FRISCO

annual report

1967

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY

GENERAL OFFICES—906 Olive Street, St. Louis, Mo. 63101

DIRECTORS

Term expires 1968

B. B. CULVER, JR. .... *St. Louis, Mo.*
R. C. GRAYSON .... *Springfield, Mo.*
JUDSON S. SAYRE .... *Chicago, Ill.*
LEWIS B. STUART .... *St. Louis, Mo.*
C. P. WHITEHEAD .... *St. Louis, Mo.*

Term expires 1969

DUDLEY E. DAWSON, JR. .... *Mobile, Ala.*
ROBERT E. GARRETT .... *Birmingham, Ala.*
J. E. GILLILAND .... *St. Louis, Mo.*
BRUCE K. GOODMAN .... *Evanston, Ill.*
F. G. MCCLINTOCK .... *Tulsa, Okla.*

Term expires 1970

E. L. BRUCE, JR. .... *Memphis, Tenn.*
THOMAS E. DEACY, JR. .... *Kansas City, Mo.*
GALE F. JOHNSTON .... *St. Louis, Mo.*
WM. A. MCDONNELL .... *St. Louis, Mo.*
ELLIOT H. STEIN .... *St. Louis, Mo.*

EXECUTIVE COMMITTEE

B. B. CULVER, JR. — J. E. GILLILAND — WM. A. MCDONNELL
JUDSON S. SAYRE — ELLIOT H. STEIN — LEWIS B. STUART
C. P. WHITEHEAD

FINANCE COMMITTEE

WM. A. MCDONNELL, *Chairman* — ELLIOT H. STEIN — C. P. WHITEHEAD

OFFICERS

J. E. GILLILAND	*Chairman and President*	St. Louis, Mo.
R. C. GRAYSON	*Vice President-Operation*	Springfield, Mo.
E. D. GRINNELL, JR.	*Vice President and General Counsel*	St. Louis, Mo.
E. G. KREYLING, JR.	*Vice Pres.-Traffic-Ind. Development*	St. Louis, Mo.
H. B. PARKER	*Controller*	Springfield, Mo.
J. K. BESHEARS	*Vice President-Personnel*	Springfield, Mo.
G. M. RAYBURN	*Secretary and Treasurer*	St. Louis, Mo.

TRANSFER AGENTS

Transfer Agent for Common and Preferred Stock
First National City Bank, 55 Wall Street, New York, N.Y. 10015

Transfer Agent for Common Stock
Mercantile Trust Company National Association,
721 Locust Street, St. Louis, Mo. 63101

REGISTRARS

Registrar for Common and Preferred Stock
Bankers Trust Company, 16 Wall Street, New York, N.Y. 10015

Registrar for Common Stock
St. Louis Union Trust Company, 510 Locust Street, St. Louis, Mo. 63101

Registrar for Bonds, Debentures and Equipment Trust Certificates
First National City Bank, 55 Wall Street, New York, N.Y. 10015

Annual Meeting of Stockholders second Tuesday in May of each year

TO FRISCO STOCKHOLDERS:

Earnings of $11,989,785 were the fourth highest in the history of the Company and amounted to $4.80 per Common share versus $4.97 during the year before. To conform to current reporting practices recommended by the New York Stock Exchange, Frisco financial results are being reported for the first time on a consolidated basis to include the earnings of wholly-owned non-rail subsidiary companies; earnings per share have been calculated on the average number of shares outstanding.

The year 1967 was noteworthy in several respects: Our operating and freight revenues reached all-time highs; piggyback traffic continued its uninterrupted growth at a rate which continued to exceed the national increase in this class of traffic; we completed and opened for operation our new 32.7-mile line of railroad into the new Missouri Mineral Belt and, with the discontinuance of the Company's last two passenger trains, the Frisco became an all-freight railroad.

There were some unfavorable influences during the year. Wage increases and more costly fringe benefits secured by railroad employes added substantially to the cost of providing rail service; material prices also were higher. The result was a profit squeeze which was somewhat mitigated by greater efficiency and the application of better methods and machinery, as well as by a modest freight rate increase which, unfortunately, did not become effective until August 19.

The Frisco's competitive position continued to improve. Despite work stoppages in the economy as a whole and a two-day railroad strike in July, traffic volume — measured in terms of ton-miles — reached an all-time high. As a price-and-service-oriented railroad, the Frisco continued to search out ways of attracting additional traffic through newer pricing concepts and by affording shippers the kind of service which will meet their changing needs. Traffic volume also continued to reflect the better-than-average industrial growth in the Southeast and Southwest.

Entering 1968, the Company is prepared to play an expanding role in the economic development of the territory it serves. Barring an economic downturn, we expect the Frisco's traffic volume to continue growing. Higher costs and governmental policy with respect to corporate taxes are uncertainties, however, which could exert a downward pressure upon earnings.

In submitting the report which follows, the Directors join me in expressing appreciation to all of the men and women who helped to achieve these results.

Sincerely

March 8, 1968

Chairman and President

FRISCO FACTS

	1967	1966
Operating revenues	$157,582,931	$155,192,981
Operating expenses	$114,885,888	$111,238,655
Ratio of expenses to revenues	72.91	71.68
Average number of employes	8,435	8,639

	1967	1966
Taxes	$ 15,229,165	$ 17,232,875
Taxes per share of Common Stock	$ 6.40	7.30
Income available for fixed charges	$ 20,446,915	$ 20,358,910
Fixed charges	$ 6,953,955	$ 6,531,419
Times fixed charges earned	2.94	3.12
Contingent interest	$ 1,503,175	$ 1,503,175
Income before dividends	$ 11,989,785	$ 12,324,316
Dividends per Preferred share	$ 5.00	$ 5.00
Earnings per Common share	$ 4.80	$ 4.97
Dividends per Common share	$ 2.10	$ 2.00

SYSTEM RAIL LINE STATISTICS

Miles of road operated	4,910	4,937
Freight revenue	$147,623,227	$143,523,829
Ton-miles — revenue freight (thousands)	12,246,635	11,995,121
Avg. revenue per ton-mile — revenue freight	1.205¢	1.197¢
Gross ton-miles (thousands)	27,882,746	26,943,356
Train miles — freight	8,872,202	8,605,359
Gross ton-miles per train mile	3,143	3,131
Average miles hauled — revenue freight	362.50	355.29
Gross ton-miles per train hour	75,488	73,979

COVER

Presented by the Railway Progress Institute, the Golden Freight Car Award is given annually to the railroad developing the most effective freight marketing and promotion program. The Frisco has won the award twice.

