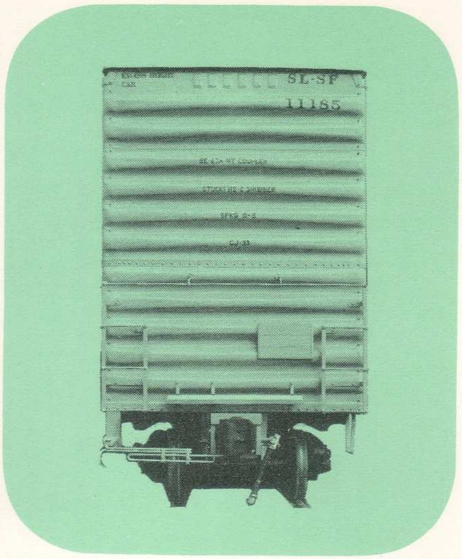
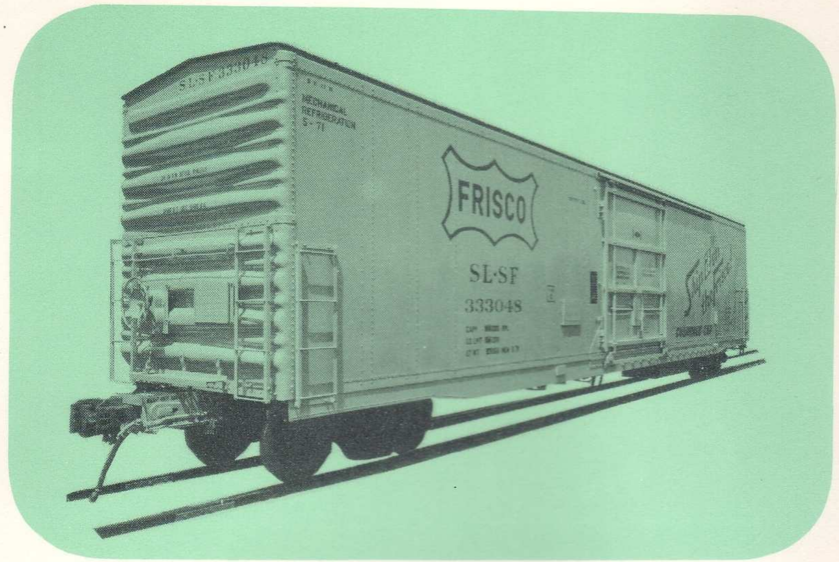
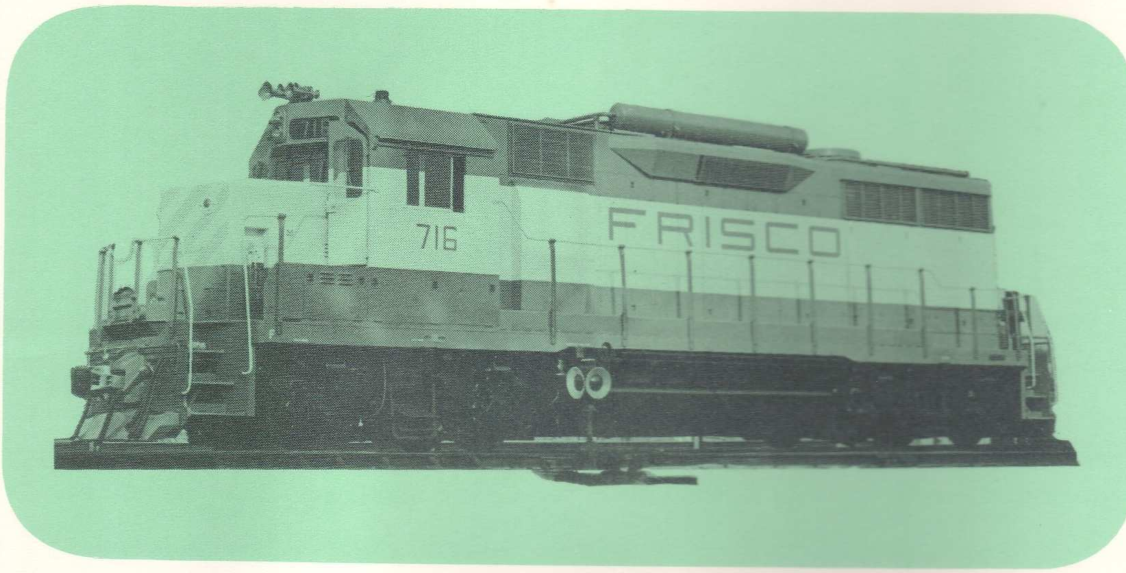
ST. LOUIS-SAN FRANCISCO
RAILWAY COMPANY

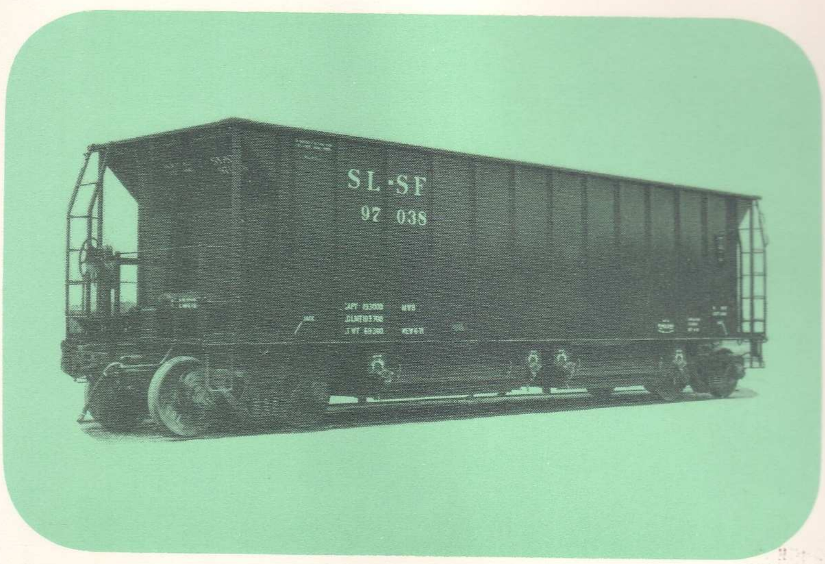
annual report/1971

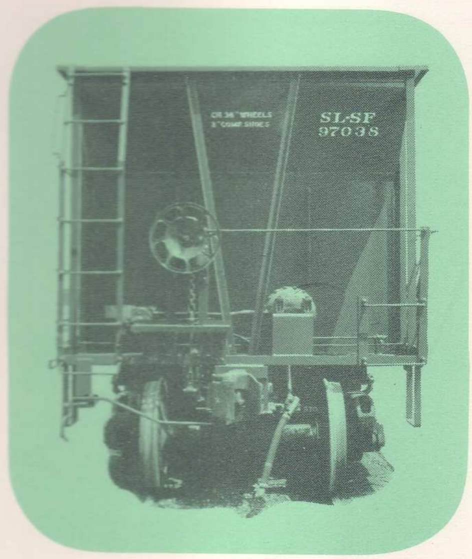




FRISCO “Dedicated to Service and Progress”







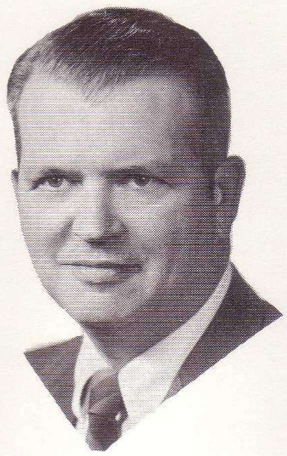
contents

OFFICERS

J. E. GILLILAND
Chairman of the Board

R. C. GRAYSON
President and
Chief Executive Officer

E. D. GRINNELL, JR.
Vice President-Traffic
and Industrial Development



J. H. BROWN
Vice President-Operation

J. E. McCULLOUGH
Vice President
and General Counsel

H. B. PARKER
Vice President-Finance
and Treasurer

J. K. BESHEARS
Vice President-Personnel

G. E. BAILEY
Vice President
and Secretary

P. E. ODOM
Vice President
Management Services

J. W. TIPTON
Vice President
Intermodal Services

TO FRISCO STOCKHOLDERS:

March 3, 1972

Frisco's earnings per share were $5.56 in 1971, second only to the record year of 1952 and 8.9% ahead of the year before. Record revenues and larger tax benefits were important factors in the Frisco's improved earnings which were squeezed between inflationary wage-price increases and a soft, strike-ridden economy. Earnings also were adversely affected by sharply higher rental payments for the use of equipment owned by other railroads under the new car hire charges imposed by the Interstate Commerce Commission.

Revenues reached an all-time high chiefly under the influence of freight rate increases, as falling industrial production was accompanied by a 0.8% drop in carloadings. With larger freight cars and longer hauls, however, our traffic volume—as measured by revenue ton-miles of service—rose 1.6%.

Our operating results were materially affected by two separate work stoppages in the railroad industry, the first in May when all rail carriers were struck for two days by railroad signalmen and the second in the last half of July and early August when selected rail carriers were struck for eighteen days by the United Transportation Union. While in the latter instance the Frisco was not among those carriers struck, the work stoppage on ten other railroads affected our traffic and cost your Company just over $1 million in additional premiums on its Service Interruption Policy. Freight volume was further constricted by a drought in Northwest Texas and Southwest Oklahoma and by dock and coal strikes.

In the face of steeply rising unit costs, programmed maintenance work was measurably increased in both the roadway and mechanical departments to meet higher maintenance standards. Similarly, we continued our investment in the future through a capital spending program geared not only to meet the growing transportation demands of our territory but also to better cope with the rising unit costs of doing business. Wages and prices were up sharply in 1971 but the number of cents spent from each revenue dollar for operation showed a marked improvement. In 1970 we spent 74.6 cents from each revenue dollar for operating the property, while in 1971 we spent only 73.9 cents.

For the rail industry as a whole, 1971 was not without some signs of encouragement, marked as it was by the inauguration of Amtrak, the restoration of the investment tax credit, and the first step toward modernizing long controversial work rules which hamstring efforts to improve productivity. Heartening too was the introduction of the Surface Transportation Act of 1971 by Senator Vance Hartke of Indiana and Representative Brock Adams of Washington in corresponding bills S2362 in the U. S. Senate and HR11207 in the U. S. House of Representatives. In an historic agreement, rail, motor and water carriers have pledged their joint support of this important legislation to restore and maintain the financial soundness of the nation's surface transportation. Details will be found on page 11. All security holders are urged to communicate with their Senators and Congressmen to lend their support.

No summation of the year would be complete without an acknowledgment of the valued confidence, help and understanding extended by our stockholders, our employes and our customers. The Directors join me in this expression of appreciation.

