 602 |
| Autos & Auto Parts | 5,513 | 2.0 % | 6,046 | 2.5 % | 8,724 | 9,728 | 632 | 625 | 622 |
| Chemicals & Plastics | 38,436 | 14.0 % | 36,627 | 15.1 % | 43,903 | 43,739 | 875 | 840 | 837 |
| Coal & Coke | 23,006 | 8.4 % | 19,976 | 8.3 % | 70,314 | 60,864 | 327 | 329 | 328 |
| Food & Kindred Products | 8,761 | 3.2 % | 8,246 | 3.4 % | 15,312 | 14,415 | 572 | 573 | 572 |

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| | | | | | | | | | | | |
|-----------------------------------|---------|-------|---|-----------|-------|---|---------|---------|-------|-------|-------|
| Food & Kindred Products | 1,114 | 0.2 | % | 310 | 0.1 | % | 4,922 | 3,145 | 104 | 99 | 99 |
| Lumber & Forest Products | 24,113 | 8.8 | % | 22,160 | 9.2 | % | 37,328 | 35,846 | 646 | 619 | 618 |
| Metallic Ores | 3,573 | 1.3 | % | 3,659 | 1.5 | % | 4,655 | 4,667 | 768 | 793 | 784 |
| Metals Minerals | 14,904 | 12.8 | % | 25,924 | 10.7 | % | 43,752 | 34,003 | 798 | 765 | 762 |
| Stone | 38,570 | 14.1 | % | 34,725 | 14.3 | % | 60,496 | 57,104 | 638 | 609 | 608 |
| Petroleum Products | 18,236 | 6.7 | % | 16,363 | 6.8 | % | 26,231 | 24,772 | 695 | 663 | 661 |
| Pulp | 31,961 | 11.7 | % | 27,991 | 11.6 | % | 44,403 | 42,244 | 720 | 666 | 663 |
| Paper | 8,089 | 3.0 | % | 6,653 | 2.7 | % | 15,859 | 14,330 | 510 | 465 | 464 |
| Waste | 7,191 | 2.6 | % | 4,937 | 2.0 | % | 19,331 | 15,252 | 372 | 325 | 324 |
| Other | 173,432 | 100.0 | % | \$242,278 | 100.0 | % | 446,219 | 407,697 | \$613 | \$596 | \$594 |

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

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Total traffic from our North American Operations increased 38,522 carloads, or 9.4%, to 446,219 carloads for the three months ended September 30, 2018. The traffic increase was principally due to increases of 9,749 carloads of metals traffic, 9,450 carloads of coal and coke traffic, 4,079 carloads of other commodity traffic, 3,401 carloads of agricultural products traffic, 3,392 carloads of minerals and stone traffic, 2,159 carloads of pulp and paper traffic, 1,777 carloads of intermodal traffic, 1,529 carloads of waste traffic, 1,482 carloads of lumber and forest products traffic and 1,459 carloads of petroleum products traffic. All remaining traffic increased by a net 45 carloads.

Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Excluding a 0.3% impact of foreign currency, average freight revenues per carload from our North American Operations increased 3.2% to \$613 for the three months ended September 30, 2018, compared with the same period in 2017. Higher fuel surcharges increased average freight revenues per carload by 2.9% and a change in the mix of commodities decreased average freight revenues per carload by 1.0%. Excluding these factors, average freight revenues per carload increased 1.3%. The following information discusses the significant changes in our North American Operations freight revenues by commodity group excluding the impact of foreign currency.

Agricultural products revenues increased \$1.9 million, or 6.6%, primarily due to an increase in traffic of 3,401 carloads, or 7.1%. The carload increase was primarily due to increased export soybean meal shipments in the western United States.

Chemicals and plastics revenues increased \$1.8 million, or 4.9%, primarily due to an increase in average freight revenues per carload of 4.5%, which increased revenues by \$1.7 million. The increase in average freight revenues per carload was primarily due to increased fuel surcharge revenue and a change in the mix of business.

Coal and coke revenues increased \$3.0 million, or 15.2%, primarily due to an increase in traffic of 9,450 carloads, or 15.5%. The increase in carloads was primarily due to warm weather and low inventory stockpiles at inbound customer locations; as well as new business in the northeastern and midwestern United States.

Lumber and forest products revenues increased \$2.0 million, or 8.8%. Lumber and forest products average freight revenues per carload increased 4.5%, which increased revenues by \$1.0 million, and traffic increased 1,482 carloads, or 4.1%, which increased revenues by \$1.0 million. The increase in average freight revenues per carload was due to increased fuel surcharge revenue and favorable pricing in the western United States. The increase in carloads was primarily due to increased shipments of lumber and logs in the western United States.

Metals revenues increased \$9.0 million, or 34.6%. Metals traffic increased 9,749 carloads, or 28.7%, which increased revenues by \$7.8 million, and average freight revenues per carload increased 4.7%, which increased revenues by \$1.2 million. The increase in carloads was primarily due to increased coils, pig iron, slabs and pipe shipments in the southern United States and increased scrap and finished steel shipments in the midwestern United States.

Minerals and stone revenues increased \$3.8 million, or 11.1%. Minerals and stone traffic increased 3,392 carloads, or 5.9%, which increased revenues by \$2.2 million, and average freight revenues per carload increased 4.9%, which increased revenues by \$1.7 million. The increase in carloads was primarily due to increased aggregates, cement and clay shipments across North America.

Petroleum products revenues increased \$1.9 million, or 11.4%. Petroleum products traffic increased 1,459 carloads, or 5.9%, which increased revenues by \$1.0 million, and average freight revenues per carload increased 5.1%, which increased revenues by \$0.9 million. The increase in carloads was primarily due to increased shipments of natural gas and liquid petroleum in Canada and the northeastern United States. The increase in average freight revenues per carload was primarily due to increased fuel surcharge revenue and a change in the mix of business.

Pulp and paper revenues increased \$4.0 million, or 14.2%. Pulp and paper average freight revenues per carload increased 8.6%, which increased revenues by \$2.4 million, and traffic increased 2,159 carloads, or 5.1%, which increased revenues by \$1.6 million. The increase in carloads was primarily due to increased containerboard shipments across North America.

Waste revenues increased \$1.4 million, or 21.6%. Waste traffic increased 1,529 carloads, or 10.7%, which increased revenues by \$0.8 million, and average freight revenues per carload increased 9.9%, which increased revenues by \$0.6 million. The increase in carloads and average freight revenues per carload was primarily due to an increase in construction waste shipments in the northeastern United States.

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Other revenues increased \$2.3 million, or 45.7%. Other revenues traffic increased 4,079 carloads, or 26.7%, which increased revenues by \$1.5 million, and average freight revenues per carload increased 14.8%, which increased revenues by \$0.7 million. The increase in carloads and average freight revenues per carload was primarily due to shipments of wind towers in the midwestern United States and empty traffic in the southern United States.

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

Freight-Related Revenues

Excluding a \$0.2 million decrease due to the impact of foreign currency depreciation, freight-related revenues from our North American Operations, which includes revenues from railcar switching, track access fees, storage and other ancillary revenues related to the movement of freight, increased \$6.0 million, or 10.0%, to \$66.0 million for the three months ended September 30, 2018, compared with \$60.1 million for the three months ended September 30, 2017. The increase was primarily due to increased switching revenues primarily related to stronger intermodal volumes in the southern United States and a new iron ore customer in Canada.

All Other Revenues

Excluding a \$0.1 million decrease due to the impact of foreign currency depreciation, all other revenues from our North American Operations, which includes revenues from third-party railcar and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight, increased \$0.7 million, or 4.4%, to \$16.2 million for the three months ended September 30, 2018, compared with \$15.6 million for the three months ended September 30, 2017.

Operating Expenses

Total operating expenses from our North American Operations increased \$16.5 million, or 7.0%, to \$253.2 million for the three months ended September 30, 2018, compared with \$236.7 million for the three months ended September 30, 2017. Excluding a \$0.9 million decrease due to the impact of foreign currency, the increase included increases of \$6.4 million in diesel fuel used in train operations, \$5.6 million in labor and benefits, \$2.9 million in equipment rents and \$2.2 million in other expenses. The following table sets forth operating expenses from our North American Operations for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, | | | | Increase/(Decrease) Constant Currency* |
|--|----------------------------------|-----------|-------------------------------|-------------------------------|--|
| | 2018 | 2017 | % of Operating Revenues | % of Operating Revenues | |
| Labor and benefits | \$107,940 | \$102,692 | 30.3 % | 32.2 % | \$ 5,248 |
| Equipment rents | 15,441 | 12,623 | 4.4 % | 4.0 % | 2,818 |
| Purchased services | 14,968 | 15,254 | 4.2 % | 4.8 % | (286) |
| Depreciation and amortization | 41,388 | 40,036 | 11.6 % | 12.5 % | 1,352 |
| Diesel fuel used in train operations | 23,230 | 16,934 | 6.5 % | 5.3 % | 6,296 |
| Casualties and insurance | 6,636 | 8,488 | 1.9 % | 2.7 % | (1,852) |
| Materials | 12,836 | 11,889 | 3.6 % | 3.7 % | 947 |
| Trackage rights | 10,586 | 10,025 | 3.0 % | 3.1 % | 561 |
| Net gain on sale and impairment of assets | (506) | (110) | (0.1)% | — % | (396) |
| Restructuring costs | 1 | 316 | — % | 0.1 % | (315) |
| Other expenses, net | 20,705 | 18,577 | 5.8 % | 5.8 % | 2,128 |
| Total operating expenses | \$253,225 | \$236,724 | 71.2 % | 74.2 % | \$ 16,501 |

* 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 a decrease of \$0.9 million due to the impact from foreign currency depreciation.

Labor and benefits expense was \$107.9 million for the three months ended September 30, 2018, compared with \$102.4 million for the three months ended September 30, 2017, an increase of \$5.6 million, or 5.5%. The increase was primarily due to annual wage increases and additional overtime to support increased carload volumes in 2018.

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Equipment rents expense was \$15.4 million for the three months ended September 30, 2018, compared with \$12.6 million for the three months ended September 30, 2017, an increase of \$2.9 million, or 22.7%. The increase was primarily due to increases in car hire as a result of increased traffic.

Depreciation and amortization expense was \$41.4 million for the three months ended September 30, 2018, compared with \$39.8 million for the three months ended September 30, 2017, an increase of \$1.6 million, or 4.0%. The increase was primarily attributable to a larger depreciable asset base in 2018 compared with 2017, reflecting capital spending in 2017.

The cost of diesel fuel used in train operations was \$23.2 million for the three months ended September 30, 2018, compared with \$16.9 million for the three months ended September 30, 2017, an increase of \$6.4 million, or 37.8%. The increase consisted of \$4.6 million due to a 26.9% increase in average fuel cost per gallon and \$1.8 million due to an 8.3% increase in diesel fuel consumption.

Casualties and insurance expense was \$6.6 million for the three months ended September 30, 2018, compared with \$8.5 million for the three months ended September 30, 2017, a decrease of \$1.8 million, or 21.7%. The decrease included a \$1.5 million insurance gain recorded in 2018 related to a prior year trestle fire.

Materials expense was \$12.8 million for the three months ended September 30, 2018, compared with \$11.8 million for the three months ended September 30, 2017, an increase of \$1.0 million, or 8.4%. The increase was primarily attributable to timing of equipment maintenance.

Other expenses, net were \$20.7 million for the three months ended September 30, 2018, compared with \$18.5 million for the three months ended September 30, 2017, an increase of \$2.2 million, or 11.9%. The increase was primarily attributable to an increase in general and administrative costs.

Operating Income/Operating Ratio

Operating income from our North American Operations was \$102.5 million for the three months ended September 30, 2018, compared with \$82.2 million for the three months ended September 30, 2017. The operating ratio was 71.2% for the three months ended September 30, 2018, compared with 74.2% for the three months ended September 30, 2017. North American operating results were led by an 11.5% growth in revenue, an operating ratio that improved 300 basis points and a 24.7% increase in operating income.

Australian Operations**Operating Revenues**

As previously disclosed, we own a controlling 51.1% interest in our Australian Operations. Therefore, we include 100% of our Australian Operations within revenues and expenses within our consolidated financial statements with an after-tax net impact allocated to noncontrolling interest to reflect MIRA's 48.9% ownership. The following table sets forth our Australian Operations operating revenues and carloads for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months | | Increase/(Decrease) | | Currency |
|--------------------------|-----------------|----------|---------------------|----------|-----------|
| | Ended September | | in Total Operations | | |
| | 2018 | 2017 | Amount | % | Impact |
| Freight revenues | \$65,249 | \$66,404 | \$(1,155) | (1.7)% | \$(4,880) |
| Freight-related revenues | 10,136 | 12,880 | (2,744) | (21.3)% | (947) |
| All other revenues | 1,318 | 1,986 | (668) | (33.6)% | (146) |
| Total operating revenues | \$76,703 | \$81,270 | \$(4,567) | (5.6)% | \$(5,973) |
| Carloads | 151,318 | 123,651 | 27,667 | 22.4 % | |

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Freight Revenues

The following table sets forth the changes in our Australian Operations freight revenues by commodity group for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| Commodity Group | Three Months Ended | | Increase/(Decrease) in Total Operations | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|------------------------|--------------------|--------------------|---|-----------------|-------------------------|--|
| | September 30, 2018 | September 30, 2017 | | | | |
| Agricultural Products | \$4,150 | \$6,059 | \$ (1,909) |) \$(442) |) \$ 5,617 | \$ (1,467) |
| Coal & Coke | 32,357 | 29,013 | 3,344 | (2,162) |) 26,851 | 5,506 |
| Intermodal | 17,538 | 19,012 | (1,474) |) (1,391) |) 17,621 | (83) |
| Metallic Ores | 8,914 | 11,305 | (2,391) |) (820) |) 10,485 | (1,571) |
| Minerals & Stone | 2,066 | 792 | 1,274 | (48) |) 744 | 1,322 |
| Petroleum Products | 224 | 223 | 1 | (17) |) 206 | 18 |
| Total freight revenues | \$65,249 | \$66,404 | \$ (1,155) |) \$(4,880) |) \$ 61,524 | \$ 3,725 |

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

The following table sets forth our Australian Operations freight revenues, carloads and average freight revenues per carload for the three months ended September 30, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Commodity Group | % of Total | Freight Revenues | | Carloads | | Average Freight Revenues Per Carload | | |
|-----------------------|------------|---------------------------------------|-------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------|
| | | Three Months Ended September 30, 2018 | 2017 Constant Currency* | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | 2017 Constant Currency* |
| Agricultural Products | 6.3 % | \$5,617 | 9.1 % | 6,529 | 13,163 | \$636 | \$460 | \$ 427 |
| Coal & Coke | 49.6 % | 26,851 | 43.7 % | 106,809 | 81,142 | 303 | 358 | 331 |
| Intermodal | 26.9 % | 17,621 | 28.7 % | 14,610 | 15,416 | 1,200 | 1,233 | 1,143 |
| Metallic Ores | 13.7 % | 10,485 | 17.0 % | 6,464 | 8,354 | 1,379 | 1,353 | 1,255 |
| Minerals & Stone | 3.2 % | 744 | 1.2 % | 16,813 | 5,488 | 123 | 144 | 136 |
| Petroleum Products | 0.3 % | 206 | 0.3 % | 93 | 88 | 2,409 | 2,534 | 2,341 |
| Total | 100.0 % | \$61,524 | 100.0 % | 151,318 | 123,651 | \$431 | \$537 | \$ 498 |

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

Total traffic from our Australian Operations increased 27,667 carloads, or 22.4%, to 151,318 carloads for the three months ended September 30, 2018, compared with the same period in 2017. The traffic increase was principally due to increases of 25,667 carloads of coal and coke traffic and 11,325 carloads of minerals and stone traffic, partially offset by decreases of 6,634 carloads of agricultural products traffic and 1,890 carloads of metallic ores traffic. All remaining traffic decreased by a net 801 carloads.

Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Excluding a 6.2% impact of foreign currency, average freight revenues per carload from our Australian Operations decreased 13.5% to \$431 for the three months ended September 30, 2018, compared with the same period in 2017. A change in the mix of commodities decreased average freight revenues per carload by 17.1%, while higher fuel surcharges increased average freight revenues per carload by 1.2%. Excluding these factors, average freight revenues per carload increased 2.4%. The following information discusses the significant changes in our Australian Operations freight revenues by commodity group excluding the impact of foreign currency.

Agricultural products revenues decreased \$1.5 million, or 26.1%. Agricultural products traffic decreased 6,634 carloads, or 50.4%, which decreased revenues by \$4.2 million, while average freight revenues per carload increased 48.9%, which increased revenues by \$2.7 million. The carload decrease was primarily due to a smaller grain harvest in 2018. Because rates for Australian grain traffic have both a fixed and variable component, the decrease in grain traffic resulted in higher average freight revenues per carload. The increase in average freight revenues per carload was also due to longer haul movements in 2018.

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Coal and coke revenues increased \$5.5 million, or 20.5%. Coal and coke traffic increased 25,667 carloads, or 31.6%, which increased revenues by \$7.8 million, while average freight revenues per carload decreased 8.5%, which decreased revenues by \$2.3 million. The carload increase was primarily due to increases in spot moves in 2018 and industrial action at Hunter Valley coal mines in 2017. The decrease in average freight revenues per carload was primarily due to additional carloads associated with a fixed fee agreement.

Metallic ores revenues decreased \$1.6 million, or 15.0%. Metallic ores traffic decreased 1,890 carloads, or 22.6%, which decreased revenues by \$2.6 million, while average freight revenues per carload increased 9.9%, which increased revenues by \$1.0 million. The carload decrease was primarily due to the shutdown of an iron ore customer's mine in October 2017. The increase in average freight revenues per carload was primarily due to a change in business mix.

Minerals and stone revenues increased \$1.3 million. Minerals and stone traffic increased 11,325 carloads, which increased revenues by \$1.4 million, primarily due to a temporary maintenance outage at a customer port facility in 2017.

Freight revenues from all remaining commodities decreased by \$0.1 million.

Freight-Related Revenues

Excluding a \$0.9 million decrease due to the impact of foreign currency depreciation, freight-related revenues from our Australian Operations, which includes revenues from railcar switching, track access rights, crewing services, storage and other ancillary revenues related to the movement of freight, decreased \$1.8 million, or 15.1%, to \$10.1 million for the three months ended September 30, 2018, compared with \$11.9 million for the three months ended September 30, 2017. The decrease was primarily due to decreased agricultural products related switching revenues as a result of a smaller harvest in 2018.

All Other Revenues

All other revenues from our Australian Operations for the three months ended September 30, 2018, which includes revenues from third-party railcar and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight, remained relatively flat compared with the three months ended September 30, 2017.

Operating Expenses

Total operating expenses from our Australian Operations for the three months ended September 30, 2018 decreased \$3.0 million, or 5.1%, to \$56.0 million, compared with \$59.0 million for the three months ended September 30, 2017. The decrease in operating expenses included a decrease of \$4.4 million from the impact of foreign currency depreciation. The following table sets forth operating expenses from our Australian Operations for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, | | Increase/(Decrease) | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* | | |
|---|----------------------------------|-------------------------|---------------------|-------------------------|-------------------------|--|-----------|----------|
| | 2018 | 2017 | | | | | | |
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | | | | |
| Labor and benefits | \$17,400 | 22.7 % | \$17,618 | 21.6 % | \$ (218) | \$ (1,290) | \$ 16,328 | \$ 1,072 |
| Equipment rents | 1,452 | 1.9 % | 1,480 | 1.8 % | (28) | (111) | 1,369 | 83 |
| Purchased services | 6,319 | 8.2 % | 7,139 | 8.8 % | (820) | (537) | 6,602 | (283) |
| Depreciation and amortization | 14,937 | 19.5 % | 15,753 | 19.4 % | (816) | (1,166) | 14,587 | 350 |
| Diesel fuel used in train operations | 8,074 | 10.5 % | 6,003 | 7.4 % | 2,071 | (431) | 5,572 | 2,502 |
| Casualties and insurance | 1,651 | 2.2 % | 1,367 | 1.7 % | 284 | (102) | 1,265 | 386 |
| Materials | 3,003 | 3.9 % | 3,398 | 4.2 % | (395) | (260) | 3,138 | (135) |
| Trackage rights | 1,932 | 2.5 % | 3,500 | 4.3 % | (1,568) | (249) | 3,251 | (1,319) |
| Net gain on sale and impairment of assets | (20) | — % | (37) | — % | 17 | 3 | (34) | 14 |

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| | | | | | | | | | | | | | |
|--------------------------|----------|------|---|----------|------|---|-----------|---|-----------|----------|----------|--------|---|
| Other expenses, net | 1,242 | 1.6 | % | 2,773 | 3.4 | % | (1,531 |) | (212 |) | 2,561 | (1,319 |) |
| Total operating expenses | \$55,990 | 73.0 | % | \$58,994 | 72.6 | % | \$ (3,004 |) | \$(4,355) | \$54,639 | \$ 1,351 | | |

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

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The following information discusses the significant changes in operating expenses of our Australian Operations excluding a \$4.4 million decrease from the impact of foreign currency depreciation.

Labor and benefits expense was \$17.4 million for the three months ended September 30, 2018, compared with \$16.3 million for the three months ended September 30, 2017, an increase of \$1.1 million, or 6.6%. The increase was primarily attributable to an increase in headcount to support growth initiatives.

The cost of diesel fuel used in train operations was \$8.1 million for the three months ended September 30, 2018, compared with \$5.6 million for the three months ended September 30, 2017, an increase of \$2.5 million, or 44.9%, primarily due to an increase in average fuel cost per gallon.

Trackage rights expense was \$1.9 million for the three months ended September 30, 2018, compared with \$3.3 million for the three months ended September 30, 2017, a decrease of \$1.3 million, or 40.6%. The decrease was primarily due to the shutdown of an iron ore mine in October 2017.

Other expenses, net was \$1.2 million for the three months ended September 30, 2018, compared with \$2.6 million for the three months ended September 30, 2017, a decrease of \$1.3 million, or 51.5%. The expense for the three months ended September 30, 2018 included a \$0.9 million gain on settlement related to Arrium's voluntary administration.

Operating Income/Operating Ratio

Our Australian Operations had operating income of \$20.7 million for the three months ended September 30, 2018, compared with \$22.3 million for the three months ended September 30, 2017. Operating income for the three months ended September 30, 2018 included a \$0.9 million gain on settlement related to Arrium's voluntary administration.

The operating ratio was 73.0% for the three months ended September 30, 2018, compared with 72.6% for the three months ended September 30, 2017.

U.K./European OperationsOperating Revenues

The following table sets forth our U.K./European Operations total operating revenues for the three months ended September 30, 2018 and 2017. The table below also reflects the calculation of our total existing operations by subtracting the revenues and carloads from the divested ERS operations from our total operations for the three months ended September 30, 2017 (dollars in thousands):

| | Three Months Ended September 30, | | | | Increase/(Decrease) | | Increase/(Decrease) | | Currency Impact | Currency Impact on Total Existing Operations |
|--------------------------|----------------------------------|------------------|---------------------|-----------------------------------|---------------------|---------|------------------------|--------|-----------------|--|
| | 2018 | | 2017 | | in Total Operations | | in Existing Operations | | | |
| | Total Operations | Total Operations | Divested Operations | Total Existing/Ongoing Operations | Amount | % | Amount | % | | |
| Freight revenues | \$84,693 | \$91,363 | \$10,590 | \$80,773 | \$(6,670) | (7.3)% | \$3,920 | 4.9% | \$(730) | \$(628) |
| Freight-related revenues | 69,269 | 67,757 | 3,276 | 64,481 | 1,512 | 2.2% | 4,788 | 7.4% | (372) | (348) |
| All other revenues | 16,930 | 17,610 | 4 | 17,606 | (680) | (3.9)% | (676) | (3.8)% | (91) | (91) |
| Total operating revenues | \$170,892 | \$176,730 | \$13,870 | \$162,860 | \$(5,838) | (3.3)% | \$8,032 | 4.9% | \$(1,193) | \$(1,067) |
| Carloads | 241,382 | 282,780 | 31,239 | 251,541 | (41,398) | (14.6)% | (10,159) | (4.0)% | | |

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Freight Revenues

The following table sets forth our U.K./European Operations total freight revenues for the three months ended September 30, 2018 and 2017. The table below also reflects the calculation of our total existing operations by subtracting the revenues and carloads from the divested ERS operations from our total operations for the three months ended September 30, 2017 (dollars in thousands):

| Commodity Group | Three Months Ended September 30, | | | Total Existing/Ongoing Operations | Increase/(Decrease) in Existing Operations | Currency Impact on Ongoing Operations | 2017 Constant Currency Existing Operations* | Increase/(Decrease) in Existing Operations Constant Currency* |
|--------------------------|----------------------------------|----------|---------------------|-----------------------------------|--|---------------------------------------|---|---|
| | 2018 | 2017 | Divested Operations | | | | | |
| Agricultural Products | \$1,053 | \$964 | \$— | \$ 964 | \$ 89 | \$(24) | \$ 940 | \$ 113 |
| Coal & Coke | 2,588 | 2,345 | — | 2,345 | 243 | (29) | \$ 2,316 | 272 |
| Intermodal | 58,609 | 67,374 | 10,590 | 56,784 | 1,825 | (247) | \$ 56,537 | 2,072 |
| Minerals & Stone | 22,344 | 20,680 | — | 20,680 | 1,664 | (328) | \$ 20,352 | 1,992 |
| Petroleum Products | 99 | — | — | — | 99 | — | \$ — | 99 |
| Total operating revenues | \$84,693 | \$91,363 | \$ 10,590 | \$ 80,773 | \$ 3,920 | \$(628) | \$ 80,145 | \$ 4,548 |

*Constant currency amounts reflect the prior period Total Ongoing Operations translated at the current period exchange rates.

The following table sets forth our U.K./European Operations freight revenues, carloads and average freight revenues per carload for the three months ended September 30, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Commodity Group | % of Total | Freight Revenues | | Carloads | | Average Freight Revenues Per Carload | | |
|-----------------------|------------|------------------|-------------------------|----------|---------|--------------------------------------|---------|-------------------------|
| | | 2018 | 2017 Constant Currency* | 2018 | 2017 | 2018 | 2017 | 2017 Constant Currency* |
| Agricultural Products | 1.2 % | \$940 | \$ 964 | 776 | 777 | \$1,357 | \$1,241 | \$ 1,210 |
| Coal & Coke | 3.1 % | 2,316 | 2,345 | 4,271 | 3,798 | 606 | 617 | 610 |
| Intermodal | 69.2 % | 67,025 | 67,374 | 188,002 | 229,059 | 312 | 294 | 293 |
| Minerals & Stone | 26.4 % | 20,352 | 20,680 | 48,111 | 49,146 | 464 | 421 | 414 |
| Petroleum Products | 0.1 % | — | 99 | 222 | — | 446 | — | — |
| Total | 100.0 % | \$90,633 | \$91,363 | 241,382 | 282,780 | \$351 | \$323 | \$ 321 |

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

Total traffic from our U.K./European Operations decreased 41,398 carloads, or 14.6%, to 241,382 carloads for the three months ended September 30, 2018, compared with the same period in 2017. Excluding traffic from our divested

ERS operations for 2017, existing operations traffic decreased 10,159 carloads, or 4.0%, to 241,382. The decrease in traffic from existing operations was primarily due to decreases of 9,818 carloads of intermodal traffic and 1,035 carloads of minerals and stone traffic. All remaining traffic increased by a net 694 carloads.

Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Excluding a 0.6% impact of foreign currency, average freight revenues per carload from our U.K./European Operations increased 9.3% to \$351 for the three months ended September 30, 2018, compared with the same period in 2017. Average freight revenues per carload from existing operations, excluding the impact of foreign currency, increased 10.0% to \$351 for the three months ended September 30, 2018, compared with the same period in 2017. A change in the mix of commodities increased average freight revenues per carload by 0.5% and higher fuel surcharges increased average freight revenues per carload by 0.5%. Excluding these factors, average freight revenues per carload increased 9.0%.

