

INDEX TO FINANCIAL STATEMENTS

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GRUPO TMM, S. A. de C. V.
(formerly Grupo Servia, S. A. de C. V.)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998, 1999, 2000
and June 30, 2000 and 2001

REPORT OF INDEPENDENT ACCOUNTANTS

Mexico City, October 31, 2001

To the Board of Directors and Stockholders of
Grupo TMM, S. A. de C. V.

We have audited the accompanying consolidated balance sheets of Grupo TMM, S. A. de C. V. (formerly Grupo Servia, S. A. de C. V.) as of December 31, 2000 and 1999, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2000, all expressed in US dollars. These financial statements are responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Transportación Marítima Mexicana, S.A. de C.V., a majority owned subsidiary, which statements reflect total assets of 18.77% and 26.26 % of the related consolidated totals as of December 31, 2000 and 1999, respectively, and total revenues of 36.23 %, 38.99 % and 43.02 % of the related consolidated totals for each of the three years in the period ended December 31, 2000.

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

In our opinion, based on our audits and the report of other accountants referred to in the first paragraph of this report, the aforementioned consolidated financial statements present fairly, in all material respect, the consolidated financial position of Grupo TMM, S. A. de C. V. (formerly Grupo Servia S. A. de C. V.) at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended on December 31, 2000, in conformity with International Accounting Standards.

International Accounting Standards differ in certain material respects from Accounting Principles Generally Accepted in the United States of America (US GAAP). The application of the latter would have affected the determination of the net income for each of the three years in the period ended December 31, 2000, and the determination of stockholders' equity and financial position as of December 31, 2000 and 1999, to the extent summarized in Note 16 to the consolidated financial statements.

PricewaterhouseCoopers

/s/ Alberto Del Castillo V. Vilchis
Alberto Del Castillo V. Vilchis
Audit Partner

GRUPO TMM, S. A. DE C. V.
CONSOLIDATED BALANCE SHEETS
 (Note 1)

(amounts in thousands of US dollars, except per share amounts)

| <u>Assets</u> | <u>December 31,</u> | | <u>June 30</u> |
|---|---------------------|--------------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 99,612 | \$ 92,323 | \$ 90,269 |
| Accounts receivable, net of allowance for doubtful accounts of \$24,319 and \$25,247 at December 31, 1999 and 2000, respectively, and \$24,718 at June 30, 2001 | 93,306 | 116,689 | 153,132 |
| Related parties (Note 10) | 41,709 | | |
| Other accounts receivable - Net | 90,061 | 96,442 | 88,103 |
| Materials and supplies | 21,066 | 23,854 | 29,371 |
| Other current assets | 22,434 | 19,656 | 17,631 |
| Discontinued assets (Note 2) | <u>136,336</u> | <u>7,992</u> | <u>4,836</u> |
| Total current assets | 504,524 | 356,956 | 383,342 |
| Long-term investments | 6,739 | 1,739 | |
| Due from Mexican Government (Note 5) | | | 82,803 |
| Concession rights and related assets - Net (Note 4) | 1,382,646 | 1,327,711 | 1,299,094 |
| Property, machinery and equipment - Net (Note 5) | 636,062 | 650,885 | 671,828 |
| Deferred costs and other assets (Note 6) | 73,123 | 74,530 | 75,855 |
| Equity investments (Note 3) | 21,280 | 20,460 | 18,819 |
| Deferred income taxes (Note 12) | 205,600 | 230,258 | 217,420 |
| Discontinued non-current assets (Note 2) | <u>116,619</u> | <u>6,662</u> | <u>9,254</u> |
| Total assets | <u>\$2,946,593</u> | <u>\$2,669,201</u> | <u>\$2,758,415</u> |
| <u>Liabilities and stockholders equity</u> | | | |
| Short term liabilities: | | | |
| Current portion of long-term debt (Note 7) | \$ 404,724 | \$ 72,081 | \$ 67,939 |
| Obligations for sale of receivables (Note 9) | 13,453 | | |
| Accounts payable and accrued expenses | 172,682 | 176,674 | 177,136 |
| Related parties (Note 10) | | 985 | 1,274 |
| Discontinued short-term liabilities (Note 2) | <u>200,547</u> | <u>59,719</u> | <u>61,255</u> |
| Total short-term liabilities | <u>791,406</u> | <u>309,459</u> | <u>307,604</u> |
| Long-term debt (Note 7) | 1,045,169 | 1,192,832 | 1,220,383 |
| Dividends payable | 9,803 | 9,803 | 9,803 |
| Reserve for pensions and seniority premiums (Note 15) | 11,594 | 11,347 | 12,839 |
| Other long-term liabilities | 13,172 | 14,648 | 24,300 |
| Discontinued long-term liabilities (Note 2) | <u>43,348</u> | <u>16,866</u> | <u>16,866</u> |
| Total long-term liabilities | <u>1,123,086</u> | <u>1,245,496</u> | <u>1,284,191</u> |
| Total liabilities | <u>1,914,492</u> | <u>1,554,955</u> | <u>1,591,795</u> |
| Minority interest | <u>1,024,452</u> | <u>1,104,867</u> | <u>1,158,563</u> |
| Commitments and contingencies (Note 14) | | | |
| Stockholders' equity (Note 11): | | | |
| Common stock, 17,441,590 shares authorized, issued and outstanding without par value | 29,900 | 29,900 | 29,900 |
| Deficit | (4,494) | (2,764) | (4,086) |
| Initial accumulated translation loss | <u>(17,757)</u> | <u>(17,757)</u> | <u>(17,757)</u> |
| Total stockholders' equity | <u>7,649</u> | <u>9,379</u> | <u>8,057</u> |
| Total liabilities and stockholders' equity | <u>\$2,946,593</u> | <u>\$2,669,201</u> | <u>\$2,758,415</u> |

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

GRUPO TMM, S. A. DE C. V.

CONSOLIDATED STATEMENT OF INCOME

(Note 1)

(amounts in thousands of US dollars, except per share amounts)

| | <u>Year ended</u> <u>December 31,</u> | | | <u>Six months ended</u> <u>June 30,</u> | |
|--|--|--------------------|-------------------|--|-------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> | <u>2001</u> |
| | | | | (unaudited) | |
| Transportation and service revenues | <u>\$ 740,709</u> | <u>\$ 844,666</u> | <u>\$ 989,934</u> | <u>\$ 475,784</u> | <u>\$ 491,442</u> |
| Costs and operating expenses: | | | | | |
| Costs and operating expenses | 531,314 | 598,819 | 692,494 | 316,642 | 349,634 |
| Depreciation and amortization | <u>98,298</u> | <u>97,559</u> | <u>99,888</u> | <u>48,860</u> | <u>50,091</u> |
| Total costs and operating expenses | <u>629,612</u> | <u>696,378</u> | <u>792,382</u> | <u>365,502</u> | <u>399,725</u> |
| Operating income | <u>111,097</u> | <u>148,288</u> | <u>197,552</u> | <u>110,282</u> | <u>91,717</u> |
| Other (expenses) income - Net | <u>(8,663)</u> | <u>3,848</u> | <u>3,693</u> | <u>2,874</u> | <u>51,360</u> |
| Interest income | 12,555 | 7,123 | 7,739 | 3,237 | 4,627 |
| Interest expense | (168,100) | (167,919) | (165,767) | (82,954) | (70,919) |
| Exchange (loss) income - Net | <u>(17,122)</u> | <u>(1,864)</u> | <u>(1,357)</u> | <u>(1,290)</u> | <u>3,567</u> |
| Net comprehensive financing cost | <u>(172,667)</u> | <u>(162,660)</u> | <u>(159,385)</u> | <u>(81,007)</u> | <u>(62,725)</u> |
| (Loss) income before benefit (provision) for income taxes, minority interest and discontinued operations | (70,233) | (10,524) | 41,860 | 32,149 | 80,352 |
| Benefit (provision) for income taxes (Note 12) | <u>90,333</u> | <u>47,262</u> | <u>23,048</u> | <u>14,773</u> | <u>(13,654)</u> |
| Income before minority interest and discontinued operations | 20,100 | 36,738 | 64,908 | 46,922 | 66,698 |
| Minority interest | <u>(15,885)</u> | <u>39,873</u> | <u>(57,643)</u> | <u>(40,442)</u> | <u>(64,103)</u> |
| Income before discontinued operations | 4,215 | 76,611 | 7,265 | 6,480 | 2,595 |
| Net loss from discontinued operations (Note 2) | <u>(13,807)</u> | <u>(139,259)</u> | <u>(5,535)</u> | <u>(7,066)</u> | <u>(3,917)</u> |
| Net (loss) income for the period | <u>(\$ 9,592)</u> | <u>(\$ 62,648)</u> | <u>\$ 1,730</u> | <u>(\$ 586)</u> | <u>(\$ 1,322)</u> |
| Income per share before discontinued operations | \$ 1.308 | \$ 5.590 | \$ 0.417 | \$ 0.372 | \$ 0.149 |
| Net (loss) income per share from discontinued operations | <u>(4,288)</u> | <u>(10,161)</u> | <u>(0,318)</u> | <u>(0,406)</u> | <u>(0,225)</u> |
| Net (loss) income for the period per share (Notes 3 and 11) | <u>(\$ 2,980)</u> | <u>(\$ 4,571)</u> | <u>\$ 0,099</u> | <u>(\$ 0,034)</u> | <u>(\$ 0,076)</u> |
| Weighted average of shares (thousands) | <u>3,220</u> | <u>13,705</u> | <u>17,442</u> | <u>17,442</u> | <u>17,442</u> |

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

GRUPO TMM, S. A. DE C. V.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1998, 1999, 2000
AND FOR THE SIX MONTHS ENDED JUNE 20, 2001

(Note 1)

(amounts in thousands of dollars)

| | <u>Common stock</u> | <u>Retained earnings (Deficit)</u> | <u>Initial accumulated translation loss</u> | <u>Total</u> |
|--------------------------------------|-------------------------|--|---|-----------------|
| Balance at December 31, 1997 | \$ 5,885 | \$67,746 | (\$ 17,757) | \$55,874 |
| Net loss for the period | _____ | <u>(9,592)</u> | _____ | <u>(9,592)</u> |
| Balance at December 31, 1998 | 5,885 | 58,154 | (17,757) | 46,282 |
| Capital stock increase (Note 11) | 24,015 | | | 24,015 |
| Net loss for the period | _____ | <u>(62,648)</u> | _____ | <u>(62,648)</u> |
| Balance at December 31, 1999 | 29,900 | (4,494) | (17,757) | 7,649 |
| Net income for the period | _____ | <u>1,730</u> | _____ | <u>1,730</u> |
| Balance at December 31, 2000 | 29,900 | (2,764) | (17,757) | 9,379 |
| Net loss for the period (unaudited) | _____ | <u>(1,322)</u> | _____ | <u>(1,322)</u> |
| Balance at June 30, 2001 (unaudited) | <u>\$29,900</u> | <u>(\$ 4,086)</u> | <u>(\$ 17,757)</u> | <u>\$ 8,057</u> |

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

GRUPO TMM, S. A. DE C. V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Notes 1)

(amounts in thousands of US dollars)

