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

General

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

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

When comparing the Company's results of operations from one reporting period to another, the following factors should be taken into consideration. The Company has historically experienced fluctuations in revenues and expenses such as one-time freight moves, customer plant expansions and shut-downs, railcar sales, accidents and derailments. In periods when these events occur, results of operations are not easily comparable to other periods. Also, much of the Company's growth to date has resulted from acquisitions. Most recently, the Company completed one acquisition in November 1997 and two acquisitions in 1999. Because of variations in the structure, timing and size of these acquisitions and differences in economics among the Company's railroads resulting from differences in the rates and other material terms established through negotiation, the Company's results of operations in any reporting period may not be directly comparable to its results of operations in other reporting periods.

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

In August 1999, the Company's wholly-owned subsidiary, Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. ("FCCM"), was awarded a 30-year concession to operate certain railways owned by the state-owned Mexican rail company Ferronales. FCCM also acquired equipment and other assets. The aggregate purchase price, including acquisition costs, was approximately 297 million pesos, or approximately $31.5 million at then-current exchange rates. The purchase included $12.3 million of rolling stock, a $9.7 million advance payment on track improvements to be completed on the state-owned track property by mid-2000, a $1.0 million escrow payment which will be returned to the Company upon successful completion of the track, an expected future utilization by the Company of $2.2 million of value-added taxes paid on the transaction, and $1.0 million in goodwill. The remaining purchase price ($5.3 million) was allocated to the 30-year operating license. As the track improvements are made, the related costs will be reclassified into the property accounts as leasehold improvements and amortized over the improvements' estimated useful life of 20 years. Pursuant to the acquisition, employee termination payments of $1.0 million were made to former state employees and approximately 55 employees whom the Company retained upon acquisition but terminated as part of its plan to reduce operating costs after September 30, 1999. All payments were made during the fourth quarter of 1999 and are considered a cost of the acquisition. Accordingly, the payments represent costs in excess of fair market value and are being amortized over 20 years.

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

Genesee•Rail-One Inc.

On April 15, 1999, the Company closed on an agreement to acquire Rail-One Inc. ("Rail-One") which has a 47.5% ownership interest in Genesee•Rail-One Inc. ("GRO"), thereby increasing the Company's ownership of GRO to 95%. GRO owns and operates two short line railroads in Canada. Under the terms of the purchase agreement, the Company converted outstanding notes receivable from Rail-One of $4.6 million into capital, will pay approximately $844,000 in cash to the sellers of Rail-One in installments over a four year period, and granted options to the sellers of Rail-One to purchase up to 80,000 shares of the Company's Class A Common Stock at an exercise price of $8.625 per share. Exercise of the option is contingent on the Company's recovery of its capital investment in GRO including debt assumed if the Company were to sell GRO, and upon certain GRO income performance measures. The transaction is accounted for as a purchase and resulted in $2.8 million of goodwill which is being amortized over 15 years. The contingent purchase price will be recorded as a component of goodwill at the value of the options issued, if and when such options are exercisable. Effective with this agreement, the operating results of GRO have been consolidated within the financial statements of the Company, with a 5% minority interest due to another GRO shareholder. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded losses of $618,000, $645,000 and $60,000 in 1999, 1998 and 1997, respectively, in other income, net.

Genesee & Wyoming Australia Pty. Ltd.

On August 28, 1997, the Company's wholly-owned subsidiary, Genesee & Wyoming Australia Pty. Ltd. ("GWIA"), was awarded the contract to purchase certain selected assets of the railroad freight operation of SA Rail, a division of Australian National Railway which was controlled by the Commonwealth Government of Australia. SA Rail provided intrastate freight services in South Australia, interstate haulage of contract freight, rolling stock rental and maintenance, and interstate track maintenance. GWIA bid as part of a consortium including EDI Clyde Engineering and Transfield Pty. Ltd. EDI Clyde is a major Australian provider of railway rolling stock and holds the Australian license for GM/EMD locomotives. Transfield is a major Australian engineering, construction and infrastructure maintenance provider. On November 8, 1997 GWIA closed on the purchase of the assets and commenced operation of railroad freight service under the name of Australia Southern Railroad Pty. Ltd. The assets were acquired for approximately $33.1 million, including related costs. The assets consist primarily of road and track structure, railroad rolling stock and other equipment.

Results of Operations Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Consolidated Operating Revenues

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

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

North American Railroad Operating Revenues

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

North American Freight Revenues and Carloads Comparison by Commodity Group

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

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
Commodity Group	1999	% of total	1998	% of total	1999	% of total	1998	% of total	1998	1997
Coal, Coke & Ores	$24,779	25.9%	$19,245	29.1%	94,140	31.4%	75,881	34.8%	$263	$254
Pulp & Paper	14,867	15.6%	8,295	12.6%	39,952	13.3%	21,318	9.7%	372	389
Petroleum Products	10,210	10.7%	7,135	10.8%	20,206	6.7%	15,992	7.3%	505	446
Lumber & Forest Products	8,304	8.7%	6,098	9.2%	28,627	9.6%	20,802	9.5%	290	293
Chemicals-Plastics	8,169	8.6%	6,337	9.6%	16,039	5.4%	12,503	5.7%	509	507
Metals	8,156	8.5%	4,879	7.4%	30,614	10.2%	17,862	8.2%	266	273
Minerals & Stone	7,905	8.3%	3,790	5.8%	23,667	7.9%	13,679	6.3%	334	277
Farm & Food Products	5,831	6.1%	4,919	7.4%	19,898	6.6%	17,451	8.0%	293	282
Autos & Auto Parts	2,491	2.6%	1,945	2.9%	4,790	1.6%	3,895	1.8%	520	499
Other	4,825	5.0%	3,438	5.2%	22,024	7.3%	18,922	8.7%	219	182
Totals	$95,537	100.0%	$66,081	100.0%	299,957	100.0%	218,305	100.0%	319	303

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

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

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

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

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

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

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

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

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

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

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

Australian Operating Revenues

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

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

Australian Freight Revenues by Commodity

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

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

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

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

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

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

Industrial Switching Revenues

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

Consolidated Operating Expenses

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

Operating Ratios

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

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

North American Railroad Operating Expenses

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

North American Railroad Operating Expense Comparison

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

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

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

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

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

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

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

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

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

Australian Railroad Operating Expenses

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

Australian Railroad Operations Operating Expense Comparison

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

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

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

U. S. Industrial Switching Operating Expenses

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

U.S. Industrial Switching Operating Expense Comparison

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

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

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

Interest Expense

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

Other Income and Income Taxes

The Company's other income consists primarily of interest income, gains and losses on assets sales, equity earnings, minority interest expense, losses on unconsolidated affiliates, and foreign currency losses. Other income in the year ended December 31, 1999 was $1.1 million compared to $6.6 million in the year ended

December 31, 1998, a decrease of $5.5 million or 84.0%. The 1998 other income reflected $6.0 million of non-recurring insurance proceeds recorded in North American railroad operations.

The Company's effective income tax rate in the years ended December 31, 1999 and 1998 was 14.5% and 40.3%, respectively. The 1999 rate was impacted by a $4.2 million benefit recorded in the third quarter of 1999 as a result of a favorable tax law change in Australia. Without this impact, 1999's effective income tax rate was 42.5%. The Company may realize additional benefits from this tax law change in future quarters.

Net Income and Earnings Per Share

The Company's net income in the year ended December 31, 1999 was $12.5 million (including a $4.2 million income tax benefit described above and an extraordinary non-cash expense of $262,000 related to the early extinguishment of debt described in Note 8. to Consolidated Financial Statements) compared to net income of $11.4 million (including a $3.9 million after-tax effect of an insurance settlement described in Note 2. to Consolidated Financial Statements) in the year ended December 31, 1998, an increase of $1.1 million or 9.6%. The increase in net income is the net result of an increase in net income from Australian railroad operations of $3.6 million, a decrease in net income from North American railroad operations of $3.7 million, and a decrease in the net loss of industrial switching of $1.2 million.

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

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Consolidated Operating Revenues

Operating revenues were $147.4 million in 1998 compared to $103.6 million in 1997, an increase of $43.8 million or 42.3%. The increase was attributable to $39.3 million in revenues from the Australia operation, a $3.7 million increase in North America railroad revenues, and a $823,000 increase in U.S. industrial switching revenues.

The following three sections provide information on railroad revenues in North America and Australia, and industrial switching revenues in the United States.

North America Railroad Operating Revenues

Operating revenues were $88.1 million in the year ended December 31, 1998 compared to $84.4 million in the year ended December 31, 1997, an increase of $3.7 million or 4.4%. The increase was attributable to a $5.3 million increase in non-freight revenues, which offset a $1.6 million decrease in freight revenues.

