Genesee & Wyoming Inc. 2003 Annual Report

Financial Highlights

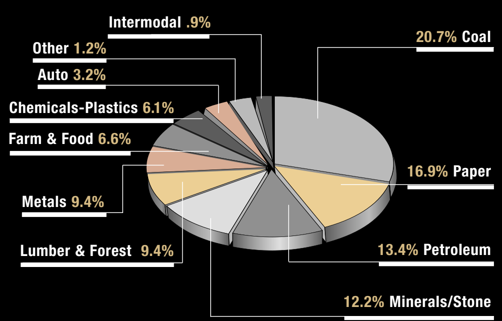
(in thousands, except per share data)

Income Statement Data	Years Ended December 31 2003	2002
Operating revenues	$244,827	$209,540
Operating income	$36,305	$32,007
Net income	$28,719	$25,607
Diluted earnings per common share	$1.07	$0.97
Weighted average number of shares of common stock–diluted	26,768	26,378

Balance Sheet Data as of Period End	2003	2002
Total assets	$627,173	$514,859
Total debt	$158,022	$125,417
Redeemable Convertible Preferred Stock	$23,994	$23,980
Stockholders' equity	$267,086	$209,621

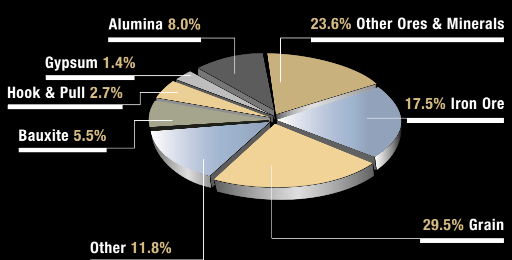
2003 North American Freight Mix

by revenues



2003 Australian Freight Mix

by revenues

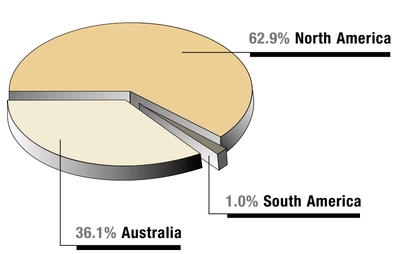


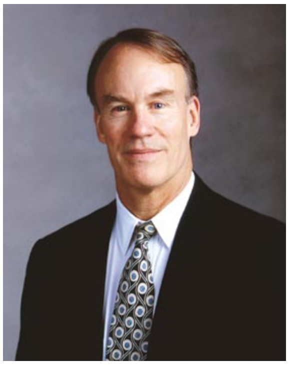
Genesee & Wyoming Inc. (GWI) is a leading owner and operator of regional freight railroads in the United States, Australia, Canada, Mexico and Bolivia. In addition, we provide freight car switching and rail-related services to industrial companies in the United States. We own or have interests in more than 20 railroads and operate over 8,100 miles of owned and leased track with access to more than 3,000 miles through track-access arrangements.

Australian Railroad Group (ARG) is a Western Australia based 50-percent owned subsidiary of GWI. ARG is the second largest private rail operator in Australia and spans the continent via the Interstate Lines.

Net Income by Geography

2003 Net Income = $28.7 million





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

To Our Shareholders

Genesee & Wyoming Inc. (GWI) has reported record net income each year since becoming a public company in 1996. During this time, revenues have more than doubled and net income has tripled. Net income for 2003 was $28.7 million, a 12.2 percent increase over $25.6 million of net income in 2002. Diluted earnings per share increased 10.3 percent to $1.07 in 2003, also a record, with 26.8 million shares outstanding, compared to $0.97 per share in 2002, with 26.4 million shares outstanding. We are pleased with this performance in a year in which drought significantly reduced grain revenues in Australia and the North American economy was in recovery.

Our accomplishments in 2003 furthered our growth, both in building our existing businesses and expanding our franchise:

- We continued to manage with a strong focus on achieving targeted returns on capital. In North America, GWI generated record free cash flow of $26 million for 2003, a reflection of this discipline. As a result, we reduced debt and strengthened the acquisition capacity of our already strong balance sheet. This focus also enabled Australian Railroad Group (ARG), our 50-percent-owned subsidiary with Perth-based Wesfarmers Limited, to generate $16.4 million in free cash flow, a noteworthy accomplishment given the drought's impact on grain. We are defining free cash flow as US GAAP Cash from Operating Activities less US GAAP Cash Flows used in Investing Activities, excluding the cost of acquisitions.
- On December 31, we completed the acquisition from Georgia-Pacific Corp. of three short line railroads in two locations: the Arkansas Louisiana & Mississippi and Fordyce & Princeton railroads, which operate over 109 contiguous route miles in Arkansas and Louisiana, and the 15-mile Chattahoochee Industrial Railroad in southwest Georgia. The railroads serve some of Georgia-Pacific's most important manufacturing facilities, and we have entered into a 20-year transportation agreement to serve these facilities. The railroads are an excellent strategic fit with our Rail Link, Inc. Region, that has similar operations nearby and experience with paper and forest products customers.
- A focused business development effort resulted in ARG winning two significant new contracts in the fourth quarter. One adds a new iron-ore customer and the other marks the establishment of ARG's first operations base in New South Wales.
- We achieved our best safety performance ever in North America and a dramatic reduction in personal injuries and operational incidents in Australia.
- Based on our strong history and confidence in the future, on March 15, 2004 we completed a three-for-two stock split payable in the form of a 50 percent common stock dividend to shareholders of record as of February 27, 2004.

North American Earnings Solid

North American earnings were solid in a challenging revenue and cost environment. North American revenues were $244.8 million, an increase of 16.8 percent from 2002. Of this $35.3 million increase in revenue, $15.5 million was same railroad growth. The remainder was principally due to

Opposite: The outlook for Australian Railroad Group, the second largest privately owned rail system in Australia, is strong, based on new customer contracts, a bumper grain harvest, and a much improved safety record that ranks near the top of Australian industry. Recently ARG completed installation of an advanced acoustic bearing monitor system on main routes, which will make operations even safer.

the addition of the Utah Railway, which we began operating in August 2002, and the addition of a new contiguous rail line in Oregon in December 2002.

Coal, paper, lumber/forest products and petroleum products were strong for the year. However, economic factors caused more weakness in metals and auto parts than expected. Coal revenue growth was driven principally by the acquisition of the Utah Railway, which transports coal to utilities serving southern California. Petroleum products shipments increased through the first three quarters of 2003 in Mexico, which accounts for most of the petroleum the Company handles. Scheduled maintenance at a power plant caused those shipments to slow in the fourth quarter.

When 2003 operating expenses as a percent of revenue are compared to 2002, the Company managed its operating expenses effectively. However, overall operating expenses in North America increased, driven by higher costs for casualties and insurance, and higher fuel costs. The former primarily reflects our first full year with higher insurance rates and deductibles. The latter, fuel costs, remains a concern in 2004. Compliance with the Sarbanes-Oxley Act and related regulations also added expenses in 2003.

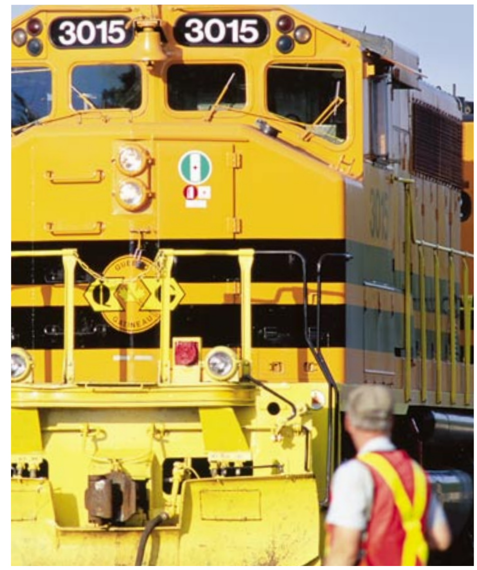
Litigation begun in 1998 by Commonwealth Edison in Illinois was settled in the third quarter, resulting in a $.02 per share charge. As part of the settlement, the Company secured a long-term commitment to provide rail service to the Illinois Region's largest customer.

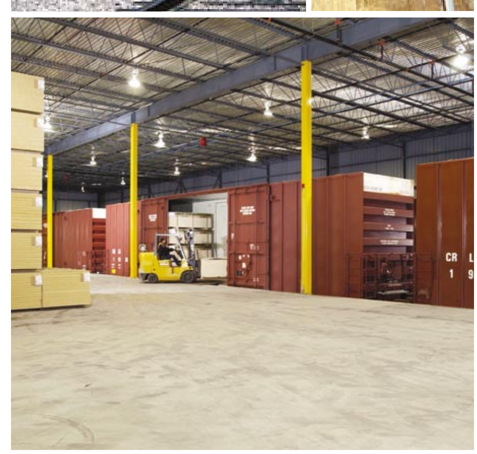
We are optimistic about opportunities in North America in 2004. As the year begins, car loadings have been strong. The rail lines acquired from Georgia-Pacific have good earnings potential and their integration is progressing smoothly. In late 2003, we purchased a long-dormant 15-mile line from CSX, contiguous to our NY/PA Region in western Pennsylvania, to secure access to a new coal customer. We will rehabilitate the line to begin shipments of coal in the second half of 2004 to a power plant currently served by trucks.

Australia – Building for the Future

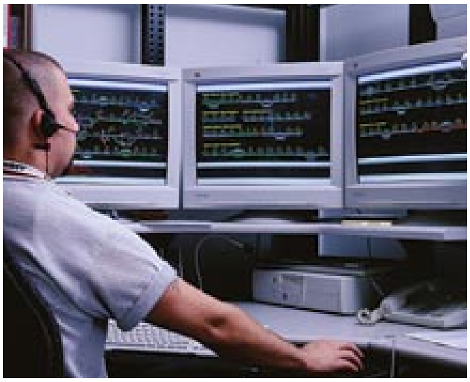
Despite the drought that decimated the 2002-03 grain harvest, earnings at ARG were stronger than expected for 2003, primarily as a result of significant appreciation in the Australian dollar during the year. Underlying those results, ARG accomplished much in 2003 to lay a foundation for its future:

- Following the workforce reduction and relocation of its headquarters from the government-owned Westrail Center, both at the end of 2002, ARG accelerated the private-sector cultural changes in its organization.
- In March 2003, Mike Mohan joined ARG as CEO. Formerly COO, President and Director of Southern Pacific Transportation Company, Mike has brought a wealth of railroad, operating and leadership experience to ARG.
- The Western Australia Rail Access Regulator provided a long-awaited ruling establishing the track-access regime. This ruling provides clarity on track access fees charged by Westnet Rail, the ARG subsidiary that administers the track and right of way.





Lumber, paper and steel are the major commodities handled by GWI's Canadian railroads. Huron Central Railway *(opposite)* moves paper and steel products to market in southern Ontario, and a new 60,000 square-foot warehouse *(bottom right)* positions Quebec Gatineau Railway to handle pulp and paper traffic from producers in the Quebec City area.



- ARG received a favorable tax ruling relative to the deductibility of certain assets acquired under its long-term lease from the Western Australian government, and recorded a A$90 million deferred tax asset.
- In December, ARG successfully refinanced all of its debt with a new A$530 million credit facility.
- In late 2003 ARG secured contracts to serve two important new customers:

  1. Manildra, the largest flour miller in Australia and a producer of ethanol, contracted with ARG for the movement of wheat and sugar from up-country storage to various production facilities in New South Wales. The contract establishes a presence in New South Wales, a significant rail market not previously served by ARG.

  2. Mount Gibson Mining in Western Australia adds significant new volume in export iron ore from a newly commissioned mine to the Port of Geraldton.

- During the course of 2003 in Western Australia, the weather shifted from drought to ideal growing conditions for grain, and forecasts shifted to project a record grain harvest. The 2002-03 harvest was 5.2 million tons. The 2003-04 harvest in Western Australia was in excess of 14.5 million tons. In addition, South Australia's harvest was also strong.

In anticipation of the harvest, ARG leased an additional 81 grain wagons, hired 50 locomotive drivers and leased vacant property to the grain handlers to store surplus grain. Train sets and crews were mobilized throughout the grain regions. Strong grain shipments in late 2003 contributed to ARG's fourth quarter results.

ARG's outlook for 2004 is optimistic. While grain shipments this year may move erratically month to month, based on storage considerations and availability of ocean vessels, the harvest is completed, and ARG is positioned to transport the grain when it moves. In addition, the demand in Asia for raw materials sourced from ARG's customers has increased with the expansion of the Chinese economy.

Safety Breeds Success

One of the most gratifying aspects of GWI's performance in 2003 has been the significant and sustained improvement in safety as reflected in the reduction of personal-injury rates across all of our railroads. The injury frequency rate (per 200,000 man-hours worked) for our North America operations has declined in each of the past five years, from a rate of 5.89 in 1998 to a record 1.64 in 2003. This reduction is a direct result of the dedication of our employees, a strong safety culture, accountability and a team approach to solving problems and addressing employee concerns. Our safety improvements in North America have been tirelessly led by Jack Stolarczyk, Vice President - Safety & Environment.

Last year, I expressed serious concern over our safety performance and high incident-related costs in Australia. I also expressed confidence that ARG could fix these problems with the same kind of focused safety program used in North America. Beginning in late-2002, Jack Jenkins, formerly Division Superintendent of the Southern Pacific Railroad, led a team effort manned by ARG employees and North American rail safety advisors to improve the

Utah Railway *(opposite)* loads and transports coal to utilities serving southern California. Rail Link, Inc., loads coal for ten mines in Wyoming's Powder River Basin, some of which reaches Illinois utilities over GWI's Illinois & Midland Railroad. In 2003, three regions, Oregon *(employees pictured center)*, Utah and Illinois were injury free. Oregon won top honors with the greatest number of hours worked without a single lost-time injury.

safety results of ARG. The results in 2003 were remarkable. ARG has changed work practices, established accountability, built a new safety culture and introduced new safety performance incentives. ARG's Lost-Time Injury Frequency Rate (per one million man-hours worked) declined nearly fourfold in 2003, from 19.1 to 5.0, a level far lower than the Australian transport index of 17.1 and near the top of Australian industry. Notably, the cost of casualties and insurance declined 33 percent from 2002.

Safety is a top priority for GWI, and we are proud of these accomplishments by our managers and employees around the world.

Commitment to Core Values

From its family beginnings more than a century ago, Genesee & Wyoming has always been concerned that its actions enhance its reputation. The Company's core values include:

Integrity… to earn the respect of others.

Respect… for all people with whom we deal.

Excellence… in all we do.

All of us who work for the Company are expected to conduct ourselves accordingly. As a public company, we continually review our corporate governance and ethical conduct practices. Additional standards and regulations have been set by law, and we expect to meet and exceed those standards. In 2003, GWI met all current requirements of the Sarbanes-Oxley Act, and we have undertaken a thorough review of our internal controls.

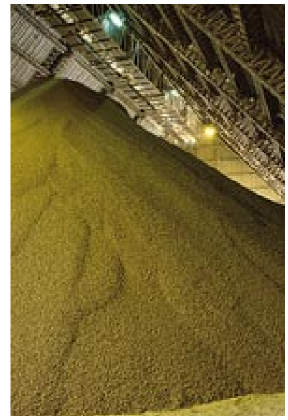
We have a highly qualified and independent Board of Directors. In 2003 we further strengthened the Board with the addition of three new independent Directors: Robert W. Anestis, Chairman, President and Chief Executive Officer of Florida East Coast Industries, owner of the Florida East Coast Railroad; Peter O. Scannell, founder and Managing Partner of Rockwood Holdings, which owns Sperry Rail, among other companies; and Mark A. Scudder, President of Scudder Law Firm, which specializes in truck transportation. Mark replaces C. Sean Day who stepped down from the Board in 2003. We appreciate Sean's contributions during his tenure as a director.

James Fuller and John Randolph retired from the Board in 2003. We are grateful for their many years of counsel during a period of enormous change from a single short line railroad to our current size, from a private company to an NYSE-listed public company. We will miss their guidance.

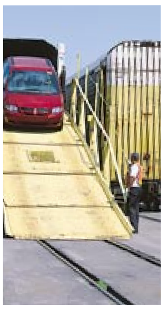
Strengthening Management

In May 2003, Adam B. Frankel joined the Company as Senior Vice President, General Counsel and Secretary. This position is new at GWI, and Adam brings a breadth of legal experience in corporate governance, acquisitions and financing. Adam comes to GWI from Ford Motor Company, where he was an attorney in the Office of General Counsel, and, prior to Ford, from the law firm of Simpson Thacher and Bartlett. In addition, 2003 was the first full year for our Vice President of Tax, Rich O'Donnell, who joined us as an international tax expert from Bausch & Lomb.

In Australia in February 2004, the Board of ARG appointed Murray Vitlich as Chief Operating Officer. Murray was General Manager Operations



GWI carries agricultural products in every country of operation. *Opposite:* Grain, destined principally for export markets, is a significant source of revenue for ARG. While the 2002-03 harvest was hurt by drought, the 2003-04 harvest in Western Australia was a record, and fourth quarter movements contributed to ARG's 2003 earnings.




at ARG and has consistently demonstrated his capable leadership since joining ARG at its inception in December 2000. Prior to joining ARG, Murray headed Wesfarmers Pulpwood Operations.

I would like to acknowledge the retirement of Alan R. Harris, Senior Vice President and Chief Accounting Officer. Alan's imprint on Genesee & Wyoming is deep. When Alan joined the company in 1990, we were a private company with $21 million in revenues. His skill and leadership have played a critical role in guiding GWI through enormous change to where we are today.

Jim Andres is joining GWI's senior management team as Chief Accounting Officer and Global Controller. Jim brings extensive U.S. and international accounting and control experience to GWI. He spent fourteen years in the automotive industry with Federal-Mogul Corporation and then with New Venture Gear, a joint-venture between DaimlerChrysler and GM. Jim began his career with KPMG Peat Marwick.

GWI Works

In 10 years, the number of employees affiliated with GWI has increased tenfold. Our accomplishments in 2003 reflect the dedicated efforts of nearly 3,000 employees at Genesee & Wyoming companies. Our people are the strength of the Genesee & Wyoming brand. We work for independent companies but from one playbook. We measure our performance against targeted returns on capital and we are compensated accordingly; we measure safety performance against increasingly difficult safety goals and we improve through common practices and training; we measure operating efficiency against common metrics and improve efficiency through shared practices and technology; we provide a consistently high level of financial, information systems, accounting and human resources support.

The companies we acquire retain their entrepreneurial drive and strong customer focus – the inherent strength of short line and regional railroads. Yet together they are able to achieve continuously improving performance beyond levels they could achieve on their own. They are bound by Genesee & Wyoming goals, practices and values, which we work hard to reinforce through communication and cross-regional teams.

Our reputation and financing capacity puts us in a strong position for a variety of opportunities. Acquisition prospects continue to be available, and we continue to review them with GWI's proven methods. With our careful and disciplined approach to acquisitions and the long-term value Genesee & Wyoming Inc. brings to its acquired railroads, we are confident of our growth potential.

Mortimer B. Fuller III
Chairman and Chief Executive Officer
March 19, 2004

GWI handles a variety of goods for consumers and manufacturers. Salt mined and loaded into trains *(opposite)* in upstate New York makes wintertime driving safer for millions throughout the Northeast. From chemicals, plastics, steel and other raw materials used in manufacturing, to automobiles, tractors, and the myriad of everyday products that move in shipping containers, GWI is a valued partner in world commerce. *Overleaf:* Rail Link, Inc., serves the Port of Savannah and four other U.S. ports.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Fiscal Year Ended December 31, 2003

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______________ to ______________

Commission File No. 0-20847

Genesee & Wyoming Inc.

(Exact name of registrant as specified in its charter)

Delaware	06-0984624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
66 Field Point Road, Greenwich, Connecticut	06830
(Address of principal executive offices)	(Zip Code)

(203) 629-3722
(Telephone No.)

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

Title of Each Class	Name of Each Exchange on which Registered
Class A Common Stock, $0.01 par value	NYSE

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

None

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) ☑ Yes ☐ No

Aggregate market value of Class A Common Stock held by non-affiliates based on closing price on June 30, 2003, as reported by the New York Stock Exchange on the last business day of Registrant's most recently completed second fiscal quarter: $262,918,616. Shares of Class A Common Stock held by each executive officer, director and holder of 5% or more of the outstanding Class A Common Stock have been excluded in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

Shares of common stock outstanding as of the close of business on March 2, 2004:

Class	Number of Shares Outstanding
Class A Common Stock	20,340,165
Class B Common Stock	2,707,938

Documents incorporated by reference and the Part of the Form 10-K into which they are incorporated are listed hereunder.

PART OF FORM 10-K	DOCUMENT INCORPORATED BY REFERENCE
Part III, Items 10, 11, 12, 13 and 14	Portion of the Registrant's proxy statement to be filed in connection with the Annual Meeting of the Stockholders of the Registrant to be held on May 12, 2004.

Genesee & Wyoming Inc.

FORM 10-K

For The Fiscal Year Ended December 31, 2003

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PART I

ITEM 1. Business

Genesee & Wyoming Inc. (the Company) is a holding company whose subsidiaries and unconsolidated affiliates own and operate thirty-two short line and regional freight railroads in the United States, Canada, Mexico, Australia and Bolivia. The Company, through its subsidiaries, also provides freight car switching and rail-related services to industrial companies in the United States. The Company was incorporated as a Delaware corporation in 1977.

The Company was founded in 1899 as a 14-mile rail line serving a single salt mine in upstate New York. Since 1977, when Mortimer B. Fuller, III purchased a controlling interest in the Genesee and Wyoming Railroad Company and became Chief Executive Officer, the Company has completed 24 acquisitions and now operates over approximately 8,100 miles of owned, jointly owned or leased track as well as more than 3,000 additional miles under track access arrangements. Based on track miles, the Company believes that:

- it is the second-largest operator of regional railroads in North America; and
- the Australian Railroad Group (ARG), which is 50% owned by the Company and 50% owned by Wesfarmers Limited (Wesfarmers), owns and operates the second largest privately owned rail business in Australia.

Information set forth in this Item 1 as well as in Item 2 should be read in conjunction with Management's Discussion and Analysis of Financial Conditions and Results of Operations in Item 7, including the discussion of Risk Factors and Forward-Looking Statements.

The Company makes available free of charge, on or through its Internet web site, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after those materials are electronically filed with or furnished to the Securities and Exchange Commission (SEC). The Company's Internet address is https:\\www.gwrr.com. The Company's website also contains hyperlinks to charters for each of the committees of the Company's Board of Directors, the Company's corporate governance guidelines and the Company's Code of Ethics.

GROWTH STRATEGY

The Company intends to increase its earnings per share and return on invested capital by:

- acquiring rail lines that are close to or contiguous with its existing regional rail systems in order to improve asset utilization and reduce operating costs;
- broadening its geographic presence by acquiring significant rail lines in new regions where the Company believes there are additional business development and acquisition opportunities;
- expanding its revenue base within each region it serves through focused marketing efforts and a high level of customer service; and
- improving its operating performance through the reduction of operating expense and the more efficient use of equipment and facilities.

The Company has a disciplined acquisition and investment-driven strategy that focuses on both domestic and international opportunities. From 1977 to 1997, the Company acquired and integrated ten acquisitions in the United States. From 1997 to 2000, the Company acquired or made investments in seven railroads internationally, including in South Australia (1997), Canada (1997), Mexico (1999), Western Australia (2000) and Bolivia (2000). Since 2001, the Company has made seven acquisitions in the U.S. and Canada, including South Buffalo Railway Company (October 2001), Emons Transportation Group (February 2002), Utah Railway Company (August 2002), a rail line leased from Burlington Northern Santa Fe (BNSF) in Oregon (December 2002), and most recently, Arkansas Louisiana & Mississippi Railroad Company, Chattahoochee Industrial Railroad and Fordyce and Princeton R.R. Co., all acquired from Georgia-Pacific Corporation (GP) (December 2003).

The Company's recent acquisitions and investments include:

- rail lines owned by industrial companies, such as Bethlehem Steel, Mueller Industries and GP;
- branch lines of Class I railroads;
- other regional railroads or short line railroads; and
- foreign government-owned railroads that have been privatized.

The Company believes that the market for acquisitions in the United States includes over 500 short line and regional railroads operating over approximately 50,000 miles of track, as well as additional lines expected to be sold by Class I railroads. Internationally, the Company believes there are additional acquisition or privatization candidates in Australia, Canada, South America and other markets. Furthermore, the Company believes that there are a relatively small number of well capitalized operators currently bidding for properties in the international and U.S. rail markets. As a result, the Company believes that it is well positioned to capitalize on additional acquisition opportunities.

In evaluating potential acquisitions and investments, the criteria the Company considers, among others, include:

- projected risk adjusted return on investment;
- potential for additional revenue and service improvements;
- identifiable cost savings and synergies, such as asset utilization improvements, consolidation of administrative functions, and operational improvements; and
- diversification of overall commodity and geographic mix.

In new regions, the Company targets rail properties that have adequate size to establish a presence in the region, provide a platform for growth in the region, and attract qualified management. When acquiring rail properties in its existing regions, the Company targets contiguous rail properties where it believes there are significant opportunities to realize operating efficiencies. The Company's strategy of building regional rail systems is illustrated by its original U.S. region, the New York-Pennsylvania Region, and ARG, its 50%-owned Australian operation.

- *New York-Pennsylvania Region.* Starting with its original rail line, the Genesee and Wyoming, the Company has completed seven contiguous acquisitions since 1985, creating a regional railroad linking Western New York with Western Pennsylvania. This region now has approximately $47.0 million in annual revenue and a diverse commodity base including coal, petroleum, auto parts, chemicals, pulp and paper, minerals and stone, and steel.
- *Australian Railroad Group.* Over the past six years, the Company has been sequentially building a regional rail business that operates over most of the Australian continent. In Australia, the Company (1) entered the market through the acquisition of the government-owned rail system of South Australia in 1997; (2) secured a contract to operate iron ore supply rail-lines and in-plant rail operations for a steel mill in Whyalla, South Australia in 1999; (3) combined its South Australian railroad business with previously government-owned rail assets of Western Australia, which were acquired by ARG with Wesfarmers in December 2000; (4) acquired an equity interest (2.14% at December 31, 2003) in a consortium to build, own and operate an 885-mile rail line from Alice Springs to Darwin in the Northern Territory of Australia in April 2001; and (5) added a new contract in New South Wales on the east coast of Australia in November 2003.

MARKETING

The Company builds each regional railroad business on a base of large industrial customers, grows that business through marketing efforts, and creates additional revenues by attracting new customers and providing ancillary rail services. By providing improved service to shippers, the Company is often able to provide increased revenue to the Class I carriers that connect with its North American lines. The Company's marketing efforts are often aimed at enhancing its railroads' relationships with both Class I carriers and shippers. Thus the Company provides ancillary rail services, such as railcar repair, switching, storage, weighing and blocking and bulk transfer, which enable Class I carriers and customers to move freight more easily and cost-effectively.

OPERATIONS

The Company focuses on lowering operating costs and improving asset efficiency to maximize its return on invested capital, and has historically been able to operate acquired rail lines more efficiently than the Class I railroads and governments from whom it acquired these properties. The Company typically achieves efficiencies through lowering administrative overhead, consolidating equipment and track maintenance contracts, reducing transportation costs, and selling certain assets.

The Company also improves the operating efficiency of its railroads by track rehabilitation. Under certain circumstances, the Company is able to obtain state and federal funding to rehabilitate track because of the importance of certain of the Company's shippers and railroads to the economic stability and/or development of the regions where they are located. For a discussion of government grants, see Note 15 to the Company's Consolidated Financial Statements set forth in Part IV, Item 15 of this Annual Report.

INDUSTRY OVERVIEW

According to the Association of American Railroads (AAR), there are 552 railroads in the United States operating over 141,391 miles of track. The AAR segments U.S. railroads into one of three categories based on the amount of their revenues and track miles. Class I railroads, those with over $272.0 million in revenues, represent over 90% of total rail revenues. Regional and local railroads operate approximately 41,000 miles of track in the United States. The primary function of these smaller railroads is to provide feeder traffic to the Class I carriers. In terms of revenue, regional and local railroads combined account for approximately 8% of total rail revenues.

The following table shows the breakdown of U.S. railroads by classification.

Classification of Railroads	Number	Aggregate Miles Operated	Revenues and Miles Operated
Class I	7	99,943	over $272.0 million
Regional	31	15,048	$40.0 to $271.9 million and/or 350 or more miles operated
Local	514	26,400	less than $40.0 million and less than 350 miles operated
Total	552	141,391	

Source: Association of American Railroads, *Railroad Facts, 2003 Edition.*

The railroad industry in the United States has undergone significant change since the passage of the Staggers Rail Act of 1980, which deregulated the pricing and types of services provided by railroads. Following the passage of the Staggers Act, Class I railroads in the United States took steps to improve profitability and recapture market share. In furtherance of that goal, Class I railroads focused their management and capital resources on their long-haul core systems, and some of them sold branch lines to smaller and more cost-efficient rail operators willing to commit the resources necessary to meet the needs of the shippers located on these lines. Divestiture of branch lines enabled Class I carriers to minimize incremental capital expenditures, concentrate traffic density, improve operating efficiency, and avoid traffic losses associated with rail line abandonment.

Although the acquisition market is competitive, the Company believes that it will continue to find opportunities to acquire rail properties in the United States and Canada from Class I railroads, industrial companies, and independent local and regional railroads. The Company also believes that it will continue to find additional acquisition opportunities in Australia, Canada, South America and other markets.

MANAGEMENT

The Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have responsibility for overall strategic and financial planning including acquisitions. The Chief Executive Officer is responsible for the Company's global operations including its equity investments in Australia and South America, while the Chief Operating Officer manages operations in North America. The Company believes that through its decentralized management structure it has developed a culture that encourages employees to take initiative and responsibility which is rewarded through performance-based bonus programs.

NORTH AMERICAN OPERATIONS

North American Customers

The Company's North American operations served over 850 customers in 2003 compared with approximately 800 customers in 2002. The largest ten North American customers accounted for approximately 27%, 29% and 30% of the Company's North American revenues in 2003, 2002 and 2001, respectively. In 2003, 2002 and 2001, the Company's largest North American customer was a coal-fired electricity generating plant which accounted for approximately 5%, 5% and 7%, respectively, of the Company's North American revenues. The Company typically handles freight pursuant to transportation contracts among the Company, its connecting carriers and the shipper. These contracts are in accordance with industry norms and vary in duration with a term of up to 20 years. These contracts establish price but do not typically obligate the shipper to move any particular volume.

North American Commodities

The Company's North American railroads transport a wide variety of commodities. Some of the Company's railroads have a diversified commodity mix while others transport one or two principal commodities. In 2003, coal, coke and ores, and paper products were the two largest commodity groups transported by the Company's North American railroads, constituting 20.7% and 16.9%, respectively, of total North American freight revenues, and 31.5% and 14.1%, respectively, of total North American carloads. The following table compares North American freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2003 and 2002:

North American Freight Revenues and Carloads Comparison by Commodity Group
Years Ended December 31, 2003 and 2002
(dollars in thousands, except average per carload)

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**2002**
Coal, Coke & Ores	**$ 37,881**	**20.7%**	$ 28,685	18.2%	**167,363**	**31.2%**	136,044	29.6%	**$226**	$211
Pulp & Paper	**30,939**	**16.9%**	25,711	16.3%	**74,662**	**14.1%**	64,494	14.0%	**414**	399
Petroleum Products	**24,455**	**13.4%**	20,655	13.1%	**31,798**	**6.0%**	29,479	6.4%	**769**	701
Minerals & Stone	**22,350**	**12.2%**	21,236	13.5%	**57,841**	**10.9%**	50,844	11.0%	**286**	418
Lumber & Forest Products	**17,093**	**9.4%**	12,828	8.2%	**53,793**	**10.2%**	36,265	7.9%	**318**	354
Metals	**17,078**	**9.4%**	15,993	10.2%	**58,145**	**11.0%**	57,846	12.6%	**294**	276
Farm & Food Products	**12,133**	**6.6%**	10,158	6.5%	**32,589**	**6.2%**	27,378	5.9%	**372**	371
Chemicals-Plastics	**11,067**	**6.1%**	9,523	6.1%	**23,517**	**4.5%**	19,949	4.3%	**471**	477
Autos & Auto Parts	**5,775**	**3.2%**	6,996	4.4%	**14,235**	**2.8%**	17,130	3.7%	**406**	408
Intermodal	**1,574**	**0.9%**	1,302	0.8%	**5,518**	**1.1%**	5,387	1.2%	**285**	242
Other	**2,222**	**1.2%**	4,202	2.7%	**10,292**	**2.0%**	15,527	3.4%	**216**	271
Totals	**$182,567**	**100.0%**	$157,289	100.0%	**529,753**	**100.0%**	460,343	100.0%	**345**	342

Coal, coke and ores consist primarily of shipments of coal to power plants and industrial customers.

Pulp and paper consists primarily of inbound shipments of pulp and outbound shipments of kraft and finished papers.

Petroleum products consist primarily of fuel oil and crude oil.

Minerals and stone consists primarily of cement, gravel and stone used in construction, and salt used in highway ice control.

Lumber and forest products consists primarily of finished lumber used in construction, particleboard used in furniture manufacturing, and wood chips and pulpwood used in paper manufacturing.

Metals consist primarily of scrap metal, finished steel products and coated pipe.

Farm and food products consist primarily of sugar, molasses, rice and other grains and fertilizer.

Chemicals consist primarily of various chemicals used in manufacturing.

Autos and auto parts consist primarily of finished automobiles and stamped auto parts.

Intermodal consists primarily of various commodities shipped in trailers or containers on flat cars.