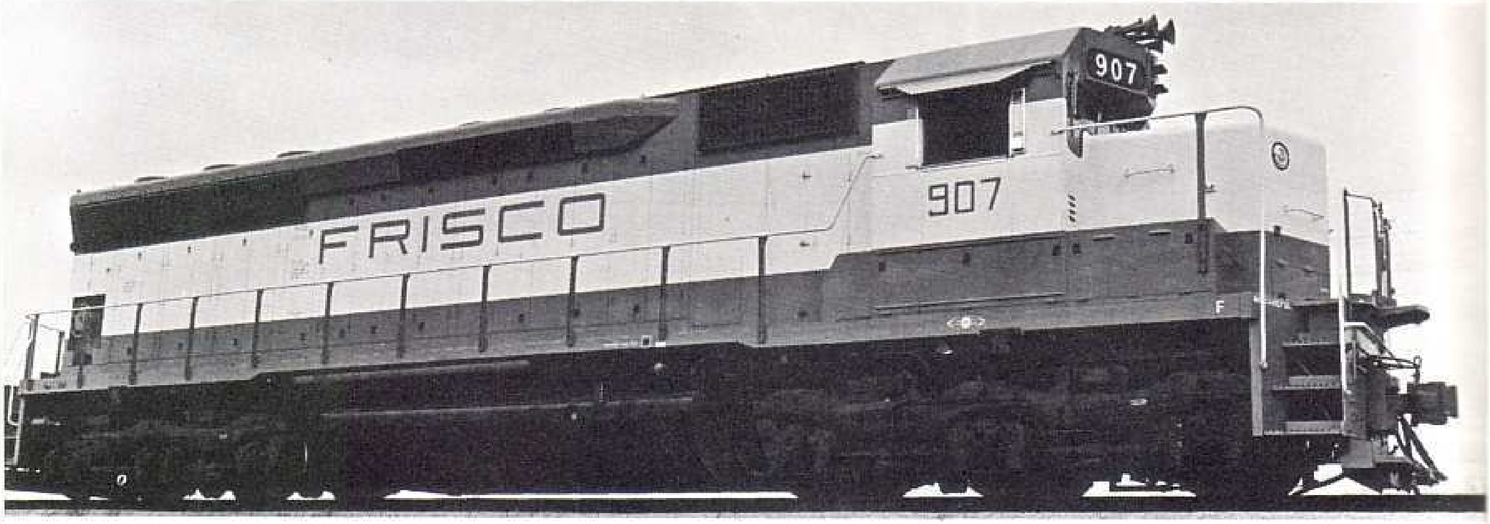
NET INCOME

Net income of $11,989,785, before sinking funds, is equivalent to $4.80 per share of Common Stock and compares with $4.97 per share in 1966. The effect of tax credits upon earnings is discussed fully on page 7.

Major influences upon net income were sharply higher payroll costs and a substantial increase in the prices which the Company had to pay for almost everything it uses to provide rail transportation.

For ready comparison, gross operating revenues and net income for each of the past five years are shown below in thousands, together with the per cent carried through to net:

	Gross Operating Revenues	*Net Income*	*% Carried Through to Net*
1963	$134,822	$6,885	5.1
1964	143,125	6,954	4.9
1965	152,390	11,125	7.3
1966	155,193	12,324	7.9
1967	157,583	11,990	7.6



3600 horsepower Diesel-Electric locomotive. Fourteen were put in service during the year.

DIVIDENDS

A dividend of $5.00 per share on the Preferred Stock was paid in quarterly instalments during the year.

Two Common dividends, each in the amount of 50¢ per share, were paid on March 15 and June 15, and two, each in the amount of 55¢, were paid on September 15 and December 15, making a total of four Common dividends aggregating $2.10 for the year.

A dividend of $5.00 per share on the Preferred Stock has been declared payable in quarterly instalments during 1968. A Common dividend of 55¢ has been declared payable on March 15, 1968 to holders of record March 1.

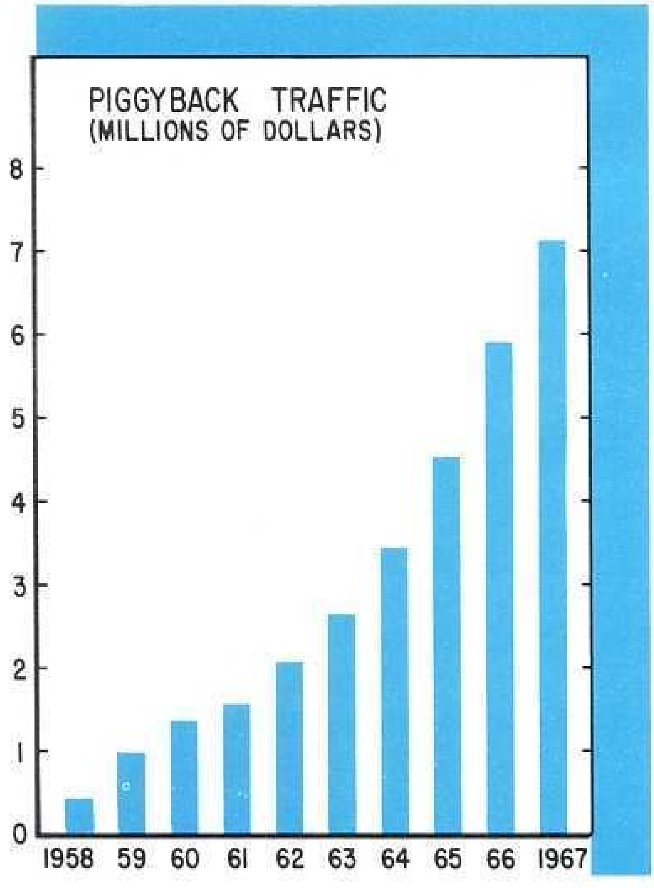
OPERATING REVENUES

Operating revenues of $157,582,931, reached a new all-time high and were 1.5% above the level of 1966.

Rail freight revenue set a new record of $147,623,227, an increase of 2.9% from the level of the year before; carloadings totaled 784,140 versus 777,387 in 1966, while revenue ton-miles of service climbed 2.1% to a new peak for the fifth year in a row. Although the national economy continued at a high level, work stoppages — including a two-day railroad strike — brought some leveling in certain lines of endeavor, notably in automobiles, copper and steel. Agricultural loadings were disappointing: Reduced exports of hard winter wheat in the first half of the year and a poor harvest in certain Frisco counties in Oklahoma brought a decline in wheat revenue while the cotton crop in the nation as a whole was the poorest since 1895.

Of some benefit to freight revenue was a modest freight rate increase which became effective August 19, too late to fully offset higher payroll costs and prices which were in effect from the beginning of the year.

While 1967 was a year of lower production in the automobile industry, Frisco revenue from the movement of new automobiles and trucks rose 8.6% to $12.5 million, a new Company record. Noteworthy too was the further uninterrupted rise in piggyback revenue to a new all-time high of $7.1 million, up 20.5% from the level of 1966 and at a growth rate which continued to exceed the national increase in this class of traffic. Revenue gains also were scored by agricultural chemicals; ordnance; stone, clay and glass products; pulp, paper and related products; fabricated metal products; electrical machinery and meat.



Passenger revenue again moved downward from $703,981 in 1966 to $430,139 in 1967. The decision of the U. S. Post Office Department in 1967 to further curtail its use of rail service worsened an already burdensome passenger train deficit and the Company's last two passenger trains (between Kansas City, Missouri, and Birmingham, Alabama) were discontinued effective December 8, 1967.

OPERATING EXPENSES

Operating expenses of $114,885,888 were up $3,647,233, or 3.3%, from the level of the year before under the influence of a greater volume of traffic, sharply higher payroll costs and price increases in almost all of the materials and supplies used to provide railway transportation. The Company estimates that higher payroll and material costs during 1967 added about $3,200,000 to operating expenses.