Sincerely,

R. C. Grayson

President and
Chief Executive Officer

CONSOLIDATED

	1971	1970
Operating revenues	$220,935,474	$197,853,689
Operating expenses	$163,361,026	$147,657,651
Ratio of expenses to revenues	73.9	74.6
Average number of employes	8,911	8,715
Payroll	$ 93,564,483	$ 84,824,440
Taxes	$ 18,232,939	$ 16,372,193
Taxes per share	$ 7.02	$ 6.31
Pre-Tax Income available for fixed charges	$ 27,847,185	$ 25,149,858
Fixed charges	$ 10,111,156	$ 9,599,548
Times fixed charges earned — Pre-Tax	2.8	2.6
Contingent interest	$ 1,482,625	$ 1,478,925
Net Income	$ 14,443,404	$ 13,262,385
Earnings per share	$ 5.56	$ 5.11
Dividends per share	$ 2.40	$ 2.40

SYSTEM RAIL LINE FREIGHT STATISTICS

	1971	1970
Miles of road operated	4,879	4,880
Freight train revenue	$210,288,758	$188,690,844
Net ton-miles — revenue (thousands)	13,618,596	13,409,016
Gross ton-miles (thousands)	31,859,649	30,390,170
Train miles	10,124,474	9,533,787
Revenue per ton-mile	1.544¢	1.407¢
Revenue per train mile	$ 20.77	$ 19.79
Revenue tons per car	38.8	38.9
Revenue tons per train	1,345.1	1,406.5
Gross tons per train	3,146.8	3,187.6

NET INCOME

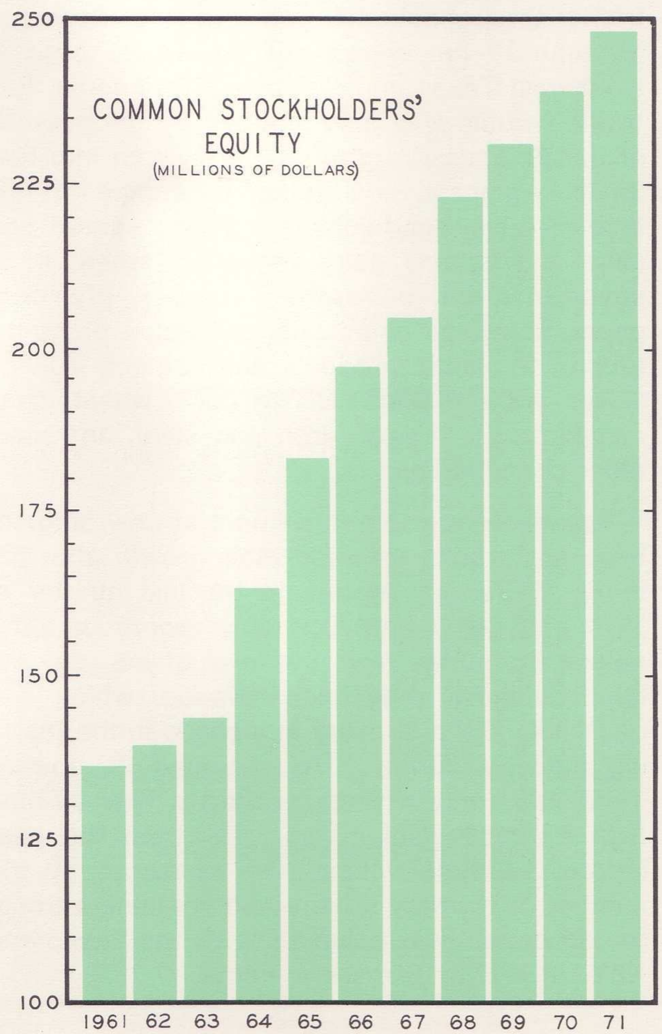
Net income of $14.4 million was 8.9% above the level of 1970 and the second highest in the history of the Company as freight rate increases and a 1.6% increase in ton-miles pushed revenues to an all-time high.

The effect of the 7% investment tax credit, restored by the Federal Government during the last quarter of the year, is discussed on page 10, along with other tax benefits which affected net income.

DIVIDENDS

Four Common dividends, each in the amount of 60¢, were paid on March 15, June 15, September 15 and December 15. The total of $2.40 was the same as paid in 1970.

A dividend of 60¢ per share of Common was declared payable March 15, 1972 to holders of record March 1.

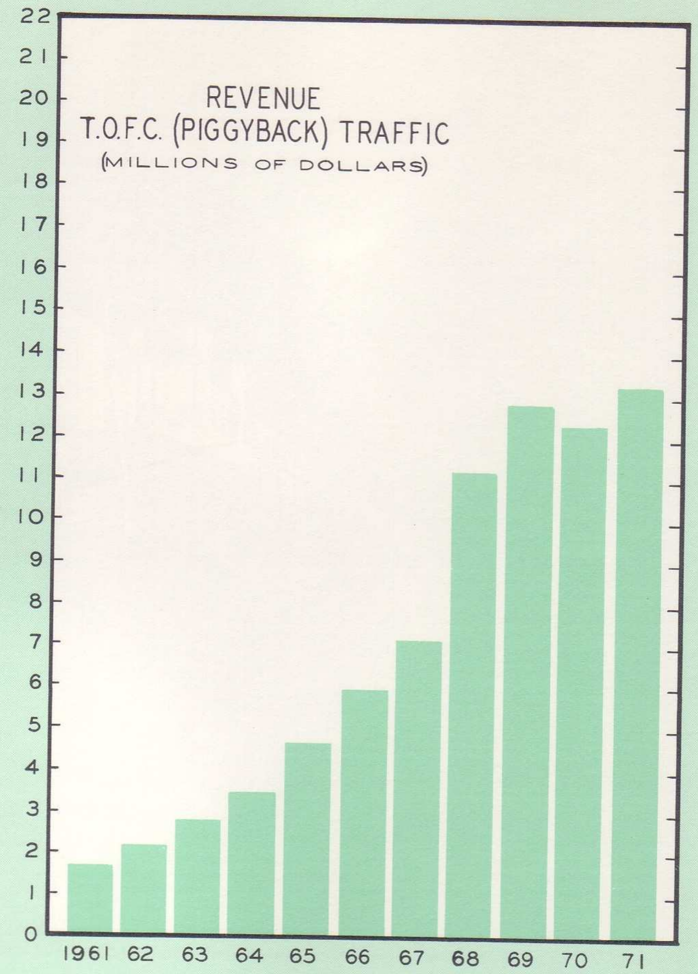


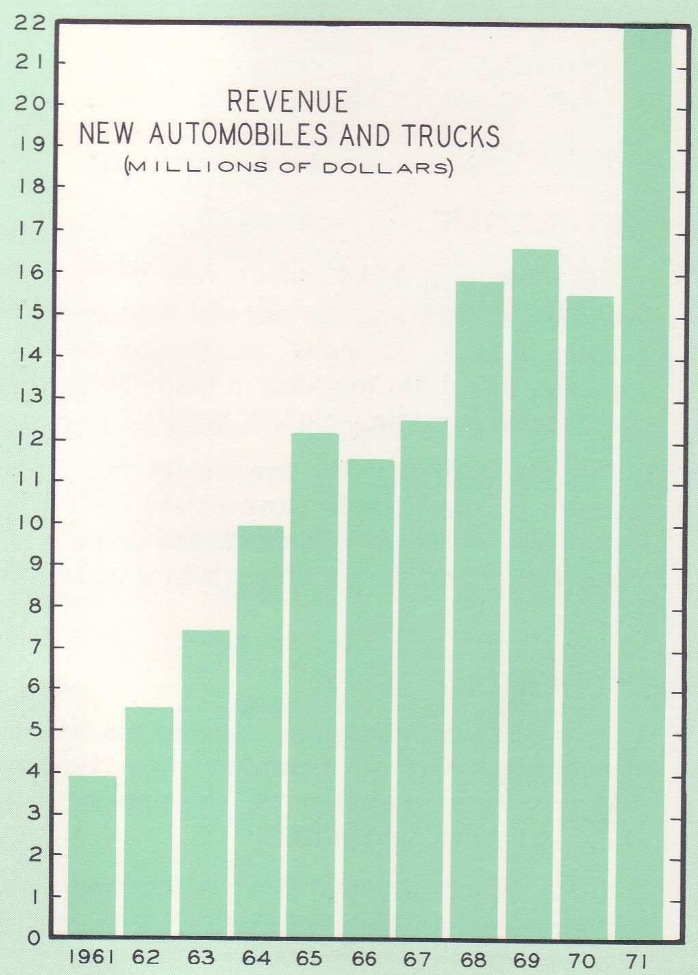
REVENUES

Operating revenues of $220.9 million were at an all-time high and were 11.7% ahead of the year earlier, chiefly under the influence of two freight rate increases granted by the Interstate Commerce Commission in an attempt to offset the sharply higher costs of providing transportation services. The first of these increases became effective November 20, 1970 and the second on April 12, 1971. Together the increase authorized amounted to 6% in the South, 12% in the West, 14% in the East and 12% between those territories.

Unfavorable economic conditions, coupled with work stoppages in key industries, diminished traffic throughout the year. In the Spring a drought all but wiped out the wheat crop in Northwest Texas and Southwest Oklahoma. Rail traffic volume was also affected by the opening of the Arkansas-Verdigris River system into Fort Smith, Arkansas and Tulsa, Oklahoma. In the face of these conditions, the Frisco scored revenue and volume gains in cotton, wheat flour, soybean meal, beverages, lumber, plywood, paper, inorganic chemicals, petroleum products, rubber or plastic products and cement. Volume losses were experienced in corn, wheat, coal, metallic ores, textiles, iron and steel, and most other commodities.

Revenues from the movement of new automobiles and trucks resumed their growth after the strike at General Motors in the last quarter of 1970 and set a new Company record of $21.8 million, up 40.1% from the level of the year before. Similarly, piggyback revenue, which had been held down by work stoppages in the trucking industry during 1970, resumed its upward trend and for the year reached a new all-time high of $13.2 million, up 7.1% from the year before, although volume, as measured by the number of highway trailers and containers transported by rail, was down 1.9% on the Frisco and 4.8% in the industry as a whole.