| | 1998 | Year ended December 31, 1999 | 2000 | 2000 Six months ended June 30, (unaudited) | 2001 |
|---|------------|------------------------------------|------------|---|-----------|
| <u>Cash flows from operating activities:</u> | | | | | |
| Net income before discontinued operations | \$ 4,215 | \$ 76,611 | \$ 7,265 | \$ 6,480 | \$ 2,595 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 98,298 | 97,559 | 99,888 | 48,860 | 50,091 |
| Other amortizations | 3,709 | 2,620 | 2,537 | 1,515 | 1,990 |
| Amortization of discount on senior secured debentures and commercial paper | 32,248 | 36,145 | 45,665 | 19,812 | 30,971 |
| Amortization of deferred financing cost | 5,830 | 6,166 | 14,307 | 3,121 | 1,569 |
| (Benefit) provision for deferred income taxes | (90,333) | (47,262) | (23,048) | (14,773) | 13,654 |
| Provision for doubtful accounts, pension and others | 3,951 | 5,505 | 26,098 | 2,755 | 2,187 |
| Minority interest | 15,885 | (39,873) | 57,643 | 40,442 | 64,103 |
| (Gain) loss on sale of property, machinery and equipment - Net | (10,685) | 16,367 | 7,854 | (311) | |
| Gain on sale of shares of subsidiaries | (379) | (16,672) | (33,337) | | |
| Gain on transfer of concession rights - Net | | | | | (60,744) |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable | 25,426 | (16,716) | (20,151) | (36,598) | (40,074) |
| Other accounts receivable and related parties | (28,339) | (37,889) | 13,467 | (27,287) | 8,628 |
| Material and supplies | (10,543) | 6,465 | (2,788) | (1,829) | (5,517) |
| Other current assets | (6,298) | 3,288 | 2,778 | 8,608 | 2,025 |
| Accounts payable and accrued expenses | (12,844) | 8,192 | 3,992 | 19,809 | 422 |
| Other non-current assets and long-term liabilities | 24,971 | (19,453) | (14,370) | (1,034) | (26,416) |
| Total adjustments | 50,897 | 4,442 | 180,535 | 63,090 | 42,889 |
| Net cash provided by operating activities | 55,112 | 81,053 | 187,800 | 69,570 | 45,484 |
| <u>Cash flows from investing activities:</u> | | | | | |
| Sale of property, machinery and equipment | 49,309 | 49,444 | 29,728 | 27,377 | 9,218 |
| Acquisition of property, machinery and equipment | (152,045) | (83,842) | (82,090) | (25,738) | (46,568) |
| Acquisition of marketable securities | (43,397) | (1,977) | (27,126) | (44,787) | |
| Sales of marketable securities | 27,457 | 40,147 | 31,666 | 14,880 | 275 |
| Sales of shares of subsidiaries | 2,500 | 27,924 | 126,729 | 63,224 | 2,440 |
| Acquisition of associated companies | (509) | | (4,016) | (4,016) | |
| Other | (196) | | (19,310) | 696 | (4,422) |
| Net cash (used in) provided by investing activities | (116,881) | 31,696 | 55,581 | 31,636 | (39,057) |
| <u>Cash flows provided by financing activities:</u> | | | | | |
| Proceeds from revolving credit facility | 40,000 | 67,000 | 15,102 | 15,102 | |
| Payments under revolving credit facility | (15,000) | (67,000) | (100,100) | (40,000) | |
| Payments under capital lease obligation | (10,401) | (10,617) | (12,174) | (5,993) | (4,791) |
| Short-term bank borrowings - Net | 4,902 | (22,760) | 14,585 | (6,944) | (3,668) |
| Proceeds from sale of accounts receivable | 25,000 | | | | |
| Proceeds from long-term debt | 15,000 | | 280,662 | | |
| Payments under long-term debt | (10,750) | (58,259) | (429,029) | (45,922) | |
| Cash delivery derived from sale of accounts receivable | (15,000) | (20,000) | (20,000) | (20,000) | |
| Capital contributions by minority stockholders | 185 | 3,047 | | | |
| Dividends paid to minority stockholders | | (2,203) | (260) | 3,329 | (22) |
| Other | | | 544 | | |
| Net cash provided by (used in) financing activities | 33,936 | (110,792) | (250,670) | (100,428) | (8,481) |
| Net (decrease) increase in cash and cash equivalents | (27,833) | 1,957 | (7,289) | 778 | (2,054) |
| Cash and cash equivalents at beginning of the period | 125,488 | 97,655 | 99,612 | 99,612 | 92,323 |
| Cash and cash equivalents at end of the period | \$ 97,655 | \$ 99,612 | \$ 92,323 | \$ 100,390 | \$ 90,269 |
| <u>Supplemental cash disclosures:</u> | | | | | |
| Interest paid | \$ 130,324 | \$ 120,976 | \$ 107,698 | \$ 47,143 | \$ 36,208 |
| Income tax and asset tax paid | \$ 434 | \$ 1,575 | \$ 1,012 | \$ 680 | \$ 1,324 |
| Due from Mexican Government | | | | | \$ 82,803 |
| Assets acquired through capital lease obligations | | | \$ 496 | \$ 496 | \$ 2,980 |
| Capital stock increase (non-cash transaction) | | \$ 24,015 | | | |

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

GRUPO TMM, S. A. DE C. V.
(formerly Grupo Servia, S. A. de C. V.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998, 1999 AND 2000 AND JUNE 30, 2000 AND 2001

(amounts in US dollars except number of shares)

NOTE 1 - THE COMPANY:

Grupo TMM, S. A. de C. V. (“Grupo”) is a controlling company. It has no employees, and all accounting, legal and financial services are rendered by a subsidiary. Its principal operations and assets are its investment in the shares of: a) Transportación Marítima Mexicana, S. A. de C. V. (“TMM”), which was 52.55% and 51.42% in 1999 and 2000, respectively, of the series “A” voting shares, and 39.37% and 38.54% of all shares of TMM in 1999 and 2000, respectively, and b) Grupo Transportación Ferroviaria Mexicana, S. A. de C. V. (“Grupo TFM”), of which it held 51% of the voting shares. Grupo and subsidiaries are referred to as the “Company”.

At the Extraordinary General Stockholders’ Meeting held on March 15, 2001, the Company changed its name from Grupo Servia, S. A. de C. V. to Grupo TMM, S. A. de C. V.

TMM is a Mexican company whose main activity is providing maritime, land and rail freight transportation, storage and agent services, as well as attending to cruise ships and other similar activities appropriate to the shipping and cargo transport business. Due to the nationality of some of the subsidiaries and the activities in which they are engaged, TMM and its subsidiaries are subject to the laws and ordinances of other countries, as well as international regulations governing maritime transportation and the disposal of contaminating waste into the environment.

Grupo TFM is a non-operating holding company whose most important operations and assets are the investment in TFM, S. A. de C. V. (“TFM”). In December 1996, the Mexican Government (the “Government”) granted TFM a concession (the “Concession”) to operate the railway system for the north east of the country (the “TFM Route”) for an initial period of fifty years (exclusive for 30 years), renewable under certain conditions for another equal period, and sold a number of locomotives, rail cars, materials and accessories, as well as 25% of its participation on the capital of the company operating the Mexico City rail terminal. The TFM Route is comprised of approximately 2,661 miles of track which form a strategically link between Mexico and the North American Free Trade Agreement corridor. The TFM Route directly links Mexico City and Monterrey (as well as Guadalajara through trackage rights) with the ports of Lázaro Cárdenas, Veracruz and Tampico, and the Mexican/United States border crossings of Nuevo Laredo - Laredo, Texas and Matamoros - Brownsville, Texas.

The Boards of Directors of TMM and Grupo have unanimously approved the proposed corporate reorganization and merger in which TMM will be merged with and into Grupo. Each holder of TMM stock will, after the merger, continue to own, as a shareholder of Grupo, the same relative economic interest in Grupo as it owned in TMM.

In preparation for the merger, the shareholders of Grupo will approve the split-up of Grupo into two companies, Grupo and a newly formed corporation, Promotora Servia, S.A. de C.V. (“Promotora Servia”). Under the terms of the split-up, Grupo will transfer all of its assets, rights and privileges (other than its interest in TMM) and all of its liabilities to Promotora Servia. The transfer of assets to Promotora Servia will be made without recourse and without representation or warranty of any kind and all of Grupo’s creditors will expressly and irrevocably consent to the transfer of the liabilities to Promotora Servia.

The terms of the reorganization are set forth in a Merger Agreement by and between TMM and Grupo. The Merger Agreement provides for the merger of TMM with and into Grupo, with Grupo, the surviving company. Under the terms of the Merger Agreement, all of the assets, privileges and rights, and all of the liabilities of TMM will be transferred to Grupo upon the effectiveness of the merger.

The Boards of Directors of Grupo and TMM believe that the reorganization will enable Grupo as the surviving corporation, to avail itself of advantages that are not available to TMM under the current corporate structure.

The primary purpose of the merger is to achieve tax and corporate governance efficiencies. The merger is also part of a broader company-wide restructuring plan launched by TMM's management in 1998 with the strategic objectives of (i) divesting under-performing businesses and continuing the expansion of historically higher-margin businesses, (ii) continuing the development of TMM as the largest Mexican provider of an integrated array of transportation and logistics services, and (iii) streamlining TMM's corporate structure to realize certain financial and corporate governance efficiencies.

The principal benefits of the merger include:

- Extension of the benefits derived from the tax consolidation to all of TMM's shareholders;
- Creation of a new company that represents re-directed principal objectives - distancing ourselves from unprofitable businesses and assets and instead concentrating on the expansion of more profitable services; and
- Aligning the interests of the controlling shareholders with those of the minority shareholders.

Despite the foregoing, Management cannot assure that these benefits will be realized.

The assets, liabilities and operation not corresponding to the new structure and operation of the Company as described above, are shown and disclosed as discontinued operations in the accompanying consolidated financial statements. See Note 2b.

NOTE 2 - RESTRUCTURING AND DISCONTINUED OPERATIONS:

a. Restructuring

Restructuring the port business

On June 21, 2001, TMM and SSA International Inc. (“SSA”), a strategic partner, signed an addendum to the master contract and signed a stockholders’ agreement to take all the necessary steps to consolidate the operations and assets of TMM’s Ports Division into an organized corporation denominated TMM Puertos y Terminales, S. A. de C. V. (“TMMPyT”), in which TMM would hold an equity interest of 51%, and SSA the remaining 49%.

In October 2000, TMM sold to SSA 35.2% of its investment in Operadora Portuaria TMM, S.A. de C.V., for US\$41.3 million as part of the restructuring of the port business. This transaction generated a gain of \$24,944, which is shown in the statement of income under other income.

Other restructuring

In 1999, TMM sold its 51% equity interest in Van Ommeren TMM Terminals for \$27 million. As a result of this transaction, TMM disposed of four terminals in Mexico used to store chemical products and vegetable oils. As a result of this transaction, TMM recognized a pre-tax profit of \$16,673, which is shown under other income on the statement of income.

b. Discontinued operations

On July 28, 1998, TMM and CP Ships Holdings, Inc. (“CP Ships”), a Canadian shipping company, signed an agreement to form a joint venture in which each has an equal equity interest in the container shipping transport business of TMM, Lykes Lines, Ivaran Lines and Contship Med-Gulf. Each partner maintained its fleet of vessels and containers, which were leased to the new company. For this purpose, in September 1998, TMM established a new subsidiary named Americana Ships, Ltd. (“ASL”), to which TMM transferred all the agreed assets and liabilities at their book value.

On January 27, 1999, TMM and CP Ships signed the final contribution agreement, whereby CP Ships contributed the assets to ASL in exchange for a 50% equity interest in ASL. The other 50% equity interest is held by TMM.

At the end of 1999, TMM agreed to sell its 50% equity interest in ASL to CP Ships for \$65 million. The operation was concluded in the first quarter of 2000. The transfer of rights and benefits took effect as of January 1, 2000. This transaction was presented as a discontinued operation for all periods. The final result of this operation was a loss of \$134,709, of which \$129,674 was recorded in 1999 and \$5,035 in 2000; the latter figure represents the amount by which the definitive loss on the sale of this segment exceeded the estimated amount in 1999.

Below are the income, expenses and results of the above mentioned discontinued operations as well as those being transferred to Promotora Servia as described in Note 1 for the years ended December 31, 1998, 1999 and 2000 and for the sixth-month period ended June 30, 2000 and 2001.

| | Year ended December 31, | | | | | | | | | Six months ended June 30, | |
|--|-------------------------|------------------|-------------|--------------|------------------|--------------|----------|------------------|------------|---------------------------|------------------|
| | 1998 | | | 1999 | | | 2000 | | | 2000 | 2001 |
| | ASL | Promotora Servia | Total | ASL | Promotora Servia | Total | ASL | Promotora Servia | Total | Promotora Servia | Promotora Servia |
| Service income | \$ 608,608 | \$ 11,854 | \$ 620,462 | \$ 519,430 | \$ 9,873 | \$ 529,303 | | \$ 6,915 | \$ 6,915 | \$ 2,141 | \$ 1,594 |
| Operating cost and expenses | (615,609) | (10,354) | (625,963) | (560,116) | (11,662) | (571,778) | | (5,083) | (5,083) | (3,196) | (545) |
| Operating (loss) income | (7,001) | 1,500 | (5,501) | (40,686) | (1,789) | (42,475) | | 1,832 | 1,832 | (1,055) | 1,049 |
| Financing cost | (10,972) | (9,253) | (20,225) | (8,665) | (9,062) | (17,727) | | (9,305) | (9,305) | (5,569) | (3,906) |
| Other income (expenses) | (1,685) | 5,166 | 3,481 | (134,361) | 1,072 | (133,289) | (\$ 142) | 9,492 | 9,350 | (689) | (1,097) |
| (Loss) profit before tax and minority interest | (19,658) | (2,587) | (22,245) | (183,712) | (9,779) | (193,491) | (142) | 2,019 | 1,877 | (7,313) | (3,954) |
| Current and deferred taxes | 11,176 | (5,989) | 5,187 | 51,408 | 194 | 51,602 | | (7,497) | (7,497) | 242 | 17 |
| Minority interest | 3,251 | | 3,251 | 2,630 | | 2,630 | | 85 | 85 | 5 | 20 |
| Loss on discontinued operations | (\$ 5,231) | (\$ 8,576) | (\$ 13,807) | (\$ 129,674) | (\$ 9,585) | (\$ 139,259) | (\$ 142) | (\$ 5,393) | (\$ 5,535) | (\$ 7,066) | (\$ 3,917) |

The following items are shown by the Company in the consolidated balance sheet at December 31, 1999 and 2000 and at June 30, 2001, under assets and liabilities of discontinued operations:

| Assets | December 31, | | | | | | | June 30, |
|---|--------------|------------------|------------|----------|------------------|-----------|------------------|----------|
| | 1999 | | | 2000 | | | 2001 | |
| | ASL | Promotora Servia | Total | ASL | Promotora Servia | Total | Promotora Servia | |
| Cash and cash equivalents | \$ 9,899 | \$ 1,375 | \$ 11,274 | | \$ 1,041 | \$ 1,041 | \$ 685 | |
| Accounts receivable | 72,984 | | 72,984 | | | | | |
| Other accounts receivable | 50,355 | 1,723 | 52,078 | \$ 3,955 | 2,996 | 6,951 | 4,151 | |
| Discontinued current assets | 133,238 | 3,098 | 136,336 | 3,955 | 4,037 | 7,992 | 4,836 | |
| Discontinued non-current assets | 101,408 | 15,211 | 116,619 | | 6,662 | 6,662 | 9,254 | |
| Total assets of discontinued operations | \$ 234,646 | \$ 18,309 | \$ 252,955 | \$ 3,955 | \$ 10,699 | \$ 14,654 | \$ 14,090 | |

| | December 31, | | | | | | June 30, 2001 (unaudited) |
|--|------------------|---------------------|------------------|----------------|---------------------|-----------------|---------------------------------|
| | 1999 | | | 2000 | | | |
| | ASL | Promotora Servia | Total | ASL | Promotora Servia | Total | |
| <u>Liabilities</u> | | | | | | | |
| Bank loans (*) | | \$37,833 | \$ 37,833 | | \$54,873 | \$54,873 | \$45,703 |
| Other expenses and accrued tax payable | <u>\$159,624</u> | <u>3,090</u> | <u>162,714</u> | <u>\$4,097</u> | <u>749</u> | <u>4,846</u> | <u>15,552</u> |
| Discontinued current liabilities | <u>159,624</u> | <u>40,923</u> | <u>200,547</u> | <u>4,097</u> | <u>55,622</u> | <u>59,719</u> | <u>61,255</u> |
| Long term debt (*) | | 43,348 | 43,348 | | 15,500 | 15,500 | 15,500 |
| Other discontinued long-term liabilities | | | | | <u>1,366</u> | <u>1,366</u> | <u>1,366</u> |
| Discontinued long-term liabilities | | <u>43,348</u> | <u>43,348</u> | | <u>16,866</u> | <u>16,866</u> | <u>16,866</u> |
| Total liabilities of discontinued operations | <u>\$159,624</u> | <u>\$84,271</u> | <u>\$243,895</u> | <u>\$4,097</u> | <u>\$72,488</u> | <u>\$76,585</u> | <u>\$78,121</u> |

(*) At December 31, 2000 and June 30, 2001, Grupo has signed ten and eight bank loan agreements, respectively, with different financial institutions. Additionally, most of the Company's bank loans are guaranteed by 21,854,504 TMM shares, collectively, as well as by personal collateral of the shareholders, and by pledged Grupo property.