North American Non-Freight Revenues

North American non-freight revenues consist of ancillary rail services such as railcar switching, car hire and rental, repair, storage, weighing, blocking and bulk transfer, which enable Class I carriers and customers to move freight more easily and cost-effectively. The Company's primary components of non-freight revenues are railcar switching revenues, other operating income and car hire and rental revenues. Railcar switching revenues primarily consist of intra-plant switching, which is revenue earned by providing services dedicated to the movement of railcars within industrial plants, and intra-terminal switching, which is revenue earned for the movement of customer railcars from one track to another track on the same railroad. Other operating income primarily consists of trackage rights fees, which are charges to other railroads for running over the Company's railroads, demurrage and storage, which are charges to customers for holding or storing railcars, and management fees, which are charges for managing rail-related facilities. Car hire and rental revenues primarily include charges paid by other railroads for use of the Company's railcars for moving freight. In 2003 and 2002, non-freight revenues constituted 25.4% and 24.9%, respectively, of the Company's total North American operating revenues with railroad switching representing 35.8% and 54.4%, respectively, of total

North American non-freight revenues. The following table compares North American non-freight revenues for the years ended December 31, 2003 and 2002:

North American Non-Freight Revenues Comparison
Years Ended December 31, 2003 and 2002
(dollars in thousands)

	2003	% of Non-freight Total	2002	% of Non-freight Total
Railcar switching	**$33,371**	**35.8%**	$28,426	54.4%
Car hire and rental	**7,054**	**20.2%**	7,503	14.4%
Car repair services	**4,447**	**9.6%**	3,563	6.8%
Other operating income	**17,388**	**34.4%**	12,759	24.4%
Total non-freight revenues	**$62,260**	**100.0%**	$52,251	100.0%

The following table compares total North American revenues by geographic area for the years ended December 31, 2003 and 2002:

	Geographic Area Data For the years ended			
	2003	% of Total	2002	% of Total
Revenues:				
United States	**$175,650**	**71.8%**	148,570	70.9%
Canada	**37,538**	**15.3%**	32,150	15.3%
Mexico	**31,639**	**12.9%**	28,820	13.8%
Total operating revenues	**$244,827**	**100.0%**	$209,540	100.0%

For additional financial information with respect to each of the Company's geographic areas, see Note 18 to the Company's Consolidated Financial Statements set forth in Part IV, Item 15 of this Annual Report on Form 10-K. Typically, the Company experiences relatively lower revenues in the first and fourth quarters of each year as the holiday season and colder weather tend to reduce shipments of certain products such as construction materials. In addition, due to adverse winter weather conditions, the Company also tends to incur higher operating costs during the first and fourth quarters. As a result, the Company typically initiates capital projects in the second and third quarters when weather conditions are more favorable. However, certain of the Company's traffic, such as coal for electricity generating facilities and salt for road de-icing, may benefit from particularly cold weather.

North American Employees

As of December 31, 2003, the Company's North American railroads and industrial switching locations had 1,838 full-time employees. Of this total, 831 are members of national labor organizations. The Company's North American railroads have 29 contracts with these national labor organizations which have expiration dates ranging to 2006. The Company has also entered into employee bargaining agreements with an additional 66 employees who represent themselves, which have renewal dates ranging to 2005. The Company believes that its relationship with its employees is good.

AUSTRALIAN OPERATIONS (Equity Accounting)

The Australian Railroad Group (ARG), which is 50% owned by the Company and 50% owned by Wesfarmers Limited, is reflected in the Company's statement of income using the equity method of accounting. In the year ended December 31, 2003, ARG contributed $10.4 million, or 36.1%, of the Company's total net income.

ARG is composed of three principal subsidiaries, Australia Southern Railroad Pty Ltd (ASR), Australia Western Railroad Pty Ltd (AWR), and Westnet Rail Pty Ltd (Westnet). Both AWR and ASR operate locomotives and rail cars to provide rail freight service to customers in the states of Western Australia and South Australia, respectively. In Western Australia, Westnet is the owner of the standard gauge and narrow gauge track infrastructure and charges track access fees to rail operators that use its track infrastructure, including AWR. ARG also has track access agreements with entities owned by the Commonwealth government, the New South Wales government and the Queensland government, thereby providing ARG with the ability to provide rail freight service across the Australian continent. In November 2003, ARG added a new customer in the State of New South Wales.

Australian Customers

ARG currently serves over 75 customers. A significant portion of ARG's revenues is attributable to customers operating in the grain, ores and minerals and alumina industries. ARG's largest ten customers accounted for approximately 70%, 69% and 67% of its revenues for the years ended December 31, 2003, 2002 and 2001, respectively. ARG's largest customer, AWB Limited (a major marketer and exporter of Australian wheat), accounted for 20%, 22% and 22% of its revenues for the years ended December 31, 2003, 2002, and 2001. ARG typically ships freight under transportation contracts, which vary from customer to customer and in duration from one to ten years, subject to certain review and extension provisions.

Australian Commodities

The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2003 and 2002. (All references to currency amounts included in this Annual Report on Form 10-K, including the financial statements, are in U.S. dollars unless specifically noted otherwise):

Australian Railroad Group Freight Revenues and Carloads by Commodity Group
Years ended December 31, 2003 and 2002
(U.S. dollars in thousands, except average per carload)

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
Commodity Group	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**2002**
Grain	**$ 61,125**	**29.5%**	$ 53,590	30.5%	**158,462**	**18.7%**	177,651	20.5%	**$386**	$302
Other Ores and Minerals	**48,782**	**23.6%**	38,075	21.7%	**107,257**	**12.7%**	99,816	11.5%	**455**	381
Iron Ore	**36,238**	**17.5%**	27,038	15.4%	**179,711**	**21.2%**	177,619	20.5%	**202**	152
Alumina	**16,459**	**8.0%**	13,828	7.9%	**153,685**	**18.1%**	151,756	17.5%	**107**	91
Bauxite	**11,363**	**5.5%**	10,125	5.8%	**126,865**	**15.0%**	127,892	14.8%	**90**	79
Hook and Pull(Haulage)	**5,498**	**2.7%**	8,343	4.8%	**13,337**	**1.6%**	24,628	2.9%	**412**	339
Gypsum	**2,915**	**1.4%**	2,327	1.3%	**45,548**	**5.4%**	42,389	4.9%	**64**	55
Other	**24,543**	**11.8%**	22,114	12.6%	**62,865**	**7.3%**	63,724	7.4%	**390**	347
Total	**$206,923**	**100.0%**	$175,440	100.0%	**847,730**	**100.0%**	865,475	100.0%	**244**	203

Australian Non-Freight Revenues

ARG's non-freight railroad revenues consist of rail services such as track access fees charged to other railroads, services related to the Alice Springs to Darwin rail line construction, including the movement of construction materials and operations management, diesel fuel sales to other railroads, and other ancillary revenues. The following table compares ARG's non-freight revenues for the years ended December 31, 2003 and 2002:

Australian Railroad Group Non-Freight Revenues Comparison
Years Ended December 31, 2003 and 2002
(U.S. dollars in thousands)

	2003	**% of Total**	**2002**	**% of Total**
Third party track access fees	**$18,042**	**42.3%**	$13,744	38.6%
Alice Springs to Darwin Line	**12,103**	**28.4%**	13,421	37.7%
Fuel sales	**8,083**	**19.0%**	4,636	13.0%
Other operating income	**4,420**	**10.3%**	3,826	10.7%
Total non-freight revenues	**$42,648**	**100.0%**	$35,627	100.0%

Australian Employees

As of December 31, 2003, ARG had 1,051 full-time employees. Of this total, approximately 28.5% are employed under collective bargaining agreements. In South Australia, ARG has one collective bargaining agreement that expires in September 2004. ARG is close to reaching agreement on a collective Enterprise Bargaining Agreement covering the majority of Western Australian employees. ARG believes that its relationship with its employees is good.

NORTH AMERICAN SAFETY

The Company's safety program involves all employees and focuses on the prevention of accidents and injuries. The Senior Vice President of each Region is accountable for the results of the program. Each region has an officer responsible for day-to-day program administration. The Company maintains a corporate-wide safety program facilitated by the Vice President & Chief Safety Officer. A Compliance Officer and a Safety Director report to the Chief Safety Officer. The Company works continuously to comply with all federal, state, and local government regulations. Operating personnel are trained and certified in train operations, the transportation of hazardous materials, safety and operating rules, and governmental rules and regulations.

NORTH AMERICAN INSURANCE

The Company has obtained insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. The liability policies have self-insured retentions ranging from $200,000 to $500,000 per occurrence. In addition, the Company maintains excess liability policies which provide supplemental coverage for losses in excess of primary policy limits. With respect to the transportation of hazardous commodities, the Company's liability policy covers sudden releases of hazardous materials, including expenses related to evacuation. Personal injuries associated with grade crossing accidents are also covered under the Company's liability policies. The Company also maintains property damage coverage, subject to a standard pollution sub-limit and self-insured retentions ranging from $100,000 to $500,000.

Employees of the Company's United States railroads are covered by the Federal Employers' Liability Act (FELA), a fault-based system under which injuries and deaths of railroad employees are settled by negotiation or litigation. FELA-related claims are covered under the Company's liability insurance policies. Employees of the Company's industrial switching business are covered under workers' compensation policies.

The Company believes its insurance coverage is adequate in light of its experience and the experience of the rail industry.

NORTH AMERICAN COMPETITION

In acquiring rail properties, the Company generally competes with other short line and regional railroad operators. Competition for rail properties is based primarily upon price and the seller's assessment of the buyer's railroad operating expertise and financing capability. The Company believes its established reputation as a successful acquiror and operator of short line rail properties, combined with its managerial and financial resources, effectively positions it to take advantage of acquisition opportunities.

Each of the Company's railroads is typically the only rail carrier directly serving its customers; however, the Company's railroads compete directly with other modes of transportation, principally motor carriers, and, on some routes, ship, barge and pipeline operators. Competition is based primarily upon the rate charged and the transit time required, as well as the quality and reliability of the service provided, for an origin-to-destination transportation service. To the extent other carriers are involved in transporting a shipment, the Company cannot control the cost and quality of such service. To the extent that highway competition is involved, the effectiveness of that competition is affected by government policy with respect to fuel and other taxes, highway tolls, and permissible truck sizes and weights.

To a lesser degree, the Company also faces competition with similar products made in other areas, a kind of competition commonly known as ''geographic competition.'' For example, a paper producer may choose to increase or decrease production at a specific plant served by one of the Company's railroads depending on the relative competitiveness of that plant versus paper plants in other locations.

REGULATION

United States

The Company's U.S. railroads are subject to regulation by:

- the Surface Transportation Board (STB),
- the Federal Railroad Administration,
- state departments of transportation, and
- some state and local regulatory agencies.

The STB is the successor to certain regulatory functions previously administered by the Interstate Commerce Commission (ICC). Established by the ICC Termination Act of 1995, the STB has jurisdiction over, among other things, freight rates (where there is no effective competition), extension or abandonment of rail lines, the acquisition of rail lines, and consolidation, merger or acquisition of control of rail common carriers. In limited circumstances, the STB may condition its approval of an acquisition upon the acquiror of a railroad agreeing to provide severance benefits to certain subsequently terminated employees. The Federal Railroad Administration has jurisdiction over safety.

Canada

St. Lawrence & Atlantic Railroad (Quebec) is subject to the jurisdiction of the federal government of Canada while Quebec Gatineau Railway and Huron Central Railway are subject to the jurisdiction of provincial governments of Quebec and Ontario, respectively.

Federally regulated railways fall under the jurisdiction of the Canada Transportation Agency (CTA) and Transport Canada (TC) and are subject to the provisions of the Railway Safety Act. The CTA has power to regulate construction and operation of railways, financial transactions of railway companies, all aspects of rates, tariffs and services, and the transferring and discontinuing of the operation of railway lines. TC administers the Railway Safety Act which ensures that federally regulated railway companies abide by all regulations with respect to engineering standards governing the construction or alteration of railway works and the operation and maintenance standards of railway works and equipment.

Provincially regulated railways operate within the boundary of one province and hold a Certificate of Fitness delivered by a provincial authority. In the Province of Quebec, the Fitness Certificate is delivered by the Transport Commission of Quebec, while in Ontario, under the Short Line Railways Act, a license has to be obtained from the Registrar of Short Line Railways. Construction, operation and discontinuance of operation are regulated, as well as railway services.

Australia

In Australia, regulation of rail safety is generally governed by State legislation and administered by State regulatory agencies. Regulation of access is governed by overriding Federal legislation with State based regimes operating in compliance with that legislation. ARG's assets are therefore subject to the regulatory regimes governing safety in each of Western Australia, South Australia, the Northern Territory, Victoria and New South Wales. In addition, with respect to access to rail infrastructure, ARG's Australian assets are subject to individual access regimes established under Part IIIA of the Trade Practices Act 1974.

ARG's interstate access includes the standard gauge tracks linking Wodonga (in Victoria), Melbourne (in Victoria), Adelaide (in South Australia), Broken Hill (in New South Wales), Tarcoola (in South Australia) and Kalgoorlie (in Western Australia). The interstate network is part of the larger standard gauge network linking all capital cities in Australia from Brisbane to Perth, as well as Broken Hill in New South Wales and Alice Springs in the Northern Territory. Those parts of this larger standard gauge network which are not covered by the interstate network are governed by the various State access regimes and the national access regime.

Mexico

In Mexico, the Secretary of Communications and Transport (SCT) has jurisdiction over, among other things:

- policies and programs related to the railroad system,
- the granting of concessions,
- the regulation of the concessions and resolution of any issues regarding amendments or terminations to the concessions,
- the regulation of tariff application, and
- the imposition of sanctions when operators have not complied with the terms of a concession.

A Mexican railroad is also subject to the Mexican Foreign Investments Law and the Federal Law of Economic Competition. The Foreign Investments Law governs the ownership of Mexican Railroads by foreign entities, such as the Company's Mexican railroad, while the Law of Economic Competition is an antitrust statute.

ENVIRONMENTAL MATTERS

The Company's operations are subject to various federal, state, provincial and local laws and regulations relating to the protection of the environment. In the United States, these environmental laws and regulations, which are implemented principally by the Environmental Protection Agency and comparable state agencies, govern the management of hazardous wastes, the discharge of pollutants into the air and into surface and underground waters, and the manufacture and disposal of certain substances. Similarly, in Canada, these functions are administered at the federal level by Environment Canada and the Department of Transport and comparable agencies at the provincial level. In Mexico, these functions are administered at the federal level by the Secretary of Environment, Natural Resources and Fisheries and the Attorney General for Environmental Protection, and by comparable agencies at the state level. In Australia, these functions are administered primarily by the Department of Transport on a federal level and by environmental protection agencies at the state level. There are no material environmental claims currently pending or, to the Company's knowledge, threatened against the Company or any of its railroads. In addition, the Company believes that the operations of its railroads are in material compliance with current laws and regulations. The Company estimates that any expenses incurred in maintaining compliance with current laws and regulations will not have a material effect on the Company's earnings or capital expenditures.

In Mexico, the Company's wholly-owned subsidiary, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V., was awarded a 30-year concession to operate certain railways owned by the government-owned rail company. Under the terms of the concession agreement, the federal railway company remains responsible for remediation of all contamination that occurred prior to the execution date of the concession agreement.

The Commonwealth of Australia has acknowledged that certain portions of the leasehold and freehold land acquired under the sale and purchase agreement by ASR contains contamination arising from activities associated with previous operators. The Commonwealth has carried out certain remediation work to meet existing South Australian environmental standards which reflect the purpose for which the land was used at the date of the Sale and Purchase Agreement.

RISK FACTORS

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. For a complete description of the Company's general risk factors including risk factors of foreign operations, see Item 7 Management's Discussion and Analysis elsewhere in this Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-K, including Management's Discussion and Analysis Item 7 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events and future performance of Genesee & Wyoming Inc. Words such as ''anticipates,'' ''intends,'' ''plans,'' ''believes,'' ''seeks,'' ''expects,'' ''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 under the caption ''Risk Factors'' in Item 7, 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 herein.

Item 2. Properties

The Company, through its subsidiaries and unconsolidated affiliates, currently has interests in thirty-two railroads of which twenty-four are in the United States, three are in Canada, three are in Australia, one is in Mexico and one is in Bolivia. These rail properties typically consist of the track and the underlying land. Real estate adjacent to the railroad rights-of-way is generally retained by the seller, and the Company's holdings of such property are not material. Similarly, the seller typically retains mineral rights and rights to grant fiber optic and other easements in the properties acquired by the Company's railroads. Several of the Company's railroads are operated under terms of leases or operating licenses in which the Company does not assume ownership of the track and the underlying land.

The Company's railroads operate over approximately 8,100 miles of track that is owned, jointly-owned or leased by the Company or its affiliates. The Company's or its affiliates' railroads also operate, through various trackage rights agreements, over more than 3,000 miles of track that is owned or leased by others.

The following table sets forth certain information as of December 31, 2003 with respect to the Company's railroads:

Railroad and Location	Track Miles	Structure	Connecting Carriers(1)
UNITED STATES:			
Allegheny & Eastern Railroad, Inc. (ALY) Pennsylvania	134(2)	Owned	BPRR, NS, CSX
Bradford Industrial Rail, Inc. (BR) Pennsylvania	4(3)	Owned	BPRR
Buffalo & Pittsburgh Railroad, Inc. (BPRR) New York, Pennsylvania	320(4)	Owned/Leased	ALY, BLE, BR, CN, CP, CSX, NS, PS, RSR, AVR
The Dansville & Mount Morris Railroad Company			
(DMM) New York	8	Owned	GNWR
Genesee and Wyoming Railroad Company			
(GNWR) New York	26(5)	Owned(5)	CP, DMM, RSR, NS, CSX
Pittsburg & Shawmut Railroad, Inc. (PS) Pennsylvania	181(6)	Owned	BPRR, NS
Rochester & Southern Railroad, Inc. (RSR) New York	66(7)	Owned	BPRR, CP, GNWR, CSX
Illinois & Midland Railroad, Inc. (IMR) Illinois	97(8)	Owned	BNSF, IAIS, IC, NS, PPU, TPW, UP
Portland & Western Railroad, Inc. (PNWR) Oregon	287(9)	Owned/Leased	BNSF, UP, WPRR, POTB
Willamette & Pacific Railroad, Inc. (WPRR) Oregon	185(10)	Leased	UP, PNWR, HLSC

Railroad and Location	Track Miles	Structure	Connecting Carriers(1)
Louisiana & Delta Railroad, Inc. (LDRR) Louisiana	87(11)	Owned/Leased	UP, BNSF
Commonwealth Railway, Inc. (CWRY) Virginia	17(13)	Owned/Leased	NS
Talleyrand Terminal Railroad Company, Inc.			
(TTR) Florida	10(14)	Leased	NS, CSX
Corpus Christi Terminal Railroad, Inc. (CCPN) Texas	26(15)	Leased	UP, BNSF, TM
Golden Isles Terminal Railroad, Inc. (GITM) Georgia	13(16)	Leased	CSX, NS
Savannah Port Terminal Railroad, Inc. (SAPT) Georgia	1(17)	Leased	CSX, NS
South Buffalo Railway (SB) New York	52	Owned	BPRR, CSX, NS CP, CN
St. Lawrence & Atlantic Railroad Company (SLR) Maine, New Hampshire and Vermont	165(18)	Owned	GRS, SLQ
York Railway Company (YRC) Pennsylvania	40(18)	Owned	CSX, NS
Utah Railway Company (URC) Utah	44(19)	Owned	UP, BNSF
Salt Lake City Southern Railroad Company (SLCS) Utah	2(20)	Owned	UP, BNSF
Chattahoochee Industrial Railroad (CIRR) Georgia	15(21)	Owned	CSX, NS
Arkansas Louisiana and Mississippi Railroad Company (ALM) Arkansas, Louisiana	52(21)	Owned	UP, KCS
Fordyce & Princeton Railroad Company (F&P) Arkansas	57(21)	Owned	UP, KCS
CANADA:			
St. Lawrence & Atlantic Railroad (Quebec) Inc. (SLQ) Canada	95(18)	Owned	CP, CN
Huron Central Railway Inc. (HCR) Canada	179(22)	Leased	CP, WC
Quebec Gatineau Railway Inc. (QGRY) Canada	293(23)	Owned/Leased	CP, CN
MEXICO:			
Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. (FCCM)	960(24)	Leased	Ferrosur
AUSTRALIA (equity accounting): Australian Railroad Group Pty Ltd (ARG)	4,186(25)	Owned/Leased	
BOLIVIA (equity accounting): Ferroviaria Oriental, S.A. (Oriental)	600(26)	Leased	General Belgrano, Novoeste

(1) See Legend of Connecting Carriers following this table.

(2) In addition, ALY operates by trackage rights over 3 miles of NS. ALY merged with BPRR on January 1, 2004.

(3) In addition, BR operates by trackage rights over 14 miles of BPRR. BR merged with BPRR on January 1, 2004.

(4) Includes 92 miles under perpetual leases and 41 miles and 9 miles under leases expiring in 2027 and 2090, respectively. In addition, BPRR operates by trackage rights over 14 miles of CSX under an agreement expiring in 2018, and 44 miles of NS under an agreement expiring in 2027. The Company is seeking to rationalize approximately 58 miles of owned track that parallels track under the NS trackage rights agreement.

(5) The GNWR is now operated by RSR.

(6) In addition, PS operates over 13 miles pursuant to an operating contract. PS merged with BPRR on January 1, 2004.

(7) In addition, RSR has a haulage contract over 52 miles of CP.

(8) In addition, IMR operates by trackage rights over 15 miles of IC, 9 miles of PPU and 5 miles of UP.

(9) Includes 53 miles under lease expiring in 2015 with a 10-year renewal unless terminated by either party, 53 miles formerly under lease which was purchased in November, 1997, and is operated under a rail service easement, 92 miles which was purchased in July, 1997, and beginning in December 2002, 76 miles under lease expiring in 2017. In addition, PNWR operates by trackage rights over 2 miles of UP and 4 miles of POTB.

(10) All under lease expiring in 2013, with renewal options subject to both parties' consent. In addition, WPRR operates over 41 miles of UP under a concurrent trackage rights agreement.

(11) Includes 14 miles under a lease expiring in 2011. In addition, LDRR operates by trackage rights over 91 miles of UP under an agreement terminable by either party after 1997 and has a haulage contract with M.A. Patout & Sons over 4 miles of track.

(12) All leased on a month-to-month basis under a Lease and Option to Purchase Agreement which commenced in 1989.

(13) Includes 12.5 miles under lease expiring in 2009.

(14) All under lease expiring in 2005.

(15) All under lease expiring in 2007.

(16) All under lease expiring in 2006.

(17) All under lease expiring in 2006.

(18) Subsidiary of Emons Transportation Group, Inc., acquired February 22, 2002.

(19) URC was acquired August 28, 2002. In addition, URC operates by trackage rights over 326 miles of UP.

(20) Subsidiary of Utah Railway Company, acquired August 28, 2002. In addition, SLCS operates by trackage rights over 21 miles of UP.

(21) All acquired on December 31, 2003.

(22) All under lease expiring in 2017, with renewal options subject to both parties' consent.

(23) Consists of 275 miles which are owned and 18 which are under lease expiring in 2017, with renewal options subject to both parties' consent. In addition, QGRY operates by trackage rights over 27 miles of CP.

(24) All under a 30-year concession agreement operating on track structure which is owned by a government company. In addition, FCCM operates by trackage rights over 210 miles on Ferrosur (another privatized rail concession) and a government-owned line.

(25) ARG is composed of three principal subsidiaries, Australia Southern Railroad Pty Ltd (ASR), Australia Western Railroad Pty Ltd (AWR), and WestNet Rail Pty Ltd (Westnet). ARG leases track infrastructure from the State of Western Australia for 49 years and from the State of South Australia for 50 years. In Western Australia, ARG's operations are composed of AWR, which operates locomotives and rail cars to provide rail freight service to its customers, and Westnet, which owns the track infrastructure over which rail operations, including AWR, operate. ARG also has track access agreements with entities owned by the Commonwealth government, the New South Wales government and the Queensland government, thereby providing ARG with the ability to provide rail freight service across the Australian continent.

(26) All under a 40-year concession agreement operating on track structure which is owned by the state-owned rail company Red Ferroviario Oriental.

Legend of Connecting Carriers

AVR	Allegheny Valley Railroad
BLE	Bessemer and Lake Erie Railroad Company
BNSF	Burlington Northern Santa Fe Railway Company
CN	Canadian National
CP	Canadian Pacific Railway
CSX	CSX Transportation, Inc.
GRS	Guilford Rail System
HLSC	Hampton Railway
IAIS	Iowa Interstate Railroad, Ltd.
IC	Illinois Central Railroad Company
KCS	Kansas City Southern
NS	Norfolk Southern Corp.
POTB	Port of Tillamook Bay Railroad
PPU	Peoria & Pekin Union Railway
TM	The Texas Mexican Railway Company
TPW	Toledo, Peoria & Western Railway Corp.
UP	Union Pacific Railroad Company
WC	Wisconsin Central

EQUIPMENT

As of December 31, 2003, rolling stock of the Company's North American operations consisted of 345 locomotives of which 235 were owned and 110 were leased, and 8,069 freight cars, of which 680 were owned and 7,389 were leased.

Item 3. Legal Proceedings

The Company is a defendant in certain lawsuits resulting from its operations. 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 operating results, financial condition or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Stock Market Results. On June 24, 1996, the Company's Class A Common Stock began publicly trading and was quoted on the Nasdaq National Market until September 26, 2002, under the trading symbol GNWR. On September 27, 2002, the Company's Class A Common Stock began publicly trading on the New York Stock Exchange under the trading symbol GWR. On February 11, 2004, February 14, 2002 and May 1, 2001 the Company announced three-for-two common stock splits in the form of 50% stock dividends. All share, per share and par value amounts presented herein have been restated to reflect the retroactive effect of the three stock splits. The tables below show the range of high and low actual trade prices for the Company's Class A Common Stock during each quarterly period of 2003, 2002 and 2001.

Year Ended December 31, 2003	**High**	**Low**
4th Quarter	**$23.13**	**$15.67**
3rd Quarter	**$17.15**	**$13.60**
2nd Quarter	**$14.29**	**$10.26**
1st Quarter	**$14.07**	**$ 8.47**

Year Ended December 31, 2002	**High**	**Low**
4th Quarter	$15.47	$12.00
3rd Quarter	$16.11	$10.47
2nd Quarter	$17.53	$13.17
1st Quarter	$15.85	$12.80

Year Ended December 31, 2001	**High**	**Low**
4th Quarter	$14.71	$10.00
3rd Quarter	$11.98	$ 8.23
2nd Quarter	$ 9.73	$ 6.02
1st Quarter	$ 8.71	$ 6.00

The Company's Class B Common Stock is not publicly traded.

Dividends. The Company did not pay cash dividends in 2003, 2002 or 2001. The Company does not intend to pay cash dividends for the foreseeable future and intends to retain earnings, if any, for future operation and expansion of the Company's business. Any determination to pay dividends in the future will be at the discretion of the Company's Board of Directors and will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors.

Number of Holders. On March 2, 2004 there were 154 holders of record of the Company's Class A Common Stock and 9 holders of record of the Company's Class B Common Stock.

Recent Sales of Unregistered Securities. During 2003, the Company issued the securities listed below which were not registered under the Securities Act of 1933, as amended (the Act). Each of such issuances was made by private offering in reliance on the exemption from the registration provisions of the Act provided by Section 4(2) of the Act. The facts relied upon to establish such exemption included the recipients' representations as to their investment intent with respect to such securities and restrictions on the transfer of such securities imposed by the Company.

(1) On January 11, 2003, the Company issued to one of its directors, for no additional consideration, options under the Genesee & Wyoming Inc. 1996 Stock Option Plan for Outside Directors to purchase an aggregate of 3,375 shares of Class A Common Stock at an exercise price of $13.95 per share. The shares issuable upon exercise of such options are the subject of a Registration Statement on Form S-8 under the Act.

(2) On May 29, 2003, the Company issued to one of its employees, for no additional consideration, options under the Genesee & Wyoming Inc. 1996 Stock Option Plan to purchase an aggregate of 22,500 shares of Class A Common Stock at an exercise price of $13.59 per share. The shares issuable upon exercise of such options are the subject of a Registration Statement on Form S-8 under the Act.

(3) On May 29, 2003, the Company issued to four of its directors, for no additional consideration, options under the Genesee & Wyoming Inc. 1996 Stock Option Plan for Outside Directors to purchase an aggregate of 13,500 shares of Class A Common Stock at an exercise price of $13.59 per share. The shares issuable upon exercise of such options are the subject of a Registration Statement on Form S-8 under the Act.

(4) On July 31, 2003, the Company issued to an aggregate of 203 of its employees, for no additional consideration, options under the Genesee & Wyoming Inc. 1996 Stock Option Plan to purchase an aggregate of 442,377 shares of Class A Common Stock at an exercise price of $14.94 per share, and 6,693 shares of Class A Common Stock at an exercise price of $16.43 per share. The shares issuable upon exercise of such options are the subject of a Registration Statement on Form S-8 under the Act.

(5) On August 21, 2003, the Company issued to two of its directors, for no additional consideration, options under the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors to purchase an aggregate of 6,750 shares of Class A Common Stock at an exercise price of $15.59 per share. The shares issuable upon exercise of such options are the subject of a Registration Statement on Form S-8 under the Act.

See Item 12 for the equity compensation plan table required by this Item 5.

Item 6. Selected Financial Data

The following selected consolidated income statement data and selected consolidated balance sheet data of the Company as of and for the years ended December 31, 2003, 2002, 2001, 2000, and 1999, have been derived from the Company's consolidated financial statements. All of the information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. See also Item 7.

	(In thousands, except per share amounts) Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
Income Statement Data(1):					
Operating revenues	**$244,827**	$209,540	$173,576	$206,530	$175,586
Operating expenses	**208,522**	177,533	150,622	182,818	152,828
Income from operations	**36,305**	32,007	22,954	23,712	22,758
Interest expense	**(8,646)**	(8,139)	(10,049)	(11,233)	(8,886)
Gain on sale of 50% equity in Australian operations(1)	**—**	—	2,985	10,062	—
Other income, net	**986**	726	497	1,549	1,292
Income before income taxes and equity earnings	**28,645**	24,594	16,387	24,090	15,164
Income taxes	**10,567**	8,761	6,166	10,569	2,013
Equity earnings (losses)	**10,641**	9,774	8,863	411	(618)
Net income	**28,719**	25,607	19,084	13,932	12,533
Preferred stock dividends and cost accretion	**1,270**	1,172	957	52	—
Net income available to common stockholders	**$ 27,449**	$ 24,435	$ 18,127	$ 13,880	$ 12,533
Basic earnings per common share:					
Net income available to common stockholders	**$ 1.21**	$ 1.11	$ 1.15	$ 0.95	$ 0.83
Weighted average number of shares of common stock	**22,700**	22,056	15,764	14,669	15,156
Diluted earnings per common share:					
Net income	**$ 1.07**	$ 0.97	$ 0.98	$ 0.92	$ 0.82
Weighted average number of shares of common stock and equivalents	**26,768**	26,378	19,375	15,141	15,323
BALANCE SHEET DATA AT YEAR END(1):					
Total assets	**$627,173**	$514,859	$402,519	$338,383	$303,940
Total debt	**158,022**	125,417	60,591	104,801	108,376
Mandatorily Redeemable Convertible Preferred Stock	**23,994**	23,980	23,808	18,849	—
Stockholders' equity	**267,086**	209,621	185,663	94,732	81,829

(1) The Company has completed a number of recent acquisitions. Because of variations in the structure, timing and size of these acquisitions, the Company's results of operations in any reporting period may not be directly comparable to its results of operations in other reporting periods. See Note 3 of the Notes to Consolidated Financial Statements for a complete description of recent acquisitions.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

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 also provides freight car switching and related services to United States industrial companies with 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 rail car switching and other 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, net (gain) loss on sale and impairment of assets, 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, sale of land and equipment, 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. On December 31, 2003, the Company completed the acquisition of the Chattahoochee Industrial Railroad, Arkansas Louisiana and Mississippi Railroad and Fordyce & Princeton Railroad. The Company's other recent acquisitions include Utah Railway Company in August 2002, Emons Transportation Group, Inc. in February 2002, and South Buffalo Railway Company in October 2001. 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.

Certain of the Company's commodity shipments are sensitive to general economic conditions in North America, including 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 conditions and are more closely affected by the weather.

On February 11, 2004, February 14, 2002 and May 1, 2001, the Company announced three-for-two common stock splits in the form of 50% stock dividends to be distributed on March 15, 2004 to shareholders of record as of February 27, 2004, 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 these stock splits.

Expansion of Operations

United States

Georgia-Pacific Railroads: On December 31, 2003, the Company completed the purchase from GP of all of the issued and outstanding shares of common stock of the Chattahoochee Industrial Railroad (CIRR), the Arkansas Louisiana & Mississippi Railroad Company (ALM), and the Fordyce & Princeton Railroad Company (F&P, and collectively, the Railroads) for approximately $54.9 million in cash. As contemplated with the acquisitions, the Company will implement a severance program in the first quarter of 2004 under which approximately 13 Railroad employees will be terminated. The aggregate $1.0 million additional cost of these restructuring activities was considered a liability assumed in the acquisition, and as such, was allocated to the purchase price. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement. In connection with the transaction, GP agreed to indemnify the Company for certain losses suffered as a result of breaches of certain representations, warranties and covenants contained in the sale agreement. GP is generally not required to pay under the indemnities until claims against GP, on a cumulative basis, exceed $500,000. Upon exceeding this threshold, GP is generally obligated to provide indemnification for losses in excess of $500,000, up to a limit of $20.0 million for general indemnities. With respect to GP's environmental indemnities generally, GP is obligated to provide indemnification for 80% of losses in excess of $500,000 and the Company is responsible for the remaining 20%, up to a total cap of $2.0 million. In the event environmental liabilities exceed $2.0 million, GP is obligated to pay 100% of any such excess up to a limit of $15.0 million. The majority of these general indemnification obligations expire in June 2005, while the environmental liability indemnity expires in December 2008. In conjunction with the acquisition, the Company entered into two Transportation Services Agreements which are 20-year agreements for the Railroads to provide rail transportation service to GP.