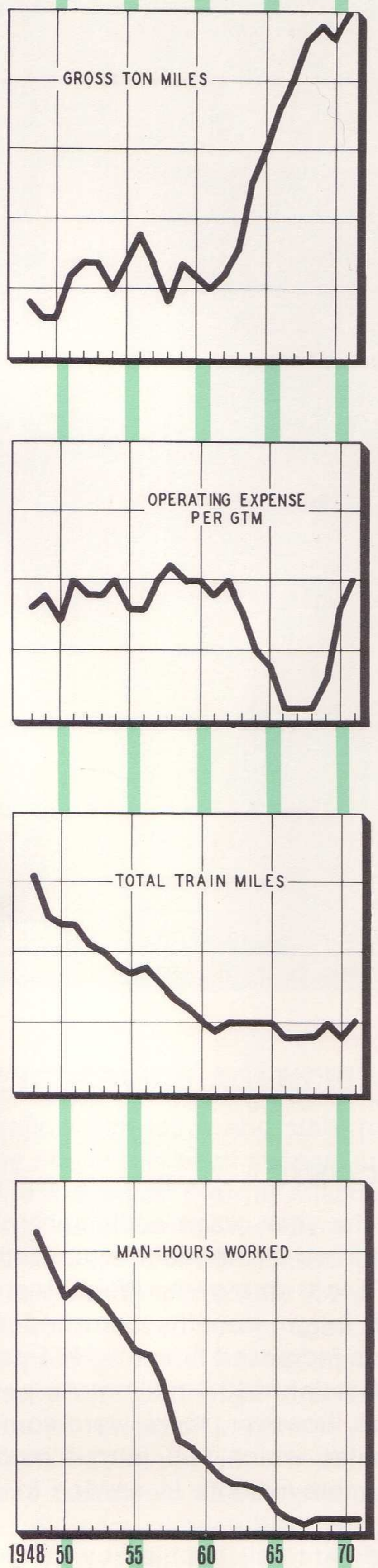


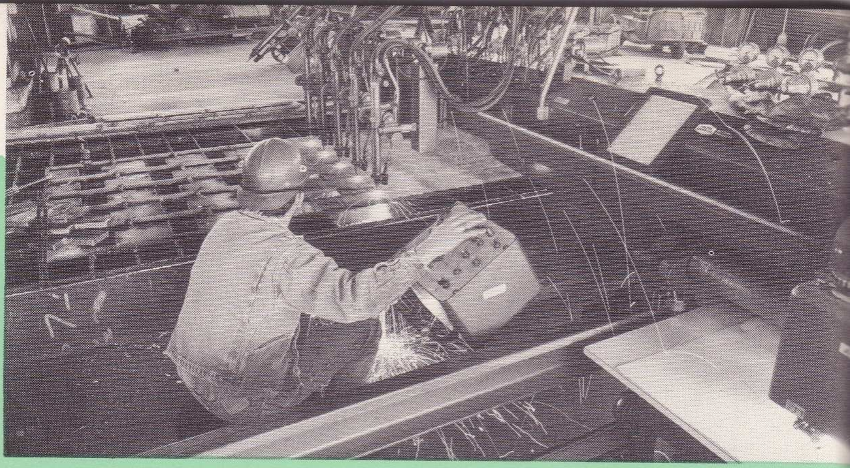
OPERATIONS

Extraordinary wage increases and spiraling prices continued their upward thrust on the costs of providing transportation services. Despite steady progress in adapting more efficient machines and methods to offset escalating unit costs, operating expenses of $163.4 million were up 10.6%. The ratio of expenses to revenues, however, showed a marked improvement as indicated in the following tabulation which shows the number of cents spent from each revenue dollar for all of the major sub-divisions of operating expenses during 1971 and the year before.

	1971	1970
Transportation	37.0	38.2
Maintenance of Way	13.4	12.8
Maintenance of Equipment	15.2	14.9
Other	8.3	8.7
Operating Ratio	73.9	74.6

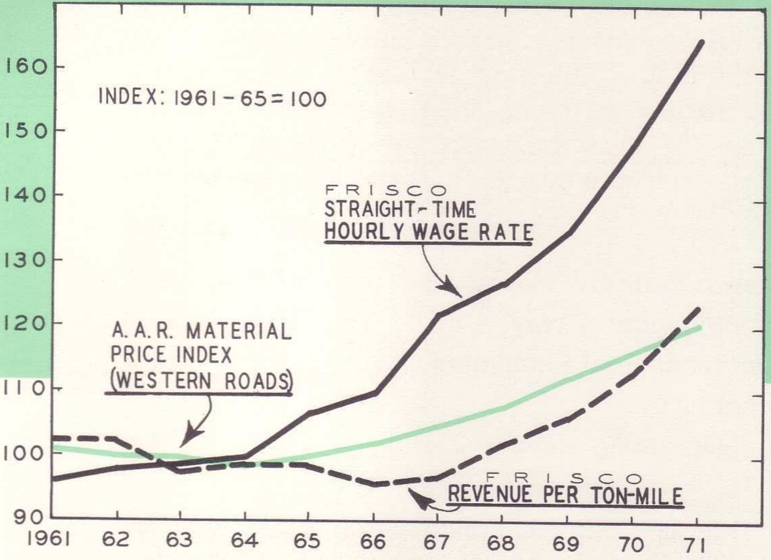
During 1971, the Frisco continued to emphasize the importance of dependable on-time performance of its trains. Pre-blocking of cars to reduce intermediate switching, run-through trains to eliminate time-consuming locomotive substitutions, computer monitoring of schedules all are playing a larger role in train operation. To speed the classification of cars into trains for subsequent movement to various destinations, classification yards are being enlarged and modernized. A three-year expansion of the Frisco's Tennessee Yard on the outskirts of Memphis, Tennessee, will encompass the addition of ten new tracks to expedite the classification of freight cars and to accommodate a growing volume of freight. Similarly, the Company's yard at Birmingham is being improved.





Machine equipped with six mobile cutting torches capable of cutting in virtually any direction. Cutting speed is two to thirty inches per minute. Cutting torches are capable of cutting through steel ranging from 3/16" to 13-1/2" in thickness. Torches are guided by photoelectric cell tracer which scans and follows an outline drawing or silhouette on the template table without physical contact.

Precision machinery for automatically grinding valve seats to a perfectly flat surface, thereby restoring them to almost original condition.

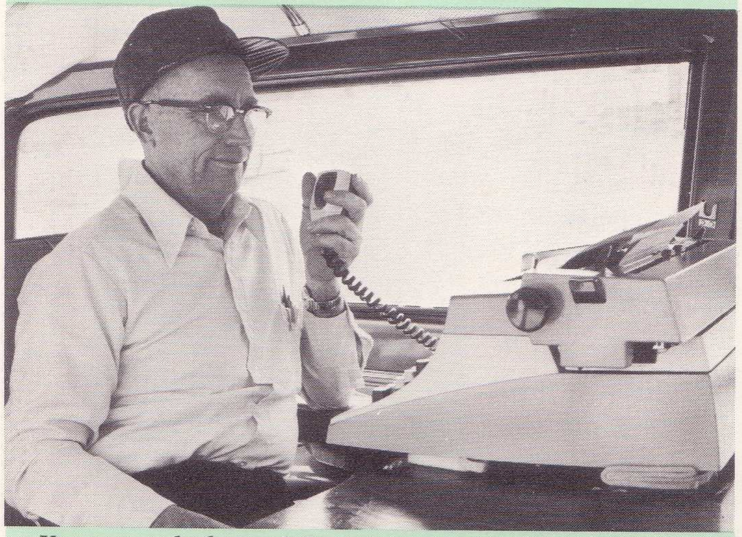


LABOR COSTS

During the year, wage settlements were made with all but two of the labor organizations representing Frisco employes. Wage increases and additional fringe benefits provided for in the agreements increased Frisco's 1971 payroll costs by approximately $10.4 million. As part of these settlements, however, there were some changes in work rules which will permit modest economies or improvements in service in the future.

Railroads are still hobbled by outmoded work rules. For example, road freight crews must be paid eight hours' pay for each one hundred miles even though the speed of modern trains permits the trip to be made in much less time. Railroads also are required to use a conductor and two brakemen on practically all road and yard crews when the work almost always can be accomplished just as efficiently with fewer men. In railroad shops, craft lines established many years ago — carmen, sheet metal workers, machinists, boilermakers, blacksmiths and electricians — continue to be strictly observed even though railroads operate and maintain entirely different types of locomotives and cars. As a result, rail carriers are required to pay several men for work that in many cases could be more efficiently performed by fewer mechanics.

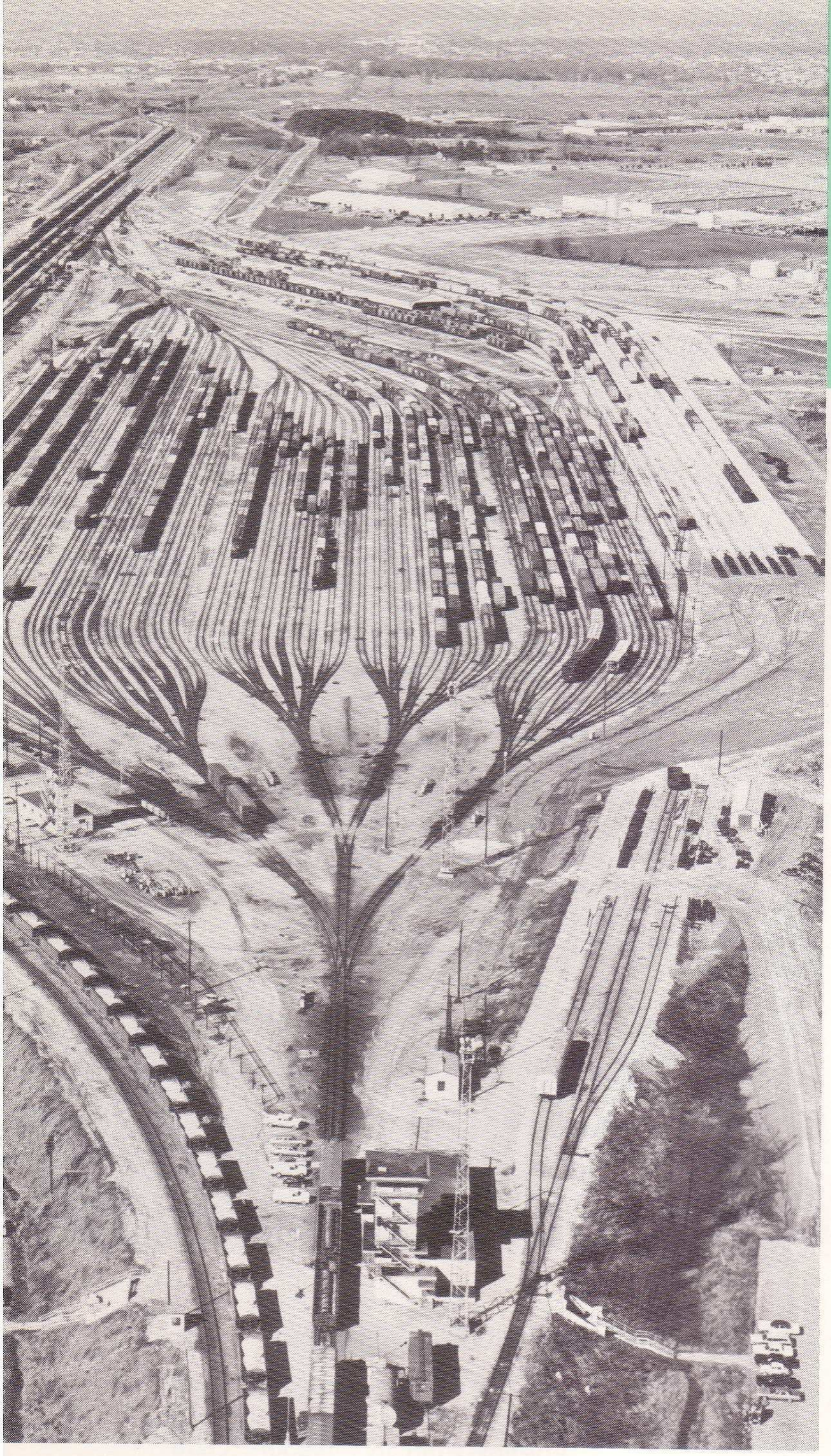
Largest type box car built, 86'6" inside length, 17' from top of the rail to the top of the car, with a capacity of 10,000 cubic feet interior space. Cars of this type are used for moving automobile parts.



Van-type vehicle used by agents of the Customer Service Agency to call on shippers under the Central Agency Plan.

CUSTOMER SERVICE AGENCIES

In cooperation with labor and state regulatory agencies, the Frisco has been successful in instituting a Central Agency Plan in Missouri, Oklahoma and Alabama. Under the Central Agency Plan a customer agent is not limited to a single agency but is given responsibility for a group of stations which are served by the agent in a van-type vehicle containing all the necessary equipment and materials for the performance of his duties, including a radio telephone. The customer agent follows a specified route and calls on each of his customers at their places of business as the frequency of such business requires. While the program is still in its infancy, it is clear that the expansion of the Plan will result in superior service to Frisco customers and more effective utilization of personnel.



