

GENESEE & WYOMING INC  
Form 10-K  
February 29, 2016

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

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

For the fiscal year ended December 31, 2015

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 No. 001-31456

GENESEE & WYOMING INC.

(Exact name of registrant as specified in its charter)

Delaware

06-0984624

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

20 West Avenue, Darien, Connecticut  
(Address of principal executive offices)

06820  
(Zip Code)

(203) 202-8900

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

Class A Common Stock, \$0.01 par value

NYSE

Securities registered pursuant to section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Aggregate market value of Class A Common Stock held by non-affiliates based on the closing price as reported by the New York Stock Exchange on the last business day of the registrant's most recently completed second fiscal quarter: \$3,955,294,015. Shares of Class A Common Stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determinant for other purposes.

Shares of common stock outstanding as of the close of business on February 19, 2016:

| Class                | Number of Shares Outstanding |
|----------------------|------------------------------|
| Class A Common Stock | 56,949,310                   |
| Class B Common Stock | 793,138                      |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year ended December 31, 2015 in connection with the Annual Meeting to be held on May 17, 2016 are incorporated by reference in Part III hereof and made a part hereof.

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Genesee & Wyoming Inc.  
FORM 10-K  
For The Fiscal Year Ended December 31, 2015  
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Unless the context otherwise requires, when used in this Annual Report on Form 10-K (Annual Report), 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 Annual Report, including the financial statements, are in United States dollars unless specifically noted otherwise.

#### Cautionary Statement Regarding Forward-Looking Statements

The information contained in this Annual Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), regarding future events and future performance of G&W. Words such as "anticipates," "intends," "plans," "believes," "could," "should," "seeks," "expects," "estimates," "trends," "outlook," "goal," "will," "budget," 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. Actual results or developments may differ materially from those expressed or forecast in these forward-looking statements.

The areas in which there is risk and uncertainty are further described in "Part I Item 1A. Risk Factors" in this Annual Report, which contain additional important factors that could cause actual results to differ from current expectations and from the forward-looking statements contained herein.

In light of the risks, uncertainties and assumptions associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed or incorporated by reference in this Annual Report not to occur.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation. We are taking advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act in connection with the forward-looking statements included in this Annual Report.

Our forward-looking statements speak only as of the date of this Annual Report or as of the date they are made, and except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Annual Report.

Information set forth in "Part I Item 1. Business" and in "Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the risk factors set forth in "Part I Item 1A. Risk Factors" in this Annual Report.

## PART I

### ITEM 1. Business.

#### OVERVIEW

We own and operate 120 freight railroads worldwide that are organized in 11 operating regions with 7,500 employees and more than 2,800 customers. The financial results of our 11 operating regions are reported in the following three distinct segments:

Our North American Operations segment includes nine operating regions that serve 41 U.S. states and four Canadian provinces. This segment includes 113 short line and regional freight railroads with more than 13,000 track-miles. Our North American Operations segment represents approximately 80% of our annual income from operations.

Our Australian Operations segment provides rail freight services in South Australia, the Northern Territory and New South Wales. Included in the Australian Operations segment is our operation of the 1,400-mile Tarcoola-to-Darwin rail line, which is the sole north-south rail corridor outside the coasts and primarily carries intermodal and commodity freight. Our Australian Operations segment represents approximately 10% of our annual income from operations.

Our U.K./European Operations segment includes the majority of the operations of Freightliner Group Limited (Freightliner), which we acquired in March 2015. Freightliner is the United Kingdom's (U.K.) largest rail maritime intermodal operator and the U.K.'s second-largest rail freight company. Our U.K./European Operations segment also includes heavy-haul freight operations in Poland and Germany and cross-border intermodal services connecting Northern European seaports with key industrial regions throughout the continent. The U.K./European Operations segment represents approximately 10% of our annual income from operations.

#### GROWTH STRATEGY

Since our initial public offering in 1996, our revenues have increased at a compound annual growth rate of 18.6%, from \$77.8 million in 1996 to \$2.0 billion in 2015. Over the same period, our diluted earnings per common share (EPS) increased at a compound annual growth rate of 14.3%, from \$0.29 (adjusted for stock splits) in 1996 to \$3.89 in 2015. We have achieved these results primarily through the disciplined execution of our growth strategy, which has two main drivers: (1) our operating strategy; and (2) our acquisition and investment strategy.

#### Operating Strategy

Our railroads operate under strong regional management teams, supported by centralized administrative, commercial and operational support and oversight. As of December 31, 2015, our operations were organized in 11 regions. In the United States, we have eight regions: Central, Coastal (which includes industrial switching and port operations), Midwest, Mountain West (which includes industrial switching operations), Northeast, Ohio Valley, Pacific and Southern. Outside the United States, we have three regions: Canada (which includes a contiguous railroad located in the United States and is reported within our North American Operations), Australia and U.K./Europe (which consists of operations in Belgium, Germany, the Netherlands, Poland and the U.K.).

In each of our regions, we seek to encourage the entrepreneurial drive, local knowledge, customer service and safety culture that we view as critical to achieving our financial goals. Our regional managers focus on increasing our return on invested capital, earnings and cash flow through the disciplined execution of our operating strategy. At the regional level, our operating strategy consists of the following five principal elements:

**Continuous Safety Improvement.** We believe that a safe work environment is essential for our employees, our customers and the communities in which we conduct business and that the attention to detail necessary to eliminate employee injuries translates into efficient, well-run operations. Each year, we establish stringent safety targets as part of our safety program. In 2015, G&W operations, excluding our recently acquired Freightliner operations, achieved a consolidated Federal Railroad Association (FRA) reportable injury frequency rate of 0.51 per 200,000 man-hours worked. Through the implementation of our safety program, we have reduced our injury frequency rate by 74% since 2006, when it was 1.95 injuries per 200,000 man-hours worked. For comparative purposes, from January 2015 through November 2015, the most recent month for which FRA data is publicly available, the United States short line average reportable injury frequency rate was 2.80 injuries per 200,000 man-hours worked, and the United States regional railroad average was 3.04 injuries per 200,000 man-hours worked. Based on these results, in 2015, G&W operations, excluding our Freightliner operations, were more than five times safer than the short line and regional railroad averages and safer than any United States Class I railroad. Following the guidelines set out by the FRA, Freightliner's consolidated reportable injury frequency rate was 2.11 for the period from March 25, 2015 through December 31, 2015 and we remain focused on improving Freightliner's safety results.

**Outstanding Customer Service.** We are committed to providing exceptional service to our customers and each of our local railroads is focused on exceeding customer expectations. This customer commitment supports not only traffic growth, but also customer loyalty and new business development opportunities. To ensure the needs of our customers are addressed promptly, we employ technology-based service exception tools to monitor service information, communicate issues and track corrective actions. We engage a leading independent customer-satisfaction research firm to conduct a biennial, comprehensive customer satisfaction survey. The survey results are used to measure our performance and develop continuous improvement programs. Over the past seven years, we have outscored the trucking industry and all other railroads on each of our biennial customer satisfaction surveys.

**Focused Regional Marketing.** We generally build and operate each of our regions based on the local customer base within our operating geographies and seek to grow rail traffic through intensive marketing efforts to new and existing customers. As a result of the acquisition of RailAmerica, Inc. (RailAmerica) in 2012 and Freightliner in 2015, we believe that our expanded North American, Australian and European footprint provides us with greater visibility of new commercial and industrial development opportunities in these geographies that should help increase the success of our marketing efforts. We also pursue additional sources of revenue by providing ancillary rail services such as railcar switching, repair, storage, cleaning, weighing and blocking and bulk transfer, which enable customers and Class I carriers to move freight more easily and cost-effectively. Separately, in Australia, the U.K. and Continental Europe, where there are open access regimes in the various countries in which we operate, we compete for new business opportunities at most locations on the open access rail networks.

**Low Cost Structure.** We focus on running cost effective railroad operations and historically have been able to operate acquired rail lines more efficiently than they were operated prior to our acquisition. We typically achieve efficiencies by lowering administrative overhead through our regional structure, consolidating equipment and in-sourcing track maintenance, reducing transportation costs and selling surplus assets.

**Efficient Use of Capital.** We invest in track and rolling stock to ensure that we operate safe railroads that meet the needs of customers. At the same time, we seek to improve our return on invested capital by focusing on cost effective capital programs. For example, in our short haul and regional operations in North America, we typically rebuild older locomotives rather than purchase new ones and invest in track at levels appropriate for our traffic type and density. In addition, because of the importance of certain of our customers and railroads to their regional economies, we are able, in some instances, to obtain state, provincial and/or federal grants to upgrade track. Typically, we seek government funds to support investments that otherwise would not be economically viable for us to fund on a stand-alone basis.

To assist our local management teams, we provide administrative, commercial and operational support from corporate staff groups where there are benefits to be gained from scale efficiencies and centralized expertise. Our commercial group assists local management by providing assistance with regional pricing, origin and destination offerings across the Company, managing real estate revenue (including from land leases and crossing and access rights), industrial development project expertise, 24/7 customer service and Class I railroad relationship management. Our operations department assists with implementing our safety culture, conducting training programs, leveraging our scale in purchasing rail and rail-related equipment, ensuring efficient equipment utilization and service design, and providing mechanical, locomotive and bridge engineering expertise. In addition, we maintain other traditional, centralized functions, such as accounting, finance, legal, corporate development, government and industry affairs, human resources and information technology.

#### Acquisition and Investment Strategy

Our acquisition and investment strategy includes the acquisition or long-term lease of existing railroads, as well as investment in rail equipment and/or track infrastructure to serve new and existing customers. Since 2000, we have added 102 railroads through the execution of our acquisition and investment strategy. Historically, our acquisition, investment and long-term lease opportunities have been from the following five sources:

Acquisitions of additional short line and regional railroads in the United States and Canada, such as our acquisitions of Pinsky Railroad Company's Arkansas Division (Pinsky Arkansas) in January 2015, RailAmerica in 2012, Arizona Eastern Railway Company (AZER) in 2011, CAGY Industries, Inc. in 2008, the Ohio Central Railroad System in 2008 and Rail Management Corporation in 2005. Based on Association of American Railroads (AAR) data issued in 2015, there were approximately 460 short line and regional railroads in the United States not owned by us;

Investments in track and/or rolling stock to support growth in new or existing areas of operations, such as the purchase of railcars in the United States in 2014 and 2015 and our upgrade of the Chicago, Ft. Wayne & Eastern Railroad to enhance Class I traffic flow east of Chicago;

Acquisitions of international railroads, such as our acquisitions of London-based Freightliner in 2015, FreightLink Pty Ltd (FreightLink) in Australia in 2010 and Rotterdam Rail Feeding (RRF) in the Netherlands in 2008. We believe that there are additional acquisition and investment opportunities in Australia, Europe and other international markets;

Acquisitions or long-term leases of branch lines of Class I railroads, such as our acquisition of the assets comprising the western end of the Dakota Minnesota & Eastern Railroad Corporation (DM&E) from Canadian Pacific (CP) in 2014; and

Acquisitions of rail lines from industrial companies, such as our acquisition of railroads owned by Georgia-Pacific Corporation in 2003.

When we make acquisitions, we seek to increase revenues and reduce costs wherever possible and to implement best practices to increase the value of our investment, which is frequently accomplished through the elimination of duplicative overhead costs, implementation of our safety culture, improvements to operating plans, more efficient equipment utilization and enhanced customer service and marketing initiatives. In some cases, however, the best way to maximize the value of an investment is to increase expenditures at a new acquisition, such as for track upgrades, in order to improve customer satisfaction and drive additional revenue growth.

In North America, we believe that our footprint of railroads provides opportunities to make contiguous short line railroad acquisitions due to a higher number of touchpoints with other railroads. On a global basis, we believe that our scale, international experience and financial resources enhance our ability to compete for rail opportunities worldwide. We have made a number of important railroad investments in North America and in international markets, and we expect to continue to pursue our acquisition and investment strategy while adhering to our disciplined valuation approach.

## INDUSTRY

## North American Operations

## United States

According to the AAR, there were 574 freight railroads in the United States operating over 138,400 miles of track. As described in the table below, the AAR classifies railroads operating in the United States into one of three categories based on an individual railroad's operating revenues (adjusted for inflation) and track miles operated.

The following table shows the breakdown of freight railroads in the United States by classification:

| Classification of Railroads | Number | Aggregate      | Revenues and Miles Operated  |
|-----------------------------|--------|----------------|--|
|                             |        | Miles Operated |  |
| Class I (1)                 | 7      | 95,264         | \$475.75 million or more   |
| Regional or Class II        | 21     | 10,355         | At least \$20 million and 350 or more miles operated or \$40 million to \$475.75 million |
| Local or Class III          | 546    | 32,858         | Less than \$40 million and less than 350 miles operated                                  |
| Total                       | 574    | 138,477        |  |

(1) CSX Corp, BNSF Railway Co., Norfolk Southern Corp., Kansas City Southern Railway Co., Union Pacific Railroad Co., Canadian National Railway Co. and Canadian Pacific Railway Limited.

Source: AAR 2015 Railroad Facts Book

Class I railroads operate across many different states and concentrate largely, though not exclusively, on long haul, high density and intercity traffic lanes. The primary function of the regional and local railroads is to provide local service to rail customers and communities not located on the Class I railroad networks. Regional railroads typically operate 400 to 650 miles of track and provide service to selected areas of the country, mainly connecting neighboring states and/or economic centers. We refer to local railroads as short line railroads. Typically, local, or short line railroads, serve as branch lines connecting customers with Class I railroads. Short line railroads generally have more predictable and straightforward operations as they largely perform point-to-point, light density service over shorter distances, versus the complex networks associated with the Class I railroads or larger regional railroads.

A significant portion of regional and short line railroad traffic is driven by carloads that are interchanged with other carriers. For example, a Class I railroad may transport freight hundreds or thousands of miles from its origination point and then pass the railcar to a short line railroad, which provides the final step of service directly to the terminating customer.

The railroad industry in the United States has undergone significant change since the passage of the Staggers Rail Act of 1980 (Staggers Act), which effectively deregulated certain pricing and types of services provided by railroads. Following the passage of the Staggers Act, Class I railroads in the United States took steps to improve profitability and recapture market share lost to other modes of transportation, primarily trucks. In furtherance of that goal, Class I railroads focused their management and capital resources on their core long-haul systems, and some of them sold or leased branch lines to short line railroads, whose smaller scale and more cost-efficient operations allowed them to commit the resources necessary to meet the needs of customers located on those lines. Divestiture of branch lines spurred the growth in the short line railroad industry and enabled Class I railroads to minimize incremental capital expenditures, concentrate traffic density, improve operating efficiency and avoid traffic losses associated with rail line abandonment.

We operate two regional and 103 local (short line) railroads in the United States over approximately 14,500 miles of track.

## Canada

According to Rail Trends 2014, published by The Railway Association of Canada (RAC), there are approximately 27,270 miles of track operated by railroads in Canada. Similar to the United States railroad industry, freight railroads in Canada are also categorized as Class I railroads, regional railroads and short line railroads. In Canada, there are two Class I railroads that are largely transcontinental carriers in Canada, with significant United States operations as well, several regional operators and approximately 50 short line railroads.

We operate eight local (short line) railroads in Canada over approximately 1,500 miles of track.





### Australian Operations

Australia has approximately 25,000 miles (approximately 40,000 kilometers) of both publicly and privately owned track that link major capital cities and key regional centers and also connect key mining regions to ports. The Australian rail network comprises three track gauges: broad, narrow and standard gauge. There are three major interstate rail segments in Australia: the east-west corridor (Sydney, New South Wales to Perth, Western Australia); the east coast corridor (Brisbane, Queensland to Melbourne, Victoria); and the north-south corridor (Darwin, Northern Territory to Adelaide, South Australia). In addition, there are a number of intrastate rail freight networks servicing major agricultural and mining regions in Queensland, New South Wales, Western Australia, South Australia and Victoria.

The Australian rail freight industry is largely open access, which means that network owners and managers must provide access to the rail network to all accredited rail service providers, subject to the rules and negotiation framework of each applicable access regime. The access rules generally include pricing principles and standards of use, and are established by the applicable state or Commonwealth government. The Australian freight rail industry is structured around two components: train operations for freight haulage services (above rail) and rail track access operation and management (below rail). This contrasts with the North American freight rail industry where railroad operators almost always have exclusive use of the track that they own or lease. We are an accredited rail service provider in all mainland Australian states and in the Northern Territory.

Since Australian rail customers have access to multiple rail carriers under open access regimes, all rail carriers face possible competition on their above rail business from other rail carriers, as well as from competing modes of transportation, such as trucks. The open access nature of the Australian freight rail industry enables rail operators to develop new business and customer relationships in areas outside of their current operations, and there are limited barriers to entry that preclude any rail operator from approaching a customer to seek new business. However, shipments of bulk commodities in Australia are generally handled under long-term agreements with dedicated equipment that may include take-or-pay provisions and/or exclusivity arrangements, which make capturing new business from an existing rail operator difficult.

Through our Australian subsidiaries, we manage approximately 2,900 miles (4,700 kilometers(km)) of track in South Australia and the Northern Territory, which includes approximately 1,400 miles (2,200 km) of track between Darwin and Tarcoola that we manage pursuant to a concession agreement that expires in 2054. We also have a concession agreement for approximately 800 additional miles (1,300 km) of track in South Australia that expires in 2047.

Through our concession agreements, we have long-term economic ownership of the tracks that we manage in South Australia and the Northern Territory, and we receive below rail access access fees when other rail operators use the track we manage. In South Australia and the Northern Territory, our economic ownership of the tracks we manage, combined with our above rail operations, makes our Australian operations more similar to a typical North American railroad despite the open access environment. In addition, through our acquisition of Freightliner, we also have above rail operations in New South Wales.

## U.K./European Operations

### United Kingdom

According to Network Rail, the authority responsible for Great Britain's railway network, there are approximately 20,000 miles (32,000 km) of track owned and managed by it and there are seven rail operators licensed for freight transport in Great Britain. Great Britain's rail network is also open access, which means rail lines can be utilized by any licensed rail operator with an appropriate track access agreement in place. In the U.K.'s open access framework, the infrastructure managers must provide access to the rail infrastructure to all accredited rail service providers, subject to the rules and framework of each applicable access regime. As a result, U.K. rail freight customers have access to multiple rail carriers under the open access regime and our operations face competition from both other rail freight carriers and other modes of transportation, such as road and water. In Great Britain in 2014, 12% of all freight goods were moved by rail, while over the same period, 73% and 15% of goods were moved via road and water, respectively.

Through our acquisition of Freightliner, we are the largest rail participant in the U.K. intermodal market (deep sea maritime containers) and when combined with Freightliner's bulk haulage operations, including coal, aggregates, cement and infrastructure services, we are the second largest rail freight company in the U.K.

### Belgium

According to Infrabel, the Belgian railways infrastructure manager, there are approximately 2,233 miles (3,594 km) of track owned and managed by it on the Belgian rail network and currently there are 12 rail operators licensed for freight transport in Belgium. As a result of the country's open access regime, this track may be accessed by any operator admitted and licensed to provide freight transport in the country.

In Belgium, our subsidiary, Belgium Rail Feeding, operates mainly in the Port of Antwerp.

### Germany

The German rail network is composed of approximately 21,000 miles (33,800 km) of track. There are approximately 385 rail operators certified for freight transport in Germany. In Germany, as well as other Continental European markets, the leading rail freight operators are often state controlled, such as DB Schenker in Germany. As a result of Germany's open access regime, the rail infrastructure may be accessed by any licensed rail operator.

In Germany, our subsidiary, ERS Railways, operates intermodal routes from the Ports of Hamburg and Bremerhaven, among others. Our subsidiary, Freightliner Poland, operates on the open-access rail system within Germany with some cross-border traffic into Poland.

### Netherlands

According to ProRail, the entity responsible for the Dutch rail infrastructure, there are approximately 4,370 miles (7,033 km) of track owned and managed by it on the Dutch rail network. As a result of the Netherlands' open access regime, this track may be accessed by any admitted and licensed rail operator. According to the trade association Rail Cargo Information Netherlands, there are 20 rail operators that provide freight rail services in the Netherlands.

In the Netherlands, our subsidiary, Rotterdam Rail Feeding, operates mainly in the Port of Rotterdam. Our subsidiary, ERS Railways, operates intermodal routes from the Port of Rotterdam.

## Poland

According to the Office of Rail Transport, the railways regulator in Poland, there are approximately 66 rail operators certified for freight transport in Poland operating over approximately 11,500 miles (18,000 km) of track. As a result of Poland's open access regime, this rail infrastructure may be accessed by any admitted and licensed rail operator. In Poland, our subsidiary, Freightliner Poland, operates on the open access rail system within Poland with some cross-border traffic into other neighboring countries.

## OPERATIONS

Through our subsidiaries, we own or lease 120 freight railroads, including 103 short line railroads and two regional freight railroads in the United States, eight short line railroads in Canada, three railroads in Australia, one in the U.K, one in Poland and two in the Netherlands. Our subsidiaries provide rail service at more than 40 major ports in North America, Australia and Europe and perform contract coal loading and railcar switching for industrial customers. Our railroads operate over approximately 15,600 miles of track that is owned, jointly owned or leased by us, which includes the Tarcoola to Darwin rail line that we manage under a concession agreement that expires in 2054. Also, through various track access arrangements, we operate over approximately 5,700 additional miles of track that is owned or leased by others.

## Freight Revenues

We generate freight revenues from the haulage of freight by rail. Freight revenues represented 70.2%, 76.4% and 75.1% of our total operating revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Our railroads transport a wide variety of commodities. For a comparison of freight revenues, carloads and average freight revenues per carload by commodity group for the years ended December 31, 2015, 2014 and 2013, see the discussion under "Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

We group the commodities we carry as follows:

| Commodity Group           | Commodity Description  |
|---------------------------|--|
| Agricultural Products     | Wheat, barley, corn, and other grains as well as soybean meal                                |
| Autos & Auto Parts        | Finished automobiles and stamped auto parts  |
| Chemicals & Plastics      | Sulfuric acid, ethanol and other chemicals used in manufacturing                             |
| Coal & Coke               | Shipments of coal to power plants and industrial customers                                   |
| Food and Kindred Products | Fruits, vegetables and food oils   |
| Intermodal                | Various commodities shipped in trailers or containers on flat cars                           |
| Lumber & Forest Products  | Finished lumber, wood pellets, export logs and wood chips                                    |
| Metallic Ores             | Manganese ore, iron ore, copper concentrate and ore, alumina and nickel ore                  |
| Metals                    | Finished steel products and copper, as well as scrap metal and pig iron                      |
| Minerals & Stone          | Construction aggregates, gypsum, salt used in highway ice control, limestone and frac sand   |
| Petroleum Products        | Liquefied petroleum gases, crude oil, asphalt, diesel fuel and gasoline                      |
| Pulp & Paper              | Outbound shipments of container board and finished papers and inbound shipments of wood pulp |
| Waste                     | Municipal solid waste and construction and demolition debris                                 |
| Other                     | Freight not included in the commodity groups set forth above                                 |

Rail traffic shipped on our rail lines can be categorized either as interline or local traffic. Interline traffic passes over the lines of two or more rail carriers. It can originate or terminate with customers located along a rail line, or it can pass over the line from one connecting rail carrier to another without the traffic originating or terminating on the rail line (referred to as overhead traffic). Local traffic both originates and terminates on the same rail line and does not involve other carriers. Unlike overhead traffic, originating, terminating and local traffic in North America provides us with a more stable source of revenues because this traffic represents shipments to and/or from customers located along our rail lines and is less susceptible to competition from other rail routes or other modes of transportation. In 2015, revenues generated from originating, terminating and local traffic in North America constituted approximately 93% of our North American freight revenues. In Australia, the U.K. and Continental Europe, railroads generally serve from origin to destination with few, if any, interline movements.

#### Freight-Related Revenues

We generate freight-related revenues primarily from port terminal railroad operations and industrial switching (where we operate trains on a contract basis in facilities we do not own), as well as demurrage, storage, car hire, track access rights, transloading, crewing services, traction service (or hook and pull service that requires us to provide locomotives and drivers to move a customers' train between specified origin and destination points), and other ancillary revenues related to the movement of freight. Freight-related revenues represented 24.9%, 17.7% and 18.3% of our total operating revenues for the years ended December 31, 2015, 2014 and 2013, respectively.

#### All Other Revenues

We generate all other revenues primarily from revenues from third-party railcar and locomotive repairs, property rentals, railroad construction and other ancillary revenues not directly related to the movement of freight. All other revenues represented 4.9%, 5.9% and 6.6% of our total operating revenues for the years ended December 31, 2015, 2014 and 2013, respectively.

#### Seasonality of Operations

Some of the commodities we carry have peak shipping seasons, either as a result of the nature of the commodity or its demand cycle. For instance, certain agricultural and food products, such as winter wheat in Canada, ship only during certain months each year. In addition, our Australian and U.K./European intermodal businesses have peak seasons late

in the third quarter and early in the fourth quarter of each year.

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Seasonality is also reflected in our results of operations as a result of weather patterns. See Note 19, Quarterly Financial Data (unaudited), to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report. Typically, we experience relatively lower revenues in North America in the first and fourth quarters of each year as the winter season and colder weather in North America tend to reduce shipments of certain products such as construction materials. In addition, due to adverse winter conditions, we may also experience reduced shipments as a result of weather-related network disruptions and also tend to incur higher operating costs. We typically initiate capital projects in North America in the second and third quarters when weather conditions are more favorable. In addition, we experience relatively lower revenues in Australia in the first quarter of each year as a result of the wet season (i.e., monsoonal rains in the Northern Territory).

#### Segment and Geographic Information

For financial information with respect to each of our segments and geographic areas, see Note 18, Segment and Geographic Area Information, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

#### Customers

As of December 31, 2015, our operations served more than 2,800 customers. Revenues from our 10 largest customers accounted for approximately 22%, 24% and 24% of our operating revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Two of our 10 largest customers in 2015 were located in Australia, one of which was in our metallic ores (iron ore) commodity group and the other of which was in our agricultural products commodity group.

In North America, we typically handle freight pursuant to transportation contracts between us, our connecting carriers and the customer. These contracts are in accordance with industry norms and vary in duration, with terms generally ranging from less than one year to 10 years. These contracts establish a price or, in the case of longer term contracts, a methodology for determining a price, but do not typically obligate the customer to move any particular volume. Generally, our freight rates and volumes are not directly linked to the prices of the commodities being shipped.

In Australia, we generally handle freight pursuant to transportation contracts directly with our customers. These contracts generally contain a combination of fixed and variable pricing, with the fixed portion based upon the invested capital associated with the freight movement and the variable portion based on the actual volumes shipped.

In the U.K. and Continental Europe, we typically handle freight pursuant to transportation contracts between us and the customer. These contracts are in accordance with industry norms and vary in duration from one to 12 years in the U.K. and one to two years in Poland. These contracts establish a price or a methodology to calculate the price. In some cases, the contracts provide for a minimum volume commitment by the customer and certain business is also conducted on a spot basis. Our contracts will typically provide for a price adjustment to reflect any changes to particular elements of our cost base, such as fuel and track access charges.

#### Employees

There are various labor laws governing the countries in which we operate. As of December 31, 2015, we had approximately 7,500 full-time employees. Of this total, approximately 4,100 employees were union members or have employment terms and conditions determined by a labor agreement or negotiated by a labor union or works council. Our railroads have 81 labor agreements with unions. We are currently engaged in negotiations with respect to 14 of those agreements. We are also a party to employee association agreements covering an additional 84 employees who are not represented by a national labor organization. In Australia, Genesee & Wyoming Australia Pty Ltd (GWA) has a collective enterprise bargaining agreement covering the majority of its employees. In Great Britain, Freightliner has collective bargaining agreements with four recognized unions covering the majority of its employees. We have no collective bargaining agreements in the Netherlands or Poland, and we have one collective bargaining agreement in Belgium. We believe that we maintain positive working relationships with our employees.

The following table sets forth an approximation of union and non-union employees as of the year ended December 31, 2015:

|               | Union/Represented<br>(1) | Non-Union/<br>Non-Represented |
|---------------|--------------------------|-------------------------------|
| North America | 1,600                    | 2,800                         |
| Australia     | 300                      | 200                           |
| U.K./Europe   | 2,200                    | 400                           |
| Total         | 4,100                    | 3,400                         |

(1) Also includes employees that have employment terms and conditions determined by a labor agreement or negotiated by a labor union or works council.

#### SAFETY

Our safety program involves all employees and focuses on the prevention of train accidents and personal injuries. Operating personnel are trained and certified in train operations, the transportation of hazardous materials, safety and operating rules and governmental rules and regulations. Our safety program was implemented across the Freightliner group of companies following our acquisition in March 2015. In order to continuously improve our safety results, we utilize and measure various safety metrics, such as human factor incidents, that are instrumental in reducing our FRA reportable injuries. Following the guidelines set out by the FRA, G&W operations, excluding Freightliner, achieved a consolidated reportable injury frequency rate, as defined by the FRA as reportable injuries per 200,000 man-hours worked, of 0.51 and 0.60 for the years ended December 31, 2015 and 2014, respectively. The average injuries per 200,000 man-hours worked for all United States short line railroads was 2.8 in 2015 (through November) and 3.1 in 2014 (through December). Based on these results, in 2015, G&W operations were more than five times safer than the short line and regional railroad averages and safer than any United States Class I railroad. Following the guidelines set out by the FRA, Freightliner's consolidated reportable injury frequency rate was 2.11 for the period from March 25, 2015 through December 31, 2015. Freightliner has made significant progress in integrating the G&W safety culture into its operations.

Our safety program also focuses on the safety and security of our train operations, and we continue to utilize technology to analyze our track so as to prevent track-caused derailments. In addition, our information technology staff routinely assesses the security of our computer networks from cyber attacks. To date, we have not experienced any material disruptions of our networks or operations due to cyber attacks.

Our employees also strive to heighten awareness of rail safety in the communities where we operate through participation in governmental and industry sponsored safety programs, such as Operation Lifesaver, a non-profit organization that provides public education programs to prevent collisions, injuries and fatalities on and around railroad tracks and highway-rail grade crossings. During 2015, employees of our railroads made more than 570 Operation Lifesaver presentations focused on the dangers associated with highway-rail grade crossings and trespassing on railroad property. We also participate in safety committees of the AAR and the American Short Line and Regional Railroad Association.



## INSURANCE

We maintain global liability and property insurance coverage to mitigate the financial risk of providing rail and rail-related services. Our liability policies cover railroad employee injuries, personal injuries associated with grade crossing accidents and other third-party claims associated with our operations. Damages associated with sudden releases of hazardous materials, including hazardous commodities transported by rail, and expenses related to evacuation as a result of a railroad accident are also covered under our liability policies. Our liability policies currently have self-insured retentions of up to \$2.5 million per occurrence. Our property policies cover property and equipment that we own, as well as property in our care, custody and control. Our property policies currently have various self-insured retentions, which vary based on the type and location of the incident, that are currently up to \$1.0 million per occurrence, except in Australia where our self-insured retention for property damage due to a cyclone or flood is A\$2.5 million. The property policies also provide business interruption insurance arising from covered events. The self-insured retentions under our insurance policies may change with each annual insurance renewal depending on our loss history, the size and make-up of our company and general insurance market conditions.

We also maintain ancillary insurance coverage for other risks associated with rail and rail-related services, including insurance for employment practices, directors' and officers' liability, workers' compensation, pollution, auto claims, crime and road haulage liability, among others.

## COMPETITION

Railroads compete directly with other modes of transportation, principally highway competition from trucks and, on some routes, ships, barges and pipelines. Competition is based primarily upon the rate charged and the transit time required, as well as the quality and reliability of the service provided.

In North America, there normally is only one rail carrier directly serving a customer on its line, while most freight is interchanged with other railroads prior to reaching its final destination. To the extent that highway competition is involved, the degree of that competition is affected by government policies with respect to fuel and other taxes, highway tolls and permissible truck sizes and weights.

In Australia, the U.K. and Continental Europe, our customers have access to other rail carriers under open access regimes, so we face competition from other rail carriers in addition to competition from competing modes of transportation.

To a lesser degree, we also face competition from similar products made in other areas where we are not located, a kind of competition commonly known as geographic competition. For example, a paper producer may choose to increase or decrease production at a specific plant served by one of our railroads depending on the relative competitiveness of that plant as compared to its paper plants in other locations. In some instances, we face product competition, where commodities we transport are exposed to competition from substitutes (e.g., coal we transport can compete with natural gas as a fuel source for electricity generation). We also face import competition, where commodities we transport face competition from less expensive imported products. In addition, some of the products we transport are exported and face competition on a global basis.

In acquiring rail properties and making rail equipment and/or track infrastructure investments in projects, we generally compete with other railroad operators and with various financial institutions, including infrastructure and private equity firms, operating in conjunction with rail operators. Competition for rail properties and investment projects is based primarily upon price and the seller's assessment of the buyer's railroad operating expertise and financing capability. We believe our established reputation as a successful acquirer and long-term operator of rail properties, our managerial and financial resources, as well as our commitment to safety and the communities in which we operate, position us well in a competitive acquisition and investment environment.