Oregon Lease: On December 30, 2002, the Company expanded its Oregon region by commencing railroad operations over a 76-mile rail line between Salem and Eugene, Oregon previously operated by BNSF. The rail line is contiguous to the Company's existing Oregon railroad operations and the Company is operating it under a 15-year lease agreement with BNSF. Under the lease, no payments to the lessor are required as long as certain operating conditions are met. Through December 31, 2003, no payments were required under this lease.

Utah Railway Company: On August 28, 2002, the Company acquired all of the issued and outstanding shares of common stock of Utah Railway Company (URC) for approximately $55.7 million in cash, including transaction costs. As contemplated with the acquisition, the Company implemented a severance program under which 15 URC employees were terminated in 2002. The aggregate $578,000 cost of these restructuring activities was considered a liability assumed in the acquisition, and as such, was allocated to the purchase price. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement.

Emons: On February 22, 2002, the Company acquired Emons Transportation Group, Inc. (Emons) for approximately $29.4 million in cash, including transaction costs and net of cash received in the acquisition. The Company purchased all of the outstanding shares of Emons at $2.50 per share. As contemplated with the acquisition, the Company implemented early retirement and severance programs under which 24 Emons employees were terminated in 2002. The aggregate $804,000 cost of these restructuring activities was considered a liability assumed in the acquisition and as such, was allocated to the purchase price. The majority of these costs were paid in the three months ended March 31, 2002. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement.

South Buffalo: 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. The purchase price was reduced by a $669,000 adjustment pursuant to the final determination of the net assets of South Buffalo on the sale date. This amount, together with another $728,000 related to pre-acquisition liabilities paid by the Company on Bethlehem's behalf, was paid to the Company in December 2002. Although Bethlehem filed for voluntary protection under U.S. bankruptcy laws on October 5, 2001, these payments were 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 closed the former South Buffalo headquarters office in March 2002 and implemented an early retirement program under which 26 South Buffalo employees were terminated in December 2001. The aggregate $876,000 cost of these restructuring activities was considered a liability assumed in the acquisition, and therefore was included in purchase consideration. The majority of these costs were paid in 2001.

Australia

On December 16, 2000, the Company, through its 50%-owned subsidiary, ARG, completed the acquisition of Westrail Freight from the government of Western Australia for approximately $334.4 million. To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company's equity interest in Asia Pacific Transport Consortium (APTC) and $21.4 million of cash while Wesfarmers, the other 50% owner of ARG, contributed $64.2 million in cash, which included a long-term Australian dollar denominated non-interest bearing note of $8.2 million 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.

The Company recognized a $10.1 million gain upon the issuance of ARG stock to Wesfarmers 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 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 gain of $3.7 million related to the December, 2000 issuance of ASR stock to Wesfarmers. A related deferred income tax expense of $1.1 million was also recorded. ARG then paid a total of $7.4 million to its two shareholders, in equal amounts of $3.7 million, as partial payment of each shareholder's Australian dollar denominated non-interest bearing note, which resulted in a $508,000 currency transaction loss for the Company. The Alice Springs to Darwin railway line was completed in the fourth quarter of 2003.

The additional gain of $3.7 million relating to the formation of ARG represented an adjustment to 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 50% owners. Accordingly, the Company recorded a $728,000 decrease to its previously recorded gain 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.

RESULTS OF OPERATIONS

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

North American Operating Revenues

Overview

North American operating revenues (which exclude revenues from the Company's equity investments) were $244.8 million in the year ended December 31, 2003 compared to $209.5 million in the year ended December 31, 2002, an increase of $35.3 million or 16.6%. The $35.3 million increase in operating revenue was attributable to a $25.3 million increase in freight revenues and a

$10.0 million net increase in non-freight revenues. The $25.3 million increase in freight revenues consisted of $3.5 million, $8.7 million and $1.4 million in freight revenues from new Oregon, URC and Emons operations, respectively, and $11.7 million in freight revenues on existing North American operations. The $10.0 million net increase in non-freight revenues consisted of $5.6 million and $602,000 in non-freight revenue from a full year of operations of URC and Emons, respectively, and $3.8 million in non-freight revenues 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, 2003 and 2002:

Freight Revenues

North American Freight Revenues and Carloads Comparison by Commodity Group
Years Ended December 31, 2003 and 2002
(dollars in thousands, except average per carload)

	Freight Revenue				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**2002**
Coal, Coke & Ores	**$ 37,881**	**20.7%**	$ 28,685	18.2%	**167,363**	**31.2%**	136,044	29.6%	**$226**	$211
Pulp & Paper	**30,939**	**16.9%**	25,711	16.3%	**74,662**	**14.1%**	64,494	14.0%	**414**	399
Petroleum Products	**24,455**	**13.4%**	20,655	13.1%	**31,798**	**6.0%**	29,479	6.4%	**769**	701
Minerals & Stone	**22,350**	**12.2%**	21,236	13.5%	**57,841**	**10.9%**	50,844	11.0%	**286**	418
Lumber & Forest Products	**17,093**	**9.4%**	12,828	8.2%	**53,793**	**10.2%**	36,265	7.9%	**318**	354
Metals	**17,078**	**9.4%**	15,993	10.2%	**58,145**	**11.0%**	57,846	12.6%	**294**	276
Farm & Food Products	**12,133**	**6.6%**	10,158	6.5%	**32,589**	**6.2%**	27,378	5.9%	**372**	371
Chemicals-Plastics	**11,067**	**6.1%**	9,523	6.1%	**23,517**	**4.5%**	19,949	4.3%	**471**	477
Autos & Auto Parts	**5,775**	**3.2%**	6,996	4.4%	**14,235**	**2.8%**	17,130	3.7%	**406**	408
Intermodal	**1,574**	**0.9%**	1,302	0.8%	**5,518**	**1.1%**	5,387	1.2%	**285**	242
Other	**2,222**	**1.2%**	4,202	2.7%	**10,292**	**2.0%**	15,527	3.4%	**216**	271
Totals	**$182,567**	**100.0%**	$157,289	100.0%	**529,753**	**100.0%**	460,343	100.0%	**345**	342

Coal, Coke and Ores revenues increased by $9.2 million, or 32.1%, due to an increase of $8.1 million in freight revenues from the acquisition of URC and an increase in revenues of $1.1 million from hauling carloads of Coal on existing operations for power generating facilities.

Pulp and Paper revenues increased by $5.2 million, or 20.3%, due to an increase of $483,000 in freight revenues from hauling carloads of Pulp and Paper from the new Oregon line, and an increase of $4.7 million in revenue from existing North American operations serving Pulp and Paper customers located in the Company's Oregon, New York-Pennsylvania and Canada Regions.

Petroleum Products revenues increased by $3.8 million, or 18.4%, primarily due to an increase of $2.9 million in freight revenues in the Company's Mexico Region primarily due to longer hauls for an existing customer and a hurricane that temporarily halted shipments in 2002, and an increase of $949,000 in revenues in the Company's other Regions.

Lumber and Forest Products revenues increased by $4.3 million, or 33.2%, due to an increase of $2.0 million in revenues from the new Oregon line, and an increase in freight revenue of $2.3 million on existing operations in the Company's Oregon and Canada Regions.

Freight revenues from all remaining commodities reflected a net increase of $2.8 million.

Total North American carloads were 529,753 in the year ended December 31, 2003 compared to 460,343 in the year ended December 31, 2002, an increase of 69,410 or 15.1%. The increase of 69,410, consisted of 19,790, 29,329 and 3,504 carloads, from new Oregon, URC and Emons operations, respectively, and a net increase of 16,787 carloads on existing operations.

The overall average revenue per carload increased to $345 in the year ended December 31, 2003, compared to $342 per carload in the year ended December 31, 2002.

Non-Freight Revenues

North American non-freight revenues were $62.3 million in the year ended December 31, 2003, compared to $52.3 million in the year ended December 31, 2002, an increase of $10.0 million, or 19.2%. The $10.0 million increase consisted of $5.6 million and $602,000 in non-freight revenue from a full year of operations of URC and Emons, respectively, and $3.8 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, 2003 and 2002:

North American
Non-Freight Revenues Comparison
Years Ended December 31, 2003 and 2002
(dollars in thousands)

	2003	% of Total	2002	% of Total
Railcar switching	**$33,371**	**35.8%**	$28,426	54.4%
Car hire and rental income	**7,054**	**20.2%**	7,503	14.4%
Car repair services	**4,447**	**9.6%**	3,563	6.8%
Other operating income	**17,388**	**34.4%**	12,759	24.4%
Total non-freight revenues	**$62,260**	**100.0%**	$52,251	100.0%

The increase of $4.9 million in railcar switching revenues is primarily attributable to the addition of URC railroad operations.

The net increase of $4.6 million in other operating income is primarily attributable to an increase of $3.9 million on existing operations and $403,000 and $321,000 from a full year of operations of URC and Emons, respectively. The increase of $3.9 million on existing operations relates primarily to increases of $810,000 in trackage rights and haulage revenues, $740,000 in demurrage and storage, $423,000 in management fees and approximately $1.9 million in other operating income including a major one-time shipment for the U.S. government.

North American Operating Expenses

Overview

North American operating expenses were $208.5 million in the year ended December 31, 2003, compared to $177.5 million in the year ended December 31, 2002, an increase of $31.0 million, or 17.5%. The increase was attributable to an $18.2 million increase on existing North American operations, including additional costs from the new contiguous rail line in the Company's Oregon Region, and $11.0 million and $1.8 million from a full year of operations of URC and Emons, respectively.

Operating Ratios

The Company's operating ratio increased to 85.2% in the year ended December 31, 2003 from 84.7% in the year ended December 31, 2002. The year ended December 31, 2002 includes a favorable 1.5% impact from net gains on sale of assets.

North American Operating Expenses

The following table sets forth a comparison of the Company's North American operating expenses in the years ended December 31, 2003 and 2002:

North American
Operating Expense Comparison
Years Ended December 31, 2003 and 2002
(dollars in thousands)

	2003		2002	
	Dollars	Percent of Operating Revenues	Dollars	Percent of Operating Revenues
Labor and benefits	**$ 87,315**	**35.7%**	$ 77,778	37.1%
Equipment rents	**18,409**	**7.5%**	17,776	8.5%
Purchased services	**17,766**	**7.3%**	15,471	7.4%
Depreciation and amortization	**15,471**	**6.3%**	13,569	6.5%
Diesel fuel	**18,325**	**7.5%**	13,368	6.4%
Casualties and insurance	**13,831**	**5.6%**	10,592	5.1%
Materials	**15,189**	**6.2%**	13,047	6.2%
Net gain on sale and impairment of assets	**(87)**	**0.0%**	(3,140)	(1.5%)
Other expenses	**22,303**	**9.1%**	19,072	9.0%
Total operating expenses	**$208,522**	**85.2%**	$177,533	84.7%

Labor and benefits expense increased $9.5 million, or 12.3%, of which $4.1 million was an increase on existing North American operations and $4.7 million and $700,000 was from a full year of operations of URC and Emons, respectively. The $4.1 million increase on existing operations was primarily attributable to approximately $1.4 million from the new rail line in the Oregon Region, $400,000 from hires in new legal, tax and safety management positions and $2.3 million from regular wage increases and increased labor expense related to higher shipment levels on existing operations. As a percentage of total revenue, labor and benefits decreased by 1.4% to 35.7% in 2003 from 37.1% in 2002.

Diesel fuel expense increased $4.9 million, or 37.1%, of which $3.4 million was an increase on existing North American operations and $1.3 million and $180,000 was from a full year of operations of URC and Emons, respectively. The $3.4 million increase on existing operations was primarily attributable to increased fuel prices in 2003 as the average price per gallon of fuel increased 20.5%. As a percentage of total revenue, diesel fuel increased to 7.5% in 2003 from 6.4% in 2002.

Casualties and insurance increased $3.2 million, or 30.6%, of which $2.8 million was an increase on existing North American operations and $350,000 and $67,000 was from a full year of operations of URC and Emons, respectively. The $2.8 million increase on existing operations was primarily attributable to an increase in derailment expense of $1.6 million, insurance expense of $1.0 million, and claims expense of $170,000. As a percentage of total revenue, casualties and insurance increased to 5.6% in 2003 from 5.1% in 2002.

Net gain on sale and impairment of assets decreased $3.1 million primarily due to a non-recurring gain of $2.8 million from an asset sale in the Company's New York-Pennsylvania Region in the year ended December 31, 2002.

Other expenses increased $3.2 million, or 16.9%, of which $2.1 million was an increase on existing North American operations and $1.0 million and $107,000 was from a full year of operations of URC and Emons, respectively. The $2.1 million increase on existing operations was primarily due to increases of $350,000 in accounting and legal fees, $295,000 in information technology costs, $231,000 in trackage rights, $133,000 in acquisition costs, and approximately $1.1 million in all other costs. As a percentage of total revenue, other expenses increased to 9.1% in 2003 from 9.0% in 2002.

Interest Expense

Interest expense in the year ended December 31, 2003, was $8.6 million compared to $8.1 million in the year ended December 31, 2002, an increase of $507,000, or 6.2% primarily due to higher average outstanding debt resulting from the URC acquisition. It should be noted that interest expense for the year ended December 31, 2002 includes a $597,000 non-cash charge for the write off of unamortized deferred finance fees as a result of a refinancing in 2002 (See Note 9 to Consolidated Financial Statements).

Other Income, Net

Other income, net, in the year ended December 31, 2003, was $986,000 compared to $726,000 in the year ended December 31, 2002, an increase of $260,000, or 35.8%. Other income, net, in the years ended December 31, 2003 and 2002 consists primarily of interest income and currency gains and losses on Australian dollar denominated cash and receivable balances.

Income Taxes

The Company's effective income tax rate in the years ended December 31, 2003 and 2002 was 36.9% and 35.6%, respectively. The increase in 2003 is partially attributable to a higher effective rate on foreign earnings partially offset by a decrease in state effective tax rates.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the year ended December 31, 2003 were $10.6 million compared to $9.8 million in the year ended December 31, 2002, an increase of $867,000. Equity earnings in the year ended December 31, 2003, consist of $10.4 million from ARG and $270,000 from South American affiliates. Equity earnings in the year ended December 31, 2002, consist of $8.5 million from ARG and $1.3 million from South American affiliates.

Net Income and Earnings Per Share

The Company's net income for the year ended December 31, 2003, was $28.7 million compared to net income in the year ended December 31, 2002, of $25.6 million, an increase of $3.1 million, or 12.2%. The increase in net income is the result of an increase from North American operations of $2.2 million and an increase in equity earnings of unconsolidated affiliates of $867,000.

Basic and Diluted Earnings Per Share in the year ended December 31, 2003, were $1.21 and $1.07, respectively, on weighted average shares of 22.7 million and 26.8 million, respectively, compared to $1.11 and $0.97, respectively, on weighted average shares of 22.1 million and 26.4 million in the year ended December 31, 2002. The earnings per share and weighted average shares outstanding for the years ended December 31, 2003 and 2002 are adjusted for the impact of the February 27, 2004, February 28, 2002 and May 31, 2001 stock splits (see Note 2 to Consolidated Financial Statements).

Supplemental Information — Australian Railroad Group

ARG is 50% owned by the Company and 50% owned by Wesfarmers Limited, a public corporation based in Perth, Western Australia. The Company accounts for its 50% ownership in ARG under the equity method of accounting. As a result of the strengthening of the Australian dollar in 2003, the average currency translation rate for the year ended December 31, 2003 was 21.5% more favorable than the rate for the year ended December 31, 2002, the impact of which should be considered in the following discussions of equity earnings, freight and non-freight operating revenues, and operating expenses.

In the years ended December 31, 2003 and 2002, the Company recorded $10.4 million and $8.5 million, respectively, of equity earnings from ARG, which is reported in the accompanying consolidated statements of income under the caption Equity in Net Income of International Affiliates — Australia. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2003 and 2002.

Freight Revenues

Australian Railroad Group Freight Revenues and Carloads by Commodity Group
Years ended December 31, 2003 and 2002
(U.S. dollars in thousands, except average per carload)

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**	**2003**	**2002**
Grain	**$ 61,125**	**29.5%**	$ 53,590	30.5%	**158,462**	**18.7%**	177,651	20.5%	**$386**	$302
Other Ores and Minerals	**48,782**	**23.6%**	38,075	21.7%	**107,257**	**12.7%**	99,816	11.5%	**455**	381
Iron Ore	**36,238**	**17.5%**	27,038	15.4%	**179,711**	**21.2%**	177,619	20.5%	**202**	152
Alumina	**16,459**	**8.0%**	13,828	7.9%	**153,685**	**18.1%**	151,756	17.5%	**107**	91
Bauxite	**11,363**	**5.5%**	10,125	5.8%	**126,865**	**15.0%**	127,892	14.8%	**90**	79
Hook and Pull(Haulage)	**5,498**	**2.7%**	8,343	4.8%	**13,337**	**1.6%**	24,628	2.9%	**412**	339
Gypsum	**2,915**	**1.4%**	2,327	1.3%	**45,548**	**5.4%**	42,389	4.9%	**64**	55
Other	**24,543**	**11.8%**	22,114	12.6%	**62,865**	**7.3%**	63,724	7.4%	**390**	347
Total	**$206,923**	**100.0%**	$175,440	100.0%	**847,730**	**100.0%**	865,475	100.0%	**244**	203

ARG's freight revenues were $206.9 million in the year ended December 31, 2003, compared to $175.4 million in the year ended December 31, 2002, an increase of $31.5 million or 17.9%. In local currency, freight revenues decreased 2.9% in the year ended December 31, 2003, compared to the year ended December 31, 2002.

Total ARG carloads were 847,730 in the year ended December 31, 2003 compared to 865,475 in the year ended December 31, 2002, a net decrease of 17,745 carloads or 2.1%. The net decrease of 17,745 carloads resulted primarily from decreases in grain of 19,189 carloads due to a drought and hook and pull (haulage traffic) of 11,291 carloads due to the loss of a customer in April 2002, offset by a net increase of 12,735 carloads in all other commodities combined. The average revenue per carload increased to $244 in the year ended December 31, 2003, compared to $203 per carload in the year ended December 31, 2002, an increase of 20.2%, due to the strength of the Australian dollar relative to the U.S. dollar in 2003 versus 2002.

Non-Freight Revenues

ARG's non-freight revenues were $42.6 million in the year ended December 31, 2003 compared to $35.6 million in the year ended December 31, 2002, an increase of $7.0 million or 19.7%. In local currency, non-freight revenues decreased 1.4% in the year ended December 31, 2003, compared to the year ended December 31, 2002.

The following table compares ARG's non-freight revenues for the years ended December 31, 2003 and 2002:

Australian Railroad Group
Non-Freight Revenues Comparison
Years Ended December 31, 2003 and 2002
(U.S. dollars in thousands)

	2003	**% of Total**	2002	% of Total
Third party track access fees	**$18,042**	**42.3%**	$13,744	38.6%
Alice Springs to Darwin Line	**12,103**	**28.4%**	13,421	37.7%
Fuel sales	**8,083**	**19.0%**	4,636	13.0%
Other operating income	**4,420**	**10.3%**	3,826	10.7%
Total non-freight revenues	**$42,648**	**100.0%**	$35,627	100.0%

Construction of the Alice Springs to Darwin rail line was completed in the fourth quarter of 2003. ARG's role in the project will continue as a contracted operator and lessor of rail equipment.

ARG Operating Expenses

ARG's operating expenses were $194.4 million in the year ended December 31, 2003, compared to $164.6 million in the year ended December 31, 2002, an increase of $29.8 million or 18.1%. The following table sets forth a comparison of ARG's operating expenses in the years ended December 31, 2003 and 2002:

Australian Railroad Group
Operating Expense Comparison
Years Ended December 31, 2003 and 2002
(U.S. dollars in thousands)

	2003		**2002**	
	$	**% of Operating Revenue**	**$**	**% of Operating Revenue**
Labor and benefits	**$ 47,337**	**19.0%**	$ 39,320	18.6%
Equipment rents	**1,733**	**0.7%**	1,118	0.5%
Purchased services	**60,096**	**24.1%**	49,386	23.4%
Depreciation and amortization	**23,443**	**9.4%**	17,191	8.1%
Diesel fuel	**22,656**	**9.1%**	17,530	8.3%
Casualties and insurance	**8,568**	**3.4%**	10,541	5.0%
Materials	**11,635**	**4.6%**	7,530	3.6%
Net gain on sale and impairment of assets	**(2,081)**	**(0.8%)**	(314)	(0.1%)
Other expenses	**20,969**	**8.4%**	22,294	10.6%
Total operating expenses	**$194,356**	**77.9%**	$164,596	78.0%

Labor and benefits as a percentage of revenue were 19.0% in the year ended December 21, 2003 compared to 18.6% in the year ended December 31, 2002. An increase in labor expense resulting from the hiring of additional locomotive drivers in anticipation of increased grain shipments due to the strong grain harvest in Western Australia and for a new customer contract in New South Wales, as well as an increase in labor expense for safety and performance related bonuses, were offset by a decrease in labor costs following a workforce restructuring in 2002. In local currency, labor and benefits expense declined 0.9%.

Purchased services, primarily for track and locomotive maintenance contractors, were 24.1% of revenue in the year ended December 21, 2003 compared to 23.4% of revenue in the year ended December 31, 2002. In local currency, purchased services expense increased 0.2%.

Depreciation and amortization expense as a percentage of revenue increased to 9.4% in the year ended December 31, 2003, compared to 8.1% in the year ended December 31, 2002. The higher depreciation expense resulted from an increase in depreciable assets due to track capital expenditures. In local currency, depreciation and amortization expense increased 12.3%.

Diesel fuel expense as a percentage of revenue increased to 9.1% in the year ended December 31, 2003, compared to 8.3% in the year ended December 31, 2002, primarily due to an increase in fuel sales to third parties and an increase in fuel prices. In local currency, diesel fuel expense increased 6.4%.

Casualties and insurance as a percentage of revenue decreased to 3.4% in the year ended December 31, 2003, compared to 5.0% in the year ended December 31, 2002, due to improved safety performance and fewer derailments. In local currency, casualties and insurance expense declined 33.1%.

Materials expense as a percentage of revenue increased to 4.6% in the year ended December 31, 2003, compared to 3.6% in the year ended December 31, 2002, due to increases in track and rolling stock repairs. In local currency, materials expense increased 27.2%.

Net gain on sale and impairment of assets increased to 0.8% in the year ended December 31, 2003, compared to 0.1% in the year ended December 31, 2002, due to the sale of real estate and railcars.

Other expenses decreased to 8.4% of revenue in the year ended December 31, 2003, compared to 10.6% in the year ended December 31, 2002. The decrease in 2003 was primarily the result of lower track access fees in South Australia, lower grain transfer costs due to the drought, lower general and administrative costs, as well as the non-recurrence of $867,000 in costs related to the unsuccessful bid for the privatization of an Australian railroad in 2002. In local currency, other expenses decreased 22.6%.

Income Taxes

ARG's effective income tax rate in the years ended December 31, 2003 and 2002 was 15.7% and 24.6%, respectively. The decrease in 2003 was attributable to finalizing the tax base of assets acquired from the government in December 2000. The net assets acquired were from a government tax exempt entity, and the determination of the tax base involved the application of complex legislation. During 2003, all matters were favorably resolved with the Australian Taxation Office, resulting in a reduction in income tax expense due to an overprovision of tax expense in prior periods.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

North American Operating Revenues

Overview

North American operating revenues (which exclude revenues from the Company's equity investees) were $209.5 million in the year ended December 31, 2002, compared to $173.6 million in the year ended December 31, 2001, a net increase of $35.9 million or 20.7%. The increase in operating revenue was attributable to a $27.4 million net increase in freight revenues and an $8.5 million net increase in non-freight revenues. The $27.4 million net increase in freight revenues consisted of $10.2 million in freight revenue from a full year of operations of South Buffalo, $15.2 million in freight revenues from Emons, and $4.1 million in freight revenues from URC, offset by a $2.1 million decrease on existing North American operations. The $8.5 million net increase in non-freight revenues consisted of $2.0 million in non-freight revenue from a full year of operations of South Buffalo, $5.4 million in non-freight revenues from Emons, $2.7 million in non-freight revenues from URC, and $3.1 million due primarily to the addition of several new industrial switching contracts, offset by a $4.7 million decrease 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, 2002 and 2001:

Freight Revenues

North American Freight Revenues and Carloads Comparison by Commodity Group
Years Ended December 31, 2002 and 2001
(dollars in thousands, except average per carload)

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2002**	**% of Total**	**2001**	**% of Total**	**2002**	**% of Total**	**2001**	**% of Total**	**2002**	**2001**
Coal, Coke & Ores	**$ 28,685**	**18.2%**	$ 28,081	21.6%	**136,044**	**29.6%**	128,286	33.1%	**$211**	$219
Pulp & Paper	**25,711**	**16.3%**	18,663	14.4%	**64,494**	**14.0%**	49,033	12.6%	**399**	381
Minerals & Stone	**21,236**	**13.5%**	19,439	15.0%	**50,844**	**11.0%**	43,615	11.2%	**418**	446
Petroleum Products	**20,655**	**13.1%**	16,971	13.1%	**29,479**	**6.4%**	27,541	7.1%	**701**	616
Metals	**15,993**	**10.2%**	11,239	8.7%	**57,846**	**12.6%**	40,679	10.5%	**276**	276
Lumber & Forest Products	**12,828**	**8.2%**	8,846	6.8%	**36,265**	**7.9%**	26,727	6.9%	**354**	331
Farm & Food Products	**10,158**	**6.5%**	10,008	7.7%	**27,378**	**5.9%**	28,205	7.3%	**371**	355
Chemicals-Plastics	**9,523**	**6.1%**	8,359	6.4%	**19,949**	**4.3%**	16,574	4.3%	**477**	504
Autos & Auto Parts	**6,996**	**4.4%**	2,499	1.9%	**17,130**	**3.7%**	5,283	1.4%	**408**	473
Intermodal	**1,302**	**0.8%**	622	0.5%	**5,387**	**1.2%**	1,954	0.5%	**242**	318
Other	**4,202**	**2.7%**	5,134	3.9%	**15,527**	**3.4%**	20,086	5.1%	**271**	256
Totals	**$157,289**	**100.0%**	$129,861	100.0%	**460,343**	**100.0%**	387,983	100.0%	**342**	335

Coal, Coke and Ores revenues increased by a net $604,000 or 2.2%, primarily due to an increase of $3.8 million in freight revenues from hauling new carloads of coal from the acquisition of URC, offset by a decrease in revenues of $3.2 million from hauling carloads of coal on existing operations for customers operating in the electric utility industry.

Pulp and Paper revenues increased by $7.0 million, or 37.8%, primarily due to an increase of $5.3 million in freight revenues from the acquisition of Emons and an increase of $1.7 million in revenue from existing North American operations serving pulp and paper industries located in the Company's Oregon, New York-Pennsylvania and Canada Regions.

Minerals and Stone revenues increased by $1.8 million, or 9.2%, primarily due to $1.3 million in freight revenues from the acquisition of Emons and a net increase of $500,000 in revenue from existing North American operations. The $500,000 net increase from existing North American operations primarily consisted of a $2.0 million increase on existing US and Canada operations of which $1.7 million was from hauling additional carloads of salt as the result of a new salt mine customer which began shipping in May 2001, offset by a $1.5 million decrease in the Mexico Region, primarily cement, due to the downturn in the Mexican economy and the impact of Hurricane Isidore.

Petroleum Products revenues increased by $3.7 million, or 21.7%, primarily due to $1.0 million in freight revenues from the acquisition of Emons, an increase of $2.2 million in freight revenues in the Company's Mexico Region, primarily due to a new contract and shifting traffic patterns, and an increase of $424,000 in the Company's other Regions.

Metals revenues increased by a net $4.8 million, or 42.3%, primarily due to $4.8 million in freight revenue from a full year of operations of South Buffalo.

Lumber and Forest Products revenues increased by $4.0 million, or 45.0%, primarily due to $2.0 million in freight revenues from the acquisition of Emons, $634,000 in freight revenue from a full year of operations of South Buffalo, and an increase of $1.3 million in freight revenue on existing operations, primarily the Company's Oregon and New York-Pennsylvania Regions.

Chemicals and Plastics revenues increased by a net $1.2 million, or 13.9%, primarily due to $1.6 million in freight revenues from the acquisition of Emons, offset by a decrease of $442,000 in freight revenue on existing operations.

Auto and Auto Parts revenues increased by $4.5 million, or 180.0%, primarily due to $3.9 million in freight revenue from a full year of operations of South Buffalo and an increase of $567,000 in freight revenue on existing operations.

Freight revenues from all remaining commodities reflected a net decrease of $102,000 of which $1.1 million was a net decrease on existing operations, offset by $1.0 million in freight revenues from the acquisitions of Emons and URC.

Total North American carloads were 460,343 in the year ended December 31, 2002 compared to 387,983 in the year ended December 31, 2001, an increase of 72,360 or 18.7%. The increase of 72,360, consisted of 36,884 carloads from a full year of operations of South Buffalo, 36,190 carloads from the acquisition of Emons, 17,385 from the acquisition of URC, offset by a net decrease of 18,099 carloads on existing operations of which 15,632 carloads were coal.

The overall average revenue per carload increased to $342 in the year ended December 31, 2002, compared to $335 per carload in the year ended December 31, 2001, an increase of 2.1%, due primarily to higher average revenues per carload on the carloads from the acquisition of Emons, and higher average revenue per carload on long-haul petroleum products in the Company's Mexico Region resulting from a new contract.

Non-Freight Revenues

North American non-freight revenues were $52.3 million in the year ended December 31, 2002, compared to $43.7 million in the year ended December 31, 2001, a net increase of $8.5 million, or 19.5%. The following table compares North American non-freight revenues for the years ended December 31, 2002 and 2001:

North American
Non-Freight Revenues Comparison
Years Ended December 31, 2002 and 2001
(dollars in thousands)

	2002	**% of Total**	2001	% of Total
Railcar switching	**$28,426**	**54.4%**	$20,916	47.8%
Car hire and rental income	**7,503**	**14.4%**	7,484	17.1%
Car repair services	**3,563**	**6.8%**	3,135	7.2%
Other operating income	**12,759**	**24.4%**	12,180	27.9%
Total non-freight revenues	**$52,251**	**100.0%**	$43,715	100.0%

The net increase of $7.5 million in railcar switching revenues is primarily attributable to an increase of $3.1 million due to the addition of several new industrial switching contracts, $1.3 million in switching revenues from a full year of operations of South Buffalo, $743,000 in switching revenues from Emons, $2.3 million in switching revenues from URC, and a $89,000 increase on existing North American operations.

The net increase of $579,000 in other operating income is primarily attributable to $422,000 from a full year of operations of South Buffalo, $2.8 million in revenues from Emons and $278,000 in revenues from URC, offset by a decrease of $2.9 million on existing operations. The decrease of $2.9 million on existing operations relates primarily to a decrease of $1.7 million in trackage rights and haulage revenues in the Company's New York-Pennsylvania and Mexico Regions, a decrease of $781,000 in demurrage and storage in the Company's Mexico and Canada Regions, and a decrease of $398,000 in revenues from the Company's start-up logistics operation, Speedlink, for which operations ceased in September 2001.

North American Operating Expenses

Overview

North American operating expenses were $177.5 million in the year ended December 31, 2002, compared to $150.6 million in the year ended December 31, 2001, an increase of $26.9 million, or 17.9%. The increase was attributable to a $6.3 million increase in North American operating expense from a full year of operations of South Buffalo, a $17.4 million increase from the acquisition of Emons, a $5.9 million increase from the acquisition of URC, and a $2.9 million increase in expenses due primarily to the addition of several new industrial switching contracts, offset by a $5.6 million decrease on existing North American operations. The $5.6 million decrease in existing North American operating expenses was attributable to an increase in net gain on sale of assets of $2.3 million, a $1.0 million decrease in existing North American operating expenses resulting from cost reduction programs implemented to offset decreased revenues on certain of the Company's existing North American operations, and a $2.3 million decrease resulting from the termination of the Company's logistics operation, Speedlink, which ceased operations in September 2001.

Operating Ratios

The Company's consolidated operating ratio improved to 84.7% in the year ended December 31, 2002 from 86.8% in the year ended December 31, 2001. The year ended December 31, 2002 includes a 1.5% reduction related to net gains on sale and impairment of assets.

The following table sets forth a comparison of the Company's North American operating expenses in the years ended December 31, 2002 and 2001:

North American
Operating Expense Comparison
Years Ended December 31, 2002 and 2001
(dollars in thousands)

	2002		2001	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	**$ 77,778**	**37.1%**	$ 63,963	36.8%
Equipment rents	**17,776**	**8.5%**	18,477	10.6%
Purchased services	**15,471**	**7.4%**	12,334	7.1%
Depreciation and amortization	**13,569**	**6.5%**	12,756	7.3%
Diesel fuel	**13,368**	**6.4%**	12,060	6.9%
Casualties and insurance	**10,592**	**5.1%**	7,073	4.1%
Materials	**13,047**	**6.2%**	11,262	6.4%
Net gain on sale and impairment of assets	**(3,140)**	**(1.5%)**	(814)	(0.1%)
Other expenses	**19,072**	**9.0%**	13,511	7.7%
Total operating expenses	**$177,533**	**84.7%**	$150,622	86.8%

Labor and benefits expense increased $13.8 million, or 21.6%, of which $3.0 million was an increase from a full year of operations of South Buffalo, $7.2 million was an increase from Emons, $2.3 million was an increase from URC, $1.2 million was primarily due to costs associated with new industrial switching contracts, and $165,000 was an increase on existing North American operations.

Equipment rents expense decreased a net $701,000, or 4.0%, of which $345,000 was an increase from a full year of operations of South Buffalo, $2.1 million was an increase from Emons and $526,000 was an increase from URC, offset by a $2.1 million decrease on existing North American operations of which $1.9 million was primarily car hire and equipment rents and $330,000 was from the termination of the Company's logistics operation, Speedlink, which ceased operations in September 2001.

Purchased services increased $3.1 million, or 25.4%, of which $319,000 was an increase from a full year of operations of South Buffalo, $1.9 million was an increase from Emons, $553,000 was an increase from URC and $329,000 was an increase on existing North American operations.

