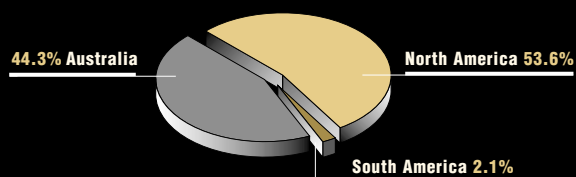


Financial Highlights

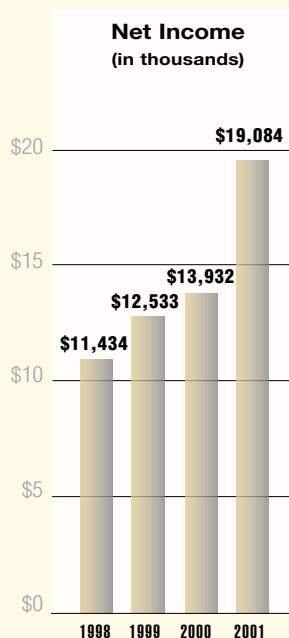
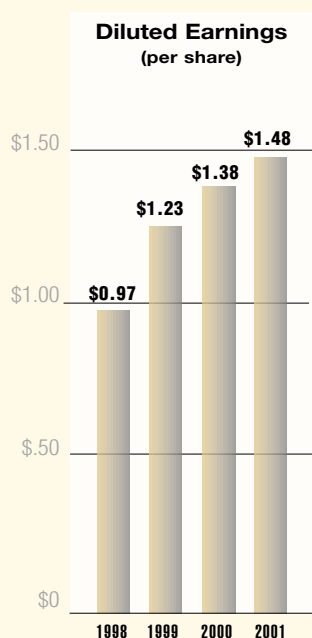
2001 Net Income by Geography



(in thousands, except per share data)

Years Ended December 31

Income Statement Data	2001	2000
Operating revenues	\$173,576	\$206,530
Operating income	\$22,140	\$23,753
Net income	\$19,084	\$13,932
Diluted earnings per common share	\$1.48	\$1.38
Weighted average number of shares of common stock-diluted	12,917	10,094
Balance Sheet Data as of Period End		
Total assets	\$402,519	\$338,383
Total debt	\$60,591	\$104,801
Redeemable Convertible Preferred Stock	\$23,808	\$18,849
Stockholders' equity	\$185,663	\$94,732



Cover: A mixed consist on the Mosgrove Bridge heads over the Allegheny River in GWI's New York/Pennsylvania region. This line interchanges with all major eastern Class I railroads in the United States and Canada.

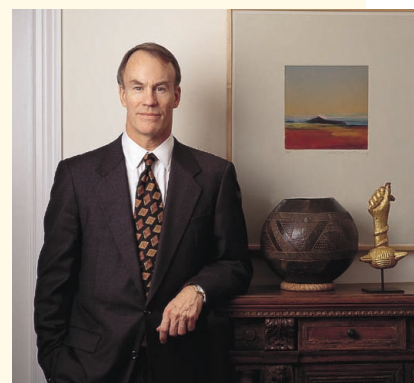
To Our Shareholders

By nearly every measure, 2001 was an exceptional year for Genesee & Wyoming Inc. (GWI). We once again achieved record earnings, supported by the successful integration of our Australian joint venture and by steady performance in North America in a difficult economic environment. We made two acquisitions in North America as we continued to build our regional rail systems. Then, in December we completed a well-received secondary stock offering, the proceeds of which paid down debt and expanded our acquisition capacity. These accomplishments were the result of our continued execution of a focused strategy to be the best in our industry as measured by our customers and shareholders.

Delivering Record Results in a Difficult Economy

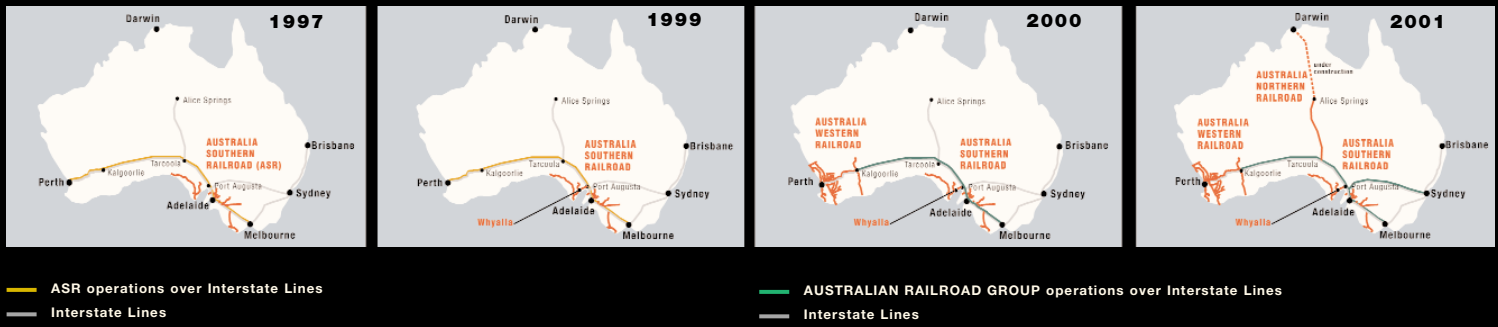
Our 2001 strategic efforts, combined with strong shipments from our Australian customer base, drove dramatic improvement in GWI's financial results — a notable achievement given the general economic softness that characterized the American, Canadian and Mexican markets in 2001. Our net income rose 37 percent to a record \$19.1 million from \$13.9 million at year-end 2000. Diluted earnings per share increased to a record \$1.48 on 12.9 million shares, a 7.2 percent increase from \$1.38 on 10.1 million shares at the close of the prior year. We continue to have a solid performance record, with a five-year compounded annual growth rate in earnings per share of 22.8 percent. Backing up our 2001 earnings, free cash flow was an impressive \$16.3 million. Reflecting the deconsolidation of the Australia Southern Railroad (ASR), revenues declined to \$173.6 million, compared with \$206.5 million in 2000.

We also worked hard during 2001 to expand our ownership base, increase the liquidity of our stock, and provide capital to support our future growth. We executed a three-for-two stock split, completed the funding of convertible preferred stock with Brown Brothers Harriman & Co., and completed the secondary public offering of common stock, using the \$67.5 million in proceeds to reduce bank debt. The price of our common stock increased 79 percent to a split-adjusted \$21.77 at year-end 2001 from \$12.16 at the end of the prior year, while our market capitalization grew 308 percent to \$378 million at year-end 2001 from \$123 million at the close of 2000. After several years of having been overlooked in the “dot-com” era, the market's recognition of GWI, as reflected in this increase in value, is gratifying. We have



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

GWI's first Australian acquisition took place in 1997. Three subsequent acquisitions in 1999, 2000 and 2001 extended the business across the continent.



Above: Newly painted locomotives in the Australia Northern Railroad (ANR) livery are ready to begin hauling loads of construction materials on the Asia Pacific Transport Consortium's Alice Springs-to-Darwin project. ARG is the contract rail operator supplying all crewing and rollingstock required in the initial construction phase and will manage the freight business following the project's completion. This approximately 885-mile construction project, expected to continue into 2004, is the last link in the Australian North-South transcontinental rail system.

worked hard to generate tangible results for our shareholders. While there is much more to do, we are pleased with the market's increasing recognition of our performance. In February 2002, our Board approved an additional three-for-two common stock split, effective March 14, 2002, as a reflection of our confidence in the future. Our results in the accompanying financial statements reflect both of the stock splits in the past 12 months.

Building Strong Regional Rail Systems

At the heart of GWI's success is our continued focus on the creation and integration of strong regional rail systems. We seek to build these systems by making acquisitions in markets where we have existing operations in order to: (1) further increase efficiencies by consolidating staff, equipment and facilities; (2) expand our market reach; and (3) enhance our return on capital. Australia exemplifies this strategy executed on a continental scale. In 1997 we made our first acquisition: the freight rail lines in South Australia. In 1999, we added the in-plant rail lines of OneSteel's (formerly BHP) Whyalla steel mill, as well as the rail lines supplying iron ore to the mill from their two mines. The acquisition of Westrail and the formation of the Australian Railroad Group (ARG), our joint venture with Wesfarmers, followed in 2000 and our position in the Alice Springs-to-Darwin consortium was added in 2001 to create what is now the second largest private freight rail operation on the continent, with operations stretching from Sydney and Melbourne to Perth, from Adelaide to Alice Springs and, in 2004, to Darwin. ARG contributed 44.3 percent of GWI's earnings in 2001.

Looking ahead to 2002, we believe ARG's outlook is bright. The export-driven Australian economy is strong, and several of our customers have expansion plans. The construction trains to support the building of the Alice Springs-to-Darwin line should reach full volume in 2002 and continue into 2004. In February 2002, Freightcorp (FC), the freight railway of New South Wales, and National Rail, primarily an intermodal operator on the interstate line owned by the Commonwealth, were both privatized in a single transaction. The new organization displaces ARG as the largest private freight railway in Australia. We were substantially outbid, and although we were disappointed in the result, we believe the privatization creates additional opportunities. As a condition of the sale, the buyer must sell 120 locomotives and 600 wagons. This creates an opportunity for us to acquire equipment to grow our core business. The transaction also puts FC, whom we considered an irrational business competitor, in the private sector.

The development of the NY/PA region exemplifies GWI's strategy of building a regional rail system through disciplined, contiguous acquisitions. Beginning with the 14-mile Genesee and Wyoming Railroad Company that in 1976 had \$3.5 million in annual freight revenues, this region now operates more than 750 miles of track and is expected to generate \$50 million in revenues in 2002.

1899-1976
Genesee & Wyoming Railroad



1985
Rochester & Southern Railroad



1988
Buffalo & Pittsburgh Railroad



1992
Allegheny & Eastern Railroad



1996
Pittsburg & Shawmut Railroad



2001
South Buffalo Railway



During 2001, we announced two important additional acquisitions in North America that exemplify our strategy of building regional rail systems:

In September, we acquired the South Buffalo Railway (SBR), a switching railroad near Buffalo, New York, that, in addition to connecting to our New York/Pennsylvania region, provides new access to bulk transload opportunities on Lake Erie. The seamless integration of SBR into GWI's existing operations contributed substantially to our strong fourth quarter results in 2001.

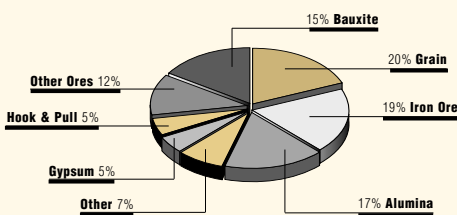
In December, we announced the acquisition of Emons Transportation, a short-line railroad holding company. The transaction was completed on February 22, 2002. The St. Lawrence & Atlantic Railroad, which accounts for 75 percent of Emons' revenue, complements our existing operations in Canada, and will be integrated into GWI's Canadian region in 2002. The balance of Emons' business fits well with our railroad switching operations. In addition, Emons brings expertise in intermodal and rail warehousing operations.

We also build our regional rail systems by improving operating efficiencies and adding new customers. In a weak North American economy, cost controls were particularly important in 2001. In addition, three new customers helped to stabilize our revenues and to provide a foundation for future growth. The first new coal mine in decades opened in the NY/PA region late in the first quarter. The same region also began shipping rock salt in the second half of 2001 from American Rock Salt's new mine, which should become a major customer once initial production settles down. And in Mexico, as a result of our service reliability and improved track, Ford Motor Company began moving vehicles by rail, taking the business off the highway.

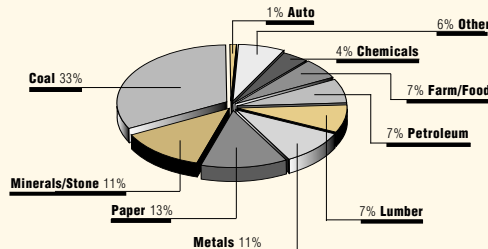


Above: The NY/PA state-of-the-art dispatch system is a "point and click" system with the railroad operating rules written into the computer program. This allows dispatchers to save time, eliminate errors and control movement on the track more safely.

2001 Australian Freight Mix
by carloads



2001 North American Freight Mix
by carloads





Above: Alcoa's Deschambault Mill, located about 30 miles west of Québec City, is a major customer of the Québec Gatineau Railway. With the addition to this region of the St. Lawrence & Atlantic Railroad, one of the Emons Transportation properties acquired in February 2002, expected revenues should approach \$50 million.

Aligning the Organization with Shareholder Value

In 2001, we began to roll out a new financial management plan to integrate our budgeting, financial analysis and compensation systems effectively. This plan establishes performance benchmarks for each of our regions that are tied to targeted returns on invested capital. It also links employee compensation to achievement of those targets, ensuring greater accountability and alignment with enhancing shareholder value.

We also further strengthened our management in 2001. We appointed Marty Lacombe, formerly President of Genesee•Rail-One in Canada, to the position of Chief Executive of ARG. Marty replaced Chuck Chabot, whose expiring visa triggered his return to the United States after five years of outstanding management performance in Australia. Upon his return, Chuck will move to a new top management position, and he will continue to work on strategic issues in Australia. We named Mario Brault, a longtime railroad executive, as Marty's replacement in Canada. We were pleased with the results achieved by Jaime Valencia Valencia our new general manager in Bolivia, whose operational improvements partially mitigated poor revenues due to drought's impact on soybean production. In Oregon, we appointed Larry Phipps, another seasoned railroad executive, to the post of President and General Manager of Portland & Western Railroad. Finally, to reflect emphasis on improved asset utilization and return on capital, Carl Belke was appointed General Manager, Fleet Management.

