Genesee & Wyoming Inc. 2000 Annual Report

Genesee & Wyoming Inc.
is swiftly becoming a leader
in the rail freight transport
business worldwide and
a premier choice
as a business partner,
rail freight transport supplier,
employer and investment
opportunity.

Oregon Region

Portland & Western

Genesee • Rail-One

Huron Central

Rail Link, Inc.

Contract Switching, Locomotive Mobile Service Units & Shortline Railroads

Louisiana Region

Louisiana & Delta

Illinois Region

Illinois & Midland

Mexico

Ferrocarriles Chiapas-Mayab, S.A. de C.V.

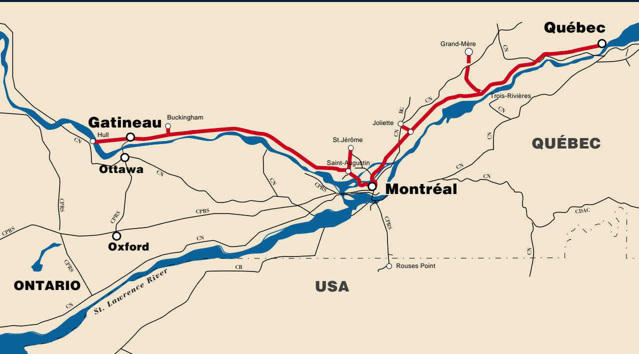
Dashed lines indicate trackage rights in North America

Bolivia

Empresa Ferroviaria Oriental, S. A.

Genesee • Rail-One

Québec Gatineau



New York/Pennsylvania Region

Buffalo & Pittsburgh

Rochester & Southern

South Australia

Australia Southern Railroad

Interstate lines

Western Australia

Australia Western Railroad

Interstate lines

Asia Pacific Transport Consortium (APTC) Project

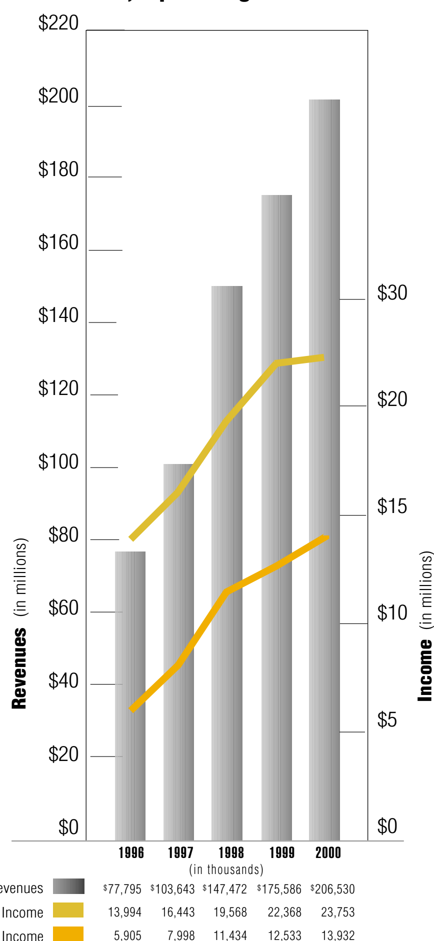
AUSTRALIA
A W
WESTERN

Financial Highlights

(in thousands, except per share data)	*Years Ended December 31*	
	2000	**1999**
Income Statement Data		
Operating revenues	$206,530	$175,586
Operating income	$23,753	$22,368
Net income	$13,932	$12,533
Diluted earnings per common share	$3.11	$2.76
Weighted average number of shares of common stock–diluted	4,486	4,540
Balance Sheet Data as of Period End		
Total assets	$342,012	$303,940
Total debt	$104,801	$108,376
Redeemable Convertible Preferred Stock	$18,849	—
Stockholders' equity	$94,732	$81,829

Genesee & Wyoming Inc. (GWI) is a holding company whose subsidiaries and unconsolidated affiliates own and operate regional freight railroads and provide related rail services. The Company generates revenues primarily from the movement of freight over track owned or operated by its railroads. The company also generates nonfreight revenues primarily by providing freight car switching and rail-related services to industrial companies with extensive railroad facilities within their complexes. The map on the inside of the cover reflects the geographical operations of GWI's North American subsidiaries, its unconsolidated 50% ownership in the Australian operations, and its unconsolidated 22.6% ownership in the Bolivian operations.

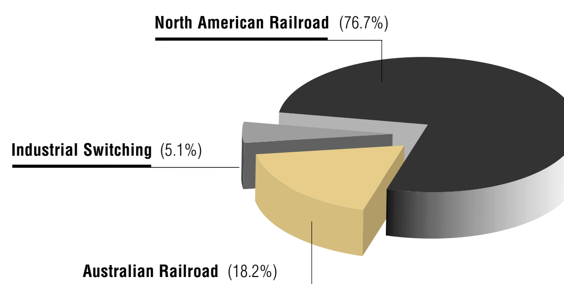
Revenues, Operating and Net Income



	1996	1997	1998	1999	2000
Revenues	$77,795	$103,643	$147,472	$175,586	$206,530
Operating Income	13,994	16,443	19,568	22,368	23,753
Net Income	5,905	7,998	11,434	12,533	13,932

Revenue Sources By Business Segment

by 2000 revenues



Letter to the Shareholders

Two thousand was a year of intense activity for Genesee & Wyoming Inc. (GWI), marked by a series of accomplishments that accelerated our transformation into a world-class provider of rail freight transportation services. During this period, we fueled our internal growth by building our core customer base, and integrating our Mexican and Canadian operations into our expanding global organization. We also drove external growth by winning the bid to privatize a profitable, state-owned freight railroad in Western Australia; purchasing an equity interest in a Bolivian railroad that connects to other railroads in Argentina and Brazil; and completing an agreement with Brown Brothers Harriman & Co.'s 1818 Fund III, L.P., to receive up to $25 million through a private placement of redeemable convertible preferred stock to finance our continued global expansion.

These accomplishments, and others, yielded record financial results for our Company in 2000. Our revenues increased 17.6 percent to $206.5 million, compared with $175.6 million in 1999, driven primarily by strong performance in our North American railroad operations. Net income grew 11.2 percent to $13.9 million, from $12.5 million in 1999. In addition, diluted earnings per share increased 12.7 percent to $3.11 from $2.76 in 1999. These results are particularly notable in that they were achieved in a year characterized by several external challenges, including high prices for diesel fuel.

To optimize the value of our strong operating and financial performance for our shareholders, in 2000 we also stepped up our efforts to communicate GWI's story to the investment community, heightening the visibility of our Company and, we believe, sparking new investor interest in our "old economy" industry. As testament to our efforts to generate value, *Forbes* magazine ranked GWI 99th on its list of the 200 Best Small Companies in America.

A Carefully Laid Track

Genesee & Wyoming's beginnings were modest. Founded more than 100 years ago, we were originally a single, 14-mile railroad transporting salt from a mine in western New York state. Today, we own or have interests in 23 railroads in five countries on three continents. We operate more than 7,700 miles of owned or leased track, and have access to an additional 2,350 miles through track access arrangements.

Our growth and success are due to a variety of factors. Initially, the Staggers Act of 1980 created new opportunities as it deregulated the railroad industry and spurred the divestiture of branch lines by Class I railroads in the United States. We capitalized on this development by purchasing or leasing routes that were disposed of by the major railroads and others, with a goal to improve operating efficiencies and return on capital.

We have also benefited from the fact that, over the last several years, many foreign governments have elected to privatize their railroads to improve operating efficiencies. This privatization has created exciting opportunities for GWI in Mexico, South America and Australia, where we have made strategic acquisitions geared to improve our earnings, drive shareholder value and position our Company for future growth.

These acquisitions have enabled us to diversify our customer, commodity and geographic revenue bases to lessen the impact of performance fluctuations that stem from variations in usage by a specific customer, volatility within a particular commodity group, and economic cycles in a given region or country. Most importantly, these acquisitions have allowed us to introduce our management principles into existing operations, leverage the inherent strengths of the railroad, create efficiencies and increase profitability.

In making these acquisitions, we carefully evaluated a variety of criteria related to each railroad property so we could selectively add properties to our portfolio. For example, we considered the size of the railroad, as well as the strength of the economy and customers it serves. We assessed our ability to generate improved operating efficiencies and cost savings. We gauged how swiftly the acquisition would prove accretive to earnings, and we examined the surrounding regions for future synergistic expansion opportunities. In the New York and Pennsylvania region, for example, we made six separate acquisitions that allowed us to create a

Two thousand was a year of intense activity for GWI, marked by a series of accomplishments that accelerated our transformation into a world-class provider of rail freight transportation services.

650-mile rail system, while in Oregon, a series of similar acquisitions has extended our reach to 485 miles.

Building Up Steam

Our acquisition efforts in 2000 focused on forging new international routes for GWI, particularly in Australia, where the federal and state governments began to privatize railroads in 1997. In 2000, we expanded our market share in Australia through our acquisition of Westrail Freight — the freight operations of the state-owned railroad — from the Western Australia government. Westrail, one of only two profitable government-owned systems in Australia, covers 3,280 miles of track and carries approximately 31 million tons of grain, alumina, nickel and other commodities.

In 2000 we also stepped up our efforts to communicate GWI's story to the investment community, heightening the visibility of our Company and, we believe, sparking new investor interest in our "old economy" industry.

The Westrail acquisition was made by the Australian Railroad Group Pty. Ltd. (ARG), a 50-50 joint venture we formed with Wesfarmers Limited, a $2.5-billion Perth-based diversified company, to build on our 1997 investment in our wholly owned subsidiary, Australia Southern Railroad (ASR). Wesfarmers brings financial strength and knowledge of Australian markets to the joint venture. As part of the transaction, we contributed ASR to ARG, along with our interest in the Asia Pacific Transport Consortium (APTC), a consortium that has been nominated to construct the 931-mile Alice Springs–to–Darwin Railway in the Northern Territory of Australia. ARG is now the largest private freight rail operator in the country and is poised to play a pivotal role in the future of the Australian rail industry. ARG, headed by Chief Executive Officer Chuck Chabot, strengthens GWI's strategic position in Australia and improves the stability and growth potential of our earnings.

We also established a solid platform for growth in South America during the year through a 22.6-percent equity interest in Empresa Ferroviaria Oriental, S.A. Connecting to railroads in Argentina and Brazil, the Oriental serves eastern Bolivia, and handles imports as well as eastbound agricultural exports destined for Paraguay River transloading facilities. Our new stake in the Oriental follows our initial entry to South America through our 1999 minority investment in Latin American Rail LLC. It also provides us with a strong ownership position in a successful Bolivian railroad, as well as revenue growth and cost reduction opportunities in the future.

Acquisitions require access to capital, and to fund our cash investments in 2000, we completed a private placement of up to $25 million in convertible preferred stock with the 1818 Fund III, L.P., managed by Brown Brothers Harriman & Co. Twenty million dollars of this capital was used for the Westrail Freight acquisition. The funding terms provide us with the balance sheet flexibility to make additional acquisitions and take advantage of the highly attractive global privatization climate.

These acquisitions have allowed us to introduce our management principles into existing operations, leverage the inherent strengths of the railroad, create efficiencies and increase profitability.

Gathering Speed

We have demonstrated that we can successfully acquire railroads, but our reputation and long-term credibility are predicated on our ability to operate these railroads profitably. We accomplish this by driving continuous improvement and efficiencies within each segment of rail operations. To this end, we have assembled interdisciplinary teams that focus on organization-wide issues — from purchasing, to track maintenance, to safety. Working together, these teams seek to develop "Best Practices," to be applied throughout GWI to drive improved results.

We also pay attention to improving service for our industrial customers within each of our regions and businesses. Though there is stiff competition between rail freight transport companies and truck carriers, we believe that we operate more fuel efficiently, more safely and offer greater value than trucks. With service quality as a defining issue, we are undertaking a number of measures at GWI to improve our service levels to grow our market share and serve the freight transport needs of our customers.

As a result of our focus on performance initiatives like these, we proved the excellence of our managerial capabilities in several of our ventures. In Canada, after purchasing our partner's ownership stake in Genesee • Rail-One (GRO) in 1999, our management team did an outstanding job of applying our business disciplines and turning this business into an important contributor to our profitability. In Mexico, our wholly owned subsidiary, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM), delivered strong results in its first full year as part of the GWI family, nearly a year ahead of expectations for that newly privatized operation. In a testament to our confidence in FCCM's future, in 2000 we completed the refinancing of FCCM and received $27.5 million of non-

We have assembled interdisciplinary teams that focus on organization-wide issues — from purchasing, to track maintenance, to safety. Working together, these teams seek to develop "Best Practices," to be applied throughout GWI to drive improved results.

recourse debt from a banking syndicate led by the International Finance Corporation (IFC). The IFC, an affiliate of the World Bank, also invested $1.9 million of equity capital.

Meanwhile, we have continued to diversify our customer base and drive revenue growth in all regions across the United States:

In New York/Pennsylvania, our railroads in the region increased their revenues to $36 million from $33 million in 1999. The railroads, spanning 650 miles, haul such products as petroleum, chemicals, and pulp and paper. We expect to resume salt shipments during the second half of 2001 from American Rock Salt's new mine in Hampton Corners.

In Oregon, our revenues rose to $22 million from $21 million in 1999. The railroad, covering 485 miles, carries newsprint, linerboard, lumber, metals and aggregates. Our increasing aggregates service to Morse Brothers provides an effective freight transport alternative to roadway traffic congestion around Portland. The new U.S. Gypsum plant in Rainier began shipping wallboard in December 2000 and should contribute to 2001 results.

In Illinois, our Illinois & Midland Railroad revenues remained strong at $23 million. The railroad, which owns 97 miles of track and extends over an additional 29 miles with trackage rights, transports increasing volumes of coal for four large electic power plants in central Illinois.

In Louisiana, our Louisiana & Delta Railroad revenues increased to $7 million from $6 million in 1999. The railroad, which traverses 206 miles, transports various commodities including carbon black and harvested sugar cane.

Our rail-switching operations, Rail Link, Inc., also began to deliver sustainable profits in 2000 and ended the year by winning a contract to operate the Port of Baton Rouge, Louisiana. Rail Link offers shippers a wide range of railcar handling services including industrial switching and track maintenance.

At the Controls

Successfully building our business requires expert management, and in 2000 we fortified our already excellent team. During the year, our new Chief Financial Officer, Jack Hellmann, established aggressive goals for financial performance and arranged a series of corporate finance transactions to strengthen our capital structure. In his new post as Executive Vice President of Corporate Development, Mark Hastings lent his more than 20 years of experience with GWI and his financial expertise to structuring and executing several major acquisitions in 2000; his skills will be even more in demand if, as we expect, our growth through acquisition becomes more complex and international. Mike Meyers joined GWI during the year as Vice President of Information Management and Technology, and has already begun to drive the development of our information systems and the expansion of our e-commerce initiatives.

Having led the development of our Australia Southern Railroad and the successful Westrail bid, Chuck Chabot became the CEO of ARG. Joining him are Wayne James, who headed Westrail and is now the CEO of ASR, and Murray Vitlich, ARG's Chief Financial Officer, formerly the general manager of a Wesfarmers business unit. I serve as Chairman of the ARG Board of Directors and am joined by GWI directors Phil Ringo and Doug Young. Our partner, Wesfarmers, is represented by its Chief Executive Officer, Michael Chaney; its Finance Director, Erich Fraunschiel; and its Director of Business Development, Gene Tilbrook.

In addition, strong board stewardship is important to our future success. We also strengthened the Genesee & Wyoming Board during the year with the addition of C. Sean Day, Chairman of Teekay Shipping Corporation, and T. Michael Long, a partner of Brown Brothers Harriman & Co. We look to Sean, Mike and our entire GWI Board for steady guidance as we continue to execute our growth strategy in the future.

Running On All Cylinders

As we reflect on GWI's many successes in 2000, we must credit them to the numerous factors that differentiate our Company from our competitors. For example, we have strong management, which positions us favorably in an extremely competitive environment. We have a proven strategy that balances internal and external growth. Our management team — in my

We plan to **continue to execute our disciplined growth strategy** by building our existing customer base, integrating our acquisitions and adding new rail holdings that meet our investment criteria.

We envision the day when we will be recognized in the markets we serve as the finest company in our industry — a time when we will be regarded the leading choice as a business partner, employer and investment opportunity.

view, the finest in our industry — has the experience and depth to execute our strategy. We use "Best Practices" to help boost efficiencies and improve margins. Our portfolio of profitable railroads is increasingly diverse from customer, geographic and freight perspectives. We have a reasonable debt-to-capital ratio, positive free cash flow, and access to the capital necessary to seize acquisition opportunities.

I am proud of the fact that these strengths helped GWI's stock to outperform our publicly traded competitors' stocks in 2000. Yet, even as the broad investment community began to take notice of GWI, boosting our stock price appreciation into the top four percent of over 4,000 listed NASDAQ companies, our stock remained undervalued in relation to our peers. Our primary mission in 2001 is to close the gap between our strong performance and our stock price. To fulfill this mission, we plan to continue to execute our disciplined growth strategy by building our existing customer base, integrating our acquisitions and adding new rail holdings that meet our investment criteria. As we do so, we intend to also rationalize our assets, consolidate where possible and continue to strengthen operating efficiencies. We believe that these consistent efforts, combined with a steady and clear communication of the GWI story to the investment community, will position the Company as a compelling investment.

Full Speed Ahead

In 2001, much about what we do and how we do it will remain the same. We have a proven strategy, and we intend to continue to execute it effectively. We envision the day when we will be recognized in the markets we serve as the finest company in our industry — a time when we will be regarded the leading choice as a business partner, employer and investment opportunity.

As GWI speeds into the future, we are aware that many forces are fueling our progress: the loyalty of our customers, the diligence and hard work of our employees, and the support of our shareholders and lenders. To all of these constituents, I would like to extend my warmest thanks, and ask for your continued participation in Genesee & Wyoming's drive to become the global leader in rail freight services.