Depreciation and amortization expense increased a net $813,000, or 6.4%, of which $458,000 was an increase from a full year of operations of South Buffalo, $1.0 million was an increase from Emons, and $222,000 was an increase from URC, offset by a $867,000 decrease on existing North American operations primarily due to discontinued amortization of the Service Assurance Agreement and goodwill. Pursuant to adopting SFAS No. 142 on January 1, 2002, the Service Assurance Agreement and goodwill were no longer being amortized (see Note 6 to Consolidated Financial Statements).

Diesel fuel expense increased a net $1.3 million, or 10.8%, of which $193,000 was an increase from a full year of operations of South Buffalo, $1.3 million was an increase from Emons, and $742,000 was an increase from URC, offset by a $927,000 decrease on existing North American operations resulting primarily from decreased fuel prices and consumption in 2002.

Casualties and insurance increased $3.5 million, or 49.8%, of which $372,000 was an increase from a full year of operations of South Buffalo, $693,000 was an increase from Emons, $134,000 was an increase from URC and $2.3 million was an increase on existing North American operations. The $2.3 million increase was primarily due to an increase of $1.2 million in liability and property insurance premiums since August 2002, and to an increase of $1.1 million in claims expense. The claims cost in 2002 is associated in part with a fatality while the 2001 results include a credit of $188,000 from the settlement of a claim for less than the amount reserved.

Materials expense increased a net $1.8 million, or 15.8%, of which $495,000 was an increase from a full year of operations of South Buffalo, $1.6 million was an increase from Emons, $185,000 was an increase from URC, offset by a $495,000 decrease on existing North American operations.

Net gain on sale and impairment of assets increased $2.3 million due primarily to a gain of $2.8 million from an asset sale on the Company's New York-Pennsylvania Regions.

Other expenses increased $5.6 million, or 41.1%, of which $1.1 million was an increase from a full year of operations of South Buffalo, $754,000 was an increase from Emons, $598,000 was an increase from URC, $581,000 were costs associated with new switching contracts, and $2.5 million was an increase on existing North American operations primarily due to increases in acquisition fees, accounting and legal fees, trackage rights, and information technology costs.

Interest Expense

Interest expense in the year ended December 31, 2002, was $8.1 million compared to $10.0 million in the year ended December 31, 2001, a decrease of $1.9 million, or 19.0%, primarily due to a decrease in average outstanding debt and lower interest rates in 2002, offset by new borrowings to acquire Emons and URC. Interest expense for the year ended December 31, 2002 includes a $597,000 non-cash charge for the write off of unamortized deferred finance fees as a result of a refinancing in 2002 (See Note 9 to Consolidated Financial Statements).

Gain on 50% Sale of Australia Southern Railroad

The Company recorded a non-cash gain of $3.0 million in 2001 related to its original non-cash gain of $10.1 million recognized in December 2000 upon the issuance of shares of ASR at a price per share in excess of its book value per share investment in ASR (see Note 3 to Consolidated Financial Statements).

Other Income, Net

Other income, net, in the year ended December 31, 2002, was $726,000 compared to $497,000 in the year ended December 31, 2001, an increase of $229,000, or 46.1%. Other income, net, in the years ended December 31, 2002 and 2001 consists primarily of interest income and currency gains and losses on Australian dollar denominated cash and receivable balances.

Income Taxes

The Company's effective income tax rate in the years ended December 31, 2002 and 2001 was 35.6% and 37.6%, respectively. The decrease in 2002 is partially attributable to lower tax rates on foreign operations offset by an increase in the Company's effective state tax rate.

Equity in Net Income of Unconsolidated International Affiliates

Equity earnings of unconsolidated international affiliates in the year ended December 31, 2002, were $9.8 million compared to $8.9 million in the year ended December 31, 2001, an increase of $911,000. Equity earnings in the year ended December 31, 2002, consist of $8.5 million from ARG and $1.3 million from South America affiliates. Equity earnings in the year ended December 31, 2001, consist of $8.5 million from ARG and $412,000 from South America affiliates.

Net Income and Earnings Per Share

The Company's net income for the year ended December 31, 2002, was $25.6 million compared to net income in the year ended December 31, 2001, of $19.1 million, an increase of $6.5 million, or 34.2%. The increase in net income is the result of an increase from North American operations of $5.6 million and an increase in equity earnings of unconsolidated affiliates of $911,000.

Basic and Diluted Earnings Per Share in the year ended December 31, 2002, were $1.11 and $0.97, respectively, on weighted average shares of 22.1 million and 26.4 million, respectively, compared to $1.15 and $0.98, respectively, on weighted average shares of 15.8 million and 19.4 million in the year ended December 31, 2001. The earnings per share and weighted average shares outstanding for the years ended December 31, 2002 and 2001 are adjusted for the impact of stock splits (see Notes 2 and 22 to Consolidated Financial Statements). The increase in weighted average shares outstanding for Basic Earnings Per Share of 6.3 million is primarily attributable to the impact of the December 21, 2001 offering of common stock (see Note 11 to Consolidated Financial Statements), and the exercise of employee stock options in 2002. The increase in weighted average shares outstanding for Diluted Earnings Per Share of 7.0 million is primarily attributable to the above impact and the dilutive impact of the common stock equivalents associated with the Mandatorily Redeemable Convertible Preferred Stock issued in December 2001 (734,000 and 40,203 weighted average shares, in 2002 and 2001 respectively), and the dilutive impact of unexercised employee and director stock options.

Supplemental Information — Australian Railroad Group

The Company accounts for its 50% ownership in ARG under the equity method of accounting. As a result of the strengthening of the Australian dollar in 2002, the average currency translation rate for the year ended December 31, 2002 was 5.2% more favorable than the rate for the year ended December 31, 2001, the impact of which should be considered in the following discussions of equity earnings, freight and non-freight operating revenues, and operating expenses.

In the years ended December 31, 2002 and 2001, the Company recorded $8.5 million and $8.5 million, respectively, of equity earnings from ARG, which is reported in the accompanying consolidated statements of income under the caption Equity in Net Income of International Affiliates — Australia. The following table provides ARG's freight revenues, carloads and average freight revenues per carload for the years ended December 31, 2002 and 2001.

Freight Revenues

Australian Railroad Group Freight Revenues and Carloads by Commodity Group
Years ended December 31, 2002 and 2001
(U.S. dollars in thousands, except average per carload)

	Freight Revenues				Carloads				Average Freight Revenue Per Carload	
Commodity Group	**2002**	**% of Total**	**2001**	**% of Total**	**2002**	**% of Total**	**2001**	**% of Total**	**2002**	**2001**
Grain	**$ 53,590**	**30.5%**	$ 49,757	30.2%	**177,651**	**20.5%**	171,037	20.2%	**$302**	$291
Other Ores and Minerals	**38,075**	**21.7%**	42,064	25.6%	**99,816**	**11.5%**	101,257	12.0%	**381**	415
Iron Ore	**27,038**	**15.4%**	20,594	12.5%	**177,619**	**20.5%**	159,038	18.8%	**152**	129
Alumina	**13,828**	**7.9%**	15,309	9.3%	**151,756**	**17.5%**	145,073	17.1%	**91**	106
Bauxite	**10,125**	**5.8%**	9,334	5.7%	**127,892**	**14.8%**	127,263	15.0%	**79**	73
Hook and Pull(Haulage)	**8,343**	**4.8%**	10,556	6.4%	**24,628**	**2.9%**	43,628	5.2%	**339**	242
Gypsum	**2,327**	**1.3%**	1,980	1.2%	**42,389**	**4.9%**	38,837	4.6%	**55**	51
Other	**22,114**	**12.6%**	14,977	9.1%	**63,724**	**7.4%**	60,625	7.1%	**347**	247
Total	**$175,440**	**100.0%**	$164,571	100.0%	**865,475**	**100.0%**	846,758	100.0%	**203**	194

ARG's freight revenues were $175.4 million in the year ended December 31, 2002, compared to $164.6 million in the year ended December 31, 2001, an increase of $10.8 million or 6.6%. This increase was primarily attributable to increases in iron ores of $6.4 million, grain of $4.7 million and other of $7.1 million, offset by decreases in alumina of $1.5 million, hook and pull of $2.2 million and other ores and minerals of $4.0 million. Freight revenues from hauling iron ores were up primarily due to expansion by one of ARG's major iron ores customers. Freight revenues from hauling grain were up primarily due to a stronger harvest in Western Australia, offset by lower grain revenues in South Australia due to a weaker harvest. Freight revenues from hauling alumina were down due to lowered rates after new contracts went into effect with major customers. The decline in hook and pull was primarily business that was handled for two Australian companies prior to their joint acquisition of a competing railroad.

Total ARG carloads were 865,475 in the year ended December 31, 2002 compared to 846,758 in the year ended December 31, 2001, an increase of 18,717 or 2.2%. The average revenue per carload increased to $203 in the year ended December 31, 2002, compared to $194 per carload in the year ended December 31, 2001, an increase of 4.6%, due to the strength of the Australian dollar relative to the U.S. dollar in 2002 versus 2001.

Non-Freight Revenues

ARG's non-freight revenues were $35.6 million in the year ended December 31, 2002 compared to $23.9 million in the year ended December 31, 2001, an increase of $11.7 million or 48.9%. This increase included $13.4 million of revenues from the construction of the Alice Springs to Darwin rail line.

The following table compares ARG's non-freight revenues for the years ended December 31, 2002 and 2001:

Australian Railroad Group
Non-Freight Operating Revenues Comparison
Years Ended December 31, 2002 and 2001
(U.S. dollars in thousands)

	2002	**% of Total**	**2001**	**% of Total**
Third party track access fees	**$13,744**	**38.6%**	$13,042	54.5%
Alice Springs to Darwin Line	**13,421**	**37.7%**	—	0.0%
Fuel sales	**4,636**	**13.0%**	6,776	28.3%
Other operating income	**3,826**	**10.7%**	4,101	17.2%
Total non-freight revenues	**$35,627**	**100.0%**	$23,919	100.0%

ARG Operating Expenses

ARG's operating expenses were $164.6 million in the year ended December 31, 2002, compared to $141.1 million in the year ended December 31, 2001, an increase of $23.5 million or 16.7%. The following table sets forth a comparison of ARG's operating expenses in the years ended December 31, 2002 and 2001:

Australian Railroad Group
Operating Expense Comparison
Years Ended December 31, 2002 and 2001
(U.S. dollars in thousands)

	2002		2001	
	Dollars	Percent of Operating Revenue	Dollars	Percent of Operating Revenue
Labor and benefits	**$ 39,320**	**18.6%**	$ 36,922	19.6%
Equipment rents	**1,118**	**0.5%**	684	0.4%
Purchased services	**49,386**	**23.4%**	40,128	21.3%
Depreciation and amortization	**17,191**	**8.1%**	13,392	7.1%
Diesel fuel	**17,530**	**8.3%**	20,611	10.9%
Casualties and insurance	**10,541**	**5.0%**	3,044	1.6%
Materials	**7,530**	**3.6%**	8,731	4.6%
Net gain on sale and impairment of assets	**(314)**	**(0.1%)**	(152)	(0.1%)
Other expenses	**22,294**	**10.6%**	17,735	9.5%
Total operating expenses	**$164,596**	**78.0%**	$141,095	74.9%

Labor and benefits, as a percentage of revenue, decreased to 18.6% in the year ended December 31, 2002, compared to 19.6% in the year ended December 31, 2001. In local currency, labor and benefits expense increased 1.4%. The increase was primarily due to a restructuring charge related to personnel reductions and office relocation in the fourth quarter of 2002, partially offset by savings related to head count reductions in 2001 that were planned as part of the acquisition of Westrail Freight.

Purchased services, as a percentage of revenue, increased to 23.4% in the year ended December 31, 2002, compared to 21.3% in the year ended December 31, 2001. The increase was primarily caused by increased track maintenance work and increased truck transportation expenses related to the Alice Springs to Darwin construction project. In local currency, purchased services expense increased 17.0%.

Depreciation and amortization expense increased to 8.1% in the year ended December 31, 2002, compared to 7.1% in the year ended December 31, 2001, due to increased capital expenditures. In local currency, depreciation and amortization expense increased 21.5%.

Diesel fuel expense decreased to 8.3% in the year ended December 31, 2002, compared to 10.9% in the year ended December 31, 2001, due to a decrease in third party sales and lower fuel prices. In local currency, diesel fuel expense decreased 19.2%.

Casualties and insurance increased to 5.0% of revenue in the year ended December 31, 2002, compared to 1.6% in the year ended December 31, 2001, primarily due to an increase of $4.3 million in the cost of incidents including derailments and an increase of $1.6 million in insurance premiums. In local currency, casualties and insurance expense increased 229.3%.

Materials expense as a percentage of revenue decreased to 3.6% in the year ended December 31, 2002, compared to 4.6% in the year ended December 31, 2001.

Other expenses increased to 10.6% of revenue in the year ended December 31, 2002, compared to 9.5% in the year ended December 31, 2001. The increase was primarily due to additional costs associated with the Alice Springs to Darwin project. In local currency, other expenses increased 21.6%.

Income Taxes

ARG's effective income tax rate in the years ended December 31, 2002 and 2001 was 24.6% and 33.7%, respectively. The decrease in 2002 was attributable to recording the tax benefit on amortization associated with the prepaid lease on track assets acquired from the government in December 2000. The lease is with a government tax exempt entity, and the determination of the tax base involved the application of complex legislation. During 2002, ARG began to recognize the tax benefit on the prepaid lease amortization for the first time.

NORTH AMERICAN LIQUIDITY AND CAPITAL RESOURCES

During 2003, 2002 and 2001, the Company generated $46.9 million, $27.6 million and $28.6 million, respectively, of cash from operations. The 2003 increase over 2002 was primarily due to the following items, increased net income of $3.1 million, increased depreciation and amortization of $1.9 million, increased deferred taxes of $3.2 million, decreased net gain on asset sales and impairments of $3.1 million, and a net decrease in elements of working capital of $10.4 million, offset by a net decrease of $2.4 million in all other operating items. The decrease from 2001 to 2002 was primarily due to the net increase in working capital during 2002 compared to the net decrease in working capital during 2001.

During 2003, 2002 and 2001 the Company's cash flow used in investing activities was $75.9 million, $103.0 million and $37.4 million, respectively. For 2003, primary drivers of the investing activities were the acquisition of the ALM, CIRR and F&P for $54.9 million and capital expenditures of $23.0 million. Capital expenditures consisted of $14.7 million for track improvements net of funds received from governmental grants, and $8.3 million for equipment and rolling stock which included $4.1 million for a locomotive upgrade project. For 2002, primary drivers of the investing activities were the acquisitions of the Utah Railway Company and Emons Transportation Group for a total of $85.1 million and capital expenditures of $22.3 million. Capital expenditures consisted of $9.0 million for track improvements net of funds received from governmental grants and $7.9 million for equipment and rolling stock which included $2.0 million for a locomotive upgrade project. For 2001, primary drivers of the investing activities were the acquisition of South Buffalo Railway, net of cash received for $33.1 million and capital expenditures of $16.6 million, offset by $8.1 million in proceeds from the sale of assets and $4.1 million in net cash received from unconsolidated affiliates. Capital expenditures consisted of $12.1 million for track improvements net of funds received from governmental grants and $4.5 million for equipment and rolling stock.

During 2003, 2002 and 2001 the Company's cash flow provided by financing activities was $28.4 million, $59.1 million and $32.3 million, respectively. For 2003, primary drivers of the financing activities were a net increase in outstanding debt of $26.9 million and cash proceeds of $2.9 million from the exercise of stock options and stock purchases by employees, offset by dividends paid on the Preferred of $1.0 million. For 2002, primary drivers of the financing activities were a net increase in outstanding debt of $61.6 million and net proceeds from the exercise of stock options and stock purchases by employees of $3.1 million, offset by debt issuance costs of $4.6 million and dividends paid on the Preferred of $1.0 million. For 2001, primary drivers of the financing activities were net proceeds of $66.5 million from the issuance of Common Stock, net proceeds of $4.8 million from the issuance of Preferred Stock, proceeds of $6.3 million from the exercise of stock options and stock purchases by employees, offset by a net decrease in outstanding debt of $43.0 million and dividends paid on the Preferred of $900,000.

At December 31, 2003 the Company had long-term debt, including current portion, totaling $158.0 million, which comprised 35.2% of its total capitalization including the Convertible Preferred. At December 31, 2002 the Company had long-term debt, including current portion, totaling $125.4 million, which comprised 34.9% of its total capitalization including the Convertible Preferred.

U.S. and Canadian Credit Facilities

On October 31, 2002, the Company amended and restated its senior secured credit facilities thereby increasing the facilities to $250.0 million. The facilities are composed of a $223.0 million revolving loan and a US$27.0 million Canadian term loan, each maturing in 2007. The Canadian term loan is funded in Canadian dollars and principal and interest payments on the term loan are made in Canadian dollars. Under the terms of the financing, the Company may expand the size of the facilities to $350.0 million if certain criteria are met in the future. A portion of the new $250.0 million facilities was used to refinance approximately $100.0 million of existing debt owed by the Company's U.S. and Canadian subsidiaries. The remaining $150.0 million ($113.4 million at December 31, 2003) of unused borrowing capacity is available for general corporate purposes including acquisitions. In conjunction with the refinancing, the Company recorded a non-cash after-tax write off of $375,000 related to unamortized deferred financing costs of the refinanced debt.

The Canadian term loan is due in quarterly installments which began March 31, 2003, and matures, along with the revolving credit facilities, on October 31, 2007. The credit facilities accrue interest at rates based on various indices plus an applicable margin, which varies from 1.75 to 2.5 percentage points depending upon the ratio of the Company's funded debt to Earnings Before Interest, Taxes, Depreciation, Amortization and Operating Leases (EBITDAR), as defined in the credit agreement. 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 from the proceeds of asset sales that are not reinvested in capital assets in certain periods of time, as defined in the agreement. The credit facilities are collateralized 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, interest coverage, minimum net worth, and maximum capital expenditures, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 2003.

During 2001, the Company completed two amendments to its primary credit agreement (neither of which affected the terms of the debt) to enable the Company's acquisition of South Buffalo, the issuance of Class A Common Stock, and the acquisition of Emons.

Mexican Financings

On December 7, 2000, one of the Company's subsidiaries in Mexico, Servicios, entered into three promissory notes payable (Notes) totaling $27.5 million with variable interest rates based on LIBOR plus 3.5 percentage points. 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 Notes are secured by essentially all the assets of Servicios and its subsidiary, Compañía de Ferrocarriles Chiapas-Mayab, S.A. de C.V., (FCCM), and a pledge of the Company's shares of Servicios and FCCM. The Company is obligated to provide up to $8.0 million of funding to its Mexican subsidiaries, if necessary, to meet their investment or financial obligations prior to completing the investment phase of the project funded by the Notes (''Physical Completion''), consisting of several obligations related to capital investments, operating performance and management systems and controls. In addition, the Company is obligated to provide $7.5 million in funding to Servicios to meet its debt service obligations prior to completing the financial phase of the project (''Financial Completion''), consisting of several financial performance thresholds. At present, FCCM has yet to achieve Physical Completion or Financial Completion. Based on current circumstances, it is reasonably likely that the Company will have to fund a portion of its funding obligation in order to meet the future principal repayment obligations of the Notes. The Notes contain certain financial covenants which Servicios is in compliance with as of December 31, 2003.

In conjunction with the refinancing of FCCM and Servicios, the International Finance Corporation (IFC) (the primary lender to Servicios) 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 if the value of the put option exceeds the minority interest. This put option may result in a future cash outflow of the Company.

Mexican Fuel Tax Credits

Until January 2004, as a railroad, FCCM was permitted to apply diesel fuel tax credits it earned to a variety of its federal tax obligations, including income taxes, payroll taxes and value added taxes. In 2003, FCCM utilized approximately $3.3 million in such fuel tax credits. However, in January 2004, Mexican tax authorities issued a ruling that allows railroads to apply these tax credits only to income tax related obligations. Company personnel are working with the Secretary of Communications and Transportation and Mexican tax authorities to attempt to change the recent tax ruling, but the Company can offer no assurance that it will be successful. If this ruling were to hold, FCCM would face additional annual cash payment obligations for the next few years until it generates sufficient taxable income to utilize such credits. This additional burden will make it more difficult for FCCM and Servicios to satisfy their debt obligations and increases the likelihood that the Company will have to fund all or a portion of its funding obligation.

South America

The Company has a 22.89% indirect ownership interest in Empresa Ferroviaria Oriental, S.A. (Oriental) which is located in eastern Bolivia. The Company holds its equity interest in Oriental through a number of intermediate holding companies, and the Company accounts for its interest in Oriental under the equity method of accounting. The Company indirectly holds a 12.52% equity interest in Oriental through an interest in Genesee & Wyoming Chile (GWC), and the Company holds its remaining 10.37% equity interest in Oriental through other companies. GWC is an obligor of non-recourse debt of $12.0 million, which has an adjustable interest rate dependent on operating results of Oriental. This non-recourse debt is secured by a lien over GWC's indirect equity interest in Oriental.

This debt became due and payable on November 2, 2003. Due to the political and economic unrest and uncertainties in Bolivia, it has become difficult for GWC to refinance this debt and the Company has chosen not to repay the non-recourse obligation. GWC entered into discussions with its creditors on plans to restructure the debt, and as a result of those discussions, GWC obtained a written waiver from the creditors which expired on January 31, 2004. Negotiations with the creditors continue, and currently, none of GWC's creditors have commenced court proceedings to (i) collect on the debt or (ii) exercise their rights pursuant to the lien.

If the Company were to lose its 12.52% equity stake in Oriental due to creditors exercising their lien on GWC's indirect equity interest in Oriental, the Company would record a $232,000 write-off, the basis of its investment in Oriental held through GWC. Because the $12.0 million of debt is serviced by income received by GWC from Oriental, the Company's loss of the 12.52% equity interest in Oriental would not have a material adverse impact on the Company's future equity income. A default, acceleration or effort to foreclose on the lien under the non-recourse debt will have no impact on the Company's remaining 10.37% equity interest in Oriental, because that equity interest is held indirectly through holding companies outside of GWC's ownership in Oriental. The Company plans to continue providing management resources to Oriental and generates substantially all of its equity income through the 10.37% ownership interest.

Oriental has no obligations associated with the $12.0 million of debt. In addition, a default, acceleration or effort to foreclose on the lien under the non-recourse debt would not result in a breach of a representation, warranty, covenant, cross-default or acceleration under the Company's Senior Credit Facility.

Universal Shelf Registration

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 are determined when and if these securities are issued. On December 21, 2001, as an initial draw on the shelf registration, the Company sold 5.85 million shares of Class A Common Stock in a public offering at a price of $12.33 per share for net proceeds of $66.5 million. The proceeds were used to pay down revolving debt under the Company's primary credit agreement and for general corporate purposes. The Company has the ability to draw on its remaining universal shelf registration for up to $128.5 million of various debt and equity securities.

Equipment Leases

On March 30, 2001, the Company completed the sale of certain rolling stock to a financial institution for a net sale price of $6.5 million. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into an agreement with this financial institution to lease this rolling stock for a period of eight years including automatic renewals.

The Company anticipates renewing the above-mentioned lease at all available lease renewal dates. If the Company chooses not to renew this and certain other leases, it would be obligated to return the rolling stock and pay maximum aggregate fees of approximately $8.6 million. Under certain of these leases, in lieu of this payment, the Company has the option to purchase the rolling stock for approximately $22.1 million in the aggregate. Management anticipates the future market value of the leased rolling stock will equal or exceed the payments necessary to purchase the rolling stock.

Purchase of Rail-One Inc. — Expiring Stock Options

On April 15, 1999, the Company purchased the ownership interests of one of its joint venture partners in Canada, Rail-One Inc. (Rail-One) which had a 47.5% ownership interest in Genesee Rail-One Inc. (GRO), thereby increasing the Company's ownership of GRO to 95%. Under the terms of the purchase agreement, among other things, the sellers of Rail-One were granted the right to purchase up to 270,000 shares of the Company's Class A Common Stock at an exercise price of $2.56 per share if GRO had achieved certain financial performance targets in any annual period between 1999 and 2003. The Company has determined that GRO failed to achieve these financial performance targets in any of the required years.

Government Grants

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 excess in the fixed funding compared to the actual cost of rehabilitation and construction as gains in the current period. The Company received government grants totaling $2.0 million, $8.8 million and $4.0 million in 2003, 2002 and 2001, respectively. While the Company has benefited from these grant funds in recent years, there can be no assurance that the funds will continue to be available.

2004 Budgeted Capital Expenditures

The Company has budgeted approximately $29.2 million in capital expenditures in 2004, of which $19.8 million is for track rehabilitation and $9.4 million is for equipment. Included in the budget is approximately $2.7 million to exercise an early buyout of 36 leased locomotives and approximately $2.6 million to purchase and rehabilitate 16 miles of track to access a new coal-fired power plant customer.

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.

Contractual Obligations and Commercial Commitments

The following table represents the Company's obligations and commitments for future cash payments under debt and lease agreements as of December 31, 2003 (dollars in thousands):

	Payments Due By Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt Obligations	$158,022	$ 6,589	$12,706	$136,426	$2,301
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	43,025	12,224	17,731	9,964	3,106
Purchase Obligations	1,678	378	1,300	—	—
Total	$202,725	$19,191	$31,737	$146,390	$5,406

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as required to be disclosed pursuant to Item 303(a)(4) of regulation S-K.

Supplemental Information — Australian Railroad Group

In December 2003, ARG refinanced all of its senior debt outstanding through new senior credit facilities (''the new Credit Facilities'') of $398.0 million. The new Credit Facilities are denominated in Australian dollars. By drawing down approximately $368.0 million under the new Credit Facilities and using previously restricted cash, ARG repaid $439.3 million of senior debt. The new Credit Facilities are composed of a $150.2 million revolving loan maturing in 2008, a $90.1 million term loan maturing in 2008, a $150.2 million term loan expiring in 2010, and a $7.5 million working capital facility. The credit facilities accrue interest at rates based on various indices plus an applicable margin, which varies from 0.70 to 1.25 percentage points based on the ratio of its EBITDA to interest expense, as defined in the credit agreements. ARG pays a commitment fee on all unused portions of the credit facilities which varies from 0.3 to 0.4 percentage points. The credit facilities include limited negative pledge covenants but permit prepayment. The credit facilities require the maintenance of certain covenant ratios or amounts, including, but not limited to, interest expense to EBITDA, and total debt to total assets, all as defined in the credit agreements. (Dollar amounts noted above apply the year-end 2003 exchange rate of 0.75 U.S. dollars per Australian dollar.)

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use judgment and to make estimates and assumptions that affect reported assets, liabilities, revenues and expenses; actual results may differ from such estimates. The diversity of the Company's services, customers, geographic operations, sources of supply and markets reduces the risk that any one event would have a severe impact on the Company's operating results. Those areas requiring the greatest degree of management judgment or deemed most critical to the Company's financial reporting are discussed below.

Management has discussed the development and selection of the critical accounting estimates described below with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the Company's disclosure relating to it in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Goodwill and Intangible Assets Acquired in Business Combinations

The valuation of intangible assets acquired in business combinations requires management to use judgment and make estimates that are critical to the Company's financial reports. The Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142) as of January 1, 2002. Under this pronouncement, a two-step goodwill impairment model is used. Step 1 compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than the carrying amount, goodwill would be considered impaired and Step 2 measures the goodwill impairment as the excess of recorded goodwill over its implied fair value. The Company tests impairment on an annual basis or when specific triggering events occur.

Recoverability and Realization of Tangible Assets

The Company continually evaluates whether events and circumstances have occurred that indicate that its long-lived tangible 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 impairment has occurred. If 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. The Company closely monitors its assets in foreign operations where fluctuating currencies and unsettled economic conditions can create greater uncertainty. The Company adopted SFAS No. 144 ''Accounting for the Impairment or Disposal of Long-lived Assets'' effective January 1, 2002.

Derailment and Property Damages, Personal Injuries and Third Party Claims

The Company maintains insurance, with varying deductibles up to $500,000 per incident for liability and up to $500,000 per incident for property damage, for claims resulting from train derailments and other accidents related to its railroad and industrial switching operations. Accruals for FELA claims by the Company's railroad employees and third party personal injury or other claims, limited when appropriate to the applicable deductible, are recorded when such claims are first reported and estimates are updated as information develops.

Pensions and Other Post-Retirement Benefits

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. On January 31, 2002, the Company froze the defined benefit plan for non-union employees. Effective that date, new employees will not be eligible to participate in this plan, and future earnings for current participants will not be eligible in the computation of benefits for those participants.

The Company provides health care and life insurance benefits for certain retired employees including 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. As of December 31, 2003, there were 109 current or retired employees eligible for these health care and life insurance benefits. Forty of the employees currently participate and the remaining sixty-nine employees may become eligible for these 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.

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. 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 fully utilize those earnings in the operations of the foreign subsidiaries. If the earnings were to be distributed in the future, those distributions may be subject to U.S. income taxes (appropriately reduced by available foreign tax credits) and withholding taxes payable to various foreign countries. The amount of undistributed earnings of the Company's controlled foreign subsidiaries as of December 31, 2003 is $45.9 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.

Deferred income taxes reflect the net income tax 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. In the Company's 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 had net operating loss carry-forwards from its Mexican operations in 2003 and 2002 of $19.8 million and $21.2 million, respectively. The Mexican losses, for income tax purposes, relate to the immediate deduction of a portion of the purchase price paid for the FCCM operations and interest expense incurred in the holding company, Servicios. These loss carry-forwards will expire between 2009 and 2013.

The Company had net operating loss carry-forwards from its Canadian operations as of December 31, 2003 and 2002 of $0.8 million and $1.1 million, respectively. The Canadian losses represent losses generated prior to the Company gaining control of those operations in April 1999. These loss carry-forwards will expire in 2004.

A significant portion of the deferred tax benefits relate to the Mexican net operating loss carry-forwards. The Company believes that a valuation allowance need not be recorded since its Mexican business will generate sufficient taxable income to utilize all of the deferred tax assets. The Company's Mexican railroad operations are currently profitable and at current levels will generate sufficient taxable income to utilize the net operating loss carry-forwards attributable to the FCCM business prior to the date of expiration. In addition, Management believes that an anticipated merger of Servicios and FCCM will enable the Company to use the future taxable income to offset any remaining net operating losses prior to the date of expiration.

As of December 31, 2003 and 2002, the deferred tax asset attributable to the Canadian net operating loss carry-forward had been fully offset by a valuation allowance of $251,000 and $450,000, respectively. In 2003, the valuation allowance decreased approximately $199,000 due to a review by the tax authorities and the subsequent agreement on utilization of some of the losses. Management does not anticipate that the Company will generate sufficient future taxable income, in amount or character, to utilize the remaining losses prior to expiration. The valuation allowance was established in the acquisition of GRO, and accordingly, if reversed will result in a decrease to goodwill.

Management believes that full consideration has been given to all relevant circumstances that the Company may be currently subject to, and the financial statements accurately reflect management's best estimate of the results of operations, financial condition and cash flows of the Company for the years presented.

RISK FACTORS

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, including the risks described below and the risks identified in other documents which are filed or furnished with the SEC.

-GENERAL RISKS ASSOCIATED WITH THE COMPANY

If the Company is unable to consummate additional acquisitions or investments, it may not be able to successfully implement its growth strategy.

The Company's growth strategy is based on the Company expanding through selective acquisitions of and investments in rail properties, both in new regions and in regions in which the Company currently operates. The success of the Company's growth strategy will depend on, among other things:

- the availability of suitable candidates;
- the level of competition from other companies for the purchase of available candidates;
- the Company's ability to value those candidates accurately and negotiate favorable terms for those acquisitions and investments;
- the Company's ability to identify and enter into mutually beneficial relationships with venture partners; and
- the availability of management resources to oversee the integration and operation of the acquired businesses.

If the Company is not successful in implementing its growth strategy, the market price for the Company's Class A Common Stock may be adversely affected.

The Company's inability to integrate acquired businesses successfully or to realize the anticipated cost savings and other benefits could have adverse consequences to the Company's business.

The Company has experienced significant growth through acquisitions and the Company expects to continue to grow through additional acquisitions. Acquisitions generally result in increased operating and administrative costs and, to the extent financed with debt, additional interest costs. The Company may not be able to manage or integrate the acquired companies or businesses successfully. The process of combining acquired businesses may be disruptive to the Company's business and may cause an interruption or reduction of the Company's business as a result of the following factors, among others:

- loss of key employees or customers;
- possible inconsistencies in or conflicts between standards, controls, procedures and policies among the combined companies and the need to implement company-wide financial, accounting, information technology and other systems;
- failure to maintain the quality of services that the companies have historically provided;
- integrating employees of rail lines acquired from Class I railroads, governments or other entities into the Company's regional railroad culture;
- failure to coordinate geographically diverse organizations; and
- the diversion of management's attention from the Company's day-to-day business as a result of the need to manage any disruptions and difficulties and the need to add management resources to do so.

These disruptions and difficulties, if they occur, may cause the Company to fail to realize the cost savings, revenue enhancements and other benefits that the Company expects to result from integrating acquired companies, and may cause material adverse short- and long-term effects on the Company's operating results, financial condition and liquidity.

Even if the Company is able to integrate the operations of acquired businesses into its operations, the Company may not realize the full benefits of the cost savings, revenue enhancements or other benefits that it may have expected at the time of acquisition. The expected revenue enhancements and cost savings are based on analyses completed by members of the Company's management. These analyses necessarily involve assumptions as to future events, including general business and industry conditions, operating costs and competitive factors, many of which are beyond the Company's control and may not materialize. While the Company believes these analyses and their underlying assumptions to be reasonable, they are estimates which are necessarily speculative in nature. In addition, even if the Company achieves the expected benefits, it may not be able to achieve them within the anticipated time frame. Also, the cost savings and other synergies from these acquisitions may be offset by costs incurred in integrating the companies, increases in other expenses, operating losses or problems in the business unrelated to these acquisitions.

Because the Company depends on Class I railroads and other connecting carriers for its North American operations, the Company's operating results, financial condition and liquidity may be adversely affected if the Company's relationships with these carriers deteriorate.