We are confident about GWI's future because of our numerous strengths:

- We are an industry leader;
- Our acquisition growth has brought increasing customer, commodity and geographic diversification producing steadier and more predictable earnings and healthy cash flow;
- As a result of our secondary stock offering, our capital structure is flexible and our balance sheet strong;
- Because of our reputation and integrity, we have forged strong partnerships with Brown Brothers Harriman & Co., Wesfarmers and the International Finance Corporation (IFC);
- We have demonstrated the ability to acquire and grow rail freight businesses, and we expect to be exposed to many new acquisition opportunities.



We are also guided by exceptional people, including a board of directors that appropriately reflects our international outlook and a management team that provides us with a distinct competitive advantage.

Although all our lives have been changed by September 11th, fortunately GWI was not materially affected. However, we have all been inspired by the heroic efforts made by so many extraordinary people doing their “jobs” as the circumstances required. In that spirit, I feel GWI is blessed with truly outstanding employees who work every day to make our Company a success. At a moment in our nation’s history when courage has never been more treasured, we count among our heroes some of our very own people: Ed Somerville, a Buffalo & Pittsburgh yardmaster, on his way home, spotted an ambulance parked across our tracks at the scene of an auto accident and made an emergency call to stop an oncoming train from a certain collision. Québec Gatineau engineer Claude Lemieux, conductor Ronnie Samson and car man Jean Bergeron, came upon a fire near a 400-liter propane tank and warned local residents to evacuate, protecting them from a possible explosion. And Aric Jeffs, a Portland & Western conductor, plucked seven-year-old Dylan Arledge from the trestle tracks in front of a moving 4,000-pound locomotive, saving the youngster from certain death. These are men who acted swiftly to save lives, putting themselves at grave personal risk in the process. I am deeply grateful to them for their courage and for the example they set for us all. I am honored to call them my colleagues.

Mortimer B. Fuller III
Chairman and Chief Executive Officer
March 25, 2002

Above: The Cooperative Bulk Handling Limited (CBH) grain terminal at Kwinana is one of four export grain terminals in Western Australia served by AWR. CBH, founded, financed and controlled by Western Australia’s grain growers, annually stores and handles up to 40 percent of the national average of grain production. Grain is approximately 20 percent of ARG’s commodity mix.



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Left: These Portland & Western locomotives near Beaverton, Oregon are among GWI's more than 300 locomotives serving customers in North America. Improved management of our locomotive fleet provides opportunities to increase asset utilization and improve our return on capital.

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 ancillary rail services.

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, the Company has completed a number of recent acquisitions. The Company completed the acquisition of South Buffalo Railway in the United States in October, 2001. 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, acquired an interest in a railroad in Bolivia in November 2000. Additionally, the Company 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.

The general downturn in economies in North America in 2001, has adversely affected the Company's cyclical shipments of commodities such as paper products in Canada, chemicals in the United States, and cement in Mexico. However, shipments of other important commodities such as coal and salt are less affected by economic downturns and are more closely affected by the weather. The economic downturn has also impacted the Company's customers and while a limited number of them have declared bankruptcy, their traffic volumes have remained largely unaffected and the impact on the collection of their receivables has not been significant to date.

On February 14, 2002 and May 1, 2001, the Company announced three-for-two common stock splits in the form of 50% stock dividends distributed on March 14, 2002 to shareholders of record as of February 28, 2002, and on June 15, 2001 to shareholders of record as of May 31, 2001, respectively. All share, per share and par value amounts presented herein have been restated to reflect the retroactive effect of both of the stock splits.

Expansion of Operations

United States

On February 22, 2002, the Company acquired Emons Transportation Group, Inc. (Emons) for approximately \$20.0 million in cash, including transaction costs and net of cash received in the acquisition, and \$11.0 million of debt assumed. The Company purchased all of the outstanding shares of Emons at \$2.50 per share. The Company funded the acquisition through its \$103.0 million revolving line of credit held under its primary credit agreement, all of which was available at the time of the purchase. Emons is a short line railroad holding company with operations over 340 miles of track in Maine, Vermont, Québec and Pennsylvania.

On October 1, 2001, the Company acquired all of the issued and outstanding shares of common stock of South Buffalo Railway (South Buffalo) from Bethlehem Steel Corp. (Bethlehem) for \$33.1 million in cash, including transaction costs, and the assumption of certain liabilities of \$5.6 million. At the closing, the Company acquired beneficial ownership of the shares and, having received the necessary approvals from The Surface Transportation Board on November 21, 2001, assumed actual ownership on December 6, 2001. The purchase price was allocated to current assets (\$2.3 million), property and equipment (\$17.6 million) and goodwill (\$18.8 million) less assumed current liabilities (\$2.4 million) and assumed long-term liabilities (\$3.2 million). South Buffalo operates over 52 miles of owned track in Buffalo, New York. The purchase price has been reduced by a \$407,000 estimated adjustment pursuant to the final determination of the net assets of South Buffalo on the sale date. This amount, together with another \$300,000 related to pre-acquisition liabilities paid by the Company on Bethlehem's behalf, are reflected in the December 31, 2001 balance sheet as receivables. Although Bethlehem filed for voluntary protection under U.S. bankruptcy laws on October 5, 2001, payment of this receivable could be funded from a \$3.0 million escrow account held by an independent trustee to settle amounts due to the Company pursuant to the South Buffalo acquisition.

As contemplated with the acquisition, the Company will close the former South Buffalo headquarters office in March 2002 and has implemented an early retirement program under which 28 South Buffalo employees terminated in December 2001. The aggregate \$876,000 cost of these restructuring activities is considered a liability assumed in the acquisition, and therefore is included in goodwill. The majority of these costs were paid in 2001.

The acquisition of South Buffalo triggered the right of The 1818 Fund III, L.P. (the Fund), a private equity fund managed by Brown Brothers Harriman & Co., to acquire an additional \$5.0 million of the Company's Series A Redeemable Convertible Preferred Stock (the Convertible Preferred), and the Fund exercised that right on December 11, 2001 (see Note 12 to Consolidated Financial Statements).

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 U.S. dollars 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 was 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 2.6% 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 (partially funded by a \$20.0 million private placement of the Convertible Preferred with the Fund) while Wesfarmers contributed \$64.2 million in cash, including \$8.2 million which represents a long-term Australian dollar denominated non-interest bearing note to match a similar note due to the Company from ASR at the date of the

Management's Discussion and Analysis

transaction. ARG funded the remaining purchase price with proceeds from its Australian bank credit facility.

As a direct result of the ARG transaction, ASR stock options became immediately exercisable by key management of ASR 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 compensation charge to ASR earnings.

The Company 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.

On April 20, 2001, APTC completed the arrangement of debt and equity capital to finance a project to build, own and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. As previously arranged, upon APTC reaching financial closure, Wesfarmers contributed an additional \$7.4 million into ARG and accordingly, the Company recorded an additional first quarter gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers. A related deferred income tax expense of \$1.1 million was also recorded. In the second quarter of 2001, ARG paid the \$7.4 million to its two shareholders, in equal amounts of \$3.7 million each, as partial payment of each shareholder's Australian dollar denominated non-interest bearing note which resulted in a \$508,000 currency transaction loss.

The combined gains totaling \$13.8 million relating to the formation of ARG represented the difference between the recorded balance of the Company's previously wholly owned investment in Australia, less investment amounts that the Company estimated would be reimbursed by ARG, and the value of those Australian operations when ARG was formed. In the fourth quarter of 2001, the Company, ARG and Wesfarmers reached

agreement as to the level of acquisition-related costs to be reimbursed to both venture partners. Accordingly, in the fourth quarter of 2001, the Company recorded a \$728,000 decrease to its previously recorded gains to reflect the lower than estimated reimbursed amount for acquisition-related costs.

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. Prior to its deconsolidation, ASR accounted for \$37.6 million and \$4.0 million of operating revenue and income from operations (excluding the \$4.0 option buyout charge), respectively, for 2000 and \$43.2 million and \$6.6 million, respectively, for 1999.

Mexico

In August 1999, the Company's then 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 price included rolling stock, an advance payment on track improvements to be completed on the state-owned track property, an escrow payment, which was returned to the Company upon successful completion of the track improvements, and prepaid value-added taxes. A portion of the purchase price (\$8.4 million) was also allocated to the 30-year operating license. As the track improvements were made, the related costs were reclassified into the property accounts as leasehold improvements and are now being amortized over the improvements' estimated useful lives. 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.

On December 7, 2000, in conjunction with the refinancing of FCCM and its parent company, GW Servicios, S.A. de C.V. (Servicios) (see Note 9 to Consolidated Financial Statements), the International Finance Corporation (IFC) invested \$1.9 million of equity for a 12.7% indirect interest in FCCM, through 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 in 2000.

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% from the 47.5% it acquired in 1997. 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, committed to 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 180,000 shares of the Company's Class A Common Stock at an exercise price of \$3.83 per share. Exercise of the option is contingent on the Company's recovery of its capital investment in GRO (after payoff of existing GRO debt) 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 was 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 were initially 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 paid in 2001 and due in 2002. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded an equity loss of \$618,000 in 1999.

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% from its original indirect 0.68% interest acquired in September 1999. On July 24, 2001, the Company increased its indirect equity interest in Oriental to 22.89% with an additional investment of \$246,000. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company's ownership interest is largely through a 90% owned holding company 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 \$6.9 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of \$10.8 million (90% of \$12.0 million) at an adjustable interest rate dependent on operating results of Oriental, and a non-interest bearing contingent payment of \$450,000 due in 2003 if certain financial results are achieved. The cash used by the

Management's Discussion and Analysis

Company to fund such investment was obtained from its existing revolving credit facility. Additionally, the Company received the right to collect dividends from Oriental related to its full year 2000 earnings. Such dividends of \$617,000 were received in March 2001. The full value of the non-recourse debt of the Company's unconsolidated subsidiary (\$12.0 million as of December 31, 2001) bears interest, based on the availability of dividends received from Oriental, between a floor of 4% and a ceiling of 7.67%. The debt effectively bore interest of 6.12% throughout 2001 and is due, in annual installments through 2003. Such installments and interest are primarily funded by dividends received from Oriental, with any shortages (which are expected for 2002 payments) to be funded by the Company and its partner. The Company accounts for its indirect interest in Oriental under the equity method of accounting.

Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Consolidated Operating Revenues

Consolidated operating revenues (which exclude revenues from the Company's equity investees) were \$173.6 million in the year ended December 31, 2001 compared to \$206.5 million in the year ended December 31, 2000, a net decrease of \$33.0 million or 16.0%. The net decrease was attributable to a \$37.6 million decrease due to the deconsolidation of Australian railroad operations as of December 16, 2000 and a \$275,000 net decrease on existing North American railroad operations, offset by a \$3.4 million increase in North American railroad revenues from the October 1, 2001 acquisition of South Buffalo, and a \$1.5 million increase in industrial switching revenues.

The following two sections provide information on railroad revenues for North America and industrial switching revenues in the United States.

North American Railroad Operating Revenues

Operating revenues had a net increase of \$3.1 million, or 2.0%, to \$161.4 million in the year ended December 31, 2001 of which \$129.9 million were freight revenues and \$31.6 million were non-freight revenues. Operating revenues in the year ended December 31, 2000 were \$158.3 million of which \$126.4 million were freight revenues and \$31.9 million were non-freight revenues. The net increase in operating revenues was attributable to a \$3.5 million increase in freight revenues which consisted of \$2.8 million in freight revenue from South Buffalo and a \$643,000 increase on existing North American railroad operations, offset by a \$362,000 decrease in non-freight revenues which consisted of \$556,000 in non-freight revenue from South Buffalo offset by a \$918,000 decrease on existing North American railroad operations. The following table compares North American freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2001 and 2000:

North American Freight Revenues and Carloads Comparison by Commodity Group

(dollars in thousands, except average per carload)

Years Ended December 31, 2001 and 2000

Commodity Group	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
	2001	% of total	2000	% of total	2001	% of total	2000	% of total	2001	2000
Coal, Coke & Ores	\$28,081	21.6%	\$25,987	20.6%	128,286	33.1%	117,189	31.2%	\$219	\$222
Minerals & Stone	19,439	15.0%	17,901	14.2%	43,615	11.2%	42,146	11.2%	446	425
Pulp & Paper	18,663	14.4%	19,653	15.6%	49,033	12.6%	51,753	13.8%	381	380
Petroleum Products	16,971	13.1%	18,221	14.4%	27,541	7.1%	30,075	8.0%	616	606
Metals	11,239	8.7%	10,069	8.0%	40,679	10.5%	36,554	9.7%	276	275
Farm & Food Products	10,008	7.7%	9,653	7.6%	28,205	7.3%	27,710	7.4%	355	348
Lumber & Forest Products	8,846	6.8%	7,827	6.2%	26,727	6.9%	25,426	6.8%	331	308
Chemicals-Plastics	8,359	6.4%	8,800	7.0%	16,574	4.3%	16,985	4.5%	504	518
Autos & Auto Parts	2,499	1.9%	3,148	2.5%	5,283	1.4%	5,849	1.6%	473	538
Other	5,756	4.4%	5,113	3.9%	22,040	5.6%	21,438	5.8%	261	239
Totals	\$129,861	100.0%	\$126,372	100.0%	387,983	100.0%	375,125	100.0%	335	337

Coal, Coke and Ores revenue increased by \$2.1 million, or 8.1%, primarily due to hauling additional carloads of Coal on existing railroad operations for customers operating in the electric utility industry.

Minerals and Stone revenue increased by \$1.5 million, or 8.6%, primarily due to hauling additional carloads of Salt on existing railroad operations as the result of a new salt mine customer which began shipping in May 2001.

Pulp and Paper revenue decreased by \$1.0 million, or 5.0%, primarily due to a decrease of 2,720 carloads hauled in 2001 resulting from a business decline in the Pulp and Paper industries located on the Company's Oregon, New York-Pennsylvania and Canada railroad operations.