Mortimer B. Fuller III
Chairman and Chief Executive Officer
February 28, 2001

Page nine | Australia Southern Railroad (ASR) engines en route to Perth. ASR is part of the Australian Railroad Group, a GWI/Wesfarmers joint venture. **Left** | The Illinois & Midland Railroad delivers coal to four power plants, including Midwest Generation's Powerton Plant near Peoria, Illinois. **Above top** | Rail Link, Inc., which offers shippers industrial switching services, also serves seven coal mines in Wyoming's Powder River Basin. **Above bottom** | A winter move to Trois Rivieres and Québec City on the Québec Gatineau Railway in Canada.

Above top | Australia Western Railroad “S” class locomotives hauling alumina south of Perth, Western Australia. **Above bottom** | The Portland & Western Railroad moves logs from Teevin Bros. Land and Timber Company in Rainier, Oregon. **Right** | The Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM) railroad transports Ford vehicles to FCCM’s new automotive facility in Mérida, Mexico.

YN45071

Left | Rail Link, Inc. handles automobiles at the port of Brunswick, Georgia, one of five port facilities it serves in the U.S. **Above top** | In Canada the Huron Central Railway transports steel from the Algoma Steel Mill in Sault Ste. Marie to Sudbury, Ontario. **Above bottom** | American Rock Salt's mining operation in Hampton Corners, New York is expected to begin shipping salt in the second half of 2001.

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Left | Newly upgraded track on the FCCM fulfills part of GWI's purchase commitment to the Mexican government and improves service to customers in southern Mexico.

Management's Discussion and Analysis Of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Annual Report.

General | The Company is a holding company whose subsidiaries and unconsolidated affiliates own and/or operate short line and regional freight railroads and provide related rail services in North America, South America and Australia. The Company, through its U.S. industrial switching subsidiary, also provides freight car switching and related services to United States industrial companies with extensive railroad facilities within their complexes. The Company generates revenues primarily from the movement of freight over track owned or operated by its railroads. The Company also generates non-freight revenues primarily by providing freight car switching and related rail services such as railcar leasing, railcar repair and storage to industrial companies with extensive railroad facilities within their complexes, to shippers along its lines, and to the Class I railroads that connect with its North American lines.

The Company's operating expenses include wages and benefits, equipment rents (including car hire), purchased services, depreciation and amortization, diesel fuel, casualties and insurance, materials and other expenses. Car hire is a charge paid by a railroad to the owners of railcars used by that railroad in moving freight. Other expenses generally include property and other non-income taxes, professional services, communication and data processing costs, and general overhead expense.

When comparing the Company's results of operations from one reporting period to another, the following factors should be taken into consideration. The Company has historically experienced fluctuations in revenues and expenses such as one-time freight moves, customer plant expansions and shut-downs, railcar sales, accidents and derailments. In periods when these events occur, results of operations are not easily comparable to other periods. Also, much of the Company's growth to date has resulted from acquisitions, joint ventures, and investments in unconsolidated affiliates. Most recently, the Company, through a 50% owned joint venture, completed an acquisition in Western Australia in December 2000, and through an investment in an unconsolidated affiliate, began operating a railroad in Bolivia in November 2000. The Company also completed two acquisitions, one in Canada and one in Mexico, in 1999. Because of variations in the structure, timing and size of these acquisitions and differences in economics among the Company's railroads resulting from differences in the rates and other material terms established through negotiation, the Company's results of operations in any reporting period may not be directly comparable to its results of operations in other reporting periods.

Expansion of Operations

Australia | On December 16, 2000, the Company, through its newly-formed joint venture, Australian Railroad Group Pty. Ltd. (ARG), completed the acquisition of Westrail Freight from the government of Western Australia for approximately $334.4 million including working capital. ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. Westrail Freight is composed of the freight operations of the formerly state-owned railroad of Western Australia.

To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company's interest in the Asia Pacific Transport Consortium (APTC) – a consortium selected to construct and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. Additionally, the Company contributed $21.4 million of cash to ARG while Wesfarmers contributed $64.2 million in cash, including $8.2 million which represents a long-term non-interest bearing note to match a similar note due to the Company from ASR at the date of the transaction. ARG also received $258.6 million in acquisition debt and $59.9 million of construction and working capital facilities from Bank of America and the Australia and New Zealand Banking Group Limited. A portion of the debt was used to refinance approximately $7.1 million of existing bank debt of ASR. Should APTC reach financial close and meet other conditions as specified in the agreement between the Company and Wesfarmers, the Company would receive additional compensation.

To fund its cash investment in ARG, the Company also completed a private placement of Redeemable Convertible Preferred Stock (the Convertible Preferred) with the 1818 Fund III, L.P. (the Fund) managed by Brown Brothers Harriman & Co. See Note 11 to Consolidated Financial Statements for a description of the Convertible Preferred.

As a direct result of the ARG transaction, ASR stock options became immediately exercisable by the option holders and, as allowed under the provisions of the stock option plan, the option holders, in lieu of ASR stock, were paid an equivalent value in cash, resulting in a $4.0 million pre-tax compensation charge to ASR earnings.

The Company also recognized a $10.1 million gain upon the issuance of ASR stock to Wesfarmers upon the formation of ARG as a result of such issuance being at a per share price in excess of the Company's book value per share investment in ASR. Additionally, due to the deconsolidation of ASR, the Company recognized a $6.5 million deferred tax expense resulting from the financial reporting versus tax basis difference in the Company's equity investment in ARG. Should APTC reach financial close and meet other conditions as specified in the agreement between the Company and Wesfarmers, additional gains will be reported. The Company accounts for its 50% ownership in ARG under the equity method of accounting and therefore deconsolidated ASR from its consolidated financial statements as of December 17, 2000. The Company reported $261,000 in equity earnings in its 2000 financial statements from ARG for the period of December 17 through December 31, 2000.

Mexico | In August 1999, the Company's wholly-owned subsidiary, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM), was awarded a 30-year concession to operate certain railways owned by the state-owned Mexican rail company Ferronales. FCCM also acquired equipment and other assets. The aggregate purchase price, including acquisition costs, was approximately 297 million pesos, or approximately $31.5 million at then-current exchange rates. The purchase included rolling stock, an advance payment on track improvements to be completed on the state-owned track property, an escrow payment which will be returned to the Company upon successful completion of the track improvements, prepaid value-added taxes and $3.1 million in goodwill. A portion of the purchase price ($5.3 million) was also allocated to the 30-year operating license. As the track improvements have been made, the related costs have been reclassified into the property accounts as leasehold improvements and amortized over the improvements' estimated useful life. Pursuant to the acquisition, employee termination payments of $1.0 million were made to former state employees and approximately 55 employees who the Company retained upon acquisition but terminated as part of its plan to reduce operating costs after September 30, 1999. All payments were made during the fourth quarter of 1999 and are considered a cost of the acquisition.

The Chiapas-Mayab concession is made up of two separate rail lines. The Chiapas is approximately 450 kilometers (280 miles) long and runs between Ixtepec in the Mexican state of Oaxaca, and Ciudad Hidalgo in the Mexican state of Chiapas. Principal commodities hauled include cement, corn, petroleum products and various agricultural products. The Mayab extends approximately 1,100 kilometers (680 miles) from Coatzacoalcos in the Mexican state of Vera Cruz, to beyond Merida in the Mexican state of Yucatan. Principal commodities hauled on the line include cement, silica sand and various agricultural products. The two railroads are connected via trackage rights over Ferrosur (a recently privatized rail concession) and a government-owned line. FCCM began operations on September 1, 1999.

On December 7, 2000, in conjunction with the refinancing of FCCM (see Note 9 to Consolidated Financial Statements) and its parent company, GW Servicios, S.A. de C.V. (Servicios), the International Finance Corporation (IFC) invested $1.9 million of equity for a 12.7% indirect interest in FCCM, through its parent company Servicios. The Company contributed an additional $13.1 million and maintains an 87.3% indirect ownership in FCCM. The Company funded $10.7 million of its new investment with borrowings under its amended credit facility, with the remaining investment funded by the conversion of intercompany advances into permanent capital. Along with its equity investment, IFC received a put option exercisable in 2005 to sell its equity stake back to the Company. The put price will be based on a multiple of earnings before interest, taxes, depreciation and amortization. The Company increases its minority interest expense in the event that the value of the put option exceeds the otherwise minority interest liability. Because the IFC equity stake can be put to the Company, the impact of selling the equity stake at a per share price below the Company's book value per share investment was recorded directly to paid-in capital.

Canada | On April 15, 1999, the Company acquired Rail-One Inc. (Rail-One) which has a 47.5% ownership interest in Genesee • Rail-One Inc. (GRO), thereby increasing the Company's ownership of GRO to 95%. GRO owns and operates two short line railroads in Canada. Under the terms of the purchase agreement, the Company converted outstanding notes receivable from Rail-One of $4.6 million into capital, will pay approximately $844,000 in cash to the sellers of Rail-One in installments over a four year period, and granted options to the sellers of Rail-One to purchase up to 80,000 shares of the Company's Class A Common Stock at an exercise price of $8.625 per share. Exercise of the option is contingent on the Company's recovery of its capital investment in GRO including debt assumed if the Company were to sell GRO, and upon certain GRO income performance measures which have not yet been met. The transaction was accounted for as a purchase and resulted in $2.8 million of initial goodwill which is being amortized over 15 years. The contingent purchase price will be recorded as a component of goodwill at the value of the options issued, if and when such options are exercisable. Effective with this agreement, the operating results of GRO have been consolidated within the financial statements of the Company, with a 5% minority interest due to another GRO shareholder. During the second quarter of 2000, the Company purchased the remaining 5% minority interest in GRO with an initial cash payment of $240,000 and subsequent annual cash installments of $180,000 due in 2001 and 2002. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded equity losses of $618,000 and $645,000 in 1999 and 1998, respectively.

South America | On November 5, 2000, the Company acquired an indirect 21.87% equity interest in Empresa Ferroviaria Oriental, S.A. (Oriental) increasing its stake in Oriental to 22.55%. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company previously acquired a 0.68% indirect interest in Oriental on September 30, 1999 through its 47.5% ownership interest in Latin American Rail LLC. That original investment was for $1.0 million in cash and 25,532 shares of the Company's stock valued at $281,000. The Company's new ownership interest is largely through a 90% owned holding company subsidiary in Bolivia which also received $740,000 from the minority partner for investment into Oriental.

The Company's portion of the Oriental investment is composed of $6.7 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of $10.8 million at an interest rate of 7.67%, and a non-interest bearing contingent payment of $450,000 due in 3 years if certain financial results are achieved. The cash used by the Company to fund such investment was obtained from its existing revolving credit facility. The Company accounts for its indirect interest in the Oriental under the equity method of accounting.

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Consolidated Operating Revenues | Operating revenues were $206.5 million in the year ended December 31, 2000 compared to $175.6 million in the year ended December 31, 1999, a net increase of $30.9 million or 17.6%. The net increase was attributable to a $37.2 million increase in North American railroad revenues of which $23.8 million was attributable to a full year of railroad operations in Mexico compared to four months of railroad operations in Mexico in the 1999 period, $10.2 million was attributable to a full year of railroad operations in Canada compared to eight and one-half months of railroad operations in Canada in the 1999 period, and $3.2 million was on existing North American operations; offset by a $5.5 million decrease in revenues from Australian railroad operations and a $768,000 decrease in industrial switching revenues.

The following three sections provide information on railroad revenues for North American and Australian railroad operations, and industrial switching revenues in the United States. Australian railroad operations were deconsolidated starting December 17, 2000.

North American Railroad Operating Revenues

Operating revenues increased $37.2 million or 30.7% to $158.3 million in the year ended December 31, 2000 of which $126.4 million were freight revenues and $31.9 million were non-freight revenues. Operating revenues in the year ended December 31, 1999 were $121.1 million of which $95.5 million were freight revenues and $25.6 million were non-freight revenues. The increase was attributable to a $30.7 million increase in freight revenues and a $6.5 million increase in non-freight revenues. The increase of $30.7 million in North American freight revenues consisted of $20.7 million in freight revenues attributable to a full year of railroad operations in Mexico, $8.6 million in freight revenues attributable to a full year of railroad operations in Canada, and $1.4 million on existing North American operations. The following table compares North American freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2000 and 1999:

North American Freight Revenues and Carloads Comparison by Commodity Group

(dollars in thousands, except average per carload) *Years Ended December 31, 2000 and 1999*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	2000	% of total	1999	% of total	2000	% of total	1999	% of total	2000	1999
Commodity Group										
Coal, Coke & Ores	$25,987	20.6%	$24,779	25.9%	117,189	31.2%	94,140	31.4%	$222	$263
Pulp & Paper	19,653	15.6%	14,867	15.6%	51,753	13.8%	39,952	13.3%	380	372
Petroleum Products	18,221	14.4%	10,210	10.7%	30,075	8.0%	20,206	6.7%	606	505
Minerals & Stone	17,901	14.2%	7,905	8.3%	42,146	11.2%	23,667	7.9%	425	334
Metals	10,069	8.0%	8,156	8.5%	36,554	9.7%	30,614	10.2%	275	266
Farm & Food Products	9,653	7.6%	5,831	6.1%	27,710	7.4%	19,898	6.6%	348	293
Chemicals-Plastics	8,800	7.0%	8,169	8.6%	16,985	4.5%	16,039	5.4%	518	509
Lumber & Forest Products	7,827	6.2%	8,304	8.7%	25,426	6.8%	28,627	9.6%	308	290
Autos & Auto Parts	3,148	2.5%	2,491	2.6%	5,849	1.6%	4,790	1.6%	538	520
Other	5,113	3.9%	4,825	5.0%	21,438	5.8%	22,024	7.3%	239	219
Totals	$126,372	100.0%	$95,537	100.0%	375,125	100.0%	299,957	100.0%	337	319

Revenues from hauling Coal increased by $1.2 million or 4.9% of which $77,000 was attributable to a full year of railroad operations in Canada, and $1.1 million was on existing North American operations. The increase on existing railroad operations was primarily attributable to freight revenues for two new customers in the 2000 period. The average revenue per carload for coal decreased by 15.6% due to lower revenue per carload for the new customers, and freight rate reductions on certain existing traffic.

Pulp and Paper revenues increased by $4.8 million or 32.2% of which $306,000 was attributable to a full year of railroad operations in Mexico, $2.9 million was attributable to a full year of railroad operations in Canada, and $1.6 million was on existing North American operations.

Petroleum Products revenues increased by $8.0 million or 78.5% of which $7.1 million was attributable to a full year of railroad operations in Mexico, $33,000 was attributable to a full year of railroad operations in Canada, and $868,000 was on existing North American operations.

Minerals and Stone revenues increased by $10.0 million or 126.5% of which $8.9 million was attributable to a full year of railroad operations in Mexico, $237,000 was attributable to a full year of railroad operations in Canada, and $887,000 was on existing North American operations.

Farm and Food Products increased by a net $3.8 million or 65.5% of which $2.2 million was attributable to a full year of railroad operations in Mexico and $1.7 million was attributable to a full year of railroad operations in Canada, offset by a decrease of $103,000 on existing North American operations.

Freight revenues from all remaining commodities reflected a net increase of $3.0 million or 9.4% of which $2.3 million was attributable to a full year of railroad operations in Mexico, $3.7 million was attributable to a full year of railroad operations in Canada, offset by a net decrease of $3.0 million on existing North American operations. The net decrease on existing North American operations was primarily due to decreases in revenues from Lumber and Forest Products of $1.5 million, Chemicals and Plastics of $698,000 and Other of $1.5 million, offset by increases in Metals of $293,000 and Auto and Auto Parts of $436,000.

Total North American carloads were 375,125 in the year ended December 31, 2000 compared to 299,957 in the year ended December 31, 1999, an increase of 75,168 or 25.1%. The increase of 75,168 consisted of 29,914 carloads attributable to a full year of railroad operations in Mexico, 24,962 carloads attributable to a full year of railroad operations in Canada, and a net increase of 20,292 carloads on existing North American railroad operations of which 23,049 were coal offset by a net decrease of 2,757 in all other commodities.

The overall average revenue per carload increased to $337 in the year ended December 31, 2000, compared to $319 per carload in the year ended December 31, 1999, an increase of 5.6% due primarily to higher per carload revenues attributable to Canada and Mexico carloads offset by a decrease on existing North American railroad operations carloads.

North American non-freight railroad revenues were $31.9 million in the year ended December 31, 2000 compared to $25.6 million in the year ended December 31, 1999, an increase of $6.3 million or 25.0%. The increase of $6.3 million in North American non-freight revenues consisted of $3.1 million attributable to a full year of operations in Mexico, $1.5 million attributable to a full year of operations in Canada, and $1.7 million in non-freight revenues on existing North American operations. The following table compares North America non-freight revenues for the years ended December 31, 2000 and 1999:

North American Railroad
Non-Freight Operating Revenue Comparison
Years Ended December 31, 2000 and 1999

(dollars in thousands) *Year Ended December 31*

	2000		1999	
	$	% of Operating Revenue	$	% of Operating Revenue
Railroad switching	$11,340	35.5%	$6,818	26.7%
Car hire and rental income	7,969	24.9%	7,981	31.2%
Car repair services	3,019	9.5%	2,346	9.2%
Other operating income	9,618	30.1%	8,411	32.9%
Total non-freight revenues	$31,946	100.0%	$25,556	100.0%

The increase of $4.5 million in railroad switching revenues is primarily attributable to a full year of railroad operations in Mexico.