The following information discusses the significant changes in our U.K./European Operations freight revenues by commodity group excluding the impact of foreign currency and the divested ERS operations.

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Intermodal revenues increased \$2.1 million, or 3.7%. Intermodal average freight revenues per carload increased 9.1%, which increased revenues by \$5.1 million, while traffic decreased 9,818 carloads, or 5.0%, which decreased revenues by \$3.1 million. The increase in average freight revenues per carload was primarily due to rate increases and port and route mix resulting from changes in shipping alliances. The decrease in carloads was primarily due to congestion at the Port of Felixstowe related to the port's information technology system conversion.

Minerals and stone revenues increased \$2.0 million, or 9.8%. Minerals and stone average freight revenues per carload increased 12.1%, which increased revenues by \$2.5 million, while traffic decreased 1,035 carloads, or 2.1%, which decreased revenues by \$0.5 million. The increase in average freight revenues per carload was primarily due to stronger pricing, partially offset by lower volumes in the U.K.

Freight revenues from all remaining commodities combined increased by a net \$0.5 million.

Freight-Related Revenues

Freight-related revenues from our U.K./European Operations includes trucking haulage services, container storage and switching services, as well as infrastructure services where we operate work trains for the track infrastructure owner. Freight-related revenues from our U.K./European Operations also include traction service (or hook and pull), which requires us to provide locomotives and drivers to move a customer's train between specified origin and destination points and other ancillary revenues related to the movement of freight.

Freight-related revenues from our U.K./European Operations were \$69.3 million for the three months ended September 30, 2018, compared with \$67.8 million for the three months ended September 30, 2017, an increase of \$1.5 million, or 2.2%. Excluding a decrease of \$3.3 million from the divested ERS operations and a \$0.4 million decrease due to the impact of foreign currency depreciation, freight-related revenues from our existing operations increased \$5.1 million, or 8.0%, for the three months ended September 30, 2018, compared with \$64.1 million for the three months ended September 30, 2017. The increase in freight-related revenues from our existing operations was primarily due to increases in trucking and switching in the U.K., as well as crewing in Poland.

All Other Revenues

All other revenues from our U.K./European Operations includes revenues from container sales and conversions, third-party car and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight. All other revenues from our U.K./European Operations were \$16.9 million for the three months ended September 30, 2018, compared with \$17.6 million for the three months ended September 30, 2017, a decrease of \$0.7 million, or 3.9%. Excluding a \$0.1 million decrease due to the impact of foreign currency depreciation, all other revenues from our existing operations increased \$0.6 million, or 3.3%, for the three months ended September 30, 2018, compared with \$17.5 million for the three months ended September 30, 2017.

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Operating Expenses

Total operating expenses from our U.K./European Operations decreased \$5.1 million, or 3.0%, to \$166.3 million for the three months ended September 30, 2018, compared with \$171.4 million for the three months ended September 30, 2017. The decrease consisted of \$11.3 million from divested operations, partially offset by a \$6.2 million increase from existing operations. Excluding a \$1.0 million decrease due to the impact of foreign currency depreciation, operating expenses from existing operations increased \$7.2 million, as further described below.

The following table sets forth operating expenses from our U.K./European Operations for the three months ended September 30, 2018 and 2017 (dollars in thousands):

| | Three Months Ended September 30, | | 2017 | Increase/(Decrease) | Currency | 2017 | Increase/(Decrease) | |
|---|----------------------------------|-------------------------|-----------|-------------------------|-------------|-----------|---------------------|-------------|
| | 2018 | 2017 | | | | | | Constant |
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | Impact | Currency* | Currency* | |
| Labor and benefits | \$50,513 | 29.6 % | \$49,266 | 27.9 % | \$ 1,247 | \$(246) | \$49,020 | \$ 1,493 |
| Equipment rents | 18,432 | 10.8 % | 19,188 | 10.9 % | (756) | (158) | 19,030 | (598) |
| Purchased services | 32,430 | 19.0 % | 46,169 | 26.1 % | (13,739) | (287) | 45,882 | (13,452) |
| Depreciation and amortization | 9,067 | 5.3 % | 8,433 | 4.8 % | 634 | (49) | 8,384 | 683 |
| Diesel fuel used in train operations | 14,409 | 8.4 % | 11,598 | 6.6 % | 2,811 | (101) | 11,497 | 2,912 |
| Electricity used in train operations | 2,742 | 1.6 % | 765 | 0.4 % | 1,977 | (30) | 735 | 2,007 |
| Casualties and insurance | 1,625 | 1.0 % | 769 | 0.4 % | 856 | 3 | 772 | 853 |
| Materials | 16,905 | 9.9 % | 15,377 | 8.7 % | 1,528 | (75) | 15,302 | 1,603 |
| Trackage rights | 10,320 | 6.0 % | 9,107 | 5.2 % | 1,213 | (109) | 8,998 | 1,322 |
| Net gain on sale and impairment of assets | (116) | (0.1)% | (168) | (0.1)% | 52 | 1 | (167) | 51 |
| Restructuring costs | 3,285 | 1.9 % | 2,312 | 1.3 % | 973 | (22) | 2,290 | 995 |
| Other expenses, net | 6,657 | 3.9 % | 8,551 | 4.8 % | (1,894) | (82) | 8,469 | (1,812) |
| Total operating expenses | \$166,269 | 97.3 % | \$171,367 | 97.0 % | \$ (5,098) | \$(1,155) | \$170,212 | \$ (3,943) |

* 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 from our U.K./European Operations excluding a decrease of \$1.2 million due to the impact of foreign currency depreciation.

Labor and benefits expense was \$50.5 million for the three months ended September 30, 2018, compared with \$49.0 million for the three months ended September 30, 2017, an increase of \$1.5 million, or 3.0%. The increase consisted of \$2.0 million from existing operations, partially offset by a \$0.5 million decrease from divested operations. The increase from existing operations was primarily due to annual wage increases.

Purchased services expense was \$32.4 million for the three months ended September 30, 2018, compared with \$45.9 million for the three months ended September 30, 2017, a decrease of \$13.5 million, or 29.3%. The decrease consisted of \$10.5 million from divested operations and \$2.9 million from existing operations. The decrease from existing operations was primarily due to lower rail network service costs, of which we were a net receiver in 2018 and a net payer in 2017, as well as lower equipment maintenance in the U.K.

The cost of diesel fuel used in train operations was \$14.4 million for the three months ended September 30, 2018, compared with \$11.5 million for the three months ended September 30, 2017, an increase of \$2.9 million, or 25.3%, primarily due to an increase in average fuel cost per gallon.

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Electricity used in train operations expense was \$2.7 million for the three months ended September 30, 2018, compared with \$0.7 million for the three months ended September 30, 2017, an increase of \$2.0 million. The three months ended September 30, 2017 included a \$1.1 million reimbursement of previous year's energy taxes at ERS. Excluding the \$1.1 million reimbursement, the increase in electricity used in train operations expense consisted of \$1.2 million from existing operations and a decrease of \$0.3 million from divested operations. The increase from existing operations was primarily due to increased energy costs.

Materials expense, which primarily consists of costs of containers sold to third parties, materials purchased for use in repairing and maintaining our locomotives, railcars and other equipment, as well as costs for general tools and supplies used in our business, was \$16.9 million for the three months ended September 30, 2018, compared with \$15.3 million for the three months ended September 30, 2017, an increase of \$1.6 million, or 10.5%. The increase resulted primarily from existing operations, primarily due to an increase in new container sales.

Trackage rights expense was \$10.3 million for the three months ended September 30, 2018, compared with \$9.0 million for the three months ended September 30, 2017, an increase of \$1.3 million, or 14.7%. The increase resulted primarily from rate increases in the U.K, as well as a change in the mix of commodities shipped.

Restructuring costs for the three months ended September 30, 2018 of \$3.3 million were primarily related to our optimization activities in the U.K. Restructuring costs for the three months ended September 30, 2017 of \$2.3 million were primarily related to the restructuring of ERS.

Other expenses, net were \$6.7 million for the three months ended September 30, 2018, compared with \$8.5 million for the three months ended September 30, 2017, a decrease of \$1.8 million, or 21.4%. The decrease was primarily from existing operations resulting from corporate development and related costs recorded in 2017 associated with the acquisition and integration of Pentalver and an accounts receivable reserve recorded in 2017 associated with a customer entering into bankruptcy.

Operating Income/Operating Ratio

Our U.K./European Operations had operating income of \$4.6 million for the three months ended September 30, 2018, compared with \$5.4 million for the three months ended September 30, 2017. Operating income for the three months ended September 30, 2018 included \$3.3 million of restructuring and related costs primarily driven by our optimization activities in the U.K. Operating income for the three months ended September 30, 2017 included \$2.3 million of restructuring costs primarily related to ERS. The operating ratio was 97.3% for the three months ended September 30, 2018, compared with 97.0% for the three months ended September 30, 2017.

U.K. Operations Optimization

In 2018, we reorganized our U.K. business into three service platforms: Rail (Intermodal and Heavy Haul), Road (former Freightliner and Pentalver road operations) and Terminals (former Freightliner and Pentalver terminals), with a single combined commercial organization responsible for selling all three services. We also announced a program to restructure and further optimize our operations in the U.K. that began in May 2018 and we intend to complete by early 2019. The program includes the rationalization of the locomotive and railcar fleet, management restructuring (following the U.K. consultative process) and technology investments to upgrade systems to enhance productivity and service quality. Restructuring and related expenses associated with the optimization are expected to be approximately \$52 million (assuming the adjustment described in footnote (a) below does not occur and an exchange rate of \$1.30 for one British pound) which we expect to recover through improved profitability over the next approximately three years. The restructuring and related expenses are comprised of the following, including our current estimate of the timing of the related charges, which is subject to change (dollars in thousands):

| | Nine Months Ended September 30, 2018 | Outlook for Three Months Ended December 31, 2018 | Outlook for Six Months Ended June 30, 2019 | Estimated Total Restructuring and Related Costs |
|--|--|---|---|---|
| Rationalization of locomotive and railcar fleet ^(a) | \$ 6,317 | \$ — | \$ 21,200 | \$ 28,000 |
| Management restructuring ^(b) | 3,739 | 2,800 | 3,350 | 10,000 |

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| | | | | |
|---|-----------|----------|----------|-----------|
| Productivity and automation investments | 2,790 | 2,400 | 8,500 | 14,000 |
| Total | \$ 12,846 | \$ 5,200 | \$33,050 | \$ 52,000 |

(a) The emergence of new commercial opportunities may result in less restructuring and related expense.

(b) Subject to requisite U.K. consultative process.

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Restructuring and related activity for the U.K. Operations Optimization program for the nine months ended September 30, 2018 was as follows (dollars in thousands):

| | Rationalization of Locomotive and Railcar Fleet | Management Restructuring | Productivity and Automation Investments | Total |
|---|--|-----------------------------|--|----------|
| Restructuring and related liability as of December 31, 2017 | \$ — | \$ — | \$ — | \$— |
| Restructuring and related costs incurred | 6,317 | 3,739 | 2,790 | 12,846 |
| Cash payments | (797) | (2,405) | (2,567) | (5,769) |
| Non-cash settlements | (897) | — | (223) | (1,120) |
| Restructuring and related liability as of June 30, 2018 | \$ 4,623 | \$ 1,334 | \$ — | \$5,957 |

Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017

Consolidated Operating Results

Operating Revenues

The following table reflects the calculation of our total ongoing operations by subtracting the revenues and carloads from the divested ERS operations from our total operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | | | Increase/(Decrease) in | | Currency Impact |
|-----------------------------|---------------------------------|------------------------|--------------------------------|---------------------|------------------------|--------------------------------|---------------------------|--------|--------------------|
| | 2018 | | 2017 | | Total Operations | | % | | |
| | Total Operations | Divested Operations | Total Ongoing Operations | Total Operations | Divested Operations | Total Ongoing Operations | | Amount | |
| Freight revenues | \$1,241,245 | \$17,086 | \$1,224,159 | \$1,161,635 | \$32,558 | \$1,129,077 | \$79,610 | 6.9 % | \$13,920 |
| Freight-related revenues | 429,049 | 7,006 | 422,043 | 387,881 | 11,940 | 375,941 | 41,168 | 10.6 % | 8,208 |
| All other revenues | 102,661 | 21 | 102,640 | 86,952 | 22 | 86,930 | 15,709 | 18.1 % | 1,125 |
| Total operating revenues | \$1,772,955 | \$24,113 | \$1,748,842 | \$1,636,468 | \$44,520 | \$1,591,948 | \$136,487 | 8.3 % | \$23,253 |
| Carloads | 2,484,595 | 50,949 | 2,433,646 | 2,445,458 | 63,882 | 2,381,576 | 39,137 | 1.6 % | |

The following table sets forth our total ongoing operating revenues and carloads by new operations and existing operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | Increase/(Decrease) in | | Currency Impact on Total Ongoing Operations |
|--------------------------|---------------------------------|-------------------|------------------------|--------------------------------|--------------------------------|-------|---|
| | 2018 | | 2017 | | Existing/Ongoing Operations | | |
| | Total Ongoing Operations | New Operations | Existing Operations | Total Ongoing Operations | Amount | % | |
| Freight revenues | \$1,224,159 | \$1,580 | \$1,222,579 | \$1,129,077 | \$93,502 | 8.3 % | \$11,279 |
| Freight-related revenues | 422,043 | 32,532 | 389,511 | 375,941 | 13,570 | 3.6 % | 7,084 |
| All other revenues | 102,640 | 14,440 | 88,200 | 86,930 | 1,270 | 1.5 % | 1,123 |
| Total operating revenues | \$1,748,842 | \$48,552 | \$1,700,290 | \$1,591,948 | \$108,342 | 6.8 % | \$19,486 |
| Carloads | 2,433,646 | 2,813 | 2,430,833 | 2,381,576 | 49,257 | 2.1 % | |

Operating Expenses

Total operating expenses for the nine months ended September 30, 2018 increased \$104.1 million, or 7.7%, to \$1,455.1 million, compared with \$1,351.0 million for the nine months ended September 30, 2017. The increase

consisted of \$83.2 million from existing operations and \$46.6 million from new operations, partially offset by a \$25.6 million decrease from divested operations. The increase from existing operations included a \$21.0 million increase from the net appreciation of foreign currencies relative to the United States dollar, as well as increases of \$29.6 million in diesel fuel used in train operations, \$26.0 million in labor and benefits expense, \$7.6 million in depreciation and amortization, \$5.3 million in materials expense and \$4.1 million in restructuring costs. These increases were partially offset by decreases of \$6.2 million in other expenses, net, and \$4.3 million of purchased services.