The railroad industry in the U.S. and Canada is dominated by 7 Class I carriers that have substantial market control and negotiating leverage. Almost all of the traffic on the Company's U.S. and Canadian railroads is interchanged with Class I carriers. A decision by any of these Class I carriers to use alternate modes of transportation, such as motor carriers, could have a material adverse effect on the Company's operating results, financial condition and liquidity.

The Company's ability to provide rail service to customers in the U.S. and Canada depends in large part upon the Company's ability to maintain cooperative relationships with connecting carriers with respect to, among other matters, freight rates, revenue divisions, car supply, reciprocal switching, interchange and trackage rights. A deterioration in the operations of, or service provided by, those connecting carriers, or in the Company's relationship with those connecting carriers, would adversely affect the Company's operating results, financial condition and liquidity. In addition, much of the freight transported by its U.S. and Canadian railroads moves on railcars supplied by Class I carriers. If the number of railcars supplied by Class I carriers is insufficient, the Company might not be able to obtain replacement railcars on favorable terms or at all and shippers may seek alternate forms of transportation.

Portions of the Company's U.S. and Canadian rail properties are operated under leases, operating agreements or trackage rights agreements with Class I carriers. Failure of the Company's railroads to comply with the terms of these leases and agreements in all material respects could result in the loss of operating rights with respect to those rail properties, which would adversely affect the Company's operating results, financial condition and liquidity. Class I carriers also have traditionally been significant sources of business for the Company, as well as sources of potential acquisition candidates as they divest branch lines to smaller rail operators. Because the Company depends on Class I carriers for its U.S. and Canadian operations, the Company's operating results, financial condition and liquidity may be adversely affected if the Company's relationships with those carriers deteriorate.

While the majority of the Company's Mexican revenue originates and terminates on the Company's railroad, the Company is dependent on its relationship with a connecting carrier for the remainder of its revenue. To the extent that the Company experiences service disruptions with that connecting carrier, the Company's ability to serve existing customers and expand its business will suffer.

The Company faces competition from numerous sources, including those relating to geography, substitutable products, other types of transportation and other rail operators.

Each of the Company's railroads is typically the only rail carrier directly serving its customers. The Company's railroads, however, compete directly with other modes of transportation, principally motor carriers and, on some routes, ship, barge and pipeline operators. The Company is also subject to geographic and product competition. For example, a customer could shift production to a region where the Company does not have operations or could substitute one commodity for another commodity that is not transported by rail. In either case, the Company would lose a source of revenue, which could have a material adverse effect on the Company's operating results, financial condition and liquidity.

The extent of competition varies significantly among the Company's railroads. Competition is based primarily upon the rate charged, the relative costs of substitutable products and the transit time required. In addition, competition is based on the quality and reliability of the service provided. Because a large majority of the Company's freight moves involve interchange with another carrier, the Company has only limited control over the price, transit time or quality of such service. Any future improvements or expenditures materially increasing the quality of these alternative modes of transportation in the locations in which the Company operates, or legislation granting materially greater latitude for motor carriers with respect to size or weight limitations, could have a material adverse effect on the Company's operating results, financial condition and liquidity.

In competing for the acquisition of rail properties, the Company faces other acquirors that may have greater financial resources. Competition for rail properties is based primarily upon price, and the seller's assessment of the buyer's railroad operating expertise and financing capability. The Company's inability to successfully complete additional acquisitions will adversely affect the implementation of an important part of its growth strategy.

The Company is subject to significant governmental regulation of its railroad operations. The failure to comply with governmental regulations could have a material adverse effect on the Company's operating results, financial condition and liquidity.

The Company is subject to governmental regulation in the U.S. by a significant number of federal, state and local regulatory authorities, including the STB, the Federal Railroad Administration and state departments of transportation, with respect to the Company's railroad operations and a variety of health, safety, labor, environmental and other matters. The Company is also subject to regulatory authorities in the other countries in which it operates. The Company's failure to comply with applicable laws and regulations could have a material adverse effect on the Company's operating results, financial condition and liquidity. In addition, governments may change the regulatory framework within which the Company operates without providing the Company with any recourse for any adverse effects that the change may have on the Company's operating results, financial condition and liquidity. Also, some of the regulations require the Company to obtain and maintain various licenses, permits and other authorizations, and the Company may not continue to be able to do so.

The Company could incur significant costs for violations of, or liability under, environmental laws and regulations.

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

Environmental liabilities may arise from claims asserted by owners or occupants of affected properties or other third parties affected by environmental conditions (for example, contractors and current or former employees) seeking to recover in connection with alleged damages to their property or with personal injury or death, as well as by governmental authorities seeking to remedy environmental conditions or to enforce environmental obligations. Environmental requirements and liabilities could obligate the Company to incur significant costs, including significant expenses to investigate and remediate environmental contamination, which could have a material adverse effect on the Company's operating results, financial condition and liquidity.

Some of the Company's employees belong to labor unions, and strikes or work stoppages could adversely affect the Company's operating results, financial condition and liquidity.

The Company is a party to collective bargaining agreements with various labor unions in the United States, Mexico, Australia, Canada, and Bolivia. In North America, the Company is a party to twenty-nine contracts with national labor organizations which have renewal dates ranging to 2005. The Company is currently engaged in negotiations with respect to six of those agreements. In South Australia, ARG has one collective bargaining agreement that expires in September 2004. ARG is close to reaching agreement on a collective Enterprise Bargaining Agreement covering the majority of Western Australian employees. The Company's inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. If the unionized workers were to engage in a strike, work stoppage or other slowdown, or other employees were to become unionized or the terms and conditions in future labor agreements were renegotiated, the Company could experience a significant disruption of its operations and/or higher ongoing labor costs, which in either case could materially adversely affect the Company's operating results, financial condition and liquidity. The Company is also subject to the risk of the unionization of its non-unionized employees which could result in higher employee compensation and restrictive working condition demands that could increase the Company's operating costs or constrain its operating flexibility. In addition, work interruptions may be threatened which could cause cessation of operations with a corresponding adverse financial impact.

The Company may be unable to employ a sufficient number of skilled workers.

The Company believes that its success depends upon its ability to employ and retain skilled workers that posses the ability to operate and maintain the Company's equipment and facilities. The operation and maintenance of the Company's equipment and facilities involve complex and specialized processes and often must be performed in harsh conditions. In addition, the Company's ability to expand its operations depends in part on its ability to increase its skilled labor force. The demand for workers with these types of skills has recently become high, especially by Class I railroads that can usually offer higher wages and better benefits, and the supply is limited. Moreover, a large portion of the Company's current skilled workers will become retirement eligible over the next few years. A significant increase in the wages paid by competing employers could result in a reduction of the Company's skilled labor force, increases in the wage rates that the Company must pay or both. If either of these events were to occur, the Company's cost structure could increase, the Company's margins could decrease and the Company's growth potential could be impaired, each of which could have a material adverse effect on the Company's operating results, financial condition and liquidity.

The Company may face liability for casualty losses which is not covered by insurance.

The Company has obtained for each of its railroads insurance coverage for losses arising from personal injury and for property damage in the event of derailments or other accidents or occurrences. Unexpected or catastrophic circumstances such as accidents involving passenger trains or spillage of hazardous materials could cause the Company's liability to exceed its insurance limits. Insurance is available from only a very limited number of insurers and the Company may not be able to obtain insurance protection at its current levels or obtain it on terms acceptable to the Company. In addition, subsequent adverse events directly and indirectly applicable to the Company may result in additional increases in the Company's insurance premiums and/or its self insured retentions and could result in limitations to the coverage under its existing policies. The occurrence of losses or other liabilities which are not covered by insurance or which exceed the Company's insurance limits could materially adversely affect the Company's operating results, financial condition and liquidity.

Rising fuel costs could materially adversely affect Company's operating results, financial condition and liquidity.

Fuel costs constitute a significant portion of the Company's total operating expenses. Fuel costs were approximately 8.8% of the Company's operating expenses for the year ended December 31, 2003 and 7.5% for the year ended December 31, 2002. Fuel costs were approximately 9.1% of ARG's operating expenses for the year ended December 31, 2003 and 8.3% for the year ended December 31, 2002. Fuel prices and supplies are influenced significantly by factors beyond the Company's and ARG's control, such as international political and economic circumstances. If diesel fuel prices increase dramatically or if a fuel supply shortage were to arise from production curtailments, a disruption of oil imports or otherwise, these events could have a material adverse effect on the Company's and ARG's operating results, financial condition and liquidity.

The loss of important customers or contracts may adversely affect the Company's operating results, financial condition and liquidity.

In North America, the ten largest customers accounted for approximately 27%, 27% and 28% of the Company's operating revenues in 2003, 2002 and 2001, respectively. In 2003, 2002 and 2001, the Company's largest customer was a coal-fired electricity generating plant which accounted for approximately 5%, 5% and 7% respectively, of the Company's operating revenues. ARG's ten largest customers accounted for approximately 70%, 69% and 67% of its operating revenues in 2003, 2002 and 2001, respectively. In 2003, 2002 and 2001, ARG's largest customer was AWB Limited which accounted for approximately 20%, 22% and 22% respectively, of ARG's operating revenues. The loss of one or more of the Company's or ARG's largest customers or the loss or material modification of one or more key contracts with such customers could have a material adverse effect on the Company's operating results, financial condition and liquidity.

The Company's results of operations are susceptible to downturns in the general economy as well as to severe weather conditions.

In any given year, the Company, like other railroads, is susceptible to changes in the economic conditions of the industries and geographic areas that produce and consume the freight the Company transports. In addition, many of the goods and commodities carried by the Company experience cyclicality in their demand. The Company's results of operations can be expected to reflect this cyclicality because of the significant fixed costs inherent in railroad operations. Should an economic slowdown or recession occur in North America or in the other countries in which the Company operates, the volume of rail shipments carried by the Company is likely to be affected.

In addition to the inherent risks of the business cycle, the Company is occasionally susceptible to adverse weather conditions. For example:

- ARG's grain revenue may be reduced by drought (drought conditions during the 2002 growing season resulted in a significant reduction in ARG's grain shipments in 2003);
- the Company's coal revenue may be reduced by cold summers and warm winters, which lessen electricity demand; and
- the Company's minerals and stone revenue, which includes salt, may be reduced by snow-free and ice-free winters in the Northeastern United States, which lessens demand for road salt.

Bad weather and natural disasters, such as blizzards in eastern Canada and the Northeastern United States and hurricanes in Mexico, could also cause a shutdown or substantial disruption of operations which, in turn, could have a material adverse effect on the Company's operating results, financial condition and liquidity. Material adverse weather may not directly affect the Company's operations but rather the operations of its customers or connecting carriers. Such weather conditions could reduce or suspend their operations, which could have a material adverse effect on the Company's results, financial conditions and liquidity. Furthermore, the Company's expenses could be adversely impacted by weather, including as a result of higher track maintenance and overtime costs in the winter in the Company's New York-Pennsylvania and Canada Regions as well as by possible track washouts in Mexico during the rainy season.

The development of some of the Company's business could be hindered if it fails to maintain satisfactory working relationships with partners.

Some of the Company's operations are conducted through joint ventures, in which the Company owns a significant, but less than a controlling, ownership interest. In particular, the Company owns a 50% interest in ARG and a 22.89% interest in its Bolivian operations. In these operations, the Company does not have absolute control over the operations of the venture. The particular corporate governance provisions affecting the Company's interests vary from venture to venture, but in general, the Company must obtain the cooperation of its partners in order to implement and expand upon its business strategies. Any failure to maintain satisfactory working relationships with these partners or the need to expend significant management resources and time to align the Company's interests with the interests of these partners could result in a material adverse effect on the Company's operating results, financial condition and liquidity.

-ADDITIONAL RISKS ASSOCIATED WITH THE COMPANY'S FOREIGN OPERATIONS

The Company is subject to the risks of doing business in foreign countries.

Some of the Company's significant subsidiaries transact business in foreign countries, namely in Canada and Mexico, and the Company has equity investments in Australia and Bolivia. In addition, the Company may consider acquisitions in other foreign countries in the future. The risks of doing business in foreign countries include:

- adverse renegotiation or modification of existing agreements or arrangements with governmental authorities,
- adverse changes or greater volatility in the economies of those countries,
- adverse effects of currency exchange controls,
- adverse changes to the regulatory environment of those countries,
- adverse 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, and
- the challenge of managing a culturally and geographically diverse operation.

Because some of the Company's significant subsidiaries transact business in foreign currencies, and because a significant portion of the Company's net income comes from the operations of its foreign subsidiaries, future exchange rate fluctuations may adversely affect the Company's operating results, financial condition and liquidity and may affect the comparability of the Company's results between financial periods.

The Company's operations in Mexico and Canada accounted for 12.9% and 15.3% of consolidated revenues and ARG accounting for 36.1% of consolidated net income for the year ended December 31, 2003. 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 consolidated financial statements. The functional currency of the Company's Bolivian operations is the U.S. dollar. The exchange rates between 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, 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.

The Company may not be able to effectively manage its exchange rate risks and the volatility in currency exchange rates may have a material adverse effect on the Company's operating results, financial condition and liquidity.

Failure to meet concession commitments with respect to operations of the Company's rail lines could result in the loss of the Company's investment and a related loss of revenues.

The Company has entered into long-term concession and/or lease agreements with governmental authorities in Mexico, Bolivia, South Australia and Western Australia. These concession and lease agreements are subject to a number of conditions, including those relating to the maintenance of certain standards with respect to safety, service, price and the environment. These concession and lease agreements also typically carry with them a commitment to maintain the condition of the railroad and to make a certain level of capital expenditures. The Company's failure to meet these commitments under the long-term concession and lease agreements could result in the loss of those concession or lease agreements. The loss of any concession or lease agreement could result in the loss of the Company's entire investment relating to that concession or lease agreement and the related revenues and income.

Australia's open access regime could lead to additional competition for ARG's business and decreased revenues and profit margins.

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. In addition, if the federal government or respective state regulators were to alter a regulatory regime or 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 by the owners as well as the risk that the network is not adequately maintained. Either risk could affect ARG's operating results, financial condition and liquidity.

ARG may be adversely affected by unfavorable conditions in the Australian agricultural industry because a substantial portion of ARG's railroad traffic consists of agricultural commodities.

ARG derives a significant portion of its rail freight revenues from shipments of grain. For the years ended December 31, 2003, 2002 and 2001, grain shipments in South Australia and Western Australia generated approximately 24.5%, 25.4% and 26.4%, respectively, 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 adverse effect on ARG's operating results, financial condition and liquidity. For example, drought conditions during the 2002 growing season resulted in a significant reduction in ARG's grain shipments in 2003.

ARG may be subject to significant additional expenditures in order to comply with Commonwealth and/or state regulations.

In addition to the open access requirements described above, other aspects of rail operation are regulated, safety in particular, on both a Commonwealth and a state-by-state basis. ARG has received safety regulatory approval to operate on Commonwealth-owned track, in the Northern Territory and in all states except Queensland and Tasmania. Changes in safety regulations or other regulations or the imposition of new regulations or conflicts among state and/or Commonwealth regulations could require ARG to make significant expenditures and to incur significant expenses in order to comply with these regulations.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued the following Statements of Financial Accounting Standards (SFAS):

FASB 145 — ''Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.''

Under SFAS No. 145, FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, and FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements are rescinded. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 was issued in April 2002 and the provisions of this Statement related to the rescission of Statement 4 shall be effective for the fiscal years beginning after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002 with early adoption permitted. The most significant change will impact the reporting of losses associated with the write-off of deferred financing costs which are currently reported as extraordinary. The Company adopted this statement and adjusted its financial statements.

FASB 146 — ''Accounting for Costs Associated with Exit or Disposal Activities''

Under SFAS No. 146, costs associated with exit or disposal activities are required to be recorded at their fair values only once a liability exists. Under previous guidance, certain exit costs were accrued when management committed to an exit plan, which may have been before an actual liability arose. Liabilities recognized prior to the initial application of FAS 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable pre-existing guidance. SFAS No. 146 was issued in June 2002 and is effective for fiscal years beginning January 1, 2003 (with earlier application encouraged). The Company adopted this statement and it had no impact on the Company's financial statements.

FASB 149 — ''Amendment of Statement 133 on Derivative Instruments and Hedging Activities''

This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. In particular, this Statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of Statement 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others'', and (4) amends certain other existing pronouncements. These changes are intended to result in more consistent reporting of contracts as either derivatives or hybrid instruments. This Statement is effective for contracts entered into or modified after June 30, 2003 and all provisions of this Statement should be applied prospectively. The Company adopted this statement and it had no impact on the Company's financial statements.

FASB 150 — ''Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity''

This Statement requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted this statement and it had no impact on the Company's financial statements.

Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others

In November 2002, the FASB issued Interpretation No. 45, (FIN) Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, which address the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. Fin 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of FIN 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company did not enter into such transactions. Therefore the adoption of this standard did not impact its consolidated financial position, results of operations, or disclosure requirements.

Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) No. 51.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first reporting period after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. In December 2003, the Financial Accounting Standards Board, issued revisions to FASB Interpretation 46, resulting in multiple effective dates based on the characteristics as well as the creation dates of the variable interest entities, however with no effective date later than the Company's first quarter of 2004. The Company does not believe that adoption of this statement will have a material effect on its consolidated financial statements.

Forward-Looking Statements

This discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events and future performance of Genesee & Wyoming Inc. Words such as ''anticipates,'' ''intends,'' ''plans,'' ''believes,'' ''seeks,'' ''estimates,'' ''expects,'' 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'', 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.

Item 7a. Quantitative and Qualitative 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 interest rate or exchange rate fluctuations alone, nor does it use instruments where there are not underlying cash exposures. Complex instruments involving leverage or multipliers are not used. The Company manages its hedging positions and monitors the credit ratings of counterparties and does not anticipate losses due to counterparty nonperformance. Management believes that its use of derivative instruments to manage risk is in the Company's best interest. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility.

Interest Rate Risk

The Company's interest rate risk results from issuing variable rate debt obligations, since an increase in interest rates would result in lower earnings and increased cash outflows. The table below provides amounts outstanding and corresponding interest rates for the Company's fixed and variable rate debt and its use of interest rate swaps to mitigate increases in interest rates.

Principal Amount of Long-Term Debt and Interest Rate Swaps
(dollars in thousands)

	Dec. 31, 2003
Fixed Rate Debt	**$ 1,814**
Average Fixed Interest Rate	**3.5%**
Variable Rate Debt Swapped to Fixed Rate Debt(1)	**$ 60,576**
Average Fixed Interest Rate	**6.8%**
Unswapped Variable Rate Debt	**$ 89,043**
Average Variable Interest Rate	**3.4%**
Total Long-Term Debt	**$151,433**
Average Interest Rate	**4.7%**

(1) Future amounts of variable rate debt that the Company has swapped to fixed rate debt are as follows (as of year ending December 31): $58.4 million in 2004; $54.1 million in 2005; $34.3 million in 2006.

Table Assumptions

Variable Interest Rates: The table presents variable interest rates based on U.S. and Canadian LIBOR rates (as of December 31, 2003) plus an average borrowing margin of approximately 2.2%. The borrowing margin is composed of a weighted average of 2.0% for debt under the Company's U.S. and Canadian credit facilities and 3.5% for debt related to its Mexican operations.

Interest Rate Swaps: The table presents dollar amounts outstanding under interest rate swaps as of December 31, 2003, in which the Company has swapped a portion of its variable rate debt to fixed rate debt. The table also presents the average fixed interest rate under these swaps which is equal to the Company's fixed pay rates to counterparties plus the Company's borrowing margin.

Interest Rate Sensitivity

Based on the table above, assuming a one percentage point increase in market interest rates, annual interest expense on the Company's variable rate debt would increase by approximately $890,000.

Foreign Currency Risk

The functional currency of the Company's Mexican operations is the Mexican Peso, while the debt obligations are denominated in U.S. Dollars. As a result, the Company faces exchange rate risk if the Mexican Peso were to depreciate relative to the U.S. Dollar, thereby generating lower U.S. Dollar equivalent cash and earnings to pay the principal and interest on the debt. As shown in the tables below, the Company's risk management policy seeks to mitigate this risk by purchasing one-year forward currency options on the U.S. Dollar – Mexican Peso exchange rate that approximate expected U.S. Dollar principal and interest payments, so as to lessen the impact of a severe Peso depreciation.

Debt related to the Company's Canadian and Australian operations is denominated in the respective local currencies. Therefore, foreign currency risk related to debt service payments does not exist at the Company's Canadian and Australian operations.

U.S. Dollar Denominated Principal and Projected Interest Obligations
of Mexican Peso Denominated Operations
(dollars in thousands)

	2004	2005	2006	2007	2008	There after	Total
Principal Payments(1)	$4,332	$4,332	$4,332	$4,332	$4,332	$1,503	$23,163
Interest Payments(2)	990	785	581	377	173		
Total Principal and Interest	$5,322	$5,117	$4,913	$4,709	$4,505		

(1) Principal and interest payments are due on March 15 and September 15 of each year.

(2) Based on 6-month U.S. LIBOR as of December 31, 2003 plus a borrowing margin of 3.5%.

Foreign Currency Options
(dollars in thousands, except exchange rates)

Settlement Date	March 15, 2004	Sept. 15, 2004	Total
Receive US$/Pay Mexican Pesos:			
Notional amount	$2,700	$2,600	$5,300
Average exchange rate in			
Mexican Pesos per U.S. Dollar	12.91	12.61	—

Sensitivity of Foreign Currency to Debt Service Payments

As shown in the tables above, the Company expects its Mexican operations to fund approximately $5.3 million in U.S. dollar denominated principal and interest payments in 2004. If the value of the Mexican Peso were to weaken ten percentage points relative to the U.S. Dollar while Mexican Peso denominated earnings and cash flows remained constant, then it would be equivalent to the Mexican operations supporting an additional $532,000 in debt service payments. Based on an exchange rate of 11.23 Mexican Pesos per U.S. Dollar as of December 31, 2003, this exposure in 2004 is capped at a maximum of $724,000 by the foreign currency options shown in the table.

Diesel Fuel Price Risk

The Company is exposed to fluctuations in diesel fuel prices, since an increase in the price of diesel fuel would result in lower earnings and cash outflows. In the year ended December 31, 2003, fuel costs represented 8.8% of the Company's total expenses and 9.1% of total expenses at the Company's 50%-owned Australian operations. As of December 31, 2003, neither the Company nor its 50%-owned Australian operations had entered into any hedging transactions to manage this diesel fuel risk.

Sensitivity to Diesel Fuel Prices

As of December 31, 2003, each one percentage point increase in the price of fuel would result in a $0.2 million increase in the Company's annual fuel expense and a $0.2 million increase in annual fuel expense at the Company's 50%-owned Australian operations.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary financial data required by this item are listed at Part IV, Item 15 and are filed herewith immediately following the signature page hereto.

Item 9. Changes in and Disagreements With Accountants on Accounting And Financial Disclosure

None

Item 9a. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's report under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2003. Based upon that evaluation and subject to the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

There have been no significant changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 12, 2004 under ''Election of Directors'' and ''Executive Officers'', which proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 12, 2004 under ''Executive Compensation'', which proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be used upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation plans approved by security holders(1)	1,788,456	$10.51	554,299
Equity Compensation plans not approved by security holders	—	—	—
Total	1,788,456	$10.51	554,299

(1) Incentive and nonqualified stock option plan for key employees and nonqualified stock option plan for non-employee directors.

The remaining information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 12, 2004 under ''Security Ownership of Certain Beneficial Owners and Management,'' which proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 12, 2004 under ''Related Transactions,'' which proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 12, 2004 under ''Principal Accounting Fees and Services,'' which proxy statement will be filed within 120 days after the end of the Company's fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(A) Documents Filed as Part of This Form 10-K

Genesee & Wyoming Inc. and Subsidiaries Financial Statements:

Report of Independent Auditors

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Income for the Years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent Owned:

Australian Railroad Group Pty Ltd and Subsidiaries Financial Statements:

Report of Independent Auditors

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Income for the Years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

(B) Reports on Form 8-K

(a) Report dated November 18, 2003 reporting on Item 5. Other Events and Regulation FD Disclosure. This Report announces the establishment of a Rule 10b5-1 trading plan by a senior executive officer.

(b) Report dated December 12, 2003 reporting on Item 5. Other Events and Regulation FD Disclosure. This Report furnished the Company's press release that announced that on December 9, 2003 the Company's 50%-owned equity investment, the Australian Railroad Group, received a private binding ruling from the Australian Taxation Office for certain track assets acquired from the government of Western Australia.

(c) Report dated December 19, 2003 reporting on Item 5. Other Events and Regulation FD Disclosure. This Report furnished the Company's press release that announced the Company's agreement to acquire three short-line railroads.

(C) Exhibits — See Index to Exhibits

SIGNATURES

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

Date March 15, 2004

GENESEE & WYOMING INC.

BY: /s/ MORTIMER B. FULLER, III

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the date indicated below.

Signature	Title	Date
/s/ MORTIMER B. FULLER, III Mortimer B. Fuller, III	Chief Executive Officer and Director	March 15, 2004
/s/ JOHN C. HELLMANN John C. Hellmann	Chief Financial Officer	March 15, 2004
/s/ ALAN R. HARRIS Alan R. Harris	Senior Vice President and Chief Accounting Officer	March 15, 2004
/s/ ROBERT W. ANESTIS Robert W. Anestis	Director	March 15, 2004
/s/ LOUIS S. FULLER Louis S. Fuller	Director	March 15, 2004
/s/ T. MICHAEL LONG T. Michael Long	Director	March 15, 2004
/s/ ROBERT M. MELZER Robert M. Melzer	Director	March 15, 2004
/s/ PETER O. SCANNELL Peter O. Scannell	Director	March 15, 2004
/s/ MARK A. SCUDDER Mark A. Scudder	Director	March 15, 2004
/s/ PHILIP J. RINGO Philip J. Ringo	Director	March 15, 2004
/s/ M. DOUGLAS YOUNG M. Douglas Young	Director	March 15, 2004

INDEX TO EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession
Not applicable.

(3) (i) Articles of Incorporation
The Exhibit referenced under 4.1 hereof is incorporated herein by reference.

(ii) By-laws
The By-laws referenced under 4.2 hereof are incorporated herein by reference.

(4) Instruments defining the rights of security holders, including indentures

4.1 Restated Certificate of Incorporation is incorporated herein by reference to Exhibit I to the Registrant's Definitive Information Statement on Schedule 14C filed on February 23, 2004.

4.2 By-laws are incorporated herein by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

4.3 Specimen stock certificate representing shares of Class A Common Stock is incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

4.4 Form of Class B Stockholders' Agreement dated as of May 20, 1996, among the Registrant, its executive officers and its Class B stockholders is incorporated herein by reference to Exhibit 4.2 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

4.5 Voting Agreement and Stock Purchase Option dated March 21, 1980 among Mortimer B. Fuller, III, Mortimer B. Fuller, Jr. and Frances A. Fuller, and amendments thereto dated May 7, 1988 and March 29, 1996 are incorporated herein by reference to Exhibit 9.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

4.6 Stock Purchase Agreement by and between Genesee & Wyoming Inc. and The 1818 Fund III, L.P. dated October 19, 2000 is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K dated December 7, 2000.

4.7 Registration Rights Agreement between Genesee & Wyoming Inc. and The 1818 Fund III, L.P. dated December 12, 2000 is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K dated December 7, 2000.

4.8 Letter Agreement between Genesee & Wyoming Inc., The 1818 Fund III, L.P. and Mortimer B. Fuller, III dated December 12, 2000 is incorporated herein by reference to Exhibit 10.3 to the Registrant's Report on Form 8-K dated December 7, 2000.

4.9 Form of Senior Debt Indenture is incorporated herein by reference to Exhibit j to Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-73026).

4.10 Form of Subordinated Debt Indenture in incorporated herein by reference to Exhibit k to Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-73026).

(9) Voting Trust Agreement
Not applicable.

(10) Material Contracts
The Exhibits referenced under (4.4) through (4.10) hereof are incorporated herein by reference.

10.1 Promissory Note dated October 7, 1991 of Buffalo & Pittsburgh Railroad, Inc. in favor of CSX Transportation, Inc. is incorporated herein by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.2 First Amendment to Promissory Note dated as of March 19, 1999 between Buffalo & Pittsburgh Railroad, Inc. and CSX Transportation, Inc. is incorporated herein by reference to Exhibit 4.1 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 1998. (SEC File No. 0-20847)

10.3 Form of Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.4 Form of Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.2 Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.5 Form of compensation agreement between the Registrant and each of its executive officers is incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.6 Form of Genesee & Wyoming Inc. Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.7 Agreement dated February 6, 1996 between Illinois & Midland Railroad, Inc. and the United Transportation Union is incorporated herein by reference to Exhibit 10.65 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-3972).

10.8 Amendment No. 1 to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 1997. (SEC File No. 0-20847)

10.9 Amendment No. 1 to Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 1997. (SEC File No. 0-20847)

10.10 Memorandum of Lease between Minister for Transport and Urban Planning a Body Corporate Under the Administrative Arrangements Act, the Lessor, and Australia Southern Railroad Pty Ltd., the Lessee, dated 7 November 1997 is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 1997. (SEC File No. 0-20847)

10.11 Amendment No. 2. to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 1998. (SEC File No. 0-20847)

10.12 Amendment No. 1. to the Genesee & Wyoming Inc. Employee Stock Purchase Plan is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 1998. (SEC File No. 0-20847)

10.13 Purchase and Sale Agreement dated August 17, 1999 between the Federal Government of United Mexican States, Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V., and Ferrocarriles Nacionales de Mexico is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1999.

10.14 Genesee & Wyoming Deferred Stock Plan for Non-Employee Directors is incorporated herein by reference to Annex A to the Registrant's 1999 Definitive Proxy Statement filed on April 19, 1999.

10.15 Amendment No. 3 to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2000.

10.16 Amendment No. 4 to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2000.

10.17 Amendment No. 5 to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2000.

10.18 Amendment No 2. to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.3 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2000.

10.19 Amendment No. 6 to the Genesee & Wyoming Inc. 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000.

10.20 Genesee & Wyoming Australia Pty Ltd Executive Share Option Plan is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000.

10.21 Agreement for Sale of Business dated December 16, 2000 among The Hon Murray Criddle MLC, The Western Australian Government Railways Commission, The Hon Richard Fairfax Court MLA, Westrail Freight Employment Pty Ltd, AWR Holdings WA Pty Ltd, Australian Western Railroad Pty Ltd, WestNet StandardGauge Pty Ltd, WestNet NarrowGauge Pty Ltd, AWR Lease Co. Pty Ltd, and Australian Railroad Group Pty Ltd is incorporated herein by reference to Exhibit 2.1 to the Registrant's Report on Form 8-K dated December 16, 2000.

10.22 Westrail Freight Bidding and Share Subscription Agreement dated October 25, 2000 among Wesfarmers Railroad Holdings Pty Ltd, Wesfarmers Limited, GWI Holdings Pty Ltd, Genesee & Wyoming Inc., and Genesee & Wyoming Australia Pty Ltd is incorporated herein by reference to Exhibit 99.1 to the Registrant's Report on Form 8-K dated December 16, 2000.

10.23 Shareholders Agreement, dated December 15, 2000 among Wesfarmers Holdings Pty Ltd, GWI Holdings Pty Ltd, and Australian Railroad Group Pty Ltd is incorporated herein by reference to Exhibit 99.2 to the Registrant's Report on Form 8-K dated December 16, 2000.

10.24 Rail Freight Corridor Land Use Agreement (NarrowGauge) and Railway Infrastructure Lease dated December 16, 2000 among The Hon Murray Criddle MLC, The Western Australian Government Railways Commission, The Hon Richard Fairfax Court MLA, WestNet NarrowGauge Pty Ltd, Australia Western Railroad Pty Ltd, and Australian Railroad Group Pty Ltd is incorporated herein by reference to Exhibit 99.3 to the Registrant's Report on Form 8-K dated December 16, 2000.

10.25 Rail Freight Corridor Land Use Agreement (StandardGauge) and Railway Infrastructure Lease dated December 16, 2000 among The Hon Murray Criddle MLC, The Western Australian Government Railways Commission, The Hon Richard Fairfax Court MLA, WestNet StandardGauge Pty Ltd, Australia Western Railroad Pty Ltd, and Australian Railroad Group Pty Ltd is incorporated herein by reference to Exhibit 99.4 to the Registrant's Report on Form 8-K dated December 16, 2000.

10.26 Loan Agreement between GW Servicios, S.A. de C.V., Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. and International Finance Corporation dated December 5, 2000 is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 2000.

10.27 Loan Agreement between GW Servicios, S.A. de C.V., Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. and Nederlandse Financierings-Maatschappij Voor Ontwikkelingsladen N.V. dated December 5, 2000 is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 2000.

10.28 Subscription Agreement between GW Servicios S.A. de C.V. and International Finance Corporation dated December 5, 2000 is incorporated herein by reference to Exhibit 10.3 to the Registrant's Report on Form 10-K for the fiscal year ended December 31, 2000.

10.29 Amendment No. 3 to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2001.

10.30 Amendment No. 4 to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.2 the Registrant's Report on Form 10-Q for the quarter ended June 30, 2001.

10.31 Stock Purchase and Sale Agreement dated September 28, 2001 by and between Bethlehem Steel Corporation and Genesee & Wyoming Inc. is incorporated herein by reference to Exhibit 2.1 to the Registrant's Report on Form 8-K dated October 1, 2000.

10.32 Agreement and Plan of Merger dated as of December 3, 2001 by and among Genesee & Wyoming Inc., ETR Acquisition Corporation and Emons Transportation Group, Inc. is incorporated herein by reference to Exhibit 2.1 to the Registrant's Report on Form 8-K dated December 3, 2001.

10.33 Underwriting Agreement dated as of December 17, 2001 by and among the Registrant, the selling stockholders named therein and Credit Suisse First Boston Corporation, ABN AMRO Rothchild LLC, Bear, Stearns & Co. Inc., Morgan Keegan & Company, Inc. and BB&T Capital Markets, a division of Scott & Stringfellow, Inc. as representatives of the underwriters is incorporated herein by reference to Exhibit 1.1 to the Registrant's Report on Form 8-K dated December 17, 2001.