NOTE 3 - ACCOUNTING POLICIES AND PRACTICES:

Grupo and subsidiaries prepare their financial statements in accordance with International Accounting Standards ("IAS") expressed in US dollars, the currency in which most transactions and a significant portion of their assets and liabilities arose and/or are denominated. The Mexican National Banking and Securities Commission approved this method in 1985. The initial effect of conversion to US dollar as the functional currency is shown as a debit of \$17,757 in the statement of changes in stockholders' equity of Grupo.

Grupo and subsidiaries are also required to keep books and records in Mexican pesos for tax purposes.

The IAS differ in certain material respect from those under United States of America Generally Accepted Accounting Principles ("US GAAP"). (See Note 16).

The most significant accounting policies are described below:

Consolidation basis

The consolidated financial statements include the accounts of Grupo and its subsidiaries. All intercompany balances and transactions have been eliminated. Grupo consolidates the companies in which it holds 51% or more direct or indirect participation and/or has control.

Foreign currency position

Monetary assets and liabilities denominated in other currencies are translated into in US dollars using current exchange rates. Differences arising from fluctuations in exchange rates between the dates on which transactions are entered into and those on which they are settled, or the balance sheet date, are applied to income. Non-monetary assets and liabilities denominated in other currencies are translated into US dollars at the historical rate of exchange in effect on the date they are entered into. The capital stock and minority interest are translated at the historical exchange rate.

Cash and cash equivalents

Cash and cash equivalents represent highly liquid interest-bearing deposits and investments with and original maturity of less than three months and are stated at cost plus interest earned.

Materials and supplies

Materials and supplies consist mainly of fuel and items for maintenance of property and equipment, and are valued at the lower of the average cost and market.

Concession rights and related assets

Costs incurred by Grupo TFM to acquire the concession rights and related assets were capitalized and are amortized on a straight-line basis over the estimated useful lives of the related assets and rights acquired (see Note 4). The purchase price for the acquisition of the Concession rights and related assets was allocated to the identifiable assets acquired and liabilities assumed in connection with the privatization process and are recorded at estimated value based on a appraisal carried out by independent experts.

The assets acquired and liabilities assumed include:

- (i) The tangible assets acquired pursuant to the asset purchase agreement, consisting of locomotives, rail cars and material and supplies;
- (ii) The rights to utilize the right of way, track structure, buildings and related maintenance facilities of the TFM lines;
- (iii) The 25% equity interest in the company established to operate the Mexico City rail terminal facilities; and
- (iv) Capital lease obligations assumed.

Other concessions correspond to payments made for the rights to operate them, they are stated at cost, and are amortized over the terms specified in the concessions agreements.

Property, machinery and equipment

TFM's machinery and equipment acquired through the asset purchase agreement were initially recorded at their estimated fair value. Subsequent acquisitions are stated at cost. Depreciation is calculated by the straight-line method based on the estimated useful lives of the respective fixed assets. (See Note 5).

The other property, machinery and equipment are stated at construction or acquisition cost. Acquisitions through capital leases or charter arrangements with an obligation to purchase are capitalized based on the present value of future minimum payments, recognizing the related liability (see Note 14). The construction cost of vessels is determined by adding the accrued interest during the construction period to the agreed price. Depreciation of vessels, containers and tractor trucks is computed using the straight-line method based on the useful lives of the assets net of the estimated salvage value. Depreciation of other fixed assets is computed using the straight-line method based on the estimated useful lives of the assets.

Recurring maintenance and upkeep are expensed as incurred whereas the reconstruction of locomotives and major repairs on vessels are amortized over the period that benefits are expected to be derived (eight years for locomotives and two to three years for vessels).

Deferred costs and other assets

These represent deferred costs that benefit a period of more than one year. Such costs are amortized over a period ranging from 3 to 35 years using the straight-line method (see Note 6). They also include fees and other related expenses paid by the Company to obtain long-term debt. These costs are amortized by the effective-interest method during the outstanding period of such long-term debt.

Equity investments

Equity investments of less than 20% are valued at cost. Equity investments in associated companies are valued using the equity method. The carrying value of equity investments are periodically reviewed for impairment.

Income tax

Income tax is determined following interperiod allocation procedures under the full liability method. Under this method, the Company is required to establish a provision for deferred income taxes on the tax revaluation of certain non-current assets and, in relation to an acquisition on the difference between the acquisition cost of the net assets acquired and their tax base.

Derivative financial instruments

The Company enters into financial and commodity derivative instruments as a part of its risk management program including currency exchange contracts, interest rate arrangements, prices of fuel used in marine operations and U.S. based fuel futures. Gains and losses related to such transactions are recognized in results of operations on a monthly basis.

Premiums paid on foreign currency futures and options are recorded as a prepayment and charged to operations at the conclusion of the contract, adding thereto or deduction there from the differences between the price or the exchange rate at the date of the contract and the price or exchange rate at the closing date.

Seniority premiums

Pension and seniority premium costs are recognized based on actuarial computations as services are rendered. (See Note 15).

At December 31, 1999 and 2000, and at June 30, 2001 the Company had a provision of \$11,594, \$11,347 and \$12,839 (unaudited), respectively.

Other compensation based on length of service to which employees may be entitled in the event of dismissal or death, in accordance with the Mexican Federal Labor Law, are charged to income in the year in which they become payable.

Foreign currency position

At December 31, 1999 and 2000, and at June 30, 2001, the Company has monetary assets and liabilities denominated in currency other than the US dollar, determined at the interbank exchange rate, as follows:

| | <u>December 31,</u> | | <u>June 30,</u> |
|-------------|---------------------|------------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Assets | \$160,736 | \$149,403 | \$217,914 |
| Liabilities | <u>(66,207)</u> | <u>(72,140)</u> | <u>(71,937)</u> |
| | <u>\$ 94,529</u> | <u>\$ 77,263</u> | <u>\$145,977</u> |

Recognition of revenues and costs

Voyage revenues and costs are recognized in income in the period in which the voyage is completed. Revenues and costs associated with voyages in process are deferred and recognized as revenues at the conclusion of the voyage.

Revenues and costs associated with other transportation services and other non-maritime transactions are recognized at the time the services are rendered.

Intangible and long-lived assets

As of December 31, 2000, the Company applied the guidelines of International Accounting Standard No. 38 (IAS 38) "Intangible Assets", which was issued on July 1, 1999 and is effective for fiscal years starting on or after July 1, 1999. This standard determines the book treatment of intangible assets and requires companies to recognize intangible assets, only on the condition that they fulfill certain requirements, and establishes that disbursements made to provide the Company with future economic benefits, but that do not create or acquire assets either intangible or of any other type, be recognized in the statement of operations when they are incurred.

Intangible assets primarily refer to payments made for railroad and port terminal concessions, which are amortized using the straight-line method at the annual rates indicated in Note 4.

The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value.

Net income per share

Net income per share is calculated based on the weighted average number of shares outstanding during the period. The weighted average number of shares outstanding for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001 was 3,219,607; 13,705,204; 17,441,590, 17,441,590 and 17,441,590, respectively. The weighted average number of shares has been retroactively adjusted for 15.06 for one reverse stock split that occurred on October 31, 2001 (See Note 11).

Concentration of risk

An important source of the Company's revenues are generated by the automotive industry, which is made up of a relatively small number of customers. No one of the Company's clients represents individually more than 10% of the total revenues. In addition, the two largest customers accounted for approximately 3.4% and 3.1% of total revenues.

Use of estimates

The preparation of financial statements requires Management to make estimates and assumptions that could affect the reported amounts of assets and liabilities and also the amounts of income, costs and expenses at the date of the financial statements. Actual results could differ from these estimates.

Comprehensive income (loss)

Comprehensive income (loss) includes certain changes to stockholder' equity not affecting net income (loss) and not related to capital payments, dividend payments or similar transactions with the shareholders. The comprehensive income (loss) for the Company, for all periods presented, is equal to the net income (loss), as there are no other items of comprehensive income (loss), except for the initial accumulated translation loss recorded in stockholders' equity.

Interim financial information

The financial information subsequent to December 31, 2000 and with respect to the interim six-month periods ended June 30, 2000 and 2001 is unaudited. In the opinion of the Company, the interim information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for the six-month periods ended June 30, 2000 and 2001 are not necessarily indicative of the results to be expected for the full year.

New accounting pronouncements

The International Accounting Standard No. 39 ("IAS 39") "Financial Instruments: Recognition and Measurement" must be applied by Grupo as from January 1, 2001. In accordance with this Standard, derivative operations are always treated as speculative, unless they qualify for hedge accounting. All rights and obligations pertaining to derivative instruments are recognized in the financial statements as an asset or a liability at fair value, as well as in the statements of income and changes of stockholders equity. IAS 39 includes disclosure requirements in accordance with IAS 32, "Financial Instrument Presentation and Disclosure". The implementation of this statement did not have a significant effect given that the Company reflects in earnings all fair value movements of financial instruments.

NOTE 4 - CONCESSION RIGHTS AND RELATED ASSETS:

Under the terms of TFM's Concession, the Company has the right to use and the obligation to maintain the right of way, track structure, buildings and related maintenance facilities. Ownership of such property and fixtures, however, has been retained by the Government.

Concession rights and related assets are summarized as follows:

| | <u>December 31,</u> | | <u>June 30,</u> | Estimated useful <u>lives (years)</u> |
|---|---------------------|---------------------|----------------------------|--|
| | <u>1999 (1)</u> | <u>2000</u> | <u>2001</u> (unaudited) | |
| Land | \$ 132,878 | \$ 132,878 | \$ 132,878 | 50 |
| Buildings | 33,113 | 33,113 | 33,113 | 27-30 |
| Bridges | 75,350 | 75,350 | 75,350 | 41 |
| Tunnels | 94,043 | 94,043 | 94,043 | 40 |
| Rail | 317,268 | 317,268 | 317,268 | 29 |
| Concrete and wood ties | 137,351 | 137,351 | 137,351 | 27 |
| Yards | 106,174 | 106,174 | 106,174 | 35 |
| Ballast | 107,189 | 107,189 | 107,189 | 27 |
| Grading | 391,808 | 391,808 | 391,808 | 50 |
| Culverts | 14,942 | 14,942 | 14,942 | 21 |
| Signals | 1,418 | 1,418 | 1,418 | 26 |
| Others | <u>61,792</u> | <u>61,792</u> | <u>61,792</u> | 5-50 |
| TFM Route | 1,473,326 | 1,473,326 | 1,473,326 | |
| International cruise ship terminal on Cozumel Island | 7,148 | 7,148 | 7,148 | 20 |
| Integral Acapulco Port Administration | 6,783 | 6,783 | 6,783 | 20 |
| Tugboats in the port of Manzanillo | 2,170 | 2,170 | 2,170 | 10 |
| Integral Manzanillo Port Administration | 2,595 | 2,589 | 2,787 | 20 |
| Progreso Port | | <u>4,577</u> | <u>4,577</u> | 20 |
| | 1,492,022 | 1,496,593 | 1,496,791 | |
| Accumulated amortization | <u>(109,376)</u> | <u>(168,882)</u> | <u>(197,697)</u> | |
| Concession rights and related assets - Net | <u>\$ 1,382,646</u> | <u>\$ 1,327,711</u> | <u>\$ 1,299,094</u> | |
| Amortization expense for the period | <u>\$ 42,459</u> | <u>\$ 41,588</u> | <u>\$ 20,652</u> | |

(1) On November 10, 1999, the SCT issued an official letter pursuant to which it acknowledged the dismantling of the catenary running over the route between Mexico City and the city of Querétaro, since it is considered inefficient and because of the plans for the use of two and three-level cars that would permit double-stack intermodal traffic and open new intermodal facilities to promote this traffic. The value assigned originally to the catenary was \$91,591, which has been reallocated to other items under Concession. The effect of reassigning the value of the catenary on the annual depreciation expense was not material.