Aerial view of Tennessee Yard near Memphis, Tennessee, showing the additional tracks being installed in the white area in the upper righthand corner. This facility is being enlarged in a three-year program to accommodate the growing volume of freight business and to speed the classification of freight cars.

TAXES

Estimated taxes in 1971 totaled $18.2 million versus $16.4 million in 1970.

In 1971, net Federal income tax benefits from accelerated and guideline depreciation, and amortization of defense facilities and rolling stock, were equivalent to $1.91 per share of Common Stock; in 1970 these benefits were equivalent to $1.74 per share of Common Stock.

The Revenue Act of 1971 reinstated the investment credit which had been repealed by the 1969 Reform Act. Also, the Act liberalized the provisions relating to utilization of unused investment credit carryovers. It is estimated that $1,300,000 of pre-1971 investment credit carryover will be used for the tax year 1971, compared to $600,000 in 1970 under the old law. As in the past, benefits from allowable investment credit have been included in net earnings for the year 1971. Carryover of credit to 1972 is estimated to be $2,200,000.

The minimum tax on certain tax preference items (primarily amortization of rolling stock) is estimated to be $225,000 for the year 1971.

Payroll taxes in 1971 totaled $9.4 million, an increase of 9.3% from the level of 1970. Following is a statement of Railroad Retirement and Unemployment Tax bases and rates for the years 1971 and 1970:

	1971	1970
Railroad Retirement Tax	9.95%	9.55%
Includes hospital benefits of	0.60%	0.60%
Computed on earnings up to	$650 per mo.	$650 per mo.
Additional tax on compensated service	6¢ avg. per hr.	5½¢ avg. pr. hr.
Railroad Unemployment Tax	4%	4%
Computed on earnings up to	$400 per mo.	$400 per mo.
Total Payroll Taxes	$9,381,491	$8,586,621

Effective January 1, 1972, the Railroad Retirement Tax will be computed on base earnings of $750 per month.

Machine used to clean tie beds in the installation of new ties. When used with other equipment, this machinery permits a tie gang to install about 150 ties per working hour.

REGULATORY REFORM

In last year's report, stockholders were informed of the steps recommended by America's Sound Transportation Review Organization (ASTRO) to return the rail industry to a financially sound and viable condition. Some of the recommendations of the ASTRO Program now have been incorporated into the Surface Transportation Act of 1971 introduced into Congress by Senator Vance Hartke of Indiana and Representative Brock Adams of Washington in corresponding bills S2362 in the U. S. Senate and HR11207 in the U. S. House of Representatives. In a significant development, railroads, truckers and water carriers announced their united support of the Surface Transportation Act which will benefit all forms of commercial surface transportation.

As presently written, the Surface Transportation Act would:

1. Establish a division in the Department of the Treasury — modeled along the lines of the Reconstruction Finance Corporation — which would make available up to $5 billion in loans and guarantees for transportation companies unable to get financing elsewhere.
2. Require the Interstate Commerce Commission to develop criteria for determining the revenue needs of carriers and to establish machinery for acting expeditiously on rate adjustments necessitated by cost increases.
3. Prohibit discriminatory tax practices by states with regard to transportation property.
4. Require the filing of reports and the publication of rates by all carriers on dry bulk commodities.
5. Extend economic regulation of for-hire truck transportation to certain agricultural commodities now exempt.
6. Provide speedy and realistic procedures for the abandonment of light density rail lines.
7. Require that 5 per cent of all Federal funds given a state for highway purposes be used to improve grade crossing safety.
8. Permit the Interstate Commerce Commission to submit its budget directly to Congress.

INDUSTRIAL DEVELOPMENT

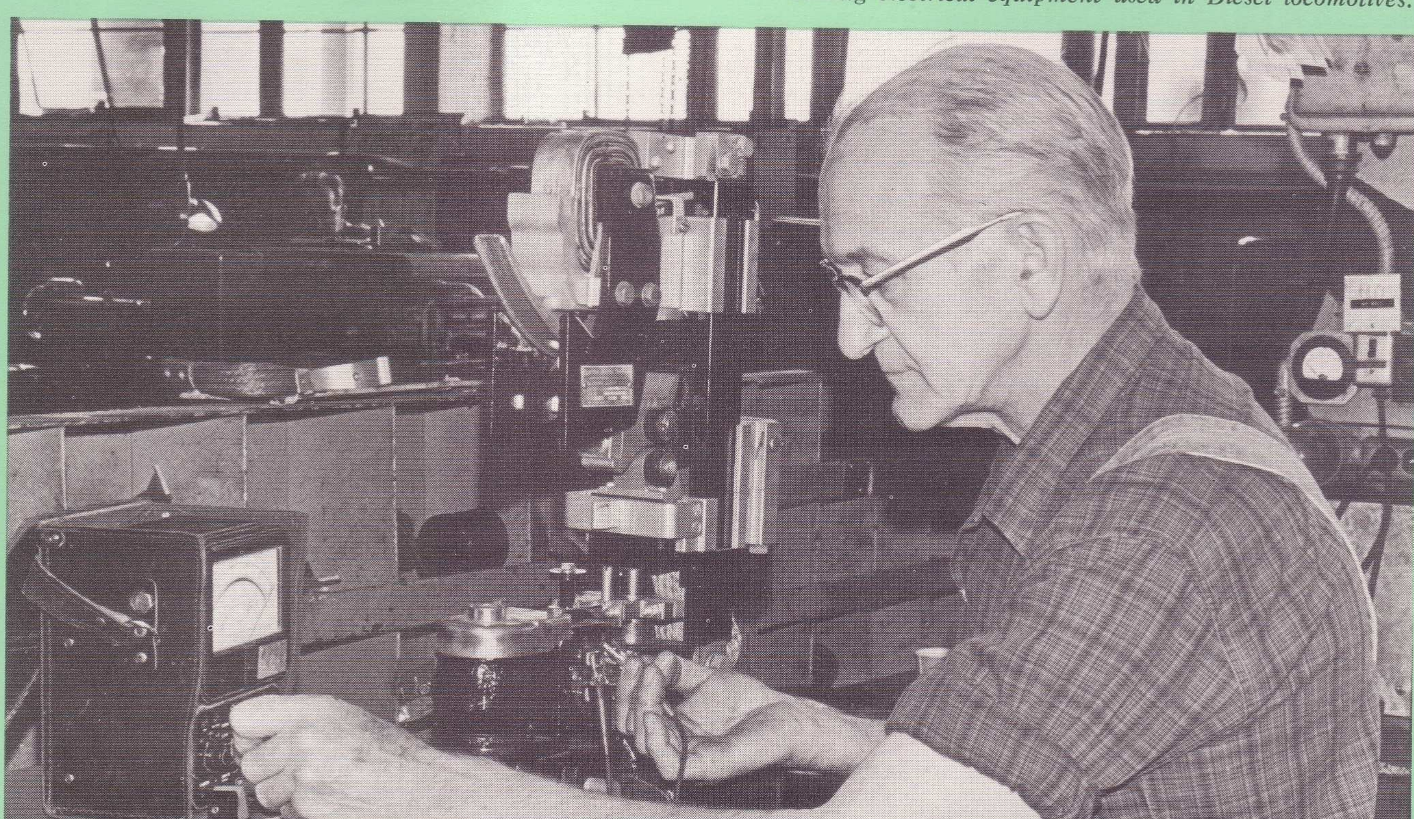
In recent years, the Frisco has enjoyed a better-than-average record in attracting new industries to its lines. In the last ten years, an average of two industries per week have begun operating on the Frisco system.

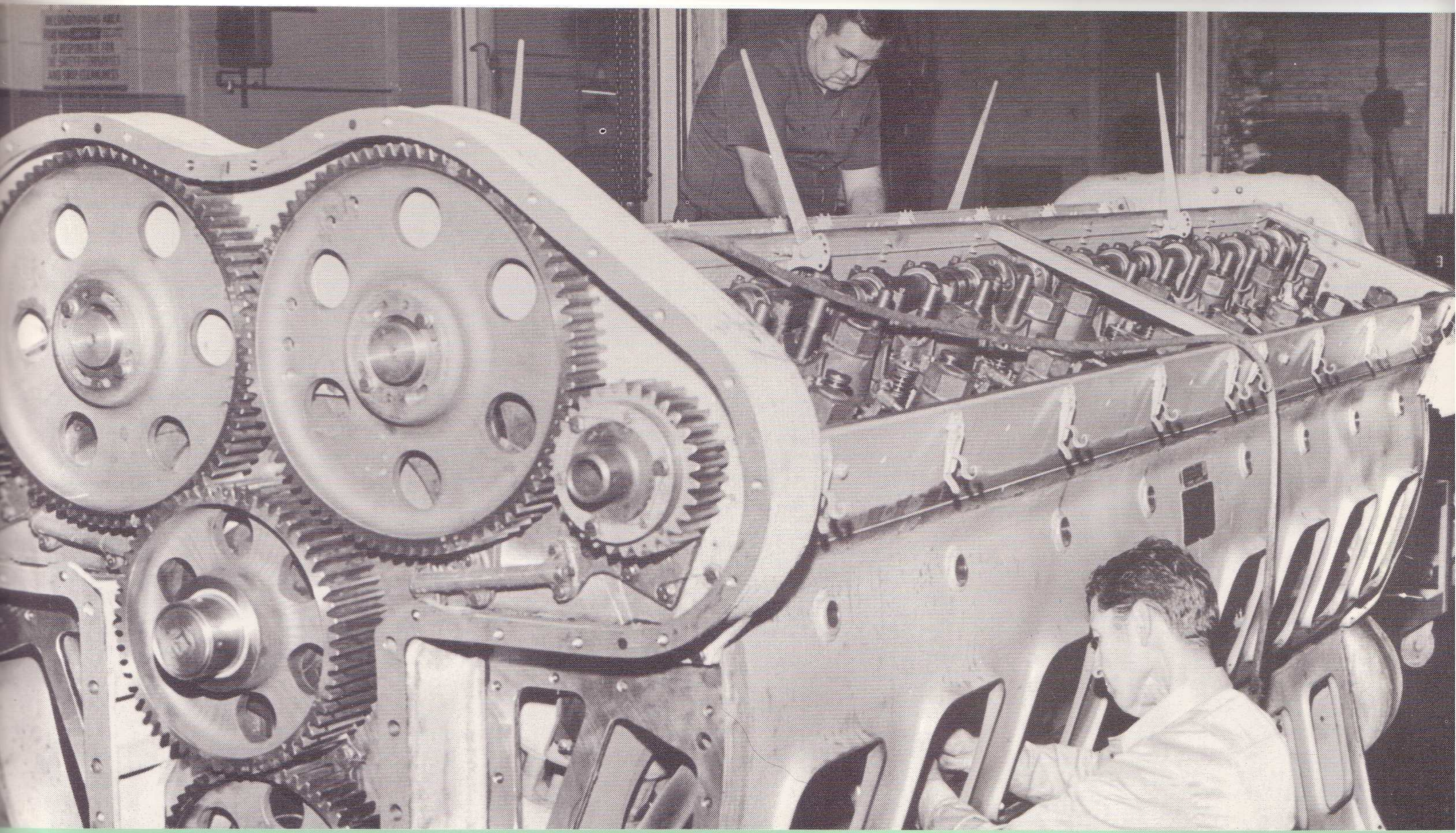
During 1971, a total of 85 new industries completed construction of their facilities and actually began producing revenue tonnage; additionally, 22 previously-established industries expanded their plants. These new and expanded plants are expected to generate close to 37,000 cars of additional freight annually. The largest of the new industries — the giant Jos. Schlitz Brewing Company plant at Memphis, Tennessee — by itself is expected to generate at capacity some $3 million in new revenue for the Frisco. One of the world's largest, the brewery has a capacity of 4.4 million barrels and currently employs 500 workers. Other noteworthy manufacturing plants established on-line included a plastic bag plant of Union Carbide at Rogers, Arkansas, and an agricultural implement plant of FMC Corporation at Jonesboro, Arkansas.