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The following table sets forth our total operating expenses for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | Increase/(Decrease) | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|---|---------------------------------|-------------|-------------------------|-------------------------|---------------------|-----------------|-------------------------|--|
| | 2018 | 2017 | % of Operating Revenues | % of Operating Revenues | | | | |
| Labor and benefits | \$539,407 | \$500,936 | 30.4 % | 30.6 % | \$ 38,471 | \$7,526 | \$508,462 | \$ 30,945 |
| Equipment rents | 104,214 | 100,399 | 5.9 % | 6.1 % | 3,815 | 3,736 | 104,135 | 79 |
| Purchased services | 178,864 | 176,358 | 10.1 % | 10.8 % | 2,506 | 5,828 | 182,186 | (3,322) |
| Depreciation and amortization | 197,127 | 186,509 | 11.1 % | 11.4 % | 10,618 | 1,075 | 187,584 | 9,543 |
| Diesel fuel used in train operations | 137,487 | 105,718 | 7.8 % | 6.5 % | 31,769 | 2,080 | 107,798 | 29,689 |
| Electricity used in train operations | 7,020 | 6,072 | 0.4 % | 0.4 % | 948 | 576 | 6,648 | 372 |
| Casualties and insurance | 32,862 | 33,346 | 1.8 % | 2.0 % | (484) | 241 | 33,587 | (725) |
| Materials | 97,589 | 77,861 | 5.5 % | 4.8 % | 19,728 | 960 | 78,821 | 18,768 |
| Trackage rights | 67,119 | 66,652 | 3.8 % | 4.1 % | 467 | 1,740 | 68,392 | (1,273) |
| Net gain on sale and impairment of assets | (2,501) | (1,096) | (0.1)% | (0.1)% | (1,405) | 8 | (1,088) | (1,413) |
| Restructuring costs | 12,931 | 8,744 | 0.7 % | 0.5 % | 4,187 | 630 | 9,374 | 3,557 |
| Other expenses, net | 82,978 | 89,494 | 4.7 % | 5.5 % | (6,516) | 1,338 | 90,832 | (7,854) |
| Total operating expenses | \$1,455,097 | \$1,350,993 | 82.1 % | 82.6 % | \$ 104,104 | \$25,738 | \$1,376,731 | \$ 78,366 |

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

Operating Income/Operating Ratio

Operating income was \$317.9 million for the nine months ended September 30, 2018, compared with \$285.5 million for the nine months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 included restructuring and related costs of \$12.9 million, primarily driven by our optimization activities in the U.K., and corporate development and related costs of \$0.9 million, partially offset by a \$7.3 million gain on settlement related to Arrium's voluntary administration. Operating income for the nine months ended September 30, 2017 included corporate development and related costs of \$10.8 million, primarily associated with the GRail and Providence and Worcester Railroad transactions, and restructuring costs of \$8.7 million, primarily related to the restructuring of ERS. Our operating ratio was 82.1% for the nine months ended September 30, 2018, compared with 82.6% for the nine months ended September 30, 2017.

Interest Expense

Interest expense was \$80.6 million for the nine months ended September 30, 2018, compared with \$80.4 million for the nine months ended September 30, 2017.

Provision for Income Taxes

Our provision for income taxes for the nine months ended September 30, 2018 was \$41.6 million, compared with \$82.0 million for the nine months ended September 30, 2017. Our provision for income taxes for the nine months ended September 30, 2018 included a \$31.6 million benefit from the retroactive extension of the United States Short Line Tax Credit. In addition, the provision for income taxes for the nine months ended September 30, 2018 included an adjustment to record a reserve for uncertain tax positions of \$5.5 million related to tax deductions on intercompany financing arrangements in the U.K., of which \$3.7 million related to the period from March 25, 2015, the date of the Freightliner acquisition when the arrangements were established, through December 31, 2017. Excluding the benefit

from the retroactive extension and the prior period portion of the reserve for uncertain tax positions, our effective income tax rate for the nine months ended September 30, 2018 was 28.4%. Our effective income tax rate for the nine months ended September 30, 2017 was 38.9%. The decrease in our effective income tax rate was primarily a result of the TCJA, which decreased the United States federal corporate income tax rate from 35% to 21%. For additional information regarding our provision for income taxes, see Note 11, Income Taxes, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

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Net Income Attributable to G&W and Earnings Per Common Share

Net income attributable to G&W for the nine months ended September 30, 2018 was \$188.9 million, compared with \$122.5 million for the nine months ended September 30, 2017. Our basic EPS were \$3.13 with 60.3 million weighted average shares outstanding for the nine months ended September 30, 2018, compared with basic EPS of \$1.99 with 61.5 million weighted average shares outstanding for the nine months ended September 30, 2017. Our diluted EPS for the nine months ended September 30, 2018 were \$3.08 with 61.3 million weighted average shares outstanding, compared with diluted EPS of \$1.96 with 62.4 million weighted average shares outstanding for the nine months ended September 30, 2017. Our results for the nine months ended September 30, 2018 and 2017 included certain items affecting comparability between the periods as previously presented in the "Overview—Overview of Nine-Month Results—Items Affecting Comparability."

Operating Results by Segment

The following tables set forth results from our North American Operations, Australian Operations and U.K./European Operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, 2018 | | | |
|--|--------------------------------------|-----------------------|--------------------------|------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | \$778,717 | \$194,335 | \$268,193 | \$1,241,245 |
| Freight-related revenues | 193,344 | 32,214 | 203,491 | 429,049 |
| All other revenues | 48,835 | 4,017 | 49,809 | 102,661 |
| Total operating revenues | 1,020,896 | 230,566 | 521,493 | 1,772,955 |
| Operating expenses: | | | | |
| Labor and benefits | 329,146 | 55,318 | 154,943 | 539,407 |
| Equipment rents | 41,574 | 3,950 | 58,690 | 104,214 |
| Purchased services | 43,550 | 19,603 | 115,711 | 178,864 |
| Depreciation and amortization | 123,266 | 46,232 | 27,629 | 197,127 |
| Diesel fuel used in train operations | 71,963 | 23,557 | 41,967 | 137,487 |
| Electricity used in train operations | — | — | 7,020 | 7,020 |
| Casualties and insurance | 23,249 | 5,198 | 4,415 | 32,862 |
| Materials | 39,189 | 8,725 | 49,675 | 97,589 |
| Trackage rights | 30,225 | 6,510 | 30,384 | 67,119 |
| Net gain on sale and impairment of assets | (2,124) | (133) | (244) | (2,501) |
| Restructuring costs | 42 | — | 12,889 | 12,931 |
| Other expenses, net | 64,898 | (979) | 19,059 | 82,978 |
| Total operating expenses | 764,978 | 167,981 | 522,138 | 1,455,097 |
| Operating income/(loss) | \$255,918 | \$62,585 | \$(645) | \$317,858 |
| Operating ratio | 74.9 % | 72.9 % | 100.1 % | 82.1 % |
| Interest expense, net | \$30,572 | \$38,914 | \$9,620 | \$79,106 |
| Provision for income taxes | \$26,930 | \$7,120 | \$7,519 | \$41,569 |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$129,607 | \$27,936 | \$19,893 | \$177,436 |
| Carloads | 1,282,585 | 442,798 | 759,212 | 2,484,595 |

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| | Nine Months Ended September 30, 2017 | | | |
|--|--------------------------------------|--------------------------|-----------------------------|---------------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total Operations |
| Operating revenues: | | | | |
| Freight revenues | \$719,622 | \$191,031 | \$ 250,982 | \$1,161,635 |
| Freight-related revenues | 186,814 | 36,089 | 164,978 | 387,881 |
| All other revenues | 47,641 | 4,866 | 34,445 | 86,952 |
| Total operating revenues | 954,077 | 231,986 | 450,405 | 1,636,468 |
| Operating expenses: | | | | |
| Labor and benefits | 314,932 | 52,447 | 133,557 | 500,936 |
| Equipment rents | 39,993 | 4,215 | 56,191 | 100,399 |
| Purchased services | 45,350 | 19,821 | 111,187 | 176,358 |
| Depreciation and amortization | 117,822 | 45,915 | 22,772 | 186,509 |
| Diesel fuel used in train operations | 54,038 | 18,913 | 32,767 | 105,718 |
| Electricity used in train operations | — | — | 6,072 | 6,072 |
| Casualties and insurance | 26,532 | 4,219 | 2,595 | 33,346 |
| Materials | 38,413 | 8,629 | 30,819 | 77,861 |
| Trackage rights | 28,732 | 10,392 | 27,528 | 66,652 |
| Net gain on sale and impairment of assets | (870) | (59) | (167) | (1,096) |
| Restructuring costs | 384 | 338 | 8,022 | 8,744 |
| Other expenses, net | 59,206 | 7,471 | 22,817 | 89,494 |
| Total operating expenses | 724,532 | 172,301 | 454,160 | 1,350,993 |
| Operating income/(loss) | \$229,545 | \$59,685 | \$ (3,755) | \$285,475 |
| Operating ratio | 75.9 % | 74.3 % | 100.8 % | 82.6 % |
| Interest expense, net | \$29,928 | \$41,500 | \$ 7,732 | \$79,160 |
| Provision for/(benefit from) income taxes | \$78,133 | \$4,805 | \$ (906) | \$82,032 |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$105,940 | \$9,721 | \$ 17,446 | \$133,107 |
| Carloads | 1,207,760 | 419,156 | 818,542 | 2,445,458 |
| North American Operations | | | | |
| Operating Revenues | | | | |

The following table sets forth our North American Operations operating revenues and carloads by new operations and existing operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | Increase in Total Operations Amount | % | Increase in Existing Operations Amount | % | Currency Impact |
|--------------------------|---------------------------------|-------------------|------------------------|---------------------|--|------|---|------|--------------------|
| | 2018 | | 2017 | | | | | | |
| | Total Operations | New Operations | Existing Operations | Total Operations | | | | | |
| Freight revenues | \$778,717 | \$ 1,580 | \$777,137 | \$ 719,622 | \$59,095 | 8.2% | \$57,515 | 8.0% | \$ 748 |
| Freight-related revenues | 193,344 | 240 | 193,104 | 186,814 | 6,530 | 3.5% | 6,290 | 3.4% | 170 |
| All other revenues | 48,835 | 10 | 48,825 | 47,641 | 1,194 | 2.5% | 1,184 | 2.5% | 127 |
| Total operating revenues | \$1,020,896 | \$ 1,830 | \$1,019,066 | \$ 954,077 | \$66,819 | 7.0% | \$64,989 | 6.8% | \$ 1,045 |
| Carloads | 1,282,585 | 2,813 | 1,279,772 | 1,207,760 | 74,825 | 6.2% | 72,012 | 6.0% | |

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Freight Revenues

The following table sets forth the changes in our North American Operations freight revenues by commodity group segregated into new operations and existing operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| Commodity Group | Nine Months Ended | | Increase/(Decrease) in Total Operations | New Operations | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) in Existing Operations Constant Currency* |
|-----------------------------|-----------------------|-----------|---|-------------------|--------------------|-------------------------------|---|
| | September 30, 2018 | 2017 | | | | | |
| Agricultural Products | \$91,630 | \$92,956 | \$ (1,326) |) 113 | \$ 95 | 93,051 | (1,534) |
| Autos & Auto Parts | 16,686 | 17,019 | (333) |) — | 23 | 17,042 | (356) |
| Chemicals & Plastics | 113,625 | 111,660 | 1,965 | 362 | 161 | 111,821 | 1,442 |
| Coal & Coke | 62,038 | 57,123 | 4,915 | — | 20 | 57,143 | 4,895 |
| Food & Kindred Products | 25,587 | 24,856 | 731 | — | 12 | 24,868 | 719 |
| Intermodal | 1,203 | 726 | 477 | — | — | 726 | 477 |
| Lumber & Forest Products | 70,362 | 64,903 | 5,459 | 1,050 | 56 | 64,959 | 4,353 |
| Metallic Ores | 10,816 | 10,519 | 297 | — | 36 | 10,555 | 261 |
| Metals | 95,791 | 78,681 | 17,110 | — | 120 | 78,801 | 16,990 |
| Minerals & Stone | 107,122 | 97,446 | 9,676 | 7 | 33 | 97,479 | 9,636 |
| Petroleum Products | 52,870 | 50,696 | 2,174 | 2 | 53 | 50,749 | 2,119 |
| Pulp & Paper | 90,346 | 79,690 | 10,656 | — | 120 | 79,810 | 10,536 |
| Waste | 21,316 | 19,000 | 2,316 | — | 2 | 19,002 | 2,314 |
| Other | 19,325 | 14,347 | 4,978 | 46 | 17 | 14,364 | 4,915 |
| Total freight revenues | \$778,717 | \$719,622 | \$ 59,095 | 1,580 | \$ 748 | \$ 720,370 | \$ 56,767 |