The following table compares freight revenues, carloads and average freight revenues per carload for 1998 and 1997:

North America Freight Revenues and Carloads Comparison by Commodity Group

(dollars in thousands, except average per carload) *Years Ended December 31, 1998 and 1997*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
Commodity Group	1998	% of total	1997	% of total	1998	% of total	1997	% of total	1998	1997
Coal, Coke & Ores	$19,245	29.1%	$21,452	31.7%	75,881	34.8%	82,269	37.4%	$254	$261
Pulp & Paper	8,295	12.6%	7,920	11.7%	21,318	9.7%	20,760	9.4%	389	382
Petroleum Products	7,135	10.8%	8,349	12.3%	15,992	7.3%	17,456	7.9%	446	478
Chemicals & Plastics	6,337	9.6%	5,761	8.5%	12,503	5.7%	10,496	4.8%	507	549
Lumber & Forest Products	6,098	9.2%	6,093	9.0%	20,802	9.5%	18,171	8.3%	293	335
Farm & Food Products	4,919	7.4%	3,865	5.7%	17,451	8.0%	13,390	6.1%	282	289
Metals	4,879	7.4%	5,188	7.7%	17,862	8.2%	21,268	9.7%	273	244
Minerals & Stone	3,790	5.8%	3,346	4.9%	13,679	6.3%	12,657	5.8%	277	264
Other	3,438	5.2%	2,287	3.4%	18,922	8.7%	16,743	7.6%	182	137
Autos & Auto Parts	1,945	2.9%	3,452	5.1%	3,895	1.8%	6,496	3.0%	499	531
Total	$66,081	100.0%	$67,713	100.0%	218,305	100.0%	219,706	100.0%	303	308

The decrease in freight revenues was attributable to the decline in freight revenues from shipments of coal, autos and auto parts, petroleum products and metals. Freight revenues from coal were $19.2 million in the year ended December 31, 1998, compared to $21.4 million in the year ended December 31, 1997, a decrease of $2.2 million or 10.3% primarily due to reduced shipments of coal resulting from scheduled maintenance and inventory adjustments at a key customer's facilities.

Freight revenues from autos and auto parts were $1.9 million in the year ended December 31, 1998, compared to $3.4 million in the year ended December 31, 1997, a decrease of $1.5 million or 43.7% primarily due to reduced shipments resulting from loss of overhead freight from a contract change between CSXT and Ford, and labor issues in the auto industry.

Freight revenues from petroleum products were $7.1 million in the year ended December 31, 1998, compared to $8.3 million in the year ended December 31, 1997, a decrease of $1.2 million or 14.5% due to reduced shipments resulting from scheduled maintenance at a key customer's facilities.

Freight revenues from metals were $4.9 million in the year ended December 31, 1998, compared to $5.2 million in the year ended December 31, 1997, a decrease of $309,000 or 5.9%. The decrease in freight revenues from coal, autos and auto parts, petroleum products and metals was partially offset by increases in freight revenues from farm and food products of $1.1 million or 27.3%, chemicals and plastics of $576,000 or 10.0%, minerals and stone of $444,000 or 13.3% and pulp and paper of $375,000 or 4.7%. Freight revenues from all remaining commodities reflected a net increase of $1.2 million.

Total carloads were 218,305 in the year ended December 31, 1998 compared to 219,706 in the year ended December 31, 1997, a decrease of 1,401 or 0.6%. Also, the overall average revenue per carload declined to $303 in the year ended December 31, 1998, compared to $308 per carload in the year ended December 31, 1997, a decrease of 1.6% due to changes in commodity mix and traffic patterns.

North America non-freight railroad revenues were $22.0 million in the year ended December 31, 1998 compared to $16.7 million in the year ended December 31, 1997, an increase of $5.3 million or 32.0%. The increase was primarily due to increases in car hire and rental income of $2.0 million, other income of $1.8 million and switching revenue of $1.5 million.

Australia Railroad Operating Revenues

Operating revenues were $46.7 million in the year ended December 31, 1998, compared to $7.4 million in the year ended December 31, 1997, an increase of $39.3 million or 528.8%. The increase consisted of $35.7 million in freight revenues and $3.6 in non-freight revenues. The increase was primarily attributable to a full year of operations in 1998 as compared to operations which began on November 8, 1997.

The following table outlines Australian freight revenues for the periods ended December 31, 1998 and 1997:

Australian Freight Revenues by Commodity

(dollars in thousands, except average per carload) *Years Ended December 31, 1998 and 1997*

	Freight Revenues				Carloads				Average Freight Revenues Per Carload	
Commodity Group	1998	% of total	1997	% of total	1998	% of total	1997	% of total	1998	1997
Hook and Pull (Haulage)	$15,288	36.4%	$1,969	31.2%	40,817	22.3%	4,465	15.4%	$375	$441
Grain	13,040	31.0%	2,377	37.7%	45,896	25.1%	10,201	35.3%	284	233
Coal	7,514	17.9%	817	12.9%	47,286	25.9%	6,719	23.2%	159	122
Gypsum	2,788	6.6%	463	7.3%	36,611	20.0%	5,494	19.0%	76	82
Marble	1,949	4.6%	268	4.2%	8,294	4.5%	1,060	3.7%	235	253
Lime	1,052	2.5%	203	3.2%	2,500	1.4%	225	0.7%	421	902
Other	368	1.0%	215	3.5%	1,382	0.8%	772	2.7%	266	278
Total	$41,999	100.0%	$6,312	100.0%	182,786	100.0%	28,936	100.0%	230	218

Australia non-freight revenues were $4.7 million in the year ended December 31, 1998, compared to $1.1 million in the year ended December 31, 1997, an increase of $3.6 million or 322.6%. The increase consisted of $2.4 million in car hire and rental income and $1.2 million in other income. The increase was primarily attributable to a full year of operations in 1998 as compared to operations which began on November 8, 1997.

U.S. Industrial Switching Revenues

Revenues from U.S. industrial switching activities were $12.6 million in the year ended December 31, 1998 compared to $11.8 million in the year ended December 31, 1997, an increase of $823,000 or 7.0%. The increase was primarily attributable to a broadening of the customer base of Rail Link, Inc.

Consolidated Operating Expenses

Operating expenses for all operations combined were $127.9 million in 1998 compared to $87.2 million in 1997, an increase of $40.7 million or 46.7%. Expense increases attributable to operations in Australia, which began in November, 1997, represented $31.2 million or 76.6% of the change, expense increases attributable to North America railroad operations represented $7.7 million or 19.0% of the change, and expense increases in U.S. industrial switching represented $1.8 million or 4.4% of the change.

Operating Ratios

The Company's combined operating ratio increased to 86.7% in 1998 from 84.1% in 1997. The operating ratio for U.S. railroad operations increased to 85.8% in 1998 from 80.4% in 1997. The operating ratio for Australia railroad operations decreased to 81.1% in 1998 from 90.5% in 1997. The operating ratio for U.S. industrial switching operations increased to 114.2% in 1998 from 107.0% in 1997.

The following three sections provide information on railroad expenses in North America and Australia, and industrial switching expenses in the United States.

North America Railroad Operating Expenses

The following table sets forth a comparison of the Company's North America railroad operating expenses in 1998 and 1997:

North America Railroad Operating Expense Comparison

(dollars in thousands)	*Year Ended December 31*			
	1998		1997	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$30,822	35.0%	$28,041	33.2%
Equipment rents	11,060	12.6%	8,755	10.4%
Purchased services	4,496	5.1%	3,872	4.6%
Depreciation and amortization	7,277	8.3%	6,092	7.2%
Diesel fuel	3,187	3.6%	4,239	5.0%
Casualties and insurance	2,937	3.3%	4,280	5.1%
Materials	3,485	4.0%	3,837	4.5%
Other	12,285	13.9%	8,707	10.4%
Total	$75,549	85.8%	$67,823	80.4%

Labor and benefits expense was $30.8 million in 1998 compared to $28.0 million in 1997, an increase of $2.8 million or 9.9%, due primarily to general increases in wages and benefits for all railroad operations and the addition of several new senior management positions in general and administrative.

Equipment rents were $11.1 million in 1998 compared to $8.8 million in 1997, an increase of $2.3 million or 26.3%, due primarily to new operating leases for railroad rolling stock utilized by the Company's leasing subsidiary.

Purchased services were $4.5 million in 1998 compared to $3.9 million in 1997, an increase of $624,000 or 16.1%, due primarily to increases in maintenance of way contract work of approximately $277,000 and information systems and general and administrative contract work of approximately $413,000, offset by a net decrease in all other departments of $66,000.

Depreciation and amortization expense was $7.3 million in 1998 compared to $6.1 million in 1997, an increase of $1.2 million or 19.5%, due primarily to increased capital spending in 1998 and 1997.

Diesel fuel was $3.2 million in 1998 compared to $4.2 million in 1997, a decrease of $1.0 million or 24.8%, due primarily to a decline in diesel fuel prices.

Casualties and insurance expense, including claims brought under the Federal Employers' Liability Act, was $2.9 million in 1998 compared to $4.3 million in 1997, a decrease of $1.4 million or 31.4%, due primarily to a decrease in derailment expense of approximately $739,000 and a decrease in claims expense of approximately $584,000.

Materials expense was $3.5 million in 1998 compared to $3.8 million in 1997, a decrease of $352,000 or 9.2%, due primarily to decreases in maintenance of way and maintenance of equipment repairs.

Other expense was $12.3 million in 1998 compared to $8.7 million in 1997, an increase of $3.6 million or 41.1%, due primarily to increases in acquisition expense of $1.1 million, trackage rights of $1.0 million, general and administrative of $1.0 million, legal and accounting fees of $341,000 and other expenses, net of $137,000.