Petroleum Products revenue decreased by \$1.3 million, or 6.9%, primarily due to a decrease of 2,534 carloads hauled in 2001 for Petroleum Products industries located on the Company's Mexico railroad operations due to a weakening Mexican economy and shifting traffic patterns.

Metals revenue increased by a net \$1.2 million, or 11.6%, primarily due to \$1.4 million in freight revenue from South Buffalo, offset by a \$222,000 decrease on existing railroad operations.

Lumber and Forest Products revenue increased by \$1.0 million, or 13.0%, primarily due to an increase of 1,301 carloads hauled in 2001 for lumber and forest products industries located on the Company's Oregon and New York-Pennsylvania railroad operations.

Freight revenues from all remaining commodities reflected a net decrease of \$92,000, after consideration of \$1.4 million of mostly Auto and Auto Parts revenue from South Buffalo during its 13 weeks as part of the Company.

Total North American carloads were 387,983 in the year ended December 31, 2001 compared to 375,125 in the year ended December 31, 2000, an increase of 12,858, or 3.4%. The increase of 12,858 consisted of 9,652 carloads from South Buffalo and 10,584 carloads of coal on existing railroad operations, offset by a net decrease of 7,378 carloads in all other commodities combined on existing railroad operations.

The overall average revenue per carload decreased to \$335 in the year ended December 31, 2001, compared to \$337 per carload in the year ended December 31, 2000, a decrease of 0.6%, due primarily to a 1.4% decrease in per carload revenues attributable to coal resulting from volume discounts.

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North American non-freight railroad revenues were \$31.6 million in the year ended December 31, 2001, compared to \$31.9 million in the year ended December 31, 2000, a decrease of \$362,000, or 1.1%, which consisted of \$556,000 in non-freight revenue from South Buffalo offset by a \$918,000 decrease on existing North American railroad operations. The following table compares North American non-freight revenues for the years ended December 31, 2001 and 2000:

North American Railroad Non-Freight Operating Revenues Comparison

(dollars in thousands)

Year Ended December 31,

	2001		2000	
	\$	% of Non-Freight Operating Revenue	\$	% of Non-Freight Operating Revenue
Railroad switching	\$8,785	27.8%	\$11,340	35.5%
Car hire and rental income	7,484	23.7%	7,969	24.9%
Car repair services	3,135	9.9%	3,019	9.5%
Other operating income	12,180	38.6%	9,618	30.1%
Total non-freight revenues	\$31,584	100.0%	\$31,946	100.0%

The net decrease of \$2.6 million in railroad switching revenues is primarily attributable to a decrease of \$3.1 million from passenger train operations in Mexico, offset by an increase of \$531,000 in switching revenues from operations in the United States of which \$413,000 is revenue from South Buffalo.

The increase of \$2.6 million in other operating income is primarily attributable to a \$1.1 million increase in storage and demurrage of which \$93,000 is revenue from South Buffalo and \$1.0 million is from existing railroad operations, and a \$1.1 million increase in other income. The increase in other income consists primarily of a \$420,000 increase in management fee revenue on existing railroad operations related to coal unloading facilities, and \$398,000 of revenue from the Company's start-up logistics operation, Speedlink, for which operations were discontinued in September 2001.

U.S. Industrial Switching Revenues

Revenues from U.S. industrial switching activities were \$12.1 million in the year ended December 31, 2001 compared to \$10.6 million in the year ended December 31, 2000, an increase of \$1.5 million, or 14.7%, due primarily to the addition of several new switching contracts in 2001.

Consolidated Operating Expenses

Consolidated operating expenses for all operations were \$151.4 million in the year ended December 31, 2001, compared to \$182.8 million in the year ended December 31, 2000, a net decrease of \$31.4 million, or 17.1%. The net decrease was attributable to a \$37.7 million decrease due to the deconsolidation of Australian railroad operations on December 16, 2000, offset by a \$5.0 million increase in North American railroad operating expenses of which \$2.4 million was attributable to the Company's start-up logistics operation, Speedlink, for which operations were discontinued in September 2001, \$1.9 million resulted from the October 1, 2001 acquisition of South Buffalo, \$747,000 was from an increase on North American railroad operations, and \$1.3 million was from an increase in industrial switching operating expenses.

Operating Ratios

The Company's consolidated operating ratio improved to 87.2% in the year ended December 31, 2001 from 88.5% in the year ended December 31, 2000. The operating ratio for North American railroad operations declined to 86.6% in the year ended December 31, 2001 from 85.1% in the year ended December 31, 2000. The operating ratio for U.S. industrial switching operations improved to 96.0% in the year ended December 31, 2001 from 97.7% in the year ended December 31, 2000. The operating ratio for Australian railroad operations was 89.4% in 2000 (excluding the \$4.0 million stock option charge).

The following two sections provide information on railroad expenses in North America 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, 2001 and 2000:

North American Railroad Operating Expense Comparison

(dollars in thousands)

Year Ended December 31,

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$55,902	34.7%	\$54,212	34.2%
Equipment rents	19,675	12.2%	19,787	12.5%
Purchased services	11,942	7.4%	10,805	6.8%
Depreciation and amortization	12,139	7.5%	11,068	7.0%
Diesel fuel	11,596	7.2%	12,888	8.1%
Casualties and insurance	6,779	4.3%	6,111	3.9%
Materials	10,560	6.5%	10,226	6.5%
Other expenses	11,200	6.6%	9,677	6.1%
Total operating expenses	\$139,793	86.4%	\$134,774	85.1%

Labor and benefits expense increased \$1.7 million, or 3.1%, of which \$945,000 was attributable to South Buffalo, \$252,000 was attributable to the Company's start-up logistics operation, Speedlink, for which operations were discontinued in September 2001, and \$493,000 was on existing North American operations.

Purchased services increased a net \$1.1 million, or 10.5%, of which \$139,000 was attributable to South Buffalo and \$1.3 million was attributable to Speedlink, offset by a \$334,000 decrease on existing North American operations.

Depreciation and amortization expense increased \$1.1 million, or 9.7%, of which \$150,000 was attributable to South Buffalo and \$921,000 was on existing North American operations. Pursuant to adopting SFAS No. 142 on January 1, 2002, goodwill will no longer be amortized (see Note 21 to Consolidated Financial Statements).

Diesel fuel expense decreased a net \$1.3 million, or 10.0%, of which \$1.4 million was a decrease on existing North American operations resulting primarily from decreased fuel prices in 2001, offset by \$52,000 of expense attributable to South Buffalo.

All remaining operating expenses combined increased \$2.4 million, or 5.3%, of which \$625,000 was attributable to South Buffalo, \$839,000 was attributable to Speedlink, and \$1.0 million was on existing North American operations.

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, 2001 and 2000:

U.S. Industrial Switching Operating Expense Comparison

(dollars in thousands)

Year Ended December 31,

	2001		2000	
	\$	% of Operating Revenue	\$	% of Operating Revenue
Labor and benefits	\$8,061	66.4%	\$6,419	60.7%
Equipment rents	289	2.4%	239	2.3%
Purchased services	392	3.2%	335	3.2%
Depreciation and amortization	617	5.1%	658	6.2%
Diesel fuel	464	3.8%	542	5.1%
Casualties and insurance	294	2.4%	529	5.0%
Materials	702	5.8%	643	6.1%
Other expenses	824	6.9%	970	9.1%
Total operating expenses	\$11,643	96.0%	\$10,335	97.7%

Labor and benefits expense increased \$1.6 million, or 25.6%, due primarily to the addition of several new switching contracts in 2001.

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All other expenses were \$3.6 million in the year ended December 31, 2001, compared to \$3.9 million in the year ended December 31, 2000, a decrease of \$334,000, or 8.5%, due primarily to a \$235,000 net decrease in casualties and insurance which resulted from the settlement of a long-standing claim for \$350,000 less than the Company's recorded accrual, offset by a \$115,000 increase in actual 2001 casualties and insurance expense.

Interest Expense

Interest expense in the year ended December 31, 2001, was \$10.0 million compared to \$11.2 million in the year ended December 31, 2000, a decrease of \$1.2 million, or 10.5%, primarily due to a decrease in debt and lower interest rates in 2001, offset by new borrowings to acquire South Buffalo.

Gain on 50% Sale of Australia Southern Railroad

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 and a related net \$3.0 million increase of that gain in 2001 (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. 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, 2001, was \$1.4 million compared to \$3.0 million in the year ended December 31, 2000, a decrease of \$1.6 million, or 53.3%. Other income, net, in the year ended December 31, 2001 consists primarily of interest income of \$1.1 million and gain on asset sales of \$814,000, offset by currency losses of \$508,000 on Australian dollar denominated receivables. Other income, net, in the year ended December 31, 2000, consisted primarily of interest income of \$2.3 million. The decrease in interest income in the year ended December 31, 2001, is primarily due to a partial year of earnings compared to a full year of earnings in the year ended December 31, 2000 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, 2001 and 2000 was 37.6% and 43.9%, respectively. The decrease in 2001 is partially attributable to a lower Australian income tax rate (30%) recorded on the \$3.0 million one-time gain on the sale of 50% of its interest in APTC. 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 these items, the Company's effective income tax rate in the year ended December 31, 2000, was 35.8%.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the year ended December 31, 2001, were \$8.9 million compared to \$411,000 in the year ended December 31, 2000, an increase of \$8.5 million. Equity earnings in the year ended December 31, 2001, consist of \$8.5 million from Australian Railroad Group and \$412,000 from South America affiliates. 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 through December 31, 2000.

Net Income and Earnings Per Share

The Company's net income for the year ended December 31, 2001, was \$19.1 million compared to net income in the year ended December 31, 2000, of \$13.9 million, an increase of \$5.2 million, or 37.0%. The increase in net income is the net result of an increase in equity earnings of unconsolidated affiliates of \$8.5 million and a decrease in the net loss of industrial switching of \$83,000, offset by a decrease in net income from existing North American railroad operations of \$3.2 million and a decrease in net income from Australian railroad operations of \$204,000 due to its deconsolidation.

Basic and Diluted Earnings Per Share in the year ended December 31, 2001, were \$1.72 and \$1.48, respectively, on weighted average shares of 10.5 million and 12.9 million, respectively, compared to \$1.42 and \$1.38, respectively, on weighted average shares of 9.8 million and 10.1 million in the year ended December 31, 2000. The earnings per share and weighted average shares outstanding for the years ended December 31, 2001 and 2000 are adjusted for the impact of the March 14, 2002 and June 15, 2001 stock splits (see Note 2. to Consolidated Financial Statements). The increase in weighted average shares outstanding for Basic Earnings Per Share of 731,000 is primarily attributable to the exercise of employee stock options in 2001, and the impact of the December 21, 2001, offering of common stock (see Note 11 to Consolidated Financial Statements). The increase in weighted average shares outstanding for Diluted Earnings Per Share of 2.8 million is primarily attributable to the above impact and the dilutive impact of the common stock equivalents associated with the Redeemable Convertible Preferred Stock issued in December 2001 and December 2000, (26,802 and 1,956,522 weighted average shares, respectively), and the dilutive impact of unexercised employee and director stock options as a result of an increase in the market price of the Company's stock in 2001.

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

Consolidated Operating Revenues

Consolidated operating revenues (which exclude revenues from the Company's equity investees) 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

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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
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 Autos 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 American non-freight revenues for the years ended December 31, 2000 and 1999:

North American Railroad Non-Freight Operating Revenues Comparison

(dollars in thousands)

	Year Ended December 31,			
	2000		1999	
	\$	% of Non-Freight Operating Revenue	\$	% of Non-Freight 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.

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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 depreciation 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)

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
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% depreciation 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 depreciation. 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.

Australian 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 depreciation 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

Consolidated operating expenses for all operations 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 consolidated 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)

	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

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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)

	Year Ended December 31,			
	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%	-	0.0%
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% depreciation 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 Comparison

(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 million 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

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 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%.

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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 through 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 million, 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 \$1.42 and \$1.38, respectively, on weighted average shares of 9.8 million and 10.1 million, respectively, compared to \$1.24 and \$1.23, respectively, on weighted average shares of 10.1 million and 10.2 million, respectively, in the year ended December 31, 1999. The earnings per share and weighted average shares outstanding for years ended December 31, 2000 and 1999 are adjusted for the impact of the March 14, 2002 and June 15, 2001 stock splits (see Note 2 to Consolidated Financial Statements).

Liquidity and Capital Resources

During 2001, 2000 and 1999, the Company generated \$28.6 million, \$23.5 million and \$29.3 million, respectively, of cash from operations. The 2001 increase over 2000 was primarily due to the net decrease in non-cash working capital during 2001 compared to the increase in non-cash working capital in 2000, offset by lower cash earnings in 2001. The 2000 decrease is primarily due to higher cash earnings in 2000 being more than offset by the net increase in non-cash working capital during 2000 compared to the net decrease in such non-cash working capital in 1999.

Cash flows from investing activities included capital expenditures of \$16.6 million, \$29.3 million and \$24.9 million in 2001, 2000 and 1999, respectively. Of these expenditures, \$4.5 million, \$14.4 million and \$14.8 million were for equipment and rolling stock in 2001, 2000 and 1999, respectively. The remaining capital expenditure amounts each year were for track improvements and are net of funds received under governmental grants of \$3.9 million, \$8.9 million and \$8.6 million in 2001, 2000 and 1999, respectively. Year 2001 cash flows from investing activities included \$33.1 million for the acquisition of South Buffalo Railway, \$246,000 of investments in unconsolidated affiliates, and \$4.3 million in cash received from unconsolidated affiliates. Year 2000 cash flows from investing activities 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 cash flows from investing activities included \$1.0 million of investments in unconsolidated affiliates and \$31.5 million for the acquisition by FCCM. Proceeds from assets sales were \$8.1 million in 2001, \$679,000 in 2000 and \$10.3 million in 1999.

