GENESEE & WYOMING INC
Form 10-K
February 26, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________
Commission File 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	06820
(Address of principal executive offices)	(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. þ 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 þ 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. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). þ 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. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b of the Exchange Act). ¨ Yes þ 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: $4,717,491,602. 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 22, 2019:

Class	Number of Shares Outstanding
Class A Common Stock	56,288,247
Class B Common Stock	517,138

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, 2018 in connection with the Annual Meeting to be held on May 22, 2019 are incorporated by reference in Part III hereof and made a part hereof.

Genesee & Wyoming Inc.
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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 Part II 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," "may," "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 of 1995 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 or lease 120 freight railroads worldwide that are organized in nine operating regions with approximately 8,000 employees and 3,000 customers.

- Our seven North American regions serve 41 U.S. states and four Canadian provinces and include 114 short line and regional freight railroads with more than 13,000 track-miles.
- Our Australian Region serves New South Wales, the Northern Territory and South Australia and operates the 1,400-mile Tarcoola-to-Darwin rail line. The Australia Region is 51.1% owned by G&W and 48.9% owned by a consortium of funds and clients managed by Macquarie Infrastructure and Real Assets (MIRA).
- Our U.K./European Region includes the United Kingdom's (U.K.) largest rail maritime intermodal operator and the second-largest freight rail provider, as well as regional rail services in Continental Europe.

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

GROWTH STRATEGY

Since our initial public offering in 1996, our revenues have increased at a compound annual growth rate of 16.8%, from $77.8 million in 1996 to $2.3 billion in 2018. Over the same period, our stock price has increased at a compound growth rate of 14.2%, from $3.75 on June 25, 1996, adjusted for stock splits, to $74.02 on December 31, 2018. 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, 2018, our operations were organized in nine geographic regions. In North America, we have seven regions: Central (which includes industrial switching operations), Coastal (which includes industrial switching and port operations), Midwest, Northeast, Southern, Western and Canada. Outside North America, we have two regions: Australia (which is 51.1% owned by us through the Australia partnership with MIRA) and U.K./Europe (which consists of operations in the U.K., Germany, the Netherlands and Poland, as well as the provision of management and technical support through Freightliner Group Limited (Freightliner) to Saudi Railway Company).

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. To monitor our safety performance, we apply the guidelines established by the United States Federal Railroad Administration (FRA) to all of our operations worldwide. In 2018, our operations achieved a consolidated FRA reportable injury frequency rate of 0.84 per 200,000 man-hours worked. Through the implementation of our safety program, we have reduced our injury frequency rate by 57% since 2006, when it was 1.95 injuries per 200,000 man-hours worked. For comparative purposes, from January 2018 through November 2018, the most recent month for which FRA data is publicly available, the United States short line average reportable injury frequency rate was 2.64 injuries per 200,000 man-hours worked, and the United States regional railroad average was 2.93 injuries per 200,000 man-hours worked. Based on these results, in 2018, our operations were more than three times safer than the short line and regional railroad averages. Our safety program also focuses on the safety and security of our train operations, and we monitor our reportable derailments worldwide in accordance with the guidelines established by the FRA. Our operations achieved a consolidated reportable derailment frequency rate, defined as FRA reportable derailments per 200,000 man-hours worked, of 0.68 and 0.58 for the years ended December 31, 2018 and 2017, respectively.
- 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 ten years, we have outscored the trucking and railroad industries 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, Freightliner in 2015, Glencore Rail (NSW) Pty Limited (GRail) in 2016 and Pentalver Transport Limited (Pentalver) in 2017, we believe that our expanded footprint across North America, Australia, the United Kingdom and Europe provides us with greater visibility of new commercial and industrial development opportunities in these geographies that should continue to enhance the success of our marketing efforts. Further, we believe that our relationship with MIRA, a recognized Australian infrastructure investor, will enable us to leverage our rail platform for future growth opportunities in Australia. We also pursue additional sources of revenue by providing ancillary rail services such as railcar switching, rolling-stock and shipping container repair, storage, cleaning, weighing and blocking and bulk transfer, which enables our customers and Class I carriers to move freight more easily and cost-effectively.
- 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 by leveraging our regional structure, consolidating equipment and in-sourcing track maintenance, reducing transportation costs, selling surplus assets and reducing expenses associated with accidents and personal injuries through the implementation of our safety culture. In addition, through our Roots Reset program, which is an internal framework focused on improving the operating efficiency of our railroads, we periodically review and benchmark our railroad operations and service plans. The purpose of the program is to identify revenue opportunities, to reduce costs and to optimize asset utilization.