Despite these unfavorable cost factors, the Frisco made encouraging progress in further improving the efficiency of its operations through the application of better methods and machines. Economies from the discontinuance of two unprofitable passenger trains in mid-May and the last two on December 8 also were helpful in partially offsetting the adverse factors which exerted an upward pressure on expenses.

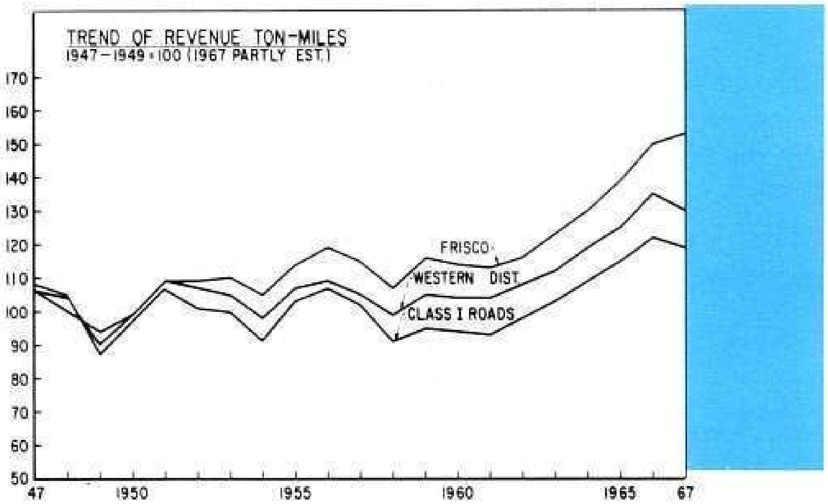
Below are shown the number of cents spent from each revenue dollar for all of the major sub-divisions of operating expenses during 1967, as well as during the year before.

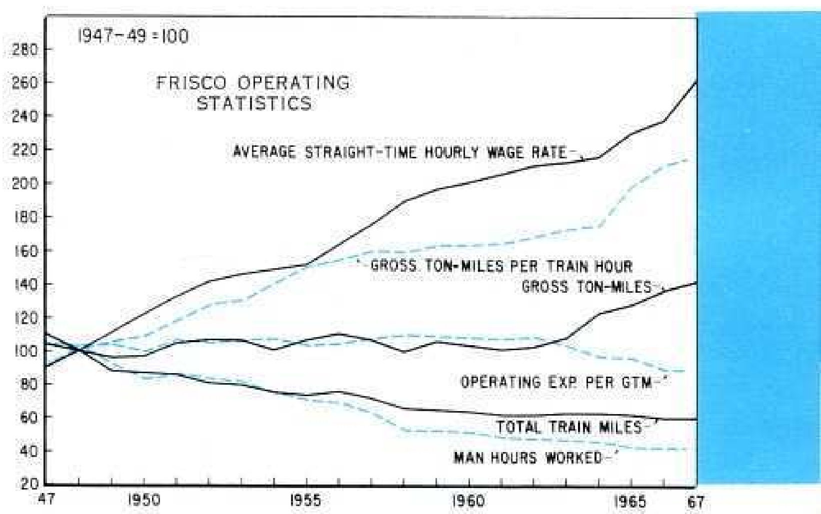
	1967	*1966*
Transportation	36.8	35.9
Maintenance of Way	13.4	13.5
Maintenance of Equipment	13.7	13.2
Other	9.0	9.1
Operating Ratio	72.9	71.7

CHANGES IN WORKING CAPITAL

At year end, the Company had net working capital (excess of current assets over current liabilities) of $11,995,785 versus $10,752,198 at the end of the previous year.

Sources of Funds (000)	
Net Income	$11,990
Depreciation and Other Non-Cash Charges	11,043
Proceeds Conditional Sale Agreements	15,828
Proceeds Sale of Property and Salvage	3,223
Proceeds Notes Payable — Net	1,000
Total Sources	$43,084
Applications of Funds (000)	
Additions and Betterments — Road and Equipment	$27,073
Equipment Obligations Retired	7,831
Other Long Term Debt Retired	245
Investments — Affiliated Companies — Net	293
Dividends	5,571
Miscellaneous	827
Total Applications	$41,840
Increase in Net Working Capital	$1,244





TAXES

Estimated taxes in 1967 totaled $15,229,165 versus $17,232,875 in 1966, being equivalent to $6.40 per share of Common Stock in 1967 and $7.30 per share of Common Stock in 1966.

In 1967, net federal income tax credits from accelerated and guideline depreciation, and amortization of defense facilities were equivalent to $0.89 per share of Common Stock; in 1966, these tax credits were equivalent to $0.86 per share of Common Stock. Since 1951, tax credits have accumulated to approximately $40,885,000 (see note 2, page 26).

The 7% investment tax credit suspended October 10, 1966 was reinstated March 10, 1967. This reinstatement increased the maximum limitation on the investment credit to $25,000 of tax liability, plus 50% of the excess over $25,000 (the old limit was $25,000, plus 25% of the excess). Since reinstatement of the investment credit occurred during the year, the effective maximum limitation for 1967 was 45.34%. This decreased federal income tax accruals in the amount of $1,971,000 in 1967 compared with decrease of $1,597,000 in 1966. Unused carry-forward of investment tax credit at December 31, 1967 approximated $1,000,000.

Payroll taxes in 1967 totaled $6,247,208, an increase of 7.0% from the level of 1966. The railroad retirement tax during 1967 was at the rate of 8.65% (of which 0.50% was for hospital insurance benefits) on employe earnings up to \$550 per month, plus 2¢ per hour on compensated service; the railroad unemployment rate was 4% on employe earnings up to \$400 per month. Due to changes in the social security and railroad retirement laws, on January 1, 1968, the railroad retirement tax rate was increased to 8.90% (of which 0.60% is for hospital insurance benefits) on employe earnings up to \$650 per month.

MARKETING

The Frisco continues to search for ways and means of enlarging its traffic volume through the implementation of more imaginative pricing concepts and by tailoring its services to meet the changing needs of shippers.

During the year, the Company entered into its first formal association with a pipeline. A joint tariff with Williams Brothers Pipe Line will enable the Frisco to move gasoline in tank cars after prior movement via a pipeline. The return of a portion of the gasoline market to rail transportation is encouraging inasmuch as a large percentage of this market has been denied to the rail industry because of the inherent advantages of other modes of transport.

Careful attention is being given to the marketing of various grains and grain products as the Frisco attempts to increase its volume through improved service, better equipment and newer pricing concepts. The Frisco's joint efforts with the Rock Island Railroad, mentioned in last year's report, were suspended by the Interstate Commerce Commission and eventually withdrawn because of the many competitive forces with conflicting interests in the grain industry. The Company's efforts to improve its position in this segment of its agribusiness are continuing.

Lead smelter of the Missouri Lead Smelting Company at Bixby, Missouri.

Magmont Project's mine and mill at Bixby, Missouri.

QUALITY CONTROL

Improved service to customers and a better utilization of freight cars are among the major aims of the Frisco's quality control program. Computers are producing more timely, meaningful analyses of operations which permit operating personnel to quickly detect areas of below-standard performance and to take corrective action. Computerization also has permitted freight car distribution to be centralized in Springfield, Missouri, to afford a more coordinated use of existing equipment.