While 1971 was the third best year in the last decade for new industries, the year was characterized by a marked drop in the number of inquiries received from industries interested in future relocation or expansion. This can be attributed to higher interest rates, the uncertainties of the economy, the loss until late 1971 of the investment tax credit and the fact that many existing plants were operating at well below their rated capacities. In the face of these adverse economic conditions, the backlog of new industries which had previously selected sites and had begun to build or were in the final stages of planning remained at a promising level. Among these is a mammoth power-generating plant now under construction at Rush Tower, Missouri.

At year-end, with the restoration of the investment tax credit, there was some evidence of renewed interest on the part of industry in seeking new sites.

Testing electrical equipment used in Diesel locomotives.





Overhauling a Diesel engine preparatory to re-installing it into a locomotive.

MERGERS

The Frisco intervened in opposition to applications by various Western Railroads to acquire all or portions of the Chicago, Rock Island and Pacific Railroad Company. In September 1971, the ICC Examiner issued "Volume I" of his recommended Report and Order in this proceeding. "Volume I" disposed of certain preliminary issues and recommended the denial of Chicago and North Western Railway Company's application to acquire the Rock Island, and denial of Santa Fe's application to acquire certain portions of the Rock Island. Jurisdiction over all remaining applications and matters was retained to be dealt with in subsequent proposed reports.

Your Company intervened as an interested party in the proposed merger of the Illinois Central Railroad and Gulf, Mobile and Ohio Railroad. The ICC, by its Order of December 28, 1971, approved the proposed merger. Your Company sought and was granted conditions requiring the merged company to arrive at satisfactory terms with your Company for the continued use of Frisco facilities at Birmingham, Alabama. If the parties fail to reach a voluntary agreement within the prescribed period, the ICC may impose new conditions for the use of certain Frisco trackage by the merged company.

On January 1, 1971, after receiving authority from the Interstate Commerce Commission, the Frisco acquired the assets and took over the operation of its wholly-owned subsidiary, the Alabama, Tennessee and Northern Railroad Company; that Company then was dissolved.

LITIGATION

In last year's report it was stated that the divisions controversy involving traffic moving between Eastern and Southern territories had again been remanded to the Interstate Commerce Commission. This second remand limited the Commission's further consideration of the proceeding to three issues and established the type of hearing to be held on these issues. The Southern carriers, including the Frisco, appealed the limited remand to the Supreme Court but, in the interim, before the Supreme Court could act, the Commission issued an order dismissing the proceeding. Thereafter the Supreme Court vacated the order of remand and directed that the case be dismissed as moot. Thus, the proceeding, which began in 1958, has been concluded on a favorable basis for your Company.

Track-laying machine capable of working on and off track, thus affording greater versatility in maintaining track and roadway.

Track Liner, working with Line Indicator, corrects alignment in track after surfacing operations have been completed. With this equipment, two men can line several miles of track per working day.

CAPITAL EXPENDITURES

Since 1947, the Frisco has made steady progress in improving its facilities. Better cars and locomotives and a sturdier right of way have been the contribution of an advancing technology. In recent years, the Company has been spending in the neighborhood of $25 million per year on capital improvements. During 1971, capital spending was heavier than the average and totaled $35.3 million versus $23.2 million a year earlier. The increase is attributable to the fact that the Company took into its 1971 accounts about $4 million worth of new locomotives which were scheduled for delivery in 1970 but which were delayed by the production strike at General Motors. The accounts for 1971 also reflect the acquisition of $7.2 million worth of box cars which originally were not scheduled for delivery until 1972. In the current year, the Frisco will ease off on capital spending so as to average out its expenditures for 1970-71-72 at about $26 million.

Of the $35.3 million spent for capital improvements in 1971, $27.1 million went for new cars and locomotives, most of which were financed through Conditional Sale Agreements. Of the remainder, a total of $6 million was spent on roadway and structures and $2.2 million on other additions and improvements to our properties.

EQUIPMENT OBLIGATIONS

Equipment obligations outstanding at year-end, including those due in one year, totaled $105.1 million, an increase of $19 million, representing additional obligations incurred of $28.9 million (including $2.3 million on deposit for freight cars delivered early in 1972), less serial maturities of $9.9 million during 1971.

Equipment instalments due in 1972 will amount to $10.7 million; equipment depreciation chargeable to operating expenses will approximate $9.5 million.

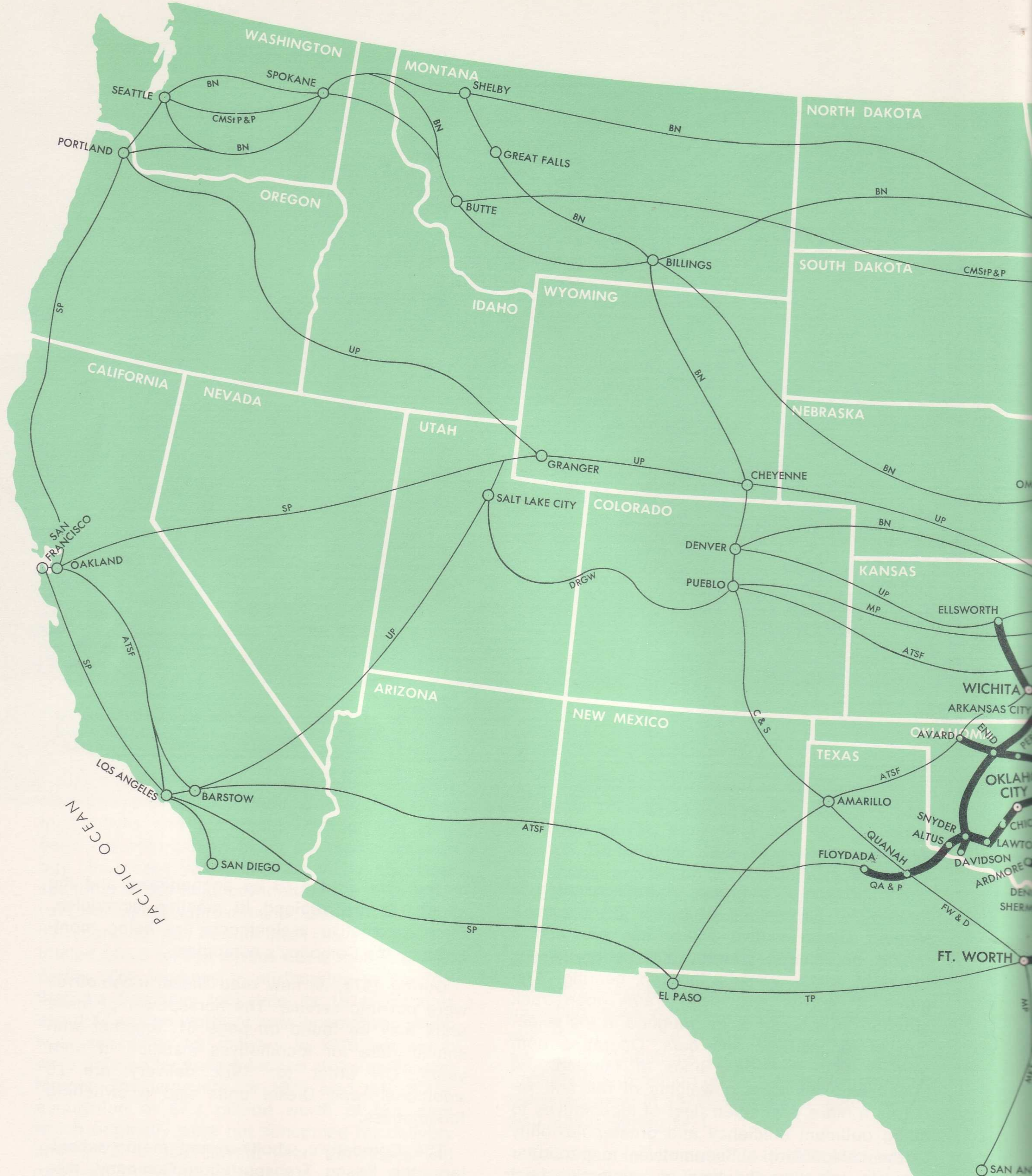
Servicing Diesel locomotives at Frisco's modern facility at Springfield, Mo. Under roof, locomotives can be lubricated and supplied with fuel, sand and water in a one-stop operation.

MOTIVE POWER

The history of progress in transportation is largely the chronology of power development. Modern Diesel motive power has provided a greater potential for starting and pulling heavier loads at faster speeds through gearing. The effect of heavier and faster trains upon track structure is a factor to be weighed in the selection of locomotives and cars. Operating both primary and secondary lines of railroad, the Frisco employs varying weights of rail and requires a more diversified fleet of locomotives to attain optimum efficiency and greater flexibility in the assignment of locomotives to particular runs. In selecting the type of locomotive best suited to individual trains, due consideration is given to such factors as the tonnage to be moved, the grades to be encountered and the speeds to be attained in meeting schedules. Such locomotive assignments are being monitored by the Company's computer.

During 1971, 30 new road Diesel locomotives were put into service. The horsepower of these units may be found on page 31, together with similar data for locomotives installed in prior years. On order for 1972 delivery are 20 additional road Diesel units and 6 switching locomotives.

The Company's wholly-owned motor subsidiary, the Frisco Transportation Company, also added to its equipment during the year by purchasing 5 additional highway trucks.