- 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. Further, in 2015, we formed a new entity, Railroad Engineering Services LLC, with experienced management and dedicated track engineering resources to enhance the productivity of our track and bridge capital programs. 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 and other infrastructure. 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 105 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 short line and regional railroads in the United States and Canada, such as the Heart of Georgia Railroad, Inc. (HOG) in 2017 and the Providence and Worcester Railroad Company (Providence and Worcester Railroad) in 2016 and our acquisitions of Pinsly Railroad Company's (Pinsly) Arkansas Division (Pinsly Arkansas) in 2015, RailAmerica in 2012, Arizona Eastern Railway Company 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 2018, there were approximately 500 short line and regional railroads in the United States not owned by us;
- Acquisitions of international railroads and transportation service providers, such as our acquisitions of Pentalver in the U.K. in 2017, London-based Freightliner in 2015, FreightLink Pty Ltd (FreightLink) in Australia in 2010 and Rotterdam Rail Feeding B.V. (RRF) in the Netherlands in 2008. We believe that there are additional acquisition and investment prospects in Australia, Europe and other international markets, including significant opportunities to invest in ancillary businesses that expand our service offerings;
- Investments in track and/or rolling stock to support growth in new or existing areas of operations, such as recent purchases of rolling stock in Australia to support the increase in spot coal traffic and our September 2017 joint venture with SEACOR Holdings, Inc. to own and operate the CG Railway, LLC (CGR). CGR provides a freight rail ferry service that extends our reach from Mobile, Alabama to southeastern Mexico;
- 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 Railway Limited (CP) in 2014; and
- Acquisitions of operations from industrial or mining companies, such as our acquisitions of GRail from Glencore Coal Pty Limited in Australia on December 1, 2016 and the 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 or equipment for new service, which improves customer satisfaction and drives 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 and ancillary business opportunities worldwide. We have made a number of important railroad investments in North America and in various 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's 2018 Railroad Facts Book, there were 613 freight railroads in the United States operating over approximately 137,000 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 Miles Operated	Revenues and Miles Operated
Class I[(a)]	7	93,058	$463.86 million or more
Regional or Class II	22	11,035	At least $20 million and 350 or more miles operated; or $37.11 million to $463.86 million
Local or Class III	584	32,758	Less than $37.11 million and less than 350 miles operated
Total	613	136,851	

(a) 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 2018 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 104 local (short line) railroads in the United States over approximately 15,800 miles of track, inclusive of approximately 3,200 miles of track that are owned or leased by others, which we operate through various trackage and operating rights agreements.

Canada

According to Rail Trends 2018, published by The Railway Association of Canada (RAC), there are approximately 26,400 miles (42,500 kilometers (km)) 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 1,318 miles of track, inclusive of approximately 100 miles of track that are owned or leased by others, which we operate through various trackage and operating rights agreements.

Australian Operations

Australia has approximately 25,000 miles (40,000 km) 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 transport 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 rail freight transport 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 rolling-stock operator in all mainland Australian states and a Rail infrastructure Manager in the Northern Territory and South Australia.

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 rail freight transport 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 2,300 miles (3,700 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, as well as approximately 900 miles (1,500 km) of track in South Australia that we manage pursuant to a lease that expires in 2047. Through the concession and lease 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 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 acquisitions of Freightliner and GRail, 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 2017, 9% of all freight goods were moved by rail, while over the same period, 78% and 13% of goods were moved via road and water, respectively.

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

The maritime container logistics industry in the U.K. is highly competitive, whether by road, rail or short-sea, with a premium placed on timely, efficient and safe service. We provide rail and road transportation solutions, as well as offer storage options at the ports and inland and provide local collection and delivery haulage from Freightliner's inland terminals.

Freightliner is 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, Freightliner is the second largest rail freight company in the U.K.

Belgium

According to Infrabel, the Belgian railways infrastructure manager, there are approximately 2,238 miles (3,602 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. Our subsidiary, Belgium Rail Feeding, has the ability to operate in Belgium, but is currently not doing business.

Germany

The German rail network is composed of approximately 20,654 miles (33,241 km) of track. There are approximately 385 rail operators certified for freight transport in Germany. In Germany, as well as in other Continental European markets, the leading rail freight operators are often state controlled, such as DB Cargo AG in Germany. As a result of Germany's open access regime, the rail infrastructure may be accessed by any licensed rail operator.

A number of our subsidiaries operate in Germany. Freightliner PL Sp. zo. o. (Freightliner Poland) operates on the open access rail system within Poland with cross-border traffic into Germany. Freightliner DE GmbH (Freightliner Germany) operates on the open access rail system within Germany with cross-border traffic into Poland.

Netherlands

According to ProRail, the entity responsible for the Dutch rail infrastructure, there are approximately 4,363 miles (7,021 km) of track owned and managed by it on the Dutch rail network. As a result of the open access regime in the Netherlands, this track may be accessed by any admitted and licensed rail operator. According to ProRail, there are 21 rail operators that provide rail freight services in the Netherlands.

In the Netherlands, our subsidiary, RRF, operates mainly in the Port of Rotterdam on the main rail freight corridors towards the German and Belgian borders.

Poland

According to the Office of Rail Transport, the railway regulator in Poland, there are approximately 114 rail operators certified for freight transport in Poland operating over approximately 11,939 miles (19,214 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 network within Poland.

OPERATIONS

Through our subsidiaries, we own or lease 120 freight railroads worldwide, including 104 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 Germany and one in the Netherlands. Our subsidiaries provide freight 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 16,100 miles of track that are owned, jointly owned or leased by us, which includes the Tarcoola-to-Darwin rail line in Australia that we manage under a concession agreement that expires in 2054. Also, through various track access arrangements, we operate over approximately 6,200 additional miles of track that is owned or leased by others.

While our railroads are predominantly focused on freight service, certain of our railroads interact with passenger rail operations. The majority of our railroads in the U.K. and Continental Europe provide freight service that is commingled with passenger operations on third party track. In North America and Australia, it is not uncommon for passenger or excursion operators to provide service over our track. In addition, in the United States, the Providence and Worcester Railroad provides freight service over track that is owned by a passenger operator, and our Portland & Western Railroad operates passenger trains for the Tri-County Metropolitan Transportation District of Oregon.