Australian Railroad Operating Revenues

Operating revenues were $37.6 million in the period ended December 16, 2000, compared to $43.2 million in the year ended December 31, 1999, a decrease of $5.6 million or 12.8%. The Company deconsolidated its Australian subsidiary as part of the ARG transaction on December 17, 2000. The decrease was the result of a decrease in freight revenues from Australian railroad operations of $5.2 million or 13.5% and a decrease in non-freight revenues of $284,000 or 6.3%. The decrease in Australian operating revenues is due to the December 17 deconsolidation and the devaluation of the Australian dollar against the U.S. dollar in the 2000 period compared to the 1999 period. The weighted average currency exchange rate in the year ended December 31, 2000 was $0.5828 compared to $0.6449 in the year ended December 31, 1999, a decrease of $0.0621 or 9.6%.

The following table outlines Australian freight revenues for the two periods:

Australian Freight Revenues by Commodity

(dollars in thousands, except average per carload) *Periods Ended December 16, 2000 and December 31, 1999*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	2000	% of total	1999	% of total	2000	% of total	1999	% of total	2000	1999
Commodity Group										
Hook and Pull (Haulage)	$14,905	44.6%	$17,533	45.4%	51,165	21.3%	52,407	31.3%	$291	$335
Grain	9,009	27.0%	13,588	35.2%	34,875	14.5%	48,781	29.1%	258	279
Iron Ore	3,754	11.2%	350	0.9%	99,544	41.4%	8,069	4.8%	38	43
Gypsum	2,417	7.2%	2,861	7.4%	40,841	17.0%	40,304	24.1%	59	71
Marble	1,788	5.4%	2,034	5.3%	8,171	3.4%	8,343	5.0%	219	244
Lime	1,451	4.3%	1,531	4.0%	4,182	1.7%	4,662	2.8%	347	328
Coal	—	0.0%	664	1.7%	—	0.0%	4,317	2.6%	—	154
Other	96	0.3%	88	0.1%	1,596	0.7%	603	0.3%	60	146
Total	$33,420	100.0%	$38,649	100.0%	240,374	100.0%	167,486	100.0%	139	231

The net decrease of $5.2 million in Australian freight revenues was primarily attributable to the December 17 deconsolidation and the 9.6% devaluation of the Australian dollar. Decreases in revenues from Grain of $4.6 million, Hook and Pull of $2.6 million, Coal of $664,000, and all remaining commodities except Iron Ores of $762,000, were primarily due to the deconsolidation and devaluation. Grain revenues for 1999 also reflect the strong harvest experienced during the 1998/99 season. There were no freight revenues from coal in the 2000 period due to the non-renewal of a coal contract. The increase of $3.4 million from the shipment of Iron Ores was from a new customer that began shipments in the fourth quarter of 1999.

Australia carloads were 240,374 in the period ended December 16, 2000, compared to 167,486 in the year ended December 31, 1999, an increase of 72,888 or 43.5%. The net increase of 72,888 was primarily the result of increases of 91,475 carloads from the shipment of Iron Ores and 537 carloads from the shipment of Gypsum, offset by decreases in carloads from Grain, Coal, and all other commodities of 13,906, 4,317, and 901, respectively.

The overall average revenue per carload decreased to $139 in the period ended December 16, 2000, compared to $231 per carload in the year ended December 31, 1999. The decrease is primarily due to the significantly higher number of carloads of lower revenue per carload Iron Ore, and the devaluation of the Australian dollar against the U.S. dollar in the 2000 period compared to the 1999 period.

Australian non-freight revenues were $4.2 million in the period ended December 16, 2000, compared to $4.5 million in the year ended December 31, 1999, a decrease of $284,000 or 6.3%.

U.S. Industrial Switching Revenues

Revenues from U.S. industrial switching activities were $10.6 million in the year ended December 31, 2000 compared to $11.3 million in the year ended December 31, 1999, a decrease of $768,000 or 6.8% due primarily to the Company's decision to exit an unprofitable switching contract in May, 1999.

Consolidated Operating Expenses | Operating expenses for all operations combined were $182.8 million in the year ended December 31, 2000, compared to $153.2 million in the year ended December 31, 1999, a net increase of $29.6 million or 19.3%. Expenses attributable to North American railroad operations were $134.8 million in the year ended December 31, 2000, compared to $105.2 million in the year ended December 31, 1999, an increase of $29.6 million or 28.1% of which $17.5 million are operating expenses attributable to a full year of railroad operations in Mexico compared to four months of railroad operations in Mexico in the 1999 period, $8.1 million are operating expenses attributable to a full year of railroad operations in Canada compared to eight and one-half months of railroad operations in Canada in the 1999 period, and $4.0 million are operating expenses on existing North American operations. Expenses attributable to operations in Australia were $37.7 million in 2000, compared to $36.6 million in 1999, an increase of $1.1 million or 2.9%. Expenses attributable to U.S. industrial switching were $10.3 million in the year ended December 31, 2000, compared to $11.4 million in the year ended December 31, 1999, a decrease of $1.1 million or 9.6%.

Operating Ratios | The Company's combined operating ratio increased to 88.5% in the year ended December 31, 2000 from 87.3% in the year ended December 31, 1999. The operating ratio for North American railroad operations decreased to 85.1% in the year ended December 31, 2000 from 86.9% in the year ended December 31, 1999. The operating ratio for Australian railroad operations increased to 100.1% in 2000 from 84.8% in 1999. The operating ratio for U.S. industrial switching operations decreased to 97.7% in the year ended December 31, 2000 from 100.8% in the year ended December 31, 1999.

The following three sections provide information on railroad expenses for North American and Australian railroad operations, and industrial switching expenses in the United States. Australian railroad operations were deconsolidated starting December 17, 2000.

North American Railroad Operating Expenses

The following table sets forth a comparison of the Company's North American railroad operating expenses in the years ended December 31, 2000 and 1999:

North American Railroad Operating Expense Comparison

(dollars in thousands)	*Year Ended December 31*			
	2000		**1999**	
	$	**% of Operating Revenue**	**$**	**% of Operating Revenue**
Labor and benefits	$54,212	34.2%	$38,819	32.1%
Equipment rents	19,787	12.5%	13,768	11.4%
Purchased services	10,805	6.8%	7,996	6.6%
Depreciation and amortization	11,068	7.0%	9,649	8.0%
Diesel fuel	12,888	8.1%	6,357	5.2%
Casualties and insurance	6,111	3.9%	4,172	3.4%
Materials	10,226	6.5%	8,503	7.0%
Other expenses	9,677	6.1%	15,929	13.2%
Total operating expenses	$134,774	85.1%	$105,193	86.9%

Labor and benefits expense increased $15.4 million or 39.7% of which $7.5 million was attributable to a full year of railroad operations in Mexico, $2.2 million was attributable to a full year of railroad operations in Canada, and $5.7 million was on existing North American operations.

Equipment rents increased $6.0 million or 43.7% of which $994,000 was attributable to a full year of railroad operations in Mexico, $1.8 million was attributable to a full year of railroad operations in Canada, and $3.2 million was on existing North American operations.

Purchased services increased $2.8 million or 35.1% of which $1.8 million was attributable to a full year of railroad operations in Mexico, $955,000 was attributable to a full year of railroad operations in Canada, and $81,000 was on existing North American operations.

Depreciation and amortization expense increased $1.4 million or 14.7% of which $1.3 million was attributable to a full year of railroad operations in Mexico and $512,000 was attributable to a full year of railroad operations in Canada, offset by a decrease of $434,000 on existing North American operations.

Diesel fuel expense increased $6.5 million or 102.7% of which $2.4 million was attributable to a full year of railroad operations in Mexico, $1.8 million was attributable to a full year of railroad operations in Canada, and $2.3 million was on existing North American operations. The increase on existing railroad operations was due primarily to increased fuel oil prices in 2000 and secondarily to increased fuel consumption resulting from an increase in carloads on existing operations.

Casualties and insurance expense increased $1.9 million or 46.5% of which $1.4 million was attributable to a full year of railroad operations in Mexico, $19,000 was attributable to a full year of railroad operations in Canada, and $565,000 was on existing North American operations.

Materials expense increased $1.7 million or 20.3% of which $1.5 million was attributable to a full year of railroad operations in Mexico and $231,000 was on existing North American operations, offset by a $48,000 decrease attributable to Canada. The decrease attributable to Canada is due primarily to increased capital work in the 2000 period compared to a higher level of maintenance work in the 1999 period.

Other expenses were $9.7 million in the year ended December 31, 2000, compared to $15.9 million in the year ended December 31, 1999, a net decrease of $6.2 million or 39.2%. The net decrease of $6.2 million consists of an increase of $531,000 attributable to a full year of railroad operations in Mexico, $800,000 attributable to a full year of railroad operations in Canada, offset by a $7.6 million decrease on existing North American operations.

Australian Railroad Operating Expenses

The following table sets forth a comparison of the Company's Australian railroad operating expenses in the periods ended December 16, 2000 and December 31, 1999:

Australian Railroad Operating Expense Comparison

(dollars in thousands)	Periods Ended December 16, 2000 and December 31, 1999			
	2000		1999	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$5,266	14.0%	$5,443	12.6%
Equipment rents	210	0.6%	367	0.9%
Purchased services	11,947	31.7%	12,116	28.1%
Depreciation and amortization	2,254	6.0%	2,157	5.0%
Diesel fuel	6,672	17.7%	8,186	19.0%
Casualties and insurance	1,415	3.8%	1,635	3.8%
Materials	1,492	4.0%	1,861	4.3%
Other expenses	4,397	11.7%	4,833	11.1%
Stock option charge	4,015	10.6%	—	—
Total operating expenses	$37,668	100.1%	$36,598	84.8%

Operating expenses (exclusive of a $4.0 million stock option charge) decreased by $2.9 million in 2000 primarily due to the December 17 deconsolidation and the 9.6% devaluation of the Australian dollar against the U.S. dollar in the 2000 period compared to the 1999 period.

As a direct result of the Company's contribution of ASR to ARG, ASR stock options became immediately exercisable by the option holders and, as allowed under the provisions of the stock option plan, the option holders, in lieu of ASR stock, were paid an equivalent value in cash, resulting in a $4.0 million pre-tax compensation charge to ASR earnings.

U. S. Industrial Switching Operating Expenses

The following table sets forth a comparison of the Company's industrial switching operating expenses in the years ended December 31, 2000 and 1999:

U.S. Industrial Switching Operating Expense Comparisonn

(dollars in thousands)	Year Ended December 31			
	2000		1999	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$6,419	60.7%	$7,945	70.1%
Equipment rents	239	2.3%	187	1.6%
Purchased services	335	3.2%	476	4.2%
Depreciation and amortization	658	6.2%	768	6.8%
Diesel fuel	542	5.1%	421	3.7%
Casualties and insurance	529	5.0%	971	8.6%
Materials	643	6.1%	743	6.6%
Other expenses	970	9.1%	(84)	(0.8%)
Total operating expenses	$10,335	97.7%	$11,427	100.8%

Labor and benefits expense decreased $1.5 million or 19.2%, due primarily to the Company's decision to exit an unprofitable switching contract in May, 1999.

All other expenses were $3.9 million in the year ended December 31, 2000, compared to $3.5 in the year ended December 31, 1999, an increase of $434,000 or 12.5%.

Interest Expense | Interest expense in the year ended December 31, 2000, was $11.2 million compared to $8.5 million in the year ended December 31, 1999, an increase of $2.7 million or 32.7% primarily due to the increase in debt used to fund acquisitions in 1999 and investments in unconsolidated affiliates in 2000.

Gain on 50% Sale of Australia Southern Railroad to Australian Railroad Group | The Company recorded a non-cash gain of $10.1 million upon the issuance of shares of ASR at a price per share in excess of its book value per share investment in ASR in December 2000 (see Note 3. to Consolidated Financial Statements).

Valuation Adjustment of U.S. Dollar Denominated Foreign Debt | Amounts outstanding under the Company's credit facilities which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses which totaled a loss of $1.5 million in the year ended December 31, 2000, compared to a loss of $191,000 in the year ended December 31, 1999. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign debt revaluation was significantly reduced.

Other Income, Net | Other income, net in the year ended December 31, 2000, was $3.0 million compared to $1.9 million in the year ended December 31, 1999, an increase of $1.1 million or 59.1%. Other income, net in the years ended December 31, 2000 and 1999, consists primarily of interest income of $2.3 million and $1.3 million, respectively. The increase in interest income in the year ended December 31, 2000, is primarily due to a full year of earnings on a special deposit at the Company's Mexican subsidiary.

Income Taxes | The Company's effective income tax rate in the years ended December 31, 2000 and 1999 was 43.9% and 14.0%, respectively. The 2000 rate was impacted by a $6.6 million non-cash deferred tax expense related to the financial reporting versus tax basis difference in the Company's investment in Australia which resulted from the deconsolidation of those operations, and a $1.0 million reduction in the valuation allowance established in 1999 against the positive impact of a favorable tax law change in Australia. Without the impact of the these items, the Company's effective income tax rate in the year ended December 31, 2000, was 35.8%. The 1999 rate was impacted by a $4.2 million benefit recorded in the third quarter of 1999 as a result of the favorable tax law change in Australia. Without this impact, 1999's effective income tax rate was 40.9%.

Equity in Net Income of Unconsolidated International Affiliates | Equity earnings of unconsolidated international affiliates in the year ended December 31, 2000, were $411,000 compared to a loss of $618,000 in the year ended December 31, 1999, an increase of $1.0 million. Equity earnings in the year ended December 31, 2000, consist of $261,000 from Australian Railroad Group for the period of December 17 through December 31, 2000, and $150,000 from South America affiliates for the period of November 6 - December 31, 2000. Equity losses of $618,000 in the year ended December 31, 1999, were from Genesee • Rail-One for the period of January 1 through April 15, 1999, at which date the Company acquired majority ownership of Genesee•Rail-One.

Net Income and Earnings Per Share | The Company's net income for the year ended December 31, 2000, was $13.9 million compared to net income in the year ended December 31, 1999, of $12.5 million, an increase of $1.4 million or 11.2%. The increase in net income is the net result of an increase in net income from North American railroad operations of $7.6 million, an increase in equity earnings of unconsolidated affiliates of $1.0, and a decrease in the net loss of industrial switching of $86,000; offset by a decrease in net income from Australian railroad operations of $7.3 million.

Basic and Diluted Earnings Per Share in the year ended December 31, 2000, were $3.19 and $3.11, respectively, on weighted average shares of 4.3 million and 4.5 million, respectively, compared to $2.79 and $2.76, respectively, on weighted average shares of 4.5 million in the year ended December 31, 1999.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Consolidated Operating Revenues | Operating revenues were $175.6 million in the year ended December 31, 1999 compared to $147.5 million in the year ended December 31, 1998, a net increase of $28.1 million or 19.1%. The net increase was attributable to a $33.0 million increase in North American railroad revenues of which $19.9 million were revenues from new railroad operations in Canada, $8.8 million were revenues from new railroad operations in Mexico and $4.3 million were increases in revenues on existing North America railroad operations; offset by a $3.6 million decrease in revenues from Australian railroad operations due primarily to the non-renewal of a coal contract and a $1.3 million decrease in industrial switching revenues due primarily to the Company's decision to exit an unprofitable switching contract.

The following three sections provide information on railroad revenues for North American and Australian railroad operations, and industrial switching revenues in the United States.

North American Railroad Operating Revenues

Operating revenues were $121.1 million in the year ended December 31, 1999 of which $95.5 million were freight revenues and $25.6 million were non-freight revenues compared to $88.1 million of which $66.1 million were freight revenues and $22.0 million were non-freight revenues in the year ended December 31, 1998, an increase in operating revenues of $33.0 million or 37.5%. The increase was attributable to a $29.5 million increase in freight revenues and a $3.5 million increase in non-freight revenues. The increase of $29.5 million in North American freight revenues was due to $15.0 million in freight revenues attributable to new railroad operations in Canada, $7.2 million in freight revenues attributable to new railroad operations in Mexico, and an increase of $7.3 million in freight revenues on existing railroad operations. The following table compares North American freight revenues, carloads and average freight revenues per carload for the years ended December 31, 1999 and 1998:

North American Freight Revenues and Carloads Comparison by Commodity Group

(dollars in thousands, except average per carload) *Years Ended December 31, 1999 and 1998*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	1999	% of total	1998	% of total	1999	% of total	1998	% of total	1999	1998
Commodity Group										
Coal, Coke & Ores	$24,779	25.9%	$19,245	29.1%	94,140	31.4%	75,881	34.8%	$263	$254
Pulp & Paper	14,867	15.6%	8,295	12.6%	39,952	13.3%	21,318	9.7%	372	389
Petroleum Products	10,210	10.7%	7,135	10.8%	20,206	6.7%	15,992	7.3%	505	446
Lumber & Forest Products	8,304	8.7%	6,098	9.2%	28,627	9.6%	20,802	9.5%	290	293
Chemicals-Plastics	8,169	8.6%	6,337	9.6%	16,039	5.4%	12,503	5.7%	509	507
Metals	8,156	8.5%	4,879	7.4%	30,614	10.2%	17,862	8.2%	266	273
Minerals & Stone	7,905	8.3%	3,790	5.8%	23,667	7.9%	13,679	6.3%	334	277
Farm & Food Products	5,831	6.1%	4,919	7.4%	19,898	6.6%	17,451	8.0%	293	282
Autos & Auto Parts	2,491	2.6%	1,945	2.9%	4,790	1.6%	3,895	1.8%	520	499
Other	4,825	5.0%	3,438	5.2%	22,024	7.3%	18,922	8.7%	219	182
Totals	$95,537	100.0%	$66,081	100.0%	299,957	100.0%	218,305	100.0%	319	303

Coal increased by $5.5 million or 28.8% of which $5.4 million was on existing railroad operations and $182,000 was new freight revenues attributable to the acquisition of GRO. The increase on existing railroad operations in 1999 was primarily attributable to a return to normal shipments at a key customer's facilities which compare to reduced shipments in the 1998 period due to scheduled inventory reductions and planned maintenance projects at the key customer's facilities.

Pulp and Paper increased by $6.6 million or 79.2% of which $553,000 was on existing railroad operations, $5.9 million was new freight revenues attributable to the acquisition of GRO, and $125,000 was freight revenues attributable to new railroad operations in Mexico.