On February 9, 2001, the SCT issued statement 4.123. Under this statement, the SCT and TFM agreed to transfer a line of the two-way Griega-Mariscal stretch to the Government in order to be included in the North Pacific concession. In return for this stretch, TFM will receive approximately Ps654 million of Mexican pesos plus value added tax (\$71,979 million at the exchange rate of Ps9.08 per dollar at June 30, 2001), at the latest on the date on which TFM, Grupo TFM or their stockholders acquire the 20% of the TFM capital stock or the 24.6% of the Grupo TFM's capital stock currently owned by FNM and the Government, respectively, or October 31, 2003. During the six months ended June 30, 2001, the Company recognized a net gain of approximately \$60,744 related with this transaction, which was credited to other income in the statement of income.

Government payment may be restated in accordance with an appraisal performed by the “Comisión de Avalúos de Bienes Nacionales”, until the payment date.

On February 12, 2001, the SCT modified the Concession title granted to TFM in regards to the transfer of the Griega-Mariscala stretch described above, and authorized the dismantling of the catenary running over the route between Huehuetoca in the State of Mexico and the City of Querétaro. See (1) above.

NOTE 5 - PROPERTY, MACHINERY AND EQUIPMENT:

| | <u>December 31,</u> | | <u>June 30,</u> | Estimated useful lives (years) |
|-------------------------------------|---------------------|------------------|----------------------------|-----------------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) | |
| Railroad equipment | \$567,273 | \$577,354 | \$595,457 | 8 - 16 |
| Accumulated depreciation | <u>(87,278)</u> | <u>(110,898)</u> | <u>(128,182)</u> | |
| | <u>479,995</u> | <u>466,456</u> | <u>467,275</u> | |
| Vessels | 71,282 | 72,480 | 72,533 | 25 |
| Accumulated depreciation | <u>(26,716)</u> | <u>(32,650)</u> | <u>(31,011)</u> | |
| | <u>44,566</u> | <u>39,830</u> | <u>41,522</u> | |
| Buildings and installations | 34,612 | 26,751 | 47,904 | 20 and 25 |
| Warehousing equipment | 152 | 152 | 152 | |
| Computer equipment | 6,220 | 8,634 | 9,255 | 3 and 4 |
| Terminal equipment | 13,922 | 17,657 | 17,114 | 10 |
| Ground transportation equipment | 36,188 | 40,536 | 38,798 | 4, 5 and 10 |
| Other equipment | <u>12,656</u> | <u>43,875</u> | <u>24,233</u> | 5 |
| | 103,750 | 137,605 | 137,456 | |
| Less accumulated depreciation | <u>(52,510)</u> | <u>(61,091)</u> | <u>(63,140)</u> | |
| | 51,240 | 76,514 | 74,316 | |
| Land | 20,209 | 41,411 | 53,754 | |
| Construction in progress | <u>40,052</u> | <u>26,674</u> | <u>34,961</u> | |
| | <u>111,501</u> | <u>144,599</u> | <u>163,031</u> | |
| | <u>\$636,062</u> | <u>\$650,885</u> | <u>\$671,828</u> | |
| Depreciation expense for the period | <u>\$ 47,523</u> | <u>\$ 49,435</u> | <u>\$ 25,652</u> | |

Pursuant to the asset purchase agreement entered between the Government and Grupo TFM, the Company obtained the right to acquire locomotives and rail cars and various materials and supplies (“Railroad equipment”) formerly owned by Ferrocarriles Nacionales de México (“FNM”). The Company also agreed to assume the outstanding indebtedness relating to certain locomotives originally acquired by FNM under capital lease arrangements. Legal title to the purchased assets was transferred to Grupo TFM at that time. On December 19, 1997 Grupo TFM submitted to the Government and the SCT a claim seeking a \$32 million purchase price

adjustment for non-delivery of certain railcars and equipment. Related with this claim, during 1998 and 1999 the Company received approximately \$10.7 million for non-delivery railcars plus \$4.2 million of interest.

At December 31, 1999, vessels include those acquired under financial leases.

In June 2000, the Company sold the property where the corporate offices are located through a trust, and has a right to repurchase this property. The Company received \$20 million from the sale and lease back of its headquarters building.

NOTE 6 - DEFERRED COSTS AND OTHER ASSETS :

These items are as follows:

| | <u>December 31,</u> | | <u>June 30,</u> | Estimated useful lives (years) |
|--|---------------------|------------------|----------------------------|--------------------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) | |
| Debt issuance commissions and expenses | \$ 12,613 | \$ 12,613 | \$ 15,996 | 10 |
| Dry-docks (major vessel repairs) | 8,719 | 6,406 | 7,035 | 5 |
| Leased vessel conversion expenses | 1,744 | | 22 | |
| Capitalized software | 5,975 | 6,253 | 6,307 | 5 |
| Unamortized commissions | 2,251 | 45,178 | 44,279 | 3 |
| Other deferred costs | <u>30,184</u> | <u>26,614</u> | <u>35,770</u> | 10 |
| | 61,486 | 97,064 | 109,409 | |
| Accumulated amortization | <u>(21,398)</u> | <u>(55,337)</u> | <u>(66,251)</u> | |
| | 40,088 | 41,727 | 43,158 | |
| Guarantee deposit | 2,149 | 3,005 | 2,894 | |
| Other assets | <u>30,886</u> | <u>29,798</u> | <u>29,803</u> | |
| | <u>\$ 73,123</u> | <u>\$ 74,530</u> | <u>\$ 75,855</u> | |
| Amortization expense for the period | <u>\$ 7,661</u> | <u>10,761</u> | <u>\$ 6,386</u> | |

NOTE 7 - FINANCING:

Total debt is summarized as follows:

| | <u>December 31,</u> | | <u>June 30,</u> |
|---|---------------------|--------------------|--------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> |
| | | | (unaudited) |
| Senior discount debentures (1) | \$ 443,501 | \$ 443,501 | \$ 443,501 |
| Senior notes (2) | 150,000 | 150,000 | 150,000 |
| Commercial paper (3) | | 290,000 | 290,000 |
| Preferential loans (4) | 269,775 | | |
| Obligations (5) | 199,489 | 199,567 | 199,606 |
| Obligations (6) | 176,743 | 176,782 | 176,803 |
| Europaper (7) | | 59,586 | 64,919 |
| Obligations (8) | 142,897 | | |
| Bank Loan (9) | 20,000 | | |
| Bank Loan (10) | 15,000 | | |
| Bank revolving line of credit (11) | 15,000 | | |
| Bank Loan (12) | | 5,523 | 5,027 |
| Bank Loan (13) | 10,000 | 5,000 | |
| Bank Loan (14) | 5,000 | | |
| Revolving credit facility (3) | 85,000 | | |
| Capital lease obligations | 23,284 | 4,694 | 2,882 |
| Other | <u>2,708</u> | <u>2,437</u> | <u>1,999</u> |
| Total debt | 1,558,397 | 1,337,090 | 1,334,737 |
| Less: | | | |
| Discount on senior discount debentures, obligations and commercial paper | (108,504) | (72,177) | (46,415) |
| Current portion | <u>(404,724)</u> | <u>(72,081)</u> | <u>(67,939)</u> |
| Long-term bank loans and other long-term obligations | <u>\$1,045,169</u> | <u>\$1,192,832</u> | <u>\$1,220,383</u> |
| Interest expense during the period | <u>\$ 157,638</u> | <u>\$ 149,022</u> | <u>\$ 67,008</u> |

- (1) The senior discount debentures ("SDD") were sold at a discount in relation to the principal amount of \$443,501, and no interest will be payable thereon prior to June 15, 2002. They will mature on June 15, 2009. The price of the SDD represents a yield to maturity of 11.75%, computed on the basis of semiannual compounding and maturing at June 15, 2002. The SDD are redeemable, at the option of the Company, in whole or in part, at any time on or after June 15, 2002.

- (2) Ten-year senior notes bearing 10.25% annual interest through June 15, 2007.
- (3) In September 2000, the Company issued commercial paper at a discount of \$5 million from its principal amount of \$290 million, as a part of a 2-year \$310 million program. The balance at December 31, 2000 bears interest of 6.54% annually up to September 25, 2002. Proceeds from commercial paper were used to pay the tranches "A" and "B" of the preferential loans, and their respective revolving credit loan (see next point 4). The deferred financing costs related with the preferential loans were expensed in 2000.
- (4) The preferential loans were divided into tranche "A", which were subject to quarterly interest equivalent to the prime rate plus 2.5% or the LIBOR plus 3.5%, and tranche "B" were subject to quarterly interest equivalent to the prime rate plus 3.0% or the LIBOR plus 4.0%.
- (5) Ten-year instruments bearing 10.25% annual interest (10.00% annually up to November 14, 2000) (net of taxes) through November 15, 2006.
- (6) Obligations over a ten-year term, bearing interests at the rate of 9.50% (9.25% annually up to November 14, 2000), (net of taxes) up to May 15, 2003, with the option to pay all or part as from May 15, 1998.
- (7) Issue of Europaper with maturities from January 31 through December 11, 2001 and annual interest rates of 11.50%, 10% and 12.25%.
- (8) Seven-year instrument bore 8.50% annual interest (net of taxes) through October 14, 2000.
- (9) This loan with Inverlat, S.A. was subject to interest at the LIBOR plus 3.0% in 1999. The effective rate at December 31, 1999 was 9.13%. It formed part of a revolving credit line matured in January 2000.

The instruments described in (1), (2), (4), (5), (6) and (8) above limit the payment of dividends and the Company's capacity to contract additional indebtedness, unless it observes certain cash-flows ratios and maintains in a certain level the stockholders' equity. At December 31, 2000 and at June 30, 2001, the Company was in compliance with all the conditions and commitments established in said agreements

- (10) This loan with California Commerce Bank bore annual interest at the LIBOR plus 1.50% and was repaid in September, 2000; the rate at December 31, 1999 was 8.15%.
- (11) This loan with Nations Bank of Texas, N.A. bore approximately 8.15% interest at December 31, 1999. This loan formed part of a revolving line of credit matured in September 2000.
- (12) Loan with Banco Invex bearing 12.75% interest maturing on December 21, 2005.

(13) This loan with Chase Manhattan Bank bore annual interest at the LIBOR plus 4.0% and was repaid on January 26, 2001. The effective rate at December 31, 2000 and 1999 was 10.66% and 10.88%, respectively.

(14) This loan with Banca Serfín, S.A. bore interest at the LIBOR plus 5.50% and was repaid in February 2000. The effective rate at December 31, 1999 was 10.7%.

Average interest rates paid were 10.06% in 2000, 9.70% in 1999 and 9.31% in 1998, and 9.93% at June 30, 2001.

Total maturity of the long-term debt at December 31, 2000 and at June 30, 2001:

| <u>Year ending</u> | <u>December 31, 2000</u> | <u>June 30, 2001</u> (unaudited) |
|---------------------|------------------------------|---|
| 2002 | \$ 287,311 | \$ 312,108 |
| 2003 | 177,854 | 177,950 |
| 2004 | 1,330 | 1,426 |
| 2005 | 1,254 | 1,368 |
| 2006 and subsequent | <u>725,083</u> | <u>727,531</u> |
| | <u>\$1,192,832</u> | <u>\$1,220,383</u> |

NOTE 8 - FINANCIAL INSTRUMENTS:

Interest rates agreements

The Company enters into various types of interest rate contracts in managing its interest rate risk. The Company uses interest rates swaps to reduce the potential impact of increases in its interest rates under its long-term debt described in Note 7 and on rental payments for the leasing of the vessels "Tepozteco II" and "Aya II".

As a condition to the preferential loans described in Note 7, the Company entered into an interest rate swap, which expired on March 10, 2000. At the expiration date, the Company recognized an additional cost of approximately \$200. As concerns the vessels, described above, the Company has contracted 5.50% annual LIBOR interest rate swaps maturing on March 30, 2001. The benefit derived from these operations was \$151 in 2000 and \$12 (unaudited) in 2001. At June 30, 2001, the LIBOR interest rate was 3.71%.

Fuel futures contracts

The Company may seek to assure itself of more predictable fuel expenses through U.S. fuel futures contracts. TFM'S fuel program covered approximately 25% of estimated 2000 fuel purchases. These positions are also closely monitored to ensure that they will not exceed actual fuel requirements in any period.

Foreign exchange contracts

The purpose of the Company's foreign currency activities is to limit the risks arising from its non-dollar denominated monetary assets and liabilities.

The nature and quantity of these transactions will be determined by Company's management based upon net asset exposure and market conditions.

At December 31, 2000, the Company has a Mexican peso sales option of Ps.112 million effective from June 27, 2000 through June 29, 2001. On June 29, 2001, a gain of \$572 was obtained on this transaction, which was recorded in the statement of operations.

As of June 30, 2001, the Company had nine Mexican peso options outstanding in the notional amount of \$10 million each one, based on an average exchange rate of Ps10.35 per dollar. These options will expire during the first semester of 2002. The fair value of the outstanding options at June 30, 2001 was a gain of \$4,156.

Fair value of financial instruments

The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value.

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate carrying values because of the short maturity of these financial instruments. The fair value of the equity investments approximate carrying values because the Company reviewed them and adjusted for impairment in annual basis.

The fair value of the Company's bank loans and other obligations is estimated based on the quoted market prices or on the rates offered to the Company for debt of the same remaining maturities at the end of each year. Debt bearing interest at variable rates is generally representative of the rates that are currently available to the Company at December 31, 2000 and at June 30, 2001 for the issuance of debt with similar terms and remaining maturities and therefore the carrying values of these obligations are reasonable estimate of their fair value.