Freight Revenues

We generate freight revenues from the haulage of freight by rail. Freight revenues represented approximately 70%, 70% and 69% of our total operating revenues for the years ended December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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, fertilizers and other chemicals and plastics used in manufacturing
Coal & Coke	Shipments of coal to power plants and industrial customers
Food & 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 and alumina
Metals	Finished steel products and copper, as well as scrap metal and pig iron
Minerals & Stone	Construction aggregates, clay and bentonite, gypsum, salt used in highway ice control, limestone and frac sand
Petroleum Products	Liquefied petroleum gases, natural gas liquids, crude oil, asphalt, diesel fuel and gasoline
Pulp & Paper	Container board, finished papers, scrap paper and 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, which has the potential to move from origin to destination without using our rail line, 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 2018, 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 services (where we operate trains on a contract basis in facilities we do not own), trucking haulage services and container storage, 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 customer's train between specified origin and destination points) and other ancillary revenues related to the movement of freight. Freight-related revenues represented approximately 24%, 24% and 27% of our total operating revenues for the years ended December 31, 2018, 2017 and 2016, respectively.

All Other Revenues

We generate all other revenues primarily from revenues from third-party railcar and locomotive repairs, container sales, property rentals and other ancillary revenues not directly related to the movement of freight. All other revenues represented approximately 6%, 6% and 5% of our total operating revenues for the years ended December 31, 2018, 2017 and 2016, 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. Seasonality is also reflected in our results of operations due to 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. Further, 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. 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). In the U.K./European operations, the intermodal business peaks in the late third and early fourth quarter of the year. We typically initiate capital projects in North America in the second and third quarters when weather conditions are more favorable.

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. For information about the risks related to our foreign operations, see "Part I Item 1A. Risk Factors" and more specifically "Part I Item 1A. Risk Factors—Additional Risks Associated With Our Foreign Operations."

Customers

As of December 31, 2018, our operations served approximately 3,000 customers. Revenues from our ten largest customers accounted for approximately 26%, 24% and 22% of our operating revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Two of our ten largest customers in 2018 were located in Australia. One operates in the agricultural and coal sectors, and the other operates in the iron ore mining sector. Three of our ten largest customers in 2018 were located in the U.K. Two of these customers are maritime shipping companies and the other is the infrastructure manager of most of the rail network in England, Scotland and Wales. The remaining five of our top ten customers are located in North America, and each of such customers represents less than 2% of our total operating revenues.

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 ten 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 have terms as long as 20 years and generally contain a combination of volume commitments and fixed and variable pricing, with the fixed portion based upon the invested capital associated with the contract 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 twelve 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. In addition, Freightliner, as part of a British consortium, provides management and technical support for infrastructure and freight operations to Saudi Railway Company. The Saudi Railway Company is a government-owned company that is tasked with developing and operating railway services in Saudi Arabia.

Employees

There are various labor laws governing the countries in which we operate. As of December 31, 2018, we had approximately 8,000 full-time employees. Of this total, approximately 4,200 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 operations have 101 collective bargaining agreements with various labor unions in the United States, Australia, Canada and U.K./Europe. We are currently engaged in negotiations with respect to approximately 27 of those agreements and are currently negotiating collective bargaining agreements with four newly represented bargaining units, which will cover approximately 73 additional employees. We are also a party to employee association agreements covering an additional 19 employees who are not represented by a national labor organization. In the United States, we have 70 labor agreements with unions which cover approximately 36% of our employees within the United States. In Canada, we have 11 labor agreements, which cover approximately 53% of our employees within Canada. In Australia, Genesee & Wyoming Australia Pty Ltd (GWA) has collective enterprise bargaining agreements covering the majority of its employees. In the U.K., we have collective bargaining agreements with four recognized unions covering the majority of our employees. In Continental Europe, key locations have local work councils. We continue to build and maintain positive working relationships with our employees and their representatives.

The following table sets forth an approximation of union and non-union employees as of December 31, 2018:

	Union/Represented [(a)]	Non-Union/ Non-Represented
North America	1,700	2,700
Australia	500	200
U.K./Europe	2,000	900
Total	4,200	3,800

(a) 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. 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. To monitor our safety performance, we apply the guidelines established by the FRA to all of our operations worldwide. Our operations achieved a consolidated reportable injury frequency rate, as defined by the FRA as reportable injuries per 200,000 man-hours worked, of 0.84 and 0.83 for the years ended December 31, 2018 and 2017, respectively. The average injuries per 200,000 man-hours worked for all United States short line railroads was 2.64 in 2018 (through November) and 2.49 in 2017. Based on these results, in 2018, our operations were more than three times safer than the short line and regional railroad averages.

Our safety program also focuses on the safety and security of our train operations, and we monitor our reportable derailments worldwide in accordance with the guidelines established by the FRA. Our operations achieved a consolidated reportable derailment frequency rate, defined as FRA reportable derailments per 200,000 man-hours worked, of 0.68 and 0.58 for the years ended December 31, 2018 and 2017, respectively. Further, we continue to utilize technology to analyze and maintain 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. While we have not experienced any material disruptions of our networks or operations due to cyber attacks, to date, we have been subject to attacks in the past and will continue to face such threats in the future.