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

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The following table sets forth our North American Operations freight revenues, carloads and average freight revenues per carload for the nine months ended September 30, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Freight Revenues | | | | Carloads | | Average Freight Revenues Per Carload | | |
|--------------------------------------|------------|-------------------------|------------|---------------------------------|-----------|--------------------------------------|-------|-------------------------|
| Nine Months Ended September 30, 2018 | | 2017 Constant Currency* | | Nine Months Ended September 30, | | Nine Months Ended September 30, | | |
| Commodity Group | % of Total | Amount | % of Total | 2018 | 2017 | 2018 | 2017 | 2017 Constant Currency* |
| Agricultural Products | 11.8 % | \$93,051 | 12.9 % | 156,515 | 157,792 | \$585 | \$589 | \$ 590 |
| Autos & Auto Parts | 2.1 % | 17,042 | 2.4 % | 26,546 | 27,705 | 629 | 614 | 615 |
| Chemicals & Plastics | 14.6 % | 111,821 | 15.5 % | 132,530 | 134,561 | 857 | 830 | 831 |
| Coal & Coke | 8.0 % | 57,143 | 7.9 % | 191,626 | 170,664 | 324 | 335 | 335 |
| Food & Kindred Products | 3.3 % | 24,868 | 3.5 % | 45,402 | 44,091 | 564 | 564 | 564 |
| Intermodal | 0.2 % | 726 | 0.1 % | 11,822 | 7,313 | 102 | 99 | 99 |
| Lumber & Forest Products | 9.0 % | 64,959 | 9.0 % | 111,311 | 105,020 | 632 | 618 | 619 |
| Metallic Ores | 1.3 % | 10,555 | 1.5 % | 13,499 | 13,840 | 801 | 760 | 763 |
| Metals & Minerals | 12.3 % | 78,801 | 10.9 % | 119,796 | 104,496 | 800 | 753 | 754 |
| Minerals & Stone | 13.8 % | 97,479 | 13.5 % | 170,348 | 160,917 | 629 | 606 | 606 |
| Petroleum Products | 6.8 % | 50,749 | 7.1 % | 76,231 | 73,821 | 694 | 687 | 687 |
| Pulp & Paper | 11.6 % | 79,810 | 11.1 % | 127,522 | 120,831 | 708 | 660 | 661 |
| Waste | 2.7 % | 19,002 | 2.6 % | 42,677 | 39,461 | 499 | 481 | 482 |
| Other | 2.5 % | 14,364 | 2.0 % | 56,760 | 47,248 | 340 | 304 | 304 |
| Total | 100.0 % | \$720,370 | 100.0 % | 1,282,585 | 1,207,760 | \$607 | \$596 | \$ 596 |

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

Total traffic from our North American Operations increased 74,825 carloads, or 6.2%, for the nine months ended September 30, 2018, compared with the same period in 2017. The increase consisted of 72,012 carloads from existing operations and 2,813 carloads from new operations. The increase in traffic from existing operations was principally due to increases of 20,962 carloads of coal and coke traffic, 15,300 carloads of metals traffic, 9,401 carloads of minerals and stone traffic, 9,051 carloads of other commodity traffic, 6,691 carloads of pulp and paper traffic, 4,582 carloads of lumber and forest products traffic, 4,509 carloads of intermodal traffic and 3,216 carloads of waste traffic. All remaining traffic decreased by a net 1,700 carloads.

Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Average freight revenues per carload from our North American Operations increased 1.8% to \$607 for the nine months ended September 30, 2018, compared with the same period in 2017. Average freight revenues per carload from existing operations increased 1.8% to \$607 for the nine months ended September 30, 2018, compared with the same period in 2017. Higher fuel surcharges increased average freight revenues per carload by 2.1%, while a change in the mix of commodities decreased average freight revenues per carload by 1.0%. Excluding these factors, average freight revenues per carload from our existing operations increased 0.7%.

The following information discusses the significant changes in our North American Operations freight revenues from existing operations by commodity group excluding the impact of foreign currency.

Coal and coke revenues increased \$4.9 million, or 8.6%. Coal and coke traffic increased 20,962 carloads, or 12.3%, which increased revenues by \$6.8 million, while average freight revenues per carload decreased 3.3%, which decreased revenues \$1.9 million. The increase in carloads was primarily due to increased demand in the central, northeastern and midwestern United States, as well as a maintenance outage at a customer facility in 2017. The decrease in average freight revenues per carload was primarily due to a change in the mix of business.

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Lumber and forest products revenues increased \$4.4 million, or 6.7%. Lumber and forest products traffic increased 4,582 carloads, or 4.4%, which increased revenues by \$2.9 million, and average freight revenues per carload increased 2.1%, which increased revenues by \$1.5 million. The increase in carloads was primarily due to increased shipments of lumber in the western United States. The increase in average freight revenues per carload was primarily due to increased fuel surcharge revenues.

Metals revenues increased \$17.0 million, or 21.6%. Metals traffic increased 15,300 carloads, or 14.6%, which increased revenues by \$12.2 million, and average freight revenues per carload increased 6.1%, which increased revenues by \$4.8 million. The increase in carloads was primarily due to increased coil and pig iron shipments in the southern United States, increased scrap steel shipments in the midwestern United States and increased pipe shipments in the southern, central and northeastern United States. The increase in average freight revenues per carload was primarily due to a change in the mix of business and increased fuel surcharge revenues.

Minerals and stone revenues increased \$9.6 million, or 9.9%. Minerals and stone traffic increased 9,401 carloads, or 5.8%, which increased revenues by \$5.9 million, and average freight revenues per carload increased 3.8%, which increased revenues by \$3.7 million. The increase in carloads was primarily due to increased aggregates, cement and clay shipments across North America. The increase in average freight revenues per carload was primarily due to increases in fuel surcharge revenues.

Pulp and paper revenues increased \$10.5 million, or 13.2%. Pulp and paper average freight revenues per carload increased 7.1%, which increased revenues by \$5.8 million, and traffic increased 6,691 carloads, or 5.5%, which increased revenues by \$4.7 million. The increase in average freight revenues per carload was primarily due to a change in the mix of business and increased fuel surcharge revenues. The increase in carloads was primarily due to increased containerboard shipments across North America.

Waste revenues increased \$2.3 million, or 12.2%. Waste traffic increased 3,216 carloads, or 8.1%, which increased revenues by \$1.6 million, and average freight revenues per carload increased 3.5%, which increased revenues by \$0.7 million. The increase in carloads was primarily due to increased demand in the northeastern United States.

Other revenues increased \$4.9 million, or 34.2%. Other traffic increased 9,051 carloads, or 19.2%, which increased revenues by \$3.1 million, and average freight revenues per carload increased 12.5%, which increased revenues by \$1.8 million. The increase in carloads was primarily due to increased empty car traffic in the southern, central and midwestern United States. The increase in average freight revenues per carload was primarily due to shipments of wind towers in the midwestern United States and Canada.

Freight revenues from all remaining commodities combined increased by a net \$1.1 million.

Freight-Related Revenues

Excluding a \$0.2 million increase due to the impact of foreign currency appreciation, freight-related revenues from our North American Operations, which includes revenues from railcar switching, track access rights, crewing services, storage and other ancillary revenues related to the movement of freight, increased \$6.4 million, or 3.4%, to \$193.3 million for the nine months ended September 30, 2018, compared with \$187.0 million for the nine months ended September 30, 2017. The increase was primarily due to increased switching revenues primarily related to a new iron ore customer in Canada and stronger intermodal and grain volumes in the southeastern United States.

All Other Revenues

Excluding a \$0.1 million increase due to the impact of foreign currency appreciation, 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, increased \$1.1 million, or 2.2%, to \$48.8 million for the nine months ended September 30, 2018, compared with \$47.8 million for the nine months ended September 30, 2017. The increase was primarily from existing operations.

Operating Expenses

Total operating expenses from our North American Operations increased \$40.4 million, or 5.6%, to \$765.0 million for the nine months ended September 30, 2018, compared with \$724.5 million for the nine months ended September 30, 2017. The increase consisted of \$38.9 million from existing operations and \$1.5 million from new operations. The increase from existing operations was primarily due to an increase of \$17.7 million in diesel fuel used in train operations, \$13.4 million in labor and benefits expense, \$5.6 million in other expenses, net and \$5.0 million in

depreciation and amortization, partially offset by a decrease of \$3.4 million in casualties and insurance expense. In addition, the change from existing operations included a \$1.1 million increase due to the impact of foreign currency appreciation.

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The following table sets forth operating expenses from our North American Operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, 2018 | | 2017 | | Increase/(Decrease) Impact | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|--|---|-------------------------------|-----------|-------------------------------|-------------------------------|--------------------|-------------------------------|--|
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | | | | |
| Labor and benefits | \$329,146 | 32.2 % | \$314,932 | 33.0 % | \$ 14,214 | \$ 385 | \$315,317 | \$ 13,829 |
| Equipment rents | 41,574 | 4.1 % | 39,993 | 4.2 % | 1,581 | 44 | 40,037 | 1,537 |
| Purchased services | 43,550 | 4.3 % | 45,350 | 4.8 % | (1,800) | 48 | 45,398 | (1,848) |
| Depreciation and amortization | 123,266 | 12.1 % | 117,822 | 12.3 % | 5,444 | 260 | 118,082 | 5,184 |
| Diesel fuel used in train operations | 71,963 | 7.0 % | 54,038 | 5.7 % | 17,925 | 152 | 54,190 | 17,773 |
| Casualties and insurance | 23,249 | 2.3 % | 26,532 | 2.8 % | (3,283) | 117 | 26,649 | (3,400) |
| Materials | 39,189 | 3.8 % | 38,413 | 4.0 % | 776 | 56 | 38,469 | 720 |
| Trackage rights | 30,225 | 2.9 % | 28,732 | 3.0 % | 1,493 | 9 | 28,741 | 1,484 |
| Net gain on sale and impairment of assets | (2,124) | (0.2)% | (870) | (0.1)% | (1,254) | 3 | (867) | (1,257) |
| Restructuring costs | 42 | — % | 384 | — % | (342) | — | 384 | (342) |
| Other expenses, net | 64,898 | 6.4 % | 59,206 | 6.2 % | 5,692 | 62 | 59,268 | 5,630 |
| Total operating expenses | \$764,978 | 74.9 % | \$724,532 | 75.9 % | \$ 40,446 | \$ 1,136 | \$725,668 | \$ 39,310 |

* 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 an increase of \$1.1 million due to the impact of foreign currency appreciation.

Labor and benefits expense was \$329.1 million for the nine months ended September 30, 2018, compared with \$315.3 million for the nine months ended September 30, 2017, an increase of \$13.8 million, or 4.4%. The increase consisted of \$13.4 million, or 4.2%, from existing operations and \$0.4 million from new operations. The increase from existing operations was primarily due to annual wage increases, as well as additional overtime.

Depreciation and amortization expense was \$123.3 million for the nine months ended September 30, 2018, compared with \$118.1 million for the nine months ended September 30, 2017, an increase of \$5.2 million, or 4.4%. The increase was primarily attributable to a larger depreciable asset base in 2018 compared with 2017, reflecting capital spending in 2017.

The cost of diesel fuel used in train operations was \$72.0 million for the nine months ended September 30, 2018, compared with \$54.2 million for the nine months ended September 30, 2017, an increase of \$17.8 million, or 32.8%. The increase consisted of \$14.7 million due to a 27.1% increase in average fuel cost per gallon and \$2.9 million due to a 4.2% increase in diesel fuel consumption.

Casualties and insurance expense was \$23.2 million for the nine months ended September 30, 2018, compared with \$26.6 million for the nine months ended September 30, 2017, a decrease of \$3.4 million, or 12.8%. The decrease was primarily attributable to less weather-related property damage and an insurance gain recognized in 2018 related to a prior year trestle fire.

Other expenses, net were \$64.9 million for the nine months ended September 30, 2018, compared with \$59.3 million for the nine months ended September 30, 2017, an increase of \$5.6 million, or 9.5%. The increase was primarily attributable to an increase in legal fees associated with arbitration proceedings.

Operating Income/Operating Ratio

Operating income from our North American Operations was \$255.9 million for the nine months ended September 30, 2018, compared with \$229.5 million for the nine months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 and 2017 included corporate development and related costs of \$0.7 million and

\$7.4 million, respectively. The operating ratio was 74.9% for the nine months ended September 30, 2018, compared with 75.9% for the nine months ended September 30, 2017.