A summary of the estimated fair values of the Company's bank loans and other obligations is as follows:

| | <u>December 31, 2000</u> | | <u>June 30, 2001</u> | |
|------------------------|--------------------------|--------------------|------------------------|--------------------|
| | <u>Carrying amount</u> | <u>Fair value</u> | <u>Carrying amount</u> | <u>Fair value</u> |
| Long-term debt | \$1,192,394 | \$1,051,447 | \$1,217,533 | \$1,164,112 |
| Debt at variable rates | <u>438</u> | <u>438</u> | <u>2,850</u> | <u>2,850</u> |
| | <u>\$1,192,832</u> | <u>\$1,051,885</u> | <u>\$1,220,383</u> | <u>\$1,166,962</u> |

NOTE 9 - OBLIGATIONS FOR SALE OF RECEIVABLES :

In November 1997, the Company entered into a factoring agreement with the Mexican Transportation Trust (through 1998, the Industrial Bank of Japan, Ltd. acted as trustee and as from since the start of 1999, the Bank of New York, N. A. has acted in this capacity), for the sale of future receivables. Under this agreement the Company receives advances, which it repays with accounts receivable for future services to be provided. The agreement contemplates the sale of specific customer receivables for a total of \$60,000. In December 1997, TMM received advances of \$30,000 for the future sale of receivables in terms of the agreement, at an effective rate of 7.30% over a period of three years. In May 1998, TMM received an additional \$25,000 advance on the future sale of receivables. In March 2000, this transaction was concluded.

NOTE 10 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES :

The amounts receivable from (payable to) related parties are as follows:

| | <u>December 31,</u> | | <u>June 30,</u> |
|---|---------------------|-----------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Bufete de Infraestructura Maritima Mexicana, S. A. ("BIMMSA") | \$44,934 | \$1,000 | \$1,000 |
| Seacor Marine, Inc. | 2,443 | 1,010 | 1,927 |
| Kansas City Southern Industries ("KCSI") | (2,961) | (2,363) | (2,896) |
| Terminal Ferroviaria del Valle de México, S. A. de C. V. | <u>(2,707)</u> | <u>(632)</u> | <u>(1,305)</u> |
| | <u>\$41,709</u> | <u>(\$ 985)</u> | <u>(\$1,274)</u> |

The most important transactions with related parties are summarized in the following page.

| | Year ended <u>December 31,</u> | | | Six months ended <u>June 30,</u> | |
|-------------------------|-----------------------------------|----------------|-------------------|-------------------------------------|------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> (unaudited) | <u>2001</u> |
| Transportation revenues | <u>\$11,227</u> | <u>\$3,055</u> | <u>\$30,625</u> | <u>\$16,367</u> | <u>\$ 280</u> |
| Management services | <u>\$ 8,957</u> | <u>\$8,238</u> | <u>\$ 3,586</u> | <u>\$ 1,702</u> | <u>\$1,675</u> |
| Other (expense) income | <u>(\$ 3,257)</u> | <u>\$ 96</u> | <u>(\$ 5,009)</u> | <u>\$ 320</u> | <u>(\$1,155)</u> |

BIMMSA

The account due from BIMMSA (a joint venture company) is derived from maritime services provided to that company. BIMMSA is engaged primarily in installing underwater ducts in the Campeche Sound (in the Gulf of Mexico for PEMEX). On September 28, 2000, PEMEX Exploración y Producción paid \$63,895 to BIMMSA, who transferred \$52,824 to TMM.

KCS Transportation Company ("KCSTC") management services agreement

The Company and KCSTC, a wholly owned subsidiary of KCSI (a shareholder of GTFM), entered into a management service agreement pursuant to which KCSTC makes available to the Company certain railroad consulting and management services commencing in May 1997 for a term of 12 months. The agreement may be renewed for additional one-year periods by agreement of the parties. Under the terms of the agreement, KCSTC is to be reimbursed for costs and expensed incurred in the performance of said services.

The above-mentioned agreement has not been renewed, and the Company has accrued the payments due to KCSTC under this agreement through June 30, 2001.

Administrative service agreement with Promotora Servia

In connection with the restructuring described in Note 1, TMM and Grupo have entered into an agreement to terminate the management services agreement between TMM and Grupo that has been in effect since January 15, 1991. Under this agreement TMM is obligated to pay Grupo, 1% of the TMM's net consolidated revenues, except TFM's revenues. The termination agreement, dated August 23, 2001 provides for the payment by TMM to Grupo of \$17.5 million on or before September 7, 2002 as compensation for the termination of the management service agreement. Grupo ceased providing management services to TMM at the end of July of 2001. This agreement will be transferred to Promotora Servia, the company arising from the Grupo's spin off. (See Note 1).

Servicios Directivos Servia, S. A. de C. V. (“Sedise”)

The Company has signed a professional service agreement with Sedise (a subsidiary company) renewable for one year, under which the Company will receive the services of the administrative personnel it requires, in exchange for a fixed annual amount payable on a monthly basis. The rights under this agreement will be spun off to Promotora Servia (see Note 2), and therefore this transaction is shown as a discontinued operation in the attached consolidated financial statements.

NOTE 11 - STOCKHOLDERS' EQUITY:

Capital stock

At the Extraordinary Stockholders' Meeting held on April 16, 1999, the stockholders agreed to increase the capital stock (in proportionate parts) by \$ 24,015. This increase was carried out through the capitalization of accounts payable to shareholders.

At the Ordinary and Extraordinary Stockholders' Meeting held on October 31, 2001, the Stockholders agreed to approve a new capital structure in connection with the split-up and merger of the Company. As a result, the Company effected a 15.06 for one reverse stock split and converted its 1,596,700 Series “B” shares, 833,189 Series “B-1” shares, 26,061,401 Series “B-2” shares, 5,447,075 Series “B-3” shares and 228,715,601 Series “B-4” shares into one class of 17,440,890 new Series “B” common shares, ordinary and without par value.

After giving effect to the transactions described above, at October 31, 2001, the capital stock is variable with a fixed minimum of fifty thousand pesos. The fixed capital stock is comprised of 700 series “A” common shares, ordinary and without par value, and the variable capital stock is comprised of 17,440,890 Series “B” common shares, ordinary and without par value.

Dividends

Dividends paid from retained earnings on which income tax has been previously paid are not subject to tax withholding. If dividends are paid from retained earnings which have not been previously taxed, they will give rise to tax payable by the Company equivalent to 53.85% of the dividends paid.

Additionally, as from January 1, 1999, all dividends paid to individuals or parties resident abroad are subject to income tax withholding at a rate equivalent to 7.69%. When dividends are paid to residents of countries with which Mexico has signed a tax treaty, tax is withheld as per the provisions of the said treaty in question. Capital stock reductions in excess of capital contributions, inflation indexed in accordance with the procedures established in the Mexican Income Tax Law, are accorded the same tax treatment as dividends.

NOTE 12 - INCOME TAX, ASSET TAX, TAX LOSS CARRYFORWARDS AND EMPLOYEES' STATUTORY PROFIT SHARING:

Income tax

The Company determines its consolidated tax result as authorized by the General Technical Revenue Direction of the Ministry of Finance, in ruling number 396-I-B-3-49-1482 dated December 31, 1991.

For the years ended December 31, 1998, 1999 and 2000, there was a consolidated tax (loss) income of (\$142,111), \$37,405, and \$6,745, as well as a tax loss of (\$31,771) and an income of \$72,914 for the six-month period ends June 30, 2000 and 2001, respectively. The difference between tax losses and book income is due principally to the inflation gain or loss recognized for tax purposes, the difference between book and tax depreciation and amortization and temporary differences for certain items that are reported in different periods for financial reporting an income tax purposes, and the non deductible expenses.

The (benefit) expense for income tax (credited) charged to income was as follows:

| | <u>Year ended</u> <u>December 31,</u> | | | <u>Six months ended</u> <u>June 30,</u> | |
|---|--|-------------------|-------------------|--|-----------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> | <u>2001</u> |
| | | | | (unaudited) | |
| Current income tax | \$ 50 | \$ 417 | \$ 2,254 | \$ 166 | \$ 595 |
| Deferred income tax | <u>(89,947)</u> | <u>(47,102)</u> | <u>(24,658)</u> | <u>(14,977)</u> | <u>12,838</u> |
| Net (benefit) provision | (89,897) | (46,685) | (22,404) | (14,811) | 13,433 |
| Asset tax and other taxes | <u>(436)</u> | <u>(577)</u> | <u>(644)</u> | <u>38</u> | <u>221</u> |
| Total (benefit) provision for income taxes | <u>(\$90,333)</u> | <u>(\$47,262)</u> | <u>(\$23,048)</u> | <u>(\$14,773)</u> | <u>\$13,654</u> |

Reconciliation of the income tax (benefit) expense based on the statutory income tax rate, and the recorded income tax (benefit) expense recorded by the Company is shown in the following page.

| | <u>Year ended</u> <u>December 31,</u> | | | <u>Six months ended</u> <u>June 30,</u> | |
|---|--|----------------------|--------------------|--|----------------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| (Loss) income before tax, minority interest, and discontinued operations | (<u>\$ 70,233</u>) | (<u>\$ 10,524</u>) | <u>\$ 41,860</u> | <u>\$ 32,149</u> | <u>\$ 80,352</u> |
| (Benefit) income tax at 34% in 1998 and 35% in 1999, 2000 and June, 2000 and 2001 | (\$ 23,879) | (\$ 3,684) | \$ 14,460 | \$ 11,252 | \$ 28,123 |
| Decrease (increase) resulting from: | | | | | |
| Tax effect of the results of foreign subsidiaries not subject to tax. | | | | | |
| As from 1999, these companies are subject to tax on an individual basis | (21,845) | | | | |
| (Loss) profits reported by the foreign subsidiaries | (9,403) | 8,033 | 1,426 | 2,202 | 2,261 |
| Difference in financing cost for book and tax purposes, and other permanent items | 23,939 | 28,880 | 8,774 | 9,414 | 2,554 |
| Effects of inflationary components | (32,807) | (16,261) | (2,603) | 3,455 | (16,066) |
| Effects on inflation indexing on tax loss carryforwards | (32,948) | (43,048) | (35,934) | (33,312) | (21,664) |
| Utilization of tax loss carryforwards | | | | | 20,204 |
| Non-deductible expenses | 375 | 1,177 | 672 | 1,412 | (534) |
| Change in tax rate from 34% to 35% | (162) | (2,159) | | | |
| Other - Net | <u>6,833</u> | <u>(19,623)</u> | <u>(9,199)</u> | <u>(9,234)</u> | <u>(1,445)</u> |
| Net deferred income tax (benefit) expense | <u>(\$ 89,897)</u> | <u>(\$ 46,685)</u> | <u>(\$ 22,404)</u> | <u>(\$ 14,811)</u> | <u>\$ 13,433</u> |

The components of deferred tax assets and (liabilities) are comprised as follow:

| | <u>December 31,</u> | | <u>June 30,</u> |
|---|---------------------|------------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Tax-loss carryforwards | \$269,092 | \$335,421 | \$336,750 |
| Income tax paid on dividends | 15,541 | 16,238 | 17,356 |
| Loss on investment on shares | 15,248 | 14,968 | 15,248 |
| Inventories and provisions-Net | 68,678 | 52,507 | 37,355 |
| Income collected in advance and from unfinished voyages | (709) | | |
| Property, machinery and equipment | (35,400) | (31,409) | (24,825) |
| Concession rights and related assets | (104,472) | (154,900) | (163,025) |
| Deferred financing costs | <u>(4,203)</u> | <u>640</u> | <u>1,142</u> |
| Deferred tax assets - Net | 223,775 | 233,465 | 220,001 |
| Less: valuation allowance | <u>(18,175)</u> | <u>(3,207)</u> | <u>(2,581)</u> |
| Net deferred tax assets | <u>\$205,600</u> | <u>\$230,258</u> | <u>\$217,420</u> |

Asset tax

There was no asset tax base in the consolidated returns for 1998, 1999 and 2000. Therefore, income tax and asset tax incurred individually by Grupo amounting to \$283, \$178 and \$185, respectively, were reported as a benefit from tax consolidation.

Tax loss carryforwards

At December 31, 2000 and at June 30, 2001, Grupo, with the exception of Grupo TFM, have the following combined tax loss carryforwards, which under the Mexican Income Tax Law, are inflation-indexed through the date of utilization:

| <u>Year in which loss arose</u> | <u>Inflation-indexed amounts as of December 31, 2000</u> | <u>Year of expiration</u> |
|-------------------------------------|--|-------------------------------|
| 1991 | \$ 21 | 2001 |
| 1992 | 14 | 2002 |
| 1993 | 28 | 2003 |
| 1994 | 29,310 | 2004 |
| 1995 | 28,165 | 2005 |
| 1996 | 14,616 | 2006 |
| 1997 | 10,449 | 2007 |
| 1998 | 153,013 | 2008 |
| 1999 | 7,683 | 2009 |
| 2000 | <u>25,040</u> | 2010 |
| | <u>\$268,339</u> | |

Grupo TFM has tax losses updated in the terms of the Income Tax Law, that can be amortized as shown below:

| <u>Year in which loss arose</u> | <u>Inflation-indexed amounts as of December 31, 2000</u> | <u>Year of expiration</u> |
|-------------------------------------|--|-------------------------------|
| 1996 | \$ 14,357 | 2046 |
| 1997 | 233,253 | 2046 |
| 1998 | 290,035 | 2046 |
| 1999 | 6,167 | 2046 |
| 2000 | <u>146,195</u> | 2046 |
| | <u>\$690,007</u> | |

Employees' statutory profit sharing

For the periods ended December 31, 1998, 1999 and 2000, and for the six months period ended June 30, 2000 and 2001, there was no basis for employee's profit sharing.