Australia Railroad Operating Expenses

The following table sets forth a comparison of the Company's Australia railroad operating expenses in 1998 and 1997:

Australia Railroad Operating Expense Comparison

(dollars in thousands)	*Year Ended December 31*			
	1998		1997	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$ 5,263	11.3%	$ 899	12.1%
Equipment rents	593	1.3%	81	1.1%
Purchased services	13,538	29.0%	2,298	30.9%
Depreciation and amortization	1,842	3.9%	246	3.3%
Diesel fuel	8,895	19.0%	1,409	19.0%
Casualties and insurance	1,415	3.0%	347	4.7%
Materials	1,734	3.7%	134	1.8%
Other	4,627	9.9%	1,312	17.6%
Total	$37,907	81.1%	$ 6,726	90.5%

All Australia railroad operating expense increases are primarily attributable to a full year of operations in 1998 as compared to operations which began on November 8, 1997.

U. S. Industrial Switching Operating Expenses

The following table sets forth a comparison of the Company's U.S. industrial switching operating expenses in 1998 and 1997:

U.S. Industrial Switching Operating Expense Comparison

(dollars in thousands)	*Year Ended December 31*			
	1998		1997	
	$	% of Operating Revenue	$	% of Operating Revenue
Labor and benefits	$9,019	71.3%	$8,457	71.5%
Equipment rents	217	1.7%	102	1.0%
Purchased services	291	2.3%	241	2.0%
Depreciation and amortization	798	6.3%	661	5.6%
Diesel fuel	466	3.7%	499	4.2%
Casualties and insurance	1,363	10.8%	927	7.8%
Materials	758	6.0%	524	4.4%
Other	1,533	12.1%	1,240	10.5%
Total	$14,445	114.2%	$12,651	107.0%

Labor and benefits expense was $9.0 million in 1998 compared to $8.5 million in 1997, an increase of $562,000 or 6.6%, which was primarily attributable to a broadening of the customer base of Rail Link, Inc.

Casualties and insurance expense was $1.4 million in 1998 compared to $927,000 in 1997, an increase of $436,000 or 47.0%, which was primarily attributable to an increase in derailment expense of $184,000 and an increase in claims expense of $236,000

Other expense was $1.5 million in 1998 compared to $1.2 million in 1997, an increase of $293,000 or 23.6%, which was primarily attributable to a broadening of the customer base of Rail Link, Inc.

All other expense categories were $2.5 million in 1998 compared to $2.0 million in 1997, an increase of $503,000 or 24.8%, which was primarily attributable to a broadening of the customer base of Rail Link, Inc.

Interest Expense

The Company's combined interest expense was $7.1 million in 1998 compared to $3.4 million in 1997, an increase of $3.7 million or 111.1%. Interest expense for North America railroad operations increased to $4.4 million in 1998 from $2.8 million in 1997, an increase of $1.6 million or 56.9%. This increase is primarily attributable to the partial financing of the acquisition in Australia (for which the Company used its Credit Facility but did not allocate the interest to Australia railroad operations), an investment in GRO which operates two railroads in Canada, and a new capital lease for equipment. Interest expense for Australia railroad operations increased to $2.3 million in 1998 from $320,000 in 1997, an increase of $2.0 million or 615.3%. This increase was primarily attributable to a full year of operations in 1998 as compared to operations which began on November 8, 1997. Interest expense for U.S. industrial switching operations increased to $376,000 in 1998 from $220,000 in 1997, an increase of $156,000 or 70.9%.

Other Income and Income Taxes

The Company's other income in 1998 was $6.6 million compared to other income in 1997 of $345,000, an increase of $6.3 million or 1,826.1%. The increase was attributable to $6.0 million of insurance proceeds recorded in North America railroad operations.

The Company's effective income tax rate was 40.3% and 40.5% in 1998 and 1997, respectively.

Net Income and Earnings Per Share

The Company's net income in 1998 was $11.4 million compared to net income in 1997 of $8.0 million, an increase of $3.4 million or 42.9%. The increase was attributable to increases in net income from the Australia operation of $3.7 million and North America railroad operations of $548,000, which offset an increase in the net loss in U.S. industrial switching operations of $792,000.

Basic and Diluted Earnings Per Share in the year ended December 31, 1998 were $2.20 and $2.19 respectively, on weighted shares of 5.2 million compared to $1.52 and $1.47 respectively, on weighted average shares of 5.4 million in the year ended December 31, 1998.

Liquidity and Capital Resources

During 1999, the Company generated cash from operations of $29.3 million, generated cash from asset sales of $10.3 million, received $10.9 million in state grant funds for track rehabilitation and construction, and had a net cash increase in debt of $17.5 million. During the year, the Company invested $14.8 million in equipment and rolling stock and $21.0 million in track improvements (including the $10.9 million in state grant funds described above) and buildings. These expenditures were apart from the Company's investments in Ferrocarriles Chiapas-Mayab in Mexico of $31.5 million and Latin American Rail, LLC in Chile of $1.3 million. The Company also received $57,000 of cash in the purchase of Rail-One Inc. in Canada less cash paid for its common stock. See Note 3. to Consolidated Financial Statements. The Company repurchased 655,000 shares of its Class A Common Stock which are now held in the Company treasury at a cost of $6.4 million.

During 1998, the Company generated cash from operations of $23.8 million, generated cash from asset sales of $2.6 million, received $3.2 million in state grant funds for track rehabilitation, and had a net cash reduction to debt of $2.1 million. During the year, the Company invested $10.0 million in equipment and rolling stock and $6.9 million in track improvements (including the $3.2 million in state grant funds described above) and buildings. Additionally, the Company acquired $6.4 million in rolling stock in a non-cash exchange for similar assets. These expenditures were apart from the Company's additional investment of $3.1 million in cash and $4.7 million in other assets in GRO which operates two railroads in Canada (see Note 3. to Consolidated Financial Statements). The Company also repurchased 345,000 shares of its Class A Common Stock which are now held in the Company treasury at a cost of $4.6 million.

During 1997, the Company generated cash from operations of $6.3 million, generated cash from asset sales of $581,000, received $2.9 million in state grant funds for track rehabilitation, and had net new borrowings of $45.2 million. During the year, the Company invested $16.3 million, including capital leases of $11.8 million, in equipment and rolling stock, and $9.4 million in track improvements (including the $2.9 million in state grant funds described above) and buildings. These expenditures were apart from the Company's investment in the Australia acquisition and its investment in GRO which operates two railroads in Canada (see Note 3. to Consolidated Financial Statements).

On August 17, 1999, the Company amended and restated its primary credit facilities agreement to provide for an increase from $65.0 million to $150.0 million. The agreement provides for $88 million in revolving credit facilities (with a sub limit of $15 million in Australian dollar equivalents to be allocated to the Australian subsidiaries) and $62.0 million in term loan facilities consisting of a U.S. Term Loan facility in the amount of $10.0 million, a Canadian Term Loan facility in the Canadian Dollar Equivalent of $22.0 million, and a Mexican Term Loan facility of $30.0 million. The term loans are due in quarterly installments and mature, along with the revolving credit facilities, on August 17, 2004. The credit facilities accrue interest at various rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDA ratio, as defined in the agreement. Interest is payable in arrears based on certain elections of the Company, not to exceed three months outstanding. The Company pays a commitment fee which varies between 0.375% and 0.500% per annum on all unused portions of the revolving credit facility depending on the Company's funded debt to EBITDA ratio. The credit facilities agreement requires mandatory prepayments from the issuance of new equity or debt and annual sale of assets in excess of varying minimum amounts depending on the country in which the sales occur. The credit facilities are secured by essentially all the assets of the Company and its subsidiaries. The credit facilities agreement requires the maintenance of certain covenant ratios or amounts, including, but not limited to, funded debt to EBITDA, minimum EBITDA for a period, cash flow coverage, and Net Worth, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 1999. Borrowings under the Canadian portion of the amended agreement were used to refinance certain GRO debt. In conjunction with that refinancing, the Company recorded a non-cash after tax extraordinary charge of $262,000 related to the unamortized deferred financing costs of the retired debt.

On December 7, 1999, the Company completed the sale of 483 freight cars to a financial institution for a net sale price of $8,630,000. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institution to lease these 483 freight cars and an additional 100 centerbeam flat cars for a period of at least eight years including automatic renewals. The sale/leaseback transaction resulted in a deferred gain of $612,000, which will be amortized over the term of the lease as a non-cash offset to rent expense. These leases also include an option to purchase all of the cars, subject to certain conditions. If certain conditions related to the return of the cars are met, the Company could be required to pay a fee.

At December 31, 1999 the Company had long-term debt, including current portion, totaling $108.4 million, which comprised 57.0% of its total capitalization. This compares to long-term debt, including current portion, of $65.7 million at December 31, 1998, comprising 46.8% of total capitalization. The increase primarily relates to borrowings to fund acquisitions in 1999.

At December 31, 1999 approximately $36.9 million of the Company's debt was U.S. denominated foreign debt related to the Company's Mexican acquisition (see Note 3. to Consolidated Financial Statements) which is subject to debt valuation adjustments resulting from currency exchange rate changes. The Company recorded approximately $191,000 of non-cash expense related to valuation adjustments on this debt in the Other Income, net section of its 1999 income statement.

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. While the Company has benefited from these grant funds in recent years including 1999 and 1998, there can be no assurance that the funds will continue to be available.