## REGULATION

### North American Operations

#### United States

In addition to federal, state and local laws and regulations generally applicable to many businesses, our United States railroads are subject to regulation by:

• United States Surface Transportation Board (STB);

• FRA;

• federal agencies, including the United States Department of Transportation (DOT), Occupational Safety and Health Administration (OSHA), Pipeline and Hazardous Material Safety Administration (PHMSA), Mine Safety and Health Administration (MSHA) and Transportation Security Administration (TSA), which operate under the Department of Homeland Security (DHS);

• state departments of transportation; and

• some state and local regulatory agencies.

The STB is the successor to certain regulatory functions previously administered by the Interstate Commerce Commission (ICC). Established by the ICC Termination Act of 1995, the STB has jurisdiction over, among other things, certain freight rates (where there is no effective competition), extension or abandonment of rail lines, the acquisition of rail lines and the consolidation, merger or acquisition of control of rail common carriers. In limited circumstances, the STB may condition its approval of an acquisition upon the acquirer of a railroad agreeing to provide severance benefits to certain subsequently terminated employees. The FRA, DOT, OSHA and PHMSA have jurisdiction over certain aspects of safety, which include the regulation of equipment standards, track maintenance, handling of hazardous shipments, locomotive and railcar inspection, repair requirements, operating practices and crew qualifications. The TSA has broad authority over railroad operating practices that have implications for homeland security. Additionally, various state and local agencies have jurisdiction over disposal of hazardous waste and may regulate movement of hazardous materials in ways not preempted by federal law.

In 2015, the STB continued various proceedings on whether to expand rail regulation. The STB continues to evaluate the impact of "access" regulation that would impact railroads' ability to limit the access of other rail service providers to their rail infrastructure and has held hearings to assess the impact of changes to the access regime in the United States. During the past several legislative sessions, bills have been introduced in Congress that would expand the regulatory authority of the STB and could include new antitrust provisions that alter the regulatory structure of the railroad industry. Additionally, a DOT study on the impacts of a possible increase in federal truck size and weight limits commenced in 2012. The results of the DOT study were released in 2015, but data limitations are expected to hinder any near term changes to the federal truck size and weight limits. The majority of the actions under consideration and pending are directed at Class I railroads; however, we continue to monitor these initiatives. The outcome of these initiatives could impact regulation of railroad operations and prices for our rail services, which could undermine the economic viability of certain of our railroads, as well as threaten the service we are able to provide to our customers.

In 2010, the FRA issued rules governing the implementation of an interoperable positive train control system (PTC), which, following the passage by Congress of an extension in October 2015, generally is to be completed as early as December 31, 2018. PTC is a collision avoidance technology intended to override locomotive controls and stop a train before an accident. The FRA's rule contains certain exceptions to these PTC requirements for Class II and Class III railroads, including but not limited to, excepting from the PTC requirements trains traveling less than 20 miles on PTC-required track and providing Class II and Class III railroads until 2020 to employ PTC-equipped locomotives. Notwithstanding these exceptions, certain of our railroads may be required to install PTC-related equipment by the end of 2018. While we do not expect that our compliance with these PTC requirements will give rise to any material financial expenditures, non-compliance with these and other applicable laws or regulations could undermine public confidence in us and subject us to fines, penalties and other legal or regulatory sanctions.

## Canada

Railroads that operate in more than one province are subject to extensive federal laws, regulations and rules and the jurisdiction of the federal government. St. Lawrence & Atlantic Railroad (Quebec), Ottawa Valley Railway, Southern Ontario Railway and Knob Lake & Timmins Railway are federally regulated railroads that fall under the jurisdiction of the Canadian Transportation Agency (CTA) and Transport Canada (TC) and are subject to the Railway Safety Act. The CTA regulates construction and operation of federally regulated railways, financial transactions of federally regulated railway companies, all aspects of rates, tariffs and services and the transferring and discontinuing of the operation of railway lines. TC administers the Railway Safety Act, which ensures that federally regulated railway companies abide by all regulations with respect to engineering standards governing the construction or alteration of railway works and the operation and maintenance standards of railway works and equipment.

Railways operating only within one province are regulated by that province and must hold a Certificate of Fitness delivered by the appropriate provincial authority. Quebec Gatineau Railway and Cape Breton & Central Nova Scotia Railway are subject to the jurisdiction of the provincial governments of Quebec and Nova Scotia, respectively. In addition, Huron Central Railway is subject to the jurisdiction of the provincial government of Ontario and Goderich-Exeter Railway is subject to the jurisdiction of the Federal government of Canada. Generally, construction, operation and discontinuance of operation are regulated by the provincial authorities, as are railway services. Acquisitions of additional railroad operations in Canada, whether federally or provincially regulated, may be subject to review under the Investment Canada Act (ICA), a federal statute that applies to the acquisition of a Canadian business or establishment of a new Canadian business by a non-Canadian. In the case of an acquisition that is subject to review, a non-Canadian investor must observe a statutory waiting period prior to completion and satisfy the minister responsible for the administration of the ICA that the investment will be of net benefit to Canada, considering certain evaluative factors set out in the legislation.

Any contemplated acquisitions may also be subject to Canada's Competition Act, which contains provisions relating to pre-merger notification as well as substantive merger provisions.

In 2015, the Canadian Minister of Transport adopted enhanced rules concerning the transportation of crude oil, amending the Canada Transportation Act, the Railway Safety Act and the Transportation of Dangerous Goods Act, as well as associated regulations. The effective date for the new rules has not yet been determined. The enhanced rules include mandatory insurance requirements, with insurance levels established based on the nature of the commodities being moved on a railway line as well as a per ton levy on the transportation of crude oil and other designated goods by a railway company. In addition, all federally regulated railway companies and local railway companies must obtain a Railway Operating Certificate before January 1, 2017 in order to operate in Canada. All necessary applications for Railway Operating Certificates are pending for our Canadian railroads.

## Australian Operations

In Australia, regulation of rail safety is predominately governed by national legislation and administered by the Office of the National Rail Safety Regulator or under a service level agreement with various state regulatory agencies. Our Australian assets are subject to the regulatory regimes governing safety in each of the states and the one territory in which we operate. Regulation of track access is governed by federally legislated guidelines that are implemented by the states. The state access regimes are required to be certified by the Australian Competition and Consumer Commission. As a result, with respect to rail infrastructure access, our Australian subsidiaries are subject to the state-based access regimes. In addition, certain new acquisitions in Australia will also be subject to review by the Foreign Investment Review Board and the Australian Competition and Consumer Commission.

## U.K./European Operations

In the European Union (EU), several directives have been issued concerning the transportation of goods by rail. These directives generally cover the development of railways, the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and the licensing of railway undertakings. The EU legislation also sets a framework for a harmonized approach towards railway safety. Every railway company must obtain a safety certification before it can run trains on the European network, and EU Member States must set up national railway safety authorities and independent accident investigation bodies. These directives have been or will be implemented in legislation passed in each of the European countries in which we operate.

Each of the countries in which we operate in our U.K./European Operations segment is a member of the EU and each one has adopted a similar regulatory regime consistent with European legislation. EU law requires each member state to establish an overarching regulatory body for rail, independent in its organization, legal structure, funding and decision making that is also independent from any infrastructure manager. The regulatory body ensures fair and non-discriminatory access to the rail infrastructure network and will often be responsible for monitoring competition in the rail services market, the licensing of rail operators and rail safety.

The rail infrastructure is owned and managed by the infrastructure manager who is responsible for maintaining and renewing the infrastructure as well as enhancements to the rail network. Access to the network is granted by the infrastructure manager through track access arrangements with licensed rail operators, with oversight by the regulatory body in certain EU countries. Currently, all of the infrastructure managers in the European countries in which we operate are owned or controlled by the respective governments in each country. The governments of each member state have ministries or departments dedicated to transport who are responsible for the long-term strategy, planning and funding of the transport infrastructure, including rail. These departments are also responsible for implementing European directives into domestic legislation.

| Country         | Regulatory Body  | Infrastructure Manager | Government Ministry  | Competition Regulator(s)   |
|-----------------|--|------------------------|--|--|
| Belgium         | The Regulatory Service for Railway Transport and for Brussels Airport Operations | Infrabel               | Federal Public Service for Mobility and Transport                    | Belgium Competition Authority  |
| Germany         | Bundesnetzagentur  | DB Netz AG             | Federal Ministry of Transport Building and Urban Development (BMVBS) | The enforcement of German competition law primarily lies with the Federal Cartel Office (Bundeskartellamt) and in certain circumstances with the respective regional competition authorities (Landeskartellbehörden) |
| The Netherlands | The Human Environment and Transport Inspectorate                                 | ProRail                | The Ministry of Infrastructure and Environment                       | The Netherlands Authority for Consumers and Markets  |
| Poland          | Office of Rail and Transport   | PKP PLK S.A.           | Ministry of Economic Development                                     | Office of Rail Transport<br>The President of the Office of Competition and Consumer Protection   |
| United Kingdom  | Office of Road and Rail  | Network Rail           | Department for Transport<br>Transport Scotland                       | Office of Road and Rail  |

## ENVIRONMENTAL MATTERS

Our operations are subject to various federal, state, provincial and local laws and regulations relating to the protection of the environment. These regulations have the effect of increasing the costs, risks and liabilities associated with rail operations, which frequently involve transporting hazardous materials. We are also indirectly affected by

environmental laws that impact the operations of our customers.

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#### North American Operations

In the United States, these environmental laws and regulations, which are administered and implemented principally by the United States Environmental Protection Agency (EPA) and comparable state agencies, govern the management of hazardous wastes, the discharge of pollutants into the air and into surface and underground waters and the manufacture and disposal of certain substances. The primary laws affecting our operations are the Resource Conservation and Recovery Act, regulating the management and disposal of solid and hazardous wastes; the Comprehensive Environmental Response, Compensation, and Liability Act, regulating the cleanup of contaminated properties; the Clean Air Act, regulating air emissions, and the Clean Water Act, regulating water discharges.

As a result of our operations, we receive notices from time to time from the EPA and state environmental agencies alleging we may be liable under federal or state environmental laws for remediation costs at various sites throughout the United States. In the United States, we received a notice in November 2014 from the EPA requesting information under the Clean Water Act related to the discharge of crude oil as a result of a derailment of one of our trains in November 2013 in the vicinity of Aliceville, Alabama. The cleanup associated with this derailment is substantially complete.

In Canada, environmental laws and regulations are administered at the federal level by Environment Canada and by the Ministry of Transport and comparable agencies at the provincial level.

#### Australia Operations

In Australia, environmental laws and regulations are administered primarily by the Department of Environment at the federal level and by environmental protection agencies at the state and territories level.

The Commonwealth of Australia has acknowledged that certain portions of the leasehold and freehold land that we acquired from them and used by our Australian operations contain contamination arising from activities associated with previous operators. Consequently, the Commonwealth has carried out certain remediation work to meet existing South Australia environmental standards. Noncompliance with applicable laws and regulations may result in the imposition of fines, temporary or permanent shutdown of operations or other injunctive relief, criminal prosecution or the termination of our concession.

#### U.K./European Operations

In the U.K., European, national and local laws regulating the protection of the environment are administered by the Environment Agency, along with local authorities and other related bodies. Regulations relating to the transportation of hazardous goods are administered and enforced by the Health and Safety Executive, the Office of Rail and Road (ORR) and the Department for Transport (DfT).

In Belgium, European, national and local environmental policies are administered by the FPS Health, Food Chain Safety and Environment.

There is no principal environmental regulator in Germany. State authorities (usually district or county authorities), guided by their respective State Environmental Ministry, carry out day-to-day operational activities. Regulations relating to the transportation of hazardous goods are administered by the Federal Railway Office.

In the Netherlands, European, national and local laws regulating the protection of the environment are administered by the Ministry of Infrastructure and Environment and authorities at the provincial and municipal level, whereas laws regulating the transportation of hazardous goods are primarily administered by the Ministry of Infrastructure and Environment.

The principal body responsible for environmental policy and law in Poland is the Ministry of the Environmental Protection, while the principal enforcement authority is the regional inspector for environmental protection.

Regulations relating to the transportation of hazardous goods are administered by the President of the Rail Transport Office.

We believe our railroads operate in compliance with current environmental laws and regulations and agency agreements in all material respects. We estimate any expenses incurred in maintaining compliance with current environmental laws and regulations will not have a material effect on our earnings or capital expenditures. We cannot predict the effect, if any, that unidentified environmental matters or the adoption of additional or more stringent environmental laws and regulations would have on our results of operations, financial condition or liquidity.

#### AVAILABLE INFORMATION

We were incorporated in Delaware on September 1, 1977. We completed our initial public offering in June 1996, and since September 27, 2002, our Class A Common Stock has been listed on the New York Stock Exchange (NYSE) under the symbol GWR. Our principal executive offices and corporate headquarters are located at 20 West Avenue, Darien, Connecticut 06820, and our telephone number is (203) 202-8900.

Our Internet website address is [www.gwrr.com](http://www.gwrr.com). We make available free of charge, on or through our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after those materials are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). Also, filings made pursuant to Section 16 of the Exchange Act with the SEC by our executive officers, directors and other reporting persons with respect to our common shares are made available, free of charge, through our Internet website. Our Internet website also contains charters for each of the committees of our Board of Directors, our corporate governance guidelines and our Code of Ethics and Conduct. The information regarding our Internet website and its content is for your convenience only. 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](http://www.gwrr.com/investors). In addition, you may automatically receive email alerts and other information about us by enrolling your email address in the "E-mail Alerts" section of [www.gwrr.com/investors](http://www.gwrr.com/investors).

The information contained on or connected to our Internet website is not deemed to be incorporated by reference in this Annual Report or filed with the SEC.

ITEM 1A. Risk Factors.

Our operations and financial condition are subject to certain risks that could cause actual operating and financial results to differ materially from those expressed or forecast in our forward-looking statements, including the risks described below and the risks that may be identified in future documents that are filed or furnished with the SEC.

**GENERAL RISKS ASSOCIATED WITH OUR BUSINESS**

Adverse global macroeconomic and business conditions could negatively impact our business.

Slower economic growth, an economic recession, significant changes in global commodity prices or changes in government regulation could negatively impact our business. For instance, lower prices of commodities, such as iron ore, coal and manganese, could be a factor influencing decisions to delay, cancel or suspend certain mining projects in Australia and elsewhere, which could reduce the demand for our services. If we experience significant decline in demand for our services with respect to one or more commodities or products, we may experience lower revenues, increased operating costs, workforce adjustments and other related activities, which could have a material adverse effect on our results of operations, financial condition and liquidity.

In addition, we are required to assess for potential impairment of non-current assets whenever events or changes in circumstances, including economic circumstances, indicate that an asset's carrying amount may not be recoverable. Given the asset intensive nature of our business, weakness in the general economy increases the risk of significant asset impairment charges. A decline in current macroeconomic and financial conditions or commodity demand from changing patterns of economic activity could have a material adverse effect on our results of operations, financial condition and liquidity.

We may need additional capital to fund our acquisitions and investments. If we are unable to obtain this capital at a reasonable cost, then we may be required to forego potential opportunities, which would impair the execution of our growth strategy.

We intend to continue to review acquisition and investment opportunities and potential purchases of railroad assets and to attempt to acquire companies and assets that meet our investment criteria. As in the past, we expect that we will pay cash for some or all of the purchase price of acquisitions and purchases that we make. In addition, from time to time, we may make investments in equipment and assets to support our customers. Depending on the number of acquisitions and investments and funding requirements, we may need to raise substantial additional capital. Instability or disruptions in the capital markets, including credit markets, or the deterioration of our financial condition due to internal or external factors, could restrict or prohibit access to the capital markets and could also increase our cost of capital. To the extent we raise additional capital through the sale of equity, equity-linked or convertible debt securities, the issuance of such securities could result in dilution to our existing stockholders. If we raise additional funds through the issuance of debt securities, the terms of such debt could impose additional restrictions and costs on our operations. Additional capital, if required, may not be available on acceptable terms or at all. If we are unable to obtain additional capital at a reasonable cost, we may be required to forego potential acquisitions, which could impair the execution of our growth strategy.

If we are unable to consummate additional acquisitions or investments or manage our growth effectively, then we may not be able to implement our growth strategy successfully.

Our growth strategy is based in part on the selective acquisition and development of, and investment in, rail operations, both in new regions and in regions in which we currently operate. The success of this strategy will depend on, among other things:

- the availability of suitable opportunities;
- the level of competition from other potential buyers;
- our ability to value acquisition and investment opportunities accurately and negotiate acceptable terms for those acquisitions and investments;
- our ability to identify and enter into mutually beneficial relationships with partners; and
- the receipt of government approvals and financial constraints or other restrictions that may be specific to the particular company or asset to be acquired.



We have experienced significant growth in the past, partially due to the acquisition of additional railroads. Effective management of rapid growth presents challenges, including the availability of management resources to oversee the integration and operation of the new businesses effectively, the need to expand our management team and staff when necessary, the need to enhance internal operating systems and controls and the ability to consistently achieve targeted returns on capital. These challenges are more pronounced when we experience growth in numerous geographies and on a larger scale. We may not be able to maintain similar rates of growth in the future or manage our growth effectively.

The loss of important customers or contracts may adversely affect our results of operations, financial condition and liquidity.

Our operations served more than 2,800 customers in 2015. Revenues from our 10 largest customers accounted for approximately 22% of our operating revenues in 2015. One of our 10 largest customers in 2015, Arrium Limited (Arrium), a mining and materials company located in Australia, accounted for approximately 3% of our operating revenues. GWA's operations serve two of Arrium's mining assets, one of which, the Southern Iron mine, was mothballed in the second quarter of 2015 as a result of the significant decline in the price of iron ore, while the Whyalla-based operations, which include the Middleback Range iron ore mines and the Whyalla Steelworks, continued to operate. During 2015, GWA carried approximately 8,300 carloads of iron ore from the Southern Iron mine and, in total, generated approximately A\$83 million in freight and freight-related revenues (or approximately \$62 million, at the average exchange rate for the year ended December 31, 2015) under the fixed and variable payment structure that is customary in large contracts in Australia. We expect to receive only the fixed portion of the revenue following the mothballing of the Southern Iron mine and both the fixed and variable portion from the Whyalla-based operations. We could lose some or all of this revenue if Arrium continues to suffer from declines in commodity prices or other economic and financial conditions. In February 2016, Arrium announced a recapitalization plan with GSO Capital Partners LP. The recapitalization plan is subject to a variety of closing conditions, including approval by Arrium's existing lenders, as well as regulatory and other approvals.

In North America, we typically handle freight pursuant to transportation contracts between us, our connecting carriers and the customer. All of our contracts are in accordance with industry norms and vary in duration. These contracts establish price or, in the case of longer term contracts, a methodology for determining the price, but do not typically obligate the customer to move any particular volume. As a consequence, there is rarely a guarantee that past volumes or revenues will continue in the future. Further, under these contracts, freight rates and volumes are not directly linked to changes in the prices of the commodities being shipped, and there is no customary contractual protection in the event of a bankruptcy or insolvency of a customer. Substantial reduction in business with, or loss of, important customers or contracts could have a material adverse effect on our results of operations, financial condition and liquidity.

We are exposed to the credit risk of our customers and counterparties, and their failure to meet their financial obligations could adversely affect our business.

Our business is subject to credit risk. There is a risk that customers or counterparties, which include government entities related to grants and financial institutions related to derivative transactions, will fail to meet their obligations when due. Customers and counterparties that owe us money have defaulted and may continue to default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, shutdowns, operational failures or other reasons. In 2015, several of our mining and metals customers instituted insolvency proceedings. 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. Therefore, when we are the invoicing railroad, we are exposed to customer credit risk for the total amount invoiced and are required to pay the other railroads participating in the route even if we are not paid by the customer. Also, when we are not the invoicing railroad, we are exposed to credit risk at the customer and invoicing railroad levels.

In addition, we may make substantial investments in equipment and assets to support our customers, in particular for those in the mining and natural resources industry. We usually enter into long-term contracts with these customers that include fixed and variable payment terms. Under these contracts the customers pay a fixed payment independent of actual volume shipped as well as a variable rate per ton shipped, with the fixed payment often representing the majority of the total contract payments. Under these arrangements, we are exposed to start-up and ongoing operational

risks, including exposure to mine shutdowns, that may reduce the variable payments, as well as customer insolvency risk that could impact our ability to collect our fixed payments.

We have procedures for reviewing our receivables and evaluating credit exposures to specific customers and counterparties; however, default risk may arise from events or circumstances that are difficult to detect or foresee. Certain of our risk management methods depend upon the evaluation of information regarding markets, customers or other matters. This information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. As a result, unexpected credit exposures could have a material adverse effect on our results of operations, financial condition and liquidity.

Because we depend on Class I railroads and other connecting carriers for a significant portion of our operations in North America, our results of operations, financial condition and liquidity may be adversely affected if our relationships with these carriers deteriorate.

The railroad industry in the United States and Canada is dominated by seven Class I carriers that have substantial market control and negotiating leverage. In 2015, approximately 84% of our total carloads in the United States and Canada were interchanged with Class I carriers. A decision by any of these Class I carriers to cease or re-route certain freight movements could have a material adverse effect on our results of operations, financial condition and liquidity. The financial impact of such a decision would depend on which of our routes and freight movements were affected. In addition, Class I carriers also traditionally have been significant sources of business for us, as well as sources of potential acquisition candidates as they divest branch lines to smaller rail operators.

Our ability to provide rail service to customers in the United States and Canada depends in large part upon our ability to maintain cooperative relationships with connecting carriers with respect to lease arrangements, freight rates, revenue divisions, fuel surcharges, car supply, reciprocal switching, interchange and trackage rights. Deterioration in the operations of, or service provided by, those connecting carriers or in our relationship with those connecting carriers could have a material adverse effect on our results of operations, financial condition and liquidity.

We are dependent on lease agreements with Class I railroads and other third parties for our operations, strategy and growth.

In North America, our rail operations are dependent, in part, on lease agreements with Class I railroads and other third parties that allow us to operate over certain segments of track critical to our operations. We lease many of our railroads from Class I carriers and other third parties under lease arrangements with varied expirations, which railroads collectively accounted for approximately 7% of our 2015 total operating revenues. We also own several railroads that lease portions of the track or right-of-way upon which they operate from Class I railroads and other third parties. Our ability to provide comprehensive rail services to our customers on the leased lines depends in large part upon our ability to maintain and extend these lease agreements. Leases from Class I railroads and other third parties that are subject to expiration in each of the next 10 years represent less than 2% of our annual revenues in the year of expiration based on our operating revenues for the year ended December 31, 2015. For example, our revenues associated with leases from Class I railroads and other third parties subject to expiration in each of the next five years (2016 - 2020) would represent approximately 0.8%, 0.5%, 1.9%, 0% and 0.4% of our operating revenues in each of those years, respectively, based on our operating revenues for the year ended December 31, 2015. Expiration or termination of these leases or the failure of our railroads to comply with the terms of these leases could result in the loss of operating rights with respect to those rail properties and could have a material adverse effect on our results of operations, financial condition and liquidity.

Our results of operations and rail infrastructure are susceptible to weather conditions and other natural occurrences. We are susceptible to adverse weather conditions, including floods, fires, hurricanes (or cyclones), tornadoes, droughts, earthquakes and other natural occurrences. For example, bad weather and natural disasters, such as blizzards in the United States or Canada and hurricanes (or cyclones) in the United States or Australia, and resulting floods, could cause a shutdown, derailment, washout or other substantial disruption of our operations and those of the entire freight rail network, which could have a material adverse effect on our results of operations, financial condition and liquidity. Weather impacts or other conditions that do not directly affect our operations can still impact the operations of our customers or connecting carriers. For example:

• Our minerals and stone freight revenues may be reduced by mild winters in the northeastern United States, which lessen demand for road salt.

• Our coal and coke freight revenues may be reduced by mild winters in the United States or the U.K., which lessen demand for electricity, which in turn lessens the demand for coal.

Our revenues generated from the transportation of agricultural products in North America and Australia are susceptible to the impact of drought conditions and the South Australian grain harvest is also susceptible to the impact of heavy rains and flooding in the Northern Territory.

Furthermore, our expenses could be adversely impacted by weather conditions, including, for example, higher track maintenance, overtime and diesel fuel costs in the winter at our railroads in the United States and Canada related to snow removal, mandated work breaks and locomotive idling. Weather conditions could also cause our customers or connecting carriers to reduce or suspend their operations. Adverse weather conditions that disrupt the entire freight rail network can also cause traffic diversions, prolonged delays and equipment shortages that impact our ability to serve our customers, all of which could have a material effect on our results of operations, financial condition and liquidity.

Changes in commodity prices could decrease demand for the transport of such commodities, which could adversely affect our results of operations, financial condition and liquidity.

Changes in the price of commodities that we transport could decrease demand for the transport of such commodities, which could reduce our revenues or have other adverse effects. In 2015, the rapid and significant decline in the price of iron ore and manganese negatively impacted the operations of several of our large customers. As a result, several of our customers' mines have closed. Agricultural commodity prices are also inherently susceptible to fluctuation. For example, a decline in the price of corn that we transport may result in lower revenues for us if farmers decide to store such corn until the price increases. In such instances, we could experience reduced revenues, which could negatively impact our results of operations, financial condition and liquidity.

Our inability to integrate acquired businesses successfully or to realize the anticipated cost savings and other benefits could have adverse consequences to our business.

We may not be able to integrate acquired businesses successfully. Integrating acquired businesses could also result in significant unexpected costs. Further, the process of integrating businesses may be disruptive to our existing business and may cause an interruption or reduction of our business as a result of the following factors, among others:

- loss of key employees, customers or contracts;
- possible inconsistencies in or conflicts between standards, controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information technology and other systems;
- failure to maintain or improve the safety or quality of services that have historically been provided;
- inability to hire or recruit qualified employees;
- failure to effectively integrate employees of rail lines acquired from other entities into our regional railroad and safety cultures;
- unanticipated environmental or other liabilities;
- failure to coordinate geographically dispersed organizations; and
- the diversion of management's attention from our day-to-day business as a result of the need to manage any disruptions and difficulties and the need to add management resources to do so.

These disruptions and difficulties, if they occur, may cause us to fail to realize the cost savings, synergies, revenue enhancements and other benefits that we expect to result from integrating acquired companies and may cause material adverse short- and long-term effects on our results of operations, financial condition and liquidity.

Even if we are able to integrate the operations of acquired businesses into our operations, we may not realize the full benefits of the cost savings, synergies, revenue enhancements or other benefits that we may have expected at the time of acquisition. Expected savings and benefits are frequently based on due diligence results and on extensive analyses that involve assumptions as to future events, including general business and industry conditions, commodity trends, the longevity of specific customer plants and factories served, the ability to negotiate acceptable contractual arrangements, including renewals of leases with Class I railroads or extensions of government subsidies, operating costs, competitive factors and the ongoing cost of maintaining track infrastructure, many of which are beyond our control and difficult to predict. There is no guarantee that the due diligence results will be accurate or that we will not discover unanticipated liabilities. Further, while we believe these analyses and their underlying assumptions are reasonable, they are estimates that are necessarily speculative in nature. In addition, even if we achieve the expected benefits, we may not be able to achieve them within the anticipated time frame. Also, the cost savings and other benefits from these acquisitions may be offset by unexpected costs incurred in integrating the companies, increases in other expenses or problems in the business unrelated to these acquisitions. For example, if key employees of acquired companies depart because of issues relating to the uncertainty and difficulty of integration or a desire not to become

our employees, our ability to realize the anticipated benefits of such acquisitions could be reduced or delayed. Accordingly, you should not place undue reliance on our anticipated synergies.

Many of our recent acquisitions have involved the purchase of stock of existing companies. These acquisitions, as well as acquisitions of substantially all of the assets of a company, may expose us to liability for actions taken by an acquired business and its management before our acquisition. The due diligence we conduct in connection with an acquisition and any contractual guarantees or indemnities that we receive from the sellers of acquired companies may not be sufficient to protect us from, or compensate us for, actual liabilities. Generally, the representations made by the sellers, other than certain representations related to fundamental matters, such as ownership of capital stock, expire within several years of the closing. A material liability associated with an acquisition, especially where there is no right to indemnification, could adversely affect our results of operations, financial condition and liquidity. Our Second Amended and Restated Senior Secured Syndicated Facility Agreement dated March 20, 2015, as amended by Amendment No. 1 dated September 30, 2015 (Credit Agreement), contains numerous covenants that impose certain restrictions on the way we operate our business.

Our Credit Agreement contains numerous covenants that impose restrictions on our ability to, among other things:

- incur additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock or indebtedness;
- make investments, loans, advances and acquisitions;
- engage in certain transactions with affiliates;
- create liens;
- sell assets, including capital stock of any of our subsidiaries;
- consolidate or merge;
- enter into sale-leaseback transactions;
- change the business conducted by us and the guarantors;
- change our fiscal year; and
- enter into certain agreements containing negative pledges and upstream limitations.

Our Credit Agreement also contains financial covenants that require us to meet financial ratios and tests. Our failure to comply with the obligations in our Credit Agreement and other debt agreements could result in an increase in our interest expense and could give rise to events of default under the Credit Agreement or other debt agreements, as applicable, which, if not cured or waived, could permit lenders to accelerate our indebtedness and foreclose on the assets securing such debt, if any.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under such indebtedness.

We have a significant amount of indebtedness. As of December 31, 2015, we had a total indebtedness of \$2.3 billion, and we had unused commitments of \$575.7 million under our Credit Agreement (after giving effect to \$4.5 million of undrawn letters of credit that reduces such availability).

Subject to the limits contained in our Credit Agreement and our other debt instruments, we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult to satisfy our obligations with respect to our outstanding debt;
- limiting our ability to draw down on amounts available under our Credit Agreement or to obtain additional financing for working capital, capital expenditures, investments or acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, investments or acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our Credit Agreement, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.





Market and regulatory responses to climate change, changes in the dynamics of global energy markets, including the closure of coal-fired power plants we serve, climate change litigation and climate change itself could adversely affect our operating costs, decrease demand for the commodities we transport and adversely affect our results of operations, financial condition and liquidity.

Market and regulatory responses to climate change, as well as its physical impacts, could materially affect us. For example, federal, state and local laws, regulations, restrictions, caps, taxes or other controls on emissions of greenhouse gases, including diesel exhaust, could significantly increase our operating costs to comply with these laws and regulations to the extent they apply to our diesel locomotives, equipment, vehicles and machinery or our rail yards. Further, restrictions on emissions could affect our customers that use commodities that we carry to produce energy, that use significant amounts of energy in producing or delivering the commodities we carry, or that manufacture or produce goods that consume significant amounts of energy or burn fossil fuels, including, for example, coal mining operations, natural gas producers, coal-fired power plants, chemical producers, farmers and food producers, automakers and other manufacturers. Significant cost increases, government regulation, changes in market dynamics or changes in consumer preferences for goods or services relating to alternative sources of energy or emissions reductions could materially affect the markets for the commodities we carry. For instance, over the past few years, production of natural gas in the United States has increased dramatically, which has resulted in lower natural gas prices. As a result of sustained low natural gas prices, coal-fired power plants have been displaced by natural gas-fired power generation facilities. If natural gas prices were to remain low, additional coal-fired plants could be displaced, which could further reduce our coal volumes and revenues, which in turn could have a material adverse effect on our results of operations, financial condition and liquidity. Government incentives encouraging the use of alternative sources of energy could also affect certain of our customers and the markets for certain of the commodities we carry in an unpredictable manner that could alter our traffic patterns, including, for example, the impacts of ethanol incentives on farming and ethanol producers.

Finally, we could face changes to our operations and decreased revenues associated with climate change. We may also experience increased costs related to defending and resolving legal claims and other litigation related to climate change, including claims alleging that our operations have a negative impact on climate change. Any such market or regulatory responses or litigation, as well as physical impacts attributed to climate change and global warming, such as floods, rising sea levels, increasingly frequent and intense storms and any alteration of trade patterns, individually or in conjunction with one or more of the impacts discussed above or other unforeseen impacts of climate change, could have a material adverse effect on our results of operations, financial condition and liquidity.

As a common carrier by rail, we are required to transport hazardous materials, regardless of cost or risk, which could result in material losses.

We transport certain hazardous materials and other materials, including toxic/poisonous inhalation hazard (TIH/PIH) materials, such as chlorine, crude oil and other dangerous substances that pose certain risks in the event of a release or combustion. Additionally, United States laws impose common carrier obligations on railroads that require us to transport certain hazardous materials regardless of risk or potential exposure to loss. A rail accident or other incident or accident on our railroads, at our facilities, or at the facilities of our customers involving the release or combustion of hazardous materials could create catastrophic losses in terms of personal injury, property damage and environmental remediation costs and compromise critical parts of our railroads. In addition, insurance premiums charged for, or the self-insured retention associated with, some or all of the coverage currently maintained by us could increase dramatically or certain coverage may not be available to us in the future if there is a catastrophic event related to rail transportation of these materials. Also, federal regulators have previously prescribed regulations governing railroads' transportation of hazardous materials and have the ability to put in place additional regulations. For instance, existing legislation requires pre-notification for hazardous materials shipments. Such legislation and regulations could impose significant additional costs on railroads. Additionally, regulations adopted by the DOT and the DHS could significantly increase the costs associated with moving hazardous materials on our railroads. Further, certain local governments have sought to enact ordinances banning hazardous materials moving by rail within their borders. Such ordinances could require the re-routing of hazardous materials shipments, with the potential for significant additional costs. Increases in costs associated with the transportation of hazardous materials could have a material adverse effect on our results of operations, financial condition and liquidity.