WASHINGTON
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
OREGON
IDAHO
WYOMING
NEBRASKA
CALIFORNIA
NEVADA
UTAH
COLORADO
KANSAS
ARIZONA
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PACIFIC OCEAN
SEATTLE
SPOKANE
PORTLAND
SHELBY
GREAT FALLS
BUTTE
BILLINGS
GRANGER
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WICHITA
ARKANSAS CITY
AVARD
ENID
SAN FRANCISCO
OAKLAND
LOS ANGELES
BARSTOW
SAN DIEGO
AMARILLO
SNYDER
ALTUS
QUANAH
FLOYDADA
DAVIDSON
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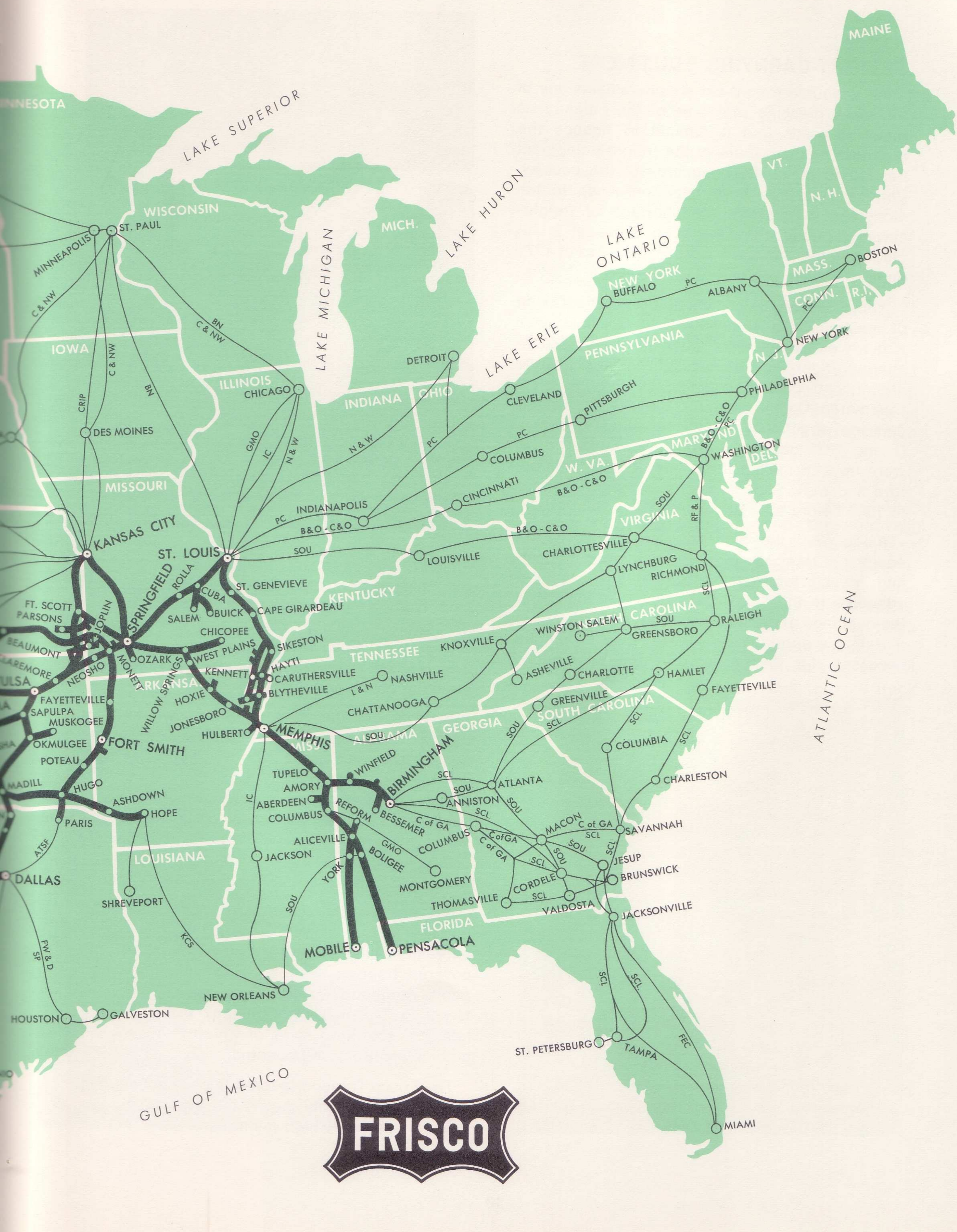

LAKE SUPERIOR
LAKE MICHIGAN
LAKE HURON
LAKE ERIE
LAKE ONTARIO
ATLANTIC OCEAN
GULF OF MEXICO
MAINE
VT.
N.H.
MASS.
CONN.
R.I.
NEW YORK
PENNSYLVANIA
N.J.
MARYLAND
DEL.
W. VA.
VIRGINIA
CAROLINA
SOUTH CAROLINA
GEORGIA
FLORIDA
ALABAMA
MISS.
TENNESSEE
KENTUCKY
OHIO
INDIANA
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MICH.
WISCONSIN
IOWA
MISSOURI
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LOUISIANA
MINNESOTA
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CHARLOTTESVILLE
LYNCHBURG
RICHMOND
SCL
RALEIGH
WINSTON SALEM
GREENSBORO
KNOXVILLE
ASHEVILLE
CHARLOTTE
HAMLET
FAYETTEVILLE
GREENVILLE
COLUMBIA
CHARLESTON
SAVANNAH
JESUP
BRUNSWICK
JACKSONVILLE
NASHVILLE
L & N
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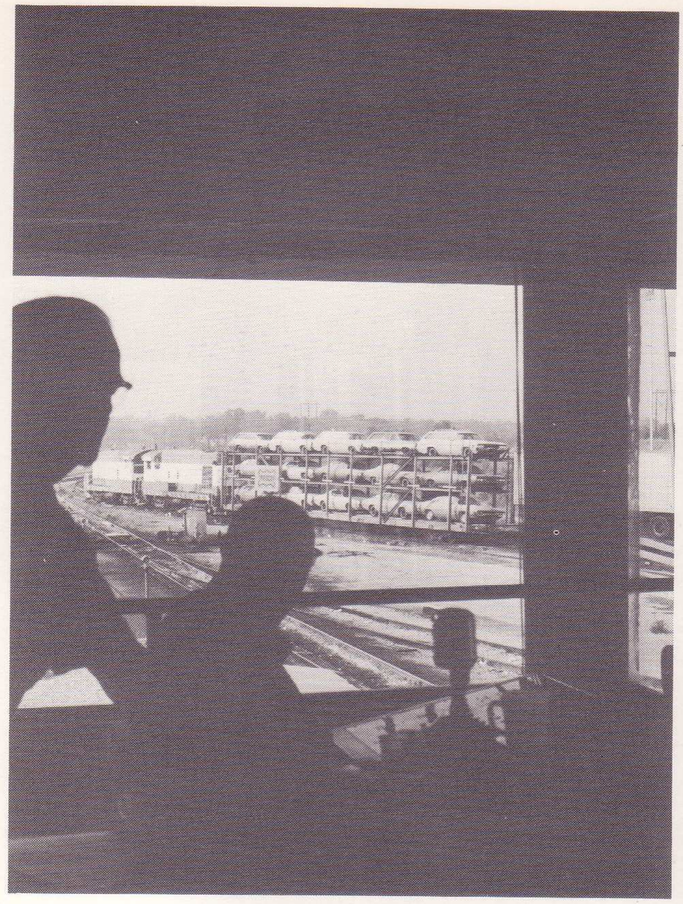
ATLANTA
ANNISTON
MACON
C of GA
CORDELE
VALDOSTA
THOMASVILLE
MONTGOMERY
BIRMINGHAM
BESSEMER
WINFIELD
TUPELO
AMORY
ABERDEEN
COLUMBUS
REFORM
ALICEVILLE
BOLIGEE
YORK
JACKSON
MOBILE
PENSACOLA
NEW ORLEANS
MEMPHIS
HULBERT
JONESBORO
HOXIE
WILLOW SPRINGS
KENNETT
CARUTHERSVILLE
BLYTHEVILLE
HAYTI
SIKESTON
CAPE GIRARDEAU
ST. GENEVIEVE
CUBA
BUICK
SALEM
ROLLA
SPRINGFIELD
CHICOPEE
WEST PLAINS
OZARK
MONETT
JOPLIN
FT. SCOTT
PARSONS
BEAUMONT
CLAREMORE
NEOSHO
TULSA
FAYETTEVILLE
SAPULPA
MUSKOGEE
OKMULGEE
FORT SMITH
POTEAU
MADILL
HUGO
ASHDOWN
HOPE
PARIS
ATSF
DALLAS
SHREVEPORT
KCS
FW & D
SP
HOUSTON
GALVESTON
ST. PETERSBURG
TAMPA
FEC
MIAMI
FRISCO



FREIGHT-CARRYING EQUIPMENT

An adequate freight car supply remains one of the more pressing problems of the industry as many railroads find it difficult to finance the purchase of their share of the freight equipment needed to move the commerce of the country. Various measures have been proposed to the Congress to alleviate the shortage of freight-carrying equipment. One such proposal is included in the Surface Transportation Act of 1971 and is discussed on page 11.

Your Company is conscious of the importance of maintaining a modern freight car fleet, particularly since car rental payments have risen so sharply under the influence of the time-mileage and incentive rates imposed by the Interstate Commerce Commission for the use of freight-carrying equipment owned by other railroads. During 1971 car rental payments by the Frisco were up $1.8 million from those of the year before and were $5.3 million more than they were in 1969 before the new charges went into effect.

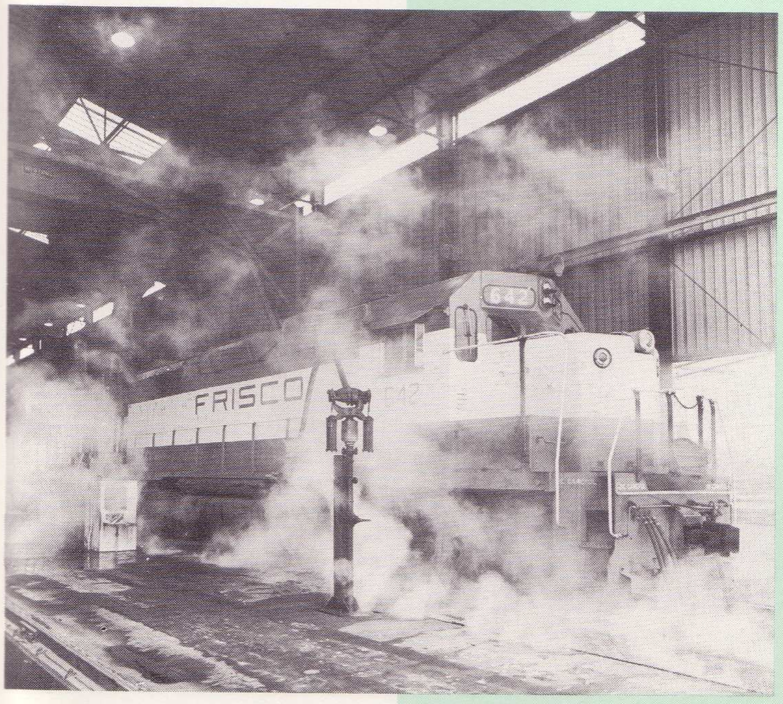
Aside from the high cost of renting freight equipment from others, there is another compelling reason for keeping our freight car fleet adequate to the times and capable of satisfying the demands of our customers. In order to secure certain transportation business, it is frequently necessary for the carrier to meet the requirements of particular shippers. The willingness and the ability of the carrier to supply certain specialized types of cars can be a crucial factor in attracting additional volume and new industry to its line. Specialized equipment frequently enables the shipper to reduce his labor and handling costs.

To enlarge and modernize its own fleet of freight-carrying equipment, the Frisco purchased and put into service during 1971 a total of 1030 cars of various types and sizes. On page 31 will be found a description of this new rolling stock, as well as of the equipment installed in past years. A total of 135 new cars are on order for delivery during 1972. Under a major rebuilding program, 350 cars are scheduled to be rebuilt.

At year-end, the Frisco had 1057 freight cars under lease. It also is a partner to a leasing agreement under which it shares the use of 480 covered hoppers with a major chemical company. Additionally, the Frisco has a stock interest in Trailer Train Company from which it leases flat cars on some of which Frisco-owned automobile racks are mounted.

The Frisco Transportation Company augmented its carrying capacity during the year by the acquisition of 25 new highway trailers.

Various types of motor vehicles specially equipped for on and off track service. Some are used by the Frisco for work and inspection purposes.



ROADWAY AND STRUCTURES

The emphasis upon a sturdier roadbed and more durable structures was continued during the year as longer and heavier trains at faster speeds made higher standards of construction and maintenance mandatory.