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Australian Operations

Operating Revenues

The following table sets forth our Australian Operations operating revenues and carloads for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended | | Increase/(Decrease) | | Currency Impact |
|--------------------------|--------------------|--------------------|----------------------------|-----------------------|-----------------|
| | September 30, 2018 | September 30, 2017 | in Total Operations Amount | in Total Operations % | |
| Freight revenues | \$194,335 | \$191,031 | \$3,304 | 1.7 % | \$(2,158) |
| Freight-related revenues | 32,214 | 36,089 | (3,875) | (10.7)% | (436) |
| All other revenues | 4,017 | 4,866 | (849) | (17.4)% | (91) |
| Total operating revenues | \$230,566 | \$231,986 | \$(1,420) | (0.6)% | \$(2,685) |
| Carloads | 442,798 | 419,156 | 23,642 | 5.6 % | |

Freight Revenues

The following table sets forth the changes in our Australian Operations freight revenues by commodity group for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| Commodity Group | Nine Months Ended | | Increase/(Decrease) | | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Total Operations Constant Currency* |
|------------------------|--------------------|--------------------|---------------------|-----------------------|-----------------|-------------------------|---|
| | September 30, 2018 | September 30, 2017 | in Total Operations | in Total Operations % | | | |
| Agricultural Products | \$15,639 | \$17,737 | \$ (2,098) | | \$(181) | \$ 17,556 | \$ (1,917) |
| Coal and Coke | 96,506 | 86,292 | 10,214 | | (829) | 85,463 | 11,043 |
| Intermodal | 50,613 | 52,113 | (1,500) | | (685) | 51,428 | (815) |
| Metallic Ores | 24,770 | 29,595 | (4,825) | | (494) | 29,101 | (4,331) |
| Minerals & Stone | 6,247 | 4,787 | 1,460 | | 43 | 4,830 | 1,417 |
| Petroleum Products | 560 | 507 | 53 | | (12) | 495 | 65 |
| Total freight revenues | \$194,335 | \$191,031 | \$ 3,304 | | \$(2,158) | 188,873 | \$ 5,462 |

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

The following table sets forth our Australian Operations freight revenues, carloads and average freight revenues per carload for the nine months ended September 30, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Commodity Group | Amount | % of Total | Freight Revenues | | Carloads | | Average Freight Revenues Per Carload | | |
|-----------------------|----------|------------|--------------------------------------|---|--------------------------------------|--------------------------------------|---|-------|-------|
| | | | Nine Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 Constant Currency* | Nine Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 Constant Currency* | | |
| Agricultural Products | \$15,639 | 8.0 % | \$17,556 | 9.3 % | 33,816 | 43,804 | \$462 | \$405 | \$401 |
| Coal & Coke | 96,506 | 49.7 % | 85,463 | 45.2 % | 300,947 | 271,485 | 321 | 318 | 315 |
| Intermodal | 50,613 | 26.1 % | 51,428 | 27.2 % | 41,321 | 44,153 | 1,225 | 1,180 | 1,165 |
| Metallic Ores | 24,770 | 12.7 % | 29,101 | 15.4 % | 16,921 | 24,114 | 1,464 | 1,227 | 1,207 |
| Minerals & Stone | 6,247 | 3.2 % | 4,830 | 2.6 % | 49,567 | 35,394 | 126 | 135 | 136 |

Stone

| | | | | | | | | | | |
|------------------------------|-----|---|-----|-----|---|-----|-----|-------|-------|-------|
| Petroleum 560 Products | 0.3 | % | 495 | 0.3 | % | 226 | 206 | 2,478 | 2,461 | 2,403 |
|------------------------------|-----|---|-----|-----|---|-----|-----|-------|-------|-------|

| | | | | | | | | | |
|-------|-------|--------|-----------|--------|---------|---------|-------|-------|-------|
| Total | 4,335 | 100.0% | \$188,873 | 100.0% | 442,798 | 419,156 | \$439 | \$456 | \$451 |
|-------|-------|--------|-----------|--------|---------|---------|-------|-------|-------|

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

Total traffic from our Australian Operations increased 23,642 carloads or 5.6%, to 442,798 carloads for the nine months ended September 30, 2018 compared with the same period in 2017. The traffic increase was principally due to increases of 29,462 carloads of coal and coke traffic and 14,173 carloads of minerals and stone traffic, partially offset by decreases of 9,988 carloads of agricultural products traffic, 7,193 carloads of metallic ores traffic and 2,832 carloads of intermodal traffic. All remaining traffic increased by 20 carloads.

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Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Excluding a 1.0% impact of foreign currency, average freight revenues per carload from our Australian Operations decreased 2.7% to \$439 for the nine months ended September 30, 2018, compared with the same period in 2017. A change in the mix of commodities decreased average freight revenues per carload by 9.4%, while higher fuel surcharges increased average freight revenues per carload by 0.8%. Excluding these factors, average freight revenues per carload increased 5.9%. The following information discusses the significant changes in our Australian Operations freight revenues by commodity group excluding the impact of foreign currency.

Agricultural products revenues decreased \$1.9 million, or 10.9%. Agricultural products traffic decreased 9,988 carloads, or 22.8%, which decreased revenues by \$4.6 million, while average freight revenues per carload increased 15.2%, which increased revenues by \$2.7 million. The carload decrease was primarily due to a smaller grain harvest in 2018. The increase in average freight revenues per carload was primarily due to a change in customer mix.

Coal and coke revenues increased \$11.0 million, or 12.9%. Coal and coke traffic increased 29,462 carloads, or 10.9%, which increased revenues by \$9.4 million, and average freight revenues per carload increased 1.9%, which increased revenues by \$1.6 million. The carload increase was primarily due to industrial action at Hunter Valley coal mines in 2017 and increased spot shipments in 2018.

Metallic ores revenues decreased \$4.3 million, or 14.9%. Metallic ores traffic decreased 7,193 carloads, or 29.8%, which decreased revenues by \$10.5 million, while average freight revenues per carload increased 21.3%, which increased revenues by \$6.2 million. The carload decrease was primarily due to the shutdown of an iron ore customer's mine in October 2017. The increase in average freight revenues per carload was primarily due to a change in business mix.

Minerals and stone revenues increased \$1.4 million, or 29.3%, primarily due to a traffic increase of 14,173 carloads, or 40.0%. The carload increase was primarily due to a temporary maintenance outage at a customer port facility in 2017.

Freight revenues from all remaining commodities combined decreased by a net \$0.8 million.

Freight-Related Revenues

Excluding a \$0.4 million decrease due to the impact of foreign currency depreciation, freight-related revenues from our Australian Operations, which includes revenues from railcar switching, track access rights, crewing services, storage and other ancillary revenues related to the movement of freight, decreased \$3.4 million, or 9.6%, to \$32.2 million for the nine months ended September 30, 2018, compared with \$35.7 million for the nine months ended September 30, 2017. The decrease in freight-related revenues was primarily due to decreased switching revenues as a result of a smaller harvest in 2018.

All Other Revenues

Excluding the impact of foreign currency depreciation, all other revenues from our Australian Operations, which includes revenues from third-party railcar and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight, decreased to \$4.0 million for the nine months ended September 30, 2018, compared with \$4.8 million for the nine months ended September 30, 2017.

Operating Expenses

Total operating expenses from our Australian Operations for the nine months ended September 30, 2018 decreased \$4.3 million, or 2.5%, to \$168.0 million, compared with \$172.3 million for the nine months ended September 30, 2017. Total operating expenses for the nine months ended September 30, 2018 included a \$7.3 million gain on settlement related to Arrium's voluntary administration that was recognized as an offset to other expenses, net. The decrease in 2018 also resulted from a decrease in trackage rights expense of \$3.8 million, which was partially offset by increases in diesel fuel used in train operations of \$4.8 million and labor and benefits expense of \$3.4 million. In addition, the change in total operating expenses included a \$1.8 million decrease due to the impact of foreign currency depreciation.

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The following table sets forth operating expenses from our Australian Operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | 2018 | | 2017 | | Increase/(Decrease) Constant Currency* | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|--|-----------|-------------------------------|-----------|-------------------------------|--|--------------------|-------------------------------|--|
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | | | | |
| Labor and benefits | \$55,318 | 24.0 % | \$52,447 | 22.6 % | \$ 2,871 | \$(512) | \$51,935 | \$ 3,383 |
| Equipment rents | 3,950 | 1.7 % | 4,215 | 1.8 % | (265) | (50) | 4,165 | (215) |
| Purchased services | 19,603 | 8.5 % | 19,821 | 8.6 % | (218) | (277) | 19,544 | 59 |
| Depreciation and amortization | 46,232 | 20.1 % | 45,915 | 19.8 % | 317 | (491) | 45,424 | 808 |
| Diesel fuel used in train operations | 23,557 | 10.2 % | 18,913 | 8.2 % | 4,644 | (139) | 18,774 | 4,783 |
| Casualties and insurance | 5,198 | 2.3 % | 4,219 | 1.8 % | 979 | (37) | 4,182 | 1,016 |
| Materials | 8,725 | 3.8 % | 8,629 | 3.7 % | 96 | (145) | 8,484 | 241 |
| Trackage rights | 6,510 | 2.8 % | 10,392 | 4.5 % | (3,882) | (98) | 10,294 | (3,784) |
| Net (gain)/loss on sale and impairment of assets | (133) | (0.1 %) | (59) | — % | (74) | 3 | (56) | (77) |
| Restructuring costs | — | — % | 338 | 0.1 % | (338) | 9 | 347 | (347) |
| Other expenses, net | (979) | (0.4 %) | 7,471 | 3.2 % | (8,450) | (112) | 7,359 | (8,338) |
| Total operating expenses | \$167,981 | 72.9 % | \$172,301 | 74.3 % | \$ (4,320) | \$(1,849) | \$170,452 | \$ (2,471) |

* 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 Australian Operations excluding a decrease of \$1.8 million due to the impact of foreign currency depreciation.

Labor and benefits expense was \$55.3 million for the nine months ended September 30, 2018, compared with \$51.9 million for the nine months ended September 30, 2017, an increase of \$3.4 million, or 6.5%. The increase was primarily due to an increase in headcount to support growth initiatives.

The cost of diesel fuel used in train operations was \$23.6 million for the nine months ended September 30, 2018, compared with \$18.8 million for the nine months ended September 30, 2017, an increase of \$4.8 million, or 25.5%. The increase consisted of \$5.2 million due to a 27.5% increase in average fuel cost per gallon, partially offset by a decrease of \$0.4 million due to a 1.6% decrease in diesel fuel consumption.

Casualties and insurance expense was \$5.2 million for the nine months ended September 30, 2018, compared with \$4.2 million for the nine months ended September 30, 2017, an increase of \$1.0 million, or 24.3%. The increase was primarily attributable to increased derailment and track damage expense in 2018.

Trackage rights expense was \$6.5 million for the nine months ended September 30, 2018, compared with \$10.3 million for the nine months ended September 30, 2017, a decrease of \$3.8 million, or 36.8%. The decrease was primarily due to the shutdown of an iron ore mine in October 2017.

Other expenses, net for the nine months ended September 30, 2018 included a \$7.3 million gain on settlement related to Arrium's voluntary administration.

Operating Income/Operating Ratio

Operating income from our Australian Operations was \$62.6 million for the nine months ended September 30, 2018, compared with \$59.7 million for the nine months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 included a \$7.3 million gain on settlement related to Arrium's voluntary administration.

The operating ratio was 72.9% for the nine months ended September 30, 2018, compared with 74.3% for the nine months ended September 30, 2017.

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U.K./European Operations

Operating Revenues

The following table sets forth our U.K./European total operating revenues for the nine months ended September 30, 2018 and 2017. The table also reflects the calculation of our total ongoing operations by subtracting the revenues from the divested ERS operations from our total operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | | | Increase/(Decrease) | | Currency Impact |
|--------------------------|---------------------------------|---------------------|--------------------------|------------------|---------------------|--------------------------|---------------------|---------|-----------------|
| | 2018 | | | 2017 | | | in Total Operations | | |
| | Total Operations | Divested Operations | Total Ongoing Operations | Total Operations | Divested Operations | Total Ongoing Operations | Amount | % | |
| Freight revenues | \$268,193 | \$17,086 | \$251,107 | \$250,982 | \$32,558 | \$218,424 | \$17,211 | 6.9 % | \$15,330 |
| Freight-related revenues | 203,491 | 7,006 | 196,485 | 164,978 | 11,940 | 153,038 | 38,513 | 23.3 % | 8,474 |
| All other revenues | 49,809 | 21 | 49,788 | 34,445 | 22 | 34,423 | 15,364 | 44.6 % | 1,089 |
| Total operating revenues | \$521,493 | \$24,113 | \$497,380 | \$450,405 | \$44,520 | \$405,885 | \$71,088 | 15.8 % | \$24,893 |
| Carloads | 759,212 | 50,949 | 708,263 | 818,542 | 95,121 | 723,421 | (59,330) | (7.2)% | |

The following table sets forth our ongoing U.K./European Operations total operating revenues and carloads by new operations and existing operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | | | Increase/(Decrease) | | Currency Impact on Total Ongoing Operations |
|--------------------------|---------------------------------|----------------|----------------|--------------------------|--------------------------------|---------|---|
| | 2018 | | 2017 | | in Existing/Ongoing Operations | | |
| | Total Ongoing Operations | New Operations | Total Existing | Total Ongoing Operations | Amount | % | |
| Freight revenues | \$251,107 | \$— | \$251,107 | \$218,424 | \$32,683 | 15.0 % | \$12,689 |
| Freight-related revenues | 196,485 | 32,292 | 164,193 | 153,038 | 11,155 | 7.3 % | 7,350 |
| All other revenues | 49,788 | 14,430 | 35,358 | 34,423 | 935 | 2.7 % | 1,087 |
| Total operating revenues | \$497,380 | \$46,722 | \$450,658 | \$405,885 | \$44,773 | 11.0 % | \$21,126 |
| Carloads | 708,263 | — | 708,263 | 723,421 | (15,158) | (2.1)% | |

Freight Revenues

The following table sets forth our U.K./European Operations ongoing operations freight revenues by commodity group by subtracting the revenues from the divested ERS operations from our U.K./European total operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| Commodity Group | Nine Months Ended September 30, | | | | | | Increase/(Decrease) in Existing Operations | Currency Impact on Existing Operations | 2017 Constant Currency Operations* | Increase/(Decrease) in Existing Operations Constant Currency* |
|-----------------------|---------------------------------|---------------------|-----------------------------------|---------------------------|------------------------|--------------------------|--|--|------------------------------------|---|
| | 2018 | | 2017 | | in Existing Operations | | | | | |
| | Total Operations | Divested Operations | Total Ongoing/Existing Operations | Total Existing Operations | Divested Operations | Total Ongoing Operations | Amount | % | | |
| Agricultural Products | \$3,073 | \$— | \$3,073 | \$3,532 | \$— | \$3,532 | \$(459) | \$384 | \$3,916 | \$(843) |
| Coal & Coke | 8,751 | — | 8,751 | 7,464 | — | 7,464 | 1,287 | 591 | 8,055 | 696 |
| Intermodal | 192,413 | 17,086 | 175,327 | 190,163 | 32,558 | 157,605 | 17,722 | 8,994 | 166,599 | 8,728 |

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| | | | | | | | | | | |
|--------------------------|-----------|----------|-----------|-----------|----------|-----------|----------|----------|-----------|----------|
| Minerals & Stone | 63,849 | — | 63,849 | 49,823 | — | 49,823 | 14,026 | 2,720 | 52,543 | 11,306 |
| Petroleum Products | 107 | — | 107 | — | — | — | 107 | — | — | 107 |
| Total operating revenues | \$268,193 | \$17,086 | \$251,107 | \$250,982 | \$32,558 | \$218,424 | \$32,683 | \$12,689 | \$231,113 | \$19,994 |

*Constant currency amounts reflect the prior period Total Ongoing Operations translated at the current period exchange rates.