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 2018, employees of our railroads made 412 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 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 accidents involving passengers 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 $2.5 million per occurrence. 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, as well as insurance for employment practices, directors’ and officers’ liability, workers’ compensation, pollution, cyber risk, 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 and for certain commodities, 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 facility, 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. In addition, we also face competition from other companies that provide terminal and rail-related services.

To a lesser degree, there is also 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 (e.g., steel). In addition, some of the products we transport are exported and face competition on a global basis (e.g., grain).

In acquiring rail properties and making rail equipment and/or track infrastructure investments, 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), the Occupational Safety and Health Administration (OSHA), the Pipeline and Hazardous Material Safety Administration (PHMSA), Mine Safety and Health Administration (MSHA) and the Transportation Security Administration (TSA), which operates 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.

Over the past five years, there have been various proceedings at the STB seeking 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. 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 was to be completed as early as December 31, 2018, unless extensions were granted. 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 were required to install PTC-related equipment by the end of 2018. Our procurement and implementation of required PTC equipment is underway, and thus far, we have complied and expect to continue to comply with the statutory installation deadlines. However, 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, Knob Lake & Timmins Railway and the Goderich-Exeter Railway are federally regulated railroads in Canada 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 exclusively 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. 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.

Australian Operations

In Australia, we are subject to multiple regulatory regimes governing workplace health and safety, as well as rail safety, in each of the states and the one territory in which we operate. Regulation of rail safety is predominately governed by national legislation and administered by the Office of the National Rail Safety Regulator.

Regulation of track access to nationally significant rail infrastructure is generally governed by federally legislated guidelines that are implemented by the states. The state access regimes are required to be certified as effective access regimes by the Australian National Competition Council. The regulatory oversight for the provision of rail infrastructure access in South Australia and the Northern Territory is largely provided by the Essential Services Commission of South Australia. In addition, certain new acquisitions in Australia will also be subject to review by the Foreign Investment Review Board based on Australian national interest considerations and the Australian Competition and Consumer Commission on competition considerations.

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.

Currently, each of the countries in which our U.K./European Operations segment operates 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. In June 2016, the U.K. held a referendum in which voters approved an exit from the EU, commonly referred to as Brexit. The long-term effects of Brexit will depend on any agreements the U.K. makes to retain access to European markets, either during a transitional period or more permanently, and any other bilateral trade agreements the U.K. can reach with other trade partners, as well as any changes to the regulation of rail.

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)
Germany	Bundesnetzagentur	DB Netz AG	Federal Ministry of Transport Building and Urban Development	The enforcement of German competition law primarily lies with the Federal Cartel Office (Bundeskartellamt) and in certain circumstances with the respective state competition authorities (Landeskartellbehörden)
The Netherlands	The Human Environment and Transport Inspectorate	ProRail	The Ministry of Infrastructure and Water Management	The Netherlands Authority for Consumers and Markets
Poland	Office of Rail and Transport	PKP PLK S.A.	Ministry of Infrastructure	Office of Rail Transport The President of the Office of Competition and Consumer Protection
United Kingdom	Office of Rail and Road	Network Rail	Department for Transport Transport Scotland	Office of Rail and Road

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. We believe our railroads operate in compliance with current environmental laws and regulations and agency agreements in all material respects. While we presently estimate that 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.

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 November 2014, we received a notice 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. Although the cleanup associated with this derailment is substantially complete, civil payment penalty associated with the contamination is subject to further discussion and potential litigation.

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.

Our railroads in Australia are subject to environmental laws and regulations and agency agreements, of which we have two in Australia, one with the South Australian Environmental Protection Agency under EPA License 2933 and the other with the Northern Territory Environmental Protection Agency under EPL 222. Genesee & Wyoming Australia is not currently required to be licensed in New South Wales but may be required to be licensed in the future. Our South Australia and Northern Territory environmental protection licenses require us to provide annual returns demonstrating compliance with their operational and administrative conditions. They also have embedded in them conditions that require us to make certain notifications in the event of an occurrence that is likely to breach a condition of the licenses or the legislation. These conditions have been managed effectively to date. Genesee & Wyoming Australia is also obligated to report annually under the Commonwealth Government National Greenhouse and Energy Reporting Act.

Non-compliance with applicable laws and regulations may result in the implementation of remedial actions, the imposition of fines, temporary or permanent shutdown of operations or other injunctive relief, criminal prosecution or the termination of our lease.

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).

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 Water Management 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 Water Management.

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.

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. 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. 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.

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 with or furnished to the SEC.

GENERAL RISKS ASSOCIATED WITH OUR BUSINESS

Adverse global macroeconomic and business conditions could negatively impact our business, and changes in commodity prices could decrease demand for the transport of commodities.

Slower economic growth, an economic recession, significant changes in global economic conditions or commodity prices or import or export volumes 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. Further, if the rate of economic growth in Asia slows, the export coal carried by our railroads, particularly in Australia, could decline. Agricultural commodity prices are also inherently susceptible to fluctuation. For example, in the United States, a decline in the price of wheat that we transport may result in lower revenues for us if farmers decide to store such wheat until the price increases. In addition, our business may be impacted by governmental policies that impact global trade, including tariffs, quotas and non-trade barriers related to agricultural products, coal and steel, among others. 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.

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/or 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, including buyers who may have lower costs of capital;
- our ability to dedicate adequate resources 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. As our business grows, we may not be able to maintain similar rates of growth in the future or manage our growth effectively.