Petroleum Products increased by $3.1 million or 43.0% of which $95,000 was on existing railroad operations, $131,000 was new freight revenues attributable to the acquisition of GRO, and $2.8 million was freight revenues attributable to new railroad operations in Mexico.

Lumber and Forest Products increased by $2.2 million or 36.2% of which $956,000 was on existing railroad operations, $1.2 million was new freight revenues attributable to the acquisition of GRO, and $35,000 was freight revenues attributable to new railroad operations in Mexico.

Chemicals and Plastics increased by $1.8 million or 28.9% of which $258,000 was on existing railroad operations, $1.3 million was new freight revenues attributable to the acquisition of GRO, and $233,000 was freight revenues attributable to new railroad operations in Mexico.

Metals increased by $3.3 million or 67.2% of which $177,000 was an increase on existing railroad operations, $3.0 million was new freight revenues attributable to the acquisition of GRO, and $80,000 was freight revenues attributable to new railroad operations in Mexico.

Minerals and Stone increased by a net $4.1 million or 108.8% of which $1.6 million was new freight revenues attributable to the acquisition of GRO, $2.9 was freight revenues attributable to new railroad operations in Mexico and $360,000 was a decrease on existing railroad operations.

Freight revenues from all remaining commodities reflected an increase of $2.8 million or 27.6% of which $245,000 was an increase on existing railroad operations, $1.7 million was new freight revenues attributable to the acquisition of GRO, and $916,000 was new freight revenues attributable to new railroad operations in Mexico.

Total North American carloads were 299,957 in the year ended December 31, 1999 compared to 218,305 in the year ended December 31, 1998, an increase of 81,652 or 37.4%. The increase of 81,652 consisted of an increase of 25,951 carloads on existing railroad operations of which 17,557 were coal, 46,478 carloads attributable to the acquisition of GRO, and 9,223 carloads attributable to new railroad operations in Mexico.

The overall average revenue per carload increased to $319 in the year ended December 31, 1999, compared to $303 per carload in the year ended December 31, 1998, an increase of 5.3% due primarily to higher per carload revenues attributable to Canada and Mexico carloads offset by a slight decrease on existing railroad operations carloads.

North American non-freight railroad revenues were $25.6 million in the year ended December 31, 1999 compared to $22.0 million in the year ended December 31, 1998, an increase of $3.5 million or 16.1%. The increase is the net result of $4.8 million of new non-freight revenues attributable to the acquisition of GRO, $1.7 million of new non-freight revenues attributable to Mexico and a decrease of $3.0 million of non-freight revenues on existing railroad operations due primarily to a decrease in car hire and rental income. The following table compares North America non-freight revenues for the years ended December 31, 1999 and 1998:

North American Railroad
Non-Freight Operating Revenue Comparison

(dollars in thousands)	Year Ended December 31			
	1999		1998	
	$	% of Operating Revenue	$	% of Operating Revenue
Railroad switching	$6,818	26.7%	$6,231	28.3%
Car hire and rental income	7,981	31.2%	7,577	34.4%
Car repair services	2,346	9.2%	1,890	8.6%
Other operating income	8,411	32.9%	6,341	28.7%
Total non-freight revenues	$25,556	100.0%	$22,039	100.0%

Australian Railroad Operating Revenues

Operating revenues were $43.2 million in the year ended December 31, 1999, compared to $46.7 million in the year ended December 31, 1998, a decrease of $3.6 million or 7.7%. The decrease was the result of a decrease in freight revenues from Australian railroad operations of $3.4 million or 8.0% primarily due to the non-renewal of a coal contract and a decrease in non-freight revenues of $226,000 or 4.8%.

Australian freight revenues were $38.6 million in the year ended December 31, 1999, compared to $42.0 million in the year ended December 31, 1998, a decrease of $3.4 million or 8.0%. The following table outlines Australian freight revenues for the years ended December 31, 1999 and 1998:

Australian Freight Revenues by Commodity

(dollars in thousands, except average per carload) *Years Ended December 31, 1999 and 1998*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
	1999	% of total	1998	% of total	1999	% of total	1998	% of total	1999	1998
Commodity Group										
Hook and Pull (Haulage)	$17,533	45.4%	$15,288	36.4%	52,407	31.3%	40,817	22.3%	$335	$375
Grain	13,588	35.2%	13,040	31.0%	48,781	29.1%	45,896	25.1%	279	284
Gypsum	2,861	7.4%	2,788	6.6%	40,304	24.1%	36,611	20.0%	71	76
Marble	2,034	5.3%	1,949	4.6%	8,343	5.0%	8,294	4.5%	244	235
Lime	1,531	4.0%	1,052	2.5%	4,662	2.8%	2,500	1.4%	328	421
Coal	664	1.7%	7,514	17.9%	4,317	2.6%	47,286	25.9%	154	159
Iron Ore	350	0.9%	–	0.0%	8,069	4.8%	–	0.0%	43	–
Other	88	0.1%	368	1.0%	603	0.3%	1,382	0.8%	146	266
Total	$38,649	100.0%	$41,999	100.0%	167,486	100.0%	182,786	100.0%	231	230

The net decrease of $3.4 million in Australian freight revenues was primarily attributable to a decrease in freight revenues from Coal of $6.9 million offset by new freight revenues from the shipment of Iron Ores of $350,000, increases in freight revenues from the shipment of Grain of $548,000, Hook and Pull of $2.2 million and all other non-coal commodities of $357,000. The decrease in freight revenues from Coal in the year ended December 31, 1999, was due to the non-renewal of a Coal contract.

Australia carloads were 167,486 in the year ended December 31, 1999 compared to 182,786 in the year ended December 31, 1998, a decrease of 15,300 or 8.4%. The decrease was primarily the result of a decrease in Coal carloads of 42,969 offset by increases in Hook and Pull of 11,590, Iron Ores of 8,069, Gypsum of 3,693, Grain of 2,885, and all other commodities of 1,432.

The overall average revenue per carload increased to $231 in the year ended December 31, 1999, compared to $230 per carload in the year ended December 31, 1998.

Australian non-freight revenues were $4.5 million in the year ended December 31, 1999, compared to $4.7 million in the year ended December 31, 1998, a decrease of $226,000 or 4.8% due primarily to a decrease in other income.

U.S. Industrial Switching Revenues

Revenues from U.S. industrial switching activities were $11.3 million in the year ended December 31, 1999 compared to $12.6 million in the year ended December 31, 1998, a decrease of $1.3 million or 10.3% due primarily to the Company's decision to exit an unprofitable switching contract.

Consolidated Operating Expenses | Operating expenses for all operations combined were $153.2 million in the year ended December 31, 1999, compared to $127.9 million in the year ended December 31, 1998, a net increase of $25.3 million or 19.8%. Expenses attributable to North American railroad operations were $105.2 million in the year ended December 31, 1999, compared to $75.6 million in the year ended December 31, 1998, an increase of $29.6 million or 39.2% of which $17.8 million were expenses attributable to new railroad operations in Canada, $8.1 million were expenses attributable to new railroad operations in Mexico and $3.7 were expenses attributable to existing U.S. railroad operations. Expenses attributable to operations in Australia were $36.6 million in the year ended December 31, 1999, compared to $37.9 million in the year ended December 31, 1998, a decrease of $1.3 million or 3.5%. Expenses attributable to U.S. industrial switching were $11.4 million in the year ended December 31, 1999, compared to $14.4 million in the year ended December 31, 1998, a decrease of $3.0 million or 20.9%.

Operating Ratios | The Company's combined operating ratio increased to 87.3% in the year ended December 31, 1999 from 86.7% in the year ended December 31, 1998. The operating ratio for North American railroad operations increased to 86.9% in the year ended December 31, 1999 from 85.8% in the year ended December 31, 1998. The operating ratio for Australian railroad operations increased to 84.8% in the year ended December 31, 1999 from 81.1% in the year ended December 31, 1998. The operating ratio for U.S. industrial switching operations decreased to 100.8% in the year ended December 31, 1999 from 114.2% in the year ended December 31, 1998.

The following three sections provide information on railroad expenses for North American and Australian railroad operations, and industrial switching expenses in the United States.

North American Railroad Operating Expenses

The following table sets forth a comparison of the Company's North American railroad operating expenses in the years ended December 31, 1999 and 1998:

North American Railroad Operating Expense Comparison

(dollars in thousands)	*Year Ended December 31*			
	1999		**1998**	
	$	**% of Operating Revenue**	**$**	**% of Operating Revenue**
Labor and benefits	$38,819	32.1%	$30,822	35.0%
Equipment rents	13,768	11.4%	11,060	12.6%
Purchased services	7,996	6.6%	4,496	5.1%
Depreciation and amortization	9,649	8.0%	7,277	8.3%
Diesel fuel	6,357	5.2%	3,187	3.6%
Casualties and insurance	4,172	3.4%	2,937	3.3%
Materials	8,503	7.0%	3,485	4.0%
Other expenses	15,929	13.2%	12,285	13.9%
Total operating expenses	$105,193	86.9%	$75,549	85.8%

Labor and benefits expense was $38.8 million in the year ended December 31, 1999 compared to $30.8 million in the year ended December 31, 1998, an increase of $8.0 million or 25.9% of which $5.0 million was attributable to the acquisition of GRO, $2.7 million was attributable to new railroad operations in Mexico and $281,000 was attributable to an increase on existing railroad operations.

Equipment rents were $13.8 million in the year ended December 31, 1999 compared to $11.1 million in the year ended December 31, 1998, a net increase of $2.7 million or 24.5% of which $4.0 million was attributable to the acquisition of GRO, $53,000 was attributable to new railroad operations in Mexico and $1.4 million was a decrease on existing railroad operations due primarily to a reduction of rolling stock and associated costs.

Purchased services were $8.0 million in the year ended December 31, 1999 compared to $4.5 million in the year ended December 31, 1998, a net increase of $3.5 million or 77.8% of which $2.8 million was attributable to the acquisition of GRO, $865,000 was attributable to new railroad operations in Mexico and $202,000 was a decrease on existing railroad operations resulting from increased capital spending which reduced the need for certain purchased maintenance services.

Depreciation and amortization expense was $9.6 million in the year ended December 31, 1999 compared to $7.2 million in the year ended December 31, 1998, an increase of $2.4 million or 32.6% of which $1.4 million was attributable to the acquisition of GRO, $671,000 was attributable to new railroad operations in Mexico and $280,000 was attributable to existing railroad operations as a result of increased capital spending in 1998 and 1999.

Diesel fuel expense was $6.4 million in the year ended December 31, 1999 compared to $3.2 million in the year ended December 31, 1998, an increase of $3.2 million or 99.5% of which $1.5 million was attributable to the acquisition of GRO, $836,000 was attributable to new railroad operations in Mexico and $831,000 was attributable to existing railroad operations due primarily to increased fuel oil prices in 1999 and secondarily to increased fuel consumption resulting from an increase in carloads on existing operations.

Casualties and insurance expense was $4.2 million in the year ended December 31, 1999 compared to $2.9 million in the year ended December 31, 1998, an increase of $1.3 million or 42.0% of which $498,000 was attributable to the acquisition of GRO, $223,000 was attributable to new railroad operations in Mexico and $514,000 was attributable to existing railroad operations due primarily to increases in derailment and insurance expense.

Materials expense was $8.5 million in the year ended December 31, 1999 compared to $3.5 million in the year ended December 31, 1998, an increase of $5.0 million or 144.0% of which $984,000 was attributable to the acquisition of GRO, $1.2 million was attributable to new railroad operations in Mexico and $2.8 million was attributable to existing railroad operations due primarily to increased track and locomotive materials expense.

Other expenses were $15.9 million in the year ended December 31, 1999 compared to $12.3 million in the year ended December 31, 1998, an increase of $3.6 million or 29.6% of which $1.5 million was attributable to the acquisition of GRO, $1.5 million was attributable to new railroad operations in Mexico and $629,000 was attributable to existing railroad operations primarily related to acquisition expenses which were $1.9 million in 1999 ($1.2 million of which was incurred in the first quarter of 1999) compared to $1.5 million in 1998, an increase of $404,000 or 27.9%.

Australian Railroad Operating Expenses

The following table sets forth a comparison of the Company's Australian railroad operating expenses in the years ended December 31, 1999 and 1998:

Australian Railroad Operating Expense Comparison

(dollars in thousands)	Year Ended December 31			
	1999		1998	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$5,443	12.6%	$5,263	11.3%
Equipment rents	367	0.9%	593	1.3%
Purchased services	12,116	28.1%	13,538	29.0%
Depreciation and amortization	2,157	5.0%	1,842	3.9%
Diesel fuel	8,186	19.0%	8,895	19.0%
Casualties and insurance	1,635	3.8%	1,415	3.0%
Materials	1,861	4.3%	1,734	3.7%
Other expenses	4,833	11.1%	4,627	9.9%
Total operating expenses	$36,598	84.8%	$37,907	81.1%

Purchased services were $12.1 million in the year ended December 31, 1999 compared to $13.5 million in the year ended December 31, 1998, a decrease of $1.4 million or 10.5%. The decrease was primarily related to the non-renewal of a coal haulage contract which resulted in no contracted maintenance charges on the track used for the coal haulage, and the positive impact of capital work on ASR-owned tracks which reduced contract labor expense for maintenance.

All other operating expenses were $24.5 million in the year ended December 31, 1999 compared to $24.4 million in the year ended December 31, 1998, a net increase of $113,000.

U. S. Industrial Switching Operating Expenses

The following table sets forth a comparison of the Company's industrial switching operating expenses in the years ended December 31, 1999 and 1998:

U.S. Industrial Switching Operating Expense Comparison

(dollars in thousands)	Year Ended December 31			
	1999		1998	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$7,945	70.1%	$9,019	71.3%
Equipment rents	187	1.6%	217	1.7%
Purchased services	476	4.2%	291	2.3%
Depreciation and amortization	768	6.8%	798	6.3%
Diesel fuel	421	3.7%	466	3.7%
Casualties and insurance	971	8.6%	1,363	10.8%
Materials	743	6.6%	758	6.0%
Other expenses	(84)	(0.8%)	1,533	12.1%
Total operating expenses	$11,427	100.8%	$14,445	114.2%

Labor and benefits expense was $7.9 million in the year ended December 31, 1999 compared to $9.0 million in the year ended December 31, 1998, a decrease of $1.1 million or 11.9%, due primarily to the decision to exit unprofitable switching contracts.

Other expense was a credit of $84,000 in the year ended December 31, 1999 compared to $1.5 million in the year ended December 31, 1998, a decrease of $1.6 million or 105.5%. The 1998 period was unusually high due to approximately $550,000 of legal fees for still-pending litigation.

Interest Expense | Interest expense in the year ended December 31, 1999 was $8.5 million compared to $7.1 million in the year ended December 31, 1998, an increase of $1.4 million or 19.7% primarily related to the increase in debt used for acquisitions.

Other Income and Income Taxes | The Company's other income consists primarily of interest income, gains and losses on assets sales, and minority interest expense. Other income in the year ended December 31, 1999 was $1.9 million compared to $7.3 million in the year ended December 31, 1998, a decrease of $5.4 million or 74.3%. The 1998 other income reflected $6.0 million of non-recurring insurance proceeds recorded in North American railroad operations.

The Company's effective income tax rate in the years ended December 31, 1999 and 1998 was 14.0% and 39.0%, respectively. The 1999 rate was impacted by a $4.2 million benefit recorded in the third quarter of 1999 as a result of a favorable tax law change in Australia. Without this impact, 1999's effective income tax rate was 40.9%.

Equity in Net Income of Unconsolidated International Affiliates | Equity losses of unconsolidated international affiliates in the year ended December 31, 1999, were $618,000 compared to losses of $645,000 in the year ended December 31, 1998, a decrease of $27,000. The 1999 loss was from Genesee•Rail-One for the period of January 1 through April 15, 1999, at which date the Company acquired majority ownership of Genesee•Rail-One. The 1998 loss was from Genesee•Rail-One for the year ended December 31, 1998.

Net Income and Earnings Per Share | The Company's net income in the year ended December 31, 1999 was $12.5 million (including a $4.2 million income tax benefit described above and an extraordinary non-cash expense of $262,000 related to the early extinguishment of debt described in Note 9. to Consolidated Financial Statements) compared to net income of $11.4 million (including a $3.9 million after-tax effect of an insurance settlement described in Note 2. to Consolidated Financial Statements) in the year ended December 31, 1998, an increase of $1.1 million or 9.6%. The increase in net income is the net result of an increase in net income from Australian railroad operations of $3.6 million, a decrease in net income from North American railroad operations of $3.7 million, and a decrease in the net loss of industrial switching of $1.2 million.

Basic and Diluted Earnings Per Share in the year ended December 31, 1999 were $2.79 and $2.76 respectively, on weighted average shares of 4.5 million compared to $2.20 and $2.19 respectively, on weighted average shares of 5.2 million in the year ended December 31, 1998. The change in weighted average shares outstanding primarily reflects the impact of a 1.0 million share buy-back program which started in August 1998 and ended in April 1999.

Liquidity and Capital Resources | During 2000, 1999 and 1998, the Company generated $23.5 million, $29.3 million and $23.8 million, respectively, of cash from operations. The 2000 decrease is primarily due to higher earnings before depreciation, amortization, deferred taxes and the gain from the issuance of ASR stock in 2000; being more than offset by the $5.1 million net increase in operating assets and liabilities during 2000 compared to the $2.5 million decrease in such net assets in 1999. The 1999 increase over 1998 was primarily due to somewhat higher earnings before depreciation, amortization and deferred taxes in 1999 and the $2.5 million decrease in operating assets and liabilities during 1999 versus the $1.0 million increase in such assets during 1998.