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The following table sets forth our U.K./European Operations freight revenues, carloads and average freight revenues per carload for the nine months ended September 30, 2018 and 2017 (dollars in thousands, except average freight revenues per carload):

| Commodity Group | Freight Revenues | | Carloads | | Average Freight Revenues Per Carload | | | | |
|-----------------------|------------------|------------|-------------------------|------------|--------------------------------------|---------|---------------------------------|---------|-------------------------|
| | Amount | % of Total | Amount | % of Total | Nine Months Ended September 30, | | Nine Months Ended September 30, | | |
| | 2018 | | 2017 Constant Currency* | | 2018 | 2017 | 2018 | 2017 | 2017 Constant Currency* |
| Agricultural Products | \$3,073 | 1.1 % | \$3,916 | 1.5 % | 2,349 | 3,036 | \$1,308 | \$1,163 | \$ 1,290 |
| Coal | &8,751 | 3.3 % | &8,055 | 3.0 % | 14,204 | 18,333 | 616 | 407 | 439 |
| Coke | 107 | | | | | | | | |
| Intermodal | 71.8 % | | 201,798 | 75.8 % | 599,840 | 669,963 | 321 | 284 | 301 |
| Minerals | &63,849 | 23.8 % | &52,543 | 19.7 % | 142,577 | 127,210 | 448 | 392 | 413 |
| Stone | | | | | | | | | |
| Petroleum Products | 107 | — % | — | — % | 242 | — | 442 | — | — |
| Total | \$268,193 | 100.0 % | \$266,312 | 100.0 % | 759,212 | 818,542 | \$353 | \$307 | \$ 325 |

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

Total traffic from our U.K./European Operations decreased 59,330 carloads, or 7.2%, for the nine months ended September 30, 2018, compared with the same period in 2017. Excluding traffic from our divested ERS operations, existing operations traffic decreased 15,158 carloads, or 2.1%, to 708,263 carloads. The decrease in traffic from existing operations was primarily due to decreases of 25,951 carloads of intermodal traffic and 4,129 carloads of coal and coke traffic, partially offset by an increase of 15,367 carloads of minerals and stone traffic. All remaining traffic decreased by a net 445 carloads.

Changes in average freight revenues per carload in a commodity group may be impacted by changes in customer rates, fuel surcharges, commodity mix and the mix of customer traffic within a commodity group. Excluding a 6.4% impact of foreign currency, average freight revenues per carload from our U.K./European Operations increased 8.6% to \$353 for the nine months ended September 30, 2018, compared with the same period in 2017. Average freight revenues per carload from existing operations, excluding the impact of foreign currency, increased 11.3% to \$355 for the nine months ended September 30, 2018, compared with the same period in 2017.

The following information discusses the significant changes in our U.K./European Operations freight revenues by commodity group excluding the impact of foreign currency and the divested ERS operations.

Intermodal revenues increased \$8.7 million, or 5.2%. Intermodal average freight revenues per carload increased 10.0%, which increased revenues by \$17.0 million, while traffic decreased 25,951 carloads, or 4.5%, which decreased revenues by \$8.3 million. The increase in average freight revenues per carload was primarily due to rate increases and port and route mix resulting from changes in shipping alliances. The decrease in carloads was primarily due to weather-related service cancellations and congestion at the Port of Felixstowe related to the port's information technology system conversion.

Minerals and stone revenues increased \$11.3 million, or 21.5%. Minerals and stone traffic increased 15,367 carloads, or 12.1%, which increased revenues by \$6.9 million, and average freight revenues per carload increased 8.5%, which increased revenues by \$4.4 million. The increase in carloads was primarily due to higher construction aggregates shipments in the U.K. and Poland. The increase in average freight revenues per carload was primarily due to a change

in the mix of business in Poland.

Freight revenues from all remaining commodities had a net decrease of less than \$0.1 million.

Freight-Related Revenues

Freight-related revenues from our U.K./European Operations includes trucking haulage services, container storage and switching services, as well as infrastructure services, where we operate work trains for the track infrastructure owner.

Freight-related revenues from our U.K./European Operations also include traction service (or hook and pull), which requires us to provide locomotives and drivers to move a customer's train between specified origin and destination points, and other ancillary revenues related to the movement of freight.

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Freight-related revenues from our U.K./European Operations were \$203.5 million for the nine months ended September 30, 2018, compared with \$165.0 million for the nine months ended September 30, 2017, an increase of \$38.5 million, or 23.3%. Excluding \$32.3 million from new operations, a decrease of \$6.1 million from the divested ERS operations and an \$8.5 million increase due to the impact of foreign currency appreciation, freight-related revenues from our existing operations increased \$3.8 million, or 2.4%, for the nine months ended September 30, 2018, compared with \$160.4 million for the nine months ended September 30, 2017. The increase was primarily due to increased switching revenues related to steel traffic, stronger short haul trucking volumes in the U.K. and increased crewing revenue in Poland, partially offset by a decrease in infrastructure services in the U.K.

All Other Revenues

All other revenues from our U.K./European Operations includes revenues from container sales, third-party car and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight. All other revenues from our U.K./European Operations were \$49.8 million for the nine months ended September 30, 2018, compared with \$34.4 million for the nine months ended September 30, 2017, an increase of \$15.4 million, or 44.6%. Excluding \$14.4 million from new operations and a \$1.1 million increase due to the impact of foreign currency appreciation, all other revenues from our existing operations decreased \$0.2 million, or 0.4%, for the nine months ended September 30, 2018, compared with \$35.5 million for the nine months ended September 30, 2017.

Operating Expenses

Total operating expenses from our U.K./European Operations were \$522.1 million for the nine months ended September 30, 2018, compared with \$454.2 million for the nine months ended September 30, 2017, an increase of \$68.0 million, or 15.0%. The increase included \$45.0 million from new operations and \$48.6 million from existing operations, partially offset by a \$30.4 million decrease from the divested ERS operations. The increase from existing operations included a \$21.7 million increase due to the impact of foreign currency appreciation, as well as increases of \$9.2 million in labor and benefits expense, \$7.1 million in diesel fuel used in train operations, \$4.8 million in restructuring costs, \$4.5 million in materials expense and \$3.1 million in trackage rights expense, partially offset by a decrease of \$3.4 million in other expenses, net.

The following table sets forth operating expenses from our U.K./European Operations for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

| | Nine Months Ended September 30, | | 2017 | | Currency Impact | 2017 Constant Currency* | Increase/(Decrease) Constant Currency* |
|--|---------------------------------|-------------------------|------------|-------------------------|---------------------|-------------------------|--|
| | 2018 | 2017 | Amount | Amount | | | |
| | Amount | % of Operating Revenues | Amount | % of Operating Revenues | Increase/(Decrease) | | |
| Labor and benefits | \$ 154,943 | 29.7 % | \$ 133,557 | 29.6 % | \$ 21,386 | \$ 141,210 | \$ 13,733 |
| Equipment rents | 58,690 | 11.3 % | 56,191 | 12.5 % | 2,499 | 59,933 | (1,243) |
| Purchased services | 115,711 | 22.2 % | 111,187 | 24.7 % | 4,524 | 117,244 | (1,533) |
| Depreciation and amortization | 27,629 | 5.3 % | 22,772 | 5.1 % | 4,857 | 24,078 | 3,551 |
| Diesel fuel used in train operations | 41,967 | 8.0 % | 32,767 | 7.3 % | 9,200 | 34,834 | 7,133 |
| Electricity used in train operations | 7,020 | 1.3 % | 6,072 | 1.2 % | 948 | 6,648 | 372 |
| Casualties and insurance | 4,415 | 0.8 % | 2,595 | 0.6 % | 1,820 | 2,756 | 1,659 |
| Materials | 49,675 | 9.5 % | 30,819 | 6.8 % | 18,856 | 31,868 | 17,807 |
| Trackage rights | 30,384 | 5.8 % | 27,528 | 6.1 % | 2,856 | 29,357 | 1,027 |
| Net loss/(gain) on sale and impairment of assets | (244) | — % | (167) | — % | (77) | (165) | (79) |
| Restructuring costs | 12,889 | 2.5 % | 8,022 | 1.8 % | 4,867 | 8,643 | 4,246 |

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| | | | | | | | | | | | | |
|--------------------------|-----------|-------|---|-----------|-------|---|-----------|---|----------|-----------|-----------|---|
| Other expenses, net | 19,059 | 3.7 | % | 22,817 | 5.1 | % | (3,758 |) | 1,388 | 24,205 | (5,146 |) |
| Total operating expenses | \$522,138 | 100.1 | % | \$454,160 | 100.8 | % | \$ 67,978 | | \$26,451 | \$480,611 | \$ 41,527 | |

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

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The following information discusses the significant changes in operating expenses of our U.K./European Operations excluding an increase of \$26.5 million due to the impact of foreign currency appreciation.

Labor and benefits expense was \$154.9 million for the nine months ended September 30, 2018, compared with \$141.2 million for the nine months ended September 30, 2017, an increase of \$13.7 million, or 9.7%. The increase consisted of \$9.3 million from new operations and \$9.2 million from existing operations, partially offset by a decrease of \$4.7 million from divested operations. The increase from existing operations was primarily due to annual wage increases and an increase in overtime.

Purchased services expense was \$115.7 million for the nine months ended September 30, 2018, compared with \$117.2 million for the nine months ended September 30, 2017, a decrease of \$1.5 million, or 1.3%. The decrease consisted of \$13.1 million from divested operations and \$2.3 million from existing operations, partially offset by an increase of \$13.9 million from new operations. The decrease from existing operations was primarily attributable to lower rail network service costs due to adverse weather and service cancellations.

Depreciation and amortization expense was \$27.6 million for the nine months ended September 30, 2018, compared with \$24.1 million for the nine months ended September 30, 2017, an increase of \$3.6 million, or 14.7%. The increase consisted of \$1.9 million from existing operations and \$1.7 million from new operations. The increase from existing operations was primarily attributable to a larger depreciable asset base in 2018 compared with 2017, reflecting capital spending in 2017.

The cost of diesel fuel used in train operations was \$42.0 million for the nine months ended September 30, 2018, compared with \$34.8 million for the nine months ended September 30, 2017, an increase of \$7.1 million, or 20.5%. The increase consisted of \$5.7 million due to a 17.0% increase in average fuel cost per gallon and \$1.5 million due to a 3.0% increase in diesel fuel consumption.

Casualties and insurance expense was \$4.4 million for the nine months ended September 30, 2018, compared with \$2.8 million for the nine months ended September 30, 2017, an increase of \$1.7 million, or 60.2%. The increase consisted of \$1.6 million from existing operations and \$0.5 million from new operations, partially offset by a decrease of \$0.4 million from divested operations. The increase from existing operations was primarily due to increased expense related to claims.

Materials expense, which primarily consists of costs of containers sold to third parties, materials purchased for use in repairing and maintaining our locomotives, railcars and other equipment, as well as costs for general tools and supplies used in our business, was \$49.7 million for the nine months ended September 30, 2018, compared with \$31.9 million for the nine months ended September 30, 2017, an increase of \$17.8 million, or 55.9%. The increase consisted of \$13.4 million from new operations and \$4.5 million from existing operations. The increase from existing operations was primarily attributable to an increase in the cost of fuel used in trucking operations and new container sales.

Trackage rights expense was \$30.4 million for the nine months ended September 30, 2018, compared with \$29.4 million for the nine months ended September 30, 2017, an increase of \$1.0 million, or 3.5%. The increase consisted of \$3.1 million from existing operations, partially offset by a decrease of \$2.1 million from divested operations. The increase from existing operations was primarily due to an increase in freight and switching activity.

Restructuring and related costs for the nine months ended September 30, 2018 of \$12.9 million were primarily driven by our optimization activities in the U.K. Restructuring and related costs of \$8.6 million for the nine months ended September 30, 2017 were primarily related to the restructuring of ERS.

Other expenses, net were \$19.1 million for the nine months ended September 30, 2018, compared with \$24.2 million for the nine months ended September 30, 2017, a decrease of \$5.1 million, or 21.3%. The decrease consisted of \$3.6 million from divested operations and \$3.4 million from existing operations, partially offset by an increase of \$1.9 million from new operations. The decrease from existing operations was primarily due to corporate development and related costs recorded in 2017 associated with the acquisition and integration of Pentalver.

Operating Loss and Operating Ratio

Our U.K./European Operations had an operating loss of \$0.6 million for the nine months ended September 30, 2018, compared with an operating loss of \$3.8 million for the nine months ended September 30, 2017. The operating loss for the nine months ended September 30, 2018 included \$12.9 million of restructuring and related costs. The operating loss for the nine months ended September 30, 2017 included \$8.0 million, or \$8.6 million excluding the impact of

foreign currency, of restructuring costs. The operating ratio was 100.1% for the nine months ended September 30, 2018, compared with 100.8% for the nine months ended September 30, 2017.

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Liquidity and Capital Resources

We had cash and cash equivalents of \$74.1 million as of September 30, 2018, of which \$52.6 million was from our Australian Operations, which we control through a 51.1% ownership interest. In accordance with our Australia Partnership agreement, the cash and cash equivalents of our Australian Operations can be used to make payments in the usual and regular course of business, pay down debt of the Australia Partnership and make distributions to the partners in proportion to their investments. During the nine months ended September 30, 2018, the Australia Partnership made a A\$40.0 million distribution, of which A\$20.4 million (or \$15.6 million at the exchange rate at the time the payment was made) and A\$19.6 million (or \$14.9 million at the exchange rate at the time the payment was made) were distributed to us and MIRA, respectively, and no such distributions were made for the nine months ended September 30, 2017.

Based on current expectations, we believe our cash, together with our other liquid assets, anticipated future cash flows from operations, availability under our credit agreement and access to debt and equity capital markets and other sources of available financing will be sufficient to fund expected operating, capital and debt service requirements and other financial commitments for the foreseeable future. At September 30, 2018, we had \$616.6 million of unused borrowing capacity under the Amended Credit Agreement, as defined below.