A total of 78 track miles of new rail was laid during 1971, consisting of 50 track miles of 132-pound rail and 28 track miles of 115-pound rail. Of the heavier rail, 44.7 track miles consisted of the continuously welded type which was laid in quarter-mile lengths; curved track was laid with heat-treated Curvemaster rail to withstand greater wear. Of the Curvemaster rail laid, 10.4 track miles consisted of the continuously welded type while 5.2 track miles were in conventional 39-foot lengths. Of the lighter 115-pound rail, 5.9 track miles consisted of the Curvemaster welded type.

Company forces also relaid 40 track miles of 112-pound and 115-pound rail welded into quarter-mile lengths.

Regular maintenance work included the insertion of 450,000 new cross ties, as well as the surfacing of 1260 miles of track and the testing of 3434 miles of railroad with electronic detector cars capable of locating hidden internal flaws before they become service failures. The year was the 41st in which these detector cars have been operated over the system.

As part of its program to improve its bridges, the Frisco during the year replaced 1085 panels of wooden trestles with superior structures. Among the new structures erected during the year was an 876-foot bridge near the Port of Catoosa just east of Tulsa, Oklahoma and a new Communications and Signals Shop at Springfield, Missouri.

SAFETY

As a result of an intensified safety program, both the frequency and the severity of injuries to employes were further reduced in 1971 to a level some fifty per cent below that of only two years ago. For the first time since 1967 there were no employe fatalities.

Grade crossing accidents — the major cause of fatalities in railroad operations — were also reduced and the decline in fatalities from this cause represented a substantial improvement over each of the past five years. Since the prime cause of collisions between trains and motor vehicles is the failure of the motor vehicle operator to exercise due care and caution, the rail industry feels that Federal safety assistance programs for highway-rail grade crossings must be materially stepped up. An important step forward in this respect would be to require that five per cent of all Federal funds given a state for highway purposes be used to improve grade crossing safety. Such a requirement is part of the Surface Transportation Act mentioned elsewhere in this report.

For the twentieth year, the Frisco was the recipient of the National Safety Council's Public Safety Activities Award in recognition of the railroad's contributions in promoting public safety through civic clubs, news media and schools.

FINANCIAL STATEMENTS

Included in this report are the consolidated financial statements of the St. Louis-San Francisco Railway Company and its wholly-owned rail and non-rail subsidiaries, together with the opinion thereon of the Company's independent accountants, Price Waterhouse & Co. Frisco's wholly-owned rail subsidiary is the Quanah, Acme & Pacific Railway Company. Non-rail subsidiaries are Frisco Transportation Company, Clarkland, Inc., Clarkland Royalty, Inc., Data Tabulating Corporation and 906 Olive Corporation.

For the first time, the financial results of the New Mexico and Arizona Land Company (50.03% owned by the St. Louis-San Francisco Railway Company) have been included in the Frisco's consolidated results on an equity method basis. For comparative purposes, Frisco's consolidated earnings in 1970 have been restated to reflect this inclusion. The New Mexico and Arizona Land Company issues its own annual report; anyone desiring a copy may obtain one by writing to the New Mexico and Arizona Land Company, 906 Olive Street, Room 903, St. Louis, Missouri 63101.

MANAGEMENT CHANGES

Effective March 1, 1972, G. M. Rayburn resigned as Vice President, Secretary and Treasurer of the Frisco to devote full time to the affairs of the New Mexico and Arizona Land Company of which he has been President since 1966. The Frisco holds 50.03% of the Land Company's stock.

Effective the same date:

H. B. Parker, 53 years old and former Vice President and Controller of the Frisco, was elected Vice President-Finance and Treasurer. His headquarters will remain at Springfield, Missouri.

G. E. Bailey, 57 years old and General Solicitor, was elected Vice President and Secretary with his headquarters remaining at St. Louis, Missouri.

C. C. Roberts, 48 years old and Assistant Controller, was promoted to Controller with his headquarters remaining at Springfield.

Mr. Rayburn, a graduate of Washington University in St. Louis, has served in various capacities in both the Accounting and Secretary-Treasury departments since 1956. He has served as Vice President, Secretary and Treasurer since 1969.

Mr. Parker, a graduate of Harvard Business School, entered Frisco service in 1947, holding various positions in the Executive and Accounting departments until his appointment as Vice President and Controller in 1969.

Mr. Bailey, a graduate of Ohio State University College of Law, entered Frisco service in 1954 after 16 years of non-railway employment. He has served the railroad successively as Tax Counsel and as General Solicitor.

Mr. Roberts holds a Master's degree in Business Administration from Drury College. After serving with three other railroads, he entered Frisco service in 1951 and has served in various capacities in both the Operating and Accounting departments.

BOARD OF DIRECTORS

Term Expires 1972

DUDLEY E. DAWSON, JR.
Executive Vice President
Southern Industries
Corporation
Mobile, Alabama

J. E. GILLILAND*
Chairman of the Board
St. Louis-San Francisco
Railway Company
Tucson, Arizona

BRUCE K. GOODMAN
President
Library Plaza Company
Evanston, Illinois

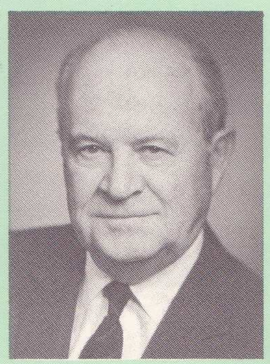
F. G. McCLINTOCK
Chairman and Chief
Executive Officer
The First National Bank
& Trust Co. of Tulsa
Tulsa, Okla.

HAROLD F. OHLENDORF
Ohlendorf Farms
Osceola, Ark.

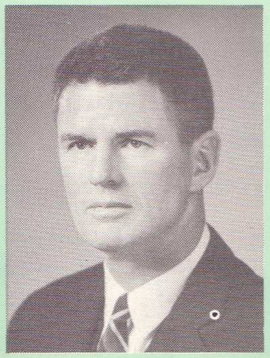
Term Expires 1973

EDWARD W. COOK
President
Cook Industries, Inc.
Memphis, Tenn.

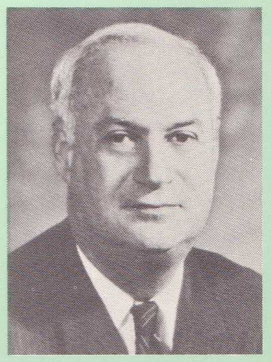
THOMAS E. DEACY, JR.
Attorney
Kansas City, Mo.



WILLIAM A. McDONNELL*†
Chairman of the
Finance Committee
St. Louis-San Francisco
Railway Company
St. Louis, Mo.



LAWRASON RIGGS III
Chairman and
Chief Executive Officer
St. Joe Minerals Corporation
New York City



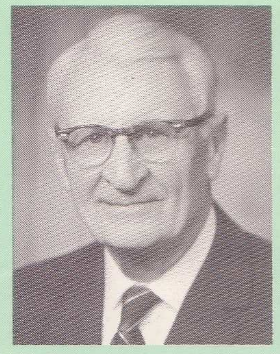
ELLIOT H. STEIN*†
President
Scherck, Stein & Franc, Inc.
St. Louis, Mo.

Term Expires 1974

B. B. CULVER, JR.*
Chairman
Culver Educational Foundation
St. Louis, Mo.

R. C. GRAYSON*
President
and Chief Executive Officer
St. Louis-San Francisco
Railway Company
St. Louis, Mo.

JUDSON S. SAYRE*
Consultant
Chicago, Illinois



LEWIS B. STUART*
Retired Executive
Vice President
Ralston Purina Company
St. Louis, Mo.

C. P. WHITEHEAD*†
Retired Chairman of the Board
General Steel Industries
St. Louis, Mo.

**Member of the Executive Committee*
†Member of the Finance Committee

PRICE WATERHOUSE & CO.
ONE MEMORIAL DRIVE
ST. LOUIS

March 3, 1972

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY:

We have examined the consolidated balance sheets of the St. Louis-San Francisco Railway Company and its subsidiaries at December 31, 1971 and 1970 and the related consolidated statements of income, retained income and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that provision has not been made for the possible increase in income taxes of future periods as set forth in Note 2 to the financial statements, the accompanying statements examined by us present fairly the consolidated financial position of St. Louis-San Francisco Railway Company and its subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co

	1971	1970
	(000) omitted	
OPERATING REVENUES:		
Freight	$212,112	$189,321
Other	8,823	8,533
Total operating revenues	220,935	197,854
OPERATING EXPENSES:		
Maintenance of way and structures	29,701	25,322
Maintenance of equipment	33,658	29,458
Transportation	81,681	75,538
Other	18,321	17,340
Total operating expenses (includes depreciation of $12,589,000 and $12,053,000 respectively)	163,361	147,658
Net operating revenue	57,574	50,196
OPERATING CHARGES:		
Taxes (except federal income taxes)	16,423	15,563
Equipment and joint facility rents	15,339	13,675
Total operating charges*	31,762	29,238
Net operating income*	25,812	20,958
OTHER INCOME:		
Profit on company bonds purchased	54	1,176
Other, net	1,981	3,015
Total other income	2,035	4,191
Balance for fixed and contingent charges*	27,847	25,149
FIXED AND CONTINGENT CHARGES:		
Interest on long term debt — fixed	9,896	9,407
Other fixed charges	215	192
Interest on long term debt — contingent	1,483	1,479
Total fixed and contingent charges	11,594	11,078
Income before federal income taxes	16,253	14,071
ESTIMATED FEDERAL INCOME TAXES:		
(Note 2, Page 26)	1,810	809
NET INCOME (in conformity with I.C.C. principles)	$ 14,443	$ 13,262
EARNINGS PER SHARE	$ 5.56	$ 5.11

*Before federal income taxes.

1. PRINCIPLES OF CONSOLIDATION: Included in the consolidated financial statements are the accounts of the parent company and wholly-owned rail and non-rail subsidiary companies. Effective in 1971, 50.03% of the net income of partially owned New Mexico and Arizona Land Company has been included in Other Income and the investment has been stated on an equity method basis. The 1970 accounts have been restated on a comparable basis (the effect on income was not material).

2. AMORTIZATION, ACCELERATED AND GUIDELINE DEPRECIATION: The Company and its railroad subsidiaries maintain their books of account, and the accompanying statements have been prepared, in conformity with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require a provision for the income tax effect of the excess of tax amortization and depreciation over recorded depreciation as is necessary to conform with generally accepted accounting principles.

The supplementary income information shown below reflects the adjustments necessary to present net income in conformity with generally accepted accounting principles:

	1971	1970
Net income (in conformity with ICC principles) as set forth in the consolidated income statement	$14,443,000	$13,262,000
Adjustments to generally accepted accounting principles:		
Provision for income tax effect of —		
Amortization of defense facilities	920,000	955,000
Amortization of rolling stock under 1969 Tax Reform Act	(3,542,000)	(3,086,000)
Accelerated and guideline depreciation	(2,340,000)	(2,392,000)
Net income (as it would be stated in conformity with generally accepted accounting principles)	$ 9,481,000	$ 8,739,000
Earnings per share	$ 3.65	$ 3.37

The cumulative deferred effect on federal income taxes due to the above-mentioned differences, computed at tax rates applicable to the individual years, not reflected in the accompanying balance sheet, amounted to $56,000,000 at December 31, 1971.