We may be impacted by our inability to obtain government funding for capital projects or to benefit from revenue support grants.

Certain of our existing capital projects are, and certain of our future capital projects may be, partially or completely funded through government grant programs. During 2015, we obtained partial or complete funding by United States and Canadian federal, state, provincial and municipal agencies for 49 new projects. The net spending associated with these grant-funded projects represented approximately 3% of our net capital expenditures during 2015. Government funding for projects is limited, and there is no guarantee that budget pressure at the federal, state, provincial and local level or changing governmental priorities will not eliminate funding availability or require us to accept onerous contractual obligations. In certain jurisdictions, the acceptance of government funds may impose additional legal obligations on our operations. If we are unable to obtain adequate government funding, we may have to defer or forgo certain capital projects, incur additional debt or use additional cash.

Freightliner benefits from the U.K. Government administered Mode Shift Revenue Support Scheme (MSRS), which supports the movement of freight away from road, particularly in the container market. While the U.K. Government has confirmed its continued funding of MSRS for England, the amount of the funding available for the period 2016 to 2020 will be less than for the period 2010 to 2015. The basis on which the reductions should be applied remains subject to review and may result in reduced grants in 2016 and in subsequent years. Reduced grants may have a material adverse effect on our results of operations, financial condition and liquidity.

The occurrence of losses or other liabilities that are either not covered by insurance or that exceed our insurance limits could materially adversely affect our results of operations, financial condition and liquidity.

We purchase insurance coverage for losses arising from personal injury and for property damage in the event of derailments, grade crossing accidents, collisions and other incidents or occurrences. Unexpected or catastrophic circumstances associated with derailments of valuable lading, grade crossing accidents, collisions or other incidents involving passenger trains or spillage of hazardous materials or other accidents involving our operations could cause our losses to exceed our insurance coverage limits or sub-limits or give rise to losses or penalties that are not covered by our insurance. In addition, on certain of the rail lines over which we operate, freight trains are operated over the same track as passenger trains. For instance, in Oregon, our Portland & Western Railroad operates certain passenger trains for the Tri-County Metropolitan Transportation District of Oregon, our New England Central Railroad is also used by Amtrak for passenger service in New England and our Connecticut Southern Railroad operates over Amtrak trackage in Connecticut. In Australia, The Ghan passenger train is operated by a third party over the track of GWA (North) Pty Ltd between Tarcoola and Darwin. Further, we operate excursion trains on behalf of third parties on certain of the rail lines over which we operate. In the U.K. and Continental Europe, freight trains are primarily operated over the same track as passenger trains and will also regularly pass through passenger stations. Derailments, collisions or other incidents involving us and passenger or excursion trains could give rise to losses that exceed our insurance coverage. Moreover, certain third-party freight and excursion train operators have contractual rights to operate over certain of our rail lines. These third-party operators generally are required to maintain minimum levels of insurance coverage, but there can be no assurance that such insurance coverage will be sufficient to cover all of the losses arising from an incident involving such operators on our rail lines. Also, insurance is available from only a very limited number of insurers, and we may not be able to obtain insurance protection at current levels or at all or obtain it on terms acceptable to us. Deteriorating insurance market conditions caused by global property or rail liability losses, as well as subsequent adverse events directly and indirectly attributable to us, including such things as derailments, accidents, discharge of toxic or hazardous materials, or other like occurrences in the industry, may result in additional increases in our insurance premiums and/or our self-insured retentions, volatility in our claims' expenses and limitations to the coverage under our existing policies and could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, we are subject to the risk that one or more of our insurers may become insolvent and would be unable to pay a claim that may be made in the future. Even with insurance, if any catastrophic interruption of service occurs, we may not be able to restore service without a significant interruption to our operations, which could have a material adverse effect on our results of operations, financial condition and liquidity.



We are subject to significant governmental regulation of our railroad operations. The failure to comply with governmental regulations or changes to the legislative and regulatory environment could have a material adverse effect on our results of operations, financial condition and liquidity.

We are subject to governmental regulation with respect to our railroad operations and to a variety of health, safety, security, labor, environmental and other matters by a significant number of federal, state and local regulatory authorities. New rules or regulations mandated by these agencies could increase our operating costs. For example, in 2010, the FRA issued rules governing the implementation of an interoperable positive train control system (PTC), which, following the passage by Congress of an extension in October 2015, generally is to be completed as early as December 31, 2018. The FRA's rule contains certain exceptions to these PTC requirements for Class II and Class III railroads, including but not limited to, exempting from the PTC requirements trains traveling less than 20 miles on PTC-required track, and providing Class II and Class III railroads until 2020 to employ PTC-equipped locomotives. Notwithstanding these exceptions, certain of our railroads may be required to install PTC-related equipment by the end of 2018. While we do not expect that our compliance with these PTC requirements will give rise to any material financial expenditures, non-compliance with these and other applicable laws or regulations could undermine public confidence in us and subject us to fines, penalties and other legal or regulatory sanctions.

In addition, there are various legislative and regulatory actions that have been considered in the United States in recent years to modify the regulatory oversight of the rail industry. Various proceedings have been initiated by the STB related to rail competition, interchange commitments and competitive access. A DOT study on the impacts of a possible increase in federal truck size and weight limits also commenced in 2012. The results of the DOT study were released in 2015, but data limitations are expected to hinder any near term changes to the federal truck size and weight limits. Many of the actions under consideration and pending are directed at Class I railroads; however, specific initiatives being considered by Congress, the STB or other regulators could expand regulation of our railroad operations and undermine the economic viability of certain of our railroads, as well as threaten the service we are able to provide to our customers. The cost of compliance with the proposed rules and regulations could also be significant. In the other geographies in which we operate, federal, state, provincial and local regulatory authorities could change the regulatory framework (including the access regimes) or take actions without providing us with any recourse for the adverse effects that the changes or actions could have on our business, including, without limitation, regulatory determinations or rules regarding dispute resolution and business relationships with our customers and other railroads. Expanded regulation of our railroad operations will increase the cost of providing rail services, which could reduce capital spending on our rail network, facilities and equipment and have a material adverse effect on our results of operations, financial condition and liquidity.

Currently, there are ongoing governmental reviews into the structure, roles and functions of both the ORR and Network Rail. The results of these reviews may affect our operations and increase our operating costs. See "Part I Item 1. Business – Regulation" for a discussion of these regulations. Our failure to comply with applicable laws and regulations could have a material adverse effect on our results of operations, financial condition and liquidity.

We could incur significant costs for violations of, or liabilities under, environmental laws and regulations.

Our railroad operations and real estate ownership are subject to extensive federal, state, local and foreign environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters, the handling, storage, transportation and disposal of waste and other materials and cleanup of hazardous materials (including lading) or petroleum releases. We generate and transport hazardous and non-hazardous waste in our operations. We may incur environmental liability from conditions or practices at properties previously owned or operated by us, properties leased by us and other properties owned by third parties (for example, properties at which hazardous substances or wastes for which we are responsible have been treated, stored, spilled or disposed), as well as at properties currently owned or operated by us. Under some environmental statutes, such liability may be found without regard to whether we were at fault and may also be "joint and several," whereby we are responsible for all the liability at issue even though we (or the entity that gives rise to our liability) may be only one of a number of entities whose conduct contributed to the liability.

Environmental liabilities may also arise from claims asserted by owners or occupants of affected properties, other third parties affected by environmental conditions (for example, contractors and current or former employees) seeking to recover in connection with alleged damages to their property or personal injury or death, and/or by governmental

authorities seeking to remedy environmental conditions or to enforce environmental obligations.

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While we maintain insurance for certain environmental damages and claims, environmental requirements and liabilities could obligate us to incur significant costs and expenses to investigate and remediate environmental contamination that may or may not be fully covered by our insurance, which could have a material adverse effect on our results of operations, financial condition and liquidity.

We face competition from numerous sources, including those relating to geography, substitute products, other types of transportation and other rail operators.

In North America, each of our railroads is typically the only rail carrier directly serving our customers. In certain circumstances, including under the open access regimes in Australia and Europe, our customers have direct access to other rail carriers. In addition, our railroads also compete directly with other modes of transportation, principally trucks and, on some routes, ship, barge and pipeline operators. Transportation providers such as trucks and barges utilize public rights-of-way that are built and maintained by governmental entities, while we must build and maintain our own network infrastructure. Competition for our services could increase if other rail operators build new rail lines to access certain of our customers or grant to other rail carriers access rights to our rail lines or if legislation is passed that provides materially greater latitude for trucks with respect to size or weight restrictions.

We are also subject to geographic and product competition. A customer could shift production to a region where we do not have operations. Also, commodities that are not transported by rail could be substituted for another commodity that we transport by rail. For example, natural gas can compete with coal that we transport as a fuel source for electricity generation. In either case, we could lose a source of revenues. In addition, we are subject to import competition, where commodities that we transport face competition from less expensive imported products. Some of the products that we transport are exported and face competition on a global basis.

The extent of competition varies significantly among our railroads. Competition is based primarily upon the rate charged, the relative costs of substitutable products and the transit time required. In addition, competition is based on the quality and reliability of the service provided. Because a significant portion of our carloads in the United States and Canada involve interchange with another carrier, we have only limited control over the total price, transit time or quality of such service. It is difficult to quantify the potential impact of competition on our business, since not only each customer, but also each customer location and each product shipped from such location is subject to different types of competition. However, changes to the competitive landscape could have a material adverse effect on our results of operations, financial condition and liquidity.

For information on the risks related to competition associated with the open access regimes in Australia and Europe, see "Additional Risks Associated with our Foreign Operations."

Exposure to market risks, particularly changes in interest rates and foreign currency exchange rates, and hedging transactions entered into to mitigate these and other risks could adversely impact our results of operations, financial condition and liquidity.

We are exposed to various market risks, including interest rate and foreign currency exchange rate risks. It is impossible to fully mitigate all such exposure and higher interest rates and unfavorable fluctuations in foreign currency exchange rates could have an adverse effect on our results of operations, financial condition and liquidity. From time to time, we may use various financial instruments to reduce our exposure to certain market risks. For instance, we have entered into interest rate swaps to mitigate the risk associated with the floating interest rate payments under our Credit Agreement. While these financial instruments reduce our exposure to market risks, the use of such instruments may ultimately limit our ability to benefit from lower interest rates or favorable foreign currency exchange rate fluctuations due to amounts fixed at the time of entering into the hedge agreement and may have significant costs associated with early termination, which could have a material adverse effect on our results of operations, financial condition and liquidity.

We may be adversely affected by diesel fuel supply constraints resulting from disruptions in the fuel markets and increases in diesel fuel costs.

In 2015, we consumed 63.3 million gallons of diesel fuel. Fuel availability could be affected by any limitation in the fuel supply or by any imposition of mandatory allocation or rationing regulations. If a severe fuel supply shortage arose from production curtailments, disruption of oil imports or domestic oil production, disruption of domestic refinery production, damage to refinery or pipeline infrastructure, political unrest, war, terrorist attack or otherwise, diesel fuel may not be readily available and may be subject to rationing regulations.





In addition, diesel fuel costs constitute a significant portion of our total operating expenses. Currently, we receive fuel surcharges and other rate adjustments to offset fuel prices, although there may be a significant delay in our recovery of fuel costs based on the terms of the fuel surcharge program. However, if Class I railroads change their policies regarding fuel surcharges, the compensation we receive for increases in fuel costs may decrease, which could have a negative effect on our profitability. Costs for fuel used in operations were approximately 8% and 12% of our operating expenses for the years ended December 31, 2015 and 2014, respectively.

If diesel fuel prices increase dramatically from production curtailments, a disruption of oil imports or domestic oil production or otherwise, these events could have a material adverse effect on our results of operations, financial condition and liquidity.

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

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, environmental contamination, freight loss, property damage and other matters. For example, United States job-related personal injury claims by our railroad employees are subject to the Federal Employers' Liability Act (FELA) which is applicable only to railroads. FELA's fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker's compensation system. The variability inherent in this system could result in the actual costs of claims being very different from the liability recorded.

Any material changes to current litigation trends or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injury and environmental liability against us that is not covered by insurance could have a material adverse effect on our results of operations, financial condition and liquidity.

Some of our employees belong to labor unions, and strikes or work stoppages could adversely affect our results of operations, financial condition and liquidity.

We are a party to 81 collective bargaining agreements with various labor unions in the United States, Australia, Canada and Europe. We are currently engaged in negotiations with respect to 14 of those agreements. Approximately 4,100 of our approximately 7,500 full time employees are either union members or have employment terms and conditions determined by a labor agreement or negotiated by a labor union or works council. We also have entered into employee association agreements with an additional 84 employees who are not represented by a national labor organization. GWA has a collective enterprise bargaining agreement covering the majority of its employees.

Our inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If the unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized, or the terms and conditions in future labor agreements were renegotiated, we could experience a significant disruption of our operations and/or higher ongoing labor costs. A substantial majority of the employees of the Class I railroads with which we interchange are unionized. If such Class I railroads were to have a work slowdown or strike, the national rail network and our operations would be adversely affected. In the U.K., our operations are reliant on the rail infrastructure provided by Network Rail. A majority of Network Rail's employees are unionized, and if Network Rail were to have a work stoppage or strike, the U.K. rail network and our operations would be adversely affected. Additional unionization of our workforce could result in higher employee compensation and restrictive working condition demands that could increase our operating costs or constrain our operating flexibility.

If we are unable to employ a sufficient number of qualified workers, or attract and retain senior leadership, our results of operations, financial condition and liquidity may be materially adversely affected.

We believe that our success and our growth depend upon our ability to attract and retain skilled workers who possess the ability to operate and maintain our equipment and facilities. The operation and maintenance of our equipment and facilities involve complex and specialized processes and often must be performed in harsh and remote conditions, resulting in a high employee turnover rate when compared to many other industries. The challenge of attracting and retaining the necessary workforce is increased by the expected retirement of an aging workforce, training requirements and significant competition for specialized trades. Within the next five years, we estimate that approximately 14% of our current workforce will become eligible for retirement. Many of these workers hold key operating positions, such as conductors, engineers and mechanics. In addition, the demand for workers with the types of skills we require has increased, especially from Class I railroads, which can usually offer higher wages and more generous benefits. A

significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or an increase in the wage rates that we must pay or both.

The execution of our growth strategy, in particular our acquisition and investment strategy, is substantially dependent on our senior management team.

We rely on our senior management team to execute our growth strategy. Our growth strategy is different than the strategy of many other railroads because of our acquisition and investment focus. There can be no assurance that we will be able to attract and retain senior leadership necessary to manage and grow our business. Our performance significantly depends upon the continued contributions of our executive officers and key employees, both individually and as a group, and our ability to retain and motivate them. Our officers and key personnel have many years of experience with us and in our industry and it may be difficult to replace them. Further, the loss of any executive officers or key employees could require the remaining senior leadership to divert immediate and substantial attention to seeking a replacement. The loss of the services of any of our senior leadership, and the inability to find a suitable replacement, could adversely affect our operating, acquisition and investment strategies, as well as our results of operations, financial condition and liquidity.

Our operations are dependent on our ability to obtain railcars, locomotives and other critical railroad items from suppliers.

Due to the capital intensive nature and industry-specific requirements of the rail industry, there are high barriers to entry for potential new suppliers of core railroad items such as railcars, locomotives and track materials. If the number of available railcars is insufficient or if the cost of obtaining these railcars either through lease or purchase increases, we might not be able to obtain railcars on favorable terms, or at all, and shippers may seek alternate forms of transportation. In some cases, we use third-party locomotives to provide transportation services to our customers and such locomotives may not be available. Without these third-party locomotives, we would need to invest additional capital in locomotives. Even if purchased, there is no guarantee that locomotives would be available for delivery without significant delay. For example, in Australia, the availability of new locomotives is limited, with long lead times for delivery. Additionally, we compete with other industries for available capacity and raw materials used in the production of certain track materials, such as rail and ties. Changes in the competitive landscapes of these limited-supplier markets could result in equipment shortages that could have a material adverse effect on our results of operations, financial condition and liquidity in a particular year or quarter and could limit our ability to support new projects and achieve our growth strategy.

We may be affected by acts of terrorism or anti-terrorism measures.

Our rail lines, port operations and other facilities and equipment, including railcars carrying hazardous materials that we are required to transport under federal law as a common carrier, could be direct targets or indirect casualties of terrorist attacks. Any terrorist attack or other similar event could cause significant business interruption and may adversely affect our results of operations, financial condition and liquidity. In addition, regulatory measures designed to control terrorism could impose substantial costs upon us and could result in impairment to our service, which could also have a material adverse effect on our results of operations, financial condition and liquidity.

We rely on the stability and availability of our technology systems to operate our business.

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

## ADDITIONAL RISKS ASSOCIATED WITH OUR FOREIGN OPERATIONS

We are subject to the risks of doing business in foreign countries.

Some of our subsidiaries transact business in foreign countries, namely in Australia, Canada, the U.K., Belgium, Germany, the Netherlands and Poland. In addition, we may consider acquisitions or other investments in other foreign countries in the future. The risks of doing business in foreign countries include:

- adverse changes or greater volatility in the economies of those countries;
- foreign currency fluctuations;
- adverse effects due to changes in the European Union (EU) or eurozone membership, including risks associated with the U.K.'s potential exit from the EU;
- adverse effects due to the migration of people into the EU;
- adverse changes to the regulatory environment or access regimes of those countries;
- adverse changes to the tax laws and regulations of those countries;
- restrictions on the withdrawal of foreign investment, or a decrease in the value of repatriated cash flows;
- a decrease in the value of foreign sourced income as a result of exchange rate changes;
  - the actual or perceived failure by us to fulfill commitments under concession agreements;
- the ability to identify and retain qualified local managers; and
- the challenge of managing a culturally and geographically diverse operation.

Any of the risks above could have a material adverse effect on our results of operations, financial condition and liquidity.

Because some of our subsidiaries and affiliates transact business in foreign currencies and because a significant portion of our net income comes from the operations of our foreign subsidiaries, exchange rate fluctuations may adversely affect us and may affect the comparability of our results between financial periods.

Our operations in Australia, Canada and Europe account for approximately 10%, 2% and 10%, respectively, of our consolidated income from operations. The results of operations of our foreign entities are maintained in the local currency (the British pound, the Australian dollar, the Canadian dollar, the Euro and the Polish zloty) and then 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 exchange rate for the statement period. As a result, any appreciation or depreciation of these currencies against the United States dollar can impact our consolidated results of operations. The exchange rates between these currencies and the United States dollar have fluctuated significantly in recent years and may continue to do so in the future.

We may not be able to manage our exchange rate risks effectively, and the volatility in currency exchange rates may have a material adverse effect on our results of operations, financial condition and liquidity. In addition, because our financial statements are stated in United States dollars, such fluctuations may affect our consolidated results of operations and financial condition and may affect the comparability of our results between financial periods.

Our concession and/or lease agreements in Australia could be canceled, and there is no guarantee these agreements will be extended beyond their terms.

Through our subsidiaries in Australia, we have entered into long-term concession and/or lease agreements with governmental authorities in the Northern Territory and South Australia. Our concession agreement for the Tarcoola-to-Darwin rail line expires in 2054 and our lease agreement for our other South Australia rail lines expires in 2047. If our concession or lease agreements expire, we will no longer act as the below rail access provider but will still be permitted to participate in the above rail market. These concession and lease agreements are subject to a number of conditions, including those relating to the maintenance of certain standards with respect to service, price and the environment. These concession and lease agreements also typically carry with them a commitment to maintain the condition of the railroad and to make a certain level of capital expenditures, which may require capital expenditures that are in excess of our projections. Our failure to meet these commitments under the long-term concession and lease agreements could result in the termination of those concession or lease agreements. The termination of any concession or lease agreement could result in the loss of our investment relating to that concession or lease agreement. Further, the expiration of these agreements and the end of their term would result in the loss of the associated revenues and income. Either of these events could have a material adverse effect on our results of

operations, financial condition and liquidity.

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Open access regimes in Australia and Europe could lead to additional competition for rail services and decreased revenues and profit margins.

The legislative and regulatory framework in Australia allows third-party rail operators to gain access to our Australian railway infrastructure and also governs our access to track owned by others. European countries in which our subsidiaries operate also have open access regimes that permit third-party rail operators to compete for the business of our subsidiaries that operate in such countries. There are limited barriers to entry to preclude a current or prospective rail operator from approaching our customers and seeking to capture their business. The loss of our customers to competitors could result in decreased revenues and profit margins, which could have a material adverse effect on our results of operations, financial condition and liquidity.

Changes to the open access regimes in Australia and Europe could have a significant impact on our operations. Access fees paid for our access onto the track of other companies and access fees we charge under state and federal regimes are subject to change. Where we pay access fees to others, if those fees were increased, our operating margins could be negatively affected. In Australia, if the federal government or respective state regulators were to alter the regulatory regime or determine that access fees charged to current or prospective third-party rail freight operators by our Australian railroads did not meet competitive standards, our income from those fees could decline. In the U.K., if the ORR were to change the access regime, even if we were able to pass any increased fees onto customers, we may be less competitive and our revenues could decline. In addition, when we operate over track networks owned by others, the owners of the networks are responsible for scheduling the use of the tracks as well as for determining the amount and timing of the expenditures necessary to maintain the tracks in satisfactory condition. Therefore, in areas where we operate over tracks owned by others, our operations are subject to train scheduling set by the owners as well as the risk that the network will not be adequately maintained. Changes to the open access regimes could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Revocation of our safety accreditations could result in a loss of revenue and termination of our concession.

Our operating subsidiaries in Australia and Europe hold safety accreditations that are required in order for them to provide freight rail services. These safety accreditations are essential for us to conduct our business and are subject to removal. Following significant derailments, the government entities responsible for oversight of rail safety frequently perform investigations. Any loss of, failure to maintain or inability to renew, rail safety accreditations necessary to carry on rail operations in any jurisdiction, or any changes in government policy and legal or regulatory oversight, including changes to the rail safety regulatory regime, could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Freightliner has significant pension funding obligations.

Freightliner provides a defined benefit pension program for its U.K. employees through a standalone shared cost arrangement within the Railways Pension Scheme (Pension Program). The Pension Program has more than 300,000 active and retired employees, and participation by more than 150 rail companies with assets under management in excess of £20 billion. There are six discrete sections within the Pension Program and participating employers may set up more than one arrangement in the program. There is no cross-subsidy or funding obligation between the discrete sections of the Pension Program or between the discrete arrangements of any participating employers. 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 Freightliner section of the Pension Program is a shared cost arrangement with required contributions shared between Freightliner and its employees with Freightliner contributing 60% and the remaining 40% contributed by active employees.

The Pension Program's assets are subject to market fluctuation, and its assets and liabilities are formally valued on an independent actuarial basis every three years. A key element of the valuation process is an assessment of the creditworthiness of the participating employer. Less creditworthy employers are encouraged to invest in lower risk assets, with on average lower returns, which impacts the assessment of the pension liabilities and any underlying deficit. In the event that the Freightliner section of the Pension Program is underfunded on an actuarial basis at any valuation point, the shared cost nature of the program means that Freightliner is responsible for paying 60% of any deficit contributions, with active employees contributing the remaining 40%, in each case over a recovery period agreed with the trustees.

If the Freightliner section of the Pension Program is terminated and wound up, any deficit would fall entirely on Freightliner and would not be shared with active employees. Equally, if all active employees were to leave the Freightliner section, Freightliner would have full responsibility for funding any deficits. As of December 31, 2015, there

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were approximately 1,700 active Freightliner employees in the Freightliner section of the Pension Program. Freightliner's pension expense and funding of its section of the Pension Program may increase in the future and, as a result, could have a material adverse effect on our results of operations, financial condition and liquidity.

#### RISKS RELATED TO TAXATION

Our ability to use RailAmerica's Section 45G tax credit carryforwards may be subject to limitation due to a change in the ownership of its stock.

As of December 31, 2015, we had tax benefits totaling approximately \$63.2 million of Section 45G tax credit carryforwards related to the RailAmerica acquisition. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change tax attribute carryforwards to offset its post-change income tax may be limited and may result in a partial or full write down of the related deferred tax assets. An ownership change is defined generally for these purposes as a greater than 50% change in ownership over a three-year period, taking into account shareholders that own 5% or more by value of common stock. While we currently believe it is more likely than not that we will be able to utilize these tax attributes, our ability to use RailAmerica's tax credit carryforwards and other tax attributes to reduce our future tax liabilities may be limited.

The United States Short Line Tax Credit expires on December 31, 2016. As a result, our effective tax rate in 2017 will be higher if the credit is not extended.

Since 2005, we have benefited from the effects of the United States Short Line Tax Credit, which is an income tax credit for Class II and Class III railroads to reduce their federal income tax based on qualified railroad track maintenance expenditures (the Short Line Tax Credit). 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. On December 18, 2015, the Short Line Tax Credit (which had previously expired on December 31, 2014) was extended for 2015 and 2016. The most recent extension of the Short Line Tax Credit only extended the credit through December 31, 2016. If the Short Line Tax Credit is not extended for additional tax years, the loss of the credit will increase our tax rate and reduce our earnings per share.

If the earnings of our controlled foreign subsidiaries were required to be distributed, our effective tax rate could be higher.

We file a consolidated United States federal income tax return that includes all of our United States subsidiaries. Each of our foreign subsidiaries files income tax returns in each of their respective countries. No provision is made for the United States income taxes applicable to the undistributed earnings of our controlled foreign subsidiaries. The amount of those earnings was \$322.5 million as of December 31, 2015. If the earnings were to be distributed in the future, those distributions may be subject to United States income taxes (appropriately reduced by available foreign tax credits) and withholding taxes payable to various foreign countries, which could result in a higher effective tax rate for us, thereby reducing our earnings. See "Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Cash Repatriation" for additional information.

Non-U.S. holders who own or owned more than a certain ownership threshold may be subject to United States federal income tax on gains realized on the disposition of the shares of our Class A Common Stock.

It is possible that we are a United States real property holding corporation currently or will become one in the future for United States federal income tax purposes. If we are or become a United States real property holding corporation, so long as our Class A Common Stock continues to be regularly traded on an established securities market, only a non-U.S. holder (i.e., a holder that is not a United States citizen or resident, a corporation or partnership organized under the laws of the United States or any state thereof and certain trusts and estates) who holds or held (at any time during the shorter of the five-year period preceding the date of disposition or the holder's holding period) more than 5% of our Class A Common Stock will be subject to United States federal income tax on the disposition of our Class A Common Stock, by reason of our status as a United States real property holding corporation. Non-U.S. holders should consult their own tax advisors concerning the consequences of disposing of shares of our Class A Common Stock.



ITEM 1B. Unresolved Staff Comments.

None.

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## ITEM 2. Properties.

Genesee & Wyoming, through our subsidiaries, currently has interests in 120 freight railroads, including 103 short line railroads and two regional freight railroads in the United States, eight short line railroads in Canada, three railroads in Australia, one in the U.K, one in Poland and two in the Netherlands.

The rail properties that we own and operate in North America typically consist of the track and the underlying land. Real estate adjacent to the railroad rights-of-way is generally owned by others, and our holdings of such real estate are not material. Further, unless we own the rail properties outright, we do not normally control mineral rights or the ability to grant fiber optic and other easements in the properties. Several of our railroads are operated under leases or operating licenses in which we do not assume ownership of the track or the underlying land. Further, under open access regimes as more fully described under "Part I Item 1. Business," the track may be accessed by any operator admitted and licensed to provide freight transport in the country.

Our railroads operate over approximately 15,600 miles of track that is owned, jointly owned or leased by us, which includes the Tarcoola-to-Darwin rail line that we manage under a concession agreement that expires in 2054. Several of our railroads are operated pursuant to lease agreements that will expire in the next few years and may not be extended. Leases from Class I railroads and other third parties that could expire in each of the next 10 years would represent less than 2% of our annual revenues in the year of expiration, based on our operating revenues for the year ended December 31, 2015. For additional information on these lease expirations, see "Part I. Item 1A. Risk Factors" of this Annual Report. We also operate, through various trackage and operating rights agreements, over approximately 5,700 additional miles of track that are owned or leased by others under contractual track access arrangements. The track miles listed below exclude approximately 1,995 miles of sidings and yards (1,765 miles in the United States, 160 miles in Canada and 70 miles in Australia). Track miles owned by others, but available to us, under open access regimes in Australia, Belgium, the Netherlands, Poland and the U.K. are also excluded. We have recorded mortgages on many of the owned properties located in the United States and described in the table below as additional security for our outstanding obligations under our Credit Agreement. See "Part I Item 1A. Risk Factors" for additional information on our Credit Agreement.