Terminal operations are under constant surveillance as are terminal-to-terminal movements, with actual performance being compared with previously determined standards. The results of applying quality control techniques to the task of moving freight cars has resulted in a more reliable and consistent service to the Company's patrons.

To improve interline service, the Frisco is cooperating with connecting rail carriers to pre-block traffic in run-through trains, thus minimizing or eliminating switching operations at intermediate terminals between the shipper and the receiver.

INDUSTRIAL DEVELOPMENT

The year brought further industrialization of the Frisco's territory as a total of 112 new industries began producing revenue tonnage for the railroad system. These new plants, involving an investment of $107 million, give employment to 7,500 persons, and will produce 29,000 cars of new freight annually, with revenue approximating $5 million per year. A total of 19 existing industries expanded their plants at an investment of more than $14 million and can be expected to produce an additional 6,800 carloads of freight per year.

Such on-line cities as Springfield, Missouri and Memphis, Tennessee, each the new home of television set manufacturers, continue to exhibit encouraging economic expansion. The solid growth of the Kansas City area is evidenced by the location of a number of new distribution centers on the Frisco system. New and modern warehouses also have been constructed in the Birmingham, Alabama area adjacent to Frisco rails.

The timber resources of the Southeast and Southwest continue to receive the attention of the pulp and paper industry. Even as MacMillan, Bloedel, Ltd. neared completion of its forest product complex at Kimbrough, Alabama, and Nekoosa-Edwards proceeded with its pulp and paper mill at Ashdown, Arkansas, a number of paper companies completed surveys of other sites along the lines of the Frisco.

The fertilizer industry in Frisco territory expanded rapidly. Nineteen fertilizer distribution facilities were located during the year, the largest being a $3 million anhydrous ammonia terminal of Armour Agricultural Chemical Company at Selma, Missouri.

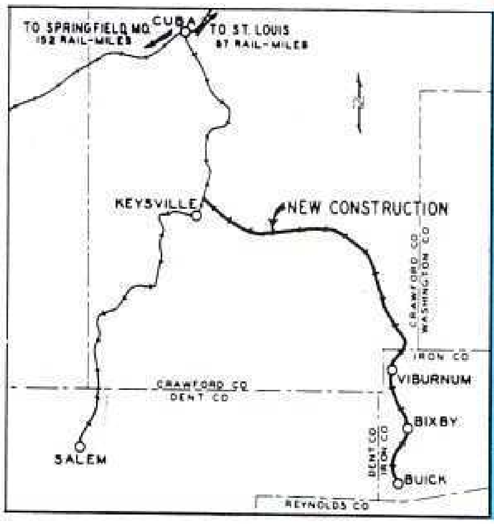
New mining activities on the Frisco are detailed below and on page 11.

At year-end the number of new industries which have selected sites or have begun to build along the lines of the Frisco is encouraging. These involve some 66 new plants with an investment in land, buildings and equipment of $354 million.

NEW MISSOURI MINERAL BELT LINE

On September 28, the Frisco formally opened its new 32.7-mile line of railroad into the new Missouri Mineral Belt. Constructed at a cost of $6.6 million, the new line has been built to provide transportation for recently discovered lead deposits, as well as for the production of a smelter and four mills in Southeast Missouri.

The track was laid on prestressed concrete crossties in what is now the longest stretch of such ties in the United States. In all, the line required 70,000 crossties, each weighing 580 pounds and spaced 31 inches apart, center to center; oak ties are spaced 19¾ inches apart and, had they been used, 106,275 would have been needed. The new line also required 4,500 cars of chat for ballast and a little more than 432,960 lineal feet of relay rail weighing 112 pounds to the yard. The rail is clipped to the tie by means of a tie fastener; the tie plates on which the rail rests are made of plastic instead of steel.



Extending from Keysville, Missouri, on the Frisco's Salem Branch, the new line passes through Viburnum and Bixby and terminates near Buick, Missouri, as shown above and on center map. The line now is serving the St. Joseph Lead Company's lead concentrate mill at Viburnum. Later in 1968, it also will serve the following installations:

At Bixby is to be found the Magmont Project — a joint venture of Dresser Industries of Dallas, Texas, and Cominco American Inc., of Spokane, Washington — and the lead smelter of the Missouri Lead Smelting Company, owned by American Metal Climax, Inc. (Amax) and Homestake Mining Company. The Magmont Project is scheduled to mine 4,200 tons of ore per day. The lead smelter is the first to be built in the United States in forty years and is designed to produce 100,000 tons of refined lead annually, as well as 50,000 tons of sulphuric acid as a marketable by-product.

At Buick is the new mine-mill co-owned by Amax and Homestake Mining Company. The mine-mill will be operated by the Missouri Lead Operating Company, a subsidiary of Amax, and is designed to process 5,000 tons of ore per day, producing 70,000 tons of lead concentrate per year.

At Fletcher, some ten miles south of Buick and not served directly by the new Lead Belt Line, is to be found the St. Joseph Lead Company's newest mine-mill, with a capacity of 5,000 tons of ore per day. Concentrates from the mill will be trucked to Buick for subsequent rail movement via the new line.

Missouri Governor Warren E. Hearnes (L) and Frisco President J. E. Gilliland tighten the last bolt of the new Lead Belt Line during formal opening ceremonies.

Concrete ties on the new line into the Missouri Mineral Belt. Tie fastener clips rail to tie. Tie plate, under rail, is made of plastic instead of steel.

MERGERS

Your Company has intervened in opposition to all of the proposals by various Western railroads to acquire all or portions of the Rock Island Railroad because of the substantial adverse effect these proposals, if authorized, would have upon Frisco's ability to serve the shipping public. Frisco's position set forth in evidence, presented in November 1967, is that the Commission should deny all of the present proposals concerning the Rock Island and thereby motivate the Western railroads to undertake a more sound overall plan of mergers into a limited number of strong competing rail systems. Interstate Commerce Commission hearings on all of the proposals concerning the Rock Island on a consolidated record are still in progress.

In hearings before the Interstate Commerce Commission involving the proposed merger of the Chicago & North Western and the Milwaukee railroads, your Company, to protect its interest, has entered into a stipulation with the applicants to preserve existing through routes.

The Frisco also has intervened in opposition to the Cotton Belt-Southern Pacific application to acquire the Alton and Southern Railroad, a switching line in East St. Louis, Illinois. On April 4, 1967 an examiner of the Interstate Commerce Commission recommended that the Alton and Southern be acquired by the Missouri Pacific, Cotton Belt and Chicago & North Western as equal owners. This matter is presently pending before the Commission on exceptions filed by various parties.