NOTE 13 - FINANCIAL INFORMATION BY SEGMENT:

In accordance with International Accounting Standard No. 14, "Financial Information by Segment", the following is the required disclosure on segments:

The Company operates in the following segments: specialized maritime transportation, land transportation, operation of ports and terminals, railroad transportation and maritime lines services (the latter until 1999). Maritime lines services refer to containerized and bulk cargo transportation. The line segment was sold at the end of 1999 and therefore is reported as a discontinued operation (see Note 2b.). Specialized maritime transportation ("Maritime Transportation Division") operations include liquid petroleum products in bulk, materials and supplies for drilling platforms and vehicle transportation operations, as well as tugboat services. Land transportation ("Logistics Division") includes truck services and logistics. Port operations ("Ports and Terminal Division") include terminal activities, both cargo and passenger. Rail transportation ("Transportation Division") includes interline connections, consisting of US and Mexican railroad lines and traffic in the United States of America.

Grupo took into account different factors when determining these segments, being the principal financial measures revenues, operating costs and expenses, depreciation, results of operations and total assets.

Information for each operating segment is as follows:

| <u>June 30, 2001 (unaudited)</u> | Specialized Maritime Division | Logistics Division | Ports and Terminals Division | Railroad Division | Elimination between segments and shared accounts | Total consolidated |
|--|-------------------------------------|-----------------------|------------------------------------|----------------------|---|-----------------------|
| Total revenues | \$ 57,777 | \$32,872 | \$49,024 | \$ 357,090 | (\$ 5,321) | \$ 491,442 |
| Operating cost and expenses | (56,025) | (28,699) | (31,316) | (243,854) | 10,260 | (349,634) |
| Depreciation and amortization | <u>(2,500)</u> | <u>(1,523)</u> | <u>(1,868)</u> | <u>(39,266)</u> | <u>(4,934)</u> | <u>(50,091)</u> |
| Operating (loss) income | <u>(\$ 748)</u> | <u>\$ 2,650</u> | <u>\$15,840</u> | <u>\$ 73,970</u> | <u>\$ 5</u> | 91,717 |
| Costs, expenses and income not allocated | | | | | | <u>(89,122)</u> |
| Income before discontinued operations | | | | | | <u>\$ 2,595</u> |
| Total assets by segment | \$226,800 | \$80,913 | \$90,755 | \$2,298,695 | | \$2,697,163 |
| Shared assets and discontinued operations | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u>\$61,252</u> | <u>61,252</u> |
| Total assets | <u>\$226,800</u> | <u>\$80,913</u> | <u>\$90,755</u> | <u>\$2,298,695</u> | <u>\$61,252</u> | <u>\$2,758,415</u> |

| <u>June 30, 2000 (unaudited)</u> | Specialized Maritime Division | Logistics Division | Ports and Terminals Division | Railroad Division | Elimination between segments and shared accounts | Total consolidated |
|--|-------------------------------------|-----------------------|------------------------------------|----------------------|---|-----------------------|
| Total revenues | \$ 61,456 | \$ 44,068 | \$ 40,140 | \$ 336,858 | (\$ 6,738) | \$ 475,784 |
| Operating cost and expenses | (59,907) | (38,176) | (26,689) | (204,042) | 12,172 | (316,642) |
| Depreciation and amortization | <u>(2,526)</u> | <u>(1,370)</u> | <u>(942)</u> | <u>(38,934)</u> | <u>(5,088)</u> | <u>(48,860)</u> |
| Operating (loss) income | <u>(\$ 977)</u> | <u>\$ 4,522</u> | <u>\$ 12,509</u> | <u>\$ 93,882</u> | <u>\$ 346</u> | 110,282 |
| Costs, expenses and income not allocated | | | | | | <u>(103,802)</u> |
| Income before discontinued operations | | | | | | <u>\$ 6,480</u> |
| <u>December 31, 2000</u> | | | | | | |
| Total revenues | \$133,643 | \$ 83,979 | \$ 86,491 | \$ 698,640 | (\$12,819) | \$ 989,934 |
| Operating cost and expenses | (128,170) | (77,859) | (56,398) | (453,933) | 23,866 | (692,494) |
| Depreciation and amortization | <u>(5,093)</u> | <u>(2,868)</u> | <u>(2,499)</u> | <u>(77,541)</u> | <u>(11,887)</u> | <u>(99,888)</u> |
| Operating income (loss) | <u>\$ 380</u> | <u>\$ 3,252</u> | <u>\$ 27,594</u> | <u>\$ 167,166</u> | <u>(\$ 840)</u> | 197,552 |
| Costs, expenses and income not allocated | | | | | | <u>(190,287)</u> |
| Income before discontinued operations | | | | | | <u>\$ 7,265</u> |
| Total assets by segment | \$292,267 | \$ 67,684 | \$ 42,930 | \$2,206,834 | | \$2,609,715 |
| Shared assets and discontinued operations | _____ | _____ | _____ | _____ | \$59,486 | 59,486 |
| Total assets | <u>\$292,267</u> | <u>\$ 67,684</u> | <u>\$ 42,930</u> | <u>\$2,206,834</u> | <u>\$59,486</u> | <u>\$2,669,201</u> |
| <u>December 31, 1999</u> | | | | | | |
| Total revenues | \$123,850 | \$ 91,285 | \$ 72,538 | \$ 575,619 | (\$18,626) | \$ 844,666 |
| Operating cost and expenses | (125,875) | (82,979) | (44,766) | (374,752) | 29,553 | (598,819) |
| Depreciation and amortization | <u>(5,524)</u> | <u>(2,440)</u> | <u>(4,396)</u> | <u>(74,386)</u> | <u>(10,813)</u> | <u>(97,559)</u> |
| Operating (loss) income | <u>(\$ 7,549)</u> | <u>\$ 5,866</u> | <u>\$ 23,376</u> | <u>\$ 126,481</u> | <u>\$ 114</u> | 148,288 |
| Costs, expenses and income not allocated | | | | | | <u>(71,677)</u> |
| Income before discontinued operations | | | | | | <u>\$ 76,611</u> |
| Total assets by segment | \$361,369 | \$ 52,669 | \$ 59,164 | \$2,181,371 | | \$2,654,573 |
| Shared assets and discontinued operations | _____ | _____ | _____ | _____ | \$292,020 | 292,020 |
| Total assets | <u>\$361,369</u> | <u>\$ 52,669</u> | <u>\$ 59,164</u> | <u>\$2,181,371</u> | <u>\$292,020</u> | <u>\$2,946,593</u> |

| <u>December 31, 1998</u> | <u>Specialized Maritime Division</u> | <u>Logistics Division</u> | <u>Ports and Terminals Division</u> | <u>Railroad Division</u> | <u>Elimination between segments and shared accounts</u> | <u>Total consolidated</u> |
|---|--|-------------------------------|---|------------------------------|---|-------------------------------|
| Total revenues | \$161,502 | \$52,937 | \$64,210 | \$480,209 | (\$ 18,149) | \$ 740,709 |
| Operating cost and expenses | (127,730) | (47,286) | (33,684) | (348,587) | 25,973 | (531,314) |
| Depreciation and amortization | <u>(7,679)</u> | <u>(2,836)</u> | <u>(5,304)</u> | <u>(72,460)</u> | <u>(10,019)</u> | <u>(98,298)</u> |
| Operating income (loss) | <u>\$ 26,093</u> | <u>\$ 2,815</u> | <u>\$25,222</u> | <u>\$ 59,162</u> | <u>(\$ 2,195)</u> | 111,097 |
| Costs, expenses and income not allocated | | | | | | <u>(106,882)</u> |
| Income before discontinued operations | | | | | | <u>\$ 4,215</u> |

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

a) Commitments:

Concession duty

In accordance with the Concession granted to TFM, the Government has the right to receive a payment from the Company equivalent to 0.5% of the gross revenue during the first 15 years of the Concession period and 1.25% during the remaining years of the Concession period. For the years ended December 31, 1998, 1999 and 2000 and for the six months period ended June 30, 2000 and 2001, the concession duty expense amounted to \$2,135, \$2,751, \$3,334, \$1,867 (unaudited) and \$1,997 (unaudited), respectively, which were recorded as operating expense.

Locomotive operating leases

In May 1998 and September 1999, Grupo TFM entered into operating lease agreements for 75 locomotives each one, which expire over the next 18 and 19 years respectively. At the end of the contracts the locomotives will be returned to the lessor. As of December 31, 2000 and June 30, 2001, Grupo TFM has received 141 and 150 locomotives, respectively. Lease payments under these agreements amounted to \$7.3 million, \$10.6 million and \$18.6 million for the years ended at December 31, 1998, 1999 and 2000 and \$7.4 (unaudited) and \$13.5 (unaudited) for the six-months periods ended June 30, 2000 and 2001, respectively.

Future minimum payments at June 30, 2001, under the aforementioned leases, per year and in the aggregate, are shown in the following page.

| <u>Year ending December 31,</u> | <u>Amount</u> (unaudited) |
|-------------------------------------|------------------------------|
| 2001 | \$ 15,171 |
| 2002 | 28,720 |
| 2003 | 28,720 |
| 2004 | 28,720 |
| 2005 and thereafter | <u>408,011</u> |
| | <u>\$509,342</u> |

Railcars operating leases

Grupo TFM leases certain railcars under agreements which are classified as operating leases. The term of the contracts is from 3 to 15 years. Future minimum lease payments at June 30, 2001, under these agreements are shown as follows:

| <u>Year ending December 31,</u> | <u>Amount</u> (unaudited) |
|-------------------------------------|------------------------------|
| 2001 | \$ 17,249 |
| 2002 | 28,294 |
| 2003 | 15,612 |
| 2004 | 14,840 |
| 2005 and thereafter | <u>70,513</u> |
| | <u>\$146,508</u> |

Locomotive maintenance agreements

Grupo TFM has entered into two locomotives maintenance agreements with third-party contractors, which expire in 2004 and 2018. Under current arrangements, the contractors provide both routine maintenance and major overhauls at an established rate in a range from four to five hundred dollars per locomotive per day.

Track maintenance and rehabilitation agreement

In May 2000, Grupo TFM entered into a track maintenance and rehabilitation agreement, which expires in 2012. Under this contract, the contractor provides both routine maintenance and major rehabilitation to the Celaya-Lázaro Cárdenas stretch, which is comprised of approximately 350 miles. Maintenance and rehabilitation expense amounted to \$2.3 million in 2000 and \$4.7 (unaudited) for the period of six months ended June 30, 2001. Under this agreement, the Company will pay approximately \$97 million in the following 12 years.

Fuel purchase agreement

On December 19, 1997, the Company entered into a fuel purchase agreement with PEMEX REFINACIÓN, under which the Company has the obligation to purchase a minimum of 29,550 cubic meters and a maximum of 42,400 cubic meters per month of PEMEX diesel at market value. The term of the agreement is indefinite, but can be terminated for justified reasons by either of the parties with a written notification three months in advance.

Leases and/or charters

The Company uses various time-chartered vessels to supplement its fleet for periods ranging from seven months to ten years. The related charter expenses were to \$63,634 in 2000, \$40,440 in 1999, \$61,528 in 1998, \$27,392 (unaudited) and \$28,497 (unaudited) for the six months period ended June 30, 2000 and 2001, respectively. In addition, at the end of 1998, the Company leased several cranes for periods from two to five years for use in a port. Rental payments for these cranes amounted \$6,439 in 2000, \$3,941 in 1999, \$3,186 (unaudited) and \$3,199 (unaudited) for the period of six months ended June 30, 2000 and 2001, respectively.

An analysis of minimum future charter and lease payments specified in the related agreements at June 30, 2001 is as follows:

| <u>Year</u> | <u>Amount</u> (unaudited) |
|-------------|------------------------------|
| 2001 | \$ 14,820 |
| 2002 | 27,384 |
| 2003 | 24,671 |
| 2004 | 12,507 |
| 2005 | 9,361 |
| 2006-2008 | <u>17,322</u> |
| | <u>\$106,065</u> |

Obligation pertaining to a public bid for port operations

As part of the competitive bidding process to obtain the concession to operate the Ports of Manzanillo and Progreso, and the integral port administration of Acapulco, the Company agreed to invest \$ 1,000 in infrastructure after December 31, 2000, as well as to make monthly rental payments. Such payments totaled \$ 6,636 in 2000 and \$4,117 (unaudited) for the six-month period ended June 30, 2001.

Purchase- sale of shares between SSA and TMM

With respect to the share purchase sale agreement between SSA and TMM mentioned in Note 2a., TMM granted SSA the irrevocable right to purchase all (but not less than all) of the shares of the Joint Ports Business at any time, should certain credit requirements not be met.

B) Contingencies

- Grupo TFM has filed a claim for the refund of approximately Ps2,111 million (\$262 million) of value added tax paid in connection the acquisition of the Concession and the related assets. Grupo TFM has recorded a receivable and a full reserve for doubtful accounts in this amount in its financial statements.
- In 2000, TMM and some of its subsidiaries assumed joint and several responsibility for the pre-payment of federal taxes for some of the Groups' other subsidiaries, having informed the Ministry of Finance and Public Credit of the tax liabilities that such subsidiaries had generated, on the understanding that the former would be jointly and severally liable for payments of such taxes.
- In September 1998, the European Commission issued a partial ruling on the Transatlantic Conference Accord Procedures and imposed administrative fines on all Conference participants. The fine imposed on TMM and Tecomar, Ltd., a subsidiary company, was \$6,928. TMM has asked the Court to reverse the decision or to reduce the fine; however, no ruling has been handed down on the matter to date. TMM recorded a provision of \$3,000 for the payment of this fine, since it does not expect the amount that will eventually be paid to exceed \$3,000.
- At December 31, 2000 and at the date of this report, Grupo has requested an injunction relief from the Supreme Court, which has not yet been granted, against different legal provisions contained in the Tax Consolidation Regime as from January 1, 1999. The main claim relates to the consolidation of only 60% of the results of the Company's subsidiaries, rather than 100%.
- TMM and KCSI hold an option to acquire Ferrocarriles Nacionales de México's Grupo TFM shares through July 31, 2002, which is exercisable at \$198.8 million plus interest based upon one year U.S. Treasury rates.
- The Mexican Government has retained a 20% interest in TFM's shares and has reserved the right to sell such shares by October 31, 2003 in a public offering. In the event that such public offering does not occur by October 31, 2003, Grupo TFM may purchase the Mexican Government's equity interest in TFM at a purchase price equal to the per share price initially paid by Grupo TFM, indexed based on Mexican inflation. If Grupo TFM does not purchase the Government's TFM interest, the Government may require TMM and KCSI to purchase the TFM shares at the price discussed above.