Cash flows from financing activities included a net decrease in outstanding debt of \$43.0 million in 2001 and net increases in outstanding debt of \$6.4 million in 2000 and \$17.5 million in 1999. Common stock activity resulted in net cash inflows of \$71.6 million and \$2.2 million, respectively, in 2001 and 2000 and outflows of \$6.3 million in 1999, such outflows primarily representing the 1999 portion of the Company's program from

August, 1998 to April, 1999 to repurchase 2.3 million shares of its Class A common stock. Year 2001 and 2000 cash flows from financing activities also included \$4.8 million and \$18.8 million, respectively, of net proceeds from the Company's respective December 2001 and December 2000 issuances of Redeemable Convertible Preferred Stock and 2001 included \$855,000 of dividends paid on the Preferred.

During 2001, the Company completed two amendments to its primary credit agreement (neither of which affected the terms of the debt) to facilitate the Company's acquisition of South Buffalo, the issuance of Class A Common Stock, and the acquisition of Emons (see Note 3 to Consolidated Financial Statements). 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, the issuance of Convertible Preferred stock, and the sale of a 50% interest in ASR. 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 in 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 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 Earnings Before Interest, Taxes, Depreciation, Amortization and Operating Leases (EBITDAR) ratio, as defined in the 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 facilities 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 credit agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 2001.

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 write off of 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.

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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 of 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, 2001.

In October 2000, the Company amended and restated its promissory note payable to a Class I railroad, after making a \$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, 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.

In November 2001, the Company completed a universal shelf registration of up to \$200.0 million of various debt and equity securities. The form and terms of such securities shall be determined when and if these securities are issued. On December 21, 2001, as an initial draw on the shelf registration, the Company sold 3.9 million shares of Class A Common Stock in a public offering at a price of \$18.50 per share for net proceeds of \$66.5 million. The proceeds were used to pay off all revolving debt under the Company's primary credit agreement and for general corporate purposes.

In December 2000, to fund its cash investment in ARG, the Company completed a private placement of Redeemable Convertible Preferred Stock. The Company exercised its option to fund \$20.0 million of a possible \$25.0 million in gross proceeds from the Convertible Preferred. In December 2001, upon final approval by the Surface Transportation Board of the Company's acquisition of South Buffalo Railway, the Fund exercised the option it had received in December 2000 to invest an

additional \$5.0 million in the Company through the private placement of Redeemable Convertible Preferred Stock (See Note 12 to Consolidated Financial Statements).

On March 30, 2001 and December 7, 1999, the Company completed the sale of certain rolling stock to financial institutions for a net sale price of \$6.5 million and \$8.6 million, respectively. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institutions to lease this and other rolling stock for a period of eight years including automatic renewals. The sale/leaseback transactions resulted in aggregate deferred gains of \$2.4 million, which are being amortized over the term of the lease as a non-cash offset to rent expense. The Company fully anticipates renewing these leases at all available lease renewal dates.

Alternatively, if the Company chooses not to renew these and certain other leases at their next available renewal dates, it would have (depending upon the lease) up to two additional options. One option would be to return the rolling stock and pay aggregate fees of approximately \$9.0 million. The other option would be to purchase the rolling stock. The leases that allow this second option would require payments of approximately \$17.8 million. Management anticipates the future market value of the leased rolling stock will equal or exceed the payments necessary to purchase the rolling stock.

At December 31, 2001 the Company had long-term debt, including current portion, totaling \$60.6 million, which comprised 22.4% of its total capitalization including the Convertible Preferred. 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.

On February 22, 2002, the Company acquired Emons Transportation Group, Inc. (Emons) for approximately \$20.0 million in cash, including transaction costs and net of cash received in the acquisition, and \$11.0 million of debt assumed. The Company purchased all of the outstanding shares of Emons at \$2.50 per share. The Company funded the acquisition through its \$103.0 million revolving line of credit held under its primary

credit agreement, all of which was available at the time of the purchase. Emons is a short line railroad holding company with operations over 340 miles of track in Maine, Vermont, Quebec and Pennsylvania.

The Company's railroads have entered into a number of rehabilitation or construction grants with state and federal agencies. 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. In addition to government grants, customers occasionally provide fixed funding of certain track rehabilitation or construction projects to facilitate the Company's service over that track. The Company records any excesses in the fixed funding compared to the actual cost of rehabilitation and construction as gains in the current period. While the Company has benefited from these grant funds in recent years, including 2001 and 2000, 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 2002, primarily for track rehabilitation. The \$18.0 million in capital expenditures is net of \$1.8 million that 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 in 1997, the Company had committed to the Commonwealth of Australia to spend approximately \$26.7 million (AU \$52.3 million) to rehabilitate track structures and equipment by December 31, 2002. This commitment was transferred to ARG 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.

The Company has the potential to draw on its remaining universal shelf registration up to \$128.5 million of various debt and equity securities. The form and terms of such securities shall be determined when and if these securities are issued.

Disclosures About Market Risk

The Company actively monitors its exposure to interest rate and foreign currency exchange rate risks and uses derivative financial instruments to manage the impact of certain of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the exchange rate or interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. The Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Complex instruments involving leverage or multipliers are not used. Management believes that its use of derivative instruments to manage risk is in the Company's best interest.

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Interest Rate Sensitivity

The table below provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. The variable interest rates presented below include margins of approximately 2.95% in 2002 and 2003 and 3.5% thereafter. The margins represent the weighted average of 2.25% for borrowings under the Company's primary

credit facility and 3.5% for borrowings under promissory notes provided by the IFC and other banks. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at March 14, 2002. There are no margin requirements for the interest rate swaps. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency.

Expected Maturity Date

	2002	2003	2004	2005	2006	There after	Total	Fair Value
Liabilities (dollars in thousands)								
Long-term Debt:								
Fixed Rate	\$1,241	\$1,246	\$1,255	\$1,263	\$1,243	\$1,846	\$8,094	\$8,094
Average interest rate	7.3%	7.3%	7.4%	7.5%	7.7%	—	—	—
Variable Rate	\$3,200	\$7,937	\$22,530	\$4,333	\$4,333	\$10,164	\$52,497	\$52,497
Average interest rate	5.5%	7.6%	9.2%	9.7%	10.0%	—	—	—

Interest Rate Derivatives

	2002	2003	2004	2005	2006	There after	Fair Value
Value (dollars in thousands)							
Interest Rate Swaps:							
Variable to Fixed		\$30,625	\$18,458	\$14,125	\$9,792	\$6,216	\$0 (\$1,100)
Average pay rate		5.8%	5.5%	5.5%	5.5%	5.5%	—
Average receive rate		2.6%	4.6%	5.7%	6.2%	6.5%	—

Exchange Rate Sensitivity

The table below summarizes information on instruments that are sensitive to foreign currency exchange rates, including the Company's debt facilities for its Mexican operations and the Company's foreign currency financial instruments. For these debt obligations, the table presents, in U.S. dollar equivalents, principal and interest expense cash flows and related weighted average interest rates by expected maturity dates. For foreign currency options, the table presents the notional amounts and weighted average exchange rates by expected maturity dates.

Expected Maturity Date

	2002	2003	2004	2005	2006	There after	Total	Fair Value
Value (dollars in thousands)								
Liabilities								
Long-Term Debt:								
Variable rate debt principal	\$0	\$4,332	\$4,332	\$4,332	\$4,332	\$10,172	\$27,500	\$27,500
Variable rate debt interest	1,680	2,060	1,935	1,620	1,235	—	—	—
Total variable rate payments	\$1,680	\$6,392	\$6,267	\$5,952	\$5,567	—	—	—
Average interest rate	6.1%	8.1%	9.2%	9.7%	10.0%	—	—	—

Expected Maturity or Transaction Date

	March 15, 2002	September 16, 2002	Total	Fair Value
Related Derivatives (dollars in thousands)				
Foreign Currency Options:				
(Receive US\$/Pay pesos):				
Notional amount	\$1,400	\$800	\$2,200	\$17
Average exchange rate	10.61	10.10	—	—

Risk Factors of Foreign Operations

The Company's operations and financial condition are subject to certain risks that could cause actual operating and financial results to differ materially from those expressed or forecast in the Company's forward-looking statements. These risks include the fact that the Company's 50/50 joint venture in Australia, ARG, and some of the Company's significant subsidiaries transact business in foreign countries, namely in Australia, Canada, Mexico and Bolivia. In addition, the Company may consider acquisitions in other foreign countries in the future. The risks of doing business in foreign countries may include:

- changes or greater volatility in the economies of those countries,
- effects of currency exchange controls,
- changes to the regulatory environment of those countries,
- changes to the tax laws and regulations of those countries,
- restrictions on the withdrawal of foreign investment and earnings,
- the nationalization of the businesses that the Company operates,
- the actual or perceived failure by the Company to fulfill commitments under concession agreements,
- the potential instability of foreign governments, including from domestic insurgency movements, and
- the challenge of managing a culturally and geographically diverse operation.

The Company's operations in foreign countries are also subject to economic uncertainties, including among others, risk of renegotiation or modification of existing agreements or arrangements with governmental authorities, exportation and transportation tariffs, foreign exchange restrictions and changes in taxation structure.

ARG derives a significant portion of its rail freight revenues from shipments of grain. For example, for the year ended December 31, 2001, grain shipments in South Australia and Western Australia generated approximately 27.4% of ARG's operating revenues. A decrease in grain shipments as a result of adverse weather or other negative agricultural conditions could have a material effect on the Company's income from ARG and financial condition.

Australia's open access regime could lead to additional competition for ARG's business, which could result in decreased revenues and profit margins. The legislative and regulatory framework in Australia allows third party rail operators to gain access to ARG's railway infrastructure, and in turn governs ARG's access to track owned by others. ARG currently operates on the Commonwealth-owned interstate network from Sydney, New South Wales and Melbourne, Victoria to Kalgoorlie, Western Australia and on State-owned track in New South Wales. Access charges are paid for access onto the track of other companies, and access charges under state and federal regimes continue to evolve because privatization of railways in Australia is recent. Where ARG pays access fees to others, if those fees are increased, ARG's operating margins could be negatively affected. Conversely, if the federal government or respective state regulators determine that access fees charged to current or prospective third party rail freight operators by ARG in Western Australia or South Australia do not meet competitive standards, then ARG's income from those fees could be negatively affected. When ARG operates over track networks owned by others, including Commonwealth-owned and State-owned networks, the owners of the network rather than the operators are responsible for scheduling the use of the tracks as well as for determining the amount and timing of the expenditures necessary to maintain the network in satisfactory condition. Therefore, in areas where ARG operates over tracks owned by others, it is subject to train scheduling set

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by the owners as well as the risk that the network is not adequately maintained. Either risk could affect ARG's results of operations and financial condition.

The results of operations of the Company's foreign operations are reported in the local currency - the Australian dollar, the Canadian dollar and the Mexican peso - and then translated into U.S. dollars at the applicable exchange rates for inclusion in the Company's financial statements. The functional currency of the Company's Bolivian operations is the U.S. dollar. The exchange rates between some of these currencies and the U.S. dollar have fluctuated significantly in recent years and may continue to do so in the future. In addition, because the Company's financial statements are stated in U.S. dollars, the translation effect of such fluctuations may affect the Company's results of operations and financial position and may affect the comparability of the Company's results between financial periods.

Forward-Looking Statements

This discussion and analysis contains forward-looking statements with the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events and future performance of Genesee & Wyoming Inc. Words such as "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of these words and similar expressions are intended to identify these forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Actual results may differ materially from those expressed or forecast in these forward-looking statements. These risks and uncertainties include those noted above under the caption "Risk Factors of Foreign Operations" as well as those noted in 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,

	2001	2000	1999	1998	1997
Income Statement Data:					
Operating revenues	\$173,576	\$206,530	\$175,586	\$147,472	\$103,643
Operating expenses	151,436	182,777	153,218	127,904	87,200
Income from operations	22,140	23,753	22,368	19,568	16,443
Interest expense	(10,049)	(11,233)	(8,462)	(7,071)	(3,349)
Gain on sale of 50% equity in Australian operations	2,985	10,062	—	—	—
Other income, net	1,311	1,508	1,682	7,290	345
Income before income taxes, equity earnings and extraordinary item	16,387	24,090	15,588	19,787	13,439
Income taxes	6,166	10,569	2,175	7,708	5,441
Equity earnings (losses)	8,863	411	(618)	(645)	—
Income before extraordinary item	19,084	13,932	12,795	11,434	7,998
Extraordinary item	—	—	(262)	—	—
Net income	19,084	13,932	12,533	11,434	7,998
Preferred stock dividends and cost accretion	957	52	—	—	—
Net income available to common stockholders	\$18,127	\$13,880	\$12,533	\$11,434	\$7,998
Basic Earnings Per Common Share:					
Net income available to common stockholders before extraordinary item	\$1.72	\$1.42	\$1.27	\$0.98	\$0.68
Extraordinary item	—	—	(0.03)	—	—
Net income	\$1.72	\$1.42	\$1.24	\$0.98	\$0.68
Weighted average number of shares of common stock	10,509	9,779	10,104	11,671	11,813
Diluted Earnings Per Common Share:					
Net income before extraordinary item	\$1.48	\$1.38	\$1.26	\$0.97	\$0.65
Extraordinary item	—	—	(0.03)	—	—
Net income	\$1.48	\$1.38	\$1.23	\$0.97	\$0.65
Weighted average number of shares of common stock and equivalents	12,917	10,094	10,215	11,765	12,256
Balance Sheet Data at Year End:					
Total assets	\$402,519	\$338,383	\$216,760	\$210,532	\$145,339
Total debt	60,591	104,801	108,376	65,690	74,144
Redeemable Convertible Preferred Stock	23,808	18,849	—	—	—
Stockholders' equity	185,663	94,732	81,829	74,537	68,343

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, 2001 and 2000, 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, 2001. 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. We did not audit the financial statements of Australian Railroad Group Pty. Ltd. (ARG), the investment in which is reflected in the accompanying financial statements using the equity method of accounting. The investment in ARG represents 14.8 percent and 16.1 percent of the Company's total assets as of December 31, 2001 and 2000, respectively, and the equity in its net income represents 44.3 percent of the Company's net income for the year ended December 31, 2001. Additionally, the summarized financial data for ARG contained in Note 7 is 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 amounts included in the Company's financial statements for ARG, including 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 11, 2002

Report of Independent Auditors

To the Board of Directors and Stockholders of Australian Railroad Group Pty Ltd

We have audited the consolidated balance sheet of Australian Railroad Group Pty Ltd and subsidiaries as of December 31, 2001 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for the year ended December 31, 2001. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Australian Railroad Group Pty Ltd and subsidiaries at December 31, 2001 and the consolidated results of their operations and their cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. The balance sheet at December 31, 2000 was not audited by us and, accordingly, we do not express an opinion on it.