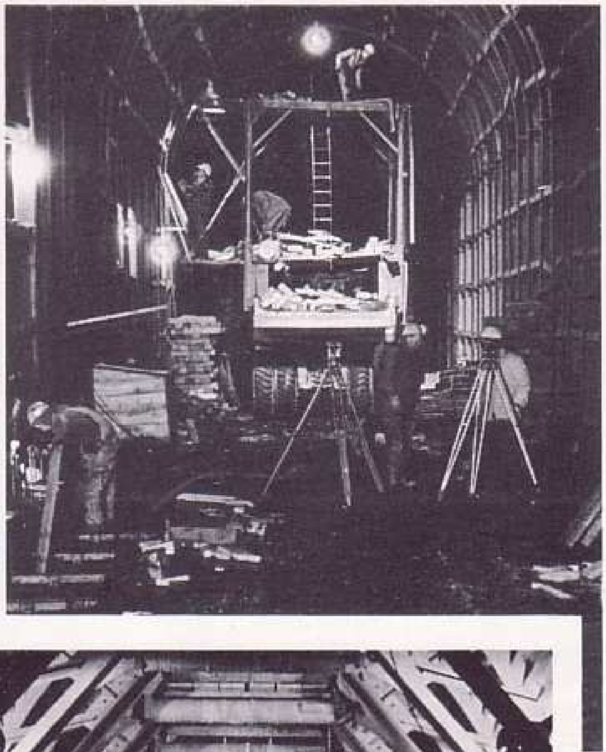
LITIGATION

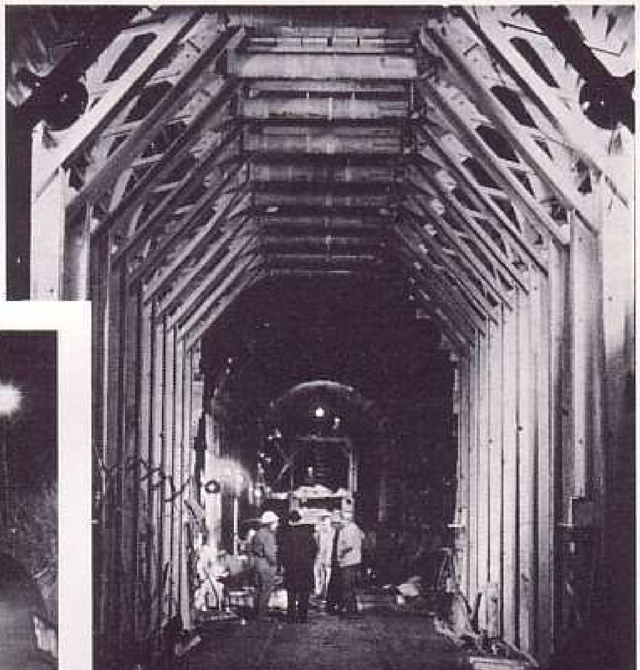
There are two cases which involve the division of interline revenue:

One involves the division of interline revenue on traffic to and from Transcontinental Territory. During the year, the Supreme Court of the United States remanded this case to the District Court with directions to supervise the resettlement of revenues on traffic on and after July 1, 1963. At this writing, it appears that your Company's revenue will not be adversely affected.

The second case involves the division of interline revenue on traffic between Eastern and Southern Territories. On March 21, 1965, the Interstate Commerce Commission issued an order which was effective on July 30, 1965 prescribing new divisions which were adverse to your Company's interest. On March 31, 1965, the southern railroads, including the Frisco, filed an appeal in the United States District Court for the Eastern District of Louisiana, in New Orleans, from the Commission's decision. A judgment was entered on August 22, 1967 favorable to the southern railroads, including your Company. On January 31, 1968, a motion to affirm was filed in the United States Supreme Court, where the case now is pending.

A major improvement project begun during 1967 was the enlargement of the Frisco's Winslow Tunnel, completed in 1882 to link Fort Smith, Arkansas, with the main line at Monett, Missouri. The old entrance to the tunnel is pictured in the upper photo. From the top of the rail, the old tunnel measured 19' in height and was 14' wide. When the enlargement and relining are completed, the tunnel will be 24' in height and 18' wide to accommodate the higher, wider loads of modern railroading.





FRISCO

CAPITAL EXPENDITURES

Capital spending continued at a high level during the year as the Frisco not only strengthened its physical plant and modernized its car and locomotive fleets but also completed its new line of railroad into the new Missouri Mineral Belt.

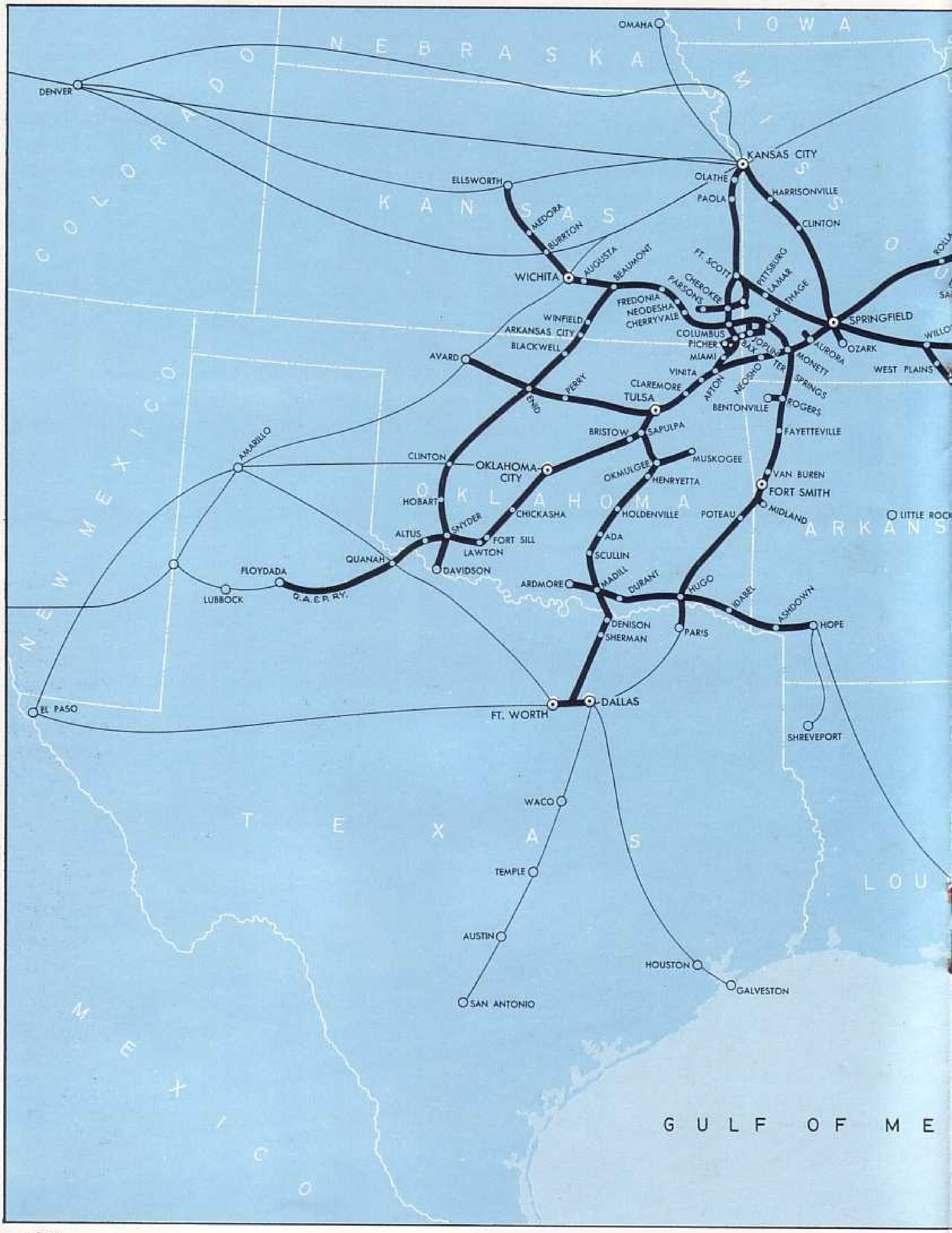
During 1967, the Frisco spent $27,073,790 on capital improvements. The major portion of this amount — $16,064,323 — went for new cars and locomotives, most of which were financed through Conditional Sale Agreements. A total of $8,908,852 was spent on roadway and structures, including $2,941,053 on the new line into the Missouri Mineral Belt. The remainder — $2,100,615 — went for other improvements to our properties.