Cash flows from investing activities included capital expenditures of $39.5 million, $35.8 million and $16.9 million in 2000, 1999 and 1998, respectively. Of these expenditures, $14.4 million, $14.8 million and $10.0 million were for equipment and rolling stock in 2000, 1999 and 1998, respectively. The remaining capital expenditure amounts each year were for track improvements and are not net of funds received under governmental and other third party grants. Year 2000 cash flows from investing activities also included $29.4 million of investments in unconsolidated affiliates and $2.6 million of proceeds from the issuance of minority shares in consolidated affiliates. Year 1999 and 1998 cash flows from investing activities also include $1.0 million and $3.1 million, respectively, of investments in unconsolidated affiliates and 1999 includes $31.5 million for the acquisition by FCCM. Proceeds from assets sales were $679,000 in 2000, $10.3 million in 1999 and $2.6 million in 1998.

Cash flows from financing activities included net increases in outstanding debt of $6.4 million in 2000 and $17.5 million in 1999 and a net decrease in outstanding debt of $2.1 million in 1998. Proceeds from governmental and other third party grants were $10.3 million, $10.9 million and $3.2 million in 2000, 1999 and 1998, respectively. Common stock activity resulted in cash inflows of $2.1 million in 2000 and outflows of $6.3 million and $4.6 million in 1999 and 1998, respectively, such outflows primarily representing the Company's program from August, 1998 to April, 1999 to repurchase 1.0 million shares of its Class A common stock. Year 2000 cash flows from financing activities also included $18.8 million of net proceeds from the Company's December 2000 issuance of Redeemable Convertible Preferred Stock to help fund the additional investment into the Australia operations.

During 2000, the Company completed four amendments to its primary credit agreement to facilitate the Company's corporate restructuring and refinancing of its Mexico operations, issuance of Convertible Preferred stock, and sale of a 50% interest in ASR to ARG. As amended, the Company's primary credit agreement consists of a $135.0 million credit facility with $103.0 million in revolving credit facilities and $32.0 million in term loan facilities. The term loan facilities consist of a U.S. Term Loan facility in the amount of $10.0 million and a Canadian Term Loan facility in the Canadian Dollar Equivalent of $22.0 million U.S. dollars. Prior to the 2000 amendments, this agreement allowed for maximum borrowings of $150.0 million including $45.0 million in Mexico and $15.0 million in Australia. Amounts previously outstanding under the credit agreement which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses as reflected in the accompanying statements of income. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign debt revaluation was significantly reduced.

The term loans are due in quarterly installments and mature, along with the revolving credit facilities, on August 17, 2004. The credit facilities accrue interest at various rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDAR ratio, as defined in the credit agreement. Interest is payable in arrears based on certain elections of the Company, not to exceed three months outstanding. The Company pays a commitment fee which varies between 0.375% and 0.500% per annum on all unused portions of the revolving credit facility depending on the Company's funded debt to EBITDAR ratio. The credit agreement requires mandatory prepayments from the issuance of new equity or debt and annual sale of assets in excess of varying minimum amounts depending on the country in which the sales occur. The credit facilities are secured by essentially all the Company's assets in the United States and Canada. The credit agreement requires the maintenance of certain covenant ratios or amounts, including, but not limited to, funded debt to EBITDAR, cash flow coverage, and Net Worth, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 2000.

On August 17, 1999, the Company amended and restated its primary credit agreement to provide for an increase in total borrowings. Borrowings under the Canadian portion of the amended agreement were used to refinance certain GRO debt. In conjunction with that refinancing, the Company recorded a non-cash after tax extraordinary charge of $262,000 related to the unamortized deferred financing costs of the retired debt.

On December 7, 2000, one of the Company's subsidiaries in Mexico, Servicios, entered into three promissory notes payable totaling $27.5 million with variable interest rates based on LIBOR plus 3.5%. Two of the notes have an eight year term with principal payments of $1.4 million due semi-annually beginning March 15, 2003, through the maturity date of September 15, 2008. The third note has a nine year term with principal payments of $750,000 due semi-annually beginning March 15, 2003, with a maturity date of September 15, 2009. The promissory notes are secured by essentially all the assets of Servicios and FCCM, and a pledge of the Company's shares of Servicios and FCCM. The promissory notes contain certain financial covenants which Servicios is in compliance with as of December 31, 2000.

In October 2000, the Company amended and restated its promissory note payable to a Class I railroad, after making a discretionary $1.0 million principal payment, by refinancing $7.9 million at 8% with interest due quarterly and principal payments due in annual installments of $1.0 million beginning October 31, 2001 through the maturity date of October 31, 2007. Prior to this amendment and restatement, the promissory note payable provided for annual principal payments of $1.2 million provided a certain subsidiary of the Company met certain levels of revenue and cash flow. In accordance with these prior provisions, the Company was not required to make any principal payments through 1999.

In December 2000, to fund its cash investment in ARG, the Company completed a private placement of Redeemable Convertible Preferred Stock (See Note 11. to Consolidated Financial Statements). The Company exercised its option to fund $20.0 million of a possible $25.0 million in gross proceeds from the Convertible Preferred. The Fund also received an option to invest an additional $5.0 million in the Company provided that the Company completes future acquisitions with an aggregate purchase price greater than $25.0 million.

On December 7, 1999, the Company completed the sale of 483 freight cars to a financial institution for a net sale price of $8.6 million. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institution to lease these 483 freight cars and an additional 100 centerbeam flat cars for a period of at least eight years including automatic renewals. The sale/leaseback transaction resulted

in a deferred gain of $612,000, which will be amortized over the term of the lease as a non-cash offset to rent expense. These leases also include an option to purchase all of the cars, subject to certain conditions. If certain conditions related to the return of the cars are met, the Company could be required to pay a fee.

At December 31, 2000 the Company had long-term debt, including current portion, totaling $104.8 million, which comprised 48.0% of its total capitalization including the Convertible Preferred. At December 31, 1999, long-term debt, including current portion, was $108.4 million comprising 57.0% of total capitalization.

The Company's railroads have entered into a number of rehabilitation or construction grants with state and federal agencies and third parties. The grant funds are used as a supplement to the Company's normal capital programs. In return for the grants, the railroads pledge to maintain various levels of service and maintenance on the rail lines that have been rehabilitated or constructed. The Company believes that the levels of service and maintenance required under the grants are not materially different from those that would be required without the grant obligation. While the Company has benefited from these grant funds in recent years including 2000 and 1999, there can be no assurance that the funds will continue to be available.

On December 7, 2000, in conjunction with the refinancing of FCCM and Servicios, the International Finance Corporation invested $1.9 million of equity for a 12.7% indirect interest in FCCM, through its parent company Servicios (See Notes 3. and 9. to Consolidated Financial Statements). Along with its equity investment, IFC received a put option exercisable in 2005 to sell its equity stake back to the Company. The put price will be based on a multiple of earnings before interest, taxes, depreciation and amortization. The Company increases its minority interest expense in the event that the value of the put option exceeds the otherwise minority interest liability. This put option may result in a future cash outflow of the Company.

The Company has budgeted approximately $18.0 million in capital expenditures in 2001, primarily for track rehabilitation. Of the $18.0 million in capital expenditures, $1.7 million is expected to be funded by rehabilitation grants from state and federal agencies to several of the Company's railroads.

In connection with the Company's purchase of selected assets in Australia, the Company had committed to the Commonwealth of Australia to spend approximately $34.1 million (AU $52.3 million) to rehabilitate track structures and equipment by December 31, 2002. This commitment was transferred to the Australian Railroad Group Pty. Ltd. through the sale of 50% of Australia Southern Railroad in December, 2000.

The Company has historically relied primarily on cash generated from operations to fund working capital and capital expenditures relating to ongoing operations, while relying on borrowed funds and stock issuances to finance acquisitions and investments in unconsolidated affiliates. The Company believes that its cash flow from operations together with amounts available under the credit facilities will enable the Company to meet its liquidity and capital expenditure requirements relating to ongoing operations for at least the duration of the credit facilities.

Disclosures About Market Risk | The Company is exposed to the impact of interest rate changes. The Company's exposure to changes in interest rates applies to its borrowings under its credit facilities which have variable interest rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDAR ratio, as defined in the credit agreement. The Company is also exposed to the impact of foreign currency exchange rate risk at its foreign operations in Canada, Mexico, Australia and Bolivia. In particular, the Company is exposed to the non-cash impact of its equity earnings in ARG which uses the Australian dollar as its functional currency. The Company invests excess cash in overnight money market accounts.

Forward-looking Statements | This discussion and analysis contains forward-looking statements regarding future events and the future performance of Genesee & Wyoming Inc. that involve risks and uncertainties that could cause actual results to differ materially including, but not limited to, economic conditions, customer demand, increased competition in relevant markets, and others. Please refer to the documents that the Company files from time to time with the Securities and Exchange Commission, such as Forms 10-K and 10-Q which contain additional important factors that could cause actual results to differ from current expectations and from the forward-looking statements contained in this discussion and analysis.

Selected Financial Data

(In thousands, except per share amounts	Year Ended December 31				
	2000	1999	1998	1997	1996
Income Statement Data:					
Operating revenues	$206,530	$175,586	$147,472	$103,643	$77,795
Operating expenses	182,777	153,218	127,904	87,200	63,801
Income from operations	23,753	22,368	19,568	16,443	13,994
Interest expense	(11,233)	(8,462)	(7,071)	(3,349)	(4,720)
Gain on sale of 50% equity in Australian operations [1]	10,062	—	—	—	—
Other income, net	1,508	1,682	7,290	345	651
Income before income taxes, equity earnings and extraordinary item	24,090	15,588	19,787	13,439	9,925
Income taxes	10,569	2,175	7,708	5,441	4,020
Equity earnings (losses)	411	(618)	(645)	—	—
Income before extraordinary item	13,932	12,795	11,434	7,998	5,905
Extraordinary item	—	(262)	—	—	—
Net income	13,932	12,533	11,434	7,998	5,905
Impact of preferred stock outstanding	52	—	—	—	—
Net income available to common stockholders	$13,880	$12,533	$11,434	$7,998	$5,905
Basic Earnings Per Common Share:					
Net income available to common stockholders before extraordinary item	$3.19	$2.85	$2.20	$1.52	$1.54
Extraordinary item	—	(0.06)	—	—	—
Net income	$3.19	$2.79	$2.20	$1.52	$1.54
Weighted average number of shares of common stock	4,346	4,491	5,187	5,250	3,829
Diluted Earnings Per Common Share:					
Net income before extraordinary item	$3.11	$2.82	$2.19	$1.47	$1.49
Extraordinary item	—	(0.06)	—	—	—
Net income	$3.11	$2.76	$2.19	$1.47	$1.49
Weighted average number of shares of common stock and equivalents	4,486	4,540	5,229	5,447	3,966
Dividends per common share [2]	—	—	—	—	$0.01
Balance Sheet Data at Year End:					
Total assets	$342,012	$303,940	$216,760	$210,532	$145,339
Total debt	104,801	108,376	65,690	74,144	18,731
Redeemable Convertible Preferred Stock	18,849	—	—	—	—
Stockholders' equity	94,732	81,829	74,537	68,343	61,683

[1] *In December 2000, the Company issued shares of its Australian subsidiary at a price per share in excess of its book value investment in that subsidiary resulting in a $10.1 million gain and the deconsolidation of that subsidiary. See Note 3 of the Notes to Consolidated Financial Statements for a complete description of this transaction and its related impacts.*

[2] *Prior to its initial public offering on June 24, 1996, the Company paid dividends at the discretion of the Company's Board of Directors. The Company has not paid cash dividends after the initial public offering. The Company does not intend to pay cash dividends for the foreseeable future and intends to retain earnings, if any, for future operations and expansion of the Company's business.*

Report of Independent Public Accountants

To the Board of Directors and the Shareholders
of Genesee & Wyoming Inc.:

We have audited the accompanying consolidated balance sheets of GENESEE & WYOMING INC. (a Delaware corporation) AND SUBSIDIARIES as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The summarized financial data for Australian Railroad Group Pty. Ltd. (ARG) contained in Note 7 are based on the financial statements of ARG, which were audited by other auditors. Their report has been furnished to us, and our opinion, insofar as it relates to the data in Note 7, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Genesee & Wyoming Inc. and Subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 13, 2001

Consolidated Balance Sheets

(in thousands, except share amounts)	*December 31* 2000	1999
Assets		
Current Assets:		
Cash and cash equivalents	$3,373	$7,791
Accounts receivable, net	45,209	47,870
Materials and supplies	5,023	6,141
Prepaid expenses and other	7,249	7,689
Deferred income tax assets, net	2,202	3,087
Total current assets	63,056	72,578
Property and Equipment, net	180,946	185,970
Investment in Unconsolidated Affiliates	64,091	1,576
Service Assurance Agreement, net	11,315	12,065
Other Assets, net	22,604	31,751
Total assets	$342,012	$303,940
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$3,996	$15,146
Accounts payable	43,045	52,501
Accrued expenses	10,860	9,738
Total current liabilities	57,901	77,385
Long-Term Debt, less current portion	100,805	93,230
Deferred Income Tax Liabilities, net	22,179	13,145
Deferred Items—grants from governmental agencies and third parties	36,526	27,427
Deferred Gain—sale/leaseback	3,558	4,109
Other Long-Term Liabilities	4,737	6,231
Minority Interest	2,725	584
Redeemable Convertible Preferred Stock	18,849	—
Stockholders' Equity:		
Class A Common Stock, $0.01 par value, one vote per share; 12,000,000 shares authorized; 4,609,167 and 4,453,368 issued and outstanding on December 31, 2000 and 1999, respectively	46	45
Class B Common Stock, $0.01 par value, ten votes per share; 1,500,000 shares authorized; 845,447 issued and outstanding on December 31, 2000 and 1999	8	8
Additional paid-in capital	49,711	47,072
Retained earnings	60,903	47,023
Currency translation adjustment	(4,883)	(1,316)
Less treasury stock, at cost, 1,001,686 and 1,000,000 Class A shares on December 31, 2000 and 1999, respectively	(11,053)	(11,003)
Total stockholders' equity	94,732	81,829
Total liabilities and stockholders' equity	$342,012	$303,940

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

Consolidated Statements of Income

(in thousands, except per share amounts)

	Year Ended December 31		
	2000	1999	1998
Operating Revenues	$206,530	$175,586	$147,472
Operating Expenses:			
Transportation	69,132	55,811	46,784
Maintenance of ways and structures	22,225	21,096	17,306
Maintenance of equipment	40,378	34,597	27,968
General and administrative	33,047	29,140	25,929
Depreciation and amortization	13,980	12,574	9,917
Charge for buyout of Australian stock options	4,015	—	—
Total operating expenses	182,777	153,218	127,904
Income from Operations	23,753	22,368	19,568
Interest expense	(11,233)	(8,462)	(7,071)
Gain on sale of 50% equity in Australian operations	10,062	—	—
Valuation adjustment of U.S. dollar denominated foreign debt	(1,472)	(191)	—
Other income, net	2,980	1,873	7,290
Income Before Income Taxes, Equity Earnings and Extraordinary Item	24,090	15,588	19,787
Provision for income taxes	10,569	2,175	7,708
Equity in Net Income of International Affiliates:			
Australia	261	—	—
South America	150	—	—
Canada	—	(618)	(645)
Income Before Extraordinary Item	13,932	12,795	11,434
Extraordinary item from early extinguishment of debt, net of related income tax benefit of $162	—	(262)	—
Net Income	13,932	12,533	11,434
Impact of preferred stock outstanding	52	—	—
Net Income Available to Common Stockholders	$13,880	$12,533	$11,434
Basic Earnings Per Share:			
Income available to common stockholders before extraordinary item	$3.19	$2.85	$2.20
Extraordinary item	—	(0.06)	—
Earnings per common share	$3.19	$2.79	$2.20
Weighted average shares	4,346	4,491	5,187
Diluted Earnings Per Share:			
Net income before extraordinary item	$3.11	$2.82	$2.19
Extraordinary item	—	(0.06)	—
Earnings per common share	$3.11	$2.76	$2.19
Weighted average shares and equivalents	4,486	4,540	5,229

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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(dollars in thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Warrants	Retained Earnings	Currency Translation Adjustment	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1997	$44	$8	$46,205	$471	$23,056	$(1,441)	—	$68,343
Comprehensive income	—	—	—	—	11,434	(666)	—	10,768
Proceeds from employee stock purchases	1	—	54	—	—	—	—	55
Warrants exercised, 42,000 shares	—	—	471	(471)	—	—	—	—
Treasury stock acquisitions, 345,000 shares	—	—	—	—	—	—	$(4,629)	(4,629)
Balance, December 31, 1998	45	8	46,730	—	34,490	(2,107)	(4,629)	74,537
Comprehensive income	—	—	—	—	12,533	791	—	13,324
Proceeds from employee stock purchases	—	—	61	—	—	—	—	61
Shares issued for investment in unconsolidated affiliate	—	—	281	—	—	—	—	281
Treasury stock acquisitions, 655,000 shares	—	—	—	—	—	—	(6,374)	(6,374)
Balance, December 31, 1999	45	8	47,072	—	47,023	(1,316)	(11,003)	81,829
Comprehensive income, net of taxes of $996	—	—	—	—	13,932	(3,567)	—	10,365
Proceeds from employee stock purchases	1	—	2,218	—	—	—	—	2,219
Impact of sale of puttable equity in Mexican operations	—	—	(75)	—	—	—	—	(75)
Tax benefit from exercise of stock options	—	—	496	—	—	—	—	496
Accretion of fees on Redeemable Convertible Preferred Stock	—	—	—	—	(8)	—	—	(8)
4% dividend earned on Redeemable Convertible Preferred Stock	—	—	—	—	(44)	—	—	(44)
Treasury stock acquisitions, 1,686 shares	—	—	—	—	—	—	(50)	(50)
Balance, December 31, 2000	$46	$8	$49,711	—	$60,903	$(4,883)	$(11,053)	$94,732