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, contracts or customers;
- assumptions related to customer revenues;
- possible inconsistencies in or conflicts between standards, internal controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information technology and other systems;
- changes in the regulatory approval process and inability to obtain necessary regulatory approvals;
- 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 railroad and safety cultures following an acquisition;
- 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 and the associated revenues, the ability to negotiate acceptable contractual arrangements, including renewals of leases with other 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 insufficient right to indemnification, could adversely affect 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.

Exposure to market risks, particularly changes in interest rates, 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 floating interest rate payments under our Third Amended and Restated Senior Secured Syndicated Credit Facility Agreement (the 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. In addition, advances under our revolving credit facility and our term loan facility generally bear interest based on (i) the LIBOR Rate (as defined in the Credit Agreement and calculated using the London Interbank Offered Rate (LIBOR)) or (ii) the Base Rate (as defined in the Credit Agreement). On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, the interest rates under our revolving credit facility and our term loan facility will be based on the Base Rate, which may result in higher interest rates. To the extent that these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

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 2018, approximately 80% of our total carloads in the United States and Canada were interchanged with Class I carriers. 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. A decision by any of these Class I carriers to cease or re-route certain freight movements or to alter existing business relationships, including operational or relationship changes related to the implementation of Precision Scheduled Railroading, could have a material adverse effect on our results of operations. The overall impact of any such decision would depend on which Class I carrier is involved, the routes and freight movements affected, as well as the nature of any changes.

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In addition, 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, of which railroads with leases that are subject to expiration within the next 10 years accounted for approximately 9.6% of our 2018 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 ten years represent 3.1% or less of our annual revenues in the year of expiration based on our operating revenues for the year ended December 31, 2018. 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 (2019 - 2023) would represent approximately 1.2%, 0.0%, 0.5%, 1.0% and 1.2% of our operating revenues in each of those years, respectively, based on our operating revenues for the year ended December 31, 2018. A portion of the leases subject to expire in 2019 were scheduled to expire in 2018 and are currently operating on a month-to-month basis (while lease negotiations continue). 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.

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

Our operations served approximately 3,000 customers in 2018. Revenues from our ten largest customers accounted for approximately 26% of our operating revenues in 2018. In 2018, our largest customer was a maritime shipping company in the U.K. and accounted for approximately 6% of our operating revenues across all geographies. In North America and in our intermodal business in the U.K. and Australia, we typically handle freight pursuant to transportation contracts between us, our connecting carriers and the customer. Our contracts are generally 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. Over the last three years, several of our mining, metals and maritime shipping customers instituted insolvency proceedings. In the United States, 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 amount 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 risks for new operations as well as 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.

We transport hazardous materials, 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. 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. In the 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. Also, the United States federal regulators have previously prescribed regulations governing railroads' transportation of hazardous materials and have the ability to put in place additional regulations, which 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.

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 and other weather events, which lessen demand for electricity, which in turn lessons 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 droughts or heavy rains and flooding in South Australia.

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 adverse effect on our results of operations, financial condition and liquidity.

The development of some of our business could be hindered if we fail to maintain satisfactory working relationships with partners in Australia.

Following our acquisition of GRail, our Australian Operations are conducted through the Australia Partnership, in which we own a controlling 51.1% ownership interest and, therefore, include 100% of our Australian Operations within our consolidated financial statements with a 48.9% noncontrolling interest recorded to reflect MIRA's ownership. However, as a consequence of the partnership agreement, we do not have absolute control over the operations of the Australia Partnership. The Australia Partnership is governed by a management committee, which is comprised of representatives appointed by both MIRA and G&W as general partners. Certain matters require approval by both MIRA and us, including: (1) hiring and dismissing select executives of the partnership; (2) commitments relating to significant contracts or other matters; (3) approval of the partnership’s strategic plan, which is a long-term plan outlining the expectations of MIRA and us for the business (including leverage, equity returns and capitalization); (4) mergers or consolidations; (5) incurrence of material indebtedness; (6) capital structure changes; (7) changes to the distribution policy; and (8) related-party transactions. Accordingly, our ability to maintain constructive and cooperative relations with MIRA will be critical to our ability to implement our plans and expand our business. Any failure to maintain satisfactory working relationships with MIRA or the need to dedicate significant management resources and time to align our interests with the interests of MIRA could result in a material adverse effect on our operating results, financial condition and liquidity. Furthermore, should we fail to maintain a controlling interest in the Australia Partnership, we will deconsolidate our Australian Operations and account for them under the equity method of accounting.

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 mine, produce or otherwise trade in or sell carbon based energy sources, 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 in the United States could be displaced. Further, we carry significant coal volumes in Australia that are destined for export to Asia. A decrease in the demand for coal in the United States or Asia 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. Increasing awareness of the market response to climate change may impact the ability of businesses that derive a significant benefit directly or indirectly from coal-fired power plants to obtain financing. 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.

Our Credit Agreement and our Australian Credit Agreement contain 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 and the ability of our subsidiaries 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 Australian Credit Agreement contains comparable provisions that are applicable solely to our Australian business. In addition, our Credit Agreement and the Australian Credit Agreement also contain financial covenants that require the borrowers under each agreement to meet financial ratios and tests. Failure to comply with the obligations in our Credit Agreement, the Australian 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, the Australian Credit Agreement or other debt agreements, as applicable, which, if not cured or waived, could permit lenders to accelerate the related 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, 2018, we had a total indebtedness of $2.5 billion, and we had unused commitments of $458.3 million under our Credit Agreement (after giving effect to $2.6 million of undrawn letters of credit that reduces such availability). In addition, under our Australian Credit Agreement, we had unused commitments of A$46.3 million.