The Company has budgeted approximately $38.7 million in capital expenditures in 2000, primarily for track rehabilitation, of which $7.7 million is expected to be used in Australia. Of the $38.7 million in capital expenditures, $12.8 million is expected to be funded by rehabilitation grants from state and federal agencies to several of the Company's railroads,

In connection with the Company's purchase of selected assets in Australia (see Note 3. to Consolidated Financial Statements), the Company has committed to the Commonwealth of Australia to spend approximately $34.1 million (AU $52.3 million) to rehabilitate track structures and equipment by December 31, 2002. The Commonwealth Government may require the payment of any shortfall between the actual expenditures incurred and the contracted commitment from the date of acquisition to December 31, 2002. This commitment may be renegotiated if there is a significant change in operating conditions outside the control of the Company. As of December 31, 1999, $18.1 million (AU $27.6 million) of this commitment had been met.

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 to finance acquisitions and equipment needs (primarily rolling stock) related to acquisitions. The Company believes that its cash flow from operations together with amounts available under its 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.

Year 2000 Compliance

The Company encountered no significant problems in the transition to the year 2000.

Disclosures about Market Risk

The Company is exposed to the impact of interest rate changes. The Company's exposure to changes in interest rates applies to its borrowings under its credit facilities which have variable interest rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDA ratio, as defined in the credit facilities agreement. The Company is also exposed to the impact of foreign currency exchange rate risk as it relates to debt valuation adjustments resulting from currency exchange rate changes on certain U.S. denominated foreign debt. At December 31, 1999, approximately $36.9 million of the Company's debt was U.S. denominated foreign debt related to the Company's Mexican acquisition (see Note 3. to Consolidated Financial Statements) which is subject to debt valuation adjustments resulting from currency exchange rate changes. The Company estimates that the fair value of these debt instruments approximated their market values and carrying values at December 31, 1999. The Company invests excess cash in overnight money market accounts.

Forward-looking Statements

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

Selected Financial Data

(In thousands, except per share amounts	Year Ended December 31,				
	1999	1998	1997	1996	1995
Income Statement Data:					
Operating revenues	$175,586	$147,472	$103,643	$77,795	$53,387
Operating expenses	153,218	127,904	87,200	63,801	46,815
Operating income	22,368	19,568	16,443	13,994	6,572
Interest expense	(8,462)	(7,071)	(3,349)	(4,720)	(3,405)
Other income, net	1,064	6,645	345	651	456
Income before income taxes and extraordinary item	14,970	19,142	13,439	9,925	3,623
Income taxes	2,175	7,708	5,441	4,020	1,472
Income before extraordinary item	12,795	11,434	7,998	5,905	2,151
Extraordinary item	(262)	—	—	—	(494)
Net income	$12,533	$11,434	$7,998	$5,905	$1,657
Basic earnings per common share:					
Income before extraordinary item	$2.85	$2.20	$1.52	$1.54	$0.92
Extraordinary item	(0.06)	—	—	—	(0.21)
Net income	$2.79	$2.20	$1.52	$1.54	$0.71
Weighted average number of shares of common stock	4,491	5,187	5,250	3,829	2,348
Diluted earnings per common share:					
Income before extraordinary item	$2.82	$2.19	$1.47	$1.49	$0.92
Extraordinary item	(0.06)	—	—	—	(0.21)
Net income	$2.76	$2.19	$1.47	$1.49	$0.71
Weighted average number of shares of common stock	4,540	5,229	5,447	3,966	2,348
Dividends per common share [1]	—	—	—	$0.01	$0.08
Balance Sheet Data as of Period End:					
Total assets	$301,940	$216,760	$210,532	$145,339	$78,429
Total debt	108,376	65,690	74,144	18,731	39,941
Stockholders' equity	81,829	74,537	68,343	61,683	10,548

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

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, 1999 and 1998, 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, 1999. 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 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, 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 10, 2000

Consolidated Balance Sheets

(in thousands, except share amounts)	Year Ended December 31, 1999	1998
Assets		
Current Assets:		
Cash and cash equivalents	$7,791	$14,396
Accounts receivable, net	47,870	31,723
Materials and supplies	6,141	3,502
Prepaid expenses and other	7,689	2,914
Deferred income tax assets, net	3,087	2,315
Total current assets	72,578	54,850
Property and Equipment, net	185,970	125,562
Service Assurance Agreement, net	12,065	12,814
Investment in Unconsolidated Affiliates	1,576	13,215
Other Assets, net	29,751	10,319
Total assets	$301,940	$216,760
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$15,146	$2,591
Accounts payable	52,501	28,814
Accrued expenses	9,738	11,338
Total current liabilities	77,385	42,743
Long-Term Debt, less current portion	93,230	63,099
Other Liabilities	4,231	2,803
Deferred Income Tax Liabilities, net	13,145	12,006
Deferred Items—grants from governmental agencies	27,427	17,607
Deferred Gain—sale/leaseback	4,109	3,965
Minority Interest	584	—
Stockholders' Equity:		
Class A Common Stock, $0.01 par value, one vote per share; 12,000,000 shares authorized; 4,453,368 and 4,450,276 issued and outstanding on December 31, 1999 and December 31, 1998, respectively	45	45
Class B Common Stock, $0.01 par value, 10 votes per share; 1,500,000 shares authorized; 845,447 and 845,539 issued and outstanding on December 31, 1999 and December 31, 1998, respectively	8	8
Additional paid-in capital	47,072	46,730
Retained earnings	47,023	34,490
Currency translation adjustment	(1,316)	(2,107)
Less treasury stock, at cost, 1,000,000 and 345,000 Class A shares on December 31, 1999 and December 31, 1998, respectively	(11,003)	(4,629)
Total stockholders' equity	81,829	74,537
Total liabilities and stockholders' equity	$301,940	$216,760

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

(dollars in thousands, except per share amounts)	Year Ended December 31,		
	1999	1998	1997
Operating Revenues	$175,586	$147,472	$103,643
Operating Expenses:			
Transportation	55,811	46,784	31,690
Maintenance of ways and structures	21,096	17,306	10,483
Maintenance of equipment	34,597	27,968	17,537
General and administrative	29,140	25,929	20,491
Depreciation and amortization	12,574	9,917	6,999
Total operating expenses	153,218	127,904	87,200
Income from Operations	22,368	19,568	16,443
Interest expense	(8,462)	(7,071)	(3,349)
Other income, net	1,064	6,645	345
Income before provision for income taxes and extraordinary item	14,970	19,142	13,439
Provision for income taxes	2,175	7,708	5,441
Income before extraordinary item	12,795	11,434	7,998
Extraordinary item from early extinguishment of debt, net of related income tax benefit of $162	(262)	—	—
Net Income	$12,533	$11,434	$7,998
Basic Earnings Per Share:			
Income before extraordinary item	$2.85	$2.20	$1.52
Extraordinary item	(0.06)	—	—
Earnings per common share	$2.79	$2.20	$1.52
Weighted average shares	4,491	5,187	5,250
Diluted Earnings Per Share:			
Income before extraordinary item	$2.82	$2.19	$1.47
Extraordinary item	(0.06)	—	—
Earnings per common share	$2.76	$2.19	$1.47
Weighted average shares and equivalents	4,540	5,229	5,447

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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(dollars in thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Warrants	Retained Earnings	Currency Translation Adjustment	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1996	$44	$8	$46,102	$471	$15,058	—	—	$61,683
Comprehensive income	—	—	—	—	7,998	$(1,441)	—	6,557
Proceeds from employee stock purchases	—	—	103	—	—	—	—	103
Balance, December 31, 1997	44	8	46,205	471	23,056	(1,441)	—	68,343
Comprehensive income	—	—	—	—	11,434	(666)	—	10,768
Proceeds from employee stock purchases	1	—	54	—	—	—	—	55
Warrants exercised, 42,000 shares	—	—	471	(471)	—	—	—	—
Treasury stock acquisitions, 345,000 shares	—	—	—	—	—	—	$(4,629)	(4,629)
Balance, December 31, 1998	45	8	46,730	—	34,490	(2,107)	(4,629)	74,537
Comprehensive income	—	—	—	—	12,533	791	—	13,324
Proceeds from employee stock purchases	—	—	61	—	—	—	—	61
Shares issued for investment in unconsolidated affiliate	—	—	281	—	—	—	—	281
Treasury stock acquisitions, 655,000 shares	—	—	—	—	—	—	(6,374)	(6,374)
Balance, December 31, 1999	$45	$8	$47,072	—	$47,023	$(1,316)	$(11,003)	$81,829