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

Consolidated Statements of Cash Flows

(dollars in thousands)	*Year Ended December 31*		
	2000	**1999**	**1998**
Cash Flows from Operating Activities			
Net income	$13,932	$12,533	$11,434
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	13,980	12,574	9,917
Deferred income taxes	9,571	1,170	3,203
Loss (gain) on disposition of property and equipment	41	(652)	(410)
Extraordinary item, net of income tax	—	262	—
Gain on sale of 50% equity in Australian operations	(10,062)	—	—
Equity (earnings) losses of unconsolidated affiliates	(411)	618	645
Minority interest expense	40	50	—
Valuation adjustment of U.S. dollar denominated foreign debt	1,472	191	—
Changes in assets and liabilities, net of effect of acquisitions and deconsolidation of Australia Southern Railroad-			
Accounts receivable	(3,744)	(10,250)	(3,575)
Materials and supplies	(517)	(872)	1,188
Prepaid expenses and other	180	(985)	150
Accounts payable and accrued expenses	(327)	13,497	3,492
Other assets and liabilities, net	(664)	1,159	(2,240)
Net cash provided by operating activities	23,491	29,295	23,804
Cash Flows from Investing Activities			
Purchase of property and equipment	(39,537)	(35,767)	(16,901)
Cash investments in unconsolidated affiliate- Australian Railroad Group, net	(21,738)	—	—
Cash investments in unconsolidated affiliate- South America	(7,635)	(1,018)	—
Cash investments in unconsolidated affiliate- Canada	—	—	(3,084)
Proceeds from sale of equity in subsidiaries	2,640	—	—
Cash received in purchase of Rail-One Inc., net	—	57	—
Purchase of business assets by Ferrocarriles de Chiapas-Mayab	—	(31,527)	—
Proceeds from disposition of property and equipment	679	10,327	2,597
Net cash used in investing activities	(65,591)	(57,928)	(17,388)
Cash Flows from Financing Activities			
Principal payments on long-term borrowings, including capital leases	(109,869)	(89,954)	(22,852)
Proceeds from issuance of long-term debt	116,267	107,477	20,800
Payment of debt issuance costs	(1,388)	(1,475)	—
Proceeds from government and third party grants	10,264	10,869	3,208
Proceeds from issuance of Redeemable Convertible Preferred Stock, net	18,841	—	—
Proceeds from employee stock purchases	2,219	61	55
Purchase of treasury stock	(50)	(6,374)	(4,629)
Net cash provided by (used in) financing activities	36,284	20,604	(3,418)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,398	1,424	(36)
Increase (Decrease) in Cash and Cash Equivalents	(4,418)	(6,605)	2,962
Cash and Cash Equivalents, beginning of year	7,791	14,396	11,434
Cash and Cash Equivalents, end of year	$3,373	$7,791	$14,396
Cash Paid During Year For:			
Interest	$10,395	$8,090	$7,092
Income taxes	1,291	3,774	1,042

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

Notes to Consolidated Financial Statements

1. Business and Customers:

Genesee & Wyoming Inc. and Subsidiaries (the Company) has interests in twenty-three short line and regional railroads through its various subsidiaries and unconsolidated affiliates of which seventeen are located in the United States, two are located in Australia, one is located in Bolivia, one is located in Mexico, and two are located in Canada. The seventeen U. S. railroads are wholly owned by the Company through various acquisitions from 1985 to 1996. The two Canadian railroads have been wholly owned by the Company since its June 2000 acquisition of the remaining 5% minority holding. In April 1999, the Company increased its ownership in these Canadian roads from 47.5% to 95% and began consolidating their results. The Mexican railroad, acquired in September 1999, was wholly owned by the Company until November 2000, when the Company sold a minority 12.7% interest in the operations. The Company wholly owned one of the Australian railroads from November 1997 to December 2000, at which point, the Company contributed the operations into a venture that then acquired the second Australian railroad. The Company now owns 50% of the venture and accounts for its investment under the equity method of accounting. Through a majority owned subsidiary, the Company acquired an indirect 21.9% interest in the Bolivian railroad in November 2000, thereby increasing its ownership to 22.6%. This investment is also accounted for under the equity method of accounting. See Note 3 for descriptions of the Company's expansions in recent years.

The Company, through its leasing subsidiary, also buys, sells, leases and manages railroad transportation equipment in the United States and Canada. The Company, through its industrial switching subsidiary, provides freight car switching and related services to industrial companies in the United States with extensive railroad facilities within their complexes.

A large portion of the Company's operating revenue is attributable to customers operating in the electric utility, cement and forest products industries in North America, and the farm and food products, iron ores and transportation (hook and pull) industries in Australia. As the Company acquires new railroad operations, the base of customers and industries served continues to grow and diversify. The largest ten customers accounted for approximately 29%, 36% and 42% of the Company's revenues in 2000, 1999 and 1998, respectively. In 2000, no single customer accounted for more than 5% of the Company's operating revenue. In 1999, one customer in the electric utility industry accounted for approximately 10% (see Note 15.). The Company regularly grants trade credit to all of its customers. In addition, the Company grants trade credit to other railroads through the routine interchange of traffic. Although the Company's accounts receivable include a diverse number of customers and railroads, the collection of these receivables is substantially dependent upon the economies of the regions in which the Company operates, the electric utility, cement, paper, farm and food, iron ore and transportation industries, and the railroad sector of the economy in general.

2. Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. The Company's investments in unconsolidated affiliates are accounted for under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

Revenue Recognition

Railroad revenues are estimated and recognized as shipments initially move onto the Company's tracks, which, due to the relatively short length of haul, is not materially different from the recognition of revenues as shipments progress. Industrial switching and other service revenues are recognized as such services are provided.

Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Materials and Supplies

Materials and supplies consist of purchased items for improvement and maintenance of road property and equipment, and are stated at the lower of average cost or market.

Property and Equipment

Property and equipment are carried at historical cost. Acquired railroad property is recorded at the purchased cost. Major renewals or betterments are capitalized while routine maintenance and repairs are charged to expense when incurred. Gains or losses on sales or other dispositions are credited or charged to other income upon disposition. Depreciation is provided on the straight-line method over the useful lives of the road property (20-30 years) and equipment (3-20 years).

The Company continually evaluates whether events and circumstances have occurred that indicate that its

long-lived assets may not be recoverable. When factors indicate that assets should be evaluated for possible impairment, the Company uses an estimate of the related undiscounted future cash flows over the remaining lives of assets in measuring whether or not an impairment has occurred. If an impairment is identified, a loss would be reported to the extent that the carrying value of the related assets exceeds the fair value of those assets as determined by valuation techniques available in the circumstances.

Deferred Grants

Grants received from governmental agencies and third parties are recorded as long-term liabilities as received and amortized over the same period which the underlying purchased assets are depreciated.

Gains/Losses on Sales of Stock in Subsidiaries

The Company records gains and losses on the sale of the stock of its subsidiaries in current earnings unless the sales transaction is part of a broader corporate reorganization which involves the potential for a repurchase of the shares at a future date. If the sale is part of a broader corporate reorganization, gains or losses are recorded in additional paid in capital.

Service Assurance Agreement

The service assurance agreement represents a commitment from one of the most significant customers of the Company, to one of the subsidiary railroads in the U.S. (see Note 15.), which grants the Company the exclusive right to serve indefinitely three of the customer's then-current facilities. The service assurance agreement is amortized on a straight-line basis over the same period as the related track structure, which is 20 years, and accumulated amortization was $3.6 million and $2.8 million as of December 31, 2000 and 1999, respectively.

Earnings per Share

Unexercised stock options, calculated under the treasury stock method, and redeemable convertible preferred stock (issued on December 12, 2000) are the only reconciling items between the Company's basic and diluted weighted average shares outstanding. The number of options used to calculate diluted earnings per share is 732,967, 204,750 and 412,820 for 2000, 1999 and 1998, respectively. Options to purchase 31,500, 637,500 and 280,400 shares of stock were outstanding as of December 31, 2000, 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares. Also included in the diluted earnings per share calculation in 2000 is 47,647 shares of common stock which represent the weighted average share impact of the assumed conversion of the redeemable convertible preferred stock (See Note 11.).

Insurance Recoveries

The Company receives insurance proceeds in the normal course of business for recoveries related to derailment damages and employee and third party claims. These proceeds are accounted for as a reduction of operating expenses. Insurance proceeds related to other matters are recorded in other income including proceeds of $6.0 million in 1998.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument held by the Company:

Current assets and current liabilities: The carrying value approximates fair value due to the short maturity of these items.

Long-term debt: The fair value of the Company's long-term debt is based on secondary market indicators. Since the Company's debt is not quoted, estimates are based on each obligation's characteristics, including remaining maturities, interest rate, credit rating, collateral, amortization schedule and liquidity. The carrying amount approximates fair value.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries were prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rate at the end of the period for balance sheet items and a weighted-average rate for the year for the statement of income items. Translation adjustments are reflected as currency translation adjustments in Stockholders' Equity and accordingly only affect comprehensive income. Revaluation adjustments for U. S. dollar denominated foreign debt were losses of $1.5 million and $191,000 in 2000 and 1999, respectively. In 1998, included separately in other income, net, was a loss of $331,000 for the revaluation of a Canadian dollar receivable held by a U.S. subsidiary.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances have been reclassified to conform with the 2000 presentation.

3. Expansion of Operations:

Australia

On December 17, 2000, the Company, through its newly-formed joint venture, Australian Railroad Group Pty. Ltd. (ARG), completed the acquisition of Westrail Freight from the government of Western Australia for approximately $334.4 million including working capital. ARG is a joint venture owned 50% by the Company and 50% by Wesfarmers Limited, a public corporation based in Perth, Western Australia. Westrail Freight is composed of the freight operations of the formerly state-owned railroad of Western Australia.

To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company's interest in the Asia Pacific Transport Consortium (APTC) – a consortium selected to construct and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. Additionally, the Company contributed $21.4 million of cash to ARG while Wesfarmers contributed $64.2 million in cash, including $8.2 million which represents a long-term non-interest bearing note to match a similar note due to the Company from ASR at the date of the transaction. ARG also received $258.6 million in acquisition debt and $59.9 million of construction and working capital facilities from Bank of America and the Australia and New Zealand Banking Group Limited. A portion of the debt was used to refinance approximately $7.1 million of existing bank debt of ASR. Should APTC reach financial close and meet other conditions as specified in the agreement between the Company and Wesfarmers, the Company would receive additional compensation.

To fund its cash investment in ARG, the Company also completed a private placement of Redeemable Convertible Preferred Stock (the Convertible Preferred) with the 1818 Fund III, L.P. (the Fund) managed by Brown Brothers Harriman & Co. See Note 11 for a description of the Convertible Preferred.

As a direct result of the ARG transaction, ASR stock options became immediately exercisable by the option holders and, as allowed under the provisions of the stock option plan, the option holders, in lieu of ASR stock, were paid an equivalent value in cash, resulting in a $4.0 million pre-tax compensation charge to ASR earnings.

The Company also recognized a $10.1 million gain upon the issuance of ASR stock to Wesfarmers upon the formation of ARG as a result of such issuance being at a per share price in excess of the Company's book value per share investment in ASR. Additionally, due to the deconsolidation of ASR, the Company recognized a $6.5 million deferred tax expense resulting from the financial reporting versus tax basis difference in the Company's equity investment in ARG. Should APTC reach financial close and meet other conditions as specified in the agreement between the Company and Wesfarmers, additional gains will be reported.

The Company accounts for its 50% ownership in ARG under the equity method of accounting and therefore deconsolidated ASR from its consolidated financial statements as of December 16, 2000. ASR's net assets as of the deconsolidation included current assets of $12.0 million, net property and equipment of $32.2 million, other non-currents assets of $49,000, current liabilities of $7.6 million, and other liabilities of $19.5 million. The Company reported $261,000 in equity earnings in its 2000 financial statements from ARG for the period of December 17 through December 31, 2000.

Pro Forma Financial Results

The following table summarizes the Company's unaudited pro forma operating results for the years ended December 31, 2000 and 1999 as if ARG had been formed and acquired Westrail Freight as of the beginning of the applicable period *(in thousands except per share amounts):*

	2000	1999
Pro forma operating revenues	$168,891	$132,434
Before extraordinary item:		
Pro forma income	20,019	15,960
Pro forma basic earnings per share	4.61	3.34
Pro forma diluted earnings per share	3.92	2.95

The pro forma operating results include the deconsolidation of ASR, incremental interest expense (with related income tax benefit) related to borrowings used to fund the stock option buyout and incremental preferred stock impacts on income available to common stockholders related to the Convertible Preferred issuance. These results also include the pro forma equity earnings attributable to investment in ARG based on ARG's pro forma net income of $16,089 and $22,323 for 2000 and 1999, respectively. These pro forma net income results give effect to ARG's acquisition of Westrail Freight and related purchase accounting adjustments primarily for incremental depreciation and amortization expense, elimination of access fees charged by the government, impacts of the new financing structure and related

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

Mexico

In August 1999, the Company's wholly-owned subsidiary, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM), was awarded a 30-year concession to operate certain railways owned by the state-owned Mexican rail company Ferronales. FCCM also acquired equipment and other assets. The aggregate purchase price, including acquisition costs, was approximately 297 million pesos, or approximately $31.5 million at then-current exchange rates. The purchase included rolling stock, an advance payment on track improvements to be completed on the state-owned track property, an escrow payment which will be returned to the Company upon successful completion of the track improvements, prepaid value-added taxes and $3.1 million in goodwill. A portion of the purchase price ($5.3 million) was also allocated to the 30-year operating license. As the track improvements have been made, the related costs have been reclassified into the property accounts as leasehold improvements and amortized over the improvements' estimated useful life. Pursuant to the acquisition, employee termination payments of $1.0 million were made to former state employees and approximately 55 employees whom the Company retained upon acquisition but terminated as part of its plan to reduce operating costs after September 30, 1999. All payments were made during the fourth quarter of 1999 and are considered a cost of the acquisition.

The Chiapas-Mayab concession is made up of two separate rail lines. The Chiapas is approximately 450 kilometers (280 miles) long and runs between Ixtepec in the Mexican state of Oaxaca, and Ciudad Hidalgo in the Mexican state of Chiapas. Principal commodities hauled include cement, corn, petroleum products and various agricultural products. The Mayab extends approximately 1,100 kilometers (680 miles) from Coatzacoalcos in the Mexican state of Vera Cruz, to beyond Merida in the Mexican state of Yucatan. Principal commodities hauled on the line include cement, silica sand and various agricultural products. The two railroads are connected via trackage rights over Ferrosur (a recently privatized rail concession) and a government-owned line. FCCM began operations on September 1, 1999.

On December 7, 2000, in conjunction with the refinancing of FCCM (see Note 9.) and its parent company, GW Servicios, S.A. de C.V. (Servicios), the International Finance Corporation (IFC) invested $1.9 million of equity for a 12.7% indirect interest in FCCM, through its parent company Servicios. The Company contributed an additional $13.1 million and maintains an 87.3% indirect ownership in FCCM. The Company funded $10.7 million of its new investment with borrowings under its amended credit facility, with the remaining investment funded by the conversion of intercompany advances into permanent capital. Along with its equity investment, IFC received a put option exercisable in 2005 to sell its equity stake back to the Company. The put price will be based on a multiple of earnings before interest, taxes, depreciation and amortization. The Company increases its minority interest expense in the event that the value of the put option exceeds the otherwise minority interest liability. Because the IFC equity stake can be put to the Company, the impact of selling the equity stake at a per share price below the Company's book value per share investment was recorded directly to paid-in capital.

Canada

On April 15, 1999, the Company acquired Rail-One Inc. (Rail-One) which has a 47.5% ownership interest in Genesee•Rail-One Inc. (GRO), thereby increasing the Company's ownership of GRO to 95%. GRO owns and operates two short line railroads in Canada. Under the terms of the purchase agreement, the Company converted outstanding notes receivable from Rail-One of $4.6 million into capital, will pay approximately $844,000 in cash to the sellers of Rail-One in installments over a four year period, and granted options to the sellers of Rail-One to purchase up to 80,000 shares of the Company's Class A Common Stock at an exercise price of $8.625 per share. Exercise of the option is contingent on the Company's recovery of its capital investment in GRO including debt assumed if the Company were to sell GRO, and upon certain GRO income performance measures which have not yet been met. The transaction was accounted for as a purchase and resulted in $2.8 million of initial goodwill which is being amortized over 15 years. The contingent purchase price will be recorded as a component of goodwill at the value

of the options issued, if and when such options are exercisable. Effective with this agreement, the operating results of GRO have been consolidated within the financial statements of the Company, with a 5% minority interest due to another GRO shareholder. During the second quarter of 2000, the Company purchased the remaining 5% minority interest in GRO with an initial cash payment of $240,000 and subsequent annual cash installments of $180,000 due in 2001 and 2002. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded equity losses of $618,000 and $645,000 in 1999 and 1998, respectively.

South America

On November 5, 2000, the Company acquired an indirect 21.87% equity interest in Empresa Ferroviaria Oriental, S.A. (Oriental) increasing its stake in Oriental to 22.55%. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company previously acquired a 0.68% indirect interest in Oriental on September 30, 1999 through its 47.5% ownership interest in Latin American Rail LLC. That original investment was for $1.0 million in cash and 25,532 shares of the Company's stock valued at $281,000. The Company's new ownership interest is largely through a 90% owned holding company subsidiary in Bolivia which also received $740,000 from the minority partner for investment into Oriental.

The Company's portion of the Oriental investment is composed of $6.7 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of $10.8 million at an interest rate of 7.67%, and a non-interest bearing contingent payment of $450,000 due in 3 years if certain financial results are achieved. The cash used by the Company to fund such investment was obtained from its existing revolving credit facility. The Company accounts for its indirect interest in the Oriental under the equity method of accounting.