10.34 Amendment No. 6 to the Genesee & Wyoming Inc. Stock Option Plan for Outside Directors is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2002.

10.35 Genesee & Wyoming Inc. Amended and Restated 1996 Stock Option Plan is incorporated herein by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2002.

10.36 Stock Purchase Agreement by and among Mueller Industries, Inc., Arava Natural Resources Company, Inc. and Genesee & Wyoming Inc. relating to the purchase and sale of Utah Railway Company, dated as August 19, 2002 is incorporated herein by reference to Exhibit 2.1 to the Registrant's Report on Form 8-K dated August 28, 2002.

10.37 Fourth Amended and Restated Revolving Credit and Term Loan Agreement dated as of October 1, 2002 among Genesee & Wyoming Inc., as US Borrower, Quebec Gatineau Railway, Inc., as Canadian Borrower, The Guarantors, The Lending Institutions listed therein, as Lenders, Fleet National Bank, as Administrative Agent with Fleet Securities, Inc., as Arranger and JPMorgan Chase Bank, LaSalle Bank National Association, Sovereign Bank, the Bank of Nova Scotia, Wachovia Bank, National Association, as Syndication Agents is incorporated herein by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2002.

*10.38 Employment Agreement dated as of March 4, 2002 by and between Genesee & Wyoming Inc. and Robert Grossman.

*10.39 Common Terms Deed dated December 3, 2003 between Australian Railroad Group Pty Ltd (Borrower), the companies listed in Part I of Schedule 1 as original guarantors, the financial institutions listed in Part II of Schedule 1 as original lenders and ANZ Capel Court Limited (Security Trustee).

† *10.40 Loan Agreement between Australian Railroad Group Pty Ltd (Borrower) and Australia and New Zealand Banking Group Limited (Lender) dated December 5, 2003.

† *10.41 Loan Agreement between Australian Railroad Group Pty Ltd (Borrower) and BNP Paribas (Lender) dated December 5, 2003.

† *10.42 Loan Agreement between Australian Railroad Group Pty Ltd (Borrower) and Mizuho Corporate Bank, Ltd. (Lender) dated December 5, 2003.

† *10.43 Loan Agreement between Australian Railroad Group Pty Ltd (Borrower) and National Australia Bank Limited (Lender) dated December 5, 2003.

† *10.44 Loan Agreement between Australian Railroad Group Pty Ltd (Borrower) and Sumitomo Mitsui Finance Australia Limited (Lender) dated December 5, 2003.

*10.45 Security Trust Deed, as amended December 5, 2003 between Australian Railroad Group Pty Ltd (Borrower) and ANZ Capel Court Limited (Security Trustee).

*10.46 Floating Charge, as amended December 5, 2003, between the Chargors listed in Schedule 1 (WestNet StandardGauge Pty Ltd and WestNet NarrowGauge Pty Ltd) and ANZ Capel Court Limited (Chargee).

*10.47 Deed of Floating Charge, as amended December 5, 2003, between Australia Southern Railroad Pty Limited (Chargor) and ANZ Capel Court Limited (Security Agent).

*10.48 ISDA Master Agreement dated as of December 3, 2003 between Australia and New Zealand Banking Group Limited and Australian Railroad Group Pty Ltd.

*10.49 ISDA Master Agreement dated as of December 3, 2003 between BNP Paribas and Australian Railroad Group Pty Ltd.

*10.50 ISDA Master Agreement dated as of December 3, 2003 between National Australia Bank Limited and Australian Railroad Group Pty Ltd.

*10.51 Multi-Party Agreement among The Hon Murray Criddle MLC, The Western Australian Government Railways Commission, The Hon Richard Fairfax Court, Treasurer, WestNet StandardGauge Pty Ltd and WestNet NarrowGauge Pty Ltd, Australian Western Railroad Pty Ltd, Australian Railroad Group Pty Ltd, and ANZ Capel Court Limited.

*10.52 Tripartite Deed among the Minister for Transport and Urban Planning (Lessor), Australia Southern Railroad Pty Limited (Lessee) and ANZ Capel Court Limited (Security Trustee).

*(11.1) Statement re computation of per share earnings

(12) Statements re computation of ratios
Not applicable.

(13) Annual report to security holders, Form 10-Q or quarterly report to security holders
Not applicable.

(16) Letter re change in certifying accountant
Not applicable.

(18) Letter re change in accounting principles
Not applicable.

*(21.1) Subsidiaries of the Registrant

(22) Published report regarding matters submitted to vote of security holders
Not applicable.

*(23.1) Consent of PricewaterhouseCoopers LLP

*(23.2) Consent of Ernst & Young

(24) Power of attorney
Not applicable.

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

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

*(32.1) Section 1350 Certifications

(99) Additional Exhibits
Not applicable.

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* Exhibit filed with this Report.

† The Company has requested confidential treatment of certain information contained in this Exhibit. Such information has been filed separately with the Securities and Exchange Commission pursuant to the Company's application for confidential treatment under 17 C.F.R. §§ 200.80(b)(4) and 240.24b-2.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, common stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of Genesee & Wyoming Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. 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), an equity method investment which represents 17.0% and 13.7% of the Company's total assets as of December 31, 2003 and 2002, respectively, and 36.1% and 33.1% of the Company's net income for the years ended December 31, 2003 and 2002, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for ARG, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. The financial statements of the Company for the year ended December 31, 2001, prior to the revisions discussed in Notes 6, 18 and 22 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 11, 2002.

As discussed in Note 6, the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption of the accounting guidance of Statement of Financial Accounting Standards No. 142 on January 1, 2002.

As discussed above, the financial statements of the Company for the year ended December 31, 2001, were audited by other independent accountants who have ceased operations. As discussed in Note 6, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, ''Goodwill and Other Intangible Assets'', which was adopted by the Company as of January 1, 2002. As discussed in Note 18 and 22 these financial statements have also been revised to reflect a change in the composition of the Company's reportable segments and to reflect the three-for-two stock split which became effective on March 15, 2004. We audited the transitional disclosures described in Note 6. We also audited the adjustments to the segment information described in Note 18 and the adjustments for the three-for-two stock split discussed in Note 22 that were applied to revise the 2001 financial statements. In our opinion, the transitional disclosures for 2001 are appropriate and the adjustments relating to the 2001 segment information described in Note 18 and relating to the three-for-two stock split described in Note 22 are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such transitional disclosures and adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 13, 2004, except as to the stock split discussed in Note 22 as to which the date is March 15, 2004

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. In 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, ''Goodwill and Other Intangible Assets'' (SFAS No. 142). As discussed in Note 6, the Company has presented the transitional disclosures for 2001 required by SFAS No. 142. Additionally as discussed in Note 18, the Company changed the manner in which it presents its segment information. Additionally, the Company revised its 2001 financial statements for the three-for-two stock split discussed in Note 22. The Arthur Andersen LLP report does not extend to these changes to the 2001 consolidated financial statements. These adjustments to the 2001 consolidated financial statements were reported on by PricewaterhouseCoopers LLP as stated in their report appearing herein.

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

* Pursuant to SEC rules and regulations, the Company's consolidated balance sheets as of December 31, 2001 and 2000 and the Company's statements of income, stockholders' equity and comprehensive income and cash flows for the years ended December 31, 2000 and 1999 are not required to be included herein.

GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	December 31, 2003	December 31, 2002
ASSETS		
CURRENTS ASSETS:		
Cash and cash equivalents	**$ 11,118**	$ 11,028
Accounts receivable, net	**54,656**	54,527
Materials and supplies	**5,204**	5,468
Prepaid expenses and other	**6,204**	7,447
Deferred income tax assets, net	**3,010**	2,484
Total current assets	**80,192**	80,954
PROPERTY AND EQUIPMENT, net	**315,345**	264,728
INVESTMENT IN UNCONSOLIDATED AFFILIATES	**117,664**	81,287
GOODWILL	**24,522**	24,174
INTANGIBLE ASSETS, net	**79,357**	53,260
OTHER ASSETS, net	**10,093**	10,456
Total assets	**$627,173**	$514,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	**$ 6,589**	$ 6,116
Accounts payable	**57,472**	49,482
Accrued expenses	**13,902**	12,314
Total current liabilities	**77,963**	67,912
LONG-TERM DEBT, less current portion	**151,433**	119,301
DEFERRED INCOME TAX LIABILITIES, net	**41,840**	31,686
DEFERRED ITEMS — grants from governmental agencies	**42,667**	42,509
DEFERRED GAIN — sale/leaseback	**3,982**	4,448
OTHER LONG-TERM LIABILITIES	**14,843**	12,280
MINORITY INTEREST	**3,365**	3,122
COMMITMENTS AND CONTINGENCIES	**—**	—
MANDATORILY REDEEMABLE PREFERRED STOCK (3,000,000 shares convertible at $6.81 per share of Class A Common Stock on or before December 2008)	**23,994**	23,980
STOCKHOLDERS' EQUITY:		
Class A Common Stock, $0.01 par value, one vote per share; 90,000,000 shares authorized; 23,697,287 and 23,138,436 shares issued and 20,167,875 and 19,630,662 shares outstanding (net of 3,529,412 and 3,507,774 shares in treasury) on December 31, 2003 and 2002, respectively	**158**	154
Class B Common Stock, $0.01 par value, ten votes per share; 15,000,000 shares authorized; 2,707,938 shares issued and outstanding on December 31, 2003 and 2002	**18**	18
Additional paid-in capital	**131,978**	127,741
Retained earnings	**130,913**	103,465
Accumulated other comprehensive income (loss)	**16,599**	(9,493)
Less treasury stock, at cost	**(12,580)**	(12,264)
Total stockholders' equity	**267,086**	209,621
Total liabilities and stockholders' equity	**$627,173**	$514,859

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Years Ended December 31, 2003	2002	2001
OPERATING REVENUES	**$244,827**	$209,540	$173,576
OPERATING EXPENSES:			
Transportation	**84,268**	65,553	56,573
Maintenance of ways and structures	**25,969**	22,950	19,271
Maintenance of equipment	**36,695**	36,295	31,231
General and administrative	**46,206**	42,306	31,605
Net gain on sale and impairment of assets	**(87)**	(3,140)	(814)
Depreciation and amortization	**15,471**	13,569	12,756
Total operating expenses	**208,522**	177,533	150,622
INCOME FROM OPERATIONS	**36,305**	32,007	22,954
Interest expense	**(8,646)**	(8,139)	(10,049)
Gain on sale of 50% equity in Australian operations	**—**	—	2,985
Other income, net	**986**	726	497
INCOME BEFORE INCOME TAXES and EQUITY EARNINGS	**28,645**	24,594	16,387
Provision for income taxes	**10,567**	8,761	6,166
Equity in Net Income of International Affiliates:			
Australia	**10,371**	8,487	8,451
South America	**270**	1,287	412
NET INCOME	**28,719**	25,607	19,084
Preferred stock dividends and cost accretion	**1,270**	1,172	957
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	**$ 27,449**	$ 24,435	$ 18,127
BASIC EARNINGS PER SHARE:			
Earnings per common share	**$ 1.21**	$ 1.11	$ 1.15
Weighted average shares	**22,700**	22,056	15,764
DILUTED EARNINGS PER SHARE:			
Earnings per common share	**$ 1.07**	$ 0.97	$ 0.98
Weighted average shares and equivalents	**26,768**	26,378	19,375

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

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 Income (Loss)	Treasury Stock	Total Stockholders' Equity
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)
Comprehensive income							19,062
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 paid on Redeemable Convertible Preferred Stock	—	—	—	(811)	—	—	(811)
Treasury stock acquisitions, 124,601 shares	—	—	—	—	—	(1,175)	(1,175)
BALANCE, December 31, 2001	151	18	123,597	79,030	(4,905)	(12,228)	185,663
Comprehensive income, net of tax:							
Net income	—	—	—	25,607	—	—	25,607
Currency translation adjustments	—	—	—	—	2,514	—	2,514
Fair market value adjustments of cash flow hedges	—	—	—	—	(6,550)	—	(6,550)
Pension liability adjustment						(552)	(552)
Comprehensive income							21,019
Proceeds from employee stock purchases	3	—	3,086	—	—	—	3,089
Tax benefit from exercise of stock options	—	—	1,058	—	—	—	1,058
Accretion of fees on Redeemable Convertible Preferred Stock	—	—	—	(172)	—	—	(172)
4% dividend paid on Redeemable Convertible Preferred Stock	—	—	—	(1,000)	—	—	(1,000)
Treasury stock acquisitions, 2,484 shares	—	—	—	—	—	(36)	(36)
BALANCE, December 31, 2002	$ 154	$ 18	$127,741	$103,465	$(9,493)	$(12,264)	$209,621

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (continued)
(dollars in thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
BALANCE, December 31, 2002	$ 154	$18	$127,741	$103,465	$ (9,493)	$(12,264)	$209,621
Comprehensive income, net of tax:							
Net income	—	—	—	28,719	—	—	28,719
Currency translation adjustments	—	—	—	—	23,498	—	23,498
Fair market value adjustments of cash flow hedges	—	—	—	—	2,666	—	2,666
Pension liability adjustment	—	—	—	—	(72)	—	(72)
Comprehensive income							54,811
Proceeds from employee stock purchases	4	—	2,858	—	—	—	2,862
Tax benefit from exercise of stock options	—	—	1,123	—	—	—	1,123
Accretion on Redeemable Convertible Preferred Stock	—	—	—	(271)	—	—	(271)
Adjustment of Preferred Option value	—	—	256	—	—	—	256
4% dividend paid on Redeemable Convertible Preferred Stock	—	—	—	(1,000)	—	—	(1,000)
Treasury stock acquisitions, 21,638 shares	—	—	—	—	—	(316)	(316)
BALANCE, December 31, 2003	$ 158	$18	$131,978	$130,913	$16,599	$(12,580)	$267,086

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

GENESEE & WYOMING INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 28,719**	$ 25,607	$ 19,084
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	**15,471**	13,569	12,756
Deferred income taxes	**9,659**	6,430	4,164
Net gain on sale and impairment of assets	**(87)**	(3,140)	(814)
Write off of deferred finance fees from early extinguishment of debt	**—**	597	—
Gain on sale of 50% equity in Australian operations	**—**	—	(2,985)
Equity earnings of unconsolidated affiliates	**(10,641)**	(9,774)	(8,863)
Minority interest expense	**243**	278	129
Tax benefit realized upon exercise of stock options	**1,123**	1,058	1,206
Valuation adjustment of split dollar life insurance	**(367)**	555	516
Changes in assets and liabilities, net of effect of acquisitions-			
Accounts receivable	**3,267**	(8,270)	3,376
Materials and supplies	**325**	241	369
Prepaid expenses and other	**999**	(581)	2,348
Accounts payable and accrued expenses	**(3,941)**	(1,178)	(77)
Other assets and liabilities, net	**2,147**	2,176	(2,649)
Net cash provided by operating activities	**46,917**	27,568	28,560
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment, net of proceeds from government grants	**(18,934)**	(20,272)	(16,551)
Locomotive upgrade project	**(4,076)**	(2,015)	—
Purchase of Chattahoochee Industrial Railroad, Arkansas, Louisiana and Mississippi Railroad and Fordyce & Princeton Railroad	**(54,952)**	—	—
Purchase of Utah Railway Company	**—**	(55,680)	—
Purchase of Emons Transportation Group, Inc., net of cash received	**—**	(29,449)	—
Purchase of assets of South Buffalo Railway, net of cash received	**—**	—	(33,117)
Cash investments in unconsolidated affiliates — South America	**—**	—	(246)
Cash received from unconsolidated international affiliates	**132**	263	4,329
Proceeds from disposition of property and equipment	**1,941**	4,113	8,147
Net cash used in investing activities	**(75,889)**	(103,040)	(37,438)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term borrowings	**(159,608)**	(214,438)	(200,033)
Proceeds from issuance of long-term debt	**186,500**	276,081	157,000
Payment of debt issuance costs	**—**	(4,578)	(287)
Proceeds from issuance of Class A Common Stock, net	**—**	—	66,533
Proceeds from issuance of Redeemable Convertible Preferred Stock, net	**—**	—	4,812
Proceeds from employee stock purchases	**2,862**	3,089	6,262
Purchase of treasury stock	**(316)**	(36)	(1,175)
Dividends paid on Redeemable Convertible Preferred Stock	**(1,000)**	(1,000)	(855)
Net cash provided by financing activities	**28,438**	59,118	32,257
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**624**	(1,350)	1,980
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**90**	(17,704)	25,359
CASH AND CASH EQUIVALENTS, beginning of year	**11,028**	28,732	3,373
CASH AND CASH EQUIVALENTS, end of year	**$ 11,118**	$ 11,028	$ 28,732
CASH PAID DURING YEAR FOR:			
Interest	**$ 8,691**	$ 7,825	$ 9,875
Income taxes	**1,034**	2,679	835

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

GENESEE & WYOMING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND CUSTOMERS:

Genesee & Wyoming Inc. and Subsidiaries (the Company) has interests in thirty-two short line and regional railroads through its various operating subsidiaries and unconsolidated affiliates of which twenty-four are located in the United States, three are located in Canada, one is located in Mexico, three are located in Australia, and one is located in Bolivia. From January 1, 2001 to December 31, 2003 the Company has acquired ten railroads and sold two small railroads in the United States. The Company, through its leasing subsidiary, also leases and manages railroad transportation equipment in the United States, Canada and Mexico. The Company, through its industrial switching subsidiary, provides freight car switching and ancillary rail services. See Note 3 for descriptions of the Company's expansion in recent years.

A large portion of the Company's operating revenue is attributable to industrial customers operating in the electric utility, forest products, auto and auto parts and cement industries in North America. The largest ten customers accounted for approximately 27%, 27% and 28% of the Company's operating revenues in 2003, 2002 and 2001, respectively. In 2003, 2002 and 2001, the Company's largest customer was a coal-fired electricity generating plant which accounted for approximately 5%, 5% and 7% respectively, of the Company's operating revenues.

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 allocated 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 operating expense. Depreciation is provided on the straight-line method over the useful lives of the road property (20-50 years) and equipment (3-20 years).

The Company continually evaluates whether events and circumstances have occurred that indicate that its long-lived tangible 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 impairment has occurred. If 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.

Grants

Grants received from governmental agencies are recorded as long-term liabilities when received and are amortized as a reduction to expense 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.

Goodwill and Intangible Asset Impairment

The Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142) as of January 1, 2002. Under this pronouncement, a two-step goodwill impairment model is used. Step 1 compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than the carrying amount, goodwill would be considered impaired and Step 2 measures the goodwill impairment as the excess of recorded goodwill over its implied fair value. The Company tests impairment on an annual basis or when specific triggering events occur.

Amortizable Intangible Assets

The Company has two amortizable intangible assets in the United States related to customer service agreements and one amortizable intangible asset in Mexico related to a concession agreement with the Mexican Communications and Transportation Department. The two intangible assets in the U.S. are amortized on a straight-line basis over the estimated lives of the respective customer facilities they serve. The intangible asset in Mexico is amortized on a straight-line basis over the life of the concession agreement. See Notes 6 and 16 for more detailed discussion of amortizable intangible assets.

Insurance

The Company maintains insurance, with varying deductibles up to $500,000 per incident for liability and up to $500,000 per incident for property damage, for claims resulting from train derailments and other accidents related to its operations. Additionally, the Company is self-insured for general employee health and medical claims up to a stop-loss of $75,000 per insured individual. Accruals for claims, limited when appropriate to the applicable deductible, are estimated and recorded in the period when such claims are incurred.

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 to be distributed on March 14, 2002 to stockholders of record as of February 28, 2002, and on June 15, 2001 to stockholders 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 these stock splits. See Note 22 regarding a subsequent stock split announced on February 11, 2004.

Earnings per Share

Common shares issuable under unexercised stock options, calculated under the treasury stock method, and mandatorily redeemable convertible preferred stock (see Note 12) are the only reconciling items between the Company's basic and diluted weighted average shares outstanding. The total number of options used to calculate weighted average share equivalents for diluted earnings per share is 1,788,456, 1,401,432 and 1,934,739 for 2003, 2002 and 2001, respectively. Options to purchase 488,881 additional shares of stock were outstanding as of December 31, 2002, 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 2003, 2002 and 2001 are 3,668,478 shares, 3,668,478 shares and 2,974,986 shares, respectively, of common stock equivalents which represent the weighted average share impact of the assumed conversion of the mandatorily redeemable convertible preferred stock.

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. 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 fully utilize those earnings in the operations of the foreign subsidiaries.

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

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001 (in thousands, except per share amounts):

	2003	2002	2001
Numerators:			
Net income (used in diluted EPS)	**$28,719**	$25,607	$19,084
Dividends and fees on Preferred Stock	**(1,270)**	(1,172)	(957)
Net income available to common stockholders (used in basic EPS)	**$27,449**	$24,435	$18,127
Denominators:			
Basic — weighted average common shares outstanding	**22,700**	22,056	15,764
Dilutive effect of employee stock options	**400**	654	636
Dilutive effect of Mandatorily Convertible Preferred Stock	**3,668**	3,668	2,975
Diluted — weighted average common shares and share equivalents outstanding	**26,768**	26,378	19,375
Income per common share:			
Basic	**$ 1.21**	$ 1.11	$ 1.15
Diluted	**$ 1.07**	$ 0.97	$ 0.98

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). See Note 17 for additional information regarding the Stock Options 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):

	2003	2002	2001
Net Income:			
As reported	**$28,719**	$25,607	$19,084
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	**(1,380)**	(980)	(777)
Pro Forma	**27,339**	24,627	18,307
Basic EPS: As reported	**$ 1.21**	$ 1.11	$ 1.15
Pro Forma	**1.15**	1.07	1.10
Diluted EPS: As reported	**$ 1.07**	$ 0.97	$ 0.98
Pro Forma	**1.02**	0.94	0.95

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 due to the variable nature of the Company's interest on debt.

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 an average rate for the statement of income items. Translation adjustments are reflected as currency translation adjustments in Stockholders' Equity and are included in accumulated other comprehensive income.

Revaluation of U. S. dollar denominated foreign loans into the appropriate local currency resulted in gains of $241,000 and $33,000 in 2003 and 2002, respectively, and a loss of $81,000 in 2001. Additionally, foreign currency exchange transaction gains and losses, most notably, gains of $504,000 and $172,000 in 2003 and 2002, respectively, related to an Australian dollar cash account, and a $508,000 loss in 2001 from the partial settlement of an Australian dollar denominated receivable 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. Significant estimates using management judgment are made in the areas of recoverability and useful lives of assets, as well as liabilities for casualty claims and income taxes. Actual results could differ from those estimates.

Reclassifications

Certain prior year balances have been reclassified to conform with the 2003 presentation.

3. EXPANSION OF OPERATIONS:

United States

Georgia-Pacific Railroads: On December 31, 2003, the Company completed the purchase from Georgia-Pacific Corporation (GP) of all of the issued and outstanding shares of common stock of the Chattahoochee Industrial Railroad (CIRR), the Arkansas Louisiana & Mississippi Railroad Company (ALM), and the Fordyce & Princeton Railroad Company (F&P, collectively, the Railroads) for approximately $54.9 million in cash. The purchase price was allocated to current assets ($2.7 million), property and equipment ($37.6 million), and intangible assets ($27.1 million), less current liabilities assumed ($12.5 million). As contemplated with the acquisition, the Company implemented a severance program which is included in the table below. The aggregate cost of these restructuring activities is considered a liability assumed in the acquisition, and as such, was allocated to the purchase price.

In conjunction with the acquisition, the Company entered into two Transportation Services Agreements (TSAs) which are 20-year agreements for the Railroads to provide rail transportation service to GP. One of the TSAs has been determined to be an intangible asset and approximately $27.1 million of the Railroad's purchase price has been allocated to this asset. The TSA asset will be amortized on a straight-line basis over a 30 year life, which is the expected life of the plant being served, beginning January 1, 2004. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement.

Oregon Lease: On December 30, 2002, the Company expanded its Oregon region by commencing railroad operations over a 76-mile rail line between Salem and Eugene, Oregon previously operated by Burlington Northern Santa Fe Railway Company (BNSF). The rail line is contiguous to the Company's existing Oregon railroad operations and increased that region's annual carloads and enhanced operations through more efficient routing of existing traffic. The Company is operating the rail line under a 15-year lease agreement with BNSF. Under the lease, no payments to the lessor are required as long as certain operating conditions are met. Through December 31, 2003, no payments were required under this lease.

Utah Railway Company: On August 28, 2002, the Company acquired all of the issued and outstanding shares of common stock of Utah Railway Company (URC) for approximately $55.7 million in cash, including transaction costs. The purchase price was allocated to current assets ($4.3 million), property and equipment ($18.1 million), and intangible assets ($35.9 million), less current liabilities assumed ($2.6 million). As contemplated with the acquisition, the Company implemented a severance program which is included in the table below. The aggregate cost of these restructuring activities is considered a liability assumed in the acquisition, and as such, was allocated to the purchase price. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement.

Emons: On February 22, 2002, the Company acquired Emons Transportation Group, Inc. (Emons) for approximately $29.4 million in cash, including transaction costs and net of cash received in the acquisition. The Company purchased all of the outstanding shares of Emons at $2.50 per share. The purchase price was allocated to current assets ($4.0 million) and property and equipment ($33.7 million), less assumed current liabilities ($4.5 million) and assumed long-term liabilities ($3.8 million). As contemplated with the acquisition, the Company implemented a severance program which is included in the table below. The aggregate cost of these restructuring activities is considered a liability assumed in the acquisition, and as such, was allocated to the purchase. The majority of these costs were paid in the three months ended March 31, 2002. The Company funded the acquisition through its revolving line of credit held under its primary credit agreement.

South Buffalo: 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. The purchase price was allocated to current assets ($2.3 million), property and equipment ($17.6 million) and goodwill ($18.8 million), less current liabilities assumed ($2.4 million) and long-term liabilities assumed ($3.2 million). The purchase price was reduced by a $669,000 adjustment pursuant to the final determination of the net assets of South Buffalo on the sale date. This amount, together with another $728,000 related to pre-acquisition liabilities paid by the Company on Bethlehem's behalf, was paid to the Company in December 2002. Although Bethlehem filed for voluntary protection under U.S. bankruptcy laws on October 5, 2001, these payments were 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 closed the former South Buffalo headquarters office in March 2002 and implemented a severance program which is included in the table below. The aggregate cost of these restructuring activities is considered a liability assumed in the acquisition, and as such, was allocated to the purchase price. 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 purchase an additional $5.0 million of the Company's Series A Mandatorily Redeemable Convertible Preferred Stock (the Convertible Preferred), and the Fund exercised that right on December 11, 2001.

The table below sets forth a roll-forward of the activity affecting the restructuring reserves established in acquisitions including the number of employees and actual cash payments:

Schedule of Acquisition Restructuring Activity

	Years Ended December 31,		
	2003	**2002**	**2001**
Number of Employees:			
Number of planned terminations related to acquisitions during the period	**13**	39	26
Actual number of employees terminated	**—**	(39)	(26)
Ending number of employees to be terminated as of the end of the period	**13**	—	—
Restructuring Reserves:			
Liabilities established in purchase accounting for acquisitions	**1,002,000**	1,382,000	876,000
Cash payments during the period	**—**	(1,382,000)	(876,000)
Balance at end of period	**$1,002,000**	$ —	$ —

For U.S. tax purposes, the Company has made elections under Internal Revenue Code Section 338 to treat the CIRR, ALM, F&P, URC, Emons and South Buffalo acquisitions each as a purchase of assets.

Australia

On December 16, 2000, the Company, through its 50%-owned subsidiary ARG, completed the acquisition of Westrail Freight from the government of Western Australia for approximately U.S. $334.4 million. To complete the acquisition, the Company contributed its formerly wholly-owned subsidiary, Australia Southern Railroad (ASR), to ARG along with the Company's equity interest in Asia Pacific Transport Consortium (APTC) and $21.4 million of cash while Wesfarmers, the other 50% owner of ARG, 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.

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 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 gain of $3.7 million related to the December, 2000 issuance of ASR stock to Wesfarmers. A related deferred income tax expense of $1.1 million was also recorded. ARG then paid a total of $7.4 million to its two shareholders, in equal amounts of $3.7 million, as partial payment of each shareholder's Australian dollar denominated non-interest bearing note, which resulted in a $508,000 currency transaction loss for the Company.

The additional gain of $3.7 million relating to the formation of ARG represented an adjustment to 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 50% owners. Accordingly, the Company recorded a $728,000 decrease to its previously recorded gain 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.

Canada

On April 15, 1999, the Company purchased the ownership interests of one of its joint venture partners in Canada, Rail-One Inc. (Rail-One) which had a 47.5% ownership interest in Genesee Rail-One Inc. (GRO), thereby increasing the Company's ownership of GRO to 95%. Under the terms of the purchase agreement, among other things, the sellers of Rail-One were granted the right to purchase up to 270,000 shares of the Company's Class A Common Stock at an exercise price of $2.56 per share if GRO had achieved certain financial performance targets in any annual period between 1999 and 2003. The Company has determined that GRO failed to achieve these financial performance targets in any of the required years.

Pro Forma Financial Results (unaudited)

The following table summarizes the Company's unaudited pro forma operating results for the years ended December 31, 2003, 2002 and 2001, as if the GP Railroads, URC and Emons had been acquired as of January 1, 2002, and South Buffalo had been acquired as of January 1, 2001 (in thousands, except per share amounts):

	2003	2002	2001
Operating revenues	**$262,428**	$245,330	$187,688
Net income	**30,424**	29,218	21,008
Basic earnings per share	**1.28**	1.27	1.25
Diluted earnings per share	**1.14**	1.11	1.05

The unaudited pro forma operating results include the acquisitions of the GP Railroads, URC, Emons and South Buffalo adjusted, net of tax, for depreciation expense resulting from the step-up of the GP Railroads and South Buffalo property based on appraised values, depreciation expense reduction resulting from the allocation of negative goodwill to the asset values of URC and Emons, URC contractual intercompany management fees, and incremental interest expense related to borrowings used to fund the GP Railroads, URC, Emons and South Buffalo acquisitions. The unaudited pro forma operating results also include the issuance of $5.0 million of Convertible Preferred Stock triggered by the South Buffalo acquisition. In accordance with the Company's adoption of the Financial Accounting Standards Board's Statement No. 142, ''Goodwill and Other Intangible Assets'', no amortization of the acquired goodwill is reflected in the unaudited pro forma operating results.

These results exclude the gain on sale of 50% of equity in Australian operations recorded in 2001.

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.

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS:

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

	2003	2002	2001
Balance, beginning of year	**$ 1,741**	$ 1,001	$ 1,308
Provisions	**878**	716	468
Charges	**(605)**	(402)	(775)
Established in acquisitions	**—**	426	—
Balance, end of year	**$ 2,014**	$ 1,741	$ 1,001

5. PROPERTY AND EQUIPMENT:

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

	2003	2002
Property:		
Land & Land Improvements	**$ 23,931**	$ 19,910
Buildings & Leasehold Improvements	**16,278**	14,054
Bridges/Tunnels/Culverts	**39,647**	32,254
Track Property	**245,346**	201,295
Total Road Property	**325,202**	267,513
Equipment:		
Computer Equipment	**4,171**	3,833
Locomotives & Freight Cars	**46,573**	41,969
Vehicles & Mobile Equipment	**13,200**	10,673
Signals & Crossing Equipment	**5,609**	4,936
Other Equipment	**7,390**	8,255
Total Equipment	**76,943**	69,666
Total Property and Equipment	**402,145**	337,179
Less Accumulated Depreciation	**(86,800)**	(72,451)
Net Property and Equipment	**$315,345**	$264,728

6. INTANGIBLE AND OTHER ASSETS, NET AND GOODWILL:

Acquired intangible assets and other assets are as follows (in thousands):

	December 31, 2003			December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Assets	Gross Carrying Amount	Accumulated Amortization	Net Assets
INTANGIBLE ASSETS:						
Amortizable intangible assets:						
Chiapas-Mayab Operating License	**$ 7,058**	**$ 999**	**$ 6,059**	$ 7,629	$ 826	$ 6,803
Amended and Restated Service Assurance Agreement	**10,566**	**216**	**10,350**	10,566	—	10,566
Transportation Services Agreement	**27,055**	**—**	**27,055**	—	—	—
Non-amortizable intangible assets:						
Track Access Agreements	**35,891**	**—**	**35,891**	35,891	—	35,891
Total Intangible Assets	**80,570**	**1,213**	**79,357**	54,086	826	53,260
OTHER ASSETS:						
Deferred financing costs	**6,607**	**1,841**	**4,766**	6,355	590	5,765
Other assets	**5,370**	**43**	**5,327**	4,721	30	4,691
Total Other Assets	**11,977**	**1,884**	**10,093**	11,076	620	10,456
Total Intangible and Other Assets	**$92,547**	**$3,097**	**$89,450**	$65,162	$1,446	$63,716

The Chiapas-Mayab Operating License is being amortized over 30 years which is the life of the concession agreement with the Mexican Communications and Transportation Department. Amortization expense for the year ended December 31, 2003 was $150,000; estimated annual amortization for the next five years is $150,000 per year.

On July 23, 2003 as a result of a settlement agreement with Commonwealth Edison Company (See Note 16), the Company amended and restated the Service Assurance Agreement (SAA) and began to amortize the Amended and Restated Service Assurance Agreement (ARSAA). The estimate of the useful life of the ARSAA asset is based on the Company's estimate of the useful life of the coal-fired electricity generation plant to which the Company provides service, which the Company estimates will be in service through 2027. Amortization expense for the ARSAA for the year ended December 31, 2003 was $216,000; estimated annual amortization for the next five years is $432,000 per year. In 2002, upon adoption of SFAS No. 142, the SAA was determined to have an indefinite useful life and therefore was not subject to amortization.