EQUIPMENT OBLIGATIONS

Equipment obligations outstanding at year-end, including those due in one year, totaled $67,243,523, an increase of $7,996,906, representing additional obligations incurred of $15,827,920, less serial maturities of $7,807,903 and prepayments of $23,111 during 1967.

Equipment debt instalments due in 1968 will amount to $8,405,939; equipment depreciation chargeable to operating expenses will approximate $8,100,000.

Mine and mill of the St. Joseph Lead Company at Viburnum, Missouri.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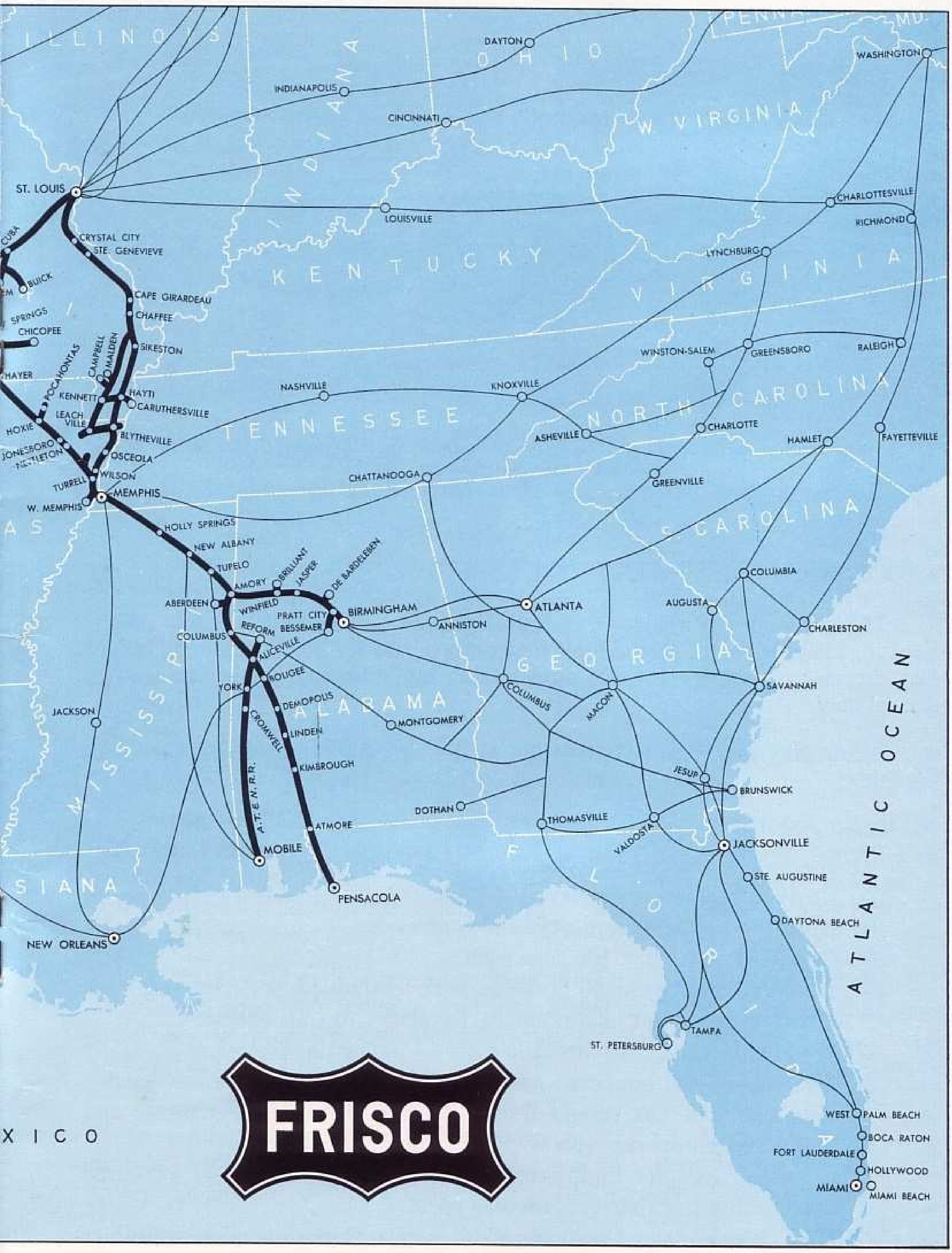

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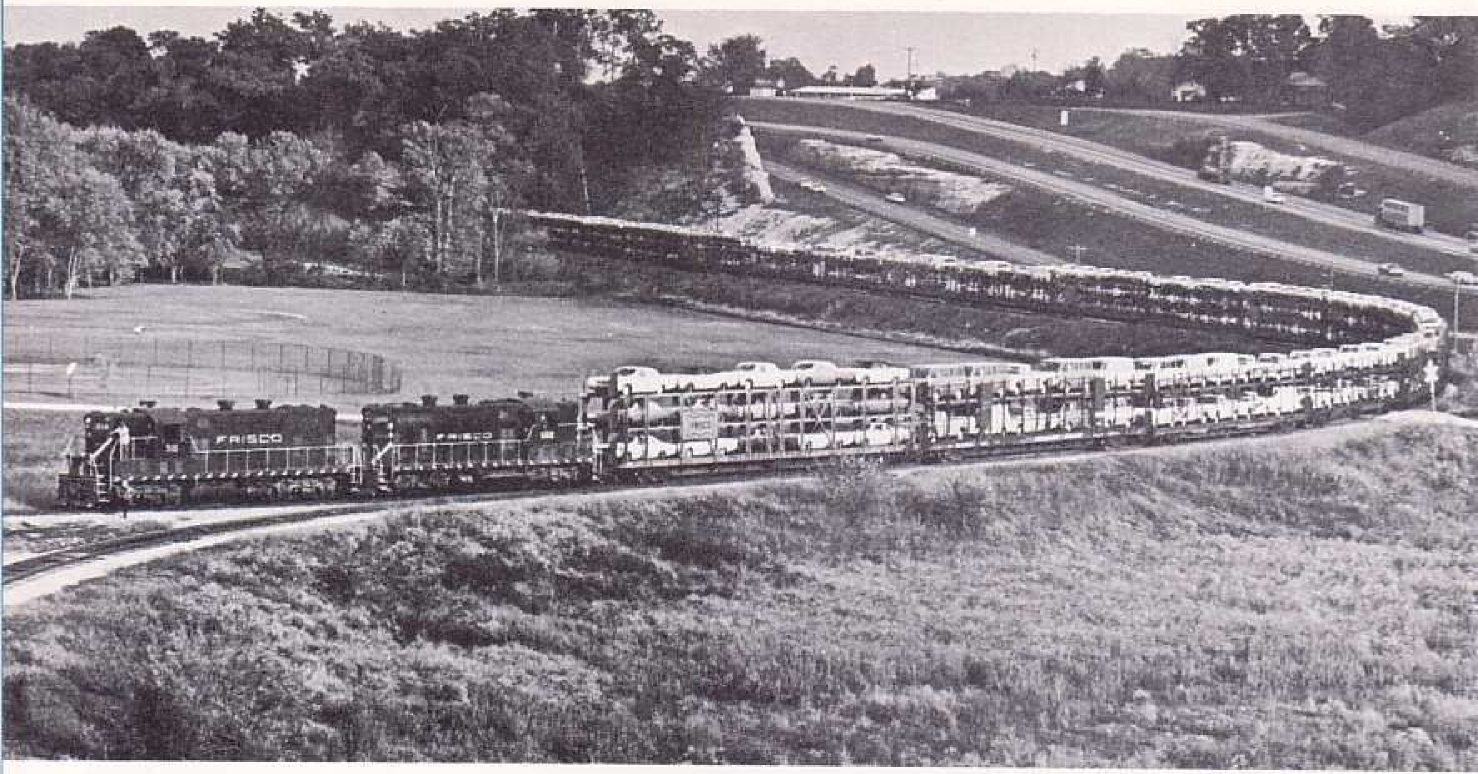
ANNISTON
CHARLESTON
ALICEVILLE
BOLIGEE
YORK
DEMOPOLIS
COLUMBUS
MACON
SAVANNAH
JACKSON
MONTGOMERY
CROMWELL
LINDEN
A.T.&N.R.R.
KIMBROUGH
JESUP
BRUNSWICK
DOTHAN
THOMASVILLE
VALDOSTA
ATMORE
JACKSONVILLE
MOBILE
PENSACOLA
STE. AUGUSTINE
DAYTONA BEACH
NEW ORLEANS
TAMPA
ST. PETERSBURG
FRISCO
WEST PALM BEACH
BOCA RATON
FORT LAUDERDALE
HOLLYWOOD
MIAMI
MIAMI BEACH