NOTE 15 - LABOR OBLIGATIONS:

Seniority premiums and retirement plan benefits (“pension benefits”) obligations are recorded as cost for the years in which the services are rendered, by recording a provision against which contributions are made to an irrevocable trust fund. Both items are based on actuarial calculations using the projected unit credit method. Pension benefits are based mainly on years of service, age and salary upon retirement.

Seniority premiums and pensions charged to income include the amortization of past service costs over the average remaining working lifetime of employees.

For the year ended December 31, 2000, the cost (income) was (\$428) (\$1,031 in 1999 and \$1,801 in 1998), and (\$214) (unaudited) and \$795 (unaudited) for the six-months periods ended June 30, 2000 and 2001, respectively. The following is a breakdown of the labor cost, together with the actuarial estimation of the present value of this benefits, as well as the basic actuarial assumptions for the calculation of those labor obligations.

| | <u>Year ended</u> <u>December 31,</u> | | | <u>Six months ended</u> <u>June 30,</u> | |
|---|--|--------------------|---------------------|--|--------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> | <u>2001</u> |
| | | | | (unaudited) | |
| Labor cost | \$1,223 | \$ 671 | \$ 626 | \$313 | \$388 |
| Financial cost | 1,065 | 996 | 988 | 494 | 587 |
| Return on trust assets | (453) | (509) | (234) | (117) | (117) |
| Amortization of the transitory obligation and variations in assumptions | (34) | (127) | (92) | (46) | (63) |
| Effect of employee reduction | _____ | _____ | <u>(1,716)</u> | <u>(858)</u> | _____ |
| Net period cost (benefit) | <u>\$1,801</u> | <u>\$1,031</u> | <u>(\$ 428)</u> | <u>(\$214)</u> | <u>\$795</u> |
| | | | <u>December 31,</u> | | <u>June 30,</u> |
| | | | <u>1999</u> | <u>2000</u> | <u>2001</u> |
| | | | | | (unaudited) |
| Reserve for pension and seniority premiums: | | | | | |
| Projected benefit obligations | | (\$ 12,845) | (\$ 13,673) | | (\$ 15,771) |
| Plan assets | | 2,655 | 2,900 | | 3,174 |
| Unamortized transition asset | | <u>(1,404)</u> | <u>(574)</u> | | <u>(242)</u> |
| Reserve for pensions and seniority premiums | | <u>(\$ 11,594)</u> | <u>(\$ 11,347)</u> | | <u>(\$ 12,839)</u> |

The economic hypotheses with respect to the discount rate, the increase in salaries and the long-term return on plan assets considered in determining the projected benefit obligation were 8% in 1998, 7% in 1999 and 8% in 2000.

Plan assets consist basically of fixed-rate investments, marketable securities authorized for pension plans by the Mexican National Banking and Securities Commission as well as Mexican Bonds.

As of June 30, 2001, 64.7% of the Company's employees are covered under a collective bargaining agreements. Under these labor agreements, the compensation terms of the collective bargaining agreements are subject to renegotiation on an annual basis, whereas all other terms are to be renegotiated every two years.

NOTE 16 - RECONCILIATION OF DIFFERENCES BETWEEN IAS AND US GAAP:

The Company's consolidated financial statements are prepared in accordance with IAS which differ in certain material respects from US GAAP.

The main differences between IAS and US GAAP are summarized in the following pages. An explanation is provided when considered necessary of the effects on the consolidated operating results and on stockholders' equity.

a. Reconciliation between consolidated results:

| | Reference to subnote d. | Year ended December 31, | | | Six months ended June 30, | |
|---|----------------------------|----------------------------|-------------|------------|------------------------------|------------|
| | | 1998 | 1999 | 2000 | 2000 (unaudited) | 2001 |
| Net income of continuous operations under IAS | | \$ 4,215 | \$ 76,611 | \$ 7,265 | \$ 6,480 | \$ 2,595 |
| Deferred gain on building and vessels arising from sales and lease back transactions - net | i. | (11,944) | 4,001 | (11,534) | (15,600) | 3,800 |
| Pension and seniority premium plan | ii. | (279) | (172) | (2,021) | (1,010) | 32 |
| Compensated absences | iii. | (982) | 361 | 680 | 340 | |
| Preoperating expenses not capitalized with IAS 38 | iv. | 1,717 | 1,414 | | | |
| Translation adjustments | v. | (12,136) | 1,985 | 1,790 | 894 | 4,195 |
| Deferred taxes | vi. | (8,605) | (39,279) | 4,991 | 6,528 | (15,270) |
| Effect of US GAAP adjustments on minority interest | vii. | 24,394 | 59,918 | 2,314 | 3,506 | 5,673 |
| Goodwill derived from subsidiaries acquisition | ix. | | (1,414) | | | |
| Financing costs expensed for the pre-payment of the senior credit facilities | x. | | | 5,075 | | |
| (Loss) income from continuing operations before cumulative effect of the accounting change related to the costs of start-up activities (SOP 98-5) and discontinued operations, according to US GAAP | | (3,620) | 103,425 | 8,560 | 1,138 | 1,025 |
| Cumulative effect of the accounting change related to the costs of start-up activities (SOP 98-5), according to US GAAP - net | iv. | | (8,987) | | | |
| (Loss) income before discontinued operations and extraordinary item under US GAAP | | (3,620) | 94,438 | 8,560 | 1,138 | 1,025 |
| Loss from discontinued operations under IAS | | (13,807) | (139,259) | (5,535) | (7,066) | (3,917) |
| Effect to US GAAP adjustments on discontinued operations | viii. | (2,226) | (25,942) | 798 | | |
| Net loss on discontinued operations under US GAAP | | (16,033) | (165,201) | (4,737) | (7,066) | (3,917) |
| Net (loss) income before extraordinary item under US GAAP | | (19,653) | (70,763) | 3,823 | (5,928) | (2,892) |
| Extraordinary item, net | x. | | | (5,075) | | |
| Net loss under US GAAP | | (\$ 19,653) | (\$ 70,763) | (\$ 1,252) | (\$ 5,928) | (\$ 2,892) |

b. Reconciliation of stockholders' equity:

| | Reference to subnote d. | <u>December 31,</u> | | <u>June 30,</u> |
|--|----------------------------|---------------------|-------------------|----------------------------|
| | | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Balance under IAS | | \$ 7,649 | \$ 9,379 | \$ 8,057 |
| Deferred gain on building and vessels arising from sales and lease back transactions- Net | i. | (16,595) | (26,203) | (22,403) |
| Pension and seniority premium plan | ii. | 819 | 2,068 | 2,319 |
| Provision for vacations | iii. | (1,200) | | |
| Deferred taxes | vi. | (69,340) | (65,829) | (77,123) |
| Effect of US GAAP adjustments on minority interest | vii. | 68,923 | 71,237 | 76,910 |
| Goodwill derived from subsidiaries acquisition | ix. | <u>1,648</u> | <u> </u> | <u> </u> |
| Balance under US GAAP | | <u>(\$ 8,096)</u> | <u>(\$ 9,348)</u> | <u>(\$12,240)</u> |

c. Analysis of changes in stockholders' equity under US GAAP:

| | <u>December 31,</u> | | <u>June 30,</u> |
|--------------------------------|---------------------|-------------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Balance at beginning of period | \$62,667 | (\$ 8,096) | (\$ 9,348) |
| Net loss | <u>(70,763)</u> | <u>(1,252)</u> | <u>(2,892)</u> |
| Balance at end of period | <u>(\$ 8,096)</u> | <u>(\$ 9,348)</u> | <u>(\$12,240)</u> |

d. Significant differences between IAS and US GAAP:

i. Deferred gain on sales and lease back transactions arising from disposal of building and vessels

Under IAS, the Company recognized a gain on the sale of its corporate building in 2000, three vessels in 1998 and two in 1997, which were leased back for a period of five years in 2000 and five and eight years in 1998 and five years in 1997, respectively, without any obligation to repurchase. Under IAS, the gains were recognized at the respective transactions dates whereas US GAAP, the gains be deferred and amortized over the terms of the lease contracts. Accordingly, the gains and the related deferred income tax effects are being recognized over such leaseback periods.

| | <u>Year ended December 31,</u> | | | <u>Six months ended June 30,</u> | |
|-----------------------------|------------------------------------|-----------------|--------------------|--------------------------------------|----------------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> (unaudited) | <u>2001</u> (unaudited) |
| Deferred gain under US GAAP | (\$ 13,291) | | (\$ 17,844) | (\$ 17,844) | |
| Deferred gain amortization | <u>1,347</u> | <u>\$ 4,001</u> | <u>6,310</u> | <u>2,244</u> | <u>\$ 3,800</u> |
| | <u>(\$ 11,944)</u> | <u>\$ 4,001</u> | <u>(\$ 11,534)</u> | <u>(\$ 15,600)</u> | <u>\$ 3,800</u> |

ii. Pension and seniority premium plan

The Company accrues expenses for the pension and seniority premium plan on the basis of actuarial computations. Retirement benefits are based primarily on years of service, age, and the employee's pay at retirement. The difference between IAS and US GAAP relates mainly to the amortization of transition liability, variances in assumptions and the effect on employee reduction.

The pension and seniority premium plans liability is as follows:

| | <u>December 31</u> | | <u>June 30,</u> |
|--|--------------------|------------------|----------------------------|
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Actuarial present value of benefit obligations: | | | |
| Vested benefit obligation | \$ 4,735 | \$ 6,343 | \$ 6,343 |
| Nonvested benefit obligation | <u>3,400</u> | <u>2,868</u> | <u>3,279</u> |
| Accumulated benefit obligation | 8,135 | 9,211 | 9,622 |
| Additional benefits related to future compensation increases | <u>4,710</u> | <u>4,456</u> | <u>4,456</u> |
| Projected benefit obligation | <u>\$ 12,845</u> | <u>\$ 13,667</u> | <u>\$ 14,078</u> |

The change in the pension plan benefit obligation is as follows:

| | <u>December 31</u> | | June 30, <u>2001</u> (unaudited) |
|---|--------------------|------------------|--|
| | <u>1999</u> | <u>2000</u> | |
| Benefit obligation at beginning of year | \$ 17,455 | \$ 12,845 | \$ 13,667 |
| Service cost | 794 | 895 | 448 |
| Interest cost | 996 | 988 | 494 |
| Actuarial gain | (5,847) | (369) | (185) |
| Benefits paid | <u>(553)</u> | <u>(692)</u> | <u>(346)</u> |
| Benefit obligation at end of year or period | <u>\$ 12,845</u> | <u>\$ 13,667</u> | <u>\$ 14,078</u> |

The change in projected plan assets and funded status of the plan is as follows:

| | <u>December 31</u> | | June 30, <u>2001</u> (unaudited) |
|---|--------------------|-----------------|--|
| | <u>1999</u> | <u>2000</u> | |
| Fair value of plan assets at beginning of year | \$ 5,181 | \$ 2,655 | \$ 2,900 |
| Exchange gain (loss) on value of plan assets at beginning of year | (2,294) | 58 | (259) |
| Actual return on plan assets | 321 | 879 | 879 |
| Benefits paid | <u>(553)</u> | <u>(692)</u> | <u>(346)</u> |
| Fair value of plan assets at end of year | <u>\$ 2,655</u> | <u>\$ 2,900</u> | <u>\$ 3,174</u> |

| | <u>December 31</u> | | June 30, <u>2001</u> (unaudited) |
|---|--------------------|-------------------|--|
| | <u>1999</u> | <u>2000</u> | |
| Funded status | (\$ 10,190) | (\$ 10,767) | (\$ 12,597) |
| Unrecognized net actuarial loss (gain) | 572 | 2,273 | 2,470 |
| Unrecognized net transition obligation and intangible asset | <u>(1,157)</u> | <u>(785)</u> | <u>(393)</u> |
| Accrued benefit cost | <u>(\$ 10,775)</u> | <u>(\$ 9,279)</u> | <u>(\$ 10,520)</u> |

The difference between reserve for pensions and seniority premiums costs under SFAS No. 87 and IAS 19 were as follows:

| | Year ended December 31, | | | Six-month period ended June 30, | |
|--|----------------------------|----------|------------|------------------------------------|---------------------|
| | 1998 | 1999 | 2000 | 2000 | 2001 (unaudited) |
| Net cost (benefit) of pension and seniority premiums under IAS | \$1,801 | \$1,031 | (\$ 428) | (\$ 214) | \$ 795 |
| Net (cost) benefit of pension and seniority premiums under US GAAP | (2,080) | (1,203) | 1,593 | (796) | (763) |
| US GAAP net income adjustment | (\$ 279) | (\$ 172) | (\$ 2,021) | (\$ 1,010) | \$ 32 |

| | December 31, | | June 30, |
|--|--------------|-----------|---------------------|
| | 1999 | 2000 | 2001 (unaudited) |
| Reserve for pension and seniority premiums under IAS | \$ 11,594 | \$ 11,347 | \$ 12,839 |
| Reserve for pension and seniority premiums under US GAAP | (10,775) | (9,279) | (10,520) |
| US GAAP stockholders equity adjustment | \$ 819 | \$ 2,068 | \$ 2,319 |

iii. Compensated absences

Under US GAAP, SFAS 43 requires an employer to accrue a liability for employees' rights to receive compensation for future absences such as vacations and holidays. Up to December 31, 1999 the Company did not accrue this liability for IAS purposes. Starting in 2000, the Company accrues a liability for employees' rights to receive compensation for future absences under IAS and therefore, on a go-forward basis, there will be no differences with IAS.

iv. Reporting on the costs of start-up activities

Under IAS 38 "Intangible Assets", the Company expenses preoperating expenses as incurred.