Ernst & Young
Perth, Western Australia
February 11, 2002

Consolidated Balance Sheets

(in thousands, except share amounts)

December 31,

	2001	2000
Assets		
Current Assets:		
Cash and cash equivalents	\$28,732	\$3,373
Accounts receivable, net	41,025	45,209
Materials and supplies	4,931	5,023
Prepaid expenses and other	6,514	7,249
Deferred income tax assets, net	2,150	2,202
Total current assets	83,352	63,056
Property and Equipment, net	199,102	177,317
Investment in Unconsolidated Affiliates	69,402	64,091
Service Assurance Agreement, net	10,566	11,315
Other Assets, net	40,097	22,604
Total assets	\$402,519	\$338,383
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$4,441	\$3,996
Accounts payable	45,206	43,045
Accrued expenses	12,077	10,860
Total current liabilities	61,724	57,901
Long-Term Debt, less current portion	56,150	100,805
Deferred Income Tax Liabilities, net	24,620	22,179
Deferred Items—grants from governmental agencies	35,362	32,897
Deferred Gain—sale/leaseback	4,607	3,558
Other Long-Term Liabilities	7,731	4,737
Minority Interest	2,854	2,725
Redeemable Convertible Preferred Stock	23,808	18,849
Stockholders' Equity:		
Class A Common Stock, \$0.01 par value, one vote per share; 30,000,000 shares authorized; 15,074,462 and 10,370,627 shares issued and 12,737,601 and 8,116,833 shares outstanding (net of 2,336,861 and 2,253,794 shares in treasury) on December 31, 2001 and 2000, respectively	151	104
Class B Common Stock, \$0.01 par value, ten votes per share; 5,000,000 shares authorized; 1,805,292 and 1,902,257 shares issued and outstanding on December 31, 2001 and 2000, respectively	18	19
Additional paid-in capital	123,597	49,642
Retained earnings	79,030	60,903
Accumulated other comprehensive loss	(4,905)	(4,883)
Less treasury stock, at cost	(12,228)	(11,053)
Total stockholders' equity	185,663	94,732
Total liabilities and stockholders' equity	\$402,519	\$338,383

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,

	2001	2000	1999
Operating Revenues	\$173,576	\$206,530	\$175,586
Operating Expenses:			
Transportation	56,573	69,132	55,811
Maintenance of ways and structures	19,271	22,225	21,096
Maintenance of equipment	31,231	40,378	34,597
General and administrative	31,605	33,047	29,140
Depreciation and amortization	12,756	13,980	12,574
Charge for buyout of Australian stock options	—	4,015	—
Total operating expenses	151,436	182,777	153,218
Income from Operations	22,140	23,753	22,368
Interest expense	(10,049)	(11,233)	(8,462)
Gain on sale of 50% equity in Australian operations	2,985	10,062	—
Valuation adjustment of U.S. dollar denominated foreign loans	(81)	(1,472)	(191)
Other income, net	1,392	2,980	1,873
Income Before Income Taxes, Equity Earnings and Extraordinary Item	16,387	24,090	15,588
Provision for income taxes	6,166	10,569	2,175
Equity in Net Income (Loss) of International Affiliates:			
Australia	8,451	261	—
South America	412	150	—
Canada	—	—	(618)
Income Before Extraordinary Item	19,084	13,932	12,795
Extraordinary item from early extinguishment of debt, net of related income tax benefit of \$162	—	—	(262)
Net Income	19,084	13,932	12,533
Preferred stock dividends and cost accretion	957	52	—
Net Income Available to Common Stockholders	\$18,127	\$13,880	\$12,533
Basic Earnings Per Share:			
Net income available to common stockholders before extraordinary item	\$1.72	\$1.42	\$1.27
Extraordinary item	—	—	(0.03)
Earnings per common share	\$1.72	\$1.42	\$1.24
Weighted average shares	10,509	9,779	10,105
Diluted Earnings Per Share:			
Net income before extraordinary item	\$1.48	\$1.38	\$1.26
Extraordinary item	—	—	(0.03)
Earnings per common share	\$1.48	\$1.38	\$1.23
Weighted average shares and equivalents	12,917	10,094	10,215

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	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1998	\$102	\$19	\$46,662	\$34,490	\$(2,107)	\$(4,629)	\$74,537
Comprehensive income, net of tax:							
Net income	—	—	—	12,533	—	—	12,533
Currency translation adjustments	—	—	—	—	791	—	791
Proceeds from employee stock purchases	—	—	61	—	—	—	61
Shares issued for investment in unconsolidated affiliate	—	—	281	—	—	—	281
Treasury stock acquisitions, 1,473,750 shares	—	—	—	—	—	(6,374)	(6,374)
Balance, December 31, 1999	102	19	47,004	47,023	(1,316)	(11,003)	81,829
Comprehensive income, net of tax:							
Net income	—	—	—	13,932	—	—	13,932
Currency translation adjustments	—	—	—	—	(3,567)	—	(3,567)
Proceeds from employee stock purchases	2	—	2,217	—	—	—	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, 3,794 shares	—	—	—	—	—	(50)	(50)
Balance, December 31, 2000	104	19	49,642	60,903	(4,883)	(11,053)	94,732
Comprehensive income, net of tax:							
Net income	—	—	—	19,084	—	—	19,084
Currency translation adjustments	—	—	—	—	708	—	708
Fair market value adjustments of cash flow hedges	—	—	—	—	(730)	—	(730)
Proceeds from Class A Common Stock Offering, net of fees	38	—	66,495	—	—	—	66,533
Proceeds from employee stock purchases	8	—	6,254	—	—	—	6,262
Conversion of Class B Common Stock to Class A Common Stock	1	(1)	—	—	—	—	—
Tax benefit from exercise of stock options	—	—	1,206	—	—	—	1,206
Accretion of fees on Redeemable Convertible Preferred Stock	—	—	—	(146)	—	—	(146)
4% dividend earned on Redeemable Convertible Preferred Stock	—	—	—	(811)	—	—	(811)
Treasury stock acquisitions, 83,067 shares	—	—	—	—	—	(1,175)	(1,175)
Balance, December 31, 2001	\$151	\$18	\$123,597	\$79,030	\$(4,905)	\$(12,228)	\$185,663

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

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31,

	2001	2000	1999
Cash Flows from Operating Activities			
Net income	\$19,084	\$13,932	\$12,533
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	12,756	13,980	12,574
Deferred income taxes	4,164	9,571	1,170
(Gain) loss on disposition of property and equipment	(814)	41	(652)
Extraordinary item, net of income tax	—	—	262
Gain on sale of 50% equity in Australian operations	(2,985)	(10,062)	—
Equity (earnings) losses of unconsolidated affiliates	(8,863)	(411)	618
Minority interest expense	129	40	50
Tax benefit realized upon exercise of stock options	1,206	496	—
Valuation adjustment of U.S. dollar denominated foreign loans	81	1,472	191
Changes in assets and liabilities, net of effect of acquisitions and deconsolidation of Australia Southern Railroad-			
Accounts receivable	3,376	(3,744)	(10,250)
Materials and supplies	369	(517)	(872)
Prepaid expenses and other	2,348	180	(985)
Accounts payable and accrued expenses	(77)	(327)	13,497
Other assets and liabilities, net	(2,214)	(1,160)	1,159
Net cash provided by operating activities	28,560	23,491	29,295
Cash Flows from Investing Activities			
Purchase of property and equipment, net of proceeds from government grants	(16,551)	(29,273)	(24,898)
Purchase of assets of South Buffalo Railway, net of cash received	(33,117)	—	—
Cash investments in unconsolidated affiliate-			
Australian Railroad Group, net	—	(21,738)	—
Cash investments in unconsolidated affiliate- South America	(246)	(7,635)	(1,018)
Cash received from unconsolidated international affiliates	4,329	—	—
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	8,147	679	10,327
Net cash used in investing activities	(37,438)	(55,327)	(47,059)
Cash Flows from Financing Activities			
Principal payments on long-term borrowings	(200,033)	(109,869)	(89,954)
Proceeds from issuance of long-term debt	157,000	116,267	107,477
Payment of debt issuance costs	(287)	(1,388)	(1,475)
Proceeds from issuance of Class A Common Stock, net	66,533	—	—
Proceeds from issuance of Redeemable Convertible Preferred Stock, net	4,812	18,841	—
Proceeds from employee stock purchases	6,262	2,219	61
Purchase of treasury stock	(1,175)	(50)	(6,374)
Dividends paid on Redeemable Convertible Preferred Stock	(855)	—	—
Net cash provided by financing activities	32,257	26,020	9,735
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,980	1,398	1,424
Increase (Decrease) in Cash and Cash Equivalents	25,359	(4,418)	(6,605)
Cash and Cash Equivalents, beginning of year	3,373	7,791	14,396
Cash and Cash Equivalents, end of year	\$28,732	\$3,373	\$7,791
Cash Paid During Year For:			
Interest	\$9,875	\$10,395	\$8,090
Income taxes	835	1,291	3,774

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-four short line and regional railroads through its various operating subsidiaries and unconsolidated affiliates of which eighteen 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 eighteen U. S. railroads are wholly owned by the Company through various acquisitions from 1985 to, most recently, the acquisition of South Buffalo Railway (South Buffalo) in October 2001. 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 December 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. In July 2001, the Company increased its indirect equity interest in the Bolivian railroad by 0.34% to 22.89% with an additional investment of cash. Previously, through a majority owned subsidiary, the Company acquired an indirect 21.87% interest in the Bolivian railroad in November 2000, and an indirect 0.68% interest in September 1999. 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 leases and manages railroad transportation equipment in the United States and Canada. The Company, through its industrial switching subsidiary, provides freight car switching and ancillary rail services.

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 prior to the December 16, 2000 deconsolidation of Australian railroad operations, 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 28%, 29% and 36% of the Company's operating revenues in 2001, 2000 and 1999, respectively. In 2001, the Company's largest customer was a coal-fired electricity generating plant which accounted for approximately 7% of the Company's operating revenues. 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% of the Company's operating revenues (see Note 16). The Company regularly grants trade credit to most 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 and forest products industries, and the railroad sector of the economy in general.

The general downturn in economies in North America in 2001 has adversely affected the Company's cyclical shipments of commodities such as paper products in Canada, chemicals in the United States, and cement in Mexico. However, shipments of other important commodities such as coal and salt are less affected by economic downturns and are more closely affected by the weather. The economic downturn has also impacted the Company's customers and while a limited number of them have declared bankruptcy, their traffic volumes have remained largely unaffected and the impact on the collection of their receivables has not been significant to date.

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. (See Note 21 regarding adoption of SFAS No.144 "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002.)

Grants

Grants received from governmental agencies are recorded as long-term liabilities as received and amortized over the same period which the underlying purchased assets are depreciated. In addition to government grants, customers occasionally provide fixed funding of certain track rehabilitation or construction projects to facilitate the Company's service over that track. The Company records any excesses in the fixed funding compared to the actual cost of rehabilitation and construction as gains in the current period.

Insurance

The Company maintains insurance, with varying deductibles up to \$400,000 per incident for liability and up to \$250,000 per incident for property damage, for claims resulting from train derailments and other accidents related to its railroad and industrial switching operations. Additionally, the Company is self-insured for general employee health and medical claims. Accruals for claims, limited when appropriate to the applicable deductible, are estimated and recorded when such claims are incurred.

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 and losses are recorded in additional paid in capital.

Notes to Consolidated Financial Statements

Service Assurance Agreement

The service assurance agreement represents a commitment from a significant customer of a U.S. railroad that the Company acquired in 1996 (see Note 16), which grants the Company the exclusive right to serve indefinitely three specific 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 \$4.4 million and \$3.6 million as of December 31, 2001 and 2000, respectively.

Common Stock Splits

On February 14, 2002 and May 1, 2001 the Company announced three-for-two common stock splits in the form of 50% stock dividends distributed on March 14, 2002 to shareholders of record as of February 28, 2002, and on June 15, 2001 to shareholders of record as of May 31, 2001, respectively. All share, per share and par value amounts presented herein have been restated to reflect the retroactive effect of both of the stock splits.

Earnings Per Share

Common shares issuable under unexercised stock options, calculated under the treasury stock method, and redeemable convertible preferred stock (see Note 12) are the only reconciling items between the Company's basic and diluted weighted average shares outstanding. The number of shares from options used to calculate diluted earnings per share is 1,289,826, 1,649,177 and 460,688 for 2001, 2000 and 1999, respectively. Options to purchase 70,875 and 1,434,376 additional shares of stock were outstanding as of December 31, 2000 and 1999, 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 2001 and 2000 are 1,983,324 shares and 107,207 shares, respectively, of common stock equivalents which represent the weighted average share impact of the assumed conversion of the redeemable convertible preferred stock.

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

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 monthly weighted-average rate for the statement of income items. Translation adjustments are reflected as currency translation adjustments in Stockholders' Equity and accordingly only affect comprehensive income.