3. PENSION PLAN: The Company has a noncontributory pension plan covering officers and supervisory employes. The cost of the plan charged to income was $1,194,000 in 1971

and $1,314,000 in 1970, which amounts include provision for past service costs. The Company's policy is to fund pension costs accrued. Unfunded past service costs of the Company's pension plan amounted to approximately $4,200,000 at December 31, 1971.

4. PROPERTIES: Gross properties are stated at estimated original cost as determined by the Interstate Commerce Commission for reorganizational purposes as of January 1, 1947, plus additions and betterments at cost and less retirements since that date.

The Company uses the straight-line method of depreciation accounting as prescribed by the Interstate Commerce Commission, with respect to equipment and depreciable road properties; however, for rails, ties, and other track materials instead of depreciation accounting, it follows an acceptable alternate accounting practice of "replacement" accounting. Under this method, replacements in kind are charged to expenses, and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired.

At December 31, 1971, nondepreciable property, including land and land rights, aggregated approximately $211,900,000.

5. FEDERAL INCOME TAXES: Federal taxes on income for the years 1968 through 1971 are subject to final determination by the Treasury Department. In the opinion of management, the reserve provided for federal taxes on income is adequate. See page 10 for details of investment tax credit.

6. CAPITAL STOCK: The Company is authorized to issue 1,500,000 shares of Preferred Stock of $100.00 par value. None of such stock is outstanding.

7. CONTINGENT LIABILITIES: The Company is guarantor of principal and interest, individually or jointly with other railroads, of obligations of various affiliated companies. The Company is a participant in service interruption policies with The Imperial Insurance Company, Limited.

CONSOLIDATED RETAINED INCOME STATEMENT

	1971	1970
	(000) omitted	
Balance at beginning of year	$106,887	$ 98,450
Add:		
Net income for the year	14,443	13,262
Increase in equity of New Mexico and Arizona Land Company prior to January 1, 1970 (Note 1, Page 26)		1,404
Deduct:		
Dividend on Common Stock — $2.40 per share	6,229	6,229
Balance at end of year	$115,101	$106,887

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1971	1970
	(000) omitted	
SOURCES OF FUNDS:		
Net income	$ 14,443	$ 13,262
Depreciation and other non-cash charges	12,902	12,217
Proceeds long term debt	29,354	11,836
Proceeds sale of property and salvage	1,752	2,202
Total	$ 58,451	$ 39,517
APPLICATIONS OF FUNDS:		
Additions and betterments — road and equipment	$ 35,302	$ 23,224
Long term debt retired	10,412	12,919
Dividends	6,229	6,229
Miscellaneous	1,929	1,258
Total	$ 53,872	$ 43,630
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,579	$ (4,113)
CHANGES IN WORKING CAPITAL:		
Cash and temporary cash investments	$ 6,050	$ (3,901)
Accounts receivable	742	(1,627)
Material and supplies	338	2,270
Accounts payable	843	(5,057)
Estimated federal taxes on income	(2,575)	4,164
Other	(819)	38
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,579	$ (4,113)

SECURITIES OF AND ADVANCES TO AFFILIATES

	Number of Shares	Per Cent Owned	Par Value	Stocks	Notes and Advances	Total Investment
New Mexico and Arizona Land Co.	500,258.48	50.03	$500,258	$2,044,475†	$	$2,044,475
Illinois Terminal Railroad Co.	181.82	9.09	1,818	1,818	......	1,818
Kansas City Terminal Ry. Co.	1,833.33*	8.33	183,333	183,333	1,334,804	1,518,137
Pullman Co., The	8,456.00	1.16	84,560	236,768	......	236,768
Terminal R. R. Association of St. Louis	2,058.00*	6.25	205,800	1	......	1
Trailer Train Co.	500.00	2.44	500	50,000	486,000	536,000
Union Terminal Co., The — Dallas	60.00*	12.50	6,000	6,000	204,731	210,731
Wichita Union Terminal Ry. Co.	333.33*	33.33	33,333	12,502	754,289	766,791
Wichita Terminal Association	......	....	......	......	2,000	2,000
Totals				$2,534,897	$2,781,824	$5,316,721

*Stock Pledged Under First Mortgage.
†Equity of New Mexico and Arizona Land Company at December 31, 1971 (Note 1, Page 26)

PROPERTY CHANGES DURING THE YEAR 1971

	Balance Dec. 31, 1970	Additions and Betterments	Retirements	Balance Dec. 31, 1971
Roadway and Structures	$327,226,689	$ 5,993,431	$1,865,736	$331,354,384
Equipment (Page 31):				
Diesel Locomotives	70,196,844	6,444,598	3,036,173	73,605,269
Freight-Train Cars	179,941,260	20,308,976	1,672,022	198,578,214
Work and Miscellaneous	11,817,094	1,989,710	1,067,671	12,739,133
Motor Carrier Equipment	1,596,456	117,882	190,636	1,523,702
Total Equipment	263,551,654	28,861,166	5,966,502	286,446,318
Total Transportation Property	590,778,343	34,854,597	7,832,238	617,800,702
Non-Operating Property	8,471,253	447,651	313,160	8,605,744
Total Properties	$599,249,596	$35,302,248	$8,145,398	$626,406,446

	Date of Maturity	Outstanding Dec. 31, 1971 — Due After 1972	Outstanding Dec. 31, 1971 — Due in 1972	Fixed and Contingent Interest — Rate	Fixed and Contingent Interest — Expense for 1971
FUNDED DEBT UNMATURED:					
First Mortgage Series A	1-1-97	$ 62,468,200†	*	4.00	$ 2,499,979
First Mortgage Series B	9-1-80	14,388,000†	*	4.00	577,348
Income Debentures Series A	1-1-06	29,652,500†	*	5.00	1,482,625
Purchase Money Mortgage Notes	8-1-92	6,000,000∅		6.75	405,000
		112,508,700			4,964,952
EQUIPMENT OBLIGATIONS#:	Serially to				
Trust Certificates:					
Series N	3-15-80	2,232,000	$ 279,000	4.25	109,188
Series O	5-15-80	2,520,000	315,000	4.38	129,198
Conditional Sale Agreements:					
Numbers:					
6/9	7-1-72		555,336	5.00	69,417
10	2-10-74	92,500	61,667	4.75	8,381
11	2-1-75	170,750	68,300	5.63	14,727
12	3-1-75	665,644	320,000	5.75	65,221
13	8-1-75	577,320	208,000	5.25	44,869
14	6-1-76	387,733	117,400	4.75	27,711
15/16	1-1-77	607,500	152,400	4.75	41,524
17	11-1-77	466,708	101,758	5.00	31,391
18/22	8-1-78	2,017,962	350,783	4.50	111,855
23/27	1-15-79	3,878,925	596,758	4.45	207,572
28/29	3-15-79	516,609	79,478	4.45	28,147
30	9-1-75	554,698	184,899	4.75	38,790
31/39	1-15-81	6,805,143	800,605	5.25	411,561
40	4-1-76	348,131	99,466	5.60	27,850
41/43	3-1-82	2,564,081	269,903	6.25	184,153
44/45	3-1-82	2,235,696	235,336	5.75	147,723
46/50	7-1-82	5,526,832	552,683	6.25	397,241
51/56	1-1-83	9,358,333	935,833	6.70	758,025
57/58	10-1-80	2,666,640	333,330	5.25	186,700
59/64	12-15-83	7,326,000	666,000	7.25	625,693
65	8-15-84	3,000,000	250,000	8.25	281,016
66/67	1-15-85	4,897,750	376,750	9.38	495,956
68/70	2-1-85	4,914,000	378,000	9.50	505,732
71	7-1-85	3,742,747	287,904	9.75	400,548
72	11-15-82	5,000,000	500,000	5.50	251,238
73/74 & 76/77	7-1-86	8,305,408	593,417	7.75	388,998
75	5-15-83	2,920,277	265,480	5.25	74,393
78/80	10-1-86	10,115,000	722,500	8.25	145,403
Matured During Year					3,866
		94,414,387	10,657,986		6,214,087
Other Long Term Debt		2,785,904	529,616		199,399
Totals		$209,708,991	$11,187,602		$11,378,438

†Excludes bonds held in treasury as follows:

First Mortgage Series A	$1,075,000
First Mortgage Series B	1,428,000
Income Debentures Series A	98,000

*Subject to sinking fund provisions under mortgage indentures in 1972:

First Mortgage Series A	$536,905
First Mortgage Series B	195,000
Income Debentures Series A	165,645

∅Subject to sinking fund provisions under mortgage indenture of $150,000 per year beginning with year 1973.

#Equipment obligations maturing in future years are:

1972	$10,657,986	1977	$8,848,274	1982	$5,781,025
1973	10,102,651	1978	8,701,863	1983	3,539,888
1974	10,071,330	1979	8,099,698	1984	2,608,409
1975	9,665,636	1980	7,761,580	1985	2,358,409
1976	9,125,922	1981	6,433,947	1986	1,315,755

DESCRIPTION	Owned Dec. 31, 1970	Changes During 1971 Purchased	Reclas-sified	Retired	Owned Dec. 31, 1971
DIESEL LOCOMOTIVES:					
Freight 3600 H.P. (A Units)	49	...	...	...	49
Freight 3000 H.P. (A Units)	12	...	...	...	12
Freight 2500 H.P. (A Units)	65	...	...	...	65
Freight 2000 H.P. (A Units)	...	30	...	...	30
Freight 1750 H.P. (A Units)	2	...	...	...	2
Freight 1750 H.P. (B Units)	13	...	...	...	13
Freight 1500 H.P. (A Units)	23	...	...	11	12
Freight 1500 H.P. (B Units)	14	...	...	3	11
All Purpose 1500 H.P.	128	...	...	...	128
Switch 1500 H.P.	32	...	...	...	32
Switch 1200 H.P.	19	...	...	...	19
Switch 1000 H.P.	59	...	...	12	47
Switch 44 Ton	3	...	...	...	3
Total	419	30	...	26	423
LOCOMOTIVE BRAKE CARS	2	...	...	2	...
FREIGHT-TRAIN CARS:					
Box-Plain	4,057	...	2	125	3,934
Box-Equipped-Non-Insulated	2,281	250	...	12	2,519
Box-Equipped-Insulated	857	265	...	1	1,121
Gondola	2,349	200	...	72	2,477
Hopper-Open Top	3,393	...	...	19	3,374
Hopper-Covered	2,234	200	...	3	2,431
Flat-Including Special Equipped	596	...	2	37	561
Wood Rack and Bulkhead Flat	837	15	...	8	844
Multi-Level Auto Transport	185	...	...	...	185
Mechanical Refrigerators	...	100	...	...	100
Caboose	232	22	1	18	237
Total	17,021	1,052	5	295	17,783
WORK EQUIPMENT:					
Tool and Material	598	...	72	84	586
Ballast	176	47	...	8	215
Boarding	87	...	1	12	76
Tank	134	...	...	5	129
Other	43	1	...	...	44
Total	1,038	48	73	109	1,050
MISCELLANEOUS EQUIPMENT:					
Motor Trucks	386	56	...	54	388
Automobiles	302	101	...	95	308
Airplane	1	...	...	...	1
Other	63	...	...	16	47
Total	752	157	...	165	744
FLOATING EQUIPMENT:					
Car Ferry	2	...	...	...	2
MOTOR CARRIER EQUIPMENT:					
Trucks	20	5	...	...	25
Tractors	83	...	...	1	82
Semitrailers	151	25	...	35	141
Service Cars	6	...	...	...	6
Total	260	30	...	36	254

annual report

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