On June 5, 2018 we entered into Amendment No. 3 (the Amendment) to the Credit Agreement, the Third Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the Amended Credit Agreement). At closing, the credit facilities under the Amended Credit Agreement were comprised of a \$1,423.0 million United States term loan, a £272.9 million (or \$365.2 million at the exchange rate on June 5, 2018) 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. The Amendment also extended the maturity date of our credit facilities to June 5, 2023.

Since entering into the Amendment, we made prepayments of \$120.0 million on our United States term loan and £25.0 million (or \$32.8 million at the exchange rate on the date the payment was made) on our U.K. term loan. For additional information regarding our Amended Credit Agreement, see Note 6, Long-Term Debt, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

As of September 30, 2018, we had long-term debt, including current portion, of \$2,325.7 million, which comprised 38.1% of our total capitalization. As of December 31, 2017, we had long-term debt, including current portion, of \$2,331.3 million, which comprised 37.4% of our total capitalization. Our long-term debt, including current portion, consisted of the following as of September 30, 2018 and December 31, 2017 (dollars in thousands):

| | September 30, December 31, | |
|---|----------------------------|--------------|
| | 2018 | 2017 |
| Senior secured credit facility | \$ 1,632,657 | \$ 1,567,882 |
| Australian senior secured credit facility ^(a) | 474,390 | 525,101 |
| Australian subordinated shareholder loan from MIRA ^(b) | 172,296 | 186,085 |
| Other debt | 67,696 | 77,402 |
| Less: deferred financing fees | (21,345) | (25,175) |
| Total debt | \$ 2,325,694 | \$ 2,331,295 |

(a) Standalone credit agreement is non-recourse to us and MIRA.

(b) Shareholder loan is non-recourse to us.

During the nine months ended September 30, 2018 and 2017, we generated \$397.5 million and \$350.4 million, respectively, of cash from operating activities. Changes in working capital decreased net cash flows by \$15.1 million and \$28.4 million for the nine months ended September 30, 2018 and 2017, respectively.

During the nine months ended September 30, 2018 and 2017, our cash used in investing activities was \$165.9 million and \$232.9 million, respectively. For the nine months ended September 30, 2018, the primary drivers of cash used in investing activities were \$194.1 million of cash used for capital expenditures, including \$33.9 million for new business investments and \$20.1 million related to capital expenditures accrued in 2017, partially offset by \$16.7 million of cash received from grants from outside parties for capital spending and \$7.9 million of net proceeds from the sale of ERS. For the nine months ended September 30, 2017, primary drivers of cash used in investing activities were \$107.6 million of net cash paid for acquisitions, including the acquisitions of Pentalver and HOG and a 50%

joint venture in CG Railway, LLC, partially offset by proceeds received from a working capital adjustment related to the GRail acquisition, and \$149.1 million of cash used for capital expenditures, including \$12.5 million related to capital expenditures accrued in 2016, partially offset by \$16.0 million in cash received from grants from outside parties for capital spending.

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During the nine months ended September 30, 2018 and 2017, our cash used in financing activities was \$237.0 million and \$75.5 million, respectively. For the nine months ended September 30, 2018, the primary drivers of cash used in financing activities were \$270.5 million for common share repurchases, a \$14.9 million distribution made by the Australia Partnership to its noncontrolling interest holders, \$6.3 million for installment payments on deferred consideration related to the Freightliner acquisition and \$5.3 million in debt amendment and issuance costs, partially offset by net proceeds of \$55.0 million from an increase in outstanding debt. For the nine months ended September 30, 2017, the primary driver of cash used in financing activities resulted from net payments on outstanding debt of \$80.2 million. For additional information regarding our common share repurchases, see Note 3, Earnings Per Common Share, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

2018 Budgeted Capital Expenditures

The following table sets forth our budgeted capital expenditures for the year ending December 31, 2018 (dollars in thousands):

| | 2018 Budgeted Capital Expenditures | | | |
|---|------------------------------------|-----------------------|--------------------------|------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total |
| Track and equipment, self-funded | \$ 150,000 | \$ 22,000 | \$ 28,000 | \$ 200,000 |
| Track and equipment, subject to third-party funding | 70,000 | — | — | 70,000 |
| New business investments | 15,000 | 20,000 | 5,000 | 40,000 |
| Gross capital expenditures | 235,000 | 42,000 | 33,000 | 310,000 |
| Grants from outside parties | (55,000) | — | — | (55,000) |
| Net capital expenditures | \$ 180,000 | \$ 42,000 | \$ 33,000 | \$ 255,000 |

During the nine months ended September 30, 2018, we incurred \$190.2 million in aggregate capital expenditures related to current year projects of which we paid \$174.0 million in cash and accrued \$16.1 million in accounts payable as of September 30, 2018. Of the \$15.9 million of grants from outside parties related to these current year projects, we received \$7.7 million in cash and we expect to receive an additional \$8.2 million, which was included in outstanding grant receivables from outside parties as of September 30, 2018.

The following table sets forth our capital expenditures related to current year projects incurred by segment for the nine months ended September 30, 2018 (dollars in thousands):

| | Nine Months Ended September 30, 2018 | | | |
|---|--------------------------------------|-----------------------|--------------------------|------------|
| | North American Operations | Australian Operations | U.K./European Operations | Total |
| Capital Expenditures: | | | | |
| Track and equipment, self-funded | \$ 115,673 | \$ 7,846 | \$ 16,256 | \$ 139,775 |
| Track and equipment, subject to third-party funding | 16,434 | — | — | 16,434 |
| New business investments | 8,874 | 21,435 | 3,637 | 33,946 |
| Gross capital expenditures | 140,981 | 29,281 | 19,893 | 190,155 |
| Grants from outside parties | (15,904) | — | — | (15,904) |
| Net capital expenditures | \$ 125,077 | \$ 29,281 | \$ 19,893 | \$ 174,251 |

Cash of \$194.1 million paid for purchases of property and equipment during the nine months ended September 30, 2018 consisted of \$174.0 million for 2018 capital projects and \$20.1 million related to capital expenditures accrued in 2017. Grant proceeds from outside parties during the nine months ended September 30, 2018 consisted of \$7.7 million for grants related to 2018 capital expenditures and \$9.0 million for grants related to our capital expenditures from prior years.

We periodically receive grants for the upgrade and construction of rail lines and the upgrade of locomotives from federal, provincial, state and local agencies and other outside parties in the United States, Canada and Australia. These grants typically reimburse us for 50% to 100% of the actual cost of specific projects.

Recently Adopted and Recently Issued Accounting Standards

See Note 1, Principles of Consolidation and Basis of Presentation, and Note 16, Recently Issued Accounting Standards, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report.

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An off-balance sheet arrangement includes any contractual obligation, agreement or transaction involving an unconsolidated entity under which we (1) have made guarantees, (2) have a retained or contingent interest in transferred assets, or a similar arrangement, that serves as credit, liquidity or market risk support to that entity for such assets, (3) have an obligation under certain derivative instruments or (4) have any obligation arising out of a material variable interest in such an entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing or hedging services with us.

Our off-balance sheet arrangements as of December 31, 2017 consisted of operating lease obligations. Effective January 1, 2019, we will adopt Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which will require lessees to recognize leases on their balance sheet as a right-of-use asset with a corresponding liability. See Note 16, Recently Issued Accounting Standards, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report for additional information regarding this standard. There were no material changes in our off-balance sheet arrangements during the nine months ended September 30, 2018.

Impact of Foreign Currencies on Consolidated Results

The financial statements of our foreign subsidiaries are prepared in the local currency of the respective subsidiary and translated into United States dollars based on the exchange rate at the end of the period for balance sheet items and, for the statement of operations, at the average rate for the period. Currency translation adjustments are reflected within the equity section of the balance sheet and are included in other comprehensive income. Upon complete or substantially complete liquidation of the underlying investment in the foreign subsidiary, cumulative translation adjustments are recognized in the consolidated statements of operations.

When comparing the effects of average foreign currency exchange rates on operating revenues and operating expenses during the three months ended September 30, 2018 and 2017, foreign currency translation had a negative impact on our consolidated operating revenues and a positive impact on our consolidated operating expenses. When comparing the effects of average foreign currency exchange rates on operating revenues and operating expenses during the nine months ended September 30, 2018 and 2017, foreign currency translation had a net positive impact on our consolidated operating revenues and a net negative impact on our consolidated operating expenses. Currency effects related to operating revenues and operating expenses are presented within the discussion of these respective items included within this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. The following tables reflect the exchange rates used to translate the foreign entities respective local currency results into United States dollars as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

| | September 30, December | | | |
|--|------------------------|-----------|--------|--------|
| | 2018 | 31, 2017 | | |
| United States dollar per Australian dollar | \$ 0.72 | \$ 0.78 | | |
| United States dollar per British pound | \$ 1.30 | \$ 1.35 | | |
| United States dollar per Canadian dollar | \$ 0.77 | \$ 0.80 | | |
| United States dollar per Euro | \$ 1.16 | \$ 1.20 | | |
| | Three | Nine | | |
| | Months | Months | | |
| | Ended | Ended | | |
| | September | September | | |
| | 30, | 30, | | |
| | 2018 | 2017 | | |
| United States dollar per Australian dollar | \$0.73 | \$0.79 | \$0.76 | \$0.77 |
| United States dollar per British pound | \$1.30 | \$1.31 | \$1.35 | \$1.28 |
| United States dollar per Canadian dollar | \$0.77 | \$0.80 | \$0.78 | \$0.77 |
| United States dollar per Euro | \$1.16 | \$1.17 | \$1.19 | \$1.11 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

During the nine months ended September 30, 2018, there were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2017 Annual Report on Form 10-K (see Note 8, Derivative Financial Instruments, to our Consolidated Financial Statements set forth in "Part I Item 1. Financial Statements" of this quarterly report).

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ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures — We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2018, the disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Internal Control Over Financial Reporting — There were no changes in our internal control over financial reporting (as the term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we are a defendant in certain lawsuits and a party to certain arbitrations resulting from our operations in the ordinary course as the nature of our business exposes us 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. We maintain insurance policies to mitigate the financial risk associated with such claims. Management believes there are adequate provisions in the financial statements for any probable liabilities that may result from disposition of the pending lawsuits and arbitrations. However, any material changes to pending litigation or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injuries or environmental liability or other claims or disputes that are not covered by insurance could have a material adverse effect on our results of operations, financial condition and liquidity.

In November 2014, we received a notice from the United States Environmental Protection Agency (EPA) requesting information under the Clean Water Act related to the discharge of crude oil as a result of a derailment of an Alabama & Gulf Coast Railway LLC (AGR) freight train in November 2013 in the vicinity of Aliceville, Alabama. In May 2018, the EPA notified the AGR of a maximum civil payment of up to \$14.1 million, based on the amount of oil allegedly discharged and other relevant factors considered under the applicable regulation. The evaluation of our defenses, settlement options and applicable insurance is ongoing.

We have also been involved in several arbitrations related to contractual disputes that are not covered by insurance, which were resolved during the three months ended September 30, 2018. In March 2017, CSX Transportation, Inc. (CSXT) initiated arbitration against several of our subsidiaries associated with freight revenue factors (or divisions) under certain operating agreements associated with leased railroads. During the three months ended September 30, 2018, a final award was issued in the CSXT arbitration that denied CSXT's request to reduce freight revenue factors and resolved the related contractual disputes with no material impact on our subsidiaries. The previously disclosed arbitration related to the AGR's collection of approximately \$13 million of liquidated damages under a volume commitment contract with a customer was also favorably resolved during the three months ended September 30, 2018, and all outstanding amounts due to the AGR, plus interest, were collected in October 2018.

ITEM 1A. RISK FACTORS.

For a discussion of our potential risks or uncertainties, please see Risk Factors in Part I Item 1A of the Company's 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no material changes to the risk factors disclosed in the 2017 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

There were no unregistered sales of equity securities for the period covered by this Quarterly Report on Form 10-Q. Issuer Purchases of Equity Securities

| Period in 2018 | (a) Total Number of Shares (or Units) Purchased (1)(2) | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2) | (d) Maximum Number of Shares (or Units) (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (2) |
|-----------------------------|--|--|---|---|
| July 1 to July 31 | — | \$ — | — | \$ 107,676,240 |
| August 1 to August 31 | 481,974 | \$ 87.21 | 481,974 | \$ 65,642,994 |
| September 1 to September 30 | 411,731 | \$ 87.76 | 411,701 | \$ 29,511,717 |
| Total | 893,705 | \$ 87.46 | 893,675 | |

(1) Of the 893,705 shares acquired in the three months ended September 30, 2018, 30 shares represent common stock acquired by us from our employees who surrendered shares in lieu of cash either to fund their exercise of stock options or to pay taxes on equity awards granted under our Fourth Amended and Restated 2004 Omnibus Plan.

(2) In September 2015, the Board of Directors (the Board) authorized the repurchase of up to \$300 million of our Class A Common Stock and appointed a special committee of the Board to review and approve repurchases proposed by management, which authorization was reaffirmed on by the Board on March 4, 2018. During the three months ended September 30, 2018, we repurchased 893,675 shares of our Class A Common Stock under the repurchase program.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

For a list of exhibits, see Index to Exhibits in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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INDEX TO EXHIBITS

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure, other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Description of Exhibits
No.

*3.1 Amended and Restated By-Laws of Genesee & Wyoming Inc., effective as of November 2, 2018.

*31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer

*31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer

*32.1 Section 1350 Certification

The following financial information from Genesee & Wyoming Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language) includes:

(i) Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017, (iii) *101 Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iv) Consolidated Statements of Changes in Equity for the nine months ended September 30, 2018 and 2017, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (vi) the Notes to Consolidated Financial Statements.

*Exhibit filed or furnished with this Report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENESEE & WYOMING INC.

Date: November 6, 2018 By: /s/ TIMOTHY J. GALLAGHER

Name: Timothy J. Gallagher

Title: Chief Financial Officer

(Principal Financial Officer)

Date: November 6, 2018 By: /s/ CHRISTOPHER F. LIUCCI

Name: Christopher F. Liucci

Title: Chief Accounting Officer

(Principal Accounting Officer)