Revaluation of U.S. dollar denominated foreign loans into the appropriate local currency resulted in losses of \$81,000, \$1.5 million and \$191,000 in 2001, 2000 and 1999, respectively. Additionally, foreign currency exchange transaction losses, most notably, \$508,000 from the partial settlement of an Australian dollar denominated receivable in 2001, are reported in Other Income, net.

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 2001 presentation.

3. Expansion of Operations:

United States

On February 22, 2002, the Company acquired Emons Transportation Group, Inc. (Emons) for approximately \$20.0 million (Unaudited) in cash, including transaction costs and net of cash received in the acquisition, and \$11.0 million (Unaudited) of debt assumed. The Company purchased all of the outstanding shares of Emons at \$2.50 per share. The Company funded the acquisition through its \$103.0 million revolving line of credit held under its primary credit agreement, all of which was available at the time of the purchase. Emons is a short line railroad holding company with operations over 340 miles of track in Maine, Vermont, Québec and Pennsylvania.

On October 1, 2001, the Company acquired all of the issued and outstanding shares of common stock of South Buffalo Railway (South Buffalo) from Bethlehem Steel Corp. (Bethlehem) for \$33.1 million in cash, including transaction costs and the assumption of certain liabilities. At the closing, the Company acquired beneficial ownership of the shares and, having received the necessary approvals from The Surface Transportation Board on November 21, 2001, assumed actual ownership on December 6, 2001. The purchase price was allocated to current assets (\$2.3 million), property and equipment (\$17.6 million) and goodwill (\$18.8 million) less assumed current liabilities (\$2.4 million) and assumed long-term liabilities (\$3.2 million). South Buffalo operates over 52 miles of owned track in Buffalo, New York. The purchase price was reduced by a \$407,000 estimated adjustment pursuant to the final determination of the net assets of South Buffalo on the sale date. This amount, along with another \$300,000 related to pre-acquisition liabilities paid by the Company on Bethlehem's behalf, are reflected in the December 31, 2001 balance sheet as receivables. Although Bethlehem filed for voluntary protection under U.S. bankruptcy laws on October 5, 2001, payment of this receivable could be funded from a \$3.0 million escrow account held by an independent trustee to settle amounts due to the Company pursuant to the South Buffalo acquisition.

As contemplated with the acquisition, the Company will close the former South Buffalo headquarters office in March 2002 and has implemented an early retirement program under which 28 South Buffalo employees were terminated in December 2001. The aggregate \$876,000 cost of these restructuring activities is considered a liability assumed in the acquisition, and therefore is included in goodwill. The majority of these costs were paid in 2001.

The acquisition of South Buffalo triggered the right of The 1818 Fund III, L.P. (the Fund), a private equity fund managed by Brown Brothers Harriman & Co., to acquire an additional \$5.0 million of the Company's Series A Redeemable Convertible Preferred Stock (the Convertible Preferred), and the Fund exercised that right on December 11, 2001 (see Note 12).

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 U.S. dollars 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 2.6% 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 (partially funded by a \$20.0 million private placement of the Convertible Preferred with the Fund) while Wesfarmers contributed \$64.2 million in cash, including \$8.2 million which represents a long-term Australian dollar denominated non-interest bearing note to match a similar note due to the Company from ASR at the date of the transaction. ARG funded the remaining purchase price with proceeds from its Australian bank credit facility.

Notes to Consolidated Financial Statements

As a direct result of the ARG transaction, ASR stock options became immediately exercisable by key management of ASR 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 compensation charge to ASR earnings.

The Company 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.

On April 20, 2001, APTC completed the arrangement of debt and equity capital to finance a project to build, own and operate the Alice Springs to Darwin railway line in the Northern Territory of Australia. As previously arranged, upon APTC reaching financial closure, Wesfarmers contributed an additional \$7.4 million into ARG and accordingly, the Company recorded an additional first quarter gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers. A related deferred income tax expense of \$1.1 million was also recorded. In the second quarter of 2001, ARG paid the \$7.4 million to its two shareholders, in equal amounts of \$3.7 million each, as partial payment of each shareholder's Australian dollar denominated non-interest bearing note which resulted in a \$508,000 currency transaction loss.

The combined gains totaling \$13.8 million relating to the formation of ARG represented the difference between the recorded balance of the Company's previously wholly owned investment in Australia, less investment amounts that the Company estimated would be reimbursed by ARG, and the value of those Australian operations when ARG was formed. In the fourth quarter of 2001, the Company, ARG and Wesfarmers reached agreement as to the level of acquisition-related costs to be reimbursed to both venture partners. Accordingly, in the fourth quarter of 2001, the Company recorded a \$728,000 decrease to its previously recorded gains to reflect the lower than estimated reimbursed amount for acquisition-related costs.

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. Prior to its deconsolidation, ASR accounted for \$37.6 million and \$4.0 million of operating revenue and income from operations (excluding the \$4.0 option buyout charge), respectively, for 2000 and \$43.2 million and \$6.6 million, respectively, for 1999.

Pro Forma Financial Results

The following table summarizes the Company's unaudited pro forma operating results for the years ended December 31, 2001 and 2000, as if South Buffalo had been acquired and ARG had been formed and acquired Westrail Freight as of the beginning of the applicable period (*in thousands, except per share amounts*):

	2001	2000
Operating revenues	\$186,688	\$187,122
Net income	18,956	20,540
Basic earnings per share	1.70	1.98
Diluted earnings per share	1.43	1.66

The pro forma operating results include the acquisition of South Buffalo, the deconsolidation of ASR, depreciation expense resulting from the step-up of South Buffalo property based on appraised values, amortization of goodwill generated in the South Buffalo acquisition, incremental interest expense (with related tax benefit) related to borrowings used to fund the ASR stock option buyout and related to borrowings used to fund the South Buffalo acquisition and incremental preferred stock impacts on income available to common stockholders related to the initial issuance of \$20 million in Convertible Preferred for the ARG transactions and the subsequent issuance of \$5 million triggered by the South Buffalo acquisition.

These results exclude the gain on sale of 50% equity in Australian operations but include the pro forma equity earnings attributable to the investment in ARG based on ARG's pro forma net income of \$17.9 million for 2000. These pro forma net income results give effect to ARG's acquisition of Westrail Freight and the 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 Company has adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective June 30, 2001. That statement requires that goodwill related to acquisitions after June 30, 2001 not be amortized, while goodwill for acquisitions prior to June 30, 2001 continue to be amortized through December 31, 2001. As the pro forma statements give effect to the South Buffalo acquisition as if it occurred prior to June 30, 2001, annual amortization of \$1.0 million has been reflected. However, actual goodwill generated by this acquisition will not be amortized.

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 then 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 price included rolling stock, an advance payment on track improvements to be completed on the state-owned track property, an escrow payment, which was returned to the Company upon successful completion of the track improvements, and prepaid value-added taxes. A portion of the purchase price (\$8.4 million) was also allocated to the 30-year operating license. As the track improvements were made, the related costs were 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.

On December 7, 2000, in conjunction with the refinancing of FCCM and its parent company, GW Servicios, S.A. de C.V. (Servicios) (see Note 9.), the International Finance Corporation (IFC) invested \$1.9 million of equity for a 12.7% indirect interest in FCCM, through 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 in 2000.

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% from the 47.5% it acquired in 1997. 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, committed to 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 180,000 shares of the Company's Class A Common Stock at an exercise price of \$3.83 per share. Exercise of the option is contingent on the Company's

Notes to Consolidated Financial Statements

recovery of its capital investment in GRO (after payoff of existing GRO debt) 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 was 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 were initially 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 paid in 2001 and due in 2002. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded an equity loss of \$618,000 in 1999.

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% from its original indirect 0.68% interest acquired in September 1999. On July 24, 2001, the Company increased its indirect equity interest in Oriental to 22.89% with an additional investment of \$246,000. Oriental is a railroad serving eastern Bolivia and connecting to railroads in Argentina and Brazil. The Company's ownership interest is largely through a 90% owned holding company 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 \$6.9 million in cash, the assumption (via an unconsolidated subsidiary) of non-recourse debt of \$10.8 million (90% of \$12.0 million) at an adjustable interest rate dependent on operating results of Oriental, and a non-interest bearing contingent payment of \$450,000 due in 2003 if certain

financial results are achieved. The cash used by the Company to fund such investment was obtained from its existing revolving credit facility. Additionally, the Company received the right to collect dividends from Oriental related to its full year 2000 earnings. Such dividends of \$617,000 were received in March 2001. The full value of the non-recourse debt of the Company's unconsolidated subsidiary (\$12.0 million as of December 31, 2001) bears interest, based on the availability of dividends received from Oriental, between a floor of 4% and a ceiling of 7.67%. The debt effectively bore interest of 6.12% throughout 2001 and is due, in annual installments through 2003. Such installments and interest are primarily funded by dividends received from Oriental, with any shortages (which are expected for 2002 payments) to be funded by the Company and its partner. The Company accounts for its indirect interest in Oriental under the equity method of accounting.

4. Allowance for Doubtful Accounts:

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

	2001	2000	1999
Balance, beginning			
of year	\$1,308	\$1,264	\$250
Provisions	468	389	628
Charges	(775)	(345)	(836)
Established in acquisitions	-	-	1,222
Balance, end of year	\$1,001	\$1,308	\$1,264

5. Property and Equipment:

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

	2001	2000
Road properties	\$198,117	\$164,497
Equipment and other	60,074	61,438
	258,191	225,935
Less- Accumulated depreciation and amortization	59,089	48,618
	\$199,102	\$177,317

6. Other Assets:

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

	2001	2000
Goodwill	\$25,808	\$6,507
Chiapas-Mayab Operating License	8,651	8,200
Chiapas-Mayab Special Escrow		
Deposit - Track Project	-	1,638
Deferred financing costs	3,642	3,356
Executive split-dollar life insurance	2,507	2,728
Assets held for sale or future use	557	1,045
Other	2,522	1,298
	43,687	24,772
Less- Accumulated amortization	3,590	2,168
	\$40,097	\$22,604

The Company adopted Statement of Financial Accounting Standards No. 142 as of January 1, 2002 for existing goodwill and intangible assets and immediately for any new business combinations subsequent to June 30, 2001. Goodwill for all acquisitions prior to June 2001 has been amortized on a straight-line basis over lives of 15-20 years through December 31, 2001. The Chiapas-Mayab Operating License (see Note 3) is being amortized over 30 years. The change in the asset value of the Operating License from 2000 to 2001 results from currency exchange rates changes. The Chiapas-Mayab special escrow deposit (see Note 3) was reclassified into road property upon completion of the project and is being depreciated. 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 is the present value of life insurance benefits which the Company funds but that are owned by executive officers. The Company retains a collateral interest in the policies' cash values and death benefits. Assets held for sale or future use at December 31, 2001, primarily represent excess locomotives. Assets held for sale or future use at December 31, 2000, primarily represent excess locomotives and a segment of railroad track that was sold in 2001. Reflected within Other are \$536,000 of notes

receivable due from Company executives which bear interest at 5.69% and are due in annual installments through 2003.

7. Equity Investments:

Australian Railroad Group

The following condensed financial data of ARG is based on accounting principles generally accepted in the United States and converted into thousands of U.S. dollars based on the following Australian dollar to U.S. dollar exchange rates:

As of December 31, 2000	\$.559
As of December 31, 2001	\$.510
Average for the 15 day period ended December 31, 2000	\$.553
Average for the year ended December 31, 2001	\$.518

Australian Railroad Group

Statement of Income

(U.S. dollars in thousands)	Year Ended December 31,
	2001
Operating revenues	\$181,714
Operating expenses	134,471
Income from operations	47,243
Interest expense	(22,505)
Other income, net	748
Income before income taxes	25,486
Provision for income taxes	8,584
Net income	\$16,902

Net income for the year ended December 31, 2001 includes a \$1.2 million after-tax charge related to costs incurred in the fourth quarter of 2001 from ARG's unsuccessful bid for the privatization of an Australian railroad. Condensed results of operations for the 15 days ending December 31, 2000 consisted of operating revenues of \$4.8 million, income before income taxes of \$834,000, and net income of \$522,000.

Notes to Consolidated Financial Statements

Australian Railroad Group

Balance Sheets

(U.S. dollars, in thousands)

	December 31,	
	2001	2000
Assets		<i>(unaudited)</i>
Current Assets:		
Cash and cash equivalents	\$ 9,908	\$ 9,071
Accounts receivable, net	25,983	15,919
Materials and supplies	8,390	11,306
Prepaid expenses and other	3,109	17,482
Deferred income tax assets, net	—	272
Total current assets	47,390	54,050
Property and Equipment, net	355,818	338,342
Deferred Income Tax Assets	9,469	14,406
Other Assets, net	12,122	8,424
Total assets	\$ 424,799	\$ 415,222
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 7,949	\$ 3,398
Accrued expenses	30,273	14,979
Short-term debt	—	16,342
Current income tax liabilities	309	—
Total current liabilities	38,531	34,719
Long-Term Debt, net of current portion	262,876	265,408
Other Long-term Liabilities	10,660	2,524
Total Stockholders' Equity and Advances	112,732	112,571
Total liabilities and stockholders' equity	\$ 424,799	\$ 415,222

Property and equipment, net as of December 31, 2001 excludes \$2.3 million of costs originally capitalized during 2001 that were written off in December when ARG's board approved a change in the capital expenditure policies of its Western Australia railroad system, which was acquired from the Western Australian government in December 2000, to conform to the capital expenditure policies used at its South Australian railroad. Most of these costs were approved as capital projects prior to the acquisition of Westrail Freight by ARG on December 16,

2000. This fourth quarter 2001 charge resulted in a \$0.8 million after-tax decrease in the Company's equity earnings from ARG.