Subject to the limits contained in our Credit Agreement, the Australian 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 the Australian 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 and the Australian 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.

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 2018, we obtained partial or complete funding by United States and Canadian federal, state, provincial and municipal agencies for 72 new projects. The net spending associated with these grant-funded projects represented approximately 4% of our net capital expenditures during 2018. 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.

Our entities in the U.K. benefit 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 confirmed its continued funding of MSRS to the end of March 2020, the amount of the funding available may be less than in prior years. The MSRS scheme, which was for a five-year period, expires in March 2020, and at present, there is no certainty as to how any successor scheme, if any, will be structured. 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 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, our Connecticut Southern Railroad operates over Amtrak trackage in Connecticut and the Providence and Worcester Railroad operates over MetroNorth Commuter Railroad trackage in New York and Connecticut and also operates over Amtrak trackage in New York, Connecticut, Rhode Island and Massachusetts. In Australia, The Ghan passenger train is operated by a third party over the track of GWA (North) Pty Ltd between Tarcoola and Darwin, and GRail operations also have touchpoints with the passenger network in New South Wales. Further, the public is able to easily access both the rail network that we manage and the rail networks on which we operate. We also operate excursion trains on behalf of third parties on certain of the rail lines over which we operate. In the U.K., Continental Europe and Australia, 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 specified levels of insurance coverage, but insurance coverage may not 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 associated with new legislation, executive orders issued by the President of the United States and to a variety of health, safety, security, labor, environmental and other regulations by a significant number of federal, state and local regulatory authorities. New rules or regulations mandated by these agencies could increase our operating costs. 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. For instance, proponents of a possible legislative effort to increase federal truck size and weight limits remain vocal. State departments of transportation have also launched initiatives seeking to increase truck size and weight limits at the state level. In addition, several of the proposals under consideration by the STB could have a significant negative impact on our ability to negotiate prices for the value of rail services provided and meet service standards. In addition, statutes imposing price constraints or affecting rail-to-rail competition could adversely affect our profitability. Many of the actions under consideration and pending are directed at Class I railroads; however, various legislative and regulatory 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.

In November 2018, the Office of Rail and Road (ORR) in the U.K. completed its periodic review to determine Network Rail’s costs and funding for the period from April 2019 to March 2024 - known as Control Period 6 (CP6). The periodic review sets the network access charges which are paid by rail providers to Network Rail, as well as the performance and other compensation regimes that regulate the relationship between Network Rail and all rail operators. The ORR has determined that freight access charges will be held constant in real terms in years one and two of CP6 with charges rising on a straight-line basis from year three. By the end of CP6, the network access charges payable by our U.K. operations are expected to increase by an average of 16% for bulk services and 30% for intermodal services. Changes have also been made to the performance regime which could result in increased performance payments by, and reduced compensation payments to, our operations.

In October 2018, the U.K. Department for Transport (DfT) announced an independently chaired government review into the structure of the railway network in the U.K. (UK Rail Review). The UK Rail Review has been established to recommend the most appropriate organizational and commercial framework for the U.K. railway. The UK Rail Review's final report, expected in autumn 2019, will set out the U.K. government's intended changes to the U.K. railway structure which may affect our operations and increase our operating costs. Our failure to comply with applicable laws and regulations, or further changes to existing regulatory regimes 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, provincial, state, local and foreign environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters, the generation 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, leased or operated by us, 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, leased or operated by us, including from lading in the event of a derailment. Under some environmental statutes, 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.

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. Violations of, and liabilities under, environmental laws and regulations 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 or automation.

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."

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

We consumed 72.8 million gallons and 71.6 million gallons of diesel fuel in 2018 and 2017, respectively. 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. 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 10% and 8% of our operating expenses for the years ended December 31, 2018 and 2017, 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, contract claims 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. From time to time, we also have various contractual disputes with interchange partners and customers. 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 or environmental liability against us or monetary damages associated with a breach of contract or other claims 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, and our customers' employees, belong to labor unions, and strikes or work stoppages could adversely affect our results of operations, financial condition and liquidity.

As of December 31, 2018, we were a party to 101 collective bargaining agreements with various labor unions in the United States, Australia, Canada and U.K./Europe. We are currently engaged in negotiations with respect to approximately 27 of these agreements and are currently negotiating collective bargaining agreements with four newly represented bargaining units. Approximately 4,200 of our approximately 8,000 full time employees are either union members or have employment terms and conditions determined by labor agreements or negotiated by a labor union or works council. We are in the process of negotiating the initial collective bargaining agreements for the above noted four newly represented bargaining units, which would cover approximately 73 additional employees. We also have entered into employee association agreements with an additional 19 employees who are not represented by a national labor organization. In the United States, we have 70 labor agreements with unions which cover approximately 36% of our employees within the United States. In Canada, we have 11 labor agreements, which cover approximately 53% of our employees within Canada. In Australia, GWA has four collective enterprise bargaining agreements covering the majority of its employees. In the U.K./Europe we have various collective bargaining agreements, as well as agreements with local work councils.