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

(in thousands)	Year Ended December 31,		
	1999	1998	1997
Cash Flows From Operating Activities:			
Net income	$12,533	$11,434	$7,998
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	12,574	9,917	6,999
Deferred income taxes	(974)	4,985	2,863
Gain on disposition of property and equipment	(652)	(410)	(13)
Extraordinary item, net of tax	262	—	—
Equity losses of unconsolidated affiliates	657	457	—
Minority interest expense	50	—	—
Valuation adjustment of U.S. dollar denominated foreign debt	191	—	—
Changes in assets and liabilities, net of balances assumed through acquisitions-			
Accounts receivable	(10,250)	(3,575)	(9,848)
Materials and supplies	(872)	1,188	477
Prepaid expenses and other	(985)	150	(1,362)
Accounts payable and accrued expenses	15,641	1,710	(2,015)
Other assets and liabilities, net	1,120	(2,052)	1,210
Net cash provided by operating activities	29,295	23,804	6,309
Cash Flows From Investing Activities:			
Purchase of property and equipment	(35,767)	(16,901)	(13,891)
Cash investments in affiliates	(1,018)	(3,084)	(9,412)
Cash received in purchase of Rail-One Inc. less cash paid for common stock	57	—	—
Purchase of business assets by Ferrocarriles de Chiapas-Mayab	(31,327)	—	—
Purchase of business assets of Australian National Railway	—	—	(33,079)
Proceeds from disposition of property and equipment	10,327	2,597	581
Net cash used in investing activities	(57,928)	(17,388)	(55,801)
Cash Flows From Financing Activities:			
Principal payments on long-term borrowings, including capital leases	(89,954)	(22,852)	(24,982)
Proceeds from issuance of long-term debt	107,477	20,800	70,885
Payment of debt issuance costs	(1,475)	—	(739)
Proceeds from government grants	10,869	3,208	2,903
Proceeds from issuance of employee stock purchase	61	55	103
Purchase of treasury stock	(6,374)	(4,629)	—
Net cash provided by (used in) by financing activities	20,604	(3,418)	48,170
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,424	(36)	(1,365)
Increase (Decrease) in Cash and Cash Equivalents	(6,605)	2,962	(2,687)
Cash and Cash Equivalents, beginning of year	14,396	11,434	14,121
Cash and Cash Equivalents, end of year	$7,791	$14,396	$11,434
Cash Paid During Year for:			
Interest	$8,090	$7,092	$2,474
Incomes taxes	$3,774	$1,042	$5,056
Supplemental Non-Cash Investing Actvities:			
Assumption of controlling interest of GRO:			
Receivables forgiven	$11,742	—	—
Liabilities assumed	29,176	—	—
Assets acquired	(40,861)	—	—
Shares issued for investment in unconsolidated affiliate	281	—	—
Capital lease obligation	—	$ (5,261)	$11,761

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

1. Business and Customers:

Genesee & Wyoming Inc. and Subsidiaries (the "Company") operates twenty-two short line and regional railroads through its various subsidiaries of which seventeen are located in the United States, one is located in Australia, two are located in Mexico, and two are located in Canada. Railroad operations in Australia commenced in November, 1997 while separate operations in Mexico commenced in July, 1998 and September, 1999. The Company began consolidating the results of the two railroads in Canada in April, 1999, after increasing its ownership in the Canadian company which owns and operates the two railroads to 95%. The Company previously had an unconsolidated 47.5 percent equity interest in this Canadian company. The Company, through its leasing subsidiary, also buys, sells, leases and manages railroad transportation equipment in the United States and Canada. The Company, through its industrial switching subsidiary, also provides freight car switching and related services to industrial companies in the United States with extensive railroad facilities within their complexes.

A large portion of the Company's operating revenue is attributable to customers operating in the electric utility, paper, petroleum products, metals and chemical industries in North America, and the farm and food products and transportation (hook and pull) industries in Australia. As the Company acquires new railroad operations, the base of customers and industries served continues to grow and diversify. The largest ten customers, which is a group that changes annually, accounted for approximately 36%, 42% and 37% of the Company's revenues in 1999, 1998 and 1997, respectively. One customer in the electric utility industry accounted for approximately 10%, 9% and 15% of the Company's revenue in 1999, 1998 and 1997, respectively (see Note 13.). The Company regularly grants trade credit to all of its customers. In addition, the Company grants trade credit to other railroads through the routine interchange of traffic. Although the Company's accounts receivable include a diverse number of customers and railroads, the collection of these receivables is substantially dependent upon the electric utility, paper, petroleum products, metals, chemical, farm and food and transportation industries, and the railroad sector of the economy in general.

2. Significant Accounting Policies:

Principles of Consolidation

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

Revenue Recognition

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

Cash Equivalents

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

Materials and Supplies

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

Property and Equipment

Property and equipment are carried at historical cost. Acquired railroad property is recorded at the purchased cost. Major renewals or betterments are capitalized while routine maintenance and repairs are charged to expense when incurred. Gains or losses on sales or other dispositions are credited or charged to other income upon disposition. Depreciation is provided on the straight-line method over the useful lives of the road property (20-50 years) and equipment (3-20 years).

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

Service Assurance Agreement

The service assurance agreement represents a commitment from one of the most significant customers of the Company, to one of the subsidiary railroads (see Note 13.), which grants the Company the exclusive right to serve indefinitely three of the customer's then-current facilities. The service assurance agreement is amortized on a straight-line basis over the same period as the related track structure, which is 20 years, and accumulated amortization was $2.8 million and $2.1 million as of December 31, 1999 and 1998, respectively.

Earnings per Share

Unexercised stock options and warrants, calculated under the treasury stock method, are the only reconciling items between the Company's basic and diluted weighted average shares outstanding. The number of

options and warrants used to calculate diluted earnings per share are 204,750, 412,820 and 409,822 for 1999, 1998 and 1997, respectively. Options to purchase 637,500, 280,400 and 39,000 shares of stock were outstanding as of December 31, 1999, 1998 and 1997, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares.

Insurance Recoveries

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

Disclosures About Fair Value of Financial Instruments

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

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

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

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries were prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rate at the end of the period for balance sheet items and a weighted-average rate for the year for the statement of income items. Translation adjustments are reflected as currency translation adjustments in Stockholders' Equity and accordingly only affect comprehensive income. Translation adjustments for transactions denominated in foreign currencies and for U. S. dollar denominated foreign debt are netted with other income and were losses of $191,000, $331,000 and $114,000 in 1999, 1998 and 1997, respectively.

Management Estimates

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

Reclassifications

Certain prior year balances have been reclassified to conform with the 1999 presentation.

3. Expansion of Operations:

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

In August 1999, the Company's wholly-owned subsidiary, Compania de Ferrocarriles Chiapas-Mayab, S.A. de C.V. ("FCCM"), was awarded a 30-year concession to operate certain railways owned by the state-owned Mexican rail company Ferronales. FCCM also acquired equipment and other assets. The aggregate purchase price, including acquisition costs, was approximately 297 million pesos, or approximately $31.5 million at then-current exchange rates. The purchase included $12.3 million of rolling stock, a $9.7 million advance payment on track improvements to be completed on the state-owned track property by mid-2000, a $1.0 million escrow payment which will be returned to the Company upon successful completion of the track, an expected future utilization by the Company of $2.2 million of value-added taxes paid on the transaction, and $1.0 million in goodwill. The remaining purchase price ($5.3 million) was allocated to the 30-year operating license. As the track improvements are made, the related costs will be reclassified into the property accounts as leasehold improvements and amortized over the improvement's estimated useful life of 20 years. Pursuant to the acquisition, employee termination payments of $1.0 million were made to former state employees and approximately 55 employees whom the Company retained upon acquisition but terminated as part of its plan to reduce operating costs after September 30, 1999. All payments were made during the fourth quarter of 1999 and are considered a cost of the acquisition. Accordingly, the payments represent costs in excess of fair market value and are being amortized over 20 years.

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

Genesee•Rail-One Inc.

On April 15, 1999, the Company closed on an agreement to acquire Rail-One Inc. ("Rail-One") which has a 47.5% ownership interest in Genesee•Rail-One Inc. ("GRO"), thereby increasing the Company's ownership of GRO to 95%. GRO owns and operates two short line railroads in Canada. Under the terms of the purchase agreement, the Company converted outstanding notes receivable from Rail-One of $4.6 million into capital, will pay approximately $844,000 in cash to the sellers

of Rail-One in installments over a four year period, and granted options to the sellers of Rail-One to purchase up to 80,000 shares of the Company's Class A Common Stock at an exercise price of $8.625 per share. Exercise of the option is contingent on the Company's recovery of its capital investment in GRO including debt assumed if the Company were to sell GRO, and upon certain GRO income performance measures. The transaction is accounted for as a purchase and resulted in $2.8 million of goodwill which is being amortized over 15 years. The contingent purchase price will be recorded as a component of goodwill at the value of the options issued, if and when such options are exercisable. Effective with this agreement, the operating results of GRO have been consolidated within the financial statements of the Company, with a 5% minority interest due to another GRO shareholder. Prior to April 15, 1999, the Company accounted for its investment in GRO under the equity method and recorded losses of $618,000, $645,000 and $60,000 in 1999, 1998 and 1997, respectively, in other income, net.

Genesee & Wyoming Australia Pty. Ltd.

On August 28, 1997, the Company's wholly-owned subsidiary, Genesee & Wyoming Australia Pty. Ltd. ("GWIA"), was awarded the contract to purchase certain selected assets of the railroad freight operation of SA Rail, a division of Australian National Railway which was controlled by the Commonwealth Government of Australia. SA Rail provided intrastate freight services in South Australia, interstate haulage of contract freight, rolling stock rental and maintenance, and interstate track maintenance. GWIA bid as part of a consortium including EDI Clyde Engineering and Transfield Pty. Ltd. EDI Clyde is a major Australian provider of railway rolling stock and holds the Australian license for GM/EMD locomotives. Transfield is a major Australian engineering, construction and infrastructure maintenance provider. On November 8, 1997 GWIA closed on the purchase of the assets and commenced operation of railroad freight service under the name of Australia Southern Railroad Pty. Ltd. The assets were acquired for approximately $33.1 million, including related costs. The assets consist primarily of road and track structure, railroad rolling stock and other equipment.