On October 11, 2001, ARG announced that it was restructuring the operations of the formerly state-owned assets of Westrail Freight and expected a work force reduction of 80 employees by the end of March 2002. The estimated restructuring costs of \$2.3 million have been accounted for as an adjustment to the purchase price of Westrail Freight. Restructuring costs to be paid during 2002 are reflected as accrued expenses.

Australian Railroad Group
Statement of Cash Flows

(U.S. dollars, in thousands)

Year ended December 31,

	2001
Cash Flows from Operating Activities:	
Net income	\$16,902
Adjustments to reconcile net income to net cash provided by operating activities-	
Depreciation and amortization	13,392
Deferred income taxes	7,252
Gain on disposition of property	(152)
Changes in assets and liabilities	4,004
	<hr/>
Net cash provided by operating activities	41,398
<hr/>	
Cash Flows from Investing Activities:	
Purchase of property and equipment	(54,358)
Proceeds from disposition of property and equipment	152
	<hr/>
Net cash used in investing activities	(54,206)
<hr/>	
Cash Flows from Financing Activities:	
Payments on short-term borrowings	(16,360)
Borrowings on debt	20,452
Proceeds from issuance of shares	7,685
Repayment of subordinated loans	(7,685)
Refund of goods and services tax received from acquisition of Westrail Freight	16,457
Transfer to restricted funds on deposit	(6,351)
	<hr/>
Net cash provided by financing activities	14,198
<hr/>	
Effect of Exchange Rate Differences on Cash and Cash Equivalents	(553)
<hr/>	
Increase in Cash and Cash Equivalents	837
Cash and Cash Equivalents, beginning of year	9,071
	<hr/>
Cash and Cash Equivalents, end of year	\$9,908

Notes to Consolidated Financial Statements

South America

The following condensed unaudited results of operations for Oriental for the year ended December 31, 2001 have a U.S. functional currency and are based on accounting principles generally accepted in the United States (in thousands):

Operating revenues	\$ 27,440
Net income	5,979

Condensed balance sheet information for Oriental as of December 31, 2001:

Current assets	\$ 10,201
Non-current assets	54,533
Current liabilities	5,483
Non-current liabilities	2,446
Senior debt	1,526
Shareholders' equity	55,279

The above data does not include the non-recourse debt of \$12.0 million held at an intermediate unconsolidated subsidiary or any of the general and administrative, interest or income tax costs at various intermediate unconsolidated subsidiaries.

8. Leases:

The Company has entered into several leases for freight cars, locomotives and other equipment. Related operating lease expense for the years ended December 31, 2001, 2000 and 1999 was approximately \$8.1 million, \$7.6 million and \$6.6 million, respectively. Additionally, the Company leases certain real property which resulted in lease expense for the years ended December 31, 2001, 2000 and 1999 of approximately \$1.2 million, \$1.1 million and \$1.0 million, respectively.

On March 30, 2001 and December 7, 1999, the Company completed the sale of certain rolling stock to financial institutions for a net sale price of \$6.5 million and \$8.6 million, respectively. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered

into agreements with the financial institutions to lease this and other rolling stock for a period of 8 years including automatic renewals. The sale/leaseback transactions resulted in aggregate deferred gains of \$2.4 million, which are being amortized over the term of the leases as a non-cash offset to rent expense. The Company fully anticipates renewing these leases at all available lease renewal dates.

Alternatively, if the Company chooses not to renew these and certain other leases at their next available renewal dates, they would have (depending upon the lease) up to two additional options. One option would be to return the rolling stock and pay aggregate fees of approximately \$9.0 million. The other option would be to purchase the rolling stock. The leases that allow this second option would require payments of approximately \$17.8 million. Management anticipates the future market value of the leased rolling stock will equal or exceed the payments necessary to purchase the rolling stock.

The following is a summary of future minimum lease payments (without consideration of \$4.6 million of amortizing deferred gains from sale/leasebacks) under noncancelable leases and expected automatic renewals (in thousands):

	Noncancelable	Automatic Renewals	Totals
2002	\$2,501	\$4,440	\$6,941
2003	2,106	4,440	6,546
2004	1,761	4,440	6,201
2005	929	4,440	5,369
2006	818	4,440	5,258
Thereafter	1,364	5,912	7,276
Total minimum payments	\$9,479	\$28,112	\$37,591

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 expire in 2013 and 2015 unless renewed for successive ten year renewal terms. If the lessor terminates the leases for any reason, the lessor must reimburse the Company for its depreciated basis of certain improvements on the track. The Company has assumed all operating and financial responsibilities including

maintenance and regulatory compliance under these lease arrangements. Through December 31, 2001, no payments were required under either lease arrangement.

9. Long-term Debt:

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

	2001	2000
Credit facilities with variable interest rates (weighted average of 4.47% and 8.41% at December 31, 2001 and 2000, respectively)	\$24,997	\$67,871
Non-recourse U.S. dollar denominated promissory notes of Mexican subsidiary with variable interest rates (6.59% and 10.18% on December 31, 2001 and 2000, respectively)	27,500	27,500
Promissory note payable to CSX Transportation, Inc. (8% interest)	6,814	7,922
Other debt with interest rates up to 8% and maturing at various dates between 2002 and 2006	1,280	1,508
	60,591	104,801
Less- Current portion	4,441	3,996
Long-term debt, less current portion	\$56,150	\$100,805

Credit Facilities

During 2001, the Company completed two amendments to its primary credit agreement (neither of which affected the terms of the debt) to facilitate the Company's acquisition of South Buffalo, the issuance of Class A Common Stock, and the acquisition of Emons. 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, the issuance of Convertible Preferred stock, and the sale of a 50% interest in ASR. 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 in 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 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 Earnings Before Interest, Taxes, Depreciation, Amortization and Operating Leases (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, 2001.

Notes to Consolidated Financial Statements

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 write off of 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 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, 2001.

Promissory Note

In October 2000, the Company amended and restated its promissory note payable to CSX Transportation, Inc., 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 which began 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, 2001 (*in thousands*):

2002	\$4,441
2003	9,183
2004	23,785
2005	5,596
2006	5,576
Thereafter	12,010
	<u>\$60,591</u>

10. Financial Risk Management

The Company actively monitors its exposure to foreign currency exchange rate and interest rate risks and uses derivative financial instruments to manage the impact of certain of these risks. The Company uses derivatives only for purposes of managing risk associated with underlying exposures. The Company does not trade or use instruments with the objective of earning financial gains on the exchange rate or interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. The Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility. Complex instruments involving leverage or multipliers are not used. Management believes that its use of derivative instruments to manage risk is in the Company's best interest.

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. In accordance with the provisions of SFAS No. 133, the Company recorded a transition adjustment upon adoption of the standard to recognize its derivative instruments at the then fair value of a liability of \$388,000. The effect of this transition adjustment did not impact earnings and was not material to accumulated other comprehensive income.

Initially, upon adoption of the new derivative accounting standard, and prospectively as of the date new derivatives are entered into, the Company designates the derivatives as a hedge of a forecasted transaction or the variability of the cash flows to be received or paid in the future related to a recognized asset or liability

(cash flow hedge). The effective portion of the changes in the fair value of the derivative that is designated as a cash flow hedge is recorded in accumulated other comprehensive income. When the hedged item is realized, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated statements of income, as the hedged item. In addition, the ineffective portion of the changes in fair value of derivatives used as cash flow hedges are immediately recognized.

The Company formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction. Derivatives are recorded in the consolidated balance sheets at fair value in prepayments or other assets and accrued expenses or other liabilities. This process includes matching the hedge instrument to the underlying hedged item (assets, liabilities, firm commitments or forecasted transactions). At hedge inception and at least quarterly thereafter, the Company assesses whether the derivatives used to hedge transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. When it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting, and any gains or losses on the derivative instrument are recognized in earnings during the period it no longer qualifies as a hedge. Summarized below are the specific accounting policies by market risk category.

Foreign Currency Exchange Rate Risk

The Company uses purchased options to manage foreign currency exchange rate risk related to certain projected cash flows related to foreign operations. Under SFAS No. 133, the instruments are carried at fair value in the consolidated balance sheets as a component of prepayments or other assets or accrued expense or other liabilities. Changes in the fair value of derivative instruments that are used to manage exchange rate risk in foreign currency denominated cash flows are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income in common shareholders' equity.

During 2001 and 2000, the Company entered into various exchange rate options that established exchange

rates for converting Mexican Pesos to U.S. Dollars, one of which expired in March 2001 and one of which expired in September 2001. The remaining options expire in March 2002 and September 2002, and give the Company the right to sell Mexican Pesos for U.S. Dollars at exchange rates of 10.10 Mexican Pesos to the U.S. Dollar and 10.61 Mexican Pesos to the U.S. Dollar. At December 31, 2001, the notional amount under these options is \$2.2 million. The Company paid up-front premiums for these options totaling \$120,000. At December 31, 2001, the fair value of these currency options was \$17,000.

Interest Rate Risk

The Company uses interest rate swap agreements to manage its exposure to changes in interest rates for its floating rate debt. Interest rate swap agreements are accounted for as cash flow hedges. Gains or losses on the swaps, representing interest rate differentials to be received or paid on the swaps, are recognized in the consolidated statements of income as a reduction or increase in interest expense, respectively. In accordance with the new derivative requirements, the effective portion of the change in the fair value of the derivative instrument is recorded in the consolidated balance sheets as a component of current assets or liabilities and other comprehensive income. The ineffective portion of the change in the fair value of the derivative instrument, along with the gain or loss on the hedged item, is recorded in earnings and reported in the consolidated statements of income, on the same line as the hedged item.

During 2001 and 2000, 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 interest rate. The swaps expire at various dates through September 2006 and the fixed base rates range from 5.46% to 6.47%. At December 31, 2001, the notional amount under these agreements is \$30.6 million and the fair value of these interest rate swaps is a negative \$1.1 million. During 2002, the Company anticipates it will record a charge to earnings of \$412,000, as certain swaps expire, representing the anticipated value of the interest rate differentials to be paid.

Notes to Consolidated Financial Statements

11. Class A Common Stock:

In November 2001, the Company completed a universal shelf registration of up to \$200 million of various debt and equity securities. The form and terms of such securities shall be determined when and if these securities are issued. On December 21, 2001, as an initial draw on the shelf registration, the Company sold 3.9 million shares of Class A Common Stock in a public offering at a price of \$18.50 per share for net proceeds of \$66.5 million. The proceeds were used to pay off all revolving debt under the Company's primary credit agreement and for general corporate purposes.

Additionally, certain shareholders (after exercising options and converting shares of Class B Common Stock into 64,641 shares of Class A Common Stock) sold shares in this offering. While the Company paid all issuance costs (except for the related underwriter's fee), the Company did not receive any proceeds from the sale of shareholder shares. Had this issuance, and the December 2001 Convertible Preferred issuance, occurred on January 1, 2001, basic and diluted earnings per share for 2001 would have been \$1.26 and \$1.11, respectively, on 14.3 million and 17.1 million weighted average shares outstanding.

12. Redeemable Convertible Preferred Stock:

In December 2000, 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 complete future acquisitions with an aggregate purchase price greater than \$25.0 million. In December 2001, upon final approval by the Surface Transportation Board of the Company's acquisition of South Buffalo Railway,

the Fund exercised its option and invested an additional \$5.0 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 \$10.22 per share of Class A Common Stock (if converted, 2,445,654 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, 2001, 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.

13. Pension and Other Postretirement Benefit Plans:

The Company administers two noncontributory defined benefit plans for union and non-union employees of two U.S. subsidiaries. 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 plans. The Company has met the minimum funding requirements according to the Employee Retirement Income Security Act. The plan assets are managed by Registered Investment Companies that invest in Balanced Asset Funds, none of which are invested in the Company's stock. On January 31, 2002, the Company froze one of its defined benefit plans. Effective that date, new employees will not be eligible to participate in this plan, and future earning for current participants will not be eligible in the computation of benefits for those participants.

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. In October 2001, upon the South Buffalo acquisition, the Company assumed a liability to provide certain health care and life insurance benefits for union and non-union personnel employed by that subsidiary as of its acquisition date. The union and non-union employees of the subsidiary will become eligible for these health care and life insurance benefits upon

retirement if certain combinations of age and years of service are met. The Company funds the plans on a pay-as-you-go basis.

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

	Pension		Other Retirement Benefits			
	2001	2000	2001	2000		
Change in benefit obligations:						
Benefit obligation at beginning of year	\$1,323	\$1,267	\$624	\$706		
Adjustment for plan assumed in acquisition	—	—	2,085	—		
Service cost	155	210	104	3		
Interest cost	91	95	210	48		
Actuarial (gain) loss	(6)	(91)	11	(63)		
Benefits paid	(50)	(158)	(50)	(70)		
Benefit obligation at end of year	\$1,513	\$1,323	\$2,984	\$624		
Change in plan assets:						
Fair value of assets at beginning of year	\$1,105	\$1,020	—	—		
Actual return (loss) on plan assets	(119)	163	—	—		
Employer contributions	206	80	\$50	\$70		
Benefits paid	(50)	(158)	(\$50)	(\$70)		
Fair value of assets at end of year	\$1,142	\$1,105	—	—		
Reconciliation of Funded Status:						
Funded status	(\$371)	(\$217)	(\$2,984)	(\$624)		
Unrecognized net actuarial (gain) loss	8	(213)	(17)	(28)		
Unrecognized prior service cost	182	204	—	—		
Total accrued benefit obligation	(\$181)	(\$226)	(\$3,001)	(\$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	3.5%	4.5%	N/A	N/A		
	Pension			Other Retirement Benefits		
	2001	2000	1999	2001	2000	1999
Components of net periodic benefit cost:						
Service cost	\$155	\$210	\$179	\$104	\$3	\$2
Interest cost	91	95	76	210	48	36
Expected return on plan assets	(96)	(88)	(38)	—	—	—
Amortization of prior service cost	23	23	24	—	—	—
Amortization of (gain) loss	(12)	—	—	—	—	(6)
Net periodic benefit cost	\$161	\$240	\$241	\$314	\$51	\$32

Notes to Consolidated Financial Statements

For measurement purposes, a weighted average 5.8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001 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	\$14,574	(\$13,051)
Effect on postretirement benefit obligation	\$282,277	(\$251,731)

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 \$2.3 million, \$2.1 million and \$1.7 million was awarded under the various bonus plans in 2001, 2000 and 1999, respectively.