The following table sets forth certain information with respect to our railroads as of December 31, 2015:

| RAILROAD AND LOCATION   | YEAR ACQUIRED | TRACK MILES | STRUCTURE    |
|---|---------------|-------------|--------------|
| NORTH AMERICAN OPERATIONS   |               |             |              |
| UNITED STATES:  |               |             |              |
| Genesee and Wyoming Railroad Company (GNWR) New York (1)                      | 1899          | 27          | Owned        |
| The Dansville and Mount Morris Railroad Company (DMM) New York (1)            | 1985          | 8           | Owned        |
| Rochester & Southern Railroad, Inc. (RSR) New York (1)                        | 1986          | 58          | Owned        |
| Louisiana & Delta Railroad, Inc. (LDRR) Louisiana                             | 1987          | 86          | Owned/Leased |
| Buffalo & Pittsburgh Railroad, Inc. (BPRR) New York, Pennsylvania (2) (3) (4) | 1988          | 368         | Owned/Leased |
| Allegheny & Eastern Railroad, LLC (ALY) Pennsylvania (2)                      | 1992          | 128         | Owned        |
| Bradford Industrial Rail, Inc. (BR) Pennsylvania (3)                          | 1993          | 4           | Owned        |
| Willamette & Pacific Railroad, Inc. (WPRR) Oregon                             | 1993          | 178         | Leased       |
| Portland & Western Railroad, Inc. (PNWR) Oregon                               | 1995          | 288         | Owned/Leased |
| Pittsburg & Shawmut Railroad, LLC (PS) Pennsylvania (4)                       | 1996          | 108         | Owned        |

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|   |      |    |              |
|---|------|----|--------------|
| Illinois & Midland Railroad, Inc.<br>(IMRR) Illinois        | 1996 | 98 | Owned        |
| Commonwealth Railway, Incorporated<br>(CWRV) Virginia       | 1996 | 24 | Owned/Leased |
| Talleyrand Terminal Railroad Company, Inc.<br>(TTR) Florida | 1996 | 2  | Leased       |

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| RAILROAD AND LOCATION   | YEAR ACQUIRED | TRACK MILES | STRUCTURE    |
|---|---------------|-------------|--------------|
| Corpus Christi Terminal Railroad, Inc.<br>(CCPN) Texas                          | 1997          | 42          | Leased       |
| Golden Isles Terminal Railroad, Inc.<br>(GITM) Georgia                          | 1998          | 13          | Owned/Leased |
| Savannah Port Terminal Railroad, Inc.<br>(SAPT) Georgia                         | 1998          | 18          | Leased       |
| South Buffalo Railway Company<br>(SB) New York                                  | 2001          | 54          | Owned/Leased |
| St. Lawrence & Atlantic Railroad Company<br>(SLR) Maine, New Hampshire, Vermont | 2002          | 143         | Owned        |
| York Railway Company<br>(YRC) Pennsylvania                                      | 2002          | 42          | Owned        |
| Utah Railway Company<br>(UTAH) Utah   | 2002          | 41          | Owned        |
| Salt Lake City Southern Railroad Company, Inc.<br>(SLCS) Utah                   | 2002          | 2           | Owned        |
| Chattahoochee Industrial Railroad<br>(CIRR) Georgia                             | 2003          | 15          | Owned        |
| Arkansas Louisiana & Mississippi Railroad Company<br>(ALM) Arkansas, Louisiana  | 2003          | 62          | Owned        |
| Fordyce and Princeton R.R. Co.<br>(FP) Arkansas                                 | 2003          | 57          | Owned        |
| Tazewell & Peoria Railroad, Inc.<br>(TZPR) Illinois                             | 2004          | 25          | Leased       |
| Golden Isles Terminal Wharf<br>(GITW) Georgia                                   | 2004          | 6           | Owned        |
| First Coast Railroad Inc.<br>(FCRD) Florida, Georgia                            | 2005          | 32          | Leased       |
| AN Railway, L.L.C.<br>(AN) Florida  | 2005          | 96          | Leased       |
| Atlantic & Western Railway, Limited Partnership<br>(ATW) North Carolina         | 2005          | 10          | Owned        |
| The Bay Line Railroad, L.L.C.<br>(BAYL) Alabama, Florida                        | 2005          | 108         | Owned        |
| East Tennessee Railway, L.P.<br>(ETRY) Tennessee                                | 2005          | 4           | Owned/Leased |
| Galveston Railroad, L.P.<br>(GVSR) Texas  | 2005          | 39          | Leased       |
| Georgia Central Railway, L.P.<br>(GC) Georgia                                   | 2005          | 171         | Owned/Leased |
| KWT Railway, Inc.<br>(KWT) Kentucky, Tennessee                                  | 2005          | 69          | Owned        |
| Little Rock & Western Railway, L.P.<br>(LRWN) Arkansas                          | 2005          | 79          | Owned        |
| Meridian & Bigbee Railroad, L.L.C.<br>(MNBR) Alabama, Mississippi               | 2005          | 147         | Owned/Leased |
| Riceboro Southern Railway, LLC<br>(RSOR) Georgia                                | 2005          | 18          | Leased       |

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|  |      |    |        |
|--|------|----|--------|
| Tomahawk Railway, Limited Partnership<br>(TR) Wisconsin                    | 2005 | 6  | Owned  |
| Valdosta Railway, L.P.<br>(VR) Georgia                                     | 2005 | 10 | Owned  |
| Western Kentucky Railway, L.L.C.<br>(WKRL) Kentucky                        | 2005 | —  | Owned  |
| Wilmington Terminal Railroad, Limited Partnership<br>(WTRY) North Carolina | 2005 | 17 | Leased |
| Chattahoochee Bay Railroad, Inc.<br>(CHAT) Alabama, Georgia                | 2006 | 26 | Owned  |
| Maryland Midland Railway, Inc.<br>(MMID) Maryland                          | 2007 | 70 | Owned  |
| Chattooga & Chickamauga Railway Co.<br>(CCKY) Georgia                      | 2008 | 49 | Leased |

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| RAILROAD AND LOCATION   | YEAR ACQUIRED | TRACK MILES | STRUCTURE    |
|---|---------------|-------------|--------------|
| Luxapalila Valley Railroad, Inc.<br>(LXVR) Alabama, Mississippi         | 2008          | 34          | Owned        |
| Columbus and Greenville Railway Company<br>(CAGY) Mississippi           | 2008          | 151         | Owned        |
| The Aliquippa & Ohio River Railroad Co.<br>(AOR) Pennsylvania           | 2008          | 6           | Owned        |
| The Columbus & Ohio River Rail Road Company<br>(CUOH) Ohio              | 2008          | 247         | Owned/Leased |
| The Mahoning Valley Railway Company<br>(MVRY) Ohio                      | 2008          | 6           | Owned        |
| Ohio Central Railroad, Inc.<br>(OHCR) Ohio                              | 2008          | 70          | Owned/Leased |
| Ohio and Pennsylvania Railroad Company<br>(OHPA) Ohio                   | 2008          | 3           | Owned        |
| Ohio Southern Railroad, Inc.<br>(OSRR) Ohio                             | 2008          | 18          | Owned        |
| The Pittsburgh & Ohio Central Railroad Company<br>(POHC) Pennsylvania   | 2008          | 35          | Owned        |
| The Warren & Trumbull Railroad Company<br>(WTRM) Ohio                   | 2008          | 4           | Leased       |
| Youngstown & Austintown Railroad Inc.<br>(YARR) Ohio                    | 2008          | 5           | Leased       |
| The Youngstown Belt Railroad Company<br>(YB) Ohio                       | 2008          | 14          | Owned        |
| Georgia Southwestern Railroad, Inc.<br>(GSWR) Alabama, Georgia          | 2008          | 231         | Owned/Leased |
| Arizona Eastern Railway Company<br>(AZER) Arizona, New Mexico           | 2011          | 200         | Owned        |
| Hilton & Albany Railroad, Inc.<br>(HAL) Georgia                         | 2011          | 56          | Leased       |
| Columbus & Chattahoochee Railroad, Inc.<br>(CCH) Alabama                | 2012          | 26          | Leased       |
| Alabama & Gulf Coast Railway LLC<br>(AGR) Alabama, Mississippi, Florida | 2012          | 283         | Owned/Leased |
| Arizona & California Railroad Company<br>(ARZC) Arizona, California     | 2012          | 190         | Owned        |
| Bauxite & Northern Railway Company<br>(BXN) Arkansas                    | 2012          | 5           | Owned        |
| California Northern Railroad Company<br>(CFNR) California               | 2012          | 210         | Leased       |
| Carolina Piedmont Railroad<br>(CPDR) South Carolina                     | 2012          | 28          | Owned        |
| Cascade and Columbia River Railroad Company<br>(CSCD) Washington        | 2012          | 131         | Owned        |
| Central Oregon & Pacific Railroad, Inc.<br>(CORP) Oregon, California    | 2012          | 306         | Owned/Leased |
| The Central Railroad Company of Indiana<br>(CIND) Indiana, Ohio         | 2012          | 82          | Owned        |

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|   |      |     |              |
|---|------|-----|--------------|
| Central Railroad Company of Indianapolis<br>(CERA) Indiana          | 2012 | 43  | Owned/Leased |
| Chesapeake and Albermarle Railroad<br>(CA) North Carolina, Virginia | 2012 | 68  | Leased       |
| Chicago, Fort Wayne & Eastern Railroad<br>(CFE) Indiana, Ohio       | 2012 | 281 | Owned/Leased |
| Conecuh Valley Railway, L.L.C.<br>(COEH) Alabama                    | 2012 | 13  | Owned        |
| Connecticut Southern Railroad, Inc.<br>(CSO) Connecticut            | 2012 | 23  | Owned/Leased |
| Dallas, Garland & Northeastern Railroad, Inc.<br>(DGNO) Texas       | 2012 | 168 | Owned/Leased |
| Eastern Alabama Railway, LLC<br>(EARY) Alabama                      | 2012 | 26  | Owned        |

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| RAILROAD AND LOCATION   | YEAR ACQUIRED | TRACK MILES | STRUCTURE    |
|---|---------------|-------------|--------------|
| Grand Rapids Eastern Railroad<br>(GR) Michigan  | 2012          | 22          | Owned        |
| Huron and Eastern Railway Company, Inc.<br>(HESR) Michigan                                      | 2012          | 330         | Owned/Leased |
| Indiana & Ohio Railway Company<br>(IORY) Indiana, Ohio, Michigan                                | 2012          | 469         | Owned/Leased |
| Indiana Southern Railroad, LLC<br>(ISRR) Indiana  | 2012          | 165         | Owned        |
| Kiamichi Railroad Company L.L.C.<br>(KRR) Oklahoma, Arizona, Texas                              | 2012          | 231         | Owned        |
| Kyle Railroad Company<br>(KYLE) Colorado, Kansas  | 2012          | 505         | Owned/Leased |
| Marquette Rail LLC<br>(MQT) Michigan  | 2012          | 128         | Leased       |
| The Massena Terminal Railroad Company<br>(MSTR) New York  | 2012          | 3           | Owned        |
| Michigan Shore Railroad<br>(MS) Michigan  | 2012          | 4           | Owned        |
| Mid-Michigan Railroad, Inc.<br>(MMRR) Michigan  | 2012          | 78          | Owned/Leased |
| Missouri & Northern Arkansas Railroad Company, Inc.<br>(MNA) Arizona, Missouri, Kansas          | 2012          | 483         | Owned/Leased |
| New England Central Railroad, Inc.<br>(NECR) Vermont, New Hampshire, Massachusetts, Connecticut | 2012          | 324         | Owned        |
| North Carolina & Virginia Railroad Company L.L.C.<br>(NCVA) North Carolina, Virginia            | 2012          | 53          | Owned        |
| Otter Tail Valley Railroad Company, Inc.<br>(OTVR) Minnesota                                    | 2012          | 54          | Owned        |
| Point Comfort & Northern Railway Company<br>(PCN) Texas   | 2012          | 14          | Owned        |
| Puget Sound & Pacific Railroad<br>(PSAP) Washington   | 2012          | 135         | Owned/Leased |
| Rockdale, Sandow & Southern Railroad Company<br>(RSS) Texas                                     | 2012          | 4           | Owned        |
| San Diego & Imperial Valley Railroad Company, Inc.<br>(SDIY) California                         | 2012          | 1           | Leased       |
| San Joaquin Valley Railroad Co.<br>(SJVR) California  | 2012          | 297         | Owned/Leased |
| South Carolina Central Railroad Company, LLC<br>(SCRF) South Carolina                           | 2012          | 47          | Owned        |
| Texas Northeastern Railroad<br>(TNER) Texas   | 2012          | 67          | Leased       |
| Three Notch Railway, L.L.C.<br>(TNHR) Alabama   | 2012          | 34          | Owned        |
| Toledo, Peoria & Western Railway Corp.<br>(TPW) Illinois, Indiana                               | 2012          | 180         | Owned/Leased |
| Ventura County Railroad Company<br>(VCCR) California  | 2012          | 9           | Leased       |



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|  |      |     |              |
|--|------|-----|--------------|
| Wellsboro & Corning Railroad, LLC<br>(WCOR) Pennsylvania, New York                               | 2012 | 35  | Leased       |
| Wiregrass Central Railway, L.L.C.<br>(WGCR) Alabama  | 2012 | 20  | Owned        |
| Rapid City, Pierre & Eastern Railroad, Inc. (RCPE) Minnesota,<br>South Dakota, Nebraska, Wyoming | 2014 | 651 | Owned        |
| Arkansas Midland Railroad, Inc.<br>(AKMD) Arkansas   | 2015 | 114 | Owned/Leased |
| The Prescott & Northwestern Railroad Company<br>(PNW) Arkansas                                   | 2015 | 6   | Owned        |
| Warren & Saline River Railroad Company<br>(WSR) Arkansas   | 2015 | 1   | Owned        |

| RAILROAD AND LOCATION   | YEAR ACQUIRED | TRACK MILES | STRUCTURE          |
|---|---------------|-------------|--------------------|
| <b>CANADA:</b>  |               |             |                    |
| Huron Central Railway Inc.<br>(HCRY) Ontario                            | 1997          | 173         | Owned/Leased       |
| Quebec Gatineau Railway Inc.<br>(QGRY) Québec                           | 1997          | 301         | Owned/Leased       |
| St. Lawrence & Atlantic Railroad (Québec) Inc.<br>(SLQ) Québec          | 2002          | 95          | Owned              |
| Cape Breton & Central Nova Scotia Railway Limited<br>(CBNS) Nova Scotia | 2012          | 242         | Owned              |
| Goderich-Exeter Railway Company Limited<br>(GEXR) Ontario               | 2012          | 184         | Owned/Leased       |
| Ottawa Valley Railway<br>(OVR) Ontario, Québec                          | 2012          | 157         | Leased             |
| Southern Ontario Railway<br>(SOR) Ontario                               | 2012          | 46          | Leased             |
| Kérail Inc.<br>(KERY) Québec  | 2014          | 10          | Owned              |
| <b>U.K./EUROPEAN OPERATIONS:</b>  |               |             |                    |
| Rail Feeding (Rotterdam and Antwerp)                                    | 2008          | —           | Open Access        |
| Freightliner U.K.   | 2015          | —           | Open Access        |
| Freightliner Poland   | 2015          | —           | Open Access        |
| ERS Railways  | 2015          | —           | Open Access        |
| <b>AUSTRALIAN OPERATIONS</b>  |               |             |                    |
| Genesee & Wyoming Australia Pty Ltd (GWA)                               | 2006          | 791         | Leased/Open Access |
| GWA (North) Pty Ltd (GWA North)   | 2010          | 1,395       | Leased/Open Access |
| Freightliner Australia Pty Ltd  | 2015          | —           | Open Access        |
| (1) The GNWR and DMM are now operated by RSR                            |               |             |                    |
| (2) ALY merged with BPRR in January 2004                                |               |             |                    |
| (3) BR merged with BPRR in January 2004                                 |               |             |                    |
| (4) PS merged with BPRR in January 2004                                 |               |             |                    |

**EQUIPMENT**

As of December 31, 2015, our rolling stock consisted of 1,344 locomotives, of which 1,011 were owned and 333 were leased, and 29,225 railcars, of which 7,406 were owned and 21,819 were leased. A breakdown of the types of railcars owned and leased by us as of December 31, 2015 is set forth in the table below:

|                              | Owned | Leased | Total |
|------------------------------|-------|--------|-------|
| <b>Railcars by Car Type:</b> |       |        |       |
| Box                          | 1,288 | 8,009  | 9,297 |
| Hoppers                      | 1,272 | 3,556  | 4,828 |
| Flats                        | 1,718 | 2,549  | 4,267 |
| Gondolas                     | 563   | 2,186  | 2,749 |
| Covered hoppers              | 2,419 | 4,823  | 7,242 |
| Tank cars                    | 12    | 116    | 128   |
| Containers                   | —     | 335    | 335   |
| Maintenance of way           | 81    | —      | 81    |
| Crew cars                    | 13    | —      | 13    |
| Other                        | 40    | 245    | 285   |

7,406

21,819

29,225

38

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ITEM 3. Legal Proceedings.

From time to time, we are a defendant in certain lawsuits resulting from our operations in the ordinary course as the nature of our business exposes us to the potential for various claims and litigation related to property damage, personal injury, freight loss, labor and employment, environmental and other matters. As described in Note 2, Significant Accounting Policies, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report, we maintain insurance policies to mitigate the financial risk associated with such claims.

Any material changes to current litigation trends or a catastrophic rail accident or series of accidents involving material freight loss or property damage, personal injury and environmental liability or other claims against us that are not covered by insurance could have a material adverse effect on our results of operations, financial condition and liquidity.

Management believes there are adequate provisions in the financial statements for any probable liabilities that may result from disposition of the pending lawsuits. Based upon currently available information, we do not believe it is reasonably possible that any such lawsuit or related lawsuits would be material to our results of operations or have a material adverse effect on our financial position or liquidity. See "Part I Item 1A. Risk Factors" for additional information.

ITEM 4. Mine Safety Disclosures.

Not applicable.

## PART II

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

## Market Information

Our Class A Common Stock publicly trades on the NYSE under the trading symbol "GWR." The tables below present quarterly information on the price range of our Class A Common Stock. This information indicates the high and low closing sales prices for each recent fiscal quarter in the last two years as reported by the NYSE. Our Class B Common Stock is not publicly traded.

| Year Ended December 31, 2015 | High     | Low     |
|------------------------------|----------|---------|
| 4th Quarter                  | \$72.54  | \$50.28 |
| 3rd Quarter                  | \$75.84  | \$57.51 |
| 2nd Quarter                  | \$97.34  | \$76.18 |
| 1st Quarter                  | \$105.15 | \$82.15 |
| Year Ended December 31, 2014 | High     | Low     |
| 4th Quarter                  | \$100.89 | \$83.33 |
| 3rd Quarter                  | \$105.47 | \$93.82 |
| 2nd Quarter                  | \$105.51 | \$93.37 |
| 1st Quarter                  | \$99.86  | \$87.19 |

## Number of Holders

On February 19, 2016, there were 353 Class A Common Stock record holders and 11 Class B Common Stock record holders.

## Dividends

We did not pay cash dividends to our Class A or Class B common stockholders for the years ended December 31, 2015 and 2014. We do not intend to pay cash dividends to our common stockholders for the foreseeable future and intend to retain earnings, if any, for future operation and expansion of our business. Any determination to pay dividends to our common stockholders in the future will be at the discretion of our Board of Directors and subject to applicable law and any restrictions contained in our Credit Agreement.

For more information on contractual restrictions on our ability to pay dividends, see "Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Agreement."

## Securities Authorized for Issuance Under Equity Compensation Plans

See "Part III Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information about securities authorized for issuance under our equity compensation plan.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

| 2015                      | (a) Total Number<br>of Shares<br>(or Units)<br>Purchased (1) | (b) Average<br>Price Paid per<br>Share<br>(or Unit) | (c) Total Number<br>of Shares<br>(or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d) Maximum<br>Number<br>of Shares (or<br>Units) (or<br>Approximate<br>Dollar Value)<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs (2) |
|---------------------------|--|---|--|--|
| October 1 to October 31   | —  | \$—   | —  | \$ 300,000,000   |
| November 1 to November 30 | 189  | 69.71   | —  | 300,000,000  |
| December 1 to December 31 | 218  | 68.08   | —  | 300,000,000  |
| Total                     | 407  | \$ 68.84  | —  | \$ 300,000,000   |

(1) The 407 shares acquired in the three months ended December 31, 2015 represent Class A Common Stock acquired by us from our employees who surrendered shares in lieu of cash to either fund their exercise of stock options or to pay taxes on stock-based awards made under our Third Amended and Restated 2004 Omnibus Incentive Plan.

(2) In conjunction with Amendment No. 1 to the Credit Agreement, the Board authorized the repurchase of up to \$300.0 million of our Class A Common Stock and appointed a special committee of the Board to review and approve repurchases proposed by management.

## ITEM 6. Selected Financial Data.

The following selected financial data was derived from the consolidated statements of operations and consolidated balance sheets of Genesee & Wyoming as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011. All of the information should be read in conjunction with the Consolidated Financial Statements and related notes included in "Part IV Item 15. Exhibits, Financial Statement Schedules" and "Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

Because of variations in the structure, timing and size of acquisitions and dispositions, our results of operations in any reporting period may not be directly comparable to our results of operations in other reporting periods. For financial information with respect to our principles of consolidation and basis of presentation, see Note 2, Significant Accounting Policies, to our Consolidated Financial Statements, and for a complete description of our most recent acquisitions and dispositions, see Note 3, Changes in Operations, to our Consolidated Financial Statements, in each case, included within "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

For the Year Ended December 31,

2015 (1)      2014 (2)      2013 (3)      2012 (4)      2011 (5)  
(In thousands, except per share amounts)

## STATEMENT OF OPERATIONS DATA:

|   |             |             |             |           |           |
|---|-------------|-------------|-------------|-----------|-----------|
| Operating revenues  | \$2,000,401 | \$1,639,012 | \$1,568,643 | \$874,916 | \$829,096 |
| Operating expenses  | 1,616,140   | 1,217,441   | 1,188,455   | 684,594   | 637,317   |
| Income from operations  | 384,261     | 421,571     | 380,188     | 190,322   | 191,779   |
| Gain on sale of investments   | —           | —           | —           | —         | 907       |
| Interest income   | 481         | 1,445       | 3,971       | 3,725     | 3,243     |
| Interest expense  | (67,073)    | (56,162)    | (67,894)    | (62,845)  | (38,617)  |
| Loss on forward contracts   | (18,686)    | —           | —           | (50,106)  | —         |
| Other income, net   | 1,948       | 1,008       | 1,327       | 2,182     | 703       |
| Income from continuing operations before income taxes and income from equity investment       | 300,931     | 367,862     | 317,592     | 83,278    | 158,015   |
| Provision for income taxes  | (75,894)    | (107,107)   | (46,296)    | (46,402)  | (38,531)  |
| Income from equity investment in RailAmerica, net   | —           | —           | —           | 15,557    | —         |
| Net income  | 225,037     | 260,755     | 271,296     | 52,433    | 119,484   |
| Less: Series A-1 Preferred Stock dividend   | —           | —           | 2,139       | 4,375     | —         |
| Net income available to common stockholders   | \$225,037   | \$260,755   | \$269,157   | \$48,058  | \$119,484 |
| Basic earnings per common share attributable to Genesee & Wyoming Inc. common stockholders:   |             |             |             |           |           |
| Basic earnings per common share   | \$3.97      | \$4.71      | \$5.00      | \$1.13    | \$2.99    |
| Weighted average shares—Basic   | 56,734      | 55,305      | 53,788      | 42,693    | 39,912    |
| Diluted earnings per common share attributable to Genesee & Wyoming Inc. common stockholders: |             |             |             |           |           |
| Diluted earnings per common share   | \$3.89      | \$4.58      | \$4.79      | \$1.02    | \$2.79    |
| Weighted average shares—Diluted   | 57,848      | 56,972      | 56,679      | 51,316    | 42,772    |

## BALANCE SHEET DATA AT YEAR-END:

|   |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
| Total assets  | \$6,795,604 | \$5,595,753 | \$5,319,821 | \$5,226,115 | \$2,294,157 |
| Long-term debt and capital leases (excluding portion due within one year) | \$2,223,306 | \$1,548,051 | \$1,540,346 | \$1,770,566 | \$569,026   |
| Series A-1 Preferred Stock  | \$—         | \$—         | \$—         | \$399,524   | \$—         |
| Total equity  | \$2,519,461 | \$2,357,980 | \$2,149,070 | \$1,500,462 | \$960,634   |

(1) On January 5, 2015, we completed the acquisition of Pinsky Arkansas for \$41.3 million in cash. On March 25, 2015, we acquired all of the outstanding share capital of RailInvest Holding Company Limited, the parent company of London-based Freightliner, for total consideration of £516.3 million (or \$769.1 million at the exchange rate on

March 25, 2015). In addition, we incurred \$12.6 million of acquisition costs and \$2.6 million of integration costs associated with Freightliner during 2015 and recorded a loss of \$18.7 million on the settlement of foreign currency forward purchase contracts during 2015, which were entered into in contemplation of the Freightliner acquisition.

On May 30, 2014, our new subsidiary, Rapid City, Pierre & Eastern Railroad, Inc. (RCP&E), purchased the assets (2) of the western end of CP's DM&E rail line for a cash purchase price of \$218.6 million, including the purchase of materials and supplies, railcars, equipment and vehicles.

On February 13, 2013, we exercised our option to convert all of the outstanding Series A-1 Preferred Stock issued to Carlyle in conjunction with the RailAmerica acquisition into 5,984,232 shares of our Class A Common Stock.

(3) On the conversion date, we also paid to affiliates of Carlyle Partners V, L.P. (Collectively, Carlyle) cash in lieu of fractional shares and all



accrued and unpaid dividends on the Series A-1 Preferred Stock totaling \$2.1 million. In addition, we incurred \$17.0 million of integration and acquisition-related costs associated with RailAmerica during 2013.

- On October 1, 2012, we acquired 100% of RailAmerica for approximately \$2.0 billion (equity purchase price of approximately \$1.4 billion, or \$27.50 per share, plus the payoff of RailAmerica's debt of \$659.2 million). The shares of RailAmerica were held in a voting trust while the STB considered our control application, which application was approved with an effective date of December 28, 2012. Accordingly, we accounted for the earnings of RailAmerica using the equity method of accounting while the shares were held in the voting trust and
- (4) our preliminary determination of fair values of the acquired assets and assumed liabilities were included in our consolidated balance sheet at December 31, 2012. In addition, we incurred \$30.0 million of integration and acquisition-related costs associated with RailAmerica during 2012. We also recorded a \$50.1 million non-cash mark-to-market expense in 2012 related to an investment agreement governing the sale of the Series A-1 Preferred Stock to Carlyle in connection with the funding of the RailAmerica acquisition.
- (5) On September 1, 2011, we acquired the stock of AZER with net assets of \$90.3 million.

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report. 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 congestion, one-time freight moves, fuel price fluctuations, customer plant expansions and shutdowns, sales of property and equipment, derailments and weather-related conditions, such as hurricanes, cyclones, tornadoes, high winds, droughts, heavy snowfall, unseasonably hot or cold weather, freezing and flooding, among other factors. In periods when these events occur, our results of operations are not easily comparable from one period to another. Finally, certain of our railroads have commodity shipments that are sensitive to general economic conditions, global commodity prices and foreign exchange rates, such as steel products, iron ore, paper products, lumber and forest products and agricultural products, as well as product specific market conditions, such as the availability of lower priced alternative sources of power generation (coal) and energy commodity price differentials (crude oil). 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.

Outlook for 2016

Financial Expectations

We expect our revenues to be flat year over year as the full year impact of the Freightliner acquisition is offset by four significant factors: (1) the negative currency translation impact of the weaker Australian and Canadian dollars, the British pound and the Euro relative to the United States dollar, (2) a decline in coal traffic in the United States and the United Kingdom due to competition from low-priced natural gas, (3) a decline in traffic from mining customers in Australia due to mine closures in 2015 and (4) lower fuel surcharge revenues. Fuel surcharges are expected to be lower due to a lower average price for diesel fuel in 2016 compared with 2015.

We expect our income from operations to decline as the negative impact of the lower coal and Australia mining customer revenues, lower fuel surcharges and the impact of currency translation will only be partially offset by pricing increases, expense reductions and the full year impact of the Freightliner acquisition.

Capital Plan

We expect to make capital investments totaling \$225 million in 2016. Of this total, \$175 million is planned for ongoing railroad track and equipment capital and \$15 million is planned for matching capital spending associated with government grant funded projects in the United States. In addition, we expect to spend \$35 million on new business investments, which include track projects, equipment purchases and investments in new facilities. Our capital plan excludes acquisitions and new business development projects that arise during the year.

United States Short Line Tax Credit

The United States Short Line Tax Credit, from which we have benefited since 2005, will expire on December 31, 2016. Without an extension to the tax credit, we expect our income tax rate to increase significantly in 2017. While the Short Line Tax Credit has been extended on five separate occasions in the past, we are unable to predict the outcome of the United States legislative process. The Short Line Tax Credit will provide a net tax benefit of approximately \$27 million in 2016 based on our current railroad ownership.

Corporate and Business Development

We continue to evaluate a number of potential projects located in all of the geographic markets in which we currently operate and elsewhere around the world.

## Overview

We own and operate 120 freight railroads worldwide that are organized in 11 operating regions with 7,500 employees and more than 2,800 customers. The financial results of our 11 operating regions are reported in the following three distinct segments:

Our North American Operations segment includes nine operating regions that serve 41 U.S. states and four Canadian provinces. This segment includes 113 short line and regional freight railroads with more than 13,000 track-miles.

Our Australian Operations segment provides rail freight services in South Australia, the Northern Territory and New South Wales. Included in the Australian Operations segment is our operation of the 1,400-mile Tarcoola-to-Darwin rail line, which is the sole north-south rail corridor outside the coasts and primarily carries intermodal and commodity freight.

Our U.K./European Operations segment includes the majority of the operations of Freightliner Group Limited (Freightliner), which we acquired in March 2015. Freightliner is the United Kingdom's (U.K.) largest rail maritime intermodal operator and the U.K.'s second-largest rail freight company. Our U.K./European Operations segment also includes heavy-haul freight operations in Poland and Germany and cross-border intermodal services connecting Northern European seaports with key industrial regions throughout the continent.

Our subsidiaries provide rail service at more than 40 major ports in North America, Australia and Europe and perform contract coal loading and railcar switching for industrial customers. As more fully described in Note 18, Segment and Geographic Area Information, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report, the results of operations of the foreign entities are maintained in the respective local currency 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 our results of operations.

On March 25, 2015, we completed the acquisition of all of the outstanding share capital of RailInvest Holding Company Limited, the parent company of London-based Freightliner, pursuant to the terms of a Share Purchase Agreement dated February 24, 2015. Certain former management shareholders of Freightliner (Management Shareholders) retained an approximate 6% economic interest in Freightliner in the form of deferred consideration. We expect to settle the deferred consideration by the end of 2020. For additional information regarding the deferred consideration, see Note 3, Changes in Operations, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

We funded the acquisition with borrowings under our Second Amended and Restated Senior Secured Syndicated Credit Facility Agreement, as amended (the Credit Agreement), and available cash, see "Liquidity and Capital Resources—Credit Agreement" below. The foreign exchange rate used to translate the total consideration to United States dollars was \$1.49 for one British pound (GBP). For additional information regarding this purchase, see "Changes in Operations—Europe—Freightliner Group Limited" below.

The calculation of the total consideration for the Freightliner acquisition is presented below (amounts in thousands):

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

The results of operations from Freightliner have been included in our consolidated statements of operations since the March 25, 2015 acquisition date. We incurred \$12.6 million of acquisition costs and \$2.6 million of integration costs associated with Freightliner for the year ended December 31, 2015, which were included within other expenses in our consolidated statements of operations. In addition, we recorded a loss of \$18.7 million on the settlement of foreign currency forward purchase contracts for the year ended December 31, 2015. The foreign currency forward purchase contracts were entered into to fix £307.1 million of the purchase price for Freightliner to \$475.0 million and £84.7 million of the purchase price to \$163.8 million (see Note 9, Derivative Financial Instruments, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report) and were settled on March 23, 2015. The results of Freightliner's U.K. and Continental Europe operations are included in our U.K./European Operations segment and the results of Freightliner's Australia operations are included in our Australian Operations segment (see Note 18, Segment and Geographic Area Information, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report). On January 5, 2015, we completed the acquisition of certain subsidiaries that constitute Pinsly Arkansas from Pinsly Railroad Company for \$41.3 million in cash. We funded the acquisition with borrowings under our Amended and Restated Senior Secured Syndicated Credit Facility (the Prior Credit Agreement). For additional information regarding the agreement, see "Liquidity and Capital Resources—Credit Agreement" below.

Headquartered in Jones Mills, Arkansas, Pinsly Arkansas serves the Hot Springs and Little Rock areas, as well as the southwestern and southeastern portions of Arkansas and includes (1) the Arkansas Midland Railroad (AKMD), which is comprised of seven non-contiguous branch lines, (2) the Prescott & Northwestern Railroad (PNW); (3) the Warren & Saline River Railroad (WSR) and (4) the two Arkansas transload operations of Pinsly's Railroad Distribution Services subsidiary. Operations are composed of 137 miles of owned and leased track, 77 employees and 16 locomotives. The railroads currently haul approximately 35,000 carloads per year and serve a diverse customer base in industries including aluminum, forest products, aggregates, energy and carton board.

#### Consolidated Annual Results

Our operating revenues increased \$361.4 million, or 22.0%, to \$2.0 billion for the year ended December 31, 2015, compared with \$1.6 billion for the year ended December 31, 2014. Income from operations for the year ended December 31, 2015 was \$384.3 million, compared with \$421.6 million for the year ended December 31, 2014. Our operating ratio, defined as operating expenses divided by operating revenues, was 80.8% for the year ended December 31, 2015, compared with 74.3% for the year ended December 31, 2014. The increase in our operating ratio was primarily driven by lower operating margins from Freightliner, which operates in an open access environment using primarily leased equipment. Our same railroad operating ratio for the year ended December 31, 2015 was 76.2%, compared with 74.2% for the year ended December 31, 2014. 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 (excluding the impact of acquisitions).

Our net income for the year ended December 31, 2015 was \$225.0 million, compared with net income of \$260.8 million for the year ended December 31, 2014. Our diluted EPS for the year ended December 31, 2015 were \$3.89 with 57.8 million weighted average shares outstanding, compared with diluted EPS of \$4.58 with 57.0 million weighted average shares outstanding for the year ended December 31, 2014. Our effective income tax rate for the year ended December 31, 2015 was 25.2%, compared with 29.1% for the year ended December 31, 2014.

During the year ended December 31, 2015, we generated \$475.1 million in cash flows from operating activities. During the same period, we purchased \$371.5 million of property and equipment, including \$65.6 million for new business investments, partially offset by \$41.7 million in cash received from government grants and other outside parties for capital spending and \$4.0 million in cash proceeds from the sale of property and equipment. We also paid \$740.2 million for the acquisitions of Freightliner and Pinsly Arkansas and \$18.7 million for the settlement of foreign currency forward purchase contracts related to the acquisition of Freightliner. In addition, we received net proceeds of \$576.6 million primarily related to borrowings from the refinancing of our Credit Agreement in conjunction with our acquisition of Freightliner. Our unused borrowing capacity for the year ended December 31, 2015 was \$575.7 million.

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Our results for the year ended December 31, 2015 and 2014 included certain items affecting comparability between the periods that are set forth below (dollars in millions, except per share amounts):

|  | Income/(Loss)<br>Before Taxes<br>Impact | After-Tax Net<br>Income/(Loss)<br>Impact | Diluted<br>Earnings/(Loss)<br>Per Common<br>Share Impact |
|--|---|--|--|
| Year Ended December 31, 2015   |   |  |  |
| Loss on settlement of Freightliner acquisition-related foreign currency forward purchase contracts | \$ (18.7                                | ) \$ (11.6                               | ) \$ (0.20 )   |
| Freightliner acquisition-related costs   | \$ (12.6                                | ) \$ (9.5                                | ) \$ (0.16 )   |
| Business development and related costs   | \$ (9.1                                 | ) \$ (5.6                                | ) \$ (0.10 )   |
| Net gain on sale of assets   | \$ 2.3                                  | \$ 1.7                                   | \$ 0.03  |
| 2015 Short Line Tax Credit   | \$ —                                    | \$ 27.4                                  | \$ 0.47  |
| Impact of reduction in U.K. statutory tax rate   | \$ —                                    | \$ 9.7                                   | \$ 0.17  |
| Year Ended December 31, 2014   |   |  |  |
| Business development and related costs   | \$ (5.2                                 | ) \$ (3.2                                | ) \$ (0.06 )   |
| Credit facility refinancing costs  | \$ (4.7                                 | ) \$ (2.9                                | ) \$ (0.05 )   |
| Net gain on sale of assets   | \$ 5.1                                  | \$ 3.5                                   | \$ 0.06  |
| 2014 Short Line Tax Credit   | \$ —                                    | \$ 27.0                                  | \$ 0.47  |
| RailAmerica-related tax benefit  | \$ —                                    | \$ 3.9                                   | \$ 0.07  |
| Adjustment for tax returns from previous fiscal year   | \$ —                                    | \$ (0.7                                  | ) \$ (0.01 )   |

In December 2015, the United States Short Line Tax Credit (which had previously expired on December 31, 2014) was extended for fiscal years 2015 and 2016. In the fourth quarter of 2015, G&W recorded a tax benefit of \$27.4 million associated with the extension of the Short Line Tax Credit, as well as a tax benefit of \$9.7 million associated with a prospective change in U.K. tax rates enacted during the fourth quarter of 2015. In December 2014, the Short Line Tax Credit (which had previously expired on December 31, 2013) was extended for fiscal year 2014. In the fourth quarter of 2014, G&W recorded a tax benefit of \$27.0 million associated with the extension of the Short Line Tax Credit, as well as a tax benefit of \$3.9 million as a result of receiving consent from the United States Internal Revenue Service (IRS) to change a tax accounting method retroactively for companies acquired as a result of the acquisition of RailAmerica, Inc. (RailAmerica).