The Transportation Services Agreement, entered into in conjunction with the GP transaction (the TSA), is a 20-year agreement to provide exclusive rail transportation service to GP facilities. The Company believes that the customer's facilities have a 30-year economic life and that the Company will continue to be the exclusive rail transportation service provider until the end of the plant's useful life. Therefore, the TSA will be amortized on a straight-line basis over a 30-year life beginning January 1, 2004. Estimated annual amortization for the next five years is $902,000 per year.

The Track Access Agreements are perpetual trackage agreements assumed in the Company's acquisition of Utah Railway Company. Under SFAS No. 142 these assets have been determined to have an indefinite useful life and therefore are not subject to amortization.

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. Amortization expense for the year ended December 31, 2003 was approximately $1.2 million; estimated annual amortization for the next four years, which is the remaining life of the asset, is $1.2 million per year.

Other assets primarily consist of executive split dollar life insurance, assets held for sale, a minority equity investment in an agricultural facility, and in 2002, notes receivable due from executives. 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 primarily represent excess track and locomotives. Notes receivable due from Company executives, which bore interest at 5.69% and were due in annual installments were $486,000 as of December 31, 2002. These notes were repaid in 2003.

Goodwill for all acquisitions made prior to July 2001 was amortized on a straight-line basis over lives of 15-20 years through December 31, 2001, and in accordance with the adoption of SFAS No. 142, amortization of goodwill was discontinued as of January 1, 2002. The changes in the carrying amount of goodwill are as follows:

	Years Ended December 31,	
	2003	**2002**
Goodwill:		
Balance at beginning of period	**$24,174**	$24,144
Goodwill acquired during period	**—**	—
Amortization	**—**	—
Currency translation and other adjustments	**348**	30
Impairment losses	**—**	—
Balance at end of period	**$24,522**	$24,174

The Company's adjusted net income and per share amounts are as follows:

	Years Ended December 31,		
	2003	**2002**	**2001**
Reported net income	**$28,719**	$25,607	$19,084
Addback:			
Goodwill amortization, net of tax	**—**	—	236
SAA amortization, net of tax	**—**	—	488
Adjusted net income	**$28,719**	$25,607	$19,808

	Years Ended December 31,		
	2003	**2002**	**2001**
Reported basic earnings per share	**$ 1.21**	$ 1.11	$ 1.15
Addback:			
Goodwill amortization, net of tax	**—**	—	0.01
SAA amortization, net of tax	**—**	—	0.03
Adjusted basic earnings per share	**$ 1.21**	$ 1.11	$ 1.19

	Years Ended December 31,		
	2003	**2002**	**2001**
Reported diluted earnings per share	**$ 1.07**	$ 0.97	$ 0.98
Addback:			
Goodwill amortization, net of tax	**—**	—	0.01
SAA amortization, net of tax	**—**	—	0.03
Adjusted diluted earnings per share	**$ 1.07**	$ 0.97	$ 1.02

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, 2003	$.751
As of December 31, 2002	$.561
As of December 31, 2001	$.510
Average for the year ended December 31, 2003	$.662
Average for the year ended December 31, 2002	$.545
Average for the year ended December 31, 2001	$.518

AUSTRALIAN RAILROAD GROUP
STATEMENTS OF INCOME

(U.S. dollars, in thousands)

	For the Years Ended December 31,		
	2003	**2002**	**2001**
Operating revenues	**$249,571**	$211,067	$188,490
Operating expenses	**194,089**	161,146	139,343
Restructuring costs	**267**	2,583	—
Bid costs	**—**	867	1,752
Total operating expenses	**194,356**	164,596	141,095
Income from operations	**55,215**	46,471	47,395
Interest expense	**(33,877)**	(24,859)	(22,505)
Other income, net	**3,271**	886	596
Income before income taxes	**24,609**	22,498	25,486
Provision for income taxes	**3,866**	5,524	8,584
Net income	**$ 20,743**	$ 16,974	$ 16,902

AUSTRALIAN RAILROAD GROUP
BALANCE SHEETS

(U.S. dollars, in thousands)

	As of December 31,	
	2003	**2002**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 26,618**	$ 5,882
Accounts receivable, net	**47,764**	30,315
Materials and supplies	**10,033**	7,985
Prepaid expenses and other	**3,069**	2,061
Total current assets	**87,484**	46,243
PROPERTY AND EQUIPMENT, net	**478,808**	402,286
DEFERRED INCOME TAX ASSETS	**80,193**	10,592
RESTRICTED CASH	**—**	53,380
OTHER ASSETS, net	**5,476**	4,224
Total assets	**$651,961**	$516,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	**$ —**	$133,263
Accounts payable	**7,199**	8,784
Accrued expenses	**35,111**	20,579
Current income tax liabilities	**—**	1,672
Total current liabilities	**42,310**	164,298
LONG-TERM DEBT, net of current portion	**367,892**	195,039
DEFERRED INCOME TAX LIABILITIES, net	**14,271**	2,498
OTHER LONG-TERM LIABILITIES	**2,031**	1,031
FAIR VALUE OF INTEREST RATE SWAPS	**9,133**	16,621
SUBORDINATED NOTES TO STOCKHOLDERS	**11,562**	8,642
Total non-current liabilities	**404,889**	223,831
REDEEMABLE PREFERRED STOCK OF THE STOCKHOLDERS	**16,212**	11,807
TOTAL STOCKHOLDERS' EQUITY	**188,550**	116,789
Total liabilities and stockholders' equity	**$651,961**	$516,725

AUSTRALIAN RAILROAD GROUP
STATEMENTS OF CASH FLOWS

(U.S. dollars, in thousands)

	For the Years Ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 20,743**	$16,974	$16,902
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	**23,443**	17,191	13,392
Deferred income taxes	**11,283**	3,665	7,252
Gain on disposition of property	**(2,081)**	(314)	(152)
Changes in assets and liabilities	**(8,095)**	(7,743)	4,004
Net cash provided by operating activities	**45,293**	29,773	41,398
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	**(35,774)**	(28,423)	(54,358)
Proceeds from disposition of property and equipment	**6,924**	1,752	152
Transfer from (to) restricted funds on deposit	**69,978**	(46,957)	(6,351)
Net cash provided by (used in) investing activities	**41,128**	(73,628)	(60,557)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on borrowings	**(430,385)**	—	(16,360)
Borrowings on debt	**360,493**	38,990	20,452
Proceeds from issuance of shares	**—**	—	7,685
Repayment of subordinated loans	**—**	—	(7,685)
Refund of goods and services tax received from acquisition of Westrail Freight	**—**	—	16,457
Net cash (used in) provided by financing activities	**(69,892)**	38,990	20,549
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	**4,207**	839	(553)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,736**	(4,026)	837
CASH AND CASH EQUIVALENTS, beginning of year	**5,882**	9,908	9,071
CASH AND CASH EQUIVALENTS, end of year	**$ 26,618**	$ 5,882	$ 9,908

South America

The following condensed financial data for Empresa Ferroviaria Oriental, S.A. (Oriental) for the years ended December 31, 2003, 2002 and 2001 have a U.S. dollar functional currency and are based on accounting principles generally accepted in the United States (in thousands). The Company has a 22.89% indirect ownership interest in Oriental which is located in eastern Bolivia.

	Years Ended December 31,		
	2003	**2002**	**2001**
Operating revenues	**$27,130**	$30,658	$27,440
Net income	**5,175**	7,239	5,979

Condensed balance sheet information for Oriental as of December 31, 2003 and 2002:

	2003	2002
Current assets	**$14,374**	$15,153
Non-current assets	**55,237**	54,537
Total assets	**$69,611**	$69,690
Current liabilities	**$ 5,617**	$ 5,823
Non-current liabilities	**4,702**	3,853
Senior debt	**1,568**	1,350
Stockholders' equity	**57,724**	58,664
Total liabilities and stockholders' equity	**$69,611**	$69,690

The above data does not include non-recourse debt of $12.0 million held at an intermediate unconsolidated affiliate or any of the general and administrative, interest or income tax costs at various intermediate unconsolidated affiliates. The Company's share of costs from the intermediate unconsolidated affiliates for the years ended December 31, 2003, 2002 and 2001 were $828,100, $678,625 and $954,647, respectively.

As noted previously, the Company holds its equity interest in Oriental through a number of intermediate holding companies, and the Company accounts for its interest in Oriental under the equity method of accounting. The Company indirectly holds a 12.52% equity interest in Oriental through an interest in Genesee & Wyoming Chile (GWC), and the Company holds its remaining 10.37% equity interest in Oriental through other companies. GWC is an obligor of non-recourse debt of $12.0 million, which has an adjustable interest rate dependent on operating results of Oriental. This non-recourse debt is secured by a lien over GWC's indirect equity interest in Oriental.

This debt became due and payable on November 2, 2003. Due to the political and economic unrest and uncertainties in Bolivia, it has become difficult for GWC to refinance this debt and the Company has chosen not to repay the non-recourse obligation. GWC entered into discussions with its creditors on plans to restructure the debt, and as a result of those discussions, GWC obtained a written waiver from the creditors which expired on January 31, 2004. Negotiations with the creditors continue, and currently, none of GWC's creditors have commenced court proceedings to (i) collect on the debt or (ii) exercise their rights pursuant to the lien.

If the Company were to lose its 12.52% equity stake in Oriental due to creditors exercising their lien on GWC's indirect equity interest in Oriental, the Company would record a $232,000 write-off, the basis of its investment in Oriental held through GWC. Because the $12.0 million of debt is serviced by income received by GWC from Oriental, the Company's loss of the 12.52% equity interest in Oriental would not have a material adverse impact on the Company's future equity income. A default, acceleration or effort to foreclose on the lien under the non-recourse debt will have no impact on the Company's remaining 10.37% equity interest in Oriental, because that equity interest is held indirectly through holding companies outside of GWC's ownership in Oriental. The Company plans to continue providing management resources to Oriental and generates substantially all of its equity income through the 10.37% ownership interest.

Oriental has no obligations associated with the $12.0 million of debt. In addition, a default, acceleration or effort to foreclose on the lien under the non-recourse debt would not result in a breach of a representation, warranty, covenant, cross-default or acceleration under the Company's Senior Credit Facility.

The Company's retained earnings at December 31, 2003 and 2002 include $34.2 million and $24.0 million, respectively, of combined ARG and South America undistributed earnings.

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, 2003, 2002 and 2001 was approximately $9.5 million, $9.2 million and $8.1 million, respectively. Additionally, the Company leases certain real property which resulted in lease expense for the years ended December 31, 2003, 2002 and 2001 of approximately $1.6 million, $1.5 million, and $1.2 million, respectively.

On March 30, 2001, the Company completed the sale of certain rolling stock to a financial institution for a net sale price of $6.5 million. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into an agreement with this financial institution to lease this rolling stock for a period of eight years including renewals. The sale/leaseback transaction resulted in an aggregate deferred gain of $1.8 million. Due to certain contingent payments at lease end, the Company is not amortizing this gain as a non-cash offset to rent expense.

The Company anticipates renewing the above-mentioned lease at all available lease renewal dates. If the Company chooses not to renew this and certain other leases, it would be obligated to return the rolling stock and pay aggregate fees of up to approximately $8.2 million. Under certain of these leases, in lieu of this payment the Company has the option to purchase the underlying rolling stock for a maximum aggregate price of approximately $22.1 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 $4.0 million of amortizing deferred gains from sale/leasebacks) under noncancelable leases and expected automatic renewals (in thousands):

	Noncancelable	Automatic Renewals	Totals
2004	$ 7,794	$ 4,430	$12,224
2005	5,670	4,430	10,100
2006	3,201	4,430	7,631
2007	2,239	4,430	6,669
2008	1,700	1,595	3,295
Thereafter	2,415	691	3,106
Total minimum payments	$23,019	$20,006	$43,025

The Company is party to certain lease agreements with Class I carriers to operate over various rail lines in North America. Under the leases, no payments to the lessors are required as long as certain operating conditions are met. Through December 31, 2003, no payments were required under these lease arrangements.

9. LONG-TERM DEBT:

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

	2003	2002
Credit facilities with variable interest rates (weighted average of 3.27% and 3.81% before impact of interest rate swaps at December 31, 2003 and 2002, respectively)	**$132,417**	$ 94,831
Limited recourse U.S. dollar denominated promissory notes of Mexican subsidiary with variable interest rates (4.68% and 5.33% before impact of interest rate swaps at December 31, 2003 and 2002, respectively)	**23,163**	27,500
Other debt with interest rates up to 5.33% and maturing at various dates between 2004 and 2006	**2,442**	3,086
	158,022	125,417
Less — Current portion	**6,589**	6,116
Long-term debt, less current portion	**$151,433**	$119,301

Credit Facilities

On October 31, 2002, the Company amended and restated its senior secured credit facilities thereby increasing the facilities to $250.0 million. The facilities are composed of a $223.0 million revolving loan and a US$27.0 million Canadian term loan, each maturing in 2007. The Canadian term loan is funded in Canadian dollars and principal and interest payments on the term loan are made in Canadian dollars. Under the terms of the financing, the Company may expand the size of the facilities to $350.0 million if certain criteria are met in the future. A portion of the new $250.0 million facilities were used to refinance approximately $100.0 million of existing debt at the Company's U.S. and Canadian subsidiaries. The remaining $150.0 million ($113.4 million at December 31, 2003) of unused borrowing capacity is available for general corporate purposes including acquisitions. In conjunction with the refinancing, the Company recorded a non-cash after tax write off of $375,000 related to unamortized deferred financing costs of the refinanced debt.

The Canadian term loan is due in quarterly installments which began March 31, 2003, and matures, along with the revolving credit facilities, on October 31, 2007. The credit facilities accrue interest at rates based on various indices plus an applicable margin, which varies from 1.75 to 2.5 percentage points depending upon the ratio of the Company's funded debt to Earnings Before Interest, Taxes, Depreciation, Amortization and Operating Leases (EBITDAR), 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 from the proceeds of asset sales that are not reinvested in capital assets in certain periods of time, as defined in the agreement. The credit facilities are collateralized by essentially all of 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, interest coverage, minimum net worth, and maximum capital expenditures, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 2003.

Limited Recourse Promissory Notes

On December 7, 2000, one of the Company's subsidiaries in Mexico, Servicios, entered into three promissory notes payable (Notes) totaling $27.5 million with variable interest rates based on LIBOR plus 3.5 percentage points. 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 Notes are secured by essentially all the assets of Servicios and its subsidiary, Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V., (FCCM), and a pledge of the Company's shares of Servicios and FCCM. The Company is obligated to provide up to $8.0 million of funding to its Mexican subsidiaries, if necessary, to meet their investment or financial obligations prior to completing the investment phase of the project funded by the Notes (''Physical Completion''), consisting of several obligations related to capital investments, operating performance and management systems and controls. In addition, the Company is obligated to provide $7.5 million in funding to Servicios to meet its debt service obligations prior to completing the financial phase of the project (''Financial Completion''), consisting of several financial performance thresholds. At present, FCCM has yet to achieve Physical Completion or Financial Completion. Based on current circumstances, it is reasonably likely that the Company will have to fund a portion of its funding obligation in order to meet the future principal repayment obligations of the Notes. The Notes contain certain financial covenants which Servicios is in compliance with as of December 31, 2003.

Schedule of Future Payments

The following is a summary of the maturities of long-term debt as of December 31, 2003 (in thousands):

2004	$ 6,589
2005	6,361
2006	6,345
2007	131,994
2008	4,432
Thereafter	2,301
	$158,022

10. FINANCIAL RISK MANAGEMENT:

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 interest rate or exchange rate fluctuations alone, nor does it use instruments where there are not underlying exposures. 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. However, the Company's use of derivative financial instruments may result in short-term gains or losses and increased earnings volatility.

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 of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). The portion of the changes in the fair value of the derivative that is designated as a cash flow hedge that is offset by changes in the expected cash flows related to a recognized asset or liability (the effective portion) 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 portion of the changes in fair value of derivatives used as cash flow hedges that is not offset by changes in the expected cash flows related to a recognized asset or liability (the ineffective portion) is 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 prepaid expenses and other assets, net, accrued expenses or other long-term 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.

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. 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 2003, 2002 and 2001, the Company determined there was no ineffectiveness.

During 2003, 2002 and 2001, 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 2007 and the fixed base rates range from 3.35% to 5.46%. At December 31, 2003 and 2002, the notional amount under these agreements was $60.6 million and $50.6 million, respectively and the fair value of these interest rate swaps was a negative $2.2 million and $2.3 million, respectively.

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 expenses 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 stockholders' equity.

During 2003, 2002 and 2001, the Company entered into various exchange rate options that established exchange rates for converting Mexican Pesos to U.S. Dollars. The options expire in 2004, and give the Company the right to sell Mexican Pesos for U.S. Dollars at an exchange rate of 12.91 Mexican Pesos to the U.S. Dollar and 12.61 Mexican Pesos to the U.S. Dollar. At December 31, 2003 and 2002, the notional amount under exchange rate options was $5.3 million and $6.4 million, respectively. The Company paid up-front premiums for certain of these options in 2003 and 2002 totaling $115,000 and $140,000, respectively. At December 31, 2003 and 2002, the fair value of these exchange rate currency options was $17,000 and $127,000, respectively.

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 5.9 million shares of Class A Common Stock in a public offering at a price of $12.33 per share for net proceeds of $66.5 million. The proceeds were used to pay revolving debt under the Company's primary credit agreement and for general corporate purposes.

Additionally, certain stockholders (after exercising options and converting shares of Class B Common Stock into 96,962 shares of Class A Common Stock) sold 675,000 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 stockholder shares.

12. MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK:

In December 2000, to fund its cash investment in ARG, the Company completed a private placement of its Series A Mandatorily Redeemable Convertible Preferred Stock (the Convertible Preferred), with The 1818 Fund III, LP, a private equity partnership managed by Brown Brothers Harriman & Co. (the Fund). 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 completed 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 purchased an additional $5.0 million of the Convertible Preferred. Dividends on the Convertible Preferred are cumulative and payable in cash quarterly in arrears in an annual amount equal to 4% of the issue price. Each share of the Convertible Preferred is convertible at any time into shares of Class A Common Stock of the Company at a conversion price of $6.815 per share of Class A Common Stock (3,668,478 shares of Common Stock). The

Convertible Preferred is callable by the Company after December 12, 2004, and is mandatorily redeemable on December 12, 2008. At December 31, 2003, 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. At any time after December 12, 2001, upon conversion of the Convertible Preferred into Class A Common Stock, the Fund may require the Company to register such common stock with the SEC for sale pursuant to a registration rights agreement.

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. On January 31, 2002, the Company froze the defined benefit plan for employees of one of the subsidiaries. Effective that date, new employees will not be eligible to participate in such plan, and future earnings for current participants will not be eligible in the computation of benefits for those participants.

The Company provides health care and life insurance benefits for certain retired employees including 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. As of December 31, 2003, there were 109 current or retired employees eligible for these health care and life insurance benefits. Forty of the employees currently participate and the remaining sixty-nine employees may become eligible for these 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 Company is currently evaluating any effects the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) may have on its postretirement plan and its Consolidated Financial Statements. Accordingly, all measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost presented herein do not reflect the potentially positive effects of the Act on the Company's postretirement benefit plans.

On December 23, 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

The company adopted the new disclosure requirements at December 31, 2003.

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

	Pension		Other Retirement Benefits	
	2003	**2002**	**2003**	**2002**
Change in benefit obligations:				
Benefit obligation at beginning of year	**$3,067**	$1,513	**$3,483**	$2,984
Adjustment for plan assumed in acquisition	**—**	1,351	**—**	—
Service cost	**180**	169	**100**	83
Interest cost	**188**	210	**278**	229
Actuarial (gain) loss	**217**	255	**874**	327
Adjustment due to curtailment	**—**	(415)	**—**	—
Benefits paid	**(89)**	(16)	**(170)**	(140)
Benefit obligation at end of year	**$3,563**	$3,067	**$4,565**	$3,483
Change in plan assets:				
Fair value of assets at beginning of year	**$ 953**	$1,142	**$ —**	$ —
Actual return (loss) on plan assets	**214**	(173)	**—**	—
Employer contributions	**341**	—	**170**	139
Benefits paid	**(89)**	(16)	**(170)**	(139)
Fair value of assets at end of year	**$1,419**	$ 953	**$ —**	$ —

	Pension		Other Retirement Benefits	
	2003	**2002**	**2003**	**2002**
Reconciliation of Funded Status:				
Funded status	**$(2,144)**	$(2,114)	**$(4,565)**	$(3,483)
Unrecognized transition liability	**1,065**	1,208	**—**	—
Unrecognized net actuarial (gain) loss	**635**	559	**1,165**	**309**
Net amount recognized	**$ (444)**	$ (347)	**$(3,401)**	$(3,174)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$ —	$ —	$ —	$ —
Accrued benefit cost	(1,390)	(1,842)	(3,401)	
Accumulated other comprehensive income	946	1,495	—	—
Net amount recognized	$ (444)	$ (347)	$(3,401)	$(3,174)

Information for pension plans with an accumulated benefit obligation in excess of plan assets	Pension	
	2003	**2002**
Projected benefit obligation	**$ 3,563**	$ 3,067
Accumulated benefit obligation	**2,809**	2,795
Fair value of plan assets	**$ 1,419**	$ 953
Additional Information		
Increase in minimum liability included in other comprehensive income	**$ 549**	($1,495)

	Pension			Other Retirement Benefits		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Components of net periodic benefit cost:						
Service cost	**$180**	$169	$155	**$100**	$ 83	$104
Interest cost	**191**	210	91	**278**	229	210
Expected return on plan assets	**(90)**	(122)	(96)	**—**	—	—
Amortization of transition liability	**143**	143	—	**—**	—	—
Amortization of prior service cost	**—**	23	23	**—**	—	—
Amortization of (gain) loss	**14**	—	(12)	**19**	—	—
Net periodic benefit cost	**$438**	$423	$161	**$397**	$312	$314
Weighted-average assumptions used to determine benefit obligations for December 31						
Discount rate	**6.0%**	6.75%	7.25%	**6.0%**	6.75%	7.5%
Expected return on plan assets	**8.5%**	8.5%	8.5%	**N/A**	N/A	N/A
Rate of compensation increase	**3.5%**	3.5%	3.5%	**N/A**	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for December 31						
Discount rate	**6.75%**	7.25%	7.75%	**6.75%**	7.5%	7.5%
Expected return on plan assets	**8.5%**	8.5%	8.5%	**N/A**	N/A	N/A
Rate of compensation increase	**3.5%**	3.5%	3.5%	**N/A**	N/A	N/A

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 2003 and thereafter. The Company uses a December 31 measurement date for its plans.

	2003	2002
Assumed health care cost trend rates		
Health care cost trend rate assumed next year	**11.5%**	11.5%
Rate to which the cost trend is assumed to decline	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2010**	2009

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	$ 48,017	$ (41,520)
Effect on postretirement benefit obligation	$ 558,233	$(481,135)

Plan Assets

The Company's pension plan weighted-average asset allocations at December 31, 2003, and 2002, by asset category are as follows:

	Plan Assets at December 31,	
Asset Category	2003	2002
Equity Securities	**60.68%**	55.07%
Debt Securities	**33.19%**	40.48%
Other	**6.13%**	4.45%
Total	**100.00%**	100.00%

Cash Flows Contributions

The Company expects to contribute $216,701 to its pension plan in 2004.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension	Other Retirement Benefits
2004	$ 22	$ 154
2005	29	154
2006	40	151
2007	48	160
2008	91	188
Years 2009-2013	836	1,034

The discount rate that the Company uses for determining future pension obligations is based on a review of long-term bonds, including published indices. The discount rate determined on that basis decreased from 6.75% for 2002 to 6.00% for 2003. This 75 basis point decline in the discount rate resulted in an immaterial increase in the Company's U.S. pension plan obligations.

For 2003, the Company assumed a long-term asset rate of return of 8.5%. The Company will also utilize an 8.5% long-term asset rate of return assumption in 2004. In developing the 8.5% expected long-term rate of return assumption, the Company reviewed the asset class return expectations and long-term inflation assumptions. The 8.5% long-term asset return assumption for 2004 is based on an asset allocation assumption of 50%-75% with U.S. and international equity securities, 25%-45% with debt securities, and 0%-7% with other securities (primarily cash equivalents). The Company believes that its long-term asset allocation, on average, will approximate the targeted allocation. The Company regularly reviews its actual asset allocation and may periodically rebalance the pension plans' investments to its targeted allocation when deemed appropriate. At December 31, 2003, the Company's actual asset allocation was consistent with its asset allocation assumption.

Employee Bonus Programs

The Company has performance-based bonus programs which include a majority of non-union employees. Total compensation of approximately $2.5 million, $2.1 million and $2.1 million was awarded under the various bonus plans in 2003, 2002 and 2001, respectively.

401(k) Plans and Profit Sharing

The Company has two 401(k) plans which 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 2003, 2002 and 2001 were approximately $386,000, $369,000 and $307,000, 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 income tax basis by excluding the inflation adjustments on depreciation, amortization, receivables and payables. Provisions for statutory profit sharing expense were $477,000, $388,000 and $298,000 for 2003, 2002 and 2001, respectively.

Additionally, the Company's Canadian subsidiaries administer two different retirement benefit plans. Both plans qualify under Section 146 of the federal and provincial income tax law and are Registered Retirement Savings Plans (RRSP). Under each plan employees may elect to contribute a certain percentage of their salary on a pre-tax basis. Under the first plan, the Company matches 5% of gross salary up to a maximum of $1,160 per year. Under the second plan, the Company matches 50% of the employee's contribution up to a maximum of 2% of gross salary. Company contributions were approximately $161,000, $122,000 and $80,000 for the years 2003, 2002 and 2001 respectively.

Postemployment Benefits

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

14. INCOME TAXES:

The components of income before income taxes and equity earnings are as follows (in thousands):

	2003	2002	2001
United States	**$23,054**	$20,369	$ 7,615
Foreign (U.S.$)	**5,591**	4,225	8,772
	$28,645	$24,594	$16,387

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. 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 fully utilize those earnings in the operations of the foreign subsidiaries. If the earnings were to be distributed in the future, those distributions may be subject to U.S. income taxes (appropriately reduced by available foreign tax credits) and withholding taxes payable to various foreign countries. The amount of undistributed earnings of the Company's controlled foreign subsidiaries as of December 31, 2003 is $45.9 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):

	2003	2002	2001
United States:			
Current —			
Federal	**$ 154**	$ 643	$ 681
State	**27**	226	85
Deferred	**8,976**	7,191	2,228
	9,157	8,060	2,994
Foreign (U.S.$):			
Current	**626**	1,388	1,236
Deferred	**784**	(687)	1,936
	1,410	701	3,172
Total	**$10,567**	$8,761	$6,166

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:

	2003	2002	2001
Tax provision at statutory rate	**34.0%**	34.0%	34.0%
Effect of foreign operations	**(1.7%)**	(3.0%)	3.2%
State income taxes, net of federal income tax benefit	**3.3%**	3.9%	1.9%
Change in valuation allowance	**(0.0%)**	(0.0%)	(2.0%)
Other, net	**1.3%**	0.7%	0.5%
Effective income tax rate	**36.9%**	35.6%	37.6%

Deferred income taxes reflect the net income tax 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 are as follows (in thousands):

	2003	2002
Deferred tax benefits —		
Accruals and reserves not deducted for tax purposes until paid	**$ 3,010**	$ 2,184
Alternative minimum tax credits	**0**	270
Net operating losses	**6,691**	7,432
Interest rate swaps	**715**	641
Postretirement benefits	**860**	345
	11,276	10,872
Deferred tax obligations —		
Property and investment basis differences	**(49,801)**	(39,541)
Other	**(54)**	(83)
Valuation allowance	**(251)**	(450)
Net deferred tax obligations	**$(38,830)**	$(29,202)

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 carryforwards, are classified according to the expected reversal date of the temporary difference as of the end of the year.

The Company had net operating loss carry-forwards from its Mexican operations in 2003 and 2002 of $19.8 million and $21.2 million, respectively. The Mexican losses, for income tax purposes, relate to the immediate deduction of a portion of the purchase price paid for the FCCM operations and interest expense incurred in the holding company, Servicios. These loss carry-forwards will expire between 2009 and 2013. The Company had net operating loss carry-forwards from its Canadian operations as of December 31, 2003 and 2002 of $0.8 million and $1.1 million, respectively. The Canadian losses represent losses generated prior to the Company gaining control of those operations in April 1999. These loss carry-forwards will expire in 2004.

A significant portion of the deferred tax benefits relate to the Mexican net operating loss carryforwards. The Company believes that a valuation allowance need not be recorded since its Mexican business will generate sufficient taxable income to utilize all of the deferred tax assets. The Company's Mexican railroad operations are currently profitable and at current levels will generate sufficient taxable income to utilize the net operating loss carry-forwards attributable to the FCCM business prior to the date of expiration. In addition, Management believes that a restructuring of the Mexican business will enable the Company to use the future taxable income to offset any remaining net operating losses prior to the date of expiration.

As of December 31, 2003 and 2002, the deferred tax asset attributable to the Canadian net operating loss carry-forward had been fully offset by a valuation allowance of $251,000 and $450,000, respectively. In 2003, the valuation allowance decreased approximately $199,000 due to a review by the tax authorities and the subsequent agreement on utilization of some of the losses. Management does not anticipate that the Company will generate sufficient future taxable income, in amount or character, to utilize the remaining losses prior to expiration. The valuation allowance was established in the acquisition of GRO, and accordingly, if reversed will result in a decrease to goodwill.

15. GRANTS FROM GOVERNMENTAL AGENCIES:

The Company periodically receives grants from federal, state and local agencies in the U.S. and provinces in Canada in which it operates for rehabilitation or construction of track. These grants typically reimburse the Company for 75% to 100% of the total cost of specific projects. Under such grant programs, the Company received $2.0 million, $8.8 million and $4.0 million in 2003, 2002 and 2001, respectively.

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 to 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, 2003, 2002 and 2001, the Company recorded offsets to depreciation expense from grant amortization of $2.1 million, $1.8 million and $1.4 million, respectively.

16. COMMITMENTS AND CONTINGENCIES:

The Company is a defendant in certain lawsuits resulting from railroad and industrial switching operations. 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 and the Company countersued alleging a breach of the IMRR's perpetual railroad exclusivity included in a Service Assurance Agreement (SAA) between the IMRR and Com Ed. On July 23, 2003 the parties to the lawsuit entered into a settlement agreement. Under the terms of the settlement agreement, both parties' appeals were dismissed and the parties amended and restated the Service Assurance Agreement (the ARSAA) (See Note 6). Due to the specified term contained in the ARSAA rather than a perpetual term which existed in the SAA, the Company began amortizing the ARSAA in July 2003. The Company has concluded that there is a high probability that the IMRR's customer relationship with the power plant will continue beyond the current term of the ARSAA, and the Company has based its estimate of the useful life of the ARSAA asset on its estimate of the useful life of the coal-fired electricity generation plant, which the Company estimates will be in service through 2027. As a result of this settlement agreement, the Company recorded a non-cash after-tax charge to net income of $442,000 in the third quarter of 2003. Future annual amortization related to the ARSAA is $431,000 pre-tax.

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):

	2003	2002	2001
Net Income: As reported	**$28,719**	$25,607	$19,084
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	**(1,380)**	(980)	(777)
Pro Forma	**27,339**	24,627	18,307
Basic EPS: As reported	**$ 1.21**	$ 1.11	$ 1.15
Pro Forma	**1.15**	1.07	1.10
Diluted EPS: As reported	**$ 1.07**	$ 0.97	$ 0.98
Pro Forma	**1.02**	0.94	0.95

The Company has reserved 4,972,500 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 upon becoming a director and/or the first and second anniversaries of being a director, 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. The following is a summary of stock option activity for years ended:

	December 31,					
	2003		2002		2001	
	Shares	Wtd. Ave. Exercise Price	Shares	Wtd. Ave. Exercise Price	Shares	Wtd. Ave. Exercise Price
Outstanding at beginning of year	**1,890,246**	**$ 7.75**	1,934,739	$ 5.55	2,580,078	$5.15
Granted	**495,195**	**14.86**	498,825	14.22	509,966	7.63
Exercised	**(549,639)**	**5.02**	(523,530)	5.80	(1,112,142)	5.59
Forfeited	**(47,346)**	**9.72**	(19,788)	6.97	(43,163)	4.85
Outstanding at end of year	**1,788,456**	**10.51**	1,890,246	7.75	1,934,739	5.55
Exercisable at end of year	**600,420**	**6.88**	702,306	4.97	700,466	5.18
Weighted average fair value of options granted		**8.17**		8.02		4.19

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 2.15 - $ 4.30	161,691	1.0 Years	$ 3.04	144,816	$ 2.97
4.31 - 6.45	278,229	1.7 years	4.69	189,492	4.73
6.46 - 8.60	327,140	2.4 years	7.15	124,328	7.17
8.61 - 10.75	43,875	2.7 years	9.85	21,938	9.85
10.76 - 12.90	3,375	7.6 years	11.78	2,250	11.78
12.91 - 15.05	953,678	4.1 years	15.53	117,596	14.22
15.06 - 17.20	20,468	5.8 years	15.89	—	—
2.15 - 17.20	1,788,456	3.1 Years	10.51	600,420	6.88

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:

	2003	2002	2001
Risk-free interest rate	**3.35%**	4.46%	4.50%
Expected dividend yield	**0.00%**	0.00%	0.00%
Expected lives in years	**5.00**	5.00	4.91
Expected volatility	**60.01%**	61.51%	58.11%

In addition to the Stock Option Plans, the Company has reserved 843,750 shares of Class A common stock it may sell to its full-time employees under its Employee Stock Purchase Plan (ESPP). At December 31, 2003, 2002 and 2001, 44,875 shares, 40,841 shares, and 37,803 shares, respectively, had been purchased under this plan. On May 29, 2003, the Company amended and restated the ESPP so that the Company may sell its reserved shares of Class A common stock to its full-time employees at 90% of the stock's market price at date of purchase. Prior to amendment and restatement of the ESPP, the Company sold shares at 100% of the stock's market price at date of purchase. In accordance with Internal Revenue Code, no compensation cost exists for this plan.

18. BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION:

The Company historically reported two similar business segments: North American Railroad Operations, which includes operating short line and regional railroads, and Industrial Switching, which included providing freight car switching and related services to industrial companies with railroad facilities within their complexes in the United States. Effective January 1, 2003, the Company has changed its reporting to reflect one reportable business segment: North American Operations. This reporting change follows a change in internal structure wherein the Chief Operating Decision Maker now views Industrial Switching as part of a significant operating region comprised of multiple railroad operations. The Company has various operating regions which represent its various railroad lines. However, each line has similar characteristics so they have been aggregated into one segment.

Geographic Area Data

	For the Years Ended					
Operating Revenues:	2003	Percent	2002	Percent	2001	Percent
United States	**$175,650**	**71.7%**	148,570	70.9%	$115,171	66.4%
Canada	**37,538**	**15.3%**	32,150	15.3%	29,546	17.0%
Mexico	**31,639**	**13.0%**	28,820	13.8%	28,859	16.6%
Total operating revenues	**$244,827**	**100%**	$209,540	100%	$173,576	100%

	As of December 31,			
Long-lived assets located in:	2003	Percent	2002	Percent
United States	**$453,089**	**82.8%**	$348,989	80.4%
Canada	**55,746**	**10.2%**	45,706	10.5%
Mexico	**38,146**	**7.0%**	39,210	9.1%
Total long-lived assets	**$546,981**	**100%**	$433,905	100%

19. QUARTERLY FINANCIAL DATA (Unaudited):

Quarterly Results

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003				
Operating revenues	**$58,862**	**$62,937**	**$61,499**	**$61,529**
Income from continuing operations	**7,987**	**10,862**	**9,205**	**8,251**
Net income	**5,534**	**7,695**	**7,618**	**7,871**
Diluted earnings per share	**0.21**	**0.29**	**0.29**	**0.29**
2002				
Operating revenues	$48,297	$52,075	$53,001	$56,167
Income from continuing operations	6,540	8,364	7,322	9,781
Net income	5,388	7,435	7,025	5,759
Diluted earnings per share	0.21	0.28	0.27	0.22

The fourth quarter of 2002 includes a $2.8 million pre-tax gain on the sale of rail assets and a $375,000 non-cash after-tax charge for unamortized finance fees resulting from the early extinguishment of debt.

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, 2003, 2002 and 2001 (in thousands):

	2003	2002	2001
Net income	**$28,719**	$25,607	$19,084
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	**23,498**	2,514	708
Transition adjustment related to change in accounting for derivative instruments and hedging activities, net of benefit of $153	**—**	—	(255)
Net change in unrealized losses on qualifying cash flow hedges, net of tax provision (benefit) of $25, ($406) and ($286), respectively	**43**	(732)	(475)
Net change in unrealized losses on qualifying cash flow hedges of Australian Railroad Group, net of tax provision (benefit) of $1,124 and ($2,493) respectively	**2,623**	(5,818)	—
Minimum pension liability adjustment, net of benefit of $42 and $306 respectively	**(72)**	(552)	—
Comprehensive income	**$54,811**	$21,019	$19,062

The following table sets forth the components of accumulated other comprehensive income (loss), net of tax, included in the consolidated balance sheets as of December 31, 2003 and 2002 (in thousands):

	2003	2002
Net foreign currency translation adjustments	**$21,839**	$(1,660)
Net unrealized minimum pension liability adjustment, net of benefit of $378 and $306 respectively	**(624)**	(552)
Net unrealized losses on qualifying cash flow hedges, net of benefit of $1,921 and $3,045, respectively	**(4,616)**	(7,281)
Accumulated other comprehensive loss, net of benefit of $2,299 and $3,351, respectively	**$16,599**	$(9,493)

21. RECENTLY ISSUED ACCOUNTING STANDARDS:

The Financial Accounting Standards Board (FASB) recently issued the following Statements of Financial Accounting Standards (SFAS):

FASB 145 — ''Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.''

Under SFAS No. 145, FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, and FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements are rescinded. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. SFAS No. 145 was issued in April 2002 and the provisions of this Statement related to the rescission of Statement 4 shall be effective for the fiscal years beginning after May 15, 2002. All other provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002 with early adoption permitted. The most significant change related to the reporting of losses associated with the write-off of deferred financing costs which are currently reported as extraordinary. The Company adopted this statement and adjusted the Company's financial statements.

FASB 146 — ''Accounting for Costs Associated with Exit or Disposal Activities''

Under SFAS No. 146, costs associated with exit or disposal activities are required to be recorded at their fair values only once a liability exists. Under previous guidance, certain exit costs were accrued when management committed to an exit plan, which may have been before an actual liability arose. Liabilities recognized prior to the initial application of FAS 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable pre-existing guidance. SFAS No. 146 was issued in June 2002 and is effective for fiscal years beginning January 1, 2003 (with earlier application encouraged). The Company adopted this statement and it had no impact on the Company's financial statements.

FASB 149 — ''Amendment of Statement 133 on Derivative Instruments and Hedging Activities''

This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. In particular, this Statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of Statement 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others'', and (4) amends certain other existing pronouncements. These changes are intended to result in more consistent reporting of contracts as either derivatives or hybrid instruments. This Statement is effective for contracts entered into or modified after June 30, 2003 and all provisions of this Statement should be applied prospectively. The Company adopted this statement and it had no impact on the Company's financial statements.

FASB 150 — ''Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity''

This Statement requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets, and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to the Company's existing financial instruments effective July 1, 2003, the beginning of the first fiscal period after June 15, 2003. The Company adopted this statement and it had no impact on the Company's financial statements.

Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others

In November 2002, the FASB issued Interpretation No. 45, (FIN) Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, which address the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of FIN 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company did not enter into such transactions. Therefore the adoption of this standard did not impact its consolidated financial position, results of operations, or disclosure requirements.

Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) No. 51.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) No. 51. FIN 46 addresses consolidation by business enterprises of variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first reporting period after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. In December 2003, the Financial Accounting Standards Board, issued revisions to FASB Interpretation 46, resulting in multiple effective dates based on the characteristics as well as the creation dates of the variable interest entities, however with no effective date later than the Company's first quarter of 2004. The Company does not believe that adoption of this statement will have a material effect on its consolidated financial statements.

22. SUBSEQUENT EVENT:

On February 11, 2004, the Company announced a three-for-two common stock split in the form of 50% stock dividends to be distributed on March 15, 2004 to stockholders of record as of February 27, 2004. All share, per share and par value amounts presented herein have been restated to reflect the retroactive effect of the stock split.

REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Australian Railroad Group Pty Ltd and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for the three years ended December 31, 2003, 2002 and 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 conducted our audits 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, 2003 and 2002 and the consolidated results of their operations and their cash flows for the three years ended December 31, 2003, 2002 and 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young

Perth, Western Australia
February 6, 2004

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2003 and 2002

	2003	2002
	$000 USD	
ASSETS		
Current assets		
Cash and cash equivalents	**$ 26,618**	$ 5,882
Accounts receivable, net	**47,764**	30,315
Materials and supplies, net	**10,033**	7,985
Prepaid expenses and other	**3,069**	2,061
Total current assets	**87,484**	46,243
INVESTMENTS	**2,743**	—
PROPERTY AND EQUIPMENT, net	**478,808**	402,286
RESTRICTED CASH	**—**	53,380
DEFERRED INCOME TAX ASSETS	**80,193**	10,592
OTHER ASSETS, net	**2,733**	4,224
Total assets	**$651,961**	$516,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Interest bearing liabilities	**$ —**	$133,263
Accounts payable	**7,199**	8,784
Accrued expenses	**30,177**	16,418
Provision for employee entitlements	**4,934**	4,161
Current income tax liabilities	**—**	1,672
Deferred income tax liabilities	**2,536**	71
Total current liabilities	**44,846**	164,369
LONG-TERM DEBT	**367,892**	195,039
OTHER LONG-TERM LIABILITIES	**2,031**	1,031
DEFERRED INCOME TAX LIABILITIES	**11,735**	2,427
FAIR VALUE OF INTEREST RATE SWAPS	**9,133**	16,621
SUBORDINATED STOCKHOLDERS' LOANS	**11,562**	8,642
COMMITMENTS AND CONTINGENCIES		
Total non-current liabilities	**402,353**	223,760
REDEEMABLE PREFERRED STOCK OF THE STOCKHOLDERS	**16,212**	11,807
STOCKHOLDERS' EQUITY		
Common stock, no par value, 92,000,002 issued and outstanding at December 31, 2003 and 2002	**79,029**	79,029
Retained earnings	**65,401**	44,658
Accumulated other comprehensive income	**44,120**	(6,898)
Total stockholders' equity	**188,550**	116,789
Total liabilities and stockholders' equity	**$651,961**	$516,725

The accompanying notes are an integral part of these financial statements

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002 and 2001

	2003	2002	2001
		$000 USD	
OPERATING REVENUES	**$249,571**	$211,067	$188,490
OPERATING EXPENSES			
Transportation	**76,747**	63,746	60,328
Maintenance of ways and structures	**35,514**	27,680	23,622
Maintenance of equipment	**26,057**	23,187	20,301
General and administrative	**34,676**	32,239	21,852
Net gain on sale of assets	**(2,081)**	(1,647)	(152)
Asset impairment write down	**—**	1,333	—
Depreciation and amortization	**23,443**	17,191	13,392
Write-off of unsuccessful bid costs	**—**	867	1,752
Total operating expenses	**194,356**	164,596	141,095
INCOME FROM OPERATIONS	**55,215**	46,471	47,395
INTEREST INCOME	**3,271**	886	596
INTEREST EXPENSE	**(33,877)**	(24,859)	(22,505)
Income before Income Taxes	**24,609**	22,498	25,486
Provision for income taxes	**(3,866)**	(5,524)	(8,584)
Net Income	**$ 20,743**	$ 16,974	$ 16,902

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

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 2000	$ 71,344	$ 10,782	$ 2,234	$ 84,360
Comprehensive income (loss), net of tax:				
Net income	—	16,902	—	16,902
Currency translation adjustment	—	—	(9,974)	(9,974)
Transition adjustment related to the change in accounting for derivative instruments	—	—	(3,587)	(3,587)
Impact of cash flow hedges on other comprehensive income	—	—	(5,622)	(5,622)
Fair market value adjustments of cash flow hedges	—	—	2,442	2,442
Comprehensive income				161
Issuance of 18,000,000 shares of common stock	7,685	—	—	7,685
BALANCE, December 31, 2001	$ 79,029	$ 27,684	$ (14,507)	$ 92,206
Comprehensive income (loss), net of tax:				
Net income	—	16,974	—	16,974
Currency translation adjustment	—	—	12,477	12,477
Impact of cash flow hedges on other comprehensive income	—	—	(8,472)	(8,472)
Fair market value adjustments of cash flow hedges	—	—	3,604	3,604
Comprehensive income	—	—	—	24,583
BALANCE, December 31, 2002	$ 79,029	$ 44,658	$ (6,898)	$ 116,789
Comprehensive income (loss), net of tax:				
Net income	**—**	**20,743**	**—**	**20,743**
Currency translation adjustment	**—**	**—**	**45,776**	**45,776**
Impact of cash flow hedges on other comprehensive income	**—**	**—**	**10,139**	**10,139**
Fair market value adjustments of cash flow hedges	**—**	**—**	**(4,897)**	**(4,897)**
Comprehensive income	**—**	**—**	**—**	**71,761**
BALANCE, December 31, 2003	**$ 79,029**	**$ 65,401**	**$ 44,120**	**$ 188,550**

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

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 and 2001

	2003	2002	2001
		$000 USD	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 20,743**	$ 16,974	$ 16,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**18,914**	13,769	10,139
Amortization	**4,529**	3,422	3,253
Gain on sale of assets	**(2,081)**	(1,647)	(152)
Asset impairment write down	**—**	1,333	—
Deferred income taxes	**11,283**	3,665	7,252
Amortization and write off of deferred finance charges	**4,953**	2,155	1,860
Changes in assets and liabilities Accounts receivable, prepaid expenses and other	**(9,008)**	(379)	(14,164)
Materials and supplies	**573**	1,203	(197)
Accounts payable, provisions, accrued expenses and other	**(4,613)**	(10,722)	16,505
Net cash provided by operating activities	**45,293**	29,773	41,398
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	**(35,774)**	(28,423)	(54,358)
Proceeds from sale of property and equipment	**6,924**	1,752	152
Transfer from (to) restricted cash	**69,978**	(46,957)	(6,351)
Net cash provided by (used in) investing activities	**41,128**	(73,628)	(60,557)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	**—**	—	7,685
Repayment of subordinated stockholders' loans	**—**	—	(7,685)
Refund of goods and services tax	**—**	—	16,457
Proceeds from debt	**360,493**	38,990	20,452
Repayments of debt	**(430,385)**	—	(16,360)
Net cash (used in) provided by financing activities	**(69,892)**	38,990	20,549
Effect of exchange rate changes on cash and cash equivalents	**4,207**	839	(553)
Increase (Decrease) in Cash and Cash Equivalents	**20,736**	(4,026)	837
CASH AND CASH EQUIVALENTS, beginning of year	**5,882**	9,908	9,071
CASH AND CASH EQUIVALENTS, end of year	**$ 26,618**	$ 5,882	$ 9,908
CASH PAID DURING YEAR FOR:			
Interest	**$ 32,817**	$ 22,704	$ 20,645
Income taxes	**4,096**	1,647	—

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

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

Australian Railroad Group Pty Ltd (the Company) is jointly owned by Genesee & Wyoming Inc (GWI) and Wesfarmers Ltd (Wesfarmers) with each partner holding a 50% interest.

The principal activity of the Company during the year was to provide rail freight transport and ancillary logistics services to the mining and agricultural industries and to the general freight market within Western Australia and South Australia. There was no significant change in the nature of these activities during this period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of Australian Railroad Group Pty Ltd and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated.

Revenue Recognition

Due to the relatively short length of haul, revenues are estimated and recognized as shipments initially move onto the tracks. Other service revenues are recognized as such services are provided.

Cash Equivalents

The Company considers all highly liquid instruments with 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 railroad property and equipment, and are stated at the lower of cost or market value, computed on a first-in-first-out basis.

Investments

Investments comprise the Company's interest in Asia Pacific Transport Consortium (APTC). This is held at cost.

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 expenses when incurred. Gains or losses on sales or other dispositions are credited or charged to operating expenses upon disposition. Depreciation is provided on the straight-line method over the useful lives of the railroad property (20-30 years), equipment (3-20 years) and lease premium (49 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 impairment has occurred. If 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.

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.

Derivative Instruments and Hedging Activities

SFAS No. 133 ''Accounting for Derivatives Instruments and Hedging Activities'' requires all contracts that meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Gains or losses arising from remeasuring derivatives to fair value each period are to be accounted for either in the income statement or in other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion that must be met in order to qualify for hedge accounting is that the derivative must be highly effective in offsetting the change in the fair value or cash flows of the hedged item. See footnote 6 to the consolidated financial statements for a full description of ARG's hedging activities and related accounting policies.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Significant estimates using management judgement are made in the areas of recoverability and useful lives of assets, as well as liabilities for casualty claims and income taxes. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company is the Australian dollar. Foreign currency transactions are translated at the applicable rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange prevailing at that date. All exchange gains and losses are reflected in the statement of income. Cumulative translation gains or losses arising from translating the Australian dollar denominated financial statements into US dollars are reported in other comprehensive income as a component of stockholders' equity.

3. PROPERTY AND EQUIPMENT

	2003	2002
	$000 USD	
Major classifications of property and equipment are as follows:		
Land and buildings	**$ 28,532**	$ 22,335
Track improvements	**166,645**	101,425
Equipment and other	**195,925**	143,165
Lease premium	**160,166**	172,891
	551,268	439,816
Less: Accumulated depreciation and amortization	**(72,460)**	(37,530)
	$478,808	$402,286

The lease premium represents the cost paid to the Government of Western Australia as part of the purchase price for Westrail Freight, for access to the track infrastructure network for a period of 49 years.

4. OTHER ASSETS

Major classifications of other assets are as follows:

Deferred finance costs	**$ 2,756**	$ 8,747
Less: Accumulated amortization	**(23)**	(4,523)
	$ 2,733	$ 4,224

Deferred financing costs are amortized over terms of the related debt using the straight-line method, which approximates the effective interest method.

5. LONG-TERM DEBT

Current — interest bearing	**—**	$133,263
Non-current — interest bearing	**$367,892**	$195,039

Credit facilities

Total facility as at December 31, 2003 comprises a 5 year tranche of $90.1 million, a 5 year revolver tranche of $150.2 million, a 7 year tranche of $150.2 million and a $7.5 million working capital tranche. Unused facilities at December 31, 2003 amount to $30.1 million. All these loans commenced in December 2003. The loans are non amortizing but prepayable at the discretion of Australian Railroad Group Pty Ltd. The minimum future repayments are set out in the schedule below. Loan covenants require the company to adhere to minimum interest cover and debt ratios. All loan covenants have been complied with.

The interest rate is derived from the bank bill bid rate. The weighted average interest rate on secured loans during 2003 was 6.05% (2002: 6.09%) and excludes any interest hedging adjustments. Including the effect of the interest rate swaps the effective interest rate was 7.80% for 2003 and 7.84% for 2002.

Schedule of Future Minimum Payments

The following is a summary of the scheduled maturities of long-term debt:

	2003	2002
	$000 USD	
2003	**$ —**	$ —
2004	**—**	133,263
2005	**—**	—
2006	**—**	195,039
2007	**—**	—
2008	**217,732**	—
Thereafter	**150,160**	—
	$367,892	$328,302

6. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

The Company uses derivative financial instruments principally to manage the risk that changes in interest rates will affect the amount of its future interest payments. Interest rate swap contracts are used to adjust the proportion of total debt that is subject to variable interest rates. Under an interest rate swap contract, the Company agrees to pay an amount equal to a specified fixed-rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable-rate of interest times the same notional amount.

For interest rate swap contracts under which the Company agrees to pay fixed-rates of interest, these contracts are considered to be a cash flow hedge against changes in the amount of future cash flows associated with the Company's interest payments of variable-rate debt obligations. Accordingly, the interest rate swap contracts are reflected at fair value in the Company's consolidated balance sheet and the related gains or losses on these contracts are deferred in stockholders' equity (as a component of comprehensive income). However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized as an interest expense in the income statement. The accounting for hedge effectiveness is measured at least quarterly based on the relative change in fair value between the derivative contract and the hedged item over time. The net effect of this accounting in the Company's operating results is that interest expense on the portion of variable-rate debt being hedged is recorded based on fixed interest rates. Hedge ineffectiveness for cash flow hedges were not material for the years ended December 31, 2003, 2002 and 2001.

The Company entered into rate swap agreements on its $217.7 million variable rate debt due December 18, 2008 and its $150.2 million variable rate debt due December 18, 2010. These interest rate swap contracts were entered for interest rate exposure management purposes and mature on December 18, 2007. As a result of FAS 133, the Company recorded a cumulative transition adjustment of $3.6 million net of income taxes, to accumulated other comprehensive income. The transition adjustment is being amortized over the future life of the underlying debt obligations. At December 31, 2002 and 2003, the Company had interest rate swap contracts to pay fixed-rates of interest between 5.6% and 6.9% and receive variable-rates of interest of an average of 6.1% on $367.3 million notional amount of indebtedness.

(b) Fair value

The carrying amounts of financial assets and financial liabilities at December 31, 2003, approximate the aggregate fair value of the financial instruments.

(c) Credit risk exposures

The Company's maximum exposures to credit risk at December 31, 2003, in relation to each class of recognized financial asset is the carrying amount of those assets as indicated in the balance sheet.

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangements. The Company's maximum credit risk exposure in relation to interest rate swap contracts is limited to the net amounts to be received on contracts that are favourable to the Company, being none at December 31, 2003.

Concentration of credit risk

For the year ending December 31, 2003, the Company's primary location of business was within New South Wales, South Australia and Western Australia, which therefore represents the location of the Company's credit risk. Trade payables/receivables are normally payable/collectable within 30 days.

Except for securities held to ensure the performance of contractor guarantees or warrantees, amounts due from major receivables are not normally secured by collateral, however the creditworthiness of receivables is regularly monitored. Securities held to ensure the performance of contractor guarantees or warrantees include Bank Guarantees, Personal (Directors) Guarantees or cash. The value of securities held is dependent on the nature, including the complexity and risk of the contract.

7. INCOME TAXES

The prima facie tax on income before income taxes differs from the income tax provided in the financial statements as follows:

	2003	2002	2001
		$000 USD	
Prima facie tax at 30% on income before income taxes	**$ 7,383**	$ 6,749	$7,646
Tax effect of permanent differences:			
Amortization of lease premium	**—**	—	976
Non-allowable items	**14**	—	21
Other items (a)	**(3,531)**	(1,225)	(59)
Total income tax expense	**$ 3,866**	$ 5,524	$8,584

(a) The other items in the 2002 and 2003 years arose primarily as a result of finalizing the tax base of assets acquired from Westrail. The net assets acquired were from a government tax exempt entity, and the determination of the tax base involved the application of complex legislation. During the year all matters were favourably resolved with the Australian Taxation Office, resulting in an overprovision of tax in the prior periods. The Company is governed by the taxation laws of the Commonwealth Government of Australia, which has a statutory tax rate of 30%.

Total income tax expense includes:

	2003	2002	2001
		$000 USD	
Current	**$(2,527)**	$2,005	$ 166
Deferred	**6,393**	3,519	8,418
	$ 3,866	$5,524	$8,584

AUSTRALIAN RAILROAD GROUP PTY LTD AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The deferred income tax balance comprises:

	2003	2002
	$000 USD	
Non-current deferred income tax assets		
Materials and supplies	**$ 65**	$ —
Income accruals	**307**	—
Expense accruals	**1,260**	—
Employee leave provisions	**1,746**	—
Tax vs. book values of property and equipment	**61,259**	—
Income tax losses carried forward	**12,816**	5,613
Unrealised losses on interest rate swaps	**2,740**	4,979
Valuation allowance	**(—)**	(—)
	$ 80,193	$10,592
Current deferred income tax liabilities:		
Employee leave provisions	**$ —**	$ 1,373
Expense accruals	**—**	321
Materials and supplies	**(1,465)**	(1,084)
Prepayments	**(462)**	(192)
Income accruals	**(609)**	(489)
	$ (2,536)	$ (71)
Non-current deferred income tax liability		
Tax vs. book values of property and equipment	**$(11,735)**	$ (2,427)

Operating loss carry forward have no expiry date and the company expects to recover all operating losses. Consequently, no valuation allowance is provided for the deferred tax assets for 2003 and 2002.

8. PREFERRED STOCK

Redeemable preference shares are fully paid and earn a dividend at the declaration of the Directors from time to time. The shares are redeemable at the option of the holders of the preferred shares, who are GWI and Wesfarmers. Upon redemption the shareholder is entitled to receive the paid up amount of the preferred shares. In the event of the winding up of the Company, the holders of redeemable preference shares are entitled in priority to the holders of any other classes of shares to payment of the paid up amount of the shares and the amount of any declared but unpaid dividends at that date, but shall not otherwise have any rights to participate in surplus assets. Preferred shares carry no voting rights.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss), net of income tax, included in the consolidated balance sheet as of December 31, 2003 are as follows:

	2003	2002	2001
		$000 USD	
Net foreign currency translation adjustments	**$50,513**	$ 4,737	$ (7,740)
Unrealized losses on interest rate swaps	**(9,133)**	(16,621)	(9,667)
Less Income taxes	**2,740**	4,986	2,900
Net unrealized losses on interest rate swaps	**(6,393)**	(11,635)	(6,767)
Accumulated Other Comprehensive Income (Loss)	**$44,120**	$ (6,898)	$(14,507)

10. Expenditure Commitments

	2003	2002
	$000 USD	
(a) Future minimum lease payments under all non-cancellable operating leases are as follows:		
2004	**$ 1,141**	$ 3
2005	**324**	2
2006	**323**	2
2007	**323**	2
Thereafter	**646**	2
	$ 2,757	$ 11
(b) Other capital expenditures:		
Later than one year, but not later than five years	**$13,727**	$24,570
Later than five years	**—**	—
	$13,727	$24,570

Operating leases are entered into for motor vehicles and office equipment. Rental payments are fixed for the life of the lease for all types of operating leases. Purchase options and renewal terms exist at the Company's discretion and no operating lease contains restrictions on financing or other leasing activities. Operating lease expense in 2003 was $1.1 million (2002: $1.0 million, 2001: $2.0 million).

Under the agreement for the acquisition of the Westrail Freight business, there is an obligation to complete the resleepering on the Toodyay to Miling lines by June 30, 2004 and this work is in progress. Total costs are estimated to be $6.0 million (2002: $6.1 million). Negotiations are continuing with the State Government on remaining obligations on the Katanning to Nyabing, and Yilliminning to Bruce Rock lines.

The balance of capital commitments have been approved and committed to infrastructure expenditure.

11. CONTINGENT LIABILITIES

GWA Northern Pty Ltd, a wholly owned subsidiary of the Company, unconditionally and irrevocably guarantees the due and punctual payment of the secured debt of the Asia Pacific Transport Joint Venture, severally in accordance with its participating interest, which is 1.19% (2002: 1.45%), amounting to $5.0 million (2002: $2.1 million).

ARG Sell Down No 1 Pty Limited, a wholly owned subsidiary of the Company, unconditionally and irrevocably guarantees the due and punctual payment of the secured debt of the Asia Pacific Transport Joint Venture, severally in accordance with its participating interest, which is 0.95% (2002: 1.14%), amounting to $4.0 million (2002: $1.7 million).

WestNet Rail Pty Ltd (WestNet), a wholly owned subsidiary of the Company, has received a notice of claim from a contractor for $11.9 million for cost variations in the construction of an asset. Under the contract they have formally lodged the claim and WestNet has formally rejected it. The company considers it has a strong case to refute the claim.

Australia Southern Railroad Pty Ltd (ASR), a wholly owned subsidiary of the Company, has been joined as a third party in legal proceedings by one of its customers. The claims relate to derailments during the period 1999-2000 and total $2.4 million excluding interest and costs. Legal opinion indicates that the probability of loss to ASR is remote.

12. EMPLOYEE BENEFIT PLANS

The following Employee Benefit Plans have been established:

Plan	Benefit Type
Australian Railroad Group Superannuation Plan	Accumulated lump sum/defined contribution plan
Westscheme Plan	Accumulated lump sum/defined contribution plan
West Super Plus Plan	Accumulated lump sum/defined contribution plan

Employees contribute to the funds at various percentages of their remuneration. The consolidated entity's contributions are not legally enforceable other than those payable in terms of notified award and superannuation guarantee levy obligations. The related expense for the year charged to the income statement was $3.2 million (2002: $1.5 million, 2001: $2.4 million).

13. ECONOMIC DEPENDENCY

Approximately 19.8% (2002: 21.8%, 2001: 21.5%) of the Company's revenue is generated from freight services rendered to Australian Wheat Board Ltd.

14. SEGMENT INFORMATION

Industry Segment

The group operates in only one industry, being rail freight transport.

15. RELATED PARTY DISCLOSURES

1. Interest free, unsecured loans amounting to $11.6 million (2002: $8.7 million), made equally by the shareholders, Wesfarmers Ltd and Genesee & Wyoming Inc to the consolidated entity. These loans have been subordinated in favour of other creditors.

2. Services to the group by Wesfarmers Ltd of $0.7 million (2002: $0.5 million) and Genesee & Wyoming Inc of $0.4 million (2002: $1.0 million) are recovered at cost. At December 31, 2003 the balance owing to Wesfarmers Ltd was $0.1 million (2002: $0.1 million) and to Genesee and Wyoming Inc $0.1 million (2002: $0.1 million).

16. RESTRUCTURING COSTS

On October 15, 2002 a further redundancy of 68 employees was approved by the Directors at a cost of $2.6 million, which had been expensed in that year. At December 31, 2002 an accrual of $0.2 million remained in respect of 5 employees still to be terminated. During 2003 the remaining employees were terminated and the balance of the accrual was paid.

On October 11, 2001, the Company 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 $4.1 million have been accounted for as an adjustment to the purchase price of Westrail Freight. At December 21, 2001, the services of 42 employees had been terminated at a total cost of $2.6 million. The remaining 38 employees were terminated, and the remaining restructuring costs of $1.5 million were paid in 2002.

17. UNSUCCESSFUL BID COSTS

In January 2002, the Company announced that its bid for the acquisition of the National Rail/Freightcorp operations in Australia was unsuccessful. This announcement resulted in a write-off of all costs incurred through December 31, 2001, amounting to $1.8 million, associated with the unsuccessful bid. An amount of $0.9 million additional costs of the unsuccessful bid were expensed in 2002.

18. ASSET IMPAIRMENT

There is no impairment loss in 2003. In 2002 certain under utilised plant and equipment was written down to its recoverable amount. The recoverable amount of these assets was determined based on current resale values. The impairment write down amounted to $1.0 million. (2001 : Nil)

19. RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) recently issued the following Statements of Financial Accounting Standards (SFAS):

FASB Interpretation 45 ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others''

In November 2002, the FASB issued Interpretation No. 45, (FIN) Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, which address the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. Fin 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The recognition and measurement provisions of FIN 45 are effective for all guarantees entered into or modified after December 31, 2002. The Company did not enter into such transactions. Therefore the adoption of this standard did not impact its consolidated financial position, results of operations, or disclosure requirements.

FASB Interpretation 46, ''Consolidation of Variable Interest Entities''

In January 2003 the Financial Accounting Standards Board issued FASB Interpretation 46, ''Consolidation of Variable Interest Entities''. The interpretation defines variable interest entities as those in which equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or entities in which equity investors lack certain essential characteristics of a controlling financial interest. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity. The primary beneficiary is required to consolidate the financial position and results of operations of the variable interest entity. In December 2003, the Financial Accounting Standards Board, issued revisions to FASB Interpretation 46, resulting in multiple effective dates based on the characteristics as well as the creation dates of the variable interest entities, however with no effective date later than the Company's first quarter of 2004. The Company does not believe that adoption of this statement will have a material effect on its consolidated financial statements.

CORPORATE HEADQUARTERS

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Greenwich, Connecticut 06830
203-629-3722
Fax 203-661-4106
NYSE **GWR**
www.gwrr.com

COMMON STOCK

On June 24, 1996, the Company's Class A Common Stock began publicly trading and was quoted on the Nasdaq National Market until September 26, 2002, under the trading symbol GNWR. On September 27, 2002, the Company's Class A Common Stock began publicly trading on the New York Stock Exchange under the trading symbol GWR. The Class B Common Stock is not publicly traded.

The actual prices of Class A Common Stock reflected below have been adjusted for a three-for-two stock split paid on March 15, 2004 to shareholders of record on February 27, 2004; a three-for-two stock split paid on March 14, 2002 to shareholders of record on February 28, 2002; and a three-for-two stock split paid on June 15, 2001 to shareholders of record on May 31, 2001:

YEAR ENDED DECEMBER 31, 2003:	HIGH	LOW
1st Quarter	$23.13	$15.67
2nd Quarter	$17.15	$13.60
3rd Quarter	$14.29	$10.26
4th Quarter	$14.07	$ 8.47

YEAR ENDED DECEMBER 31, 2002:	HIGH	LOW
1st Quarter	$15.47	$12.00
2nd Quarter	$16.11	$10.47
3rd Quarter	$17.53	$13.17
4th Quarter	$15.85	$12.80

As of March 25, 2004, there were 156 record holders of Class A Common Stock and 9 holders of Class B Common Stock. The Company believes that there are approximately 8,200 beneficial owners of Class A Common Stock.

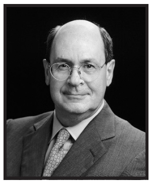
Prior to its initial public offering, the Company paid dividends on its common stock. However, since its initial public offering the Company has not paid dividends on its common stock and the Company does not intend to pay cash dividends for the foreseeable future.

STOCK REGISTRAR AND TRANSFER AGENT

LaSalle Bank, N.A.
Trust and Asset Management
135 South LaSalle Street, Suite 1960
Chicago, Illinois 60603
312-904-2450
www.lasallebank.com

AUDITORS

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, New York 10019
646-471-4000
www.pwcglobal.com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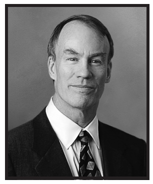
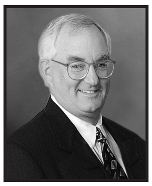
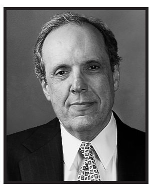
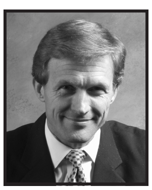

Mortimer B. Fuller III


Louis S. Fuller

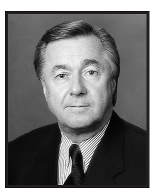

T. Michael Long


Robert M. Melzer


Philip J. Ringo


Peter O. Scannell


Mark A. Scudder


Hon. M. Douglas Young, P.C.

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Member of Governance Committee

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Member of Governance Committee

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Chairman, SUMMA Strategies Canada, Inc.
Chairman of Governance Committee

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and Chief Executive Officer

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President and
Chief Operating Officer

John C. Hellmann
Chief Financial Officer

Adam B. Frankel
Senior Vice President
General Counsel and Secretary

Charles W. Chabot
President — Marketing & Development

Robert Grossman
Executive Vice President
Government & Industry Affairs

Alan R. Harris
Chief Accounting Officer
Retiring in 2004

James M. Andres
Chief Accounting Officer and Global Controller

SENIOR EXECUTIVES

Mark W. Hastings
Executive Vice President
Corporate Development

James W. Benz
Senior Vice President
GWI Rail Switching Services

Mario Brault
Senior Vice President
Canada Region

David J. Collins
Senior Vice President
New York/Pennsylvania Region

James N. Davis
Senior Vice President
Utah Region

Thomas P. Loftus
Senior Vice President
Finance and Treasurer

Shayne L. Magdoff
Senior Vice President
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Oregon Region

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Mexico Region

Spencer D. White
Senior Vice President
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Mike Meyers
Vice President — Information
Technology

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Vice President — Finance and Acquisitions

Scott F. Ziegler
Vice President — Operational Finance