Trainload of automobiles and trucks ready to depart from Chrysler-Dodge plants at Fenton, Missouri, near St. Louis.

LOCOMOTIVES AND CARS

The economics of modern-day transportation continued to accentuate the need for more powerful, dependable locomotives and for better equipped freight cars capable of hauling greater payloads at higher speeds with damage-free consistency.

Below may be found a description of the new rolling stock installed during 1967:

Purchased New

- 14 Diesel-Electric locomotives, 3600 horsepower each.
- 300 Covered hoppers; capacity: 100 tons — 4427 cubic feet each.
- 100 Open top hoppers; capacity: 100 tons each.
- 200 Gondolas; capacity: 100 tons each.
- 150 Insulated box cars; 50′1″ long, with cushioned underframes, high strength floors and load dividers; capacity: 70 tons each.
- 30 Wood chip cars; capacity: 100 tons — 7000 cubic feet each.
- 12 Airslide covered hoppers; capacity: 70 tons — 2600 cubic feet each.
- 6 Non-insulated box cars, 60′ long, with cushioned underframes and high strength floors; capacity: 100 tons each.
- 4 Open top cars for high density lading, equipped with air-operated bottom dump; capacity: 100 tons each.
- 4 High cubic capacity box cars, 86½′ long, with cushioned underframes and load dividers; capacity: 100 tons each.

Leased Freight Cars

Over the years, to augment its car supply without additional capital investment, the Frisco has taken advantage of opportunities to lease railway equipment. At year end, the Company had 760 freight cars under lease. In addition, your Company entered into a unique type of leasing agreement to share the use of 500 covered hopper cars with a major chemical company. The railroad uses the cars for six months during shipping peaks and the chemical company during the remainder of the year to meet its own peak demands.

Repaired or Modified in Company Shops

47 Open top hoppers; capacity: 50 tons each.
110 Double door box cars; capacity: 50 tons each.
80 Covered hoppers; capacity: 70 tons each.
40 Flat cars; capacity: 50 tons each.
75 Multi-level auto racks.
10 Terminal cabooses constructed from existing flat cars.
66 Multi-level auto racks extended from 87′ to 89′.
75 Single-door box cars; capacity: 50 tons each.
10 Gondolas equipped with bulkheads and end cushioning; capacity: 100 tons each.

During the year, the Company also constructed in its own shops 67 multi-level auto racks which were applied to flat cars owned by the Trailer Train Company, of which your Company is a part owner.

ROADWAY AND STRUCTURES

Another year of heavy capital expenditures further strengthened and modernized the Frisco's roadway and structures.

A total of 70.2 miles of new rail were laid, of which 51.7 miles consisted of 132-pound rail and 18.5 miles consisted of 115-pound rail, all continuously welded and laid in quarter-mile lengths. Relay rail was laid on 49 miles of the Frisco and 11 miles of its subsidiary, the Alabama, Tennessee and Northern Railroad Company.

As part of its maintenance program, the Frisco inserted 399,000 crossties, resurfaced some 700 miles of line and tested 2,200 miles of railroad with electronic detector cars capable of locating rail flaws before they can become service failures.

Enlargement of the Frisco's Winslow Tunnel — near Fort Smith, Arkansas — to accommodate higher, wider loads, and the rehabilitation of the Company's Lindenwood Yard, on the outskirts of St. Louis, are major modernization projects started during 1967; both will be completed during 1968.

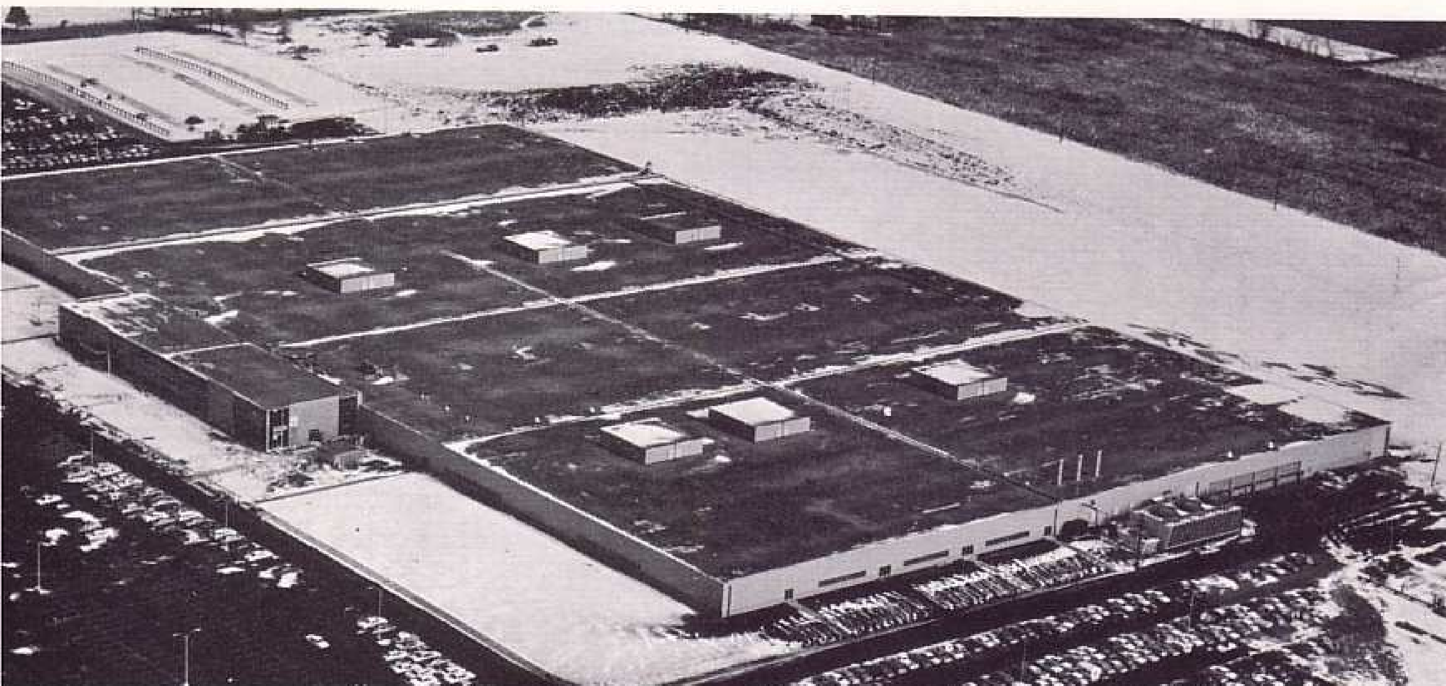
The completion of the Company's new line into the new Missouri Mineral Belt is discussed elsewhere in this report.