For the year ended December 31, 2015, our results also included Freightliner acquisition-related costs of \$12.6 million, loss on settlement of foreign currency forward purchase contracts related to the Freightliner acquisition of \$18.7 million, business development and related costs of \$9.1 million and net gain on sale of assets of \$2.3 million. For the year ended December 31, 2014, our results also included business development and related costs of \$5.2 million, credit facility refinancing costs of \$4.7 million and net gain on sale of assets of \$5.1 million.

#### Annual Results by Segment

Operating revenues from our North American Operations decreased \$62.9 million, or 4.8%, to \$1,241.8 million for the year ended December 31, 2015, compared with \$1,304.8 million for the year ended December 31, 2014. Excluding \$44.0 million of revenues from new operations and a \$16.1 million decrease from the impact of foreign currency depreciation, our North American Operations same railroad revenues decreased \$90.9 million, or 7.1%, primarily due to declines in coal and metals shipments. When we discuss our same railroad revenues, we are referring to the change in our revenues, period-over-period, associated with operations that we managed in both periods (excluding the impact of acquisitions).

North American Operations traffic decreased 134,757 carloads, or 7.6%, to 1,644,400 carloads for the year ended December 31, 2015. Excluding 59,552 carloads from new operations, same railroad traffic decreased 194,309 carloads, or 10.9%, for the year ended December 31, 2015, compared with the year ended December 31, 2014. The same railroad decrease was principally due to 88,517 carloads of coal and coke traffic (primarily utility coal in the Midwest, Central and Ohio Valley regions), 52,249 carloads of metals traffic (primarily steel and scrap in the Southern, Ohio Valley and Northeast regions), 19,552 carloads of other traffic (primarily overhead Class I traffic in the Central Region), 10,098 carloads of agricultural products traffic (primarily in the Ohio Valley and Mountain West regions), 7,398 carloads of minerals and stone traffic (primarily frac sand in the Midwest, Southern, Northeast and Central regions), 6,732 carloads of autos and auto parts traffic (primarily in the Pacific and Ohio Valley regions), 5,960 carloads of lumber and forest products traffic (primarily in the Southern and Pacific regions) and 2,325 carloads of petroleum products traffic (primarily in the Pacific and Ohio Valley regions), partially offset by an increase of 2,549 carloads of metallic ores traffic (primarily in the Mountain West Region). All remaining traffic decreased by a net 4,027 carloads.

Income from operations from our North American Operations for the year ended December 31, 2015 was \$297.5 million, compared with \$333.2 million for the year ended December 31, 2014. The operating ratio from our North American Operations for the year ended December 31, 2015 was 76.0%, compared with 74.5% for the year ended December 31, 2014.

Operating revenues from our Australian Operations decreased \$70.3 million, or 22.4%, to \$243.0 million for the year ended December 31, 2015, compared with \$313.3 million for the year ended December 31, 2014. Excluding \$36.1 million of revenues from our newly acquired Freightliner Australia operations and a \$52.3 million decrease from the impact of foreign currency depreciation, our Australian Operations same railroad operating revenues decreased by \$54.1 million, or 20.7%, primarily due to a decrease in freight revenues resulting from a decline in iron ore and manganese shipments.

Australian Operations traffic decreased 26,989 carloads, or 11.8%, to 200,905 carloads for the year ended December 31, 2015, compared with the year ended December 31, 2014. The traffic was entirely from existing operations, as Freightliner Australia revenues are all freight-related. The decrease was principally due to decreases of 29,627 carloads of metallic ores traffic, 2,650 carloads of agricultural products traffic and 1,816 carloads of intermodal traffic, partially offset by an increase of 7,083 carloads in minerals and stone traffic. All remaining traffic increased by a net 21 carloads.

Income from operations from our Australian Operations for the year ended December 31, 2015 was \$54.8 million, compared with \$90.4 million for the year ended December 31, 2014. The operating ratio from our Australian Operations for the year ended December 31, 2015 was 77.4%, compared with an operating ratio of 71.1% for the year ended December 31, 2014.

Operating revenues from our U.K./European Operations increased \$494.7 million to \$515.6 million for the year ended December 31, 2015, compared with \$21.0 million for the year ended December 31, 2014. Excluding \$495.2 million of revenues from our newly acquired Freightliner U.K./European Operations and a \$3.5 million decrease from the impact of foreign currency depreciation, our U.K./European Operations same railroad revenues increased by \$2.9 million, or 16.4%. U.K./European Operations traffic consisted of 896,125 carloads for the year ended December 31, 2015, which was entirely related to traffic from our newly acquired Freightliner U.K./European Operations.

Income from operations from our U.K./European Operations for the year ended December 31, 2015 was \$31.9 million with an operating ratio of 93.8%. The prior year is not comparable because over 95% of the 2015 revenues and income from operations were generated from the recently acquired Freightliner business.

#### Changes in Operations

##### Europe

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



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

We funded the acquisition with borrowings under the Credit Agreement (see Note 8, Long-Term Debt, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report) and available cash. The foreign exchange rate used to translate the total consideration to United States dollars was \$1.49 for one British pound, the exchange rate on March 25, 2015. The calculation of the total consideration for the Freightliner acquisition is presented below (amounts in thousands):

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

For additional information regarding the acquisition of Freightliner, see Note 3, Changes in Operations, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

#### United States

**Pinsly's Arkansas Division:** On January 5, 2015, we completed the acquisition of certain subsidiaries of Pinsly that constituted Pinsly Arkansas for \$41.3 million in cash. We funded the acquisition with borrowings under our Prior Credit Agreement. The results of operations from Pinsly Arkansas have been included in our consolidated statement of operations since the acquisition date within our North American Operations segment. For additional information regarding Pinsly Arkansas, see Note 3, Changes in Operations, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

**Rapid City, Pierre & Eastern Railroad, Inc.:** On May 30, 2014, our new subsidiary, RCP&E, purchased the assets comprising the western end of Canadian Pacific Railway Limited's (CP) Dakota, Minnesota & Eastern Railroad Corporation (DM&E) rail line for a cash purchase price of \$218.6 million, including the purchase of materials and supplies, railcars, equipment and vehicles. RCP&E commenced freight service on the line on June 1, 2014. The results of operations from RCP&E have been included in our consolidated statement of operations since the acquisition date within our North American Operations segment. For additional information regarding RCP&E, see Note 3, Changes in Operations, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

#### Australia

**Arrium Limited:** Between 2011 and 2014, our subsidiary, Genesee & Wyoming Australia Pty Ltd (GWA), invested a total of A\$78.0 million (or \$77.7 million at the exchange rates on the dates the spending occurred) to purchase locomotives and railcars, as well as to construct a standard gauge rolling-stock maintenance facility to support iron ore shipments from Arrium's Southern Iron mine and Whyalla-based operations, which include the Middleback Range iron ore mines and the Whyalla steelworks.



Arrium mothballed its Southern Iron mine in April 2015, citing the significant decline in the price of iron ore, while the mines in the Middleback Range continued to operate. During 2015, GWA carried approximately 8,300 carloads of iron ore from the Southern Iron mine and, in total, generated approximately A\$83 million in freight and freight-related revenues (or approximately \$62 million, at the average exchange rate for the year ended December 31, 2015) under the fixed and variable payment structure that is customary in large contracts in Australia. We expect to receive only the fixed portion of the revenue following the mothballing of the Southern Iron mine and both the fixed and variable portion from the Whyalla-based operations. We could lose some or all of this revenue if Arrium continues to suffer from declines in commodity prices or other economic and financial conditions. In February 2016, Arrium announced a recapitalization plan with GSO Capital Partners LP. The recapitalization plan is subject to a variety of closing conditions, including approval by Arrium's existing lenders, as well as regulatory and other approvals.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

### Consolidated Operating Results

#### Operating Revenues

The following table breaks down our operating revenues and total carloads into new operations and existing operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                          | 2015             |                |                     | 2014             |           | Increase in Total Operations |             | Increase/(Decrease) in Existing Operations |            | Currency Impact |
|--------------------------|------------------|----------------|---------------------|------------------|-----------|------------------------------|-------------|--|------------|-----------------|
|                          | Total Operations | New Operations | Existing Operations | Total Operations | Amount    | %                            | Amount      | %  |            |                 |
| Freight revenues         | \$1,405,114      | \$345,687      | \$1,059,427         | \$1,251,941      | \$153,173 | 12.2 %                       | \$(192,514) | (15.4) %                                   | \$(51,583) |                 |
| Freight-related revenues | 497,516          | 204,398        | 293,118             | 290,787          | 206,729   | 71.1 %                       | 2,331       | 0.8 %                                      | (16,696)   |                 |
| All-other                | 97,771           | 25,269         | 72,502              | 96,284           | 1,487     | 1.5 %                        | (23,782)    | (24.7) %                                   | (3,551)    |                 |
| Total operating revenues | \$2,000,401      | \$575,354      | \$1,425,047         | \$1,639,012      | \$361,389 | 22.0 %                       | \$(213,965) | (13.1) %                                   | \$(71,830) |                 |
| Carloads                 | 2,741,430        | 955,677        | 1,785,753           | 2,007,051        | 734,379   | 36.6 %                       | (221,298)   | (11.0) %                                   |            |                 |

#### Operating Expenses

Total operating expenses for the year ended December 31, 2015 increased \$398.7 million, or 32.7%, to \$1,616.1 million, compared with \$1,217.4 million for the year ended December 31, 2014. The increase included \$530.0 million from new operations, partially offset by a decrease of \$131.3 million from existing operations. When we discuss expenses from existing operations, we are referring to the change in our expenses, period-over-period, associated with operations that we managed in both periods (excluding the impact of acquisitions). The decrease from existing operations was primarily due to a decrease of \$54.4 million from the depreciation of foreign currencies relative to the United States dollar and decreases of \$54.8 million in diesel fuel used in train operations, \$11.4 million in materials, \$10.7 million in purchased services, \$10.2 million in trackage rights and \$9.0 million in equipment rents, partially offset by increases of \$13.1 million in depreciation and amortization and \$8.2 million in other expenses.

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The following table sets forth our total operating expenses for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                                      | 2015        |           | 2014             |           | Increase/(Decrease) | Currency    | 2014        | Increase/(Decrease) |
|--------------------------------------|-------------|-----------|------------------|-----------|---------------------|-------------|-------------|---------------------|
|                                      | Amount      | % of      | Operating Amount | % of      | Increase/(Decrease) | Impact      | Constant    | (Constant           |
|                                      |             | Operating | Revenues         | Operating |                     |             | Currency    | Currency)           |
|                                      |             | Revenues  |                  | Revenues  |                     |             |             |                     |
| Labor and benefits                   | \$614,967   | 30.7 %    | \$469,503        | 28.7 %    | \$ 145,464          | \$(18,314 ) | \$451,189   | \$ 163,778          |
| Equipment rents                      | 149,825     | 7.5 %     | 82,730           | 5.0 %     | 67,095              | (2,726 )    | 80,004      | 69,821              |
| Purchased services                   | 186,905     | 9.3 %     | 100,108          | 6.1 %     | 86,797              | (7,137 )    | 92,971      | 93,934              |
| Depreciation and amortization        | 188,535     | 9.4 %     | 157,081          | 9.6 %     | 31,454              | (7,239 )    | 149,842     | 38,693              |
| Diesel fuel used in train operations | 132,149     | 6.6 %     | 149,047          | 9.1 %     | (16,898 )           | (6,614 )    | 142,433     | (10,284 )           |
| Electricity used in train operations | 13,714      | 0.7 %     | 1,058            | 0.1 %     | 12,656              | (179 )      | 879         | 12,835              |
| Casualties and insurance             | 42,494      | 2.1 %     | 41,552           | 2.5 %     | 942                 | (2,475 )    | 39,077      | 3,417               |
| Materials                            | 95,248      | 4.9 %     | 78,366           | 4.8 %     | 16,882              | (2,467 )    | 75,899      | 19,349              |
| Trackage rights                      | 78,140      | 3.9 %     | 53,783           | 3.3 %     | 24,357              | (4,170 )    | 49,613      | 28,527              |
| Net gain on sale of assets           | (2,291 )    | (0.1 )%   | (5,100 )         | (0.3 )%   | 2,809               | 277         | (4,823 )    | 2,532               |
| Other expenses                       | 116,454     | 5.8 %     | 89,313           | 5.4 %     | 27,141              | (3,327 )    | 85,986      | 30,468              |
| Total operating expenses             | \$1,616,140 | 80.8 %    | \$1,217,441      | 74.3 %    | \$ 398,699          | \$(54,371 ) | \$1,163,070 | \$ 453,070          |

#### Income from Operations/Operating Ratio

Income from operations was \$384.3 million for the year ended December 31, 2015, compared with \$421.6 million for the year ended December 31, 2014. Income from operations for the year ended December 31, 2015 included acquisition-related costs associated with Freightliner of \$12.6 million, business development and related costs of \$7.0 million and net gain on sale of assets of \$2.3 million. Income from operations for the year ended December 31, 2014 included business development and related costs of \$5.2 million and net gain on sale of assets of \$5.1 million. Our operating ratio was 80.8% for the year ended December 31, 2015, compared with 74.3% for the year ended December 31, 2014. The increase in our operating ratio was primarily driven by lower operating margins from Freightliner, as our U.K./European Operations primarily use leased equipment. Our same railroad operating ratio in the year ended December 31, 2015 was 76.2%, compared with 74.3% for the year ended December 31, 2014.

#### Interest Expense

Interest expense was \$67.1 million for the year ended December 31, 2015, compared with \$56.2 million for the year ended December 31, 2014. The increase in interest expense was primarily due to a higher debt balance resulting from the acquisition of Freightliner.

#### Provision for Income Taxes

Our income tax provision for the year ended December 31, 2015 was \$75.9 million, which represented 25.2% of income before income taxes. Our provision for income taxes for the year ended December 31, 2015 included a \$27.4 million tax benefit from the United States Short Line Tax Credit, which had previously expired on December 31, 2014 and was extended in December 2015 for fiscal years 2015 and 2016, and a \$9.7 million tax benefit associated with a prospective change in U.K. tax rates enacted during the fourth quarter of 2015. Our income tax provision for the year ended December 31, 2014 was \$107.1 million, which represented 29.1% of income before income taxes. Our provision for income taxes for the year ended December 31, 2014 included a \$27.0 million tax benefit associated with

the United States Short Line Tax Credit and a \$3.9 million tax benefit as a result of receiving consent from the United States IRS to change a tax accounting method retroactively for companies acquired as a result of the RailAmerica acquisition. For additional information regarding the United States Short Line Tax Credit, see Note 13, Income Taxes, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

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 in existence from 2005 through 2014 and was further extended in December 2015 for fiscal years 2015 and 2016.

#### Net Income and Earnings Per Common Share

Net income for the year ended December 31, 2015 was \$225.0 million, compared with \$260.8 million for the year ended December 31, 2014. Our basic EPS were \$3.97 with 56.7 million weighted average shares outstanding for the year ended December 31, 2015, compared with basic EPS of \$4.71 with 55.3 million weighted average shares outstanding for the year ended December 31, 2014. Our diluted EPS for the year ended December 31, 2015 were \$3.89 with 57.8 million weighted average shares outstanding, compared with diluted EPS of \$4.58 with 57.0 million weighted average shares outstanding for the year ended December 31, 2014. Our results for the years ended December 31, 2015 and 2014 included certain items affecting comparability between the periods as previously presented in the "Overview."

#### Operating Results by Segment

The following tables set forth our North American Operations, Australian Operations and U.K./European Operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|  | 2015                            |                          |                             |                     |
|--|---------------------------------|--------------------------|-----------------------------|---------------------|
|  | North<br>American<br>Operations | Australian<br>Operations | U.K./European<br>Operations | Total<br>Operations |
| Operating revenues:  |                                 |                          |                             |                     |
| Freight revenues   | \$949,028                       | \$146,850                | \$309,236                   | \$1,405,114         |
| Freight-related revenues   | 227,154                         | 87,616                   | 182,746                     | 497,516             |
| All other revenues   | 65,633                          | 8,486                    | 23,652                      | 97,771              |
| Total operating revenues   | \$1,241,815                     | \$242,952                | \$515,634                   | \$2,000,401         |
| Operating expenses:  |                                 |                          |                             |                     |
| Labor and benefits   | 397,911                         | 67,947                   | 149,109                     | 614,967             |
| Equipment rents  | 65,918                          | 12,298                   | 71,609                      | 149,825             |
| Purchased services   | 63,986                          | 19,560                   | 103,359                     | 186,905             |
| Depreciation and amortization  | 141,814                         | 27,425                   | 19,296                      | 188,535             |
| Diesel fuel used in train operations   | 75,630                          | 21,150                   | 35,369                      | 132,149             |
| Electricity used in train operations   | —                               | —                        | 13,714                      | 13,714              |
| Casualties and insurance   | 29,574                          | 8,498                    | 4,422                       | 42,494              |
| Materials  | 57,808                          | 11,408                   | 26,032                      | 95,248              |
| Trackage rights  | 24,601                          | 13,234                   | 40,305                      | 78,140              |
| Net gain on sale of assets   | (2,001)                         | (48)                     | (242)                       | (2,291)             |
| Other expenses   | 89,088                          | 6,638                    | 20,728                      | 116,454             |
| Total operating expenses   | 944,329                         | 188,110                  | 483,701                     | 1,616,140           |
| Income from operations   | \$297,486                       | \$54,842                 | \$31,933                    | \$384,261           |
| Operating ratio  | 76.0                            | % 77.4                   | % 93.8                      | % 80.8              |
| Interest expense, net  | \$39,651                        | \$8,976                  | \$17,965                    | \$66,592            |
| Loss on settlement of foreign currency forward purchase contracts                      | \$16,374                        | \$2,312                  | \$—                         | \$18,686            |
| Provision for/(benefit from) income taxes  | \$69,552                        | \$12,890                 | \$(6,548)                   | \$75,894            |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$266,548                       | \$31,179                 | \$32,035                    | \$329,762           |

|          |           |         |         |           |
|----------|-----------|---------|---------|-----------|
| Carloads | 1,644,400 | 200,905 | 896,125 | 2,741,430 |
|----------|-----------|---------|---------|-----------|

|  | 2014<br>North<br>American<br>Operations | Australian<br>Operations | U.K./European<br>Operations | Total<br>Operations |
|--|---|--------------------------|-----------------------------|---------------------|
| <b>Operating revenues:</b>   |   |                          |                             |                     |
| Freight revenues   | \$ 1,008,236                            | \$ 243,705               | \$—                         | \$ 1,251,941        |
| Freight-related revenues   | 214,388                                 | 55,461                   | 20,938                      | 290,787             |
| All other revenues   | 82,137                                  | 14,104                   | 43                          | 96,284              |
| Total operating revenues   | \$ 1,304,761                            | \$ 313,270               | \$ 20,981                   | \$ 1,639,012        |
| <b>Operating expenses:</b>   |   |                          |                             |                     |
| Labor and benefits   | 390,755                                 | 71,216                   | 7,532                       | 469,503             |
| Equipment rents  | 70,150                                  | 9,973                    | 2,607                       | 82,730              |
| Purchased services   | 62,826                                  | 34,092                   | 3,190                       | 100,108             |
| Depreciation and amortization  | 127,421                                 | 28,095                   | 1,565                       | 157,081             |
| Diesel fuel used in train operations   | 120,729                                 | 26,346                   | 1,972                       | 149,047             |
| Electricity used in train operations   | —                                       | —                        | 1,058                       | 1,058               |
| Casualties and insurance   | 30,124                                  | 10,899                   | 529                         | 41,552              |
| Materials  | 69,840                                  | 7,656                    | 870                         | 78,366              |
| Trackage rights  | 28,928                                  | 22,095                   | 2,760                       | 53,783              |
| Net gain on sale of assets   | (4,582)                                 | (432)                    | (86)                        | (5,100)             |
| Other expenses   | 75,376                                  | 12,934                   | 1,003                       | 89,313              |
| Total operating expenses   | 971,567                                 | 222,874                  | 23,000                      | 1,217,441           |
| Income/(loss) from operations  | \$ 333,194                              | \$ 90,396                | \$ (2,019)                  | \$ 421,571          |
| Operating ratio  | 74.5                                    | % 71.1                   | % 109.6                     | % 74.3              |
| Interest expense, net  | \$ 41,732                               | \$ 12,152                | \$ 833                      | \$ 54,717           |
| Provision for/(benefit from) income taxes  | \$ 86,363                               | \$ 23,443                | \$ (2,699)                  | \$ 107,107          |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$ 277,725                              | \$ 24,930                | \$ 864                      | \$ 303,519          |
| Carloads   | 1,779,157                               | 227,894                  | —                           | 2,007,051           |

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 years ended December 31, 2015 and 2014 (dollars in thousands):

|                          | 2015             |                |                     | 2014             |            |         | Increase/(Decrease) in Total Operations |         | Increase/(Decrease) in Existing Operations |  | Currency Impact |
|--------------------------|------------------|----------------|---------------------|------------------|------------|---------|---|---------|--|--|-----------------|
|                          | Total Operations | New Operations | Existing Operations | Total Operations | Amount     | %       | Amount                                  | %       |  |  |                 |
| Freight revenues         | \$ 949,028       | \$ 36,451      | \$ 912,577          | \$ 1,008,236     | \$(59,208) | (5.9)%  | \$(95,659)                              | (9.5)%  | \$(10,861)                                 |  |                 |
| Freight-related revenues | 227,154          | 5,947          | 221,207             | 214,388          | 12,766     | 6.0%    | 6,819                                   | 3.2%    | (3,994)                                    |  |                 |
| All other revenues       | 65,633           | 1,613          | 64,020              | 82,137           | (16,504)   | (20.1)% | (18,117)                                | (22.1)% | (1,196)                                    |  |                 |
| Total operating revenues | \$ 1,241,815     | \$ 44,011      | \$ 1,197,804        | \$ 1,304,761     | \$(62,946) | (4.8)%  | \$(106,957)                             | (8.2)%  | \$(16,051)                                 |  |                 |
| Carloads                 | 1,644,400        | 59,552         | 1,584,848           | 1,779,157        | (134,757)  | (7.6)%  | (194,309)                               | (10.9)% |  |  |                 |



## Freight Revenues

The following table sets forth our North American Operations freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2015 and 2014, assuming the 2015 foreign currency exchange rates were applicable to both periods (dollars in thousands, except average freight revenues per carload):

| Commodity Group          | Freight Revenues |            |           |            | Carloads  |            |           |            | Average Freight Revenues Per Carload |       |
|--------------------------|------------------|------------|-----------|------------|-----------|------------|-----------|------------|--------------------------------------|-------|
|                          | 2015             |            | 2014*     |            | 2015      |            | 2014      |            | 2015                                 | 2014* |
|                          | Amount           | % of Total | Amount    | % of Total | Amount    | % of Total | Amount    | % of Total |                                      |       |
| Agricultural Products    | \$123,116        | 13.0 %     | \$120,197 | 12.1 %     | 216,500   | 13.2 %     | 210,316   | 11.8 %     | \$569                                | \$572 |
| Autos & Auto Parts       | 17,313           | 1.8 %      | 23,051    | 2.3 %      | 27,738    | 1.7 %      | 34,470    | 1.9 %      | 624                                  | 669   |
| Chemicals & Plastics     | 140,400          | 14.8 %     | 134,803   | 13.5 %     | 179,002   | 10.9 %     | 169,160   | 9.5 %      | 784                                  | 797   |
| Coal & Coke              | 93,541           | 9.9 %      | 125,901   | 12.6 %     | 267,258   | 16.3 %     | 355,762   | 20.0 %     | 350                                  | 354   |
| Food & Kindred Products  | 34,899           | 3.7 %      | 35,412    | 3.6 %      | 61,145    | 3.7 %      | 60,741    | 3.4 %      | 571                                  | 583   |
| Intermodal               | 9                | — %        | 350       | — %        | 107       | — %        | 3,442     | 0.2 %      | 84                                   | 102   |
| Lumber & Forest Products | 80,209           | 8.4 %      | 81,775    | 8.2 %      | 137,009   | 8.3 %      | 136,768   | 7.7 %      | 585                                  | 598   |
| Metallic Ores            | 19,756           | 2.1 %      | 17,340    | 1.7 %      | 24,812    | 1.5 %      | 22,123    | 1.2 %      | 796                                  | 784   |
| Metals                   | 103,898          | 10.9 %     | 129,239   | 13.0 %     | 133,915   | 8.1 %      | 184,264   | 10.5 %     | 776                                  | 701   |
| Minerals & Stone         | 116,537          | 12.3 %     | 112,614   | 11.3 %     | 209,957   | 12.8 %     | 194,335   | 10.9 %     | 555                                  | 579   |
| Petroleum Products       | 67,584           | 7.1 %      | 61,994    | 6.2 %      | 102,759   | 6.2 %      | 104,672   | 5.9 %      | 658                                  | 592   |
| Pulp & Paper             | 113,830          | 12.0 %     | 115,151   | 11.6 %     | 176,543   | 10.7 %     | 174,942   | 9.8 %      | 645                                  | 658   |
| Waste                    | 18,078           | 1.9 %      | 18,403    | 1.8 %      | 38,927    | 2.4 %      | 39,994    | 2.2 %      | 464                                  | 460   |
| Other                    | 19,858           | 2.1 %      | 21,145    | 2.1 %      | 68,728    | 4.2 %      | 88,168    | 5.0 %      | 289                                  | 240   |
| Total                    | \$949,028        | 100.0 %    | \$997,375 | 100.0 %    | 1,644,400 | 100.0 %    | 1,779,157 | 100.0 %    | \$577                                | \$561 |

\* Amounts adjusted to reflect the impact of 2015 foreign currency exchange rates.

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 year ended December 31, 2015, compared with the year ended December 31, 2014 (dollars in thousands):

| Commodity Group       | Year Ended December 31, |           | Increase/(Decrease) in Total Operations |                |                 | 2014 Constant Currency | Increase/(Decrease) in Existing Operations Constant Currency |  |
|-----------------------|-------------------------|-----------|---|----------------|-----------------|------------------------|--|--|
|                       | 2015                    | 2014      |   | New Operations | Currency Impact |                        |  |  |
| Agricultural Products | \$123,116               | \$121,265 | \$ 1,851                                | \$12,600       | \$(1,068)       | \$120,197              | \$(9,681)  |  |
| Autos & Auto Parts    | 17,313                  | 23,619    | (6,306)                                 | —              | (568)           | 23,051                 | (5,738)  |  |
| Chemicals & Plastics  | 140,400                 | 136,492   | 3,908                                   | 5,236          | (1,689)         | 134,803                | 361  |  |
| Coal & Coke           | 93,541                  | 126,377   | (32,836)                                | 24             | (476)           | 125,901                | (32,384)   |  |



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|                          |           |             |            |            |           |             |            |   |
|--------------------------|-----------|-------------|------------|------------|-----------|-------------|------------|---|
| Food & Kindred Products  | 34,899    | 35,534      | (635       | ) 471      | (122      | ) 35,412    | (984       | ) |
| Intermodal               | 9         | 390         | (381       | ) —        | (40       | ) 350       | (341       | ) |
| Lumber & Forest Products | 80,209    | 82,271      | (2,062     | ) 3,971    | (496      | ) 81,775    | (5,537     | ) |
| Metallic Ores            | 19,756    | 17,795      | 1,961      | 44         | (455      | ) 17,340    | 2,372      |   |
| Metals                   | 103,898   | 131,161     | (27,263    | ) 976      | (1,922    | ) 129,239   | (26,317    | ) |
| Minerals & Stone         | 116,537   | 112,999     | 3,538      | 12,276     | (385      | ) 112,614   | (8,353     | ) |
| Petroleum Products       | 67,584    | 63,051      | 4,533      | 187        | (1,057    | ) 61,994    | 5,403      |   |
| Pulp & Paper             | 113,830   | 117,299     | (3,469     | ) 574      | (2,148    | ) 115,151   | (1,895     | ) |
| Waste                    | 18,078    | 18,449      | (371       | ) 48       | (46       | ) 18,403    | (373       | ) |
| Other                    | 19,858    | 21,534      | (1,676     | ) 44       | (389      | ) 21,145    | (1,331     | ) |
| Total freight revenues   | \$949,028 | \$1,008,236 | \$ (59,208 | ) \$36,451 | \$(10,861 | ) \$997,375 | \$ (84,798 | ) |

Total traffic from our North American Operations decreased 134,757 carloads, or 7.6%, for the year ended December 31, 2015, compared with the same period in 2014. The decrease consisted of a decrease of 194,309 carloads, or 10.9%, from existing operations, partially offset by 59,552 carloads from new operations. The decrease in traffic from existing operations was principally due to decreases of 88,517 carloads of coal and coke traffic, 52,249 carloads of metals traffic, 19,552 carloads of other commodity traffic, 10,098 carloads of agricultural products traffic, 7,398 carloads of minerals and stone traffic, 6,732 carloads of autos and auto parts traffic, 5,960 carloads of lumber and forest products traffic and 2,325 carloads of petroleum products traffic, partially offset by an increase of 2,549 of metallic ores traffic. All remaining traffic decreased by a net 4,027 carloads.

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. Changes in average freight revenues per carload in a commodity group can be impacted by changes in customer rates and fuel surcharges, as well as changes in the mix of customer traffic within a commodity group.

Average freight revenues per carload from our North American Operations increased 2.9% to \$577 for the year ended December 31, 2015, compared with the year ended December 31, 2014. Average freight revenues per carload from existing operations increased 2.7% to \$576. The increase in average freight revenues per carload from existing operations was impacted by a change in mix, which increased average freight revenues per carload 1.7%, partially offset by lower fuel surcharges, which decreased average freight revenues per carload 4.8%. Excluding these factors, average freight revenues per carload from existing operations increased 5.8%.

Agricultural products revenues decreased \$9.7 million, or 8.1%. Agricultural products traffic volume decreased 10,098 carloads, or 4.8%, which decreased revenues by \$5.6 million, and average freight revenues per carload decreased 3.5%, which decreased revenues by \$4.1 million. The carload decrease was primarily due to decreased shipments in the midwestern and western United States due to weaker grain prices.

Autos and auto parts revenues decreased \$5.7 million, or 24.9%. Autos and auto parts traffic volume decreased 6,732 carloads, or 19.5%, which decreased revenues by \$4.2 million, and average freight revenues per carload decreased 6.7%, which decreased revenues by \$1.5 million. The carload decrease was primarily due to decreased export shipments in the western United States and weather-related delays which impacted car supply in the midwestern United States in early 2015.

Coal and coke revenues decreased \$32.4 million, or 25.7%. Coal and coke traffic volume decreased 88,517 carloads, or 24.9%, which decreased revenues by \$31.0 million, and average freight revenues per carload decreased 1.1%, which decreased revenues by \$1.4 million. The carload decrease was primarily due to decreased demand for steam coal as a result of competition from natural gas power generation.

Lumber and forest products revenues decreased \$5.5 million, or 6.8%. Lumber and forest products traffic volume decreased 5,960 carloads, or 4.4%, which decreased revenues by \$3.5 million, and average freight revenues per carload decreased 2.5%, which decreased revenues by \$2.0 million. The carload decrease was primarily due to decreased shipments to the west coast housing market and decreased shipments in the southern United States.

Metallic ores revenues increased \$2.4 million, or 13.7%. Metallic ores traffic volume increased 2,549 carloads, or 11.5%, which increased revenues by \$2.0 million, and average freight revenues per carload increased 1.9%, which increased revenues by \$0.3 million. The increase in carloads was primarily due to increased copper concentrate shipments in the western United States.

Metals revenues decreased \$26.3 million, or 20.4%. Metals traffic volume decreased 52,249 carloads, or 28.4%, which decreased revenues by \$40.7 million, while average freight revenues per carload increased 11.3%, which increased revenues by \$14.4 million. The carload decrease was driven by weaker shipments of steel and scrap resulting primarily from competition from imported steel. The increase in average freight revenues per carload was primarily driven by a change in the mix of business.

Minerals and stone revenues decreased \$8.4 million, or 7.4%. Minerals and stone average freight revenues per carload decreased 3.6%, which decreased revenues by \$4.3 million, and traffic volume decreased by 7,398 carloads, or 3.8%, which decreased revenues by \$4.1 million. The decrease in carloads was primarily due to decreased shipments of frac sand and proppants in the midwestern and southern United States.



Other commodity group revenues decreased \$1.3 million, or 6.3%. Other traffic decreased 19,552 carloads, or 22.2%, which decreased revenues by \$5.6 million, while average freight revenues per carload increased 20.4%, which increased revenues by \$4.3 million. The change was primarily due to decreased overhead Class I traffic in the central United States.