Under US GAAP, in April 1998, the AICPA issued Statement of Position 98-5 (“SOP 98-5”), Reporting the costs of start-up activities, which requires that costs related to start-up activities be expensed as incurred. Prior to 1998, the Company capitalized its preoperating expenses and other projects expenses. The Company adopted the provisions of the SOP 98-5 in its financial statements for the year ended December 31, 1999 and consequently, wrote-off the cumulative capitalize costs which has been reflected as a cumulative effect of an accounting change of \$11,852, net of taxes of \$8,987.

v. Translation adjustments

These differences are related to the effects of exchange rates on deferred taxes, pension and seniority premium costs and liabilities, which these are calculated in pesos and translated to U.S. dollars, as follows:

| | <u>Year ended December 31,</u> | | | <u>Six-month period ended June 30,</u> | |
|------------------------------------|------------------------------------|-----------------|-----------------|--|-----------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> | <u>2001</u> |
| | | | | (unaudited) | |
| Translation adjustment on: | | | | | |
| Pension and seniority premium plan | (\$ 1,103) | \$ 94 | \$3,270 | \$ 1,634 | \$ 219 |
| Deferred taxes | <u>(11,033)</u> | <u>1,891</u> | <u>(1,480)</u> | <u>(740)</u> | <u>3,976</u> |
| | <u>(\$ 12,136)</u> | <u>\$ 1,985</u> | <u>\$ 1,790</u> | <u>\$ 894</u> | <u>\$ 4,195</u> |

vi. Deferred income tax

As mentioned in Note 3, income tax is recorded in accordance with IAS 12 (revised), which among other provisions, requires the recognition of deferred taxes for non-monetary assets indexed for tax purposes. Under US GAAP, the Company follows the procedures established in SFAS No. 109 “Accounting for Income Taxes”. This statement does not permit recognition of deferred taxes for differences related to assets and liabilities that are remeasured from local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax purposes.

For US GAAP purposes the deferred tax computation on non-monetary assets and liabilities is based on current historical pesos whereas for IAS purposes amounts in historical US dollars are considered for book purposes and for tax purposes indexation is recognized. Therefore, deferred tax liabilities for US GAAP purposes are less than the related amounts for IAS purposes.

In Mexico, companies are required to pay their employees a portion of net income as defined by specific regulations. For US GAAP purposes, deferred profit sharing liabilities or assets would be recorded for temporary differences that may arise in the determination of the current liability based on the statutory rate of 10%. These temporary differences are similar to those that exist for deferred income tax purposes. IAS does not require the establishment of deferred tax assets or liabilities for these differences. US GAAP, employee profit sharing would be considered as operating expense.

The deferred tax adjustment included in the consolidated results and stockholders' equity reconciliations, also include the effect of deferred taxes on the other US GAAP adjustments.

vii. Effects of U.S. GAAP adjustments on minority interest

This item corresponds to the effect of US GAAP adjustments on minority interest.

viii. Reconciling items on discontinued operations

These items relate to the cumulative US GAAP adjustments related to operations of the companies that were discontinued (See Note 2b.).

| | <u>Year ended December 31,</u> | | | <u>Six month ended June 30,</u> | |
|---|------------------------------------|--------------------|-------------------|-------------------------------------|----------------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> (unaudited) | <u>2001</u> (unaudited) |
| Deferred gain on vessels arising from sales and lease back transactions - Net | \$ 321 | \$ 321 | \$ 1,926 | \$ - | \$ - |
| Pension and seniority premium plan | 217 | 3,873 | | | |
| Provision for vacations | (534) | | 520 | | |
| Goodwill derived from subsidiaries acquisition | (118) | (118) | (1,648) | | |
| Deferred taxes | <u>(2,112)</u> | <u>(30,018)</u> | <u> </u> | <u> </u> | <u> </u> |
| | <u>(\$ 2,226)</u> | <u>(\$ 25,942)</u> | <u>\$ 798</u> | <u>\$ -</u> | <u>\$ -</u> |

ix. Goodwill derived from subsidiaries acquisition

Under US GAAP, the purchase method of accounting requires the acquiring company to record at fair value the assets acquired and liabilities assumed, and the recognition of deferred income taxes on existing temporary differences. The difference between US GAAP and IAS relates to pre-1998 acquisitions for which there is a goodwill basis difference as a result of the recognition of deferred taxes for US GAAP purposes at the acquisition dates.

x. Extraordinary item

Under IAS, deferred financing costs expensed for the pre-payment of the senior credit facilities for an amount of \$9,227 were included in interest expense, while under US GAAP, it would be included in the income statement as an extraordinary item, net of taxes (\$5,075).

xi. Sales and disposals of fixed assets

In accordance with Standard Accounting Board (SAB) 101, the sale and disposal of fixed assets should be included in other operating expenses. Under IAS, these expenses are included in other expenses - net. For the years ended December 31, 1998, 1999 and 2000, sales and disposals of fixed assets amounted to \$10,685, (\$16,367) and (\$7,854), and \$311 (unaudited) and \$60,744 (unaudited) for the six-month periods ended at June 30, 2000 and 2001, respectively.

xii. Effect of recently issued accounting standards

- In June 1998, the Financial Accounting Standard Board ("FASB") issued Statement No. 133 "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS 133"), which requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction. In June 2000, the FASB issued Statement No. 138 "*Accounting for Derivative Instruments and Hedging Activities - an amendment of SFAS 133*". This amendment addressed certain issues causing implementation difficulties for entities that have adopted or will adopt SFAS 133. This statement is effective for fiscal years beginning after June 15, 2000.

The effect of adoption of this statement has not been significant.

- During the first quarter of 2001, the Company adopted FAS 140, "Accounting for Transfers and Services of Financial Assets and Extinguishments of Liabilities". As a result of the adoption of FAS 140, the Company did not have any impact in its financial position, results of operations, or cash flows.

- On July 20, 2001, the FASB issued Statements of Financial Accounting Standards No. 141 ("FAS 141"), "*Business Combinations*", and No. 142 ("FAS 142"), "*Goodwill and Other Intangible Assets*".

FAS 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "*Business Combinations*". The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill, and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

FAS 142 supersedes APB 17, *“Intangible Assets”*. FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting). The provisions of FAS 142 will be effective for fiscal years beginning after December 15, 2001. However, early adoption of FAS 142 will be permitted for companies with a fiscal year beginning after March 15, 2001, provided interim financial statements for periods after March 15, 2001 have not been previously issued. In all cases, FAS 142 must be adopted at the beginning of a fiscal year. The most significant changes made by FAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

- On August 15, 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (“FAS 143”) *“Accounting for Asset Retirement Obligations”*. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. This Statement amends FASB Statement No. 19, *“Financial Accounting and Reporting by Oil and Gas Producing Companies”*. This Statement also requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged.
- On October 4, 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (“FAS 144”) *“Accounting for the Impairment or Disposal of Long-Lived Assets”*. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, *“Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of”*, and the accounting and reporting provisions of APB Opinion No. 30, *“Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”*, for the disposal of a *segment of a business* (as previously defined in that Opinion). This Statement also amends ARB No. 51, *“Consolidated Financial Statements”*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. *Long-Lived Assets to Be Held and Used*. This Statement retains the requirements of Statement 121 to (a) recognize an impairment loss only if the carrying amount of a long-

lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. *Long-Lived Assets to Be Disposed Of Other Than by Sale*. This Statement requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed of. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively.

The Company is presently evaluating the impact if any, that these new standards (FAS 141 to 144) will have on its consolidated financial statements.

e. Condensed consolidated balance sheets and income statements

Below are the condensed balance sheets and income statements reflect the effects of the principal differences between IAS and US GAAP.

| | <u>Condensed consolidated balance sheet</u> | | |
|--|---|--------------------|----------------------------|
| | <u>December 31,</u> | | <u>June 30</u> |
| | <u>1999</u> | <u>2000</u> | <u>2001</u> (unaudited) |
| Total current assets | \$ 504,524 | \$ 356,956 | \$ 383,342 |
| Concession rights and related assets - Net | 1,382,646 | 1,327,711 | 1,299,094 |
| Property, machinery and equipment - Net | 619,467 | 624,682 | 649,425 |
| Deferred taxes | 136,260 | 164,429 | 140,297 |
| Other non-current assets | <u>219,409</u> | <u>103,391</u> | <u>186,731</u> |
| Total assets | <u>\$2,862,306</u> | <u>\$2,577,169</u> | <u>\$2,658,889</u> |
| Total short-term liabilities | \$ 791,406 | \$ 254,586 | \$ 261,361 |
| Total long-term liabilities | <u>1,123,467</u> | <u>1,298,301</u> | <u>1,328,115</u> |
| Total liabilities | <u>1,914,873</u> | <u>1,552,887</u> | <u>1,589,476</u> |
| Minority interest | <u>955,529</u> | <u>1,033,630</u> | <u>1,081,653</u> |
| Capital stock | 29,900 | 29,900 | 29,900 |
| Deficit | (39,926) | (41,178) | (44,070) |
| Other equity accounts | <u>1,930</u> | <u>1,930</u> | <u>1,930</u> |
| Total stockholders' equity | <u>(8,096)</u> | <u>(9,348)</u> | <u>(12,240)</u> |
| Total liabilities and stockholders' equity | <u>\$2,862,306</u> | <u>\$2,577,169</u> | <u>\$2,658,889</u> |

Condensed Consolidated Statement of Income

| | <u>Year ended December 31,</u> | | | <u>Six months ended June 30,</u> | |
|--|--------------------------------|--------------------|-------------------|--------------------------------------|-------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2000</u> (unaudited) | <u>2001</u> |
| Transportation and service revenues | \$740,709 | \$844,666 | \$989,934 | \$475,784 | \$491,442 |
| Total costs and operating expenses | <u>632,987</u> | <u>700,214</u> | <u>819,044</u> | <u>364,077</u> | <u>397,500</u> |
| Operating income | 107,722 | 144,452 | 170,890 | 111,707 | 93,942 |
| Other (expenses) income - net | (2,660) | 8,709 | 27,128 | (12,726) | 52,966 |
| Net comprehensive financing cost | <u>(184,803)</u> | <u>(160,675)</u> | <u>(157,595)</u> | <u>(80,039)</u> | <u>(58,530)</u> |
| (Loss) income before benefit (provision) for income taxes, minority interest, cumulative effect of the accounting change, discontinued operations and extraordinary item | (79,741) | (7,514) | 40,423 | 18,942 | 88,378 |
| Benefit (provision) for deferred income taxes | 67,612 | 11,148 | 23,466 | 19,132 | (28,923) |
| Minority interest | <u>8,509</u> | <u>99,791</u> | <u>(55,329)</u> | <u>(36,936)</u> | <u>(58,430)</u> |
| (Loss) income before cumulative effect of the accounting change, discontinued operations and extraordinary item | (3,620) | 103,425 | 8,560 | 1,138 | 1,025 |
| Cumulative effect of the accounting change | <u> </u> | <u>(8,987)</u> | <u> </u> | <u> </u> | <u> </u> |
| (Loss) income before discontinued operations and extraordinary item | (3,620) | 94,438 | 8,560 | 1,138 | 1,025 |
| Discontinued operations - Net | <u>(16,033)</u> | <u>(165,201)</u> | <u>(4,737)</u> | <u>(7,066)</u> | <u>(3,917)</u> |
| Net (loss) income before extraordinary item | (19,653) | (70,763) | 3,823 | (5,928) | (2,892) |
| Extraordinary item, net of tax | <u> </u> | <u> </u> | <u>(5,075)</u> | <u> </u> | <u> </u> |
| Net (loss) income for the period | <u>(\$ 19,653)</u> | <u>(\$ 70,763)</u> | <u>(\$ 1,252)</u> | <u>(\$ 5,928)</u> | <u>(\$ 2,892)</u> |
| Net income (loss) per share: | | | | | |
| From continuous operations | (\$ 1.124) | \$ 7.547 | \$ 0.491 | \$ 0.065 | \$ 0.059 |
| From cumulative effect | | (0.656) | | | |
| From discontinued operations | (4.980) | (12.054) | (0.272) | (0.405) | (0.225) |
| From extraordinary item | <u> </u> | <u> </u> | <u>(0.291)</u> | <u> </u> | <u> </u> |
| Net | <u>(\$ 6.104)</u> | <u>(\$ 5.163)</u> | <u>(\$ 0.072)</u> | <u>(\$ 0.340)</u> | <u>(\$ 0.166)</u> |
| Weighted average of shares (thousands) | <u>3,220</u> | <u>13,705</u> | <u>17,442</u> | <u>17,442</u> | <u>17,442</u> |