Latin American Rail LLC

On September 30, 1999, the Company closed on an agreement to acquire a 47.5% ownership interest in Latin American Rail LLC in Chile for approximately $1.0 million in cash and 25,532 shares of the Company's stock valued at approximately $281,000. Latin American Rail LLC owns 100% of Latin American Rail Investors, S.A. which in turn owns 4.0% of CB Transportes S.A., a company that has investments in several railroads in South America. The Company is accounting for this investment under the equity method of accounting for investments.

4. Allowance for Doubtful Accounts:

(amounts in thousands):

	1999	1998	1997
Allowance for doubtful accounts:			
Balance beginning of year	$250	$167	$171
Provisions	628	136	110
Charges	(836)	(537)	(114)
Established in acquisitions	1,264	—	—
Balance end of year	$1,264	$250	$167

5. Property and Equipment:

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

	1999	1998
Road properties	$117,786	$92,638
Equipment and other	108,016	61,420
	225,802	154,058
Less- Accumulated depreciation and amortization	39,832	28,496
	$185,970	$125,562

6. Other Assets:

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

	1999	1998
Goodwill	$7,763	$4,238
Chiapas-Mayab Operating License	5,213	—
Chiapas-Mayab Special Escrow Deposit - Track Project	9,668	—
Deferred financing costs	3,932	2,456
Assets held for sale or future use	1,867	2,239
Other	4,364	3,615
	32,807	12,548
Less- Accumulated amortization	3,056	2,229
	$29,751	$10,319

Goodwill is being amortized on a straight-line basis over lives of 15-20 years. The Chiapas-Mayab Operating License (see Note 3.) is being amortized over 30 years. The Chiapas-Mayab Special Escrow Deposit - Track Project (see Note 3.) is not currently being amortized. Deferred financing costs are amortized over terms of the related debt using the straight-line method, which is not materially different from the amortization computed using the effective-interest method. Assets held

for sale or future use primarily represent railroad track and related structures of a segment of track that has been inactive since 1996 as a result of the closure of that segment's primary customer's facility. A similar facility is currently under construction by another customer on that same segment of track and it is expected that these assets will be put back into service when the customer's new facility is put in service.

7. Leases:

Lessor

As of December 31, 1999, the Company had no significant operating leases as lessor.

During 1999, the Company sold 166 railroad freight cars, which were previously leased to third-parties. The proceeds of the sale were used to acquire railroad rolling stock which had previously been utilized under terms of a capital lease.

During 1998, the Company sold, through several transactions, approximately 530 railroad freight cars which had previously accounted for a significant portion of the Company's minimum future rentals receivable on noncancelable operating leases. The proceeds of the sales were used to acquire railroad rolling stock which had previously been utilized under terms of a capital lease.

Lessee

The Company has entered into several leases for rolling stock, locomotives and other equipment. Operating lease expense for the years ended December 31, 1999, 1998 and 1997 was approximately $9.1 million, $6.3 million and $2.0 million, respectively.

On December 7, 1999, the Company completed the sale of 483 of its freight cars to a financial institution for a net sale price of $8,630,000. The proceeds were used to reduce borrowings under the Company's revolving credit facilities. Simultaneously, the Company entered into agreements with the financial institution to lease these 483 freight cars and an additional 100 centerbeam flat cars for a period of at least 8 years including automatic renewals. The sale/leaseback transaction resulted in a deferred gain of $612,000, which will be amortized over the term of the lease as a non-cash offset to rent expense. These leases also include an option to purchase all of the cars, subject to certain conditions. If certain conditions related to the return of the cars are met, the Company could be required to pay a fee.

In December 1997, the Company entered into an agreement with a bank to lease 911 boxcars for a period of at least five years including automatic renewals. The lease also includes an option to purchase all of the cars, subject to certain conditions, at the end of the lease term. If certain conditions related to the return of the cars are met, the Company could be required to pay a fee equal to one year of lease payments.

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

2000	$ 6,664
2001	2,856
2002	2,133
2003	1,532
2004	1,374
Thereafter	2,409
Total minimum payments	$16,968

The Company is party to two lease agreements with Class I carriers to operate 238 miles of track in Oregon. Under the leases, no payments to the lessor are required as long as certain operating conditions are met. The leases are subject to an initial 20 year term and shall be renewed for successive ten year renewal terms, unless either party elects not to renew the leases. If the lessor terminates the leases for any reason, the lessor must reimburse the Company for its depreciated basis in the property. The Company has assumed all operating and financial responsibilities including maintenance and regulatory compliance under these lease arrangements. Through December 31, 1999, no payments were required under either lease arrangement.

8. Long-Term Debt:

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

	1999	1998
Credit facilities with variable interest rates (weighted average of 8.4% and 7.0% at December 31, 1999 and 1998, respectively), net of unamortized discount of $101 and $195 at December 31, 1999 and 1998, respectively.	$97,395	$33,604
Promissory note payable with interest at 8%.	8,922	8,922
Capital lease obligations with variable interest at LIBOR plus 1.5%. Balance paid in February, 1999.	—	6,500
Variable rate loan with balance paid in August, 1999.	—	14,088
Other debt with interest rates up to 8% and maturing at various dates between 2000 and 2006.	2,059	2,576
	108,376	65,690
Less- Current portion	15,146	2,591
Long-term debt, less current portion	$93,230	$63,099

Credit Facilities

On August 17, 1999, the Company amended and restated its primary credit facilities agreement to provide for an increase from $65.0 million to $150.0 million. The agreement provides for $88 million in revolving credit facilities (with a sub limit of $15 million in Australian dollar equivalents to be allocated to the Australian subsidiaries) and $62.0 million in term loan facilities consisting of a U.S. Term Loan facility in the amount of $10.0 million, a Canadian Term Loan facility in the Canadian Dollar Equivalent of $22.0 million, and a Mexican Term Loan facility of $30.0 million. The term loans are due in quarterly installments and mature, along with the revolving credit facilities, on August 17, 2004. The credit facilities accrue interest at various rates depending on the country in which the funds are drawn, plus the applicable margin, which varies from 1.75% to 2.5% depending upon the country in which the funds are drawn and the Company's funded debt to EBITDA ratio, as defined in the agreement. Interest is payable in arrears based on certain elections of the Company, not to exceed three months outstanding. The Company pays a commitment fee which varies between 0.375% and 0.500% per annum on all unused portions of the revolving credit facility depending on the Company's funded debt to EBITDA ratio. The credit facilities agreement requires mandatory prepayments from the issuance of new equity or debt and annual sale of assets in excess of varying minimum amounts depending on the country in which the sales occur. The credit facilities are secured by essentially all the assets of the Company and its subsidiaries. The credit facilities agreement requires the maintenance of certain covenant ratios or amounts, including, but not limited to, funded debt to EBITDA, minimum EBITDA for a period, cash flow coverage, and Net Worth, all as defined in the agreement. The Company and its subsidiaries were in compliance with the provisions of these covenants as of December 31, 1999. Borrowings under the Canadian portion of the amended agreement were used to refinance certain GRO debt. In conjunction with that refinancing, the Company recorded a non-cash after tax extraordinary charge of $262,000 related to the unamortized deferred financing costs of the retired debt.

Promissory Note

The promissory note payable provides for annual principal payments of $1,187,000 provided a certain subsidiary of the Company meets certain levels of revenue and cash flow. In accordance with these provisions, the Company was not required to make any principal payments in 1999 or 1998. The terms of the agreement call for payment of all outstanding principal in 2000.

Capital Lease Obligation

In March, 1997, the Company entered into a master lease agreement with a leasing company. The lease provided for the inclusion of up to $13.0 million in railroad rolling stock. During 1998, the Company reduced its lease obligation through the purchase of $5.3 million of rolling stock assets held under the master lease agreement. The remaining assets held under the master lease agreement were purchased in February, 1999.

Variable Rate Loan

In November, 1997, the Company entered into a variable rate loan denominated in Australian currency which called for semi-annual payments commencing on June 30, 1999, with the final installment due in November, 2002. There was a fixed interest rate swap over 50% of the loan balance, effectively fixing the interest rate at 6.24% for 50% of the loan for the life of the loan. The loan was secured by a first ranking fixed and floating charge over all the present and future assets of the Australia Southern Railroad Pty. Ltd. and SA Rail Pty. Ltd. and control over all indebtedness of the Australia Southern Railroad Pty. Ltd. to Genesee & Wyoming Australia Pty. Ltd. This loan was repaid in August 1999 with proceeds from the amended credit facilities.

Schedule of Future Payments

The following is a summary of the maturities of long-term debt as of December 31, 1999 *(amounts in thousands):*

2000	$15,146
2001	7,921
2002	9,920
2003	11,928
2004	22,200
Thereafter	41,261
	$108,376

9. Interest Rate Risk Management:

The Company uses derivative financial instruments, specifically interest rate caps and interest rate swaps, to manage its variable interest rate risk on long-term debt.

Interest Rate Swap—In December 1999, the Company entered into a two-year interest rate swap agreement with a financial institution effectively fixing its interest rate by exchanging its variable interest rate on long-term debt for a fixed interest rate. The fixed rate is reset quarterly through December 31, 2001, beginning at 6.120% through March 31, 2000 and escalating to 6.875% by December 31, 2001. The notional amount under this agreement is $18.0 million. Management estimates the carrying value of this interest rate swap to approximate fair value.

Interest Rate Swap—In November and December, 1998, the Company entered into two-year interest rate swap agreements with a financial institution whereby, effective December 31, 1998, the Company fixed its LIBOR interest rate at an average of 4.98% by exchanging its variable interest rate on long-term debt for a fixed interest rate. The notional amount under these agreements is $20.0 million. Management estimates the carrying value of this interest rate swap to approximate fair value.