Petroleum products increased \$5.4 million, or 8.7%. Petroleum products average freight revenues per carload increased 11.3%, which increased revenues by \$6.9 million, while traffic volume decreased 2,325 carloads, or 2.2%, which decreased revenues by \$1.5 million. Average revenues per carload increased primarily due to the change in mix of business, which resulted from a decrease in crude oil shipments in Canada and the western and southern United States and increased shipments of liquid petroleum gas and natural gas liquids in the midwestern and northeastern United States.

Freight revenues from all remaining commodities combined decreased by a net \$3.2 million.

#### Freight-Related Revenues

Excluding a \$4.0 million decrease due to the impact from foreign currency depreciation, 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 \$16.8 million, or 8.0%, to \$227.2 million for the year ended December 31, 2015. The increase in freight-related revenues consisted of \$10.8 million from existing operations and \$5.9 million from new operations. The increase in freight-related revenues from existing operations was primarily due to an increase in demurrage and storage revenues and an increase in trackage rights revenues due to a new customer contract.

#### All Other Revenues

Excluding a \$1.2 million decrease due to the impact of foreign currency depreciation, all other revenues from our North American Operations, which includes revenues from third-party car and locomotive repairs, property rentals, railroad construction and other ancillary revenues not directly related to the movement of freight, decreased \$15.3 million, or 18.9%, to \$65.6 million for the year ended December 31, 2015. The decrease in all other revenues consisted of \$16.9 million from existing operations, partially offset by \$1.6 million from new operations. The decrease in all other revenues from existing operations was primarily due to a decrease in construction revenues as a result of fewer third-party projects in 2015, which resulted from our previously disclosed decision to focus our construction resources on internal projects, and a decrease in rental revenues.

#### Operating Expenses

Total operating expenses from our North American Operations decreased \$27.2 million, or 2.8%, to \$944.3 million for the year ended December 31, 2015, compared with \$971.6 million for the year ended December 31, 2014. The decrease included \$59.1 million from existing operations, partially offset by an increase of \$31.9 million from new operations. The decrease from existing operations was primarily due to a \$46.5 million decrease in fuel costs and the depreciation of the Canadian dollar relative to the United States dollar, which resulted in a \$13.5 million decrease in operating expenses from existing operations.

The following table sets forth operating expenses from our North American Operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                                      | 2015      |                         | 2014      |                         | Currency Impact     |             | 2014              | Increase/(Decrease) |
|--------------------------------------|-----------|-------------------------|-----------|-------------------------|---------------------|-------------|-------------------|---------------------|
|                                      | Amount    | % of Operating Revenues | Amount    | % of Operating Revenues | Increase/(Decrease) | Impact      | Constant Currency | (Constant Currency) |
| Labor and benefits                   | \$397,911 | 32.0 %                  | \$390,755 | 29.9 %                  | \$ 7,156            | \$(5,165 )  | \$385,590         | \$ 12,321           |
| Equipment rents                      | 65,918    | 5.3 %                   | 70,150    | 5.4 %                   | (4,232 )            | (631 )      | 69,519            | (3,601 )            |
| Purchased services                   | 63,986    | 5.1 %                   | 62,826    | 4.8 %                   | 1,160               | (1,153 )    | 61,673            | 2,313               |
| Depreciation and amortization        | 141,814   | 11.4 %                  | 127,421   | 9.8 %                   | 14,393              | (2,320 )    | 125,101           | 16,713              |
| Diesel fuel used in train operations | 75,630    | 6.1 %                   | 120,729   | 9.3 %                   | (45,099 )           | (1,926 )    | 118,803           | (43,173 )           |
| Casualties and insurance             | 29,574    | 2.4 %                   | 30,124    | 2.3 %                   | (550 )              | (488 )      | 29,636            | (62 )               |
| Materials                            | 57,808    | 4.7 %                   | 69,840    | 5.4 %                   | (12,032 )           | (956 )      | 68,884            | (11,076 )           |
| Trackage rights                      | 24,601    | 2.0 %                   | 28,928    | 2.2 %                   | (4,327 )            | (29 )       | 28,899            | (4,298 )            |
| Net gain on sale of assets           | (2,001 )  | (0.2 )%                 | (4,582 )  | (0.4 )%                 | 2,581               | 205         | (4,377 )          | 2,376               |
| Other expenses                       | 89,088    | 7.2 %                   | 75,376    | 5.8 %                   | 13,712              | (1,035 )    | 74,341            | 14,747              |
| Total operating expenses             | \$944,329 | 76.0 %                  | \$971,567 | 74.5 %                  | \$ (27,238 )        | \$(13,498 ) | \$958,069         | \$ (13,740 )        |

The following information discusses the significant changes in operating expenses from our North American Operations, excluding a decrease of \$13.5 million due to the impact from foreign currency depreciation.

Labor and benefits expense was \$397.9 million for the year ended December 31, 2015, compared with \$385.6 million for the year ended December 31, 2014, an increase of \$12.3 million, or 3.2%. The increase consisted of \$11.9 million from new operations and \$0.4 million from existing operations. The increase from existing operations was primarily due to annual wage and benefit increases, partially offset by a decrease in the average number of employees.

Equipment rents expense was \$65.9 million for the year ended December 31, 2015, compared with \$69.5 million for the year ended December 31, 2014, a decrease of \$3.6 million, or 5.2%. The decrease consisted of \$6.3 million from existing operations, partially offset by \$2.7 million from new operations. The decrease from existing operations was primarily the result of the purchase of railcars in the western United States.

Purchased services expense was \$64.0 million for the year ended December 31, 2015, compared with \$61.7 million for the year ended December 31, 2014, an increase of \$2.3 million, or 3.8%. The increase consisted of \$3.6 million from new operations, partially offset by a decrease of \$1.3 million from existing operations. The decrease from existing operations was primarily due to a reduction in the level of third-party construction projects.

Depreciation and amortization expense was \$141.8 million for the year ended December 31, 2015, compared with \$125.1 million for the year ended December 31, 2014, an increase of \$16.7 million, or 13.4%. The increase consisted of \$11.8 million from existing operations and \$4.9 million from new operations. The increase from existing operations was primarily attributable to capital expenditures in 2014.

The cost of diesel fuel used in train operations was \$75.6 million for the year ended December 31, 2015, compared with \$118.8 million for the year ended December 31, 2014, a decrease of \$43.2 million, or 36.3%. The decrease consisted of \$46.5 million from existing operations, partially offset by \$3.4 million from new operations. The decrease from existing operations was primarily attributable to a 36.2% decrease in average fuel cost per gallon.

Materials expense was \$57.8 million for the year ended December 31, 2015, compared with \$68.9 million for the year ended December 31, 2014, a decrease of \$11.1 million, or 16.1%. The decrease consisted of \$14.3 million from existing operations, partially offset by \$3.3 million from new operations. The decrease from existing operations was primarily attributable to a reduction in the level of car repairs and construction projects in 2015.

Trackage rights expense was \$24.6 million for the year ended December 31, 2015, compared with \$28.9 million for the year ended December 31, 2014, a decrease of \$4.3 million, or 14.9%. The decrease consisted of \$4.3 million from existing operations primarily attributable to reduced traffic for a metals customer in the southern United States and reduced coal traffic due to a maintenance outage at a power plant we serve.

Other expenses were \$89.1 million for the year ended December 31, 2015, compared with \$74.3 million for the year ended December 31, 2014, an increase of \$14.7 million, or 19.8%. The increase consisted of \$13.1 million from existing operations and \$1.6 million from new operations. The increase from existing operations was primarily attributable to an increase in acquisition and integration costs as a result of the Freightliner acquisition.

#### Income from Operations/Operating Ratio

Income from operations from our North American Operations was \$297.5 million for the year ended December 31, 2015, compared with \$333.2 million for the year ended December 31, 2014. Income from operations for the year ended December 31, 2015 included \$12.6 million of acquisition costs and \$2.6 million of integration costs associated with Freightliner, business development related costs of \$0.6 million and net gain on sale of assets of \$2.0 million. Income from operations for the year ended December 31, 2014 included business development and related costs of \$4.9 million and net gain on sale of assets of \$4.6 million. The operating ratio was 76.0% for the year ended December 31, 2015, compared with 74.5% for the year ended December 31, 2014.

#### Australian Operations

##### Operating Revenues

The following table sets forth our Australian Operations operating revenues and carloads by new operations and existing operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                          | 2015                |                   |                        | 2014                |            |         | Increase/(Decrease)<br>in Total Operations |         | Decrease in Existing<br>Operations |  | Currency<br>Impact |
|--------------------------|---------------------|-------------------|------------------------|---------------------|------------|---------|--|---------|------------------------------------|--|--------------------|
|                          | Total<br>Operations | New<br>Operations | Existing<br>Operations | Total<br>Operations | Amount     | %       | Amount                                     | %       |                                    |  |                    |
| Freight revenues         | \$146,850           | \$—               | \$146,850              | \$243,705           | \$(96,855) | (39.7)% | \$(96,855)                                 | (39.7)% | \$(40,722)                         |  |                    |
| Freight-related revenues | 87,616              | 36,098            | 51,518                 | 55,461              | 32,155     | 58.0%   | (3,943)                                    | (7.1)%  | (9,252)                            |  |                    |
| All other revenues       | 8,486               | —                 | 8,486                  | 14,104              | (5,618)    | (39.8)% | (5,618)                                    | (39.8)% | (2,348)                            |  |                    |
| Total operating revenues | \$242,952           | \$36,098          | \$206,854              | \$313,270           | \$(70,318) | (22.4)% | \$(106,416)                                | (34.0)% | \$(52,322)                         |  |                    |
| Carloads                 | 200,905             | —                 | 200,905                | 227,894             | (26,989)   | (11.8)% | (26,989)                                   | (11.8)% |                                    |  |                    |

## Freight Revenues

The following table sets forth our Australian Operations freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2015 and 2014, assuming the 2015 foreign currency exchange rates were applicable to both periods (dollars in thousands, except average freight revenues per carload):

| Commodity Group       | Freight Revenues |            |           |            | Carloads |            |         |            | Average Freight Revenues Per Carload |       |
|-----------------------|------------------|------------|-----------|------------|----------|------------|---------|------------|--------------------------------------|-------|
|                       | 2015             |            | 2014*     |            | 2015     |            | 2014    |            | 2015                                 | 2014* |
|                       | Amount           | % of Total | Amount    | % of Total | Amount   | % of Total | Amount  | % of Total |                                      |       |
| Agricultural Products | \$22,614         | 15.4 %     | \$26,804  | 13.2 %     | 51,534   | 25.6 %     | 54,184  | 23.8 %     | \$439                                | \$495 |
| Intermodal            | 71,429           | 48.6 %     | 76,480    | 37.6 %     | 61,659   | 30.7 %     | 63,475  | 27.9 %     | 1,158                                | 1,205 |
| Metallic Ores         | 44,204           | 30.1 %     | 91,076    | 44.9 %     | 26,915   | 13.4 %     | 56,542  | 24.8 %     | 1,642                                | 1,611 |
| Minerals & Stone      | 7,306            | 5.0 %      | 7,420     | 3.7 %      | 60,490   | 30.1 %     | 53,407  | 23.4 %     | 121                                  | 139   |
| Petroleum Products    | 1,297            | 0.9 %      | 1,203     | 0.6 %      | 307      | 0.2 %      | 286     | 0.1 %      | 4,225                                | 4,206 |
| Total                 | \$146,850        | 100.0 %    | \$202,983 | 100.0 %    | 200,905  | 100.0 %    | 227,894 | 100.0 %    | \$731                                | \$891 |

\* Amounts adjusted to reflect the impact of 2015 foreign currency exchange rates.

The following table sets forth the changes in our Australian Operations freight revenues by commodity group for the year ended December 31, 2015, compared with the year ended December 31, 2014 (dollars in thousands):

| Commodity Group        | 2015      | 2014      | Increase/(Decrease) | Currency Impact | 2014 Constant Currency | Increase/(Decrease) Constant Currency |
|------------------------|-----------|-----------|---------------------|-----------------|------------------------|---------------------------------------|
| Agricultural Products  | \$22,614  | \$32,003  | \$ (9,389 )         | \$(5,199 )      | \$26,804               | \$ (4,190 )                           |
| Intermodal             | 71,429    | 91,895    | (20,466 )           | (15,415 )       | 76,480                 | (5,051 )                              |
| Metallic Ores          | 44,204    | 109,439   | (65,235 )           | (18,363 )       | 91,076                 | (46,872 )                             |
| Minerals & Stone       | 7,306     | 8,921     | (1,615 )            | (1,501 )        | 7,420                  | (114 )                                |
| Petroleum Products     | 1,297     | 1,447     | (150 )              | (244 )          | 1,203                  | 94                                    |
| Total freight revenues | \$146,850 | \$243,705 | \$ (96,855 )        | \$(40,722 )     | \$202,983              | \$ (56,133 )                          |

Total traffic from our Australian Operations decreased 26,989 carloads, or 11.8%, to 200,905 carloads for the year ended December 31, 2015, compared with the year ended December 31, 2014. The traffic was entirely from existing operations, as Freightliner Australia revenues are all freight-related. The decrease was principally due to decreases of 29,627 carloads of metallic ores traffic, 2,650 carloads of agricultural products traffic and 1,816 carloads of intermodal traffic, partially offset by a 7,104 carload increase primarily due to an increase in minerals and stone traffic.

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

Average freight revenues per carload from our Australian Operations decreased 18.0% to \$731 for the year ended December 31, 2015, compared with the year ended December 31, 2014. The decrease in average freight revenues per carload was impacted by a change in mix, which decreased average freight revenues per carload 15.4%, and lower fuel surcharges, which decreased average freight revenues per carload 2.6%.

Agricultural products revenues decreased \$4.2 million, or 15.6%. Agricultural products average freight revenues per carload decreased 11.3%, which decreased revenues by \$3.0 million, and traffic volume decreased 2,650 carloads, or 4.9%, which decreased revenues by \$1.2 million. The decrease in average freight revenues per carload was primarily attributable to a change in the mix of business.



Intermodal revenues decreased \$5.1 million, or 6.6%. Intermodal average freight revenues per carload decreased 3.9%, which decreased revenues by \$3.0 million, and traffic volume decreased 1,816 carloads, or 2.9%, which decreased revenues by \$2.1 million. The decrease in average freight revenues per carload was primarily due to lower fuel surcharges.

Metallic ores revenues decreased \$46.9 million, or 51.5%. Metallic ores traffic decreased 29,627 carloads, or 52.4%, which decreased revenues by \$48.7 million, while average freight revenues per carload increased 1.9%, which increased revenues by \$1.8 million. The carload decrease was primarily due to decreased iron ore and manganese shipments as a result of multiple customer mine closures.

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

#### Freight-Related Revenues

Excluding a \$9.3 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, increased \$41.4 million, or 89.6%, to \$87.6 million for the year ended December 31, 2015. The increase in freight-related revenues consisted of \$36.1 million from new operations and \$5.3 million from existing operations. The increase in freight-related revenues from existing operations was primarily due to \$15.1 million of fixed payments received under a customer contract following discontinuation of carload shipments due to a mine closure, partially offset by an \$8.1 million decrease in crewing revenue and a \$2.0 million decrease in trackage rights.

#### All Other Revenues

Excluding a \$2.3 million decrease due to 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 \$3.3 million, or 27.8%, to \$8.5 million for the year ended December 31, 2015. The decrease was primarily due to a reduction in third-party construction activities in 2015.

#### Operating Expenses

Total operating expenses from our Australian Operations for the year ended December 31, 2015 decreased \$34.8 million, or 15.6%, to \$188.1 million, compared with \$222.9 million for the year ended December 31, 2014. The decrease consisted of \$69.3 million from existing operations, partially offset by \$34.6 million from new operations. The decrease from existing operations was primarily due to a \$37.2 million decrease from the depreciation of the Australian dollar relative to the United States dollar.

The following table sets forth operating expenses from our Australian Operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                                      | 2015      |           | 2014      |           |                     |            | 2014      | Increase/(Decrease) |
|--------------------------------------|-----------|-----------|-----------|-----------|---------------------|------------|-----------|---------------------|
|                                      | Amount    | % of      | Amount    | % of      | Increase/(Decrease) | Currency   | Constant  | (Constant           |
|                                      |           | Operating |           | Operating |                     | Impact     | Currency  | Currency)           |
|                                      |           | Revenues  |           | Revenues  |                     |            |           | Currency)           |
| Labor and benefits                   | \$67,947  | 28.0 %    | \$71,216  | 22.7 %    | \$ (3,269 )         | \$(12,000) | \$59,216  | \$ 8,731            |
| Equipment rents                      | 12,298    | 5.1 %     | 9,973     | 3.1 %     | 2,325               | (1,667 )   | 8,306     | 3,992               |
| Purchased services                   | 19,560    | 8.0 %     | 34,092    | 10.9 %    | (14,532 )           | (5,442 )   | 28,650    | (9,090 )            |
| Depreciation and amortization        | 27,425    | 11.3 %    | 28,095    | 9.0 %     | (670 )              | (4,661 )   | 23,434    | 3,991               |
| Diesel fuel used in train operations | 21,150    | 8.7 %     | 26,346    | 8.4 %     | (5,196 )            | (4,362 )   | 21,984    | (834 )              |
| Casualties and insurance             | 8,498     | 3.5 %     | 10,899    | 3.5 %     | (2,401 )            | (1,914 )   | 8,985     | (487 )              |
| Materials                            | 11,408    | 4.7 %     | 7,656     | 2.4 %     | 3,752               | (1,364 )   | 6,292     | 5,116               |
| Trackage rights                      | 13,234    | 5.4 %     | 22,095    | 7.1 %     | (8,861 )            | (3,693 )   | 18,402    | (5,168 )            |
| Net gain on sale of assets           | (48 )     | — %       | (432 )    | (0.1 )%   | 384                 | 59         | (373 )    | 325                 |
| Other expenses                       | 6,638     | 2.7 %     | 12,934    | 4.1 %     | (6,296 )            | (2,134 )   | 10,800    | (4,162 )            |
| Total operating expenses             | \$188,110 | 77.4 %    | \$222,874 | 71.1 %    | \$ (34,764 )        | \$(37,178) | \$185,696 | \$ 2,414            |



The following information discusses the significant changes in operating expenses of our Australian Operations excluding a \$37.2 million decrease due to the impact from foreign currency depreciation.

Labor and benefits expense was \$67.9 million for the year ended December 31, 2015, compared with \$59.2 million for the year ended December 31, 2014, an increase of \$8.7 million, or 14.7%. The increase consisted of \$12.4 million from new operations, partially offset by a decrease of \$3.7 million from existing operations. The decrease from existing operations was primarily due to decreased headcount as a result of changes made to the operating plans in Australia associated with mine closures, partially offset by severance costs and increased headcount due to the insourcing of equipment maintenance activities.

Equipment rents expense was \$12.3 million for the year ended December 31, 2015, compared with \$8.3 million for the year ended December 31, 2014, an increase of \$4.0 million, or 48.1%. The increase consisted of \$6.9 million from new operations, partially offset by a decrease of \$2.9 million from existing operations. The decrease from existing operations was primarily the result of the purchase of previously leased railcars and the termination of a rail car lease following a customer mine closure.

Purchased services expense was \$19.6 million for the year ended December 31, 2015, compared with \$28.7 million for the year ended December 31, 2014, a decrease of \$9.1 million, or 31.7%. The decrease consisted of \$10.1 million from existing operations, partially offset by \$1.0 million from new operations. The decrease from existing operations was primarily attributable to the insourcing of equipment maintenance activities.

Depreciation and amortization was \$27.4 million for the year ended December 31, 2015, compared with \$23.4 million for the year ended December 31, 2014, an increase of \$4.0 million, or 17.0%. The increase consisted of \$2.8 million from new operations and \$1.2 million from existing operations. The increase from existing operations was primarily attributable to capital expenditures in 2014.

The cost of diesel fuel used in train operations was \$21.2 million for the year ended December 31, 2015, compared with \$22.0 million for the year ended December 31, 2014, a decrease of \$0.8 million, or 3.8%. The decrease consisted of \$8.0 million from existing operations, partially offset by \$7.2 million from new operations. The decrease from existing operations consisted of \$6.5 million due to a 29.2% decrease in average fuel cost per gallon and \$1.6 million due to a 10.4% decrease in diesel fuel consumption.

Materials expense was \$11.4 million for the year ended December 31, 2015, compared with \$6.3 million for the year ended December 31, 2014, an increase of \$5.1 million, or 81.3%. The increase consisted of \$2.8 million from existing operations and \$2.3 million from new operations. The increase from existing operations was primarily attributable to the insourcing of equipment maintenance activities.

Trackage rights expense was \$13.2 million for the year ended December 31, 2015, compared with \$18.4 million for the year ended December 31, 2014, a decrease of \$5.2 million, or 28.1%. The decrease consisted of \$6.1 million from existing operations, partially offset by \$1.0 million from new operations. The decrease from existing operations was primarily attributable to decreased shipments as a result of an iron ore customer mine closure in South Australia that moves over a segment of track owned by a third party.

Other expenses were \$6.6 million for the year ended December 31, 2015, compared with \$10.8 million for the year ended December 31, 2014, a decrease of \$4.2 million, or 38.5%. The decrease consisted of \$4.8 million from existing operations, partially offset by \$0.6 million from new operations. The decrease from existing operations was primarily attributable to reduced costs associated with third-party track projects in 2015.

#### Income from Operations/Operating Ratio

Income from operations from our Australian Operations was \$54.8 million for the year ended December 31, 2015, compared with \$90.4 million for the year ended December 31, 2014. Included in the decrease from income from operations is a \$15.1 million net decrease due to the impact from foreign currency depreciation. Income from operations for the year ended December 31, 2015 and 2014 included \$2.7 million and \$0.3 million, respectively, of business development and related costs. The operating ratio was 77.4% for the year ended December 31, 2015, compared with 71.1% for the year ended December 31, 2014. The higher operating ratio was primarily driven by lower iron ore freight revenues.



U.K./European Operations

Operating Revenues

The following table sets forth our U.K./European Operations operating revenues and carloads by new operations and existing operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                          | 2015             |                | Existing Operations | 2014             |                  | Increase in Total Operations |     | Currency Impact |
|--------------------------|------------------|----------------|---------------------|------------------|------------------|------------------------------|-----|-----------------|
|                          | Total Operations | New Operations |                     | Total Operations | Total Operations | Amount                       | %   |                 |
| Freight revenues         | \$309,236        | \$309,236      | \$—                 | \$—              | \$309,236        | NM                           | (1) | \$—             |
| Freight-related revenues | 182,746          | 162,353        | 20,393              | 20,938           | 161,808          | NM                           |     | (3,450 )        |
| All other revenues       | 23,652           | 23,652         | —                   | 43               | 23,609           | NM                           |     | (7 )            |
| Total operating revenues | \$515,634        | \$495,241      | \$20,393            | \$20,981         | \$494,653        | NM                           |     | \$(3,457 )      |
| Carloads                 | 896,125          | 896,125        | —                   | —                | 896,125          | NM                           |     |                 |

(1) Not meaningful

Freight Revenues

The following table sets forth our U.K./European Operations freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2015 and 2014 (dollars in thousands, except average freight revenues per carload):

| Commodity Group       | Freight Revenues |            |        |            | Carloads |            |        |            | Average Freight Revenues Per Carload |      |
|-----------------------|------------------|------------|--------|------------|----------|------------|--------|------------|--------------------------------------|------|
|                       | 2015             |            | 2014   |            | 2015     |            | 2014   |            | 2015                                 | 2014 |
|                       | Amount           | % of Total | Amount | % of Total | Amount   | % of Total | Amount | % of Total |                                      |      |
| Agricultural Products | \$520            | 0.2 %      | \$—    | — %        | 610      | 0.1 %      | —      | — %        | \$852                                | \$—  |
| Coal & Coke           | 23,896           | 7.7 %      | —      | — %        | 60,873   | 6.8 %      | —      | — %        | 393                                  | —    |
| Intermodal            | 227,526          | 73.6 %     | —      | — %        | 692,304  | 77.2 %     | —      | — %        | 329                                  | —    |
| Minerals & Stone      | 52,596           | 17.0 %     | —      | — %        | 133,656  | 14.9 %     | —      | — %        | 394                                  | —    |
| Other                 | 4,698            | 1.5 %      | —      | — %        | 8,682    | 1.0 %      | —      | — %        | 541                                  | —    |
| Total                 | \$309,236        | 100.0 %    | \$—    | — %        | 896,125  | 100.0 %    | —      | — %        | \$345                                | \$—  |

The freight revenues from our U.K./European Operations were comprised entirely of our Freightliner U.K./European Operations for the year ended December 31, 2015. Freight revenues from our U.K./European Operations primarily consisted of intermodal traffic, minerals and stone traffic, which includes construction aggregates, and coal. There were no freight revenues from our U.K./European Operations for 2014, as all of our U.K./European Operations revenues were freight-related in 2014.

Freight-Related Revenues

Freight-related revenues from our U.K./European Operations includes port switching as well as traction service (or hook and pull service that requires us to provide locomotives and drivers to move a customer's train between specified origin and destination points). Freight-related revenues from our U.K./European Operations also include infrastructure services, where we operate work trains for the track infrastructure owner, drayage and other ancillary revenues related to the movement of freight. With the exception of infrastructure services, which are primarily in the U.K., freight-related revenues from our U.K./European Operations are primarily associated with the Continental European intermodal business.

Excluding a \$3.5 million decrease due to the impact of foreign currency depreciation, freight-related revenues from our U.K./European Operations increased \$165.3 million to \$182.7 million for the year ended December 31, 2015, primarily due to our new Freightliner operations.



### All Other Revenues

All other revenues from our U.K./European 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, consisted of \$23.7 million for the year ended December 31, 2015, as a result of our new Freightliner operations.

### Operating Expenses

Total operating expenses from our U.K./European Operations were \$483.7 million for the year ended December 31, 2015, compared with \$23.0 million for the year ended December 31, 2014, an increase of \$460.7 million. The increase included \$463.6 million from new operations, partially offset by a decrease of \$2.9 million from existing operations. The overall net decrease from existing operations was primarily due to the depreciation of the Euro relative to the United States dollar.

The following table sets forth operating expenses from our U.K./European Operations for the years ended December 31, 2015 and 2014 (dollars in thousands):

|                                      | 2015       |                         | 2014      |                         | Increase/(Decrease) | Currency Impact | 2014 Constant Currency | Increase/(Decrease) Constant Currency |
|--------------------------------------|------------|-------------------------|-----------|-------------------------|---------------------|-----------------|------------------------|---------------------------------------|
|                                      | Amount     | % of Operating Revenues | Amount    | % of Operating Revenues |                     |                 |                        |                                       |
| Labor and benefits                   | \$ 149,109 | 28.9 %                  | \$ 7,532  | 35.9 %                  | \$ 141,577          | \$(1,149)       | \$ 6,383               | \$ 142,726                            |
| Equipment rents                      | 71,609     | 13.9 %                  | 2,607     | 12.4 %                  | 69,002              | (428)           | 2,179                  | 69,430                                |
| Purchased services                   | 103,359    | 20.0 %                  | 3,190     | 15.2 %                  | 100,169             | (542)           | 2,648                  | 100,711                               |
| Depreciation and amortization        | 19,296     | 3.7 %                   | 1,565     | 7.5 %                   | 17,731              | (258)           | 1,307                  | 17,989                                |
| Diesel fuel used in train operations | 35,369     | 6.9 %                   | 1,972     | 9.4 %                   | 33,397              | (326)           | 1,646                  | 33,723                                |
| Electricity used in train operations | 13,714     | 2.7 %                   | 1,058     | 5.0 %                   | 12,656              | (179)           | 879                    | 12,835                                |
| Casualties and insurance             | 4,422      | 0.9 %                   | 529       | 2.5 %                   | 3,893               | (73)            | 456                    | 3,966                                 |
| Materials                            | 26,032     | 5.0 %                   | 870       | 4.1 %                   | 25,162              | (147)           | 723                    | 25,309                                |
| Trackage rights                      | 40,305     | 7.8 %                   | 2,760     | 13.2 %                  | 37,545              | (448)           | 2,312                  | 37,993                                |
| Net gain on sale of assets           | (242)      | — %                     | (86)      | (0.4) %                 | (156)               | 13              | (73)                   | (169)                                 |
| Other expenses                       | 20,728     | 4.0 %                   | 1,003     | 4.8 %                   | 19,725              | (158)           | 845                    | 19,883                                |
| Total operating expenses             | \$ 483,701 | 93.8 %                  | \$ 23,000 | 109.6 %                 | \$ 460,701          | \$(3,695)       | \$ 19,305              | \$ 464,396                            |

Equipment rents expense consists primarily of costs associated with Freightliner's predominately leased locomotive and railcar fleet.

Purchased services expense consists primarily of costs associated with the use of contract drivers and outsourced traction service in Europe, as well as port and terminal handling expenses in the U.K.

Electricity used in train operations represents the cost of powering the electric locomotive fleet in the U.K. and Continental Europe.

Trackage rights expense represents payments made to track owners under open access regimes.

### Income/(Loss) from Operations/Operating Ratio

Income from operations from our U.K./European Operations was \$31.9 million for the year ended December 31, 2015, compared with a \$2.0 million loss from operations for the year ended December 31, 2014. The loss for the year ended December 31, 2014 included costs associated with the start-up of a significant new long-term customer contract that commenced in early 2014 to provide shuttle service between Rotterdam and the German border. The operating ratio was 93.8% for the year ended December 31, 2015. The prior year is not comparable because over 95% of the revenue and income from operations was generated from the recently acquired Freightliner business. Our U.K./European Operations operate in an open access environment using primarily leased equipment.





## Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

## Consolidated Operating Results

## Operating Revenues

The following table sets forth our operating revenues by new operations and existing operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                          | 2014                |                   |                        | 2013                |          |         | Increase/(Decrease)<br>in Total<br>Operations |         | Increase/(Decrease)<br>in Existing<br>Operations |  | Currency<br>Impact |
|--------------------------|---------------------|-------------------|------------------------|---------------------|----------|---------|---|---------|--|--|--------------------|
|                          | Total<br>Operations | New<br>Operations | Existing<br>Operations | Total<br>Operations | Amount   | %       | Amount  | %       |  |  |                    |
| Freight revenues         | \$1,251,941         | \$40,328          | \$1,211,613            | \$1,177,364         | \$74,577 | 6.3 %   | \$34,249                                      | 2.9 %   | \$(22,410)                                       |  |                    |
| Freight-related revenues | 290,787             | 3,766             | 287,021                | 287,811             | 2,976    | 1.0 %   | (790 )  | (0.3 )% | (5,984 )   |  |                    |
| All-other revenues       | 96,284              | 1,046             | 95,238                 | 103,468             | (7,184 ) | (6.9 )% | (8,230 )                                      | (8.0 )% | (999 )   |  |                    |
| Total operating revenues | \$1,639,012         | \$45,140          | \$1,593,872            | \$1,568,643         | \$70,369 | 4.5 %   | \$25,229                                      | 1.6 %   | \$(29,393)                                       |  |                    |
| Carloads                 | 2,007,051           | 36,894            | 1,970,157              | 1,886,012           | 121,039  | 6.4 %   | 84,145  | 4.5 %   |  |  |                    |

## Operating Expenses

Total operating expenses for the year ended December 31, 2014 increased \$29.0 million, or 2.4%, to \$1,217.4 million, compared with \$1,188.5 million for the year ended December 31, 2013. The increase consisted of \$35.6 million from new operations, partially offset by a decrease of \$6.6 million from existing operations. The decrease from existing operations was primarily due to a \$21.6 million decrease from the depreciation of foreign currencies relative to the United States dollar and decreases of \$23.1 million in purchased services, \$10.8 million in other expenses, \$1.6 million in materials and \$1.0 million in diesel fuel used in train operations, partially offset by increases of \$27.5 million in labor and benefits, \$14.0 million in depreciation and amortization, \$4.1 million in trackage rights and \$3.4 million in casualties and insurance.