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 Networks 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.

Moreover, where our customers have a unionized workforce, they are also susceptible to strikes or work stoppages, which reduces their need for our transportation services and can adversely affect our results of operations and financial condition.

If we are unable to employ a sufficient number of qualified workers, 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 9% of our current workforce will become eligible for retirement based on the minimum age typically required for retirement eligibility under the applicable nationally funded retirement program in each country, which ranges from ages 60 to 65, with the average retirement eligibility age across our workforce of 63.

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 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. We may not 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.

If we fail to maintain an effective system of internal control over financial reporting as well as disclosure controls and procedures, we could become subject to regulatory scrutiny and current and potential shareholders may lose confidence in our financial reporting and disclosures.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our Annual Report on Form 10-K our management’s report and an independent registered public accounting firm's report on the effectiveness of our internal control over financial reporting. As we execute our acquisition strategy, consistent with the guidance issued by the Securities and Exchange Commission, we may elect to omit an assessment of internal control over financial reporting of a recently acquired business in the year of acquisition from management's report. Recently acquired businesses are required to be included in our assessment of internal control over financial reporting no later than in the year subsequent to the acquisition. As a result, to the extent we delay the assessment of an acquisition, there may be a delay in identifying and reporting control issues.

The failure to implement and maintain proper and effective internal controls over financial reporting, as well as disclosure controls and procedures, could result in our identification of material weaknesses in our financial reporting controls that may cause errors in our financial statements that could have a material effect on our financial results, financial position or liquidity and in the accompanying footnote disclosures. Such errors could also require restatements of previously issued financial statements. We may be unable to identify and report any material weaknesses on a timely basis in the future. Should such events occur, we may become subject to regulatory scrutiny and investors may lose confidence in our reported financial information and disclosure, which could negatively impact our stock price.

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 wagons and locomotives is limited, with long lead times for delivery. Further, the number of domestic rolling-stock manufacturers are decreasing, requiring us to source rolling-stock from manufactures with a lesser degree of certainty regarding quality and performance. Additionally, we compete with other industries for 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 attract customers 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, as well as those provided by critical vendors, is critical to our ability to operate, compete safely and effectively improve our efficiency. 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 or sensitive information, process failure, security breach or other operational difficulties, thereby impacting our efficiency and damaging our corporate reputation. There has been an increasing trend of cyber attacks on critical infrastructure, as it remains an attractive target. Such an event could result in increased capital, insurance or operating costs, including security costs to protect our infrastructure. To date, we have been affected by several ransomware attacks but have not experienced any material disruptions of our networks or operations due to cyber security attacks; however, 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 provide service and transact business in foreign countries, namely in Australia, Canada, the U.K., Germany, the Netherlands, Poland, Saudi Arabia, Mexico, the Marshall Islands and China. 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 exit from the EU;
- adverse effects due to the migration of people into the EU;
- limitations in our ability to enforce contractual provisions, including those related to indemnities and jurisdiction, in varied legal systems;
- 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.

We have operations in Australia, Canada, the U.K. and Europe. The results of operations of our foreign entities are maintained in the local currency (including, the Australian dollar, the British pound, 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. In addition, Freightliner, as part of a British consortium, provides management and technical support for infrastructure and freight operations to Saudi Railway Company. The Saudi Railway Company is a government-owned company established in 2006 that is tasked with developing and operating railway services in Saudi Arabia. Payments under the contract are made in Saudi riyal and are converted into British pounds and included in our consolidated operating income in our U.K./European Operations. 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.

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Moreover, foreign governments may restrict transfers of cash out of the country and control exchange rates. We may not be able to repatriate our earnings, and at exchange rates that are beneficial to us, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

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 U.S. dollars, such fluctuations may affect our consolidated results of operations and financial condition and may affect the comparability of our results between financial periods.

Political and economic uncertainty arising from a majority of voters approving a referendum for the United Kingdom to exit the European Union could adversely impact our operations and financial results.

In June 2016, the U.K. held a referendum in which voters approved an exit from the European Union (EU), commonly referred to as Brexit. As a result of the referendum, the U.K. Government negotiated a withdrawal agreement with the EU Commission on the precise terms of the U.K.'s withdrawal. The Withdrawal Agreement was rejected by the U.K. Parliament and as a result, the U.K. Government is seeking to renegotiate the terms of the Withdrawal Agreement with the EU. The precise details of the U.K.'s withdrawal remain uncertain. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the EU, undermine bilateral cooperation in key policy areas and significantly disrupt trade between the U.K. and the EU. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the EU would have and how such withdrawal would affect us. Our U.K./European Operations represented approximately 27% of our consolidated revenues in 2018. The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the weakening of the British pound against the United States dollar. During periods of a weakening British pound, our reported international revenues are reduced because the British pound translates into fewer United States dollars. Brexit could cause weakening of the U.K. economy, slower long-term economic growth and less government revenue for infrastructure projects, all of which could lower demand for our services. The long-term effects of Brexit will depend on any agreements the U.K. makes to retain access to European markets, either during a transitional period or more permanently, and any other bilateral trade agreements the U.K. can reach with other trade partners. Any of the potential effects of Brexit could have unpredictable consequences for credit markets and adversely affect our business, results of operations and financial condition and liquidity.

Our concession and/or lease agreements in Australia could be canceled, and these agreements may not 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 and could have a material adverse effect on our results of operations, financial condition and liquidity.