4. Allowance for Doubtful Accounts:

Activity in the Company's allowance for doubtful accounts was as follows *(amounts in thousands)*:

	2000	1999	1998
Balance, beginning of year	$1,264	$250	$167
Provisions	389	628	136
Charges	(345)	(836)	(53)
Established in acquisitions	—	1,222	—
Balance, end of year	$1,308	$1,264	$250

5. Property and Equipment:

Major classifications of property and equipment are as follows *(amounts in thousands)*:

	2000	1999
Road properties	$168,126	$117,786
Equipment and other	61,438	108,016
	229,564	225,802
Less- Accumulated depreciation and amortization	48,618	39,832
	$180,946	$185,970

6. Other Assets:

Major classifications of other assets are as follows *(amounts in thousands)*:

	2000	1999
Goodwill	$11,082	$9,765
Chiapas-Mayab Operating License	5,125	5,213
Chiapas-Mayab Special Escrow Deposit - Track Project	1,638	9,668
Deferred financing costs	3,356	3,932
Executive split-dollar life insurance	2,728	1,846
Assets held for sale or future use	1,045	1,867
Other	1,298	2,516
	26,272	34,807
Less- Accumulated amortization	3,668	3,056
	$22,604	$31,751

Goodwill is being amortized on a straight-line basis over lives of 15-20 years. The Chiapas-Mayab Operating License (see Note 3.) is being amortized over 30 years. The Chiapas-Mayab Special Escrow Deposit - Track Project (see Note 3.) is being reclassified into road property and depreciated as construction of the project is

completed. Deferred financing costs are amortized over terms of the related debt using the straight-line method, which is not materially different from amortization computed using the effective-interest method. Executive split-dollar life insurance increases as deposits are made. Assets held for sale or future use at December 31, 2000, primarily represent excess locomotives and a segment of railroad track that is inactive. Assets held for sale or future use at December 31, 1999, primarily represent a segment of railroad track and related structures that was inactive since 1996 as a result of the closure of that segment's primary customer's facility. A similar facility is currently under construction by another customer on that same segment of track. In November 2000, as a result of the new customer receiving inbound shipments and the expectation of the near-term completion of the new customer's facility leading to outbound shipments, these assets were put back into service.

7. Equity Investment in ARG:

The Company's 50% interest in ARG is accounted for under the equity method of accounting. The related equity earnings in this investment are shown within the Equity in Net Income of International Affiliates in the accompanying consolidated statements of income.

Condensed results of operations for ARG for the 15 days ended December 31, 2000 are as follows *(in thousands of U.S. dollars)*:

Operating revenues	$4,765
Income before income taxes	834
Net income	522

Condensed balance sheet information of ARG as of December 31, 2000 was as follows *(in thousands of U.S. dollars)*:

Current assets	$53,545
Non-current assets	364,381
Current liabilities	39,073
Non-current liabilities	19,204
Senior debt	264,256
Shareholders' equity	95,393

8. Leases:

Lessor

As of December 31, 2000, the Company had no significant operating leases as lessor.

During 1999 and 1998, the Company sold, through several transactions, approximately 700 railroad freight cars which had previously accounted for a significant portion of the Company's minimum future rentals receivable on noncancelable operating leases. The proceeds of the sales were used to acquire railroad rolling stock which had previously been utilized under terms of a capital lease.

Lessee

The Company has entered into several leases for freight cars, locomotives and other equipment. Operating lease expense for the years ended December 31, 2000, 1999 and 1998 was approximately $7.6 million, $6.6 million and $6.3 million, respectively.

On December 7, 1999, the Company completed the sale of 483 of its freight cars to a financial institution for a net sale price of $8.6 million. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institution to lease these 483 freight cars and an additional 100 centerbeam flat cars for a period of at least 8 years including automatic renewals. The sale/leaseback transaction resulted in a deferred gain of $612,000, which is being amortized over the term of the lease as a non-cash offset to rent expense. These leases also include an option to purchase all of the cars, subject to certain conditions. If certain conditions related to the return of the cars are met, the Company could be required to pay a fee.

The following is a summary of future minimum payments under noncancelable leases *(amounts in thousands)*:

2001	$ 6,271
2002	1,980
2003	1,599
2004	1,374
2005	652
Thereafter	1,757
Total minimum payments	$13,633

The Company is party to two lease agreements with Class I carriers to operate 238 miles of track in Oregon. Under the leases, no payments to the lessor are required as long as certain operating conditions are met. The leases are subject to an initial 20 year term and shall be renewed for successive ten year renewal terms, unless either party elects not to renew the leases. If the lessor terminates the leases for any reason, the lessor must reimburse the Company for its depreciated basis in the property. The Company has assumed all operating and financial responsibilities including maintenance and regulatory compliance under these lease arrangements. Through December 31, 2000, no payments were required under either lease arrangement.

9. Long-term Debt:

Long-term debt consists of the following *(amounts in thousands):*

	2000	1999
Credit facilities with variable interest rates (weighted average of 8.41% and 8.40% at December 31, 2000 and 1999, respectively), net of unamortized discount of $8 and $101 at December 31, 2000 and 1999, respectively	$67,871	$97,395
Non-recourse promissory notes of Mexican subsidiary with variable interest rates (10.18% on December 31, 2000)	27,500	—
Promissory note payable to CSX	7,922	8,922
Other debt with interest rates up to 8% and maturing at various dates between 2001 and 2006	1,508	2,059
	104,801	108,376
Less- Current portion	3,996	15,146
Long-term debt, less current portion	$100,805	$93,230

Credit Facilities

During 2000, the Company completed four amendments to its primary credit agreement to facilitate the Company's corporate restructuring and refinancing of its Mexico operations, issuance of Convertible Preferred stock, and sale of a 50% interest in ASR to ARG. As amended, the Company's primary credit agreement consists of a $135.0 million credit facility with $103.0 million in revolving credit facilities and $32.0 million in term loan facilities. The term loan facilities consist of a U.S. Term Loan facility in the amount of $10.0 million and a Canadian Term Loan facility in the Canadian Dollar Equivalent of $22.0 million U.S. dollars. Prior to the 2000 amendments, this agreement allowed for maximum borrowings of $150.0 million including $45.0 million in Mexico and $15.0 million in Australia. Amounts previously outstanding under the credit agreement which were borrowed by FCCM represented U.S. dollar denominated foreign debt of the Company's Mexican subsidiary. As the Mexican peso moved against the U.S. dollar, the revaluation of this outstanding debt to its Mexican peso equivalent resulted in non-cash gains and losses as reflected in the accompanying statements of income. On June 16, 2000, pursuant to a corporate and financial restructuring of the Company's Mexican subsidiaries, the income statement impact of the U.S. dollar denominated foreign debt revaluation was significantly reduced.

The term loans are due in quarterly installments and mature, along with the revolving credit facilities, on August 17, 2004. The credit facilities accrue interest at various rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDAR ratio, as defined in the credit agreement. Interest is payable in arrears based on certain elections of the Company, not to exceed three months outstanding. The Company pays a commitment fee on all unused portions of the revolving credit facility which varies between 0.375% and 0.500% per annum depending on the Company's funded debt to EBITDAR ratio. The credit agreement requires mandatory prepayments from the issuance of new equity or debt and annual sale of assets in excess of varying minimum amounts depending on the country in which the sales occur. The credit facilities are secured by essentially all the Company's assets in the United States and Canada. The credit agreement requires the maintenance of certain covenant ratios or amounts, including, but not limited to, funded debt to EBITDAR, cash flow coverage, and Net Worth, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 2000.

On August 17, 1999, the Company amended and restated its primary credit agreement to provide for an increase in total borrowings. Borrowings under the Canadian portion of the amended agreement were used to refinance certain GRO debt. In conjunction with that refinancing, the Company recorded a non-cash after tax extraordinary charge of $262,000 related to the unamortized deferred financing costs of the retired debt.

Non-Recourse Promissory Notes

On December 7, 2000, one of the Company's subsidiaries in Mexico, Servicios, entered into three promissory notes payable totaling $27.5 million with variable interest rates based on LIBOR plus 3.5%. Two of the notes have an eight year term with principal payments totaling $1.4 million due semi-annually beginning March 15, 2003, through the maturity date of September 15, 2008. The third note has a nine year term with principal payments of $750,000 due semi-annually beginning March 15, 2003, with a maturity date of September 15, 2009. The promissory notes are secured

by essentially all the assets of Servicios and FCCM, and a pledge of the Company's shares of Servicios and FCCM. The promissory notes contain certain financial covenants which Servicios is in compliance with as of December 31, 2000.

Promissory Note

In October 2000, the Company amended and restated its promissory note payable to a Class I railroad, after making a $1.0 million discretionary principal payment, by refinancing $7.9 million at 8% with interest due quarterly and principal payments due in annual installments of $1.0 million beginning October 31, 2001 through the maturity date of October 31, 2008. Prior to this amendment and restatement, the promissory note payable provided for annual principal payments of $1.2 million provided a certain subsidiary of the Company met certain levels of revenue and cash flow. In accordance with these prior provisions, the Company was not required to make any principal payments through 1999.

Schedule of Future Payments

The following is a summary of the maturities of long-term debt as of December 31, 2000 *(amounts in thousands):*

2001	$3,996
2002	4,516
2003	9,349
2004	63,669
2005	5,596
Thereafter	17,675
	$104,801

10. Financial Risk Management:

The Company uses derivative financial instruments to manage its variable interest rate risk on long-term debt. In addition, the company uses derivative financial instruments to manage its currency exchange rate risk associated with U.S. Dollar principal and interest payments on long-term debt that is serviced by its Mexican Peso denominated operations.

During 2000 and 1999, the Company entered into various interest rate swaps fixing its base interest rate by exchanging its variable LIBOR interest rates on long-term debt for a fixed base rate. The swaps expire at various dates through December 31, 2002 and the fixed base rates range from 6.12% to 6.87%. The notional amount under these agreements is $38.0 million. At December 31, 2000, the fair value of these interest rate swaps is a negative $392,000. During 2000 and 1999, the Company entered into various exchange rate option collars that established exchange rates for converting Mexican Pesos to U.S. Dollars. The options expire at various times through September 15, 2001, and give the Company the right to sell Mexican Pesos for U.S. Dollars at exchange rates ranging from 10.40 Mexican Pesos to the U.S. Dollar to 11.85 Mexican Pesos to the U.S. Dollar. As part of these option collars, the Company gave to a third party the right to sell to the Company U.S. Dollars for Mexican Pesos at exchange rates ranging from 9.35 Mexican Pesos to the U.S. Dollar to 9.85 Mexican Pesos to the U.S. Dollar. The notional amount under these options is $2.8 million. The Company paid an up-front premium for these options of $45,000. At December 31, 2000, the fair value of these currency options is $4,000.

11. Redeemable Convertible Preferred Stock:

To fund its cash investment in ARG, the Company completed a private placement of the Convertible Preferred with the Fund managed by Brown Brothers Harriman & Co. The Company exercised its option to fund $20.0 million of a possible $25.0 million in gross proceeds from the Convertible Preferred. The Fund also received an option to invest an additional $5.0 million in the Company provided that the Company completes future acquisitions with an aggregate purchase price greater than $25.0 million. Dividends on the Convertible Preferred are cumulative and payable quarterly in arrears in an amount equal to 4% of the issue price. Each share of the Convertible Preferred is convertible by the Fund at any time into shares of Class A Common Stock of the Company at a conversion price of $23.00 per share of Class A Common Stock (if converted, 869,565 shares of Common Stock). The Convertible Preferred is callable by the Company after four years, and is mandatorily redeemable in eight years. At December 31, 2000, no shares of Convertible Preferred have been converted into shares of Class A Common Stock. Issuance fees are being amortized as additional dividends over the Convertible Preferred's eight year life.

12. Pension and Other Postretirement Benefit Plans:

The Company administers one noncontributory defined benefit plan for non-union employees of a U.S. subsidiary. Benefits are determined based on a fixed amount per year of credited service. The Company's funding policy is to make contributions for pension benefits based on actuarial computations which reflect the long-term nature of the plan. The Company has met the minimum funding requirements according to the Employee Retirement Income Security Act.

Historically, the Company has provided certain health care and life insurance benefits for certain retired employees. Eligible employees include union employees of one of its U.S. subsidiaries, and certain nonunion employees who have reached the age of 55 with 30 or more years of service. The Company funds the plan on a pay-as-you-go basis.

The following provides a reconciliation of benefit obligation, plan assets, and funded status of the plans *(dollars in thousands):*

	Pension		Other Retirement Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,267	$1,098	$706	$544
Service cost	210	179	3	2
Interest cost	95	76	48	36
Actuarial (gain) loss	(91)	(85)	(63)	169
Benefits paid	(158)	(1)	(70)	(45)
Benefit obligation at end of year	$1,323	$1,267	$624	$706
Change in plan assets:				
Fair value of assets at beginning of year	$1,020	$443	—	—
Actual return on plan assets	163	21	—	—
Employer contribution	80	557	$70	$45
Benefits paid	(158)	(1)	(70)	(45)
Fair value of assets at end of year	$1,105	$1,020	$—	$—
Reconciliation of Funded Status:				
Funded status	($217)	($247)	($624)	($706)
Unrecognized net actuarial (gain) loss	(213)	(45)	(28)	54
Unrecognized prior service cost	204	227	—	—
Accrued benefit obligation	($226)	($65)	($652)	($652)
Weighted-average assumptions				
Discount rate	7.75%	7.75%	7.5%	7.5%
Expected return on plan assets	8.5%	8.5%	N/A	N/A
Rate of compensation increase	4.5%	4.5%	N/A	N/A

	Pension			Other Retirement Benefits		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost:						
Service cost	$210	$179	$149	$3	$2	—
Interest cost	95	76	58	48	36	$34
Expected return on plan assets	(88)	(38)	(31)	—	—	—
Amortization of prior service cost	23	24	23	—	—	—
Amortization of (gain) loss	—	—	—	—	(6)	(13)
Net periodic benefit cost	$240	$241	$199	$51	$32	$21

For measurement purposes, a 5.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and thereafter.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing (decreasing) the assumed health care cost trend rates by one percentage point in each year would increase (decrease) the aggregate of the service and interest cost components of the net periodic postretirement benefit cost and the end of the year accumulated postretirement benefit obligation as follows:

	1–Percentage Point Increase	1–Percentage Point Decrease
Effect on total of service and interest cost components	$3,846	$(3,461)
Effect on postretirement benefit obligation	$47,850	$(43,065)

Employee Bonus Programs

The Company has performance-based bonus programs which include a majority of non-union employees. Key employees are granted bonuses on a discretionary basis. Total compensation of approximately $1.7 million, $1.7 million and $1.4 million was awarded under the various bonus plans in 2000, 1999 and 1998, respectively.

Profit Sharing

The Company has three 401(k) plans covering certain U.S. union and non-union employees who have met specified length of service requirements. The 401(k) plans qualify under Section 401(k) of the Internal Revenue Code as salary reduction plans. Employees may elect to contribute a certain percentage of their salary on a before-tax basis. Under two of these plans, the Company matches participants' contributions up to 1.5% of the participants' salary. Under the third plan, the Company matches participants' contributions up to 5.0% of the participants' salary. The Company's contributions to the plans in 2000, 1999 and 1998 were approximately $299,000, $264,000 and $244,000, respectively.

As required by provisions within the Mexican Constitution and Mexican Labor Laws, the Company's subsidiary, FCCM provides a statutory profit sharing benefit to its employees. In accordance with these laws, FCCM is required to pay to its employees a 10% share of its profits within 60 days of filing corporate income tax returns. The profit sharing basis is computed under a section of the Mexican Income Tax Law which, in general terms, differs from the taxable income by excluding the inflation adjustment on depreciation, amortization, receivables and payables. The provision for statutory profit sharing expense is allocated to departmental operating expenses based on wages.

Postemployment Benefits

The Company does not provide any significant postemployment benefits to its employees.

13. Income Taxes:

The Company files consolidated U.S. federal income tax returns which include all of its U.S. subsidiaries. Each of the Company's foreign subsidiaries files appropriate income tax returns in their respective countries. The components of income before provision for income taxes, equity earnings and extraordinary item for the presented periods are as follows *(amounts in thousands):*

	2000	1999	1998
United States	$9,199	$9,634	$13,587
Foreign (U.S.$)	14,891	5,954	6,200
	$24,090	$15,588	$19,787

No provision is made for the U.S. income taxes applicable to the undistributed earnings of controlled foreign subsidiaries as it is the intention of management to utilize those earnings in the operations of the foreign subsidiaries for the foreseeable future. In the event earnings should be distributed in the future, those distributions may be subject to U.S. income taxes (appropriately reduced by available foreign tax credits, some of which would become available upon the distribution) and withholding taxes payable to various foreign countries. The amount of undistributed earnings of the Company's controlled foreign subsidiaries as of December 31, 2000 is $4.3 million. It is not practicable to determine the amount of U.S. income taxes or foreign withholding taxes that could be payable if a distribution of earnings were to occur. The components of the provision for income taxes are as follows *(amounts in thousands):*

	2000	1999	1998
United States:			
Current-			
Federal	$495	$1,265	$2,055
State	339	952	715
Deferred	2,594	2,381	2,642
	3,428	4,598	5,412
Foreign (U.S.$):			
Current	164	(1,212)	1,735
Deferred	6,977	(1,211)	561
	7,141	(2,423)	2,296
Total	$10,569	$2,175	$7,708

The provision for income taxes differs from that which would be computed by applying the statutory U.S. federal income tax rate to income before taxes. The following is a summary of the effective tax rate reconciliation:

	2000	1999	1998
Tax provision at statutory rate	34.0%	35.0%	35.0%
Effect of foreign operations	12.2%	(100.7%)	0.6%
State income taxes, net of federal income tax benefit	1.8%	5.7%	3.9%
Change in valuation allowance	(3.6%)	71.9%	—
Other, net	(0.5%)	2.1%	(0.5%)
Effective income tax rate	43.9%	14.0%	39.0%

Deferred income taxes reflect the net income effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes as well as available income tax credits. The components of net deferred income taxes as of the presented year ends are as follows *(amounts in thousands):*

	2000	1999
Deferred tax benefits-		
Accruals and reserves not deducted for tax purposes until paid	$2,202	$2,511
Alternative minimum tax credits	935	1,230
Net operating losses	7,586	5,013
Postretirement benefits	233	233
Other	131	121
	11,087	9,108
Deferred tax obligations –		
Property and investment basis differences	(30,267)	(7,969)
Valuation allowance	(797)	(11,197)
Net deferred tax obligations	($19,977)	($10,058)

In the accompanying consolidated balance sheets, these deferred benefits and deferred obligations are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A deferred tax obligation or benefit that is not related to an asset or liability for financial reporting, including deferred tax assets related to carry-forwards, are classified according to the expected reversal date of the temporary difference as of the end of the year.