The following table sets forth operating expenses for the year ended December 31, 2014 and 2013 (dollars in thousands):

|                                      | 2014      |                               | 2013      |                               | Increase/(Decrease)<br>in Total<br>Operations | Currency<br>Impact | 2013<br>Constant<br>Currency | Increase/(Decrease)<br>(Constant<br>Currency) |
|--------------------------------------|-----------|-------------------------------|-----------|-------------------------------|---|--------------------|------------------------------|---|
|                                      | Amount    | % of<br>Operating<br>Revenues | Amount    | % of<br>Operating<br>Revenues |   |                    |                              |   |
| Labor and benefits                   | \$469,503 | 28.7 %                        | \$439,117 | 28.0 %                        | 30,386  | \$(6,934 )         | \$432,183                    | \$ 37,320                                     |
| Equipment rents                      | 82,730    | 5.0 %                         | 77,595    | 4.9 %                         | 5,135   | (1,023 )           | 76,572                       | 6,158   |
| Purchased services                   | 100,108   | 6.1 %                         | 123,822   | 7.9 %                         | (23,714 )                                     | (3,820 )           | 120,002                      | (19,894 )                                     |
| Depreciation and amortization        | 157,081   | 9.6 %                         | 141,644   | 9.1 %                         | 15,437  | (2,856 )           | 138,788                      | 18,293  |
| Diesel fuel used in train operations | 149,047   | 9.1 %                         | 147,172   | 9.4 %                         | 1,875   | (3,097 )           | 144,075                      | 4,972   |
| Electricity used in train operations | 1,058     | 0.1 %                         | 66        | — %                           | 992   | 2                  | 68                           | 990   |
| Casualties and insurance             | 41,552    | 2.5 %                         | 38,564    | 2.5 %                         | 2,988   | (891 )             | 37,673                       | 3,879   |
| Materials                            | 78,366    | 4.8 %                         | 77,204    | 4.9 %                         | 1,162   | (628 )             | 76,576                       | 1,790   |
| Trackage rights                      | 53,783    | 3.3 %                         | 50,911    | 3.2 %                         | 2,872   | (1,292 )           | 49,619                       | 4,164   |
|                                      | (5,100 )  | (0.3 )%                       | (4,677 )  | (0.3 )%                       | (423 )  | 133                | (4,544 )                     | (556 )  |

Net gain on sale  
of assets

|                          |             |      |   |             |      |   |        |   |            |   |             |        |        |
|--------------------------|-------------|------|---|-------------|------|---|--------|---|------------|---|-------------|--------|--------|
| Other expenses           | 89,313      | 5.4  | % | 97,037      | 6.2  | % | (7,724 | ) | (1,151     | ) | 95,886      | (6,573 | )      |
| Total operating expenses | \$1,217,441 | 74.3 | % | \$1,188,455 | 75.8 | % | 28,986 |   | \$(21,557) |   | \$1,166,898 | \$     | 50,543 |

#### Income from Operations/Operating Ratio

Income from operations was \$421.6 million for the year ended December 31, 2014, compared with \$380.2 million for the year ended December 31, 2013. Income from operations for the year ended December 31, 2014 included business development and related costs of \$5.2 million and net gain on sale of assets of \$5.1 million. Income from operations for the year ended December 31, 2013 included \$17.0 million of RailAmerica integration and acquisition-related costs and \$1.6 million of business development and related costs, partially offset by net gain on sale of assets of \$4.7 million.

Our operating ratio was 74.3% for the year ended December 31, 2014 compared with 75.8% for the year ended December 31, 2013. While changes in foreign currency exchange rates can have a material impact on our operating revenues and operating expenses, the impact of these foreign currency translation effects should not have a material impact on our operating ratio.

#### Interest Income

Interest income was \$1.4 million for the year ended December 31, 2014, compared with \$4.0 million for the year ended December 31, 2013. The decrease in interest income was primarily related to the repayment and termination of our cross-currency swap agreements, see Note 9, Derivative Financial Instruments, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report, for further details on the repayment and termination of our cross-currency swap agreement.

#### Interest Expense

Interest expense was \$56.2 million for the year ended December 31, 2014, compared with \$67.9 million for the year ended December 31, 2013. The decrease in interest expense was primarily due to lower borrowing costs consistent with our reduced leverage, the expiration of various interest rate swap agreements, the termination of our cross-currency swap agreements and reduced amortization of deferred financing fees resulting primarily from the refinancing of our credit agreement in May 2014. Interest expense for the year ended December 31, 2014 included the write-off of deferred financing fees of \$4.6 million associated with the refinancing of our credit agreement.

#### Provision for Income Taxes

Our income tax provision for the year ended December 31, 2014 was \$107.1 million, which represented 29.1% of income before income taxes. Our provision for income taxes for the year ended December 31, 2014 included a \$3.9 million tax benefit as a result of receiving consent from the United States IRS to change a tax accounting method retroactively for companies acquired as a result of the RailAmerica acquisition.

Included in our net income for the year ended December 31, 2013 was a \$41.0 million benefit associated with the retroactive extension of the United States Short Line Tax Credit for fiscal year 2012. Since the extension became law in 2013, the 2012 impact was recorded in the first quarter of 2013. Excluding the \$41.0 million retroactive benefit, our provision for income taxes was \$87.2 million for the year ended December 31, 2013, which represented 27.4% of income before income taxes.

#### Net Income and Earnings Per Common Share

Net income for the year ended December 31, 2014 was \$260.8 million, compared with net income of \$271.3 million for the year ended December 31, 2013. Our basic EPS were \$4.71 with 55.3 million weighted average shares outstanding for the year ended December 31, 2014, compared with basic EPS of \$5.00 with 53.8 million weighted average shares outstanding for the year ended December 31, 2013. Our diluted EPS for the year ended December 31, 2014 were \$4.58 with 57.0 million weighted average shares outstanding, compared with diluted EPS for the year ended December 31, 2013 of \$4.79 with 56.7 million weighted average shares outstanding. On February 13, 2013, we converted all of our outstanding Series A-1 Preferred Stock into 5,984,232 shares of our Class A Common Stock. The conversion resulted in an increase in our weighted average basic shares outstanding of 5,984,232 and 5,262,845 for the years ended December 31, 2014 and 2013, respectively.

## Operating Results by Segment

The following tables set forth our North American Operations, Australian Operations and U.K./European Operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|   | 2014                            |                          |                             |                     |
|---|---------------------------------|--------------------------|-----------------------------|---------------------|
|   | North<br>American<br>Operations | Australian<br>Operations | U.K./European<br>Operations | Total<br>Operations |
| Operating revenues:   |                                 |                          |                             |                     |
| Freight revenues  | \$1,008,236                     | \$243,705                | \$—                         | \$1,251,941         |
| Freight-related revenues  | 214,388                         | 55,461                   | 20,938                      | 290,787             |
| All other revenues  | 82,137                          | 14,104                   | 43                          | 96,284              |
| Total operating revenues  | \$1,304,761                     | \$313,270                | \$20,981                    | \$1,639,012         |
| Operating expenses:   |                                 |                          |                             |                     |
| Labor and benefits  | 390,755                         | 71,216                   | 7,532                       | 469,503             |
| Equipment rents   | 70,150                          | 9,973                    | 2,607                       | 82,730              |
| Purchased services  | 62,826                          | 34,092                   | 3,190                       | 100,108             |
| Depreciation and amortization   | 127,421                         | 28,095                   | 1,565                       | 157,081             |
| Diesel fuel used in train operations  | 120,729                         | 26,346                   | 1,972                       | 149,047             |
| Electricity used in train operations  | —                               | —                        | 1,058                       | 1,058               |
| Casualties and insurance  | 30,124                          | 10,899                   | 529                         | 41,552              |
| Materials   | 69,840                          | 7,656                    | 870                         | 78,366              |
| Trackage rights   | 28,928                          | 22,095                   | 2,760                       | 53,783              |
| Net gain on sale of assets  | (4,582)                         | (432)                    | (86)                        | (5,100)             |
| Other expenses  | 75,376                          | 12,934                   | 1,003                       | 89,313              |
| Total operating expenses  | 971,567                         | 222,874                  | 23,000                      | 1,217,441           |
| Income/(loss) from operations   | \$333,194                       | \$90,396                 | \$(2,019)                   | \$421,571           |
| Operating ratio   | 74.5                            | % 71.1                   | % 109.6                     | % 74.3              |
| Interest expense, net   | \$41,732                        | \$12,152                 | \$833                       | \$54,717            |
| Provision for/(benefit from) income taxes   | \$86,363                        | \$23,443                 | \$(2,699)                   | \$107,107           |
| Expenditures for additions to property & equipment,<br>net of grants from outside parties | \$277,725                       | \$24,930                 | \$864                       | \$303,519           |
| Carloads  | 1,779,157                       | 227,894                  | —                           | 2,007,051           |

|  | 2013                      |                       |                          | Total       |
|--|---------------------------|-----------------------|--------------------------|-------------|
|  | North American Operations | Australian Operations | U.K./European Operations | Operations  |
| <b>Operating revenues:</b>   |                           |                       |                          |             |
| Freight revenues   | \$917,971                 | \$259,393             | \$—                      | \$1,177,364 |
| Freight-related revenues   | 215,302                   | 57,834                | 14,675                   | 287,811     |
| All other revenues   | 95,899                    | 7,569                 | —                        | 103,468     |
| Total operating revenues   | \$1,229,172               | \$324,796             | \$14,675                 | \$1,568,643 |
| <b>Operating expenses:</b>   |                           |                       |                          |             |
| Labor and benefits   | 367,073                   | 66,377                | 5,667                    | 439,117     |
| Equipment rents  | 66,055                    | 10,299                | 1,241                    | 77,595      |
| Purchased services   | 67,900                    | 52,218                | 3,704                    | 123,822     |
| Depreciation and amortization  | 113,155                   | 27,102                | 1,387                    | 141,644     |
| Diesel fuel used in train operations   | 114,770                   | 30,968                | 1,434                    | 147,172     |
| Electricity used in train operations   | —                         | —                     | 66                       | 66          |
| Casualties and insurance   | 28,208                    | 10,379                | (23)                     | 38,564      |
| Materials  | 73,993                    | 2,730                 | 481                      | 77,204      |
| Trackage rights  | 28,415                    | 21,316                | 1,180                    | 50,911      |
| Net gain on sale of assets   | (4,309)                   | (186)                 | (182)                    | (4,677)     |
| Other expenses   | 87,748                    | 8,577                 | 712                      | 97,037      |
| Total operating expenses   | 943,008                   | 229,780               | 15,667                   | 1,188,455   |
| Income/(loss) from operations  | \$286,164                 | \$95,016              | \$(992)                  | \$380,188   |
| Operating ratio  | 76.7                      | % 70.7                | % 106.8                  | % 75.8      |
| Interest expense, net  | \$48,483                  | \$14,814              | \$626                    | \$63,923    |
| Provision for/(benefit from) income taxes  | \$24,446                  | \$22,258              | \$(408)                  | \$46,296    |
| Expenditures for additions to property & equipment, net of grants from outside parties | \$163,157                 | \$51,860              | \$388                    | \$215,405   |
| Carloads   | 1,649,914                 | 236,098               | —                        | 1,886,012   |
| <b>North American Operations</b>   |                           |                       |                          |             |
| <b>Operating Revenues</b>  |                           |                       |                          |             |

The following table sets forth our North American Operations operating revenues and carloads by new operations and existing operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                          | 2014             |               |                     | 2013             |          |        | Increase/(Decrease) in Total Operations |        | Increase/(Decrease) in Existing Operations |  | Currency Impact |
|--------------------------|------------------|---------------|---------------------|------------------|----------|--------|---|--------|--|--|-----------------|
|                          | Total Operations | New Operation | Existing Operations | Total Operations | Amount   | %      | Amount                                  | %      |  |  |                 |
| Freight revenues         | \$1,008,236      | \$40,328      | \$967,908           | \$917,971        | \$90,265 | 9.8    | \$49,937                                | 5.4    | \$(5,973)                                  |  |                 |
| Freight-related revenues | 214,388          | 3,766         | 210,622             | 215,302          | (914)    | (0.4)  | (4,680)                                 | (2.2)  | (2,272)                                    |  |                 |
| All other revenues       | 82,137           | 1,046         | 81,091              | 95,899           | (13,762) | (14.4) | (14,808)                                | (15.4) | (543)                                      |  |                 |
| Total operating revenues | \$1,304,761      | \$45,140      | \$1,259,621         | \$1,229,172      | \$75,589 | 6.1    | \$30,449                                | 2.5    | \$(8,788)                                  |  |                 |
| Carloads                 | 1,779,157        | 36,894        | 1,742,263           | 1,649,914        | 129,243  | 7.8    | 92,349                                  | 5.6    |  |  |                 |

## Freight Revenues

The following table sets forth our North American Operations freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2014 and 2013, assuming the 2014 foreign currency exchange rates were applicable to both periods (dollars in thousands, except average freight revenues per carload):

| Commodity Group          | Freight Revenues |            |           |            | Carloads  |            |           |            | Average Freight Revenues Per Carload |       |
|--------------------------|------------------|------------|-----------|------------|-----------|------------|-----------|------------|--------------------------------------|-------|
|                          | 2014             |            | 2013*     |            | 2014      |            | 2013      |            | 2014                                 | 2013* |
|                          | Amount           | % of Total | Amount    | % of Total | Amount    | % of Total | Amount    | % of Total |                                      |       |
| Agricultural Products    | \$121,265        | 12.0 %     | \$89,774  | 9.8 %      | 210,316   | 11.8 %     | 179,083   | 10.9 %     | \$577                                | \$501 |
| Autos & Auto Parts       | 23,619           | 2.4 %      | 25,964    | 2.9 %      | 34,470    | 1.9 %      | 36,510    | 2.2 %      | 685                                  | 711   |
| Chemicals & Plastics     | 136,492          | 13.6 %     | 127,982   | 14.0 %     | 169,160   | 9.5 %      | 163,123   | 9.9 %      | 807                                  | 785   |
| Coal & Coke              | 126,377          | 12.5 %     | 110,605   | 12.1 %     | 355,762   | 20.0 %     | 323,500   | 19.6 %     | 355                                  | 342   |
| Food & Kindred Products  | 35,534           | 3.5 %      | 31,890    | 3.5 %      | 60,741    | 3.4 %      | 55,084    | 3.3 %      | 585                                  | 579   |
| Intermodal               | 390              | — %        | 848       | 0.1 %      | 3,442     | 0.2 %      | 8,518     | 0.5 %      | 113                                  | 100   |
| Lumber & Forest Products | 82,271           | 8.2 %      | 78,710    | 8.6 %      | 136,768   | 7.7 %      | 133,649   | 8.1 %      | 602                                  | 589   |
| Metallic Ores            | 17,795           | 1.8 %      | 16,358    | 1.8 %      | 22,123    | 1.2 %      | 20,231    | 1.2 %      | 804                                  | 809   |
| Metals                   | 131,161          | 13.0 %     | 126,821   | 13.9 %     | 184,264   | 10.4 %     | 175,636   | 10.7 %     | 712                                  | 722   |
| Minerals & Stone         | 112,999          | 11.2 %     | 86,446    | 9.5 %      | 194,335   | 10.9 %     | 162,401   | 9.8 %      | 581                                  | 532   |
| Petroleum Products       | 63,051           | 6.3 %      | 62,851    | 6.9 %      | 104,672   | 5.9 %      | 108,605   | 6.6 %      | 602                                  | 579   |
| Pulp & Paper             | 117,299          | 11.6 %     | 111,460   | 12.2 %     | 174,942   | 9.8 %      | 169,708   | 10.3 %     | 671                                  | 657   |
| Waste                    | 18,449           | 1.8 %      | 22,729    | 2.5 %      | 39,994    | 2.3 %      | 43,166    | 2.6 %      | 461                                  | 527   |
| Other                    | 21,534           | 2.1 %      | 19,560    | 2.2 %      | 88,168    | 5.0 %      | 70,700    | 4.3 %      | 244                                  | 277   |
| Total                    | \$1,008,236      | 100.0 %    | \$911,998 | 100.0 %    | 1,779,157 | 100.0 %    | 1,649,914 | 100.0 %    | \$567                                | \$553 |

\* Amounts adjusted to reflect the impact of 2014 foreign currency exchange rates.

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 year ended December 31, 2014, compared with the year ended December 31, 2013 (dollars in thousands):

| Commodity Group          | Year Ended December 31, |            | Increase/(Decrease) in Total Operations |                | Currency Impact | 2013 Constant Currency | Increase/(Decrease) in Existing Operations Constant Currency |  |
|--------------------------|-------------------------|------------|---|----------------|-----------------|------------------------|--|--|
|                          | 2014                    | 2013       |   | New Operations |                 |                        |  |  |
| Agricultural Products    | \$ 121,265              | \$ 90,272  | \$ 30,993                               | \$ 19,115      | \$(498 )        | \$ 89,774              | \$ 12,376  |  |
| Autos & Auto Parts       | 23,619                  | 26,415     | (2,796 )                                | —              | (451 )          | 25,964                 | (2,345 )   |  |
| Chemicals & Plastics     | 136,492                 | 128,935    | 7,557                                   | 3,146          | (953 )          | 127,982                | 5,364  |  |
| Coal & Coke              | 126,377                 | 110,836    | 15,541                                  | 24             | (231 )          | 110,605                | 15,748   |  |
| Food & Kindred Products  | 35,534                  | 31,982     | 3,552                                   | 788            | (92 )           | 31,890                 | 2,856  |  |
| Intermodal               | 390                     | 871        | (481 )                                  | —              | (23 )           | 848                    | (458 )   |  |
| Lumber & Forest Products | 82,271                  | 79,035     | 3,236                                   | 172            | (325 )          | 78,710                 | 3,389  |  |
| Metallic Ores            | 17,795                  | 16,602     | 1,193                                   | —              | (244 )          | 16,358                 | 1,437  |  |
| Metals                   | 131,161                 | 127,769    | 3,392                                   | 397            | (948 )          | 126,821                | 3,943  |  |
| Minerals & Stone         | 112,999                 | 86,627     | 26,372                                  | 16,640         | (181 )          | 86,446                 | 9,913  |  |
| Petroleum Products       | 63,051                  | 63,493     | (442 )                                  | 11             | (642 )          | 62,851                 | 189  |  |
| Pulp & Paper             | 117,299                 | 112,663    | 4,636                                   | —              | (1,203 )        | 111,460                | 5,839  |  |
| Waste                    | 18,449                  | 22,750     | (4,301 )                                | —              | (21 )           | 22,729                 | (4,280 )   |  |
| Other                    | 21,534                  | 19,721     | 1,813                                   | 35             | (161 )          | 19,560                 | 1,939  |  |
| Total freight revenues   | \$ 1,008,236            | \$ 917,971 | \$ 90,265                               | \$ 40,328      | \$(5,973 )      | \$ 911,998             | \$ 55,910  |  |

Total traffic from our North American Operations increased 129,243 carloads, or 7.8%, for the year ended December 31, 2014, compared with the year ended December 31, 2013. The increase consisted of 92,349 carloads, or 5.6%, from existing operations and 36,894 carloads from new operations. The increase in traffic from existing operations was principally due to increases of 32,248 carloads of coal and coke traffic, 22,863 carloads of minerals and stone traffic, 17,397 carloads of other commodity traffic, 9,559 carloads of agricultural products traffic, 8,253 carloads of metals traffic, 5,234 carloads of pulp and paper traffic and 4,804 carloads of food and kindred products traffic.

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. Changes in average freight revenues per carload in a commodity group can be impacted by changes in customer rates, fuel surcharges as well as changes in the mix of customer traffic within a commodity group.

Average freight revenues per carload from our North American Operations increased 2.5% to \$567 for the year ended December 31, 2014, compared with the year ended December 31, 2013.

Agricultural products revenues increased \$12.4 million, or 13.8%. Average freight revenues per carload increased 8.2%, which increased revenues by \$7.2 million, and traffic volume increased 9,559 carloads, or 5.3%, which increased revenues by \$5.2 million. The increase in carloads was primarily due to increased shipments in the midwestern and western United States.





Autos and auto parts revenues decreased \$2.3 million, or 9.0%. Autos and auto parts traffic volume decreased 2,040 carloads, or 5.6%, which decreased revenues by \$1.4 million, and average freight revenues per carload decreased 3.7%, which decreased revenues by \$0.9 million. The decrease in carloads was primarily due to reduced railcar supply in the midwestern United States and Canada.

Chemicals and plastics revenues increased \$5.4 million, or 4.2%. Chemicals and plastics average freight revenues per carload increased 3.3%, which increased revenues by \$4.3 million, and traffic volume increased 1,352 carloads, which increased revenues by \$1.1 million. The increase in carloads was primarily due to increased chemical shipments to a mine in the western United States.

Coal and coke revenues increased \$15.7 million, or 14.2%. Coal and coke traffic volume increased 32,248 carloads, or 10.0%, which increased revenues by \$11.5 million and average freight revenues per carload increased 3.8%, which increased revenues by \$4.3 million. The increase in carloads was primarily due to increased demand for steam coal in the midwestern United States, partially offset by decreased coal shipments in the western United States.

Food and kindred products revenues increased \$2.9 million, or 9.0%. Food and kindred products traffic volume increased 4,804 carloads, or 8.7%, which increased revenues \$2.8 million. The increase in carloads was primarily due to increased shipments in the western and midwestern United States.

Lumber and forest products revenues increased \$3.4 million, or 4.3%. Lumber and forest products traffic volume increased 2,974 carloads, or 2.2%, which increased revenues by \$1.8 million, and average freight revenues per carload increased 2.0%, which increased revenues by \$1.6 million. The carload increase was primarily due to increased shipments of wood pellets, wood chips and finished lumber in the southern United States, partially offset by decreased shipments in Canada.

Metallic ores revenues increased \$1.4 million, or 8.8%. Metallic ores traffic volume increased 1,892 carloads, or 9.4%, which increased revenues by \$1.5 million. The increase in carloads was primarily due to increased shipments of copper concentrate in the western United States.

Metals revenues increased \$3.9 million, or 3.1%. Metals traffic volume increased 8,253 carloads, or 4.7%, which increased revenues by \$5.8 million, while average freight revenues per carload decreased 1.5%, which decreased revenues by \$1.9 million. The increase in carloads was primarily due to increased shipments of steel in the midwestern and southern United States.

Minerals and stone revenues increased \$9.9 million, or 11.5%. Minerals and stone traffic volume increased 22,863 carloads, or 14.1%, which increased revenues by \$11.9 million, while average freight revenues per carload decreased 2.3%, which decreased revenues by \$2.0 million. The increase in carloads was primarily due to increased shipments of rock salt, frac sand, cement, construction aggregates and industrial minerals in North America.

Pulp and paper revenues increased \$5.8 million, or 5.2%. Pulp and paper traffic volume increased 5,234 carloads, or 3.1%, which increased revenues by \$3.5 million, and average freight revenues per carload increased 2.1%, which increased revenues by \$2.3 million. The increase in carloads was primarily due to increased shipments of container board in the United States, partially offset by decreased shipments of finished paper and wood pulp in Canada.

Waste revenues decreased \$4.3 million, or 18.8%. Waste revenues average freight revenues per carload decreased 12.5%, which decreased revenues by \$2.8 million, and traffic volume decreased 3,172 carloads, or 7.3%, which decreased revenues by \$1.5 million. The decrease in carloads was primarily due to the closure of a waste facility in the midwestern United States.

Other revenues increased \$1.9 million, or 9.9%. Other revenues traffic volume increased 17,397, or 24.6%, which increased revenues by \$4.3 million, while average freight revenues per carload decreased 11.9%, which decreased revenues by \$2.3 million. The increase in carloads was primarily due to increased overhead Class I traffic in the central United States.

Freight revenues from all remaining commodities combined decreased by a net \$0.3 million.

### Freight-Related Revenues

Excluding a \$2.3 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 rights, crewing services, storage and other ancillary revenues related to the movement of freight, increased \$1.4 million, or 0.6%, to \$214.4 million for the year ended December 31, 2014. The increase in freight-related revenues consisted of \$3.8 million from new operations, partially offset by a decrease of \$2.4 million from existing operations.

### All Other Revenues

Excluding a \$0.5 million decrease due to the depreciation of foreign currency, all other revenues from our North American Operations, which includes revenues from third-party car and locomotive repairs, property rentals, railroad construction and other ancillary revenues not directly related to the movement of freight, decreased \$13.2 million, or 13.9%, to \$82.1 million in the year ended December 31, 2014. The decrease in all other revenues consisted of \$14.3 million from existing operations, partially offset by \$1.0 million from new operations. The decrease in all other revenues from existing operations was primarily due to a decrease in construction revenues as a result of fewer third-party projects in 2014, which resulted from our previously disclosed decision to focus our construction resources on internal projects.

### Operating Expenses

Total operating expenses from our North American Operations for the year ended December 31, 2014 increased \$28.6 million, or 3.0%, to \$971.6 million, compared with \$943.0 million for the year ended December 31, 2013. The increase included \$35.6 million from new operations, partially offset by a decrease of \$7.0 million from existing operations. The decrease from existing operations was primarily due to the depreciation of the Canadian dollar relative to the United States dollar.

The following table sets forth operating expenses from our North American Operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                                      | 2014      |                         | 2013      |                         | Increase/(Decrease) | Currency Impact | 2013 Constant Currency | Increase/(Decrease) (Constant Currency) |
|--------------------------------------|-----------|-------------------------|-----------|-------------------------|---------------------|-----------------|------------------------|---|
|                                      | Amount    | % of Operating Revenues | Amount    | % of Operating Revenues |                     |                 |                        |   |
| Labor and benefits                   | \$390,755 | 29.9 %                  | \$367,073 | 29.9 %                  | 23,682              | \$(2,588 )      | \$364,485              | \$ 26,270                               |
| Equipment rents                      | 70,150    | 5.4 %                   | 66,055    | 5.4 %                   | 4,095               | (348 )          | 65,707                 | 4,443                                   |
| Purchased services                   | 62,826    | 4.8 %                   | 67,900    | 5.5 %                   | (5,074 )            | (506 )          | 67,394                 | (4,568 )                                |
| Depreciation and amortization        | 127,421   | 9.8 %                   | 113,155   | 9.2 %                   | 14,266              | (1,070 )        | 112,085                | 15,336                                  |
| Diesel fuel used in train operations | 120,729   | 9.3 %                   | 114,770   | 9.4 %                   | 5,959               | (1,120 )        | 113,650                | 7,079                                   |
| Casualties and insurance             | 30,124    | 2.3 %                   | 28,208    | 2.3 %                   | 1,916               | (172 )          | 28,036                 | 2,088                                   |
| Materials                            | 69,840    | 5.4 %                   | 73,993    | 6.0 %                   | (4,153 )            | (450 )          | 73,543                 | (3,703 )                                |
| Trackage rights                      | 28,928    | 2.2 %                   | 28,415    | 2.3 %                   | 513                 | (20 )           | 28,395                 | 533                                     |
| Net gain on sale of assets           | (4,582 )  | (0.4 )%                 | (4,309 )  | (0.4 )%                 | (273 )              | 84              | (4,225 )               | (357 )                                  |
| Other expenses                       | 75,376    | 5.8 %                   | 87,748    | 7.1 %                   | (12,372 )           | (569 )          | 87,179                 | (11,803 )                               |
| Total operating expenses             | \$971,567 | 74.5 %                  | \$943,008 | 76.7 %                  | 28,559              | \$(6,759 )      | \$936,249              | \$ 35,318                               |

The following information discusses the significant changes in operating expenses of our North American Operations excluding a decrease of \$6.8 million due to the impact from foreign currency depreciation.

Labor and benefits expense was \$390.8 million for the year ended December 31, 2014, compared with \$364.5 million for the year ended December 31, 2013, an increase of \$26.3 million, or 7.2%. The increase consisted of \$16.5 million from existing operations and \$9.8 million from new operations. The increase from existing operations was primarily due to an increase in the average number of employees. Our average number of employees increased for our existing

operations primarily as a result of insourcing equipment maintenance activities in the midwestern United States and an increase in transportation employees as a result of higher traffic levels.

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Equipment rents expense was \$70.2 million for the year ended December 31, 2014, compared with \$65.7 million for the year ended December 31, 2013, an increase of \$4.4 million, or 6.8%. The increase was primarily from new operations.

Purchased services expense was \$62.8 million for the year ended December 31, 2014, compared with \$67.4 million for the year ended December 31, 2013, a decrease of \$4.6 million, or 6.8%. The decrease consisted of \$7.7 million from existing operations, partially offset by \$3.2 million from new operations. The decrease from existing operations was primarily due to a reduction in the level of third-party construction projects.

Depreciation and amortization expense was \$127.4 million for the year ended December 31, 2014, compared with \$112.1 million for the year ended December 31, 2013, an increase of \$15.3 million, or 13.7%. The increase consisted of \$11.1 million from existing operations and \$4.3 million from new operations. The increase from existing operations was primarily attributable to capital expenditures in 2013.

The cost of diesel fuel used in train operations was \$120.7 million for the year ended December 31, 2014, compared with \$113.7 million for the year ended December 31, 2013, an increase of \$7.1 million, or 6.2%. The increase consisted of \$6.0 million from new operations and \$1.1 million from existing operations. The increase from existing operations consisted of \$6.2 million due to a 5.7% increase in diesel fuel consumption, partially offset by \$5.1 million due to a 4.4% decrease in average fuel cost per gallon.

Casualties and insurance expense was \$30.1 million for the year ended December 31, 2014, compared with \$28.0 million for the year ended December 31, 2013, an increase of \$2.1 million, or 7.4%. The increase consisted of \$1.6 million from existing operations and \$0.5 million from new operations.

Materials expense was \$69.8 million for the year ended December 31, 2014, compared with \$73.5 million for the year ended December 31, 2013, a decrease of \$3.7 million, or 5.0%. The decrease consisted of \$7.1 million from existing operations, partially offset by \$3.4 million from new operations. The decrease from existing operations was primarily due to a reduction in the level of construction projects in 2014.

Trackage rights expense was \$28.9 million for the year ended December 31, 2014, compared with \$28.4 million for the year ended December 31, 2013, a decrease of \$0.5 million, or 1.9%. The decrease was primarily attributable to existing operations.

Other expenses were \$75.4 million for the year ended December 31, 2014, compared with \$87.2 million for the year ended December 31, 2013, a decrease of \$11.8 million, or 13.5%. The decrease consisted of \$16.0 million from existing operations, partially offset by \$4.2 million from new operations. The decrease from existing operations was primarily attributable to RailAmerica integration costs incurred in 2013.

#### Income from Operations/Operating Ratio

Income from operations from our North American Operations was \$333.2 million for the year ended December 31, 2014, compared with \$286.2 million for the year ended December 31, 2013. Income from operations for the year ended December 31, 2014 included business development and related costs of \$4.9 million, partially offset by a \$4.6 million net gain on sale of assets. Income from operations for the year ended December 31, 2013 included \$17.0 million of RailAmerica integration and acquisition-related costs and \$1.4 million of business development and related costs, partially offset by net gain on sale of assets of \$4.3 million. The operating ratio was 74.5% for the year ended December 31, 2014, compared with 76.7% for the year ended December 31, 2013.

Australian Operations

Operating Revenues

The following table sets forth our Australian Operations operating revenues for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                          | 2014      | 2013      | Increase/(Decrease) |       | Currency Impact |
|--------------------------|-----------|-----------|---------------------|-------|-----------------|
|                          |           |           | Amount              | %     |                 |
| Freight revenues         | \$243,705 | \$259,393 | \$(15,688)          | (6.0) | )% \$(16,437)   |
| Freight-related revenues | 55,461    | 57,834    | (2,373)             | (4.1) | )% (3,692)      |
| All other revenues       | 14,104    | 7,569     | 6,535               | 86.3  | % (456)         |
| Total operating revenues | \$313,270 | \$324,796 | \$(11,526)          | (3.5) | )% \$(20,585)   |
| Carloads                 | 227,894   | 236,098   | (8,204)             | (3.5) | )%              |

Freight Revenues

The following table sets forth our Australian Operations freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2014 and 2013, assuming the 2014 foreign currency exchange rates were applicable to both periods (dollars in thousands, except average freight revenues per carload):

| Commodity Group       | Freight Revenues             |            |           |            | Carloads                     |            |         |            | Average Freight Revenues Per Carload |         |
|-----------------------|------------------------------|------------|-----------|------------|------------------------------|------------|---------|------------|--------------------------------------|---------|
|                       | Year Ended December 31, 2014 |            | 2013*     |            | Year Ended December 31, 2014 |            | 2013    |            | Year Ended December 31,              |         |
|                       | Amount                       | % of Total | Amount    | % of Total | Amount                       | % of Total | Amount  | % of Total | 2014                                 | 2013*   |
| Agricultural Products | \$32,003                     | 13.1 %     | \$37,592  | 15.5 %     | 54,184                       | 23.8 %     | 61,757  | 26.2 %     | \$591                                | \$609   |
| Intermodal            | 91,895                       | 37.7 %     | 91,737    | 37.7 %     | 63,475                       | 27.9 %     | 65,148  | 27.6 %     | 1,448                                | 1,408   |
| Metallic Ores         | 109,439                      | 44.9 %     | 102,587   | 42.2 %     | 56,542                       | 24.8 %     | 52,135  | 22.1 %     | 1,936                                | 1,968   |
| Minerals & Stone      | 8,921                        | 3.7 %      | 9,430     | 3.9 %      | 53,407                       | 23.4 %     | 56,762  | 24.0 %     | 167                                  | 166     |
| Petroleum Products    | 1,447                        | 0.6 %      | 1,610     | 0.7 %      | 286                          | 0.1 %      | 296     | 0.1 %      | 5,059                                | 5,439   |
| Total                 | \$243,705                    | 100.0 %    | \$242,956 | 100.0 %    | 227,894                      | 100.0 %    | 236,098 | 100.0 %    | \$1,069                              | \$1,029 |

\*Amounts adjusted to reflect the impact of 2014 foreign currency exchange rates.