Interest Rate Swap—In November, 1997, a subsidiary of the Company entered into a five-year interest rate swap agreement with a financial institution effectively fixing its interest rate at 6.24% by exchanging its variable interest rate on long-term debt for a fixed interest rate. The notional amount under this agreement is $7.5 million. Management estimates the carrying value of this interest rate swap to approximate fair value.

Interest Rate Swap—In November, 1997, a subsidiary of the Company entered into a five-year interest rate swap agreement with a financial institution effectively fixing its interest rate at 6.16% by exchanging its variable interest rate on long-term debt for a fixed interest rate. The notional amount under this agreement is $7.2 million. Management estimates the carrying value of this interest rate swap to approximate fair value.

10. Pension and Other Postretirement Benefit Plans:

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

Historically, the Company has provided certain health care and life insurance benefits for certain retired employees. Eligible employees include union employees of one of its subsidiaries, and certain nonunion employees who have reached the age of 55 with 30 or more years of service. The Company funds the plan on a pay-as-you-go basis. The following provides a reconciliation of benefit obligation, plan assets, and funded status of the plans *(dollars in thousands)*:

	Pension		Other Retirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$1,098	$774	$544	$492
Service cost	179	149	2	—
Interest cost	76	58	36	34
Actuarial (gain) loss	(85)	117	169	61
Benefits paid	(1)	—	(45)	(43)
Benefit obligation at end of year	$1,267	$1,098	$706	$544
Change in plan assets:				
Fair value of assets at beginning of year	$443	$362	—	—
Actual return on plan assets	21	81	—	—
Employer contribution	557	—	$45	$43
Benefits paid	(1)	—	(45)	(43)
Fair value of assets at end of year	$1,020	$443	—	—
Reconciliation of Funded Status:				
Funded status	($247)	($655)	($706)	($544)
Unrecognized net actuarial (gain) loss	(45)	24	54	(123)
Unrecognized prior service cost	227	250	—	—
Accrued benefit obligation	($65)	($381)	($652)	($667)
Weighted-average assumptions as of December 31, 1999 and September 30, 1998, respectively:				
Discount rate	7.5%	7.0%	7.75%	7.0%
Expected return on plan assets	8.5%	8.5%	N/A	N/A
Rate of compensation increase	4.5%	5.0%	N/A	N/A

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

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 1999. The rate was assumed to decrease gradually over the next three years to 5.0% and remain at that level thereafter.

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

	1–Percentage Point Increase	1–Percentage Point Decrease
Effect on total of service and interest cost components	$ 2,860	$ (2,507)
Effect on postretirement benefit obligation	$ 53,527	$(46,957)

Employee Bonus Programs

The Company has performance-based bonus programs which include a majority of non-union employees. Key employees are granted bonuses on a discretionary basis. Total compensation of approximately $1.7 million, $1.4 million and $1.0 million was awarded under the various bonus plans in 1999, 1998 and 1997, respectively.

Profit Sharing

The Company has three 401(k) plans covering certain union and non-union employees who have met specified length of service requirements. The 401(k) plans qualify under Section 401(k) of the Internal Revenue Code as salary reduction plans. Employees may elect to contribute a certain percentage of their salary on a before-tax basis. Under two of these plans, the Company matches participants' contributions up to 1.5% of the participants' salary. Under the third plan, the Company matches participants' contributions up to 5.0% of the participants' salary. The Company's contributions to the plans in 1999, 1998 and 1997 were approximately $264,000, $244,000 and $226,000, respectively.

Postemployment Benefits

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

11. Income Taxes:

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

	1999	1998	1997
United States	$9,016	$12,942	$13,130
Foreign (U.S.$)	5,954	6,200	309
	$14,970	$19,142	$13,439

No provision is made for the U.S. income taxes applicable to the undistributed earnings of foreign subsidiaries as it is the intention of management to utilize those earnings in the operations of the foreign subsidiaries for the foreseeable future. In the event earnings should be distributed in the future, those distributions may be subject to U.S. income taxes (appropriately reduced by available foreign tax credits, some of which would become available upon the distribution) and withholding taxes payable to various foreign countries. The amount of undistributed earnings of the Company's foreign subsidiaries as of December 31, 1999 is $12.0 million. It is not practicable to determine the amount of U.S. income taxes or foreign withholding taxes that could be payable if a distribution of earnings

were to occur. The components of the provision for income taxes are as follows *(amounts in thousands):*

	1999	1998	1997
United States:			
Current-			
Federal	$1,265	$2,055	$2,095
State	952	715	670
Deferred	2,381	2,642	2,561
	4,598	5,412	5,326
Foreign (U.S.$):			
Current	(1,212)	1,735	—
Deferred	(1,211)	561	115
	(2,423)	2,296	115
Total	$2,175	$7,708	$5,441

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:

	1999	1998	1997
Tax provision at statutory rate	35.0%	35.0%	34.0%
Effect of foreign operations	(104.9%)	0.7%	0.1%
State income taxes, net of federal income tax benefit	6.0%	4.0%	5.7%
Change in valuation allowance	74.8%	—	—
Other, net	3.6%	0.6%	0.7%
Effective income tax rate	14.5%	40.3%	40.5%

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

	1999	1998
Deferred tax benefits-		
Accruals and reserves not deducted for tax purposes until paid	$2,511	$2,341
Alternative minimum tax credits	1,230	1,592
Net operating losses	5,013	—
Postretirement benefits	233	233
Other	121	128
	9,108	4,294
Deferred tax obligations – Property basis differences	(7,969)	(13,985)
Valuation allowance	(11,197)	—
Net deferred tax obligations	($10,058)	($9,691)

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

The Company's alternative minimum tax credit can be carried forward indefinitely; however, the Company must achieve future regular U.S. taxable income in order to realize this credit. The net operating loss carryforwards consist of $10.3 million from the Company's Mexican operations (which expire, if unused, in 2009) and $2.2 million from the Company's Canadian operations (which expire, if unused, between 2004 and 2006). The Mexican losses, for income tax purposes, primarily relate to the immediate deduction of the purchase price paid for the FCCM operations and the Canadian losses primarily represent losses generated prior to the Company's gaining control of those operations in April 1999.

In the third quarter of 1999, the Australian government enacted an income tax law that, for assets acquired from a tax-exempt entity, impacts the depreciable basis of those assets. The impact of the new law on the Company's Australian operation is that it will be able to deduct, for income tax purposes, depreciation in excess of the financial reporting basis of certain fixed assets acquired from the government in November 1997. However, management estimates that it is more likely than not that the Company will be unable to fully realize all of the potential income tax benefits and accordingly, has established a partial valuation allowance against the deferred tax assets recorded pursuant to the tax law change. Accordingly, the net income tax benefit recorded in the 1999 third quarter as a result of this tax law change was $4.2 million. Management's assessment of the likelihood of realizing the full benefit of this incremental tax depreciation included a review of the Australian operation's forecasted results for the next several years which indicated that, with the additional tax depreciation deductions and other accelerated deductions for income tax purposes, this operation would not likely realize this tax benefit.

In addition to the valuation allowance described above, the income tax benefit of the Mexican and Canadian net operating losses have been offset by a partial valuation allowance based on management's assessment regarding their ultimate realization. A certain portion of this incremental valuation allowance was established in the acquisition of GRO, and accordingly,

if reversed in the future, will result in a decrease to goodwill. Management does not believe that a valuation allowance is required for any other deferred tax assets based on anticipated future profit levels and the reversal of current deferred tax obligations.

The Australian government also enacted legislation effective in the fourth quarter of 1999 that will decrease the corporate income tax rate from its current level of 36% to 34% for the year beginning January 1, 2000 and 30% for the years beginning January 1, 2001 and thereafter. The effect of this change was not material.

12. Grants from Governmental Agencies:

The Company periodically receives grants from states within which it operates for rehabilitation or construction of track. The states are typically required to reimburse the Company for 75% to 100% of the total cost of specific projects. Under two such grant programs, the Company received $6.1 million and $375,000 in 1999 and 1998, respectively, from the State of New York and $4.5 million and $2.8 million in 1999 and 1998, respectively, from the State of Pennsylvania. The grant from the State of New York is for construction of approximately 2.0 miles of new track which will serve as a connection to a new salt mine currently under construction, and rehabilitation of a portion of existing track. The grants from the State of Pennsylvania are for rehabilitation of portions of existing track. In addition, the Company received $200,000 and $23,000 of grants in 1999 and 1998, respectively, from other states. As of December 31, 1999, the Company is under agreement to receive an additional $3.6 million of grants for projects in progress at that date.

None of the Company's grants represent a future liability of the Company unless the Company abandons the rehabilitated or new track structure within a specified period of time or fails to maintain the rehabilitated or new track to certain FRA standards and make certain minimum capital improvements, as defined in the respective agreements. As the Company intends to comply with these agreements, the Company has recorded additions to road property and has deferred the amount of the grants as the rehabilitation expenditures have been incurred. The amortization of deferred grants is a non-cash offset to depreciation expense over the useful life of the related assets and is not included as taxable income. During the years ended December 31, 1999, 1998 and 1997, the Company recorded offsets to depreciation expense from grant amortization of $1.0 million, $728,000 and $719,000, respectively.