The Company's alternative minimum tax credit can be carried forward indefinitely; however, the Company must achieve future regular U.S. taxable income in order to realize this credit. The Company had net operating loss carry-forwards from its Mexican operations as of December 31, 2000 and 1999 of $20.0 million and $10.3 million, respectively. The Mexican losses, for income tax purposes, primarily relate to the immediate deduction of the purchase price paid for the FCCM operations. These loss carry-forwards will expire, if unused, between 2009 and 2010. The Company had net operating loss carry-forwards from its Canadian operations as of December 31, 2000 and 1999 of $1.5 million and $2.2 million, respectively. The Canadian losses primarily represent losses generated prior to the Company gaining control of those operations in April 1999. These loss carry-forwards will expire, if unused, between 2004 and 2006.

In the third quarter of 1999, the Australian government enacted an income tax law that, for assets acquired from a tax-exempt entity, impacts the depreciable basis of those assets. The impact of the new law on the Company's Australian operation is that it will be able to deduct, for income tax purposes, depreciation in excess of the financial reporting basis of certain fixed assets acquired from the government in November 1997. However, management estimated that it was more likely than not that the Company would be unable to fully realize all of the potential income tax benefits and accordingly, established a partial valuation allowance against the deferred tax assets recorded pursuant to the tax law change. Accordingly, the net income tax benefit recorded in the 1999 third quarter as a result of this tax law change was $4.2 million. Management's assessment of the likelihood of realizing the full benefit of this incremental tax depreciation included a review of the Australian operation's forecasted results for the next several years which indicated that, with the additional tax depreciation deductions and other accelerated deductions for income tax purposes, this operation would not likely realize the entire tax benefit. During 2000, based on the actual operating results achieved by the Australian subsidiary, management revised its assessment of the likelihood that this tax benefit would be realized. The 2000 reassessment resulted in a decrease in the related valuation allowance of $1.0 million. Pursuant to the deconsolidation of ASR, the remaining valuation allowance and related deferred tax assets are no longer maintained by the Company.

As of December 31, 2000 and 1999, in addition to the valuation allowance described above, the income tax benefit of the Mexican and Canadian net operating losses had been offset by a partial valuation allowance based on management's assessment regarding their ultimate realization. A certain portion of this incremental valuation allowance was established in the acquisition of GRO, and accordingly, when reversed will result in a decrease to goodwill. Management does not believe that a valuation allowance is required for any other deferred tax assets based on anticipated future profit levels and the reversal of current deferred tax obligations.

14. Grants from Governmental Agencies and Third Parties:

The Company periodically receives grants from states and provinces within which it operates, and from third parties with whom it conducts business for rehabilitation or construction of track. The states, provinces and third parties typically reimburse the Company for 75% to 100% of the total cost of specific projects. Under two such grant programs, the Company received $6.0 million and $6.1 million in 2000 and 1999, respectively, from the State of New York and $2.2 million and $3.2 million in 2000 and 1999, respectively, from the State of Pennsylvania. In addition, the Company received $341,000 and $200,000 of grants in 2000 and 1999, respectively, from other states, and $315,000 in 2000 from a province in Canada. The Company also received grants from third parties with whom it conducts business of $1.3 million and $2.7 million in 2000 and 1999, respectively. As of December 31, 2000, the Company is under agreement to receive an additional $1.6 million of grants for projects in progress at that date.

None of the Company's grants represent a future liability of the Company unless the Company abandons the rehabilitated or new track structure within a specified period of time or fails to maintain the rehabilitated or new track to certain standards and make certain minimum capital improvements, as defined in the respective agreements. As the Company intends to comply with these agreements, the Company has recorded additions to road property and has deferred the amount of the grants as the construction and rehabilitation expenditures have been incurred. The amortization of deferred grants is a non-cash offset to depreciation expense over the useful lives of the related assets and is not included as taxable income. During the years ended December 31, 2000, 1999 and 1998, the Company recorded offsets to depreciation expense from grant amortization of $1.1 million, $1.0 million and $728,000, respectively.

15. Commitments and Contingencies:

The Company has built its portfolio of railroad properties primarily through the purchase or lease of road and track structure and through operating agreements. These transactions have related only to the physical assets of the railroad property. Typically, the Company does not assume the operations or liabilities of the divesting railroads.

Legal Proceedings

The Company is a defendant in certain lawsuits resulting from railroad and industrial switching operations, one of which includes the commencement of a criminal investigation. Management believes that the Company has adequate defenses to any criminal charge which may arise and that adequate provision has been made in the financial statements for any expected liabilities which may result from disposition of such lawsuits. While it is possible that some of the foregoing matters may be resolved at a cost greater than that provided for, it is the opinion of management that the ultimate liability, if any, will not be material to the Company's results of operations or financial position.

On August 6, 1998, a lawsuit was commenced against the Company and its subsidiary, Illinois & Midland Railroad, Inc. (IMRR), by Commonwealth Edison Company (ComEd) in the Circuit Court of Cook County, Illinois. The suit alleges that IMRR is in breach of certain provisions of a stock purchase agreement entered into by a prior unrelated owner of the IMRR rail line. The provisions allegedly pertain to limitations on rates received by IMRR and the unrelated predecessor for freight hauled for ComEd's Powerton plant. The suit seeks unspecified compensatory damages for alleged past rate overcharges. The Company believes the suit is without merit and intends to vigorously defend against the suit.

The parent company of ComEd has sold certain of ComEd's power facilities, one of which is the Powerton plant served by IMRR under the provisions of a 1987 Service Assurance Agreement (the SAA), entered into by a prior unrelated owner of the IMRR rail line. The SAA, which is not terminable except for failure to perform, provides that IMRR has exclusive access to provide rail service to the Powerton plant. On July 7, 2000, the Company filed an amended counterclaim against ComEd in the Cook County action. The counterclaim seeks a declaration of certain rights regarding the SAA and damages for ComEd's failure to assign the SAA to the purchaser of the Powerton plant. The Company believes that its counterclaim against ComEd is well-founded and is pursuing it vigorously.

Revenue for haulage to the Powerton plant accounted for 3.1%, 6.6% and 6.3% of the consolidated revenues of the Company and its subsidiaries in 2000, 1999 and 1998, respectively. Failure to satisfactorily resolve this litigation could have a material adverse effect on the Company.

16. Stock-Based Compensation Plans:

The Company established an incentive and nonqualified stock option plan for key employees and a nonqualified stock option plan for non-employee directors (the Stock Option Plans). The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

		2000	1999	1998
Net Income:	As reported	$13,932	$12,533	$11,434
	Pro Forma	12,925	11,468	10,451
Basic EPS:	As reported	$3.19	$2.79	$2.20
	Pro Forma	2.96	2.55	2.01
Diluted EPS:	As reported	$3.11	$2.76	$2.19
	Pro Forma	2.88	2.53	2.01

In May 2000, the Company reduced the number of shares of stock it may sell to its full-time employees under its Stock Purchase Plan from 250,000 to 50,000. At December 31, 2000 and 1999, 9,950 and 7,961 shares, respectively, had been purchased under this plan. The Company sells shares at 100% of the stock's market price at date of purchase, therefore, no compensation cost exists for this plan.

In May 2000, the Company increased the number of shares available for option grants under its Stock Option Plan for employees from 850,000 to 1,050,000. The Company has reserved 1,100,000 shares of Class A Common Stock for issuance under the Stock Option Plans. The Compensation and Stock Option Committee of the Company's Board of Directors has discretion to determine employee grantees, dates and amounts of grants, vesting and expiration dates. However, under both Plans, the exercise price must equal at least 100% of the stock's market price on the date of grant and must be exercised within five years, or ten years for directors, from the date of grant. The following is a summary of stock option activity for 2000, 1999 and 1998:

	Year Ended December 31					
	2000		1999		1998	
	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price
Outstanding at beginning of year	762,250	$17.72	652,375	$19.51	406,975	$18.46
Granted	149,550	15.08	124,400	8.57	251,600	21.25
Exercised	(127,833)	17.09	—	—	(500)	17.00
Forfeited	(19,500)	14.44	(14,525)	21.16	(5,700)	20.81
Outstanding at end of year	764,467	17.36	762,250	17.72	652,375	19.51
Exercisable at end of year	422,320	18.85	367,886	18.86	205,415	18.41
Weighted average fair value of options granted		7.81		4.16		8.97

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$8.38 – 9.21	110,967	3.3 Years	$8.52	27,741	$8.52
11.00 – 12.31	24,000	4.8 Years	12.17	1,666	11.55
15.00 – 18.75	362,325	2.2 Years	16.58	248,575	17.18
19.50 – 21.25	235,675	2.2 Years	21.18	112,838	21.25
28.50 – 33.25	31,500	1.0 Years	32.95	31,500	32.95
8.38 – 33.25	764,467	2.4 Years	17.36	422,320	18.85

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2000	1999	1998
Risk-free interest rate	6.20%	5.40%	5.48%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives in years	5.45	5.90	5.00
Expected volatility	47.80%	39.50%	37.77%

17. Business Segment and Geographic Area Information:

The Company operates in three business segments in two geographic areas: North American Railroad Operations, which includes operating short line and regional railroads, and buying, selling, leasing and managing railroad transportation equipment within the United States, Canada and Mexico; Australian Railroad Operations (through December 16, 2000), which includes operating a regional railroad and providing hook and pull (haulage) services to other railroads within Australia; and Industrial Switching, which includes providing freight car switching and related services to industrial companies with extensive railroad facilities within their complexes in the United States.

Corporate overhead expenses, including acquisition expenses, are reported in North American Railroad Operations. The Company's December 31, 2000, equity investments in Australia and South America are also included in the Asset section of North American Railroad Operations.

The accounting policies of the reportable segments are the same as those described in Note 2. The Company evaluates the performance of its operating segments based on operating income. Intersegment sales and transfers are not significant. Summarized financial information for each business segment and for each geographic area for 2000, 1999 and 1998 are shown in the following tables *(amounts in thousands):*

	North American			Australian	Consolidated
	Railroad Operations	Industrial Switching Operations	Total	Railroad Operations	
2000					
Operating revenues	$158,318	$10,573	$168,891	$37,639	$206,530
Income (loss) from operations	23,545	238	23,783	(30)	23,753
Depreciation and amortization	11,068	658	11,726	2,254	13,980
Assets	333,987	8,025	342,012	—	342,012
Capital expenditures	32,845	404	33,249	6,288	39,537
1999					
Operating revenues	$121,093	$11,341	$132,434	43,152	$175,586
Income (loss) from operations	15,900	(86)	15,814	6,554	22,368
Depreciation and amortization	9,649	768	10,417	2,157	12,574
Assets	253,624	8,319	261,943	41,997	303,940
Capital expenditures	29,129	130	29,259	6,508	35,767
1998					
Operating revenues	$88,097	$12,647	$100,744	$46,728	$147,472
Income (loss) from operations	12,546	(1,798)	10,748	8,820	19,568
Depreciation and amortization	7,277	798	8,075	1,842	9,917
Assets	167,095	9,588	176,683	40,077	216,760
Capital expenditures	13,789	450	14,239	2,662	16,901

Refer to the accompanying consolidated statements of income for items to reconcile from consolidated income from operations to consolidated net income.

18. Quarterly Financial Data:

(in thousands, except per share data)	Quarterly Results (Unaudited)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Operating revenues	$55,411	$52,354	$50,095	$48,670
Income from operations	8,297	7,807	6,681	967
Net income	4,412	2,278	3,192	4,050
Diluted earnings per share	1.00	0.53	0.72	0.86
1999				
Operating revenues	$34,172	$42,669	$45,063	$53,682
Income from operations	2,038	5,723	6,351	8,257
Net income (loss)	(331)	2,746	6,691	3,429
Diluted earnings (loss) per share	(0.07)	0.62	1.53	0.78
1998				
Operating revenues	$37,740	$37,065	$34,707	$37,960
Income from operations	4,974	4,672	4,138	5,784
Net income	2,282	1,846	1,403	5,902
Diluted earnings per share	0.42	0.34	0.27	1.19

The fourth quarter of 2000 includes a $10.1 million pre-tax gain upon the issuance of ASR stock to Wesfarmers, a $4.0 million pre-tax compensation charge related to accelerating ASR stock options and a $6.6 million deferred tax expense resulting from the deconsolidation of ASR (see Note 3).

The third quarter of 1999 includes $4.2 million of nonrecurring income tax benefit related to a favorable income tax legislation change in Australia (see Note 13.).

The fourth quarter of 1998 includes $6.0 million of pre-tax nonrecurring other income related to proceeds from an insurance settlement (see Note 2.).

19. Recently Issued Accounting Standards:

The Financial Accounting Standards Board recently issued FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and hedging activities. The new standard requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value with changes in fair value reported in income. As required, the Company adopted this statement on January 1, 2001, resulting in the recording of a liability of $388,000 to recognize the fair value of derivative instruments held as of that date with an offsetting charge to Other Comprehensive Income.

Corporate Data

Genesee & Wyoming Inc. is a leading operator of regional freight railroads in the United States, Canada, Mexico, Australia and Bolivia, and provides freight car switching and related services to industrial companies with extensive railroad facilities within their complexes.

Corporate Headquarters

Genesee & Wyoming Inc.
66 Field Point Road
Greenwich, Connecticut 06830
203-629-3722
Fax 203-661-4106
www.gwrr.com

Common Stock

The Class A Common Stock of the Company has been traded since June 24, 1996, on the Nasdaq National Market under the symbol GNWR. The Class B Common Stock is not publicly traded.

Actual trade prices of Class A Common Stock:

Year Ended December 31, 2000

	High	Low
1st Quarter	$15.50	$11.875
2nd Quarter	$19.25	$14.25
3rd Quarter	$25.25	$16.00
4th Quarter	$32.00	$17.25

Year Ended December 31, 1999

	High	Low
1st Quarter	$14.75	$10.375
2nd Quarter	$11.625	$ 7.75
3rd Quarter	$15.25	$ 9.875
4th Quarter	$13.75	$11.25

As of March 19, 2001, there were 113 record holders of Class A Common Stock and 9 holders of Class B Common Stock. Class B Common Stock is not publicly traded. The Company believes that there are approximately 1,400 beneficial owners of Class A Common Stock. Prior to its initial public offering, the Company historically paid dividends on its common stock. See "Selected Financial Data." However, the Company does not intend to pay cash dividends for the foreseeable future.

Stock Registrar and Transfer Agent

EquiServe
P.O. Box 8040
Boston, MA 02266-8040
781-575-3120
www.equiserve.com

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312-580-0033
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New York, New York 10017
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Harter, Secrest & Emery LLP
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716-232-6500

C. Sean Day

Mortimer B. Fuller III

John M. Randolph

James M. Fuller

T. Michael Long

Philip J. Ringo

Louis S. Fuller

Robert M. Melzer

Hon. M. Douglas Young, P.C.

Board of Directors

C. Sean Day
Chairman, Teekay Shipping Corporation

James M. Fuller [2]
Retired, Harvey Salt Co.

Louis S. Fuller [3]
Retired, Courtright and Associates

Mortimer B. Fuller III [3]
Chairman and Chief Executive Officer

T. Michael Long
Partner, Brown Brothers Harriman & Co.

Robert M. Melzer [1]
Retired, former Chief Executive Officer, Property Capital Trust

John M. Randolph [1] [2] [3]
Financial Consultant and Private Investor

Philip J. Ringo [1]
Director, ChemConnect, Inc.

Hon. M. Douglas Young, P.C. [2] [3]
Chairman, SUMMA Strategies Canada, Inc.

[1] Member of Audit Committee
[2] Member of Compensation and Stock Option Committees
[3] Member of Executive Committee

Corporate Officers

Mortimer B. Fuller III
Chairman of the Board of Directors and Chief Executive Officer

Charles N. Marshall
President and Chief Operating Officer

Mark W. Hastings
Executive Vice President, Corporate Development

John C. Hellmann
Chief Financial Officer

Forrest L. Becht
Senior Vice President Louisiana

James W. Benz
Senior Vice President GWI Rail Switching Services

Charles W. Chabot
Senior Vice President Australia

David J. Collins
Senior Vice President New York/Pennsylvania

Alan R. Harris
Senior Vice President and Chief Accounting Officer

Martin D. Lacombe
Senior Vice President Canada

Thomas P. Loftus
Senior Vice President Finance and Treasurer

Paul M. Victor
Senior Vice President Mexico

Spencer D. White
Senior Vice President Illinois

Corporate Headquarters

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Fax 203-661-4106

Administrative Headquarters

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New York/Pennsylvania

Buffalo & Pittsburgh Railroad, Inc
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Rochester & Southern Railroad, Inc
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716-328-8601

Illinois

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Oregon

Portland & Western Railroad, Inc.
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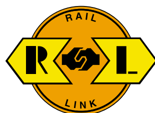
Albany, OR 97321
541-924-6565

Louisiana

Louisiana & Delta Railroad, Inc.
402 West Washington Street
New Iberia, LA 70560
337-364-9625

Rail Link



Rail Link, Inc.
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**Unconsolidated international affiliates*

The above railroads are the major lines of the Company.

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