The following table sets forth the changes in our Australian Operations freight revenues by commodity group for the year ended December 31, 2014, compared with the year ended December 31, 2013 (dollars in thousands):

| Commodity Group        | Year Ended December 31, |           | Increase/(Decrease) | Currency Impact | 2013 Constant Currency | Increase/(Decrease) Constant Currency |
|------------------------|-------------------------|-----------|---------------------|-----------------|------------------------|---------------------------------------|
|                        | 2014                    | 2013      |                     |                 |                        |                                       |
| Agricultural Products  | \$32,003                | \$40,305  | \$(8,302)           | \$(2,713)       | \$37,592               | \$(5,589)                             |
| Intermodal             | 91,895                  | 97,888    | (5,993)             | (6,151)         | 91,737                 | 158                                   |
| Metallic Ores          | 109,439                 | 109,326   | 113                 | (6,739)         | 102,587                | 6,852                                 |
| Minerals & Stone       | 8,921                   | 10,144    | (1,223)             | (714)           | 9,430                  | (509)                                 |
| Petroleum Products     | 1,447                   | 1,730     | (283)               | (120)           | 1,610                  | (163)                                 |
| Total freight revenues | \$243,705               | \$259,393 | \$(15,688)          | \$(16,437)      | \$242,956              | \$749                                 |

Total traffic from our Australian Operations decreased 8,204 carloads, or 3.5%, for the year ended December 31, 2014, compared with the year ended December 31, 2013. The traffic was entirely from existing operations. The decrease was principally due to decreases of 7,573 carloads of agricultural products traffic, 3,355 carloads of minerals and stone traffic and 1,673 carloads of intermodal traffic, partially offset by a 4,407 carload increase in metallic ores

traffic.

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

Average freight revenues per carload from our Australian Operations increased 3.9% to \$1,069 for the year ended December 31, 2014, compared with the year ended December 31, 2013. Changes in commodity mix increased average freight revenues 4.0%.

Agricultural products revenues decreased \$5.6 million, or 14.9%. Agricultural traffic decreased 7,573 carloads, or 12.3%, which decreased revenues by \$4.5 million, and average freight revenues per carload decreased 3.0%, which decreased revenues by \$1.1 million. The decrease in carloads was primarily due to a late start to the harvest season. Metallic ores revenues increased \$6.9 million, or 6.7%. Metallic ores traffic volume increased 4,407 carloads, or 8.5%, which increased revenues by \$8.5 million, while average freight revenues per carload decreased 1.6%, which decreased revenues by \$1.7 million. The increase in carloads was primarily due to increased shipments of iron ore, manganese and copper ore.

Freight revenues from all remaining commodities combined decreased by \$0.5 million.

#### Freight-Related Revenues

Excluding a \$3.7 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, increased \$1.3 million, or 2.4%, to \$55.5 million for the year ended December 31, 2014. The increase in freight-related revenues, which was entirely from existing operations, included an increase in railcar switching revenue due to higher narrow gauge iron ore shipments, partially offset by the loss of track access income from an iron ore mine that ceased operations.

#### All Other Revenues

Excluding a \$0.5 million decrease due to the impact of foreign currency depreciation, all other revenues from our Australian Operations, which includes revenue from third-party railcar and locomotive repairs, property rentals and other ancillary revenues not directly related to the movement of freight, increased \$7.0 million, or 98.3%, to \$14.1 million for the year ended December 31, 2014. The increase was primarily due to increased railcar maintenance for customers.

#### Operating Expenses

Total operating expenses from our Australian Operations for the year ended December 31, 2014 decreased \$6.9 million, or 3.0%, to \$222.9 million, compared with \$229.8 million for the year ended December 31, 2013. The decrease included a \$14.8 million decrease due to the depreciation of foreign currency.



The following table sets forth operating expenses from our Australian Operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                                      | 2014      |                         | 2013      |                         | Currency Impact | 2013 Constant Currency | Increase/(Decrease) (Constant Currency) |
|--------------------------------------|-----------|-------------------------|-----------|-------------------------|-----------------|------------------------|---|
|                                      | Amount    | % of Operating Revenues | Amount    | % of Operating Revenues |                 |                        |   |
| Labor and benefits                   | \$71,216  | 22.7 %                  | \$66,377  | 20.5 %                  | 4,839           | \$(4,369)              | \$9,208                                 |
| Equipment rents                      | 9,973     | 3.1 %                   | 10,299    | 3.2 %                   | (326)           | (664)                  | 338                                     |
| Purchased services                   | 34,092    | 10.9 %                  | 52,218    | 16.1 %                  | (18,126)        | (3,309)                | (14,817)                                |
| Depreciation and amortization        | 28,095    | 9.0 %                   | 27,102    | 8.3 %                   | 993             | (1,786)                | 2,779                                   |
| Diesel fuel used in train operations | 26,346    | 8.4 %                   | 30,968    | 9.5 %                   | (4,622)         | (1,975)                | (2,647)                                 |
| Casualties and insurance             | 10,899    | 3.5 %                   | 10,379    | 3.2 %                   | 520             | (720)                  | 1,240                                   |
| Materials                            | 7,656     | 2.4 %                   | 2,730     | 0.8 %                   | 4,926           | (176)                  | 5,102                                   |
| Trackage rights                      | 22,095    | 7.1 %                   | 21,316    | 6.6 %                   | 779             | (1,259)                | 2,038                                   |
| Net gain on sale of assets           | (432)     | (0.1) %                 | (186)     | (0.1) %                 | (246)           | 54                     | (300)                                   |
| Other expenses                       | 12,934    | 4.1 %                   | 8,577     | 2.6 %                   | 4,357           | (565)                  | 4,922                                   |
| Total operating expenses             | \$222,874 | 71.1 %                  | \$229,780 | 70.7 %                  | (6,906)         | \$(14,769)             | \$7,863                                 |

The following information discusses the significant changes in operating expenses from our Australian Operations excluding a \$14.8 million decrease due to the impact from foreign currency depreciation.

Labor and benefits expense was \$71.2 million for the year ended December 31, 2014, compared with \$62.0 million for the year ended December 31, 2013, an increase of \$9.2 million, or 14.8%. The increase in labor and benefits expense was due to an increase in our average number of employees primarily related to the insourcing of equipment maintenance activities.

Purchased services expense was \$34.1 million for the year ended December 31, 2014, compared with \$48.9 million for the year ended December 31, 2013, a decrease of \$14.8 million, or 30.3%. The decrease in purchased services expense was primarily attributable to the insourcing of equipment maintenance activities.

Depreciation and amortization was \$28.1 million for the year ended December 31, 2014, compared with \$25.3 million for the year ended December 31, 2013, an increase of \$2.8 million, or 11.0%. The increase in depreciation and amortization expense was primarily due to capital expenditures in 2013.

The cost of diesel fuel used in train operations was \$26.3 million for the year ended December 31, 2014, compared with \$29.0 million for the year ended December 31, 2013, a decrease of \$2.6 million, or 9.1%. The decrease consisted of \$1.3 million due to a 4.1% increase in average fuel cost per gallon and \$1.3 million due to a 5.3% decrease in diesel fuel consumption.

Casualties and insurance expense was \$10.9 million for the year ended December 31, 2014, compared with \$9.7 million for the year ended December 31, 2013, an increase of \$1.2 million, or 12.8%. The increase was primarily due to an increase in derailment expense.

Materials expense was \$7.7 million for the year ended December 31, 2014, compared with \$2.6 million for the year ended December 31, 2013, an increase of \$5.1 million. The increase in materials expense was primarily attributable to the increase in materials purchased to support the insourcing of equipment maintenance activities.

Trackage rights expense was \$22.1 million for the year ended December 31, 2014, compared with \$20.1 million for the year ended December 31, 2013, an increase of \$2.0 million, or 10.2%. The increase in trackage rights expense was primarily attributable to expanded services for an iron ore customer that moves over a segment of track owned by a third party.

Other expenses were \$12.9 million for the year ended December 31, 2014, compared with \$8.0 million for the year ended December 31, 2013, an increase of \$4.9 million, or 61.4%, primarily resulting from third-party projects.

## Income from Operations/Operating Ratio

Income from operations from our Australian Operations was \$90.4 million for the year ended December 31, 2014, compared with \$95.0 million for the year ended December 31, 2013. The decrease was primarily due to the net impact from foreign currency depreciation. The operating ratio was 71.1% for the year ended December 31, 2014, compared with 70.7% for the year ended December 31, 2013.

## U.K./European Operations

## Operating Revenues

The following table sets forth our U.K./European Operations operating revenues for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                          | 2014     | 2013     | Increase/(Decrease) |      | Currency Impact |
|--------------------------|----------|----------|---------------------|------|-----------------|
|                          |          |          | Amount              | %    |                 |
| Freight revenues         | \$—      | \$—      | \$—                 | —    | % \$—           |
| Freight-related revenues | 20,938   | 14,675   | 6,263               | 42.7 | % (20 )         |
| All other revenues       | 43       | —        | 43                  | NM   | —               |
| Total operating revenues | \$20,981 | \$14,675 | \$6,306             | 43.0 | % \$(20 )       |

## Freight-Related Revenues

Prior to our acquisition of Freightliner in March of 2015, freight-related revenues from our U.K./European Operations consisted primarily of port switching. Freight-related revenues from our U.K./European Operations increased \$6.3 million, or 42.7%, to \$20.9 million for the year ended December 31, 2014, compared with \$14.7 million for the year ended December 31, 2013.

## Operating Expenses

Total operating expenses from our U.K./European Operations were \$23.0 million for the year ended December 31, 2014, compared with \$15.7 million for the year ended December 31, 2013, an increase of \$7.3 million. The increase was entirely from existing operations and primarily related to an increase in business.

The following table sets forth operating expenses from our U.K./European Operations for the years ended December 31, 2014 and 2013 (dollars in thousands):

|                                      | 2014     |                         | 2013     |                         | Increase/(Decrease) | Currency Impact | 2013 Constant Currency | Increase/(Decrease) (Constant Currency) |
|--------------------------------------|----------|-------------------------|----------|-------------------------|---------------------|-----------------|------------------------|---|
|                                      | Amount   | % of Operating Revenues | Amount   | % of Operating Revenues |                     |                 |                        |   |
| Labor and benefits                   | \$7,532  | 35.9 %                  | \$5,667  | 38.6 %                  | 1,865               | 23              | 5,690                  | \$ 1,842                                |
| Equipment rents                      | 2,607    | 12.4 %                  | 1,241    | 8.5 %                   | 1,366               | (11 )           | 1,230                  | 1,377                                   |
| Purchased services                   | 3,190    | 15.2 %                  | 3,704    | 25.2 %                  | (514 )              | (5 )            | 3,699                  | (509 )                                  |
| Depreciation and amortization        | 1,565    | 7.5 %                   | 1,387    | 9.5 %                   | 178                 | —               | 1,387                  | 178                                     |
| Diesel fuel used in train operations | 1,972    | 9.4 %                   | 1,434    | 9.8 %                   | 538                 | (2 )            | 1,432                  | 540                                     |
| Electricity used in train operations | 1,058    | 5.0 %                   | 66       | 0.4 %                   | 992                 | 2               | 68                     | 990                                     |
| Casualties and insurance             | 529      | 2.5 %                   | (23 )    | (0.2 )%                 | 552                 | 1               | (22 )                  | 551                                     |
| Materials                            | 870      | 4.1 %                   | 481      | 3.3 %                   | 389                 | (2 )            | 479                    | 391                                     |
| Trackage rights                      | 2,760    | 13.2 %                  | 1,180    | 8.0 %                   | 1,580               | (13 )           | 1,167                  | 1,593                                   |
| Net gain on sale of assets           | (86 )    | (0.4 )%                 | (182 )   | (1.2 )%                 | 96                  | (5 )            | (187 )                 | 101                                     |
| Other expenses                       | 1,003    | 4.8 %                   | 712      | 4.9 %                   | 291                 | (17 )           | 695                    | 308                                     |
| Total operating expenses             | \$23,000 | 109.6 %                 | \$15,667 | 106.8 %                 | 7,333               | (29 )           | 15,638                 | \$ 7,362                                |



### Income/(Loss) from Operations

Loss from operations from our U.K./European Operations was \$2.0 million for the year ended December 31, 2014, compared with a \$1.0 million loss from operations for the year ended December 31, 2013. The loss from our U.K./European Operations in 2013 included extra operating expenses incurred as a result of third party accidents, as well as higher staffing and training expenses incurred in preparation for a significant new long-term customer contract that commenced in early 2014 to provide shuttle service between Rotterdam and the German border. In 2014, the loss widened as expected during the ramp-up period of the new shuttle service.

### Liquidity and Capital Resources

We had cash and cash equivalents on hand of \$35.9 million and \$59.7 million at December 31, 2015 and 2014, respectively. Based on current expectations, we believe our cash and other liquid assets, anticipated future cash flows, availability under our credit agreement, access to debt and equity capital markets and 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 December 31, 2015, we had long-term debt, including current portion, of \$2,305.3 million, which comprised 47.8% of our total capitalization, and \$575.7 million of unused borrowing capacity. At December 31, 2014, we had long-term debt, including current portion, totaling \$1,615.4 million, which comprised 40.7% of our total capitalization. During the year ended December 31, 2015, we completed the acquisition of Freightliner for cash consideration of £492.1 million (or \$733.0 million at the exchange rate on March 25, 2015). We financed the acquisition through a combination of available cash and borrowings under the Credit Agreement (see Credit Agreement below).

During 2015, 2014 and 2013, we generated \$475.1 million, \$491.5 million and \$413.5 million, respectively, of cash from operating activities. Changes in working capital decreased net cash flows from operating activities by \$8.5 million, \$3.6 million and \$26.1 million in 2015, 2014 and 2013, respectively. The 2015 period included \$33.2 million of cash used for Freightliner acquisition and integration costs. The 2013 period included \$12.9 million in cash paid for expenses related to the integration of RailAmerica.

During 2015, 2014 and 2013, our cash used in investing activities was \$1,074.3 million, \$509.8 million and \$208.7 million, respectively. For 2015, primary drivers of cash used in investing activities were \$740.2 million of cash paid for acquisitions, including the acquisitions of Freightliner and Pinsly Arkansas, \$371.5 million of cash used for capital expenditures, including \$65.6 million for new business investments and \$18.7 million of net cash paid for the settlement of the foreign currency forward purchase contracts related to the acquisition of Freightliner, partially offset by \$41.7 million in cash received from grants from outside parties for capital spending and \$10.4 million of insurance proceeds for the replacement of assets. For 2014, primary drivers of cash used in investing activities were \$331.5 million of cash used for capital expenditures, including \$92.9 million for new business investments, \$221.5 million of cash paid for acquisitions, predominately for the RCP&E acquisition, partially offset by \$28.0 million in cash received from grants from outside parties for capital spending, \$8.0 million of insurance proceeds for the replacement of assets and \$7.1 million in cash proceeds from the sale of property and equipment. For 2013, primary drivers of cash used in investing activities were \$249.3 million of cash used for capital expenditures, including \$34.2 million for new business investments, partially offset by \$33.9 million in cash received from grants from outside parties and \$6.7 million in cash proceeds from the sale of property and equipment.

During 2015 and 2014, our cash provided by financing activities was \$581.6 million and \$15.2 million, respectively. During 2013, our cash used in financing activities was \$205.9 million. For 2015, the primary driver of cash provided by financing activities was net proceeds of \$586.2 million, which was predominately related to borrowings from the refinancing of the Credit Agreement in conjunction with our acquisition of Freightliner. For 2014, the primary driver of cash flows provided by financing activities was net cash inflows of \$13.9 million from exercises of stock-based awards. For 2013, the primary driver of cash used in financing activities was a net decrease in outstanding debt of \$209.3 million.

### Cash Repatriation

At December 31, 2015, we had cash and cash equivalents totaling \$35.9 million, of which \$28.3 million were held by our foreign subsidiaries. We file a consolidated United States federal income tax return that includes all of our United States subsidiaries. Each of our foreign subsidiaries files income tax returns in each of its respective countries. No provision is made for the United States income taxes applicable to the undistributed earnings of controlled foreign subsidiaries as it is the intention of management to fully utilize those earnings in the operations of foreign subsidiaries. If the earnings were to be distributed in the future, those distributions may be subject to United States income taxes (appropriately reduced by available foreign tax credits) and withholding taxes payable to various foreign countries; however, the amount of the tax and credits is not practicable to determine. The amount of undistributed earnings of our controlled foreign subsidiaries as of December 31, 2015 was \$322.5 million.

### Credit Agreement

In anticipation of our acquisition of Freightliner, we entered into the Credit Agreement on March 20, 2015. The credit facilities under the Credit Agreement are comprised of a \$1,782.0 million United States term loan, an A\$324.6 million (or \$252.5 million at the exchange rate on March 20, 2015) Australian term loan, a £101.7 million (or \$152.2 million at the exchange rate on March 20, 2015) U.K. term loan and a \$625.0 million revolving credit facility. The revolving credit facility includes borrowing capacity for letters of credit and swingline loans. The maturity date of each of our credit facilities under the Credit Agreement is March 31, 2020. On September 30, 2015, we entered into Amendment No. 1 (the Amendment) to the Credit Agreement. The Amendment added a senior secured leverage ratio covenant that requires us to comply with maximum ratios of senior secured indebtedness, subject, if applicable, to netting of certain cash and cash equivalents to earnings before income taxes, depreciation and amortization (EBITDA). For additional information regarding our Credit Agreement, Credit Agreement Amendment and the Prior Credit Agreement, see Note 8, Long-Term Debt, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

### Tangible Equity Units (TEUs)

On September 19, 2012, we issued 2,300,000 5.00% TEUs. Each TEU initially consisted of a prepaid stock purchase contract (Purchase Contract) and a senior amortizing note due October 1, 2015 (Amortizing Note) issued by us, which had an initial principal amount of \$14.1023 per Amortizing Note. On each January 1, April 1, July 1 and October 1, we paid the holders of Amortizing Notes equal quarterly installments of \$1.25 per Amortizing Note (except for the January 1, 2013 installment payment, which was \$1.4167 per Amortizing Note), which cash payments in the aggregate were equivalent to a 5.00% cash payment per year with respect to each \$100 stated amount of the TEUs. On October 1, 2015, we settled the remaining balance of the amortizing note component of the TEUs for a total cash payment of \$2.8 million. In addition, we settled the prepaid stock purchase contract component of the TEUs with the delivery of 3,539,240 shares of our Class A Common Stock.

### Non-Interest Bearing Loan

In 2010, as part of the acquisition of FreightLink Pty Ltd, Asia Pacific Transport Pty Ltd and related corporate entities (FreightLink Acquisition), we assumed debt with a carrying value of A\$1.8 million (or \$1.7 million at the exchange rate on December 1, 2010), which represented the fair value of an A\$50.0 million (or \$48.2 million at the exchange rate on December 1, 2010) non-interest bearing loan due in 2054. As of December 31, 2015, the carrying value of the loan was A\$2.7 million (or \$1.9 million at the exchange rate on December 31, 2015) with a non-cash imputed interest rate of 8.0%.

### Equipment and Property Leases

We enter into operating leases for railcars, locomotives and other equipment as well as real property. We also enter into agreements with other railroads and other third parties to operate over certain sections of their track, whereby we pay a per car fee to use the track or make an annual lease payment. The costs associated with operating leases are expensed as incurred. The increase in leased equipment in 2015 was attributable to our acquisition of Freightliner, which primarily relies upon leased railcars and locomotives.

The number of railcars and locomotives leased by us as of December 31, 2015 and 2014 was as follows:

|             | December 31, |        |
|-------------|--------------|--------|
|             | 2015         | 2014   |
| Railcars    | 21,819       | 18,583 |
| Locomotives | 333          | 162    |

Our operating lease expense for equipment and real property leases and expense for the use of other railroad and other third parties' track for the years ended December 31, 2015, 2014 and 2013 was as follows (dollars in thousands):

|                 | 2015     | 2014     | 2013     |
|-----------------|----------|----------|----------|
| Equipment       | \$82,853 | \$29,462 | \$32,050 |
| Real property   | \$11,715 | \$8,361  | \$8,062  |
| Trackage rights | \$78,140 | \$53,783 | \$50,911 |

We are party to several lease agreements with Class I carriers and other third parties to operate over various rail lines in North America, with varied expirations. Certain of these lease agreements have annual lease payments. Revenues from railroads we lease from Class I carriers and other third parties accounted for approximately 7% of our 2015 total revenues. Leases from Class I railroads and other third parties that are subject to expiration in each of the next 10 years represent less than 2% of our annual revenues for the year of expiration based on our operating revenues for the year ended December 31, 2015.

#### Shelf Registration

We have an effective shelf registration statement on file with the SEC for an indeterminate number of securities that is effective for three years (expires September 14, 2018), around which time we expect to file a replacement shelf registration statement. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time securities, including common stock, debt securities, preferred stock, warrants and units.

#### Grants from Outside Parties

Our railroads have received a number of project grants from federal, provincial, state and local agencies and other outside parties (e.g., customers) for upgrades and construction of rail lines and upgrades of locomotives. We use the grant funds as a supplement to our normal capital programs. In return for the grants, the railroads pledge to maintain various levels of service and improvements on the rail lines that have been upgraded or constructed. We believe the levels of service and improvements required under the grants are reasonable. However, we can offer no assurance that grants from outside parties will continue to be available or that, even if available, our railroads will be able to obtain them.

#### Insurance and Third-Party Claims

Accounts receivable from insurance and other third-party claims was \$26.6 million and \$26.9 million as of December 31, 2015 and 2014, respectively. Accounts receivable from insurance and other third-party claims at December 31, 2015 included \$12.8 million from our North American Operations, \$8.1 million from our Australian Operations and \$5.7 million from our U.K./European Operations. The balance from our North American Operations resulted predominately from our anticipated insurance recoveries associated with a derailment in Alabama (the Aliceville Derailment) in November 2013 and a trestle fire in Oregon in August 2015. The balance from our Australian Operations resulted from our anticipated insurance recoveries associated with derailments in Australia in 2012. The balance from our U.K./European Operations resulted primarily from our anticipated insurance recoveries associated with a rail-related collision in Germany in 2014 that occurred prior to our acquisition of Freightliner. We received proceeds from insurance totaling \$10.4 million, \$13.6 million and \$11.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 2016 Budgeted Capital Expenditures

The following table sets forth our budgeted capital expenditures by segment for the year ending December 31, 2016 (dollars in thousands):

| Budgeted Capital Expenditures:                         | Year Ending<br>December 31, 2016 |                          |                             | Total      |
|--|----------------------------------|--------------------------|-----------------------------|------------|
|  | North American<br>Operations     | Australian<br>Operations | U.K./European<br>Operations |            |
| Track and equipment, self-funded                       | \$ 133,000                       | \$ 14,000                | \$ 28,000                   | \$ 175,000 |
| Track and equipment, subject to third-party<br>funding | 80,000                           | —                        | —                           | 80,000     |
| New business development                               | 12,000                           | 3,000                    | 20,000                      | 35,000     |
| Grants from outside parties                            | (65,000                          | ) \$—                    | —                           | (65,000    |
| Net budgeted capital expenditures                      | \$ 160,000                       | \$ 17,000                | \$ 48,000                   | \$ 225,000 |

We have historically relied primarily on cash generated from operations to fund working capital and capital expenditures relating to ongoing operations, while relying on borrowed funds and stock issuances to finance acquisitions and new investments. We believe our cash flow from operations will enable us to meet our liquidity and capital expenditure requirements relating to ongoing operations for at least the duration of our Amended and Restated Credit Agreement.

## Contractual Obligations and Commercial Commitments

Based on our assessment of the underlying provisions and circumstances of our material contractual obligations and commercial commitments as of December 31, 2015, there is no known trend, demand, commitment, event or uncertainty that is reasonably likely to occur that would have a material adverse effect on our consolidated results of operations, financial condition or liquidity.

The following table represents our obligations and commitments for future cash payments under various agreements as of December 31, 2015 (dollars in thousands):

| Contractual Obligations:           | Payments Due By Period |                     |           |             |                      |
|------------------------------------|------------------------|---------------------|-----------|-------------|----------------------|
|                                    | Total                  | Less than 1<br>year | 1-3 years | 3-5 years   | More than 5<br>years |
| Long-term debt obligations<br>(1)  | \$2,215,358            | \$57,112            | \$271,545 | \$1,850,276 | \$36,425             |
| Interest on long-term debt<br>(2)  | 241,698                | 61,230              | 112,764   | 62,252      | 5,452                |
| Derivative instruments (3)         | 12,501                 | 846                 | —         | 12          | 11,643               |
| Capital lease obligations          | 124,411                | 24,841              | 29,333    | 26,499      | 43,738               |
| Operating lease obligations        | 707,004                | 112,230             | 175,232   | 114,723     | 304,819              |
| Purchase obligations (4)           | 12,692                 | 12,692              | —         | —           | —                    |
| Other long-term liabilities<br>(5) | 87,520                 | 19,636              | 1,504     | 36,774      | 29,606               |
| Total                              | \$3,401,184            | \$288,587           | \$590,378 | \$2,090,536 | \$431,683            |

Includes an A\$50.0 million (or \$36.4 million at the exchange rate on December 31, 2015) non-interest bearing loan (1) due in 2054 assumed in the acquisition of FreightLink with a carrying value of A\$2.7 million (or \$1.9 million at the exchange rate on December 31, 2015).

(2) Assumes no change in variable interest rates from December 31, 2015.

(3) Includes the fair value of our interest rate swaps of \$12.5 million.

(4) Includes purchase commitments for future capital expenditures among our existing operations.

(5) Includes deferred compensation of \$14.5 million, estimated casualty obligations of \$10.3 million, deferred consideration related to the acquisition of Freightliner of \$35.7 million and certain other long-term liabilities of \$10.2 million. In addition, the table includes estimated post-retirement medical and life insurance benefits of \$3.5



million and our 2016 estimated contributions of \$13.4 million to our pension plans.

#### Off-Balance Sheet Arrangements

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, 2015 consisted of operating lease obligations, which are included in the contractual obligations table above, as well as credit/payment guarantees acquired from Freightliner. See Note 3, Changes in Operations, to our Consolidated Financial Statements included within "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

#### Impact of Foreign Currencies on Operating Revenues and Expenses

When comparing the effects of average foreign currency exchange rates on operating revenues and operating expenses during the year ended December 31, 2015 versus the year ended December 31, 2014, foreign currency translation had a negative impact on our consolidated operating revenues and a positive impact on our consolidated operating expenses due to the weakening of the Australian and Canadian dollars relative to the United States dollar for the year ended December 31, 2015. Currency effects related to operating revenues and expenses are presented within the discussion of these respective items included within this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to use judgment and to make estimates and assumptions that affect business combinations, reported assets, liabilities, revenues and expenses during the reporting period. Management uses its judgment in making significant estimates in the areas of recoverability and useful life of assets, as well as liabilities for casualty claims and income taxes. Actual results could materially differ from those estimates. The following critical accounting policies and use of estimates should be read in conjunction with Note 2, Significant Accounting Policies, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

#### Property and Equipment

We record property and equipment at cost. We capitalize major renewals or improvements, but routine maintenance and repairs are expensed when incurred. We incur maintenance and repair expenses to keep our operations safe and fit for existing purpose. Major renewals or improvements to property and equipment, however, are undertaken to extend the useful life or increase the functionality of the asset, or both.

When assessing spending for classification among capital or expense, we evaluate the substance of the respective spending. For example, costs incurred to modify a railroad bridge, either through individual projects or pre-established multi-year programs, which substantially upgrade the bridge's capacity to carry increased loads and/or to allow for a carrying speed beyond the original or existing capacity of the bridge, are capitalized. However, costs for replacement of routinely wearable bridge components, such as plates or bolts, are expensed as incurred. Other than a de minimis threshold under which costs are expensed as incurred, we do not apply pre-defined capitalization thresholds when assessing spending for classification among capital or expense.

Unlike the Class I railroads that operate over extensive contiguous rail networks, our short line and regional railroads are generally geographically dispersed businesses that transport freight over relatively short distances. As a result, we typically incur minimal spending on self-constructed assets and, instead, the vast majority of our capital spending relates to purchased assets installed by professional contractors. We also generally do not incur significant rail grinding or ballast cleaning expenses. However, if and when such costs are incurred, they are expensed.

The following table sets forth our total net capitalized major renewals and improvements versus our total maintenance and repair expense for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

|   | 2015      | 2014      | 2013      |
|---|-----------|-----------|-----------|
| Gross capitalized major renewals and improvements | \$285,593 | \$205,360 | \$220,529 |
| Grants from outside parties                       | (41,742)  | ) (27,980 | ) (33,913 |
| Net capitalized major renewals and improvements   | \$243,851 | \$177,380 | \$186,616 |
| Total repairs and maintenance expense             | \$463,654 | \$347,928 | \$328,991 |

We depreciate our property and equipment using the straight-line method over the useful lives of the property and equipment. The following table sets forth the estimated useful lives of our major classes of property and equipment:

|   | Estimated Useful Life (in Years) |         |
|---|----------------------------------|---------|
|   | Minimum                          | Maximum |
| Property:   |                                  |         |
| Buildings and leasehold improvements (subject to term of lease) | 2                                | 40      |
| Bridges/tunnels/culverts  | 20                               | 50      |
| Track property  | 5                                | 50      |
| Equipment:  |                                  |         |
| Computer equipment  | 2                                | 10      |
| Locomotives and railcars  | 2                                | 30      |
| Vehicles and mobile equipment                                   | 2                                | 10      |
| Signals and crossing equipment                                  | 4                                | 30      |
| Track equipment   | 2                                | 20      |
| Other equipment   | 2                                | 20      |

We continually evaluate whether events and circumstances have occurred that indicate that the carrying amounts of our long-lived tangible assets may not be recoverable. When factors indicate that an asset or asset group may not be recoverable, we use an estimate of the related undiscounted future cash flows over the remaining life of such asset or asset group in measuring whether or not impairment has occurred. If we identify impairment of an asset, we would report a loss to the extent that the carrying value of the related asset exceeds the fair value of such asset, as determined by valuation techniques applicable in the circumstances. Losses from impairment of assets are charged to net (gain)/loss on sale and impairment of assets within operating expenses.

Gains or losses on sales, including sales of assets removed during track and equipment upgrade projects, or losses incurred through other dispositions, such as unanticipated retirement or destruction, are credited or charged to net (gain)/loss on sale and impairment of assets within operating expenses. Gains are recorded when realized if the sale value exceeds the remaining carrying value of the respective property and equipment. If the estimated salvage value is less than the remaining carrying value, we record the loss incurred equal to the respective asset's carrying value less salvage value. There were no material losses incurred through other dispositions from unanticipated or unusual events for the years ended December 31, 2015, 2014 or 2013.

#### Grants from Outside Parties

Grants from outside parties are recorded within deferred items - grants from outside parties, and are amortized as a reduction to depreciation expense over the same period during which the associated assets are depreciated.

#### Goodwill and Indefinite-Lived Intangible Assets

We review the carrying values of goodwill and identifiable intangible assets with indefinite lives at least annually to assess impairment since these assets are not amortized. We perform our annual impairment test as of November 30 of each year. No impairment was recognized for the years ended December 31, 2015, 2014 and 2013, as a result of our annual impairment test. Additionally, we review the carrying value of goodwill and any indefinite-lived intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

For goodwill, a two-step impairment model is used. The first step compares the fair value of a respective reporting unit with its carrying amount, including goodwill. The second step measures the goodwill impairment loss as the excess of recorded goodwill over its implied fair value. For indefinite-lived intangible assets, if the carrying amount of the asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The determination of fair value involves significant management judgment including assumptions about operating results, business plans, income projections, anticipated future cash flows and market data. Impairment losses are expensed when incurred and are charged to net (gain)/loss on sale and impairment of assets within operating expenses.

#### Derailment and Property Damages, Personal Injuries and Third-Party Claims

We maintain global liability and property insurance coverage to mitigate the financial risk of providing rail and rail-related services. Our liability policies cover railroad employee injuries, personal injuries associated with grade crossing accidents and other third-party claims associated with our operations. Damages associated with sudden releases of hazardous materials, including hazardous commodities transported by rail, and expenses related to evacuation as a result of a railroad accident are also covered under our liability policies. Our liability policies currently have self-insured retentions of up to \$2.5 million per occurrence. Our property policies cover property and equipment that we own, as well as property in our care, custody and control. Our property policies currently have various self-insured retentions, which vary based on the type and location of the incident, that are currently up to \$1.0 million per occurrence, except in Australia where our self-insured retention for property damage due to a cyclone or flood is A\$2.5 million. The property policies also provide business interruption insurance arising from covered events. The self-insured retentions under our policies may change with each annual insurance renewal depending on our loss history, the size and make-up of our company and general insurance market conditions.

We also maintain ancillary insurance coverage for other risks associated with rail and rail-related services, including insurance for employment practices, directors' and officers' liability, workers' compensation, pollution, auto claims, crime and road haulage liability, among others.

Accruals for claims are recorded in the period when such claims are determined to be probable and estimable. These estimates are updated in future periods as information develops.

#### Recently Issued Accounting Standards

See Note 20, Recently Issued Accounting Standards, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

We actively monitor our exposure to interest rate and foreign currency exchange rate risks and use derivative financial instruments to manage the impact of these risks. We use derivatives only for purposes of managing risk associated with underlying exposures. We do not trade or use such instruments with the objective of earning financial gains from interest rate or exchange rate fluctuations, nor do we use derivative instruments where there are no underlying exposures. Complex instruments involving leverage or multipliers are not used. We manage our hedging positions and monitor the credit ratings of counterparties and do not anticipate losses due to counterparty nonperformance. Management believes that our use of derivative instruments to manage risk is in our best interest. However, our use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. For additional information regarding our Derivative Financial Instruments, see Note 9, Derivative Financial Instruments, to our Consolidated Financial Statements set forth in "Part IV Item 15. Exhibits, Financial Statement Schedules" of this Annual Report.