Open access regimes in Australia and Europe could lead to additional competition for rail services, disruption to service 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. Where our operations are on track owned by third parties, we may require facilities for storage and provisioning in areas where we are competing with other rail operators for such facilities and/or are reliant on these parties to provide access to those facilities. 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. As new operators enter the market, existing operators have increased equipment available and are able to offer aggressive pricing in order to ensure market share and an efficient use of their resources. Further, the open access nature of the rail network could lead to disruptions to services as infrastructure maintenance, capital expenditure or maintaining or expanding such infrastructure, and scheduling operations and delays or stoppages caused by other rail operators are outside our control. The loss of our customers to competitors or unexpected disruptions in service 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, the independent safety and economic regulator for Britain's railways, 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 deeds and customer contracts.

Our operating subsidiaries in Australia and U.K./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. In addition, these safety accreditations are required under our concession deeds and many customer contracts. Following significant derailments, the government entities responsible for oversight of rail safety frequently perform investigations to supplement their annual and spot audit inquiries. 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.

We have significant pension funding obligations under our U.K. Pension Program

We provide a defined benefit pension program for our 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 of approximately £25 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. Our section of the Pension Program is a shared cost arrangement with required contributions shared between us and our employees with our contribution being 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 our section of the Pension Program is underfunded on an actuarial basis at any valuation point, the shared cost nature of the program means that we are 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 our section of the Pension Program is terminated and wound up, any deficit would fall entirely on us and would not be shared with active employees. Equally, if all active employees were to leave our section, we would have full responsibility for funding any deficits. As of December 31, 2018, there were approximately 1,500 active employees in our section of the Pension Program. Our pension expense and funding of our 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

The United States Short Line Tax Credit was renewed in February 2018 for the calendar year ended December 31, 2017. If this credit is not extended, our effective tax rate in future periods will be higher.

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. The Short Line Tax Credit was initially enacted for a three-year period, 2005 through 2007, and was subsequently extended a series of times with the last extension enacted in February 2018. The February 2018 extension provided a retroactive credit, solely for fiscal year 2017. Legislation is currently pending that seeks to extend the Short Line Tax Credit retroactively for fiscal year 2018 and beyond. There is no guarantee that the Short Line Tax Credit will be extended again. If the Short Line Tax Credit is not extended for additional tax years, or is modified prospectively, or the benefit derived from the credit is not replaced otherwise, the loss or a reduction of the credit will increase our tax rate and reduce our earnings per share.

If the earnings of our foreign subsidiaries were 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. The amount of accumulated foreign earnings that have not been distributed was $216.2 million as of December 31, 2018. These earnings have been subject to United States federal income tax via the estimated toll tax required by the Tax Cuts and Jobs Act of 2017 (the TCJA). If the earnings were to be distributed in the future, those distributions may result in foreign exchange gains or losses and be subject to other taxes and credits, including U.S. state income taxes and withholding taxes payable to various foreign countries, which could result in a higher effective tax rate for us, thereby reducing our earnings. No provision is made for the impact of those future foreign exchange gains or losses or such other potential taxes and credits that could be applicable to the undistributed earnings of our foreign subsidiaries in the event of distribution. 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.

ITEM 2. Properties.

Genesee & Wyoming, through our subsidiaries, currently has interests in 120 freight railroads, including 104 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 Germany and one 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. In North America and elsewhere, several of our railroads are operated under leases or operating licenses, and in these instances do not own 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 jurisdiction.

Our railroads operate over approximately 16,100 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 ten years would represent 3.1% or less of our annual revenues in the year of expiration, based on our operating revenues for the year ended December 31, 2018. 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 6,200 additional miles of track that are owned or leased by others under contractual track access arrangements. The track miles listed below exclude approximately 2,110 miles of sidings and yards (1,880 miles in the United States, 150 miles in Canada and 80 miles in Australia). Track miles owned by others, but available to us, under open access regimes in Australia, 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. For additional information regarding our 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.

The following table sets forth certain information with respect to our railroads as of December 31, 2018:

RAILROAD AND LOCATION	YEAR ACQUIRED	TRACK MILES	STRUCTURE
NORTH AMERICAN OPERATIONS			
UNITED STATES:			
Genesee and Wyoming Railroad Company (GNWR) New York[(a)]	1899	27	Owned
The Dansville and Mount Morris Railroad Company (DMM) New York[(a)]	1985	8	Owned
Rochester & Southern Railroad, Inc. (RSR) New York[(a)]	1986	58	Owned
Louisiana & Delta Railroad, Inc. (LDRR) Louisiana	1987	83	Owned/Leased
Buffalo & Pittsburgh Railroad, Inc. (BPRR) New York, Pennsylvania[(b)(c)(d)]	1988	368	Owned/Leased
Allegheny & Eastern Railroad, LLC (ALY) Pennsylvania[(b)]	1992	128	Owned
Bradford Industrial Rail, Inc. (BR) Pennsylvania[(c)]	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	1996	108	Owned

(PS) Pennsylvania[d]			
Illinois & Midland Railroad, Inc. (IMRR) Illinois	1996	98	Owned
Commonwealth Railway, Incorporated (CWRY) Virginia	1996	24	Owned/Leased
Corpus Christi Terminal Railroad, Inc. (CCPN) Texas	1997	42	Leased