Profit Sharing

In February 2001, the Company merged two of its three 401(k) plans covering certain U.S. union and non-union employees. The two 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 one of these plans, the Company matches participants' contributions up to 1.5% of the participants' salary. Under the second plan, the Company matches participants' contributions up to 5.0% of the participants' salary. The Company's contributions to all plans in 2001, 2000 and 1999 were approximately \$307,000, \$299,000 and \$264,000, 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. Provisions for statutory profit sharing expense were \$298,000 and \$766,000 for 2001 and 2000, respectively.

Postemployment Benefits

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

14. 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 (*in thousands*):

	2001	2000	1999
United States	\$7,615	\$9,199	\$ 9,634
Foreign (U.S.\$)	8,772	14,891	5,954
	\$16,387	\$24,090	\$15,588

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, 2001 is \$16.0 million. It is not practicable to determine the amount of U.S. income and 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 (*in thousands*):

	2001	2000	1999
United States:			
Current-			
Federal	\$681	\$ 495	\$1,265
State	85	339	952
Deferred	2,228	2,594	2,381
	<u>2,994</u>	<u>3,428</u>	<u>4,598</u>
Foreign (U.S.\$):			
Current	1,236	164	(1,212)
Deferred	1,936	6,977	(1,211)
	<u>3,172</u>	<u>7,141</u>	<u>(2,423)</u>
Total	<u>\$6,166</u>	<u>\$10,569</u>	<u>\$2,175</u>

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:

	2001	2000	1999
Tax provision at statutory rate	34.0%	34.0%	35.0%
Effect of foreign operations	3.2%	12.2%	(100.7%)
State income taxes, net of federal income tax benefit	1.9%	1.8%	5.7%
Change in valuation allowance	(2.0%)	(3.6%)	71.9%
Other, net	0.5%	(0.5%)	2.1%
Effective income tax rate	<u>37.6%</u>	<u>43.9%</u>	<u>14.0%</u>

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 (*in thousands*):

	2001	2000
Deferred tax benefits-		
Accruals and reserves not deducted for tax purposes until paid	\$2,150	\$2,202
Alternative minimum tax credits	841	935
Net operating losses	6,776	7,586
Postretirement benefits	176	233
Other	707	131
	<u>10,650</u>	<u>11,087</u>
Deferred tax obligations -		
Property and investments basis differences	(32,670)	(30,267)
Valuation allowance	(450)	(797)
Net deferred tax obligations	<u>(\$22,470)</u>	<u>(\$19,977)</u>

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 in 2001, 2000 and 1999 of \$18.1 million, \$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, 2001, 2000 and 1999 of \$1.1 million, \$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.

Notes to Consolidated Financial Statements

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 included in the consolidated results of the Company.

As of December 31, 2001, 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, if 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.

15. Grants From Governmental Agencies:

The Company periodically receives grants from states and provinces in which it operates for rehabilitation or construction of track. The states and provinces typically reimburse the Company for 75% to 100% of the total cost of specific projects. Under two such grant programs, the Company received \$278,000, \$6.0 million and \$6.1 million in 2001, 2000 and 1999, respectively, from the State of New York and \$3.2 million, \$2.2 million and \$3.2 million in 2001, 2000 and 1999, respectively, from the State of Pennsylvania. In addition, the Company received \$86,000, \$341,000 and \$200,000 of grants in 2001, 2000 and 1999, respectively, from other states, and \$388,000 and \$315,000 in 2001 and 2000, respectively, from a province in Canada.

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, 2001, 2000 and 1999, the Company recorded offsets to depreciation expense from grant amortization of \$1.4 million, \$1.1 million and \$1.0 million, respectively.

16. 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 historically related only to the physical assets of the railroad property. Typically, the Company does not assume the operations or liabilities of the divesting railroads. However, in October 2001,

the Company assumed certain current liabilities of \$2.4 million and certain long-term liabilities of \$3.2 million through the acquisition of South Buffalo Railway (see Note 3).

Legal Proceedings

The Company is a defendant in certain lawsuits resulting from railroad and industrial switching operations, one of which had included the commencement of a criminal investigation that was resolved in 2001 with no charges arising. Management believes that the Company has adequate provisions 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 breached 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 previously owned 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. However, an adverse outcome of this lawsuit could have a material adverse effect on the Company's financial condition.

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.

17. Stock-Based Compensation Plans:

In 1996, 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, except for \$200,000 of compensation expense related to the immediate repurchase of shares issued upon exercise of certain stock options in 2001. Had compensation cost for all options issued under these plans been determined consistent with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced as follows (*in thousands, except EPS*):

	2001	2000	1999
Net Income: As reported	\$19,084	\$13,932	\$12,533
Pro Forma	18,307	12,925	11,468
Basic EPS: As reported	\$1.72	\$1.42	\$1.24
Pro Forma	1.65	1.32	1.13
Diluted EPS: As reported	\$1.48	\$1.38	\$1.23
Pro Forma	1.42	1.28	1.12

The Company has reserved 2,565,000 Class A shares for option grants 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. Some awards under the director's plan are automatic during the first two years after joining the Board of Directors, and the Board of Directors may make other awards under this plan. 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.

Notes to Consolidated Financial Statements

The following is a summary of stock option activity for 2001, 2000 and 1999:

	Year Ended December 31,					
	2001		2000		1999	
	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price
Outstanding at beginning of year	1,720,052	\$7.72	1,715,064	\$7.88	1,467,845	\$8.67
Granted	339,977	11.45	336,488	6.70	279,900	3.81
Exercised	(741,428)	8.39	(287,625)	7.59	—	—
Forfeited	(28,775)	7.28	(43,875)	6.42	(32,681)	9.40
Outstanding at end of year	<u>1,289,826</u>	8.32	<u>1,720,052</u>	7.72	<u>1,715,064</u>	7.88
Exercisable at end of year	<u>466,977</u>	7.77	<u>950,220</u>	8.38	<u>827,744</u>	8.38
Weighted average fair value of options granted		6.28		3.47		1.85

The following table summarizes information about stock options outstanding at December 31, 2001:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$3.72 - 5.99	258,159	2.6 Years	\$ 4.12	98,686	\$4.02
6.00 - 7.99	293,821	3.8 Years	6.93	114,990	7.22
8.00 - 9.99	396,520	1.4 Years	9.38	248,801	9.42
10.00 - 11.99	268,575	4.2 Years	10.64	—	—
12.00 - 17.35	72,751	5.3 Years	14.57	4,500	12.67
3.72 - 17.35	<u>1,289,826</u>	3.0 Years	8.32	<u>466,977</u>	7.77

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:

	2001	2000	1999
Risk-free interest rate	4.50%	6.20%	5.40%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives in years	4.91	5.45	5.90
Expected volatility	58.11%	47.80%	39.50%

In addition to the Stock Option Plans, the Company has reserved 562,500 shares of Class A common stock it may sell to its full-time employees under its Stock Purchase Plan. At December 31, 2001, 2000 and 1999, 25,202 shares, 22,388 shares and 17,912 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.

18. Business Segment and Geographic Area Information

The Company currently operates in two business segments: 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; 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. Through December 16, 2000, the Company also operated in the Australian Railroad Operations segment, which included operating a regional railroad and providing hook and pull (haulage) services to other railroads within Australia.

Corporate overhead expenses, including acquisition expenses, are reported in North American Railroad Operations. The Company's December 31, 2001 and 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 2001, 2000 and 1999 are shown in the following tables (*in thousands*):

	North American			Australian	Consolidated
	Railroad Operations	Industrial Switching Operations	Total	Railroad Operations	Total
2001					
Operating revenues	\$161,445	\$12,131	\$173,576	—	\$173,576
Income from operations	21,653	487	22,140	—	22,140
Depreciation and amortization	12,139	617	12,756	—	12,756
Assets	394,746	7,773	402,519	—	402,519
Capital expenditures, net of government grants	16,307	244	16,551	—	16,551
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	330,358	8,025	338,383	—	338,383
Capital expenditures, net of government grants	22,581	404	22,985	6,288	29,273
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, net of government grants	18,260	130	18,390	6,508	24,898

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

Notes to Consolidated Financial Statements

19. Quarterly Financial Data:

(in thousands, except per share data)

Quarterly Results (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Operating revenues	\$42,871	\$44,243	\$42,050	\$44,412
Income from operations	5,181	5,960	5,108	5,891
Net income	6,578	5,087	4,531	2,888
Diluted earnings per share	0.53	0.40	0.35	0.21
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	0.44	0.23	0.32	0.38
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	(0.03)	0.27	0.67	0.35

The fourth quarter of 2001 includes a \$728,000 pre-tax decrease to the previously recorded gain of \$3.7 million to reflect the lower than estimated reimbursed amount for acquisition-related costs (see Note 3).

The first quarter of 2001 includes an additional pre-tax gain of \$3.7 million related to the December, 2000 issuance of ARG stock to Wesfarmers (see Note 3).

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 14).

20. Comprehensive Income:

Comprehensive income is the total of net income and all other non-owner changes in equity. The following table sets forth the Company's comprehensive income for the years ended December 31, 2001, 2000 and 1999 (*in thousands*):

	2001	2000	1999
Net income	\$19,084	\$13,932	\$12,533
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	708	(3,567)	791
Transition adjustment related to change in accounting for derivative instruments and hedging activities	(255)	—	—
Net change in unrealized losses on qualifying cash flow hedges	(475)	—	—
Comprehensive income	\$19,062	\$10,365	\$13,324

The following table sets forth the components of accumulated other comprehensive loss, net of tax, included in the consolidated balance sheets as of December 31, 2001 and 2000 (*in thousands*):

	2001	2000
Net foreign currency translation adjustments	\$(4,175)	\$(4,883)
Net unrealized losses on qualifying cash flow hedges	(730)	—
Accumulated other comprehensive loss	\$(4,905)	\$(4,883)

21. Recently Issued Accounting Standards:

On October 3, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144, however, retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS No. 144 supersedes the accounting and reporting provisions of APB Opinion No. 30 ("Opinion 30"), "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for segments of a business to be disposed of. SFAS No. 144, however, retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in a distribution to owners) or is classified as held for sale. The Company adopted SFAS No. 144 on January 1, 2002 and does not expect to record any impairment charges upon adoption.

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (SFAS No. 141). Under SFAS No. 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method of accounting. Use of the pooling-of-interests method is prohibited. Additionally, Statement No. 141 requires that certain intangible assets that can be identified and named be recognized as assets apart from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001.

Notes to Consolidated Financial Statements

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. In accordance with this statement, the Company adopted SFAS 142 as of January 1, 2002 for existing goodwill and intangible assets and on June 30, 2001 for South Buffalo. As of December 31, 2001, goodwill, net of accumulated amortization, is \$24.1 million and amortization expense for the year ended December 31, 2001 is \$358,000. The Company does not expect to record any impairment charges upon adoption in 2002.

Corporate Headquarters

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

The actual trade prices of Class A Common Stock reflected below have been adjusted for a three-for-two stock split paid on March 14, 2002 to shareholders of record on February 28, 2002; and for a three-for-two stock split paid on June 15, 2001 to shareholders of record on May 31, 2001:

Year Ended December 31, 2001

	High	Low
1st Quarter	\$13.055	\$ 9.000
2nd Quarter	\$14.600	\$ 9.028
3rd Quarter	\$17.966	\$12.340
4th Quarter	\$22.066	\$15.000

Year Ended December 31, 2000

	High	Low
1st Quarter	\$ 6.888	\$ 5.278
2nd Quarter	\$ 8.555	\$ 6.333
3rd Quarter	\$11.222	\$ 7.111
4th Quarter	\$14.222	\$ 7.666

As of March 22, 2002, there were 133 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 3,650 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

LaSalle Bank, N.A.
 Trust and Asset Management
 135 South LaSalle Street
 Chicago, IL 60603
 312-904-2450
 www.lasallebank.com

Legal Counsel

Simpson Thacher & Bartlett
 425 Lexington Avenue
 New York, New York 10017
 212-455-2000
 www.stblaw.com

Harter, Secrest & Emery LLP
 1600 Bausch & Lomb Place
 Rochester, New York 14604-2711
 716-232-6500
 www.hselaw.com



Back (l-r): John M. Randolph , Philip J. Ringo, Mortimer B. Fuller III, T. Michael Long, James M. Fuller, Louis S. Fuller, and C. Sean Day, **Seated (l-r):** Robert M. Melzer and Hon. M. Douglas Young, P.C.

Board of Directors

C. Sean Day ⁽²⁾
*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 ⁽¹⁾
*Partner, Brown Brothers
 Harriman & Co.*

Robert M. Melzer ⁽¹⁾
*Retired, former Chief Executive Officer,
 Property Capital Trust*

John M. Randolph ^{(2) (3)}
*Financial Consultant and
 Private Investor*

Philip J. Ringo ⁽¹⁾
*Chairman and CEO,
 RubberNetwork.com*

Hon. M. Douglas Young, P.C. ⁽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 and Secretary*

John C. Hellmann
Chief Financial Officer

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

Thomas P. Loftus
*Senior Vice President
 Finance and Treasurer*

Shayne M. Magdoff
*Senior Vice President
 Administration and Human Resources*

Paul M. Victor
*Senior Vice President
 Mexico*

Spencer D. White
*Senior Vice President
 Illinois*