13. Commitments and Contingencies:

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

Capital Commitment – Australia

In connection with the Company's purchase of certain selected assets in Australia (see Note 3.), the Company has committed to the Commonwealth of Australia to spend approximately $34.1 million (AU $52.3 million) to rehabilitate track structures and equipment by December 31, 2002. The Commonwealth Government may require the payment of any shortfall between the actual expenditures incurred and the contracted commitment from the date of acquisition to December 31, 2002. This commitment may be renegotiated if there is a significant change in operating conditions outside the control of the Company. As of December 31, 1999, $18.1 million (AU $27.6 million) of this commitment had been met.

Consolidated Rail Corporation Merger

On July 23, 1998, the Surface Transportation Board ("STB") issued its written order approving the petition of CSX Transportation, Inc. ("CSX") and Norfolk Southern Corp. ("NS") to control and divide the assets of Consolidated Rail Corporation ("Conrail"). Railroads in the Company's New York and Pennsylvania region interchange with, or participate in overhead traffic with, one or both of these railroads. Overhead traffic is defined as traffic that neither originates nor terminates on the Company's northeastern rail network. In their joint filing with the STB, CSX and NS estimated that approximately $8.3 million in freight revenue related to overhead traffic on one of the Company's subsidiaries may be diverted as a result of the transactions. The Company substantially agrees with this estimate and is implementing operational changes aimed at minimizing this impact. On October 21, 1997, the Company and several of its railroads entered into a confidential Rate and Route Agreement with CSX that the Company believes will facilitate the operations' restructuring process. The STB's written order contains one or more conditions which also may minimize this impact. The division of Conrail's assets occurred on June 1, 1999. While the Company believes that agreements reached with CSX and NS in regard to the Conrail breakup will

ultimately benefit the Company, the operational startups by CSX and NS of the former Conrail lines have created some operational challenges which have had a commensurate negative impact on financial performance. Although the effects of these challenges were expected, the Company continues to monitor the situation very carefully. Based on its initial studies, the Company believes that no impairment of its assets has occurred or will occur.

Legal Proceedings

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

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

The parent company of ComEd has sold certain of ComEd's power facilities, one of which is the Powerton plant served by IMRR under the provisions of a 1987 Service Assurance Agreement (the "SAA"), entered into by a prior unrelated owner of the IMRR rail line. The SAA, which is not terminable except for failure to perform, provides that IMRR has exclusive access to provide rail service to the Powerton plant. On April 6, 1999, a lawsuit was commenced by the Company and its subsidiary, IMRR, against ComEd in the Circuit Court of Sangamon County, Illinois. The suit sought declaration of certain rights regarding the SAA including declarations that the SAA is not terminable at will and that ComEd must assign its contractual obligations under the SAA to the purchaser of the Powerton plant. On June 10, 1999, the suit commenced by the Company and IMRR, against ComEd in Sangamon County was voluntarily withdrawn without prejudice in partial resolution of several procedural motions pending in the Cook County action, and with the explicit recognition from ComEd that the action may be re-filed in Cook County.

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

14. Stock-based Compensation Plans:

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

	1999	1998	1997
Net Income:			
As reported	$12,533	$11,434	$7,998
Pro Forma	11,468	10,451	7,332
Basic EPS:			
As reported	$2.79	$2.20	$1.52
Pro Forma	2.55	2.01	1.40
Diluted EPS:			
As reported	$2.76	$2.19	$1.47
Pro Forma	2.53	2.01	1.34

In May, 1998, the Company reduced the number of shares of stock it may sell to its full-time employees under its Stock Purchase Plan from 450,000 to 250,000. At December 31, 1999 and 1998, 7,961 and 4,502 shares had been purchased under this plan. The Company sells shares at 100% of the stock's market price at date of purchase, therefore, no compensation cost exists for this plan.

The Company has reserved 900,000 shares of Class A Common Stock for issuance under the Stock Option Plans. The Compensation and Stock Option Committee of the Company's Board of Directors has discretion to determine employee grantees, dates and amounts of grants, vesting and expiration dates. However, under both Plans, the exercise price must equal at least 100% of the stock's market price on the date of grant and must be exercised within five years, or ten years for directors, from the date of grant. The following is a summary of stock option activity for 1999, 1998 and 1997:

Fiscal Year Ended December 31,

	1999		1998		1997	
	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price	Shares	Wtd. Average Exercise Price
Outstanding at beginning of the year	652,375	$19.51	406,975	$18.46	421,500	$18.61
Granted	124,400	8.57	251,600	21.25	4,000	27.25
Exercised	—	—	500	17.00	3,275	17.00
Forfeited	14,525	21.16	5,700	20.81	15,250	25.11
Outstanding at end of year	762,250	17.72	652,375	19.51	406,975	18.46
Exercisable at end of year	367,886	18.86	205,415	18.41	101,354	18.41
Weighted average fair value of options granted	—	4.16	—	8.97	—	17.51

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:

	1999	1998	1997
Risk-free interest rate	5.40%	5.48%	5.91%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives in years	5.9	5.0	10.0
Expected volatility	39.50%	37.77%	38.64%

15. Business Segment and Geographic Area Information:

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

Corporate overhead expenses, including acquisition expenses, are reported in North America Railroad Operations.

The accounting policies of the reportable segments are the same as those described in Note 2. The Company evaluates the performance of its operating segments based on operating income. Intersegment sales and transfers are not significant. Summarized financial information for each business segment and for each geographic area for the years 1999, 1998 and 1997 are shown in the following tables *(amounts in thousands)*:

	North America			Australia	
	Railroad Operations	Industrial Switching Operations	Total	Railroad Operations	Total
1999					
Revenues	$121,093	$11,341	$132,434	$43,152	$175,586
Operating income (loss)	15,900	(86)	15,814	6,554	22,368
Depreciation and amortization	9,649	768	10,417	2,157	12,574
Identifiable assets	251,624	8,319	259,943	41,997	301,940
Capital expenditures	29,129	130	29,259	6,508	35,767
1998					
Revenues	$88,097	$12,647	$100,744	$46,728	$147,472
Operating income (loss)	12,546	(1,798)	10,748	8,820	19,568
Depreciation and amortization	7,277	798	8,075	1,842	9,917
Identifiable assets	167,095	9,588	176,683	40,077	216,760
Capital expenditures	13,789	450	14,239	2,662	16,901
1997					
Revenues	$84,388	$11,824	$96,212	$7,431	$103,643
Operating income (loss)	16,565	(827)	15,738	705	16,443
Depreciation and amortization	6,093	661	6,754	246	6,999
Identifiable assets	160,238	9,731	169,969	40,563	210,532
Capital expenditures	13,523	348	13,871	20	13,891

16. Quarterly Financial Data:

(in thousands, except per share data)	*Quarterly Results (Unaudited)*			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Operating revenues	$34,172	$42,669	$45,063	$53,682
Income from operations	2,038	5,723	6,351	8,257
Net income	(331)	2,746	6,691	3,429
Diluted earnings per share	(0.07)	0.62	1.53	0.78
1998				
Operating revenues	$37,740	$37,065	$34,707	$37,960
Income from operations	4,974	4,672	4,138	5,784
Net income	2,282	1,846	1,403	5,902
Diluted earnings per share	0.42	0.34	0.27	1.19
1997				
Operating revenues	$24,092	$23,479	$23,670	$32,402
Income from operations	4,035	4,171	3,901	4,336
Net income.	2,134	2,157	2,127	1,580
Diluted earnings per share	0.39	0.40	0.39	0.29

The third quarter of 1999 includes $4.2 million of non-recurring income tax benefit related to a favorable income tax legislation change in Australia (see Note 11.).

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

17. Recently Issued Accounting Standards:

The Financial Accounting Standards Board recently issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and hedging activities. The new standard requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value with changes in fair value reported in income. This statement will require the Company to provide separate disclosure of derivative instruments either on the face of the balance sheet or within the footnotes to the financial statements. Adoption of this statement is required no later than the third quarter of 2000, which is when the Company expects to adopt it. The Company is in the process of assessing the impact of this statement.

Corporate Data

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

Corporate Headquarters

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203-629-3722
Fax 203-661-4106
www.gwrr.com

Common Stock

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

Actual trade prices of Class A Common Stock:

Year Ended December 31, 1999

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

Year Ended December 31, 1998

	High	Low
1st Quarter	$27.50	$20.625
2nd Quarter	$27.50	$17.50
3rd Quarter	$22.00	$11.75
4th Quarter	$17.00	$11.375

As of March 16, 2000, there were 131 record holders of Class A Common Stock and 10 holders of Class B Common Stock. Class B Common Stock is not publicly traded. The Company believes that there are approximately 1,600 beneficial owners of Class A Common Stock. Prior to its initial public offering, the Company historically paid dividends on its common stock. See "Selected Financial Data." However, the Company does not intend to pay cash dividends for the foreseeable future.

Stock Registrar and Transfer Agent

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Genesee & Wyoming Inc. Board of Directors. *Left to right:* Louis S. Fuller, Philip J. Ringo, John M. Randolph, James M. Fuller, M. Douglas Young, Mortimer B. Fuller III, and Robert M. Melzer.

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Hon. M. Douglas Young, P.C.
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[1] Member of Audit Committee
[2] Member of Compensation and Stock Option Committees
[3] Member of Executive Committee

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Mark W. Hastings
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