COMMUNICATIONS AND SIGNALS

The growing reliance upon instantaneous communication to facilitate the operation of trains and the transmission of data to computers brought a further application of electronic equipment.

Additional teletype-printers, two-way radios, hot box detectors sensitive to heat to detect impending bearing failures, protective devices for highway crossings, power switches and signals to warn rail motor car operators of approaching trains all were among the electrically-activated instruments put into service during the year to improve the efficiency and safety of railroad operations.

Mine and mill owned by AMAX and Homestake Mining Company at Buick, Missouri.



New plant of the Zenith Radio Corporation at Springfield, Missouri.

LABOR

A nation-wide railroad strike began around midnight on July 15 over a dispute growing out of the May 17, 1966 economic demands of the shop craft organizations. The work stoppage on the Frisco commenced the night of July 16 and terminated the morning of July 18. The dispute was settled by a five-man Special Board appointed by President Johnson under Public Law 90-54. The findings of the Board, which became effective October 16, included an across-the-board increase of 6% retroactive to January 1, 1967; an additional increase of 5% effective July 1, 1968, and five-cent extra increases to journeymen and mechanics in four increments, effective April 1 and October 1, 1967 and 1968.

During the year, wage increases for employes represented by many of the railway labor organizations ranged from 5% to 6%. National agreements entered into with various railway labor organizations in 1967 and in the early part of 1968 provide for wage increases in the year 1968 ranging from 2½% to 6% at an annual rate. Wage increases at an annual rate of 5% are scheduled to go into effect in the year 1969 to clerical employes pursuant to national agreement with the Clerks' Organization dated December 28, 1967. Wage increase demands of the four operating crafts were pending at year end.

Agreements with the railway labor organizations entered into in 1967 and in the early part of 1968 also provide for liberalization of vacation benefits and qualifying service requirements.

A two-year national agreement entered into in January 1968 with nearly all of the railway labor organizations provides, effective March 1, 1968, a single uniform plan covering employe-dependent hospitalization and employe life insurance. There are now five separate national health and welfare plans covering employes represented by the various labor organizations in the railroad industry. The new plan provides for substantial improvement in life insurance and hospital-medical benefits. The insurance premium during the two-year period will be borne by the employer.

The nation's railroads have joined the railway labor organizations in asking Congress to enact legislation which would raise railroad retirement, unemployment and sickness insurance benefits.

Ore train on the new Missouri Mineral Belt Line.

Wage increases and fringe benefits provided for in the above-described agreements as well as changes made in the Railroad Retirement and Tax Acts (see pages 7 and 8) are estimated to increase Frisco's annual costs by approximately $4,000,000.

EMPLOYMENT AND WAGES

The average number of employes in 1967 was 8,435 and the total payroll $66,675,012. In 1966, the average number was 8,639 and the total payroll $64,483,294.

SAFETY

The year saw a continuation of the Frisco's efforts to promote safety both on and off the job. In recognition of its efforts in this direction, the Frisco again was awarded the National Safety Council's "Golden Spike" award for its public safety activities in 1966. These awards recognize such varied activities as participation by railroad personnel in community safety activities, off-the-job safety programs for employes, cooperation with local safety councils and civic groups, as well as participation in the Council's SIGNS OF LIFE program.

The Frisco was one of only ten railroads in the United States receiving this recognition for its 1966 activities.

FINANCIAL STATEMENTS

Included in this report are the consolidated financial statements of the St. Louis-San Francisco Railway Company and its wholly-owned subsidiaries, together with the opinion thereon of the Company's independent accountants, Price Waterhouse & Co. Another enterprise in which the Frisco has an interest is the New Mexico and Arizona Land Company which 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.

CHANGES IN THE DIRECTORATE

At a meeting of the Directorate held in St. Louis, Missouri, on May 9, Mr. R. C. Grayson, the Company's Vice President-Operation at Springfield, Missouri, was elected to the Board of Directors to succeed Mr. Lester E. Cox of that same city.

Mr. Cox was elected to the Board on May 11, 1952 and from that time served the Company with distinction. His associates on the Directorate take this occasion to express their gratitude for the valued contributions he has made in the formulation of Company policy and to wish him well in the years ahead.

CONSOLIDATED INCOME STATEMENT

	1967	1966
	(000) omitted	
OPERATING REVENUES:		
Freight	$149,811	$145,964
Other	7,772	9,229
Total operating revenues	157,583	155,193
OPERATING EXPENSES:		
Maintenance of way and structures	21,087	21,003
Maintenance of equipment	21,608	20,424
Transportation	57,947	55,633
Other	14,244	14,179
Total operating expenses (includes depreciation of $10,419,000 and $10,111,000, respectively)	114,886	111,239
Net operating revenue	42,697	43,954
OPERATING CHARGES:		
Taxes (except federal income taxes)	12,428	11,704
Equipment and joint facility rents	9,097	7,656
Total operating charges*	21,525	19,360
Net operating income*	21,172	24,594
OTHER INCOME, net	2,076	1,294
Balance for fixed and contingent charges*	23,248	25,888
FIXED AND CONTINGENT CHARGES:		
Fixed charges	6,954	6,532
Contingent interest	1,503	1,503
Total fixed and contingent charges	8,457	8,035
Income before federal income taxes	14,791	17,853
ESTIMATED FEDERAL INCOME TAXES: (Note 2, Page 26)	2,801	5,529
NET INCOME (in conformity with I.C.C. principles)	$ 11,990	$ 12,324
EARNINGS PER COMMON SHARE	$ 4.80	$ 4.97

*Before Federal income taxes.

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1967	December 31, 1966
	(000) omitted	
CURRENT ASSETS:		
Cash	$ 3,648	$ 4,531
Temporary cash investments	12,344	12,156
Cash deposits for interest, dividends, etc.	2,316	2,648
Receivables from U. S. Government, individuals, agents and companies	14,246	13,674
Material and supplies, at average cost	6,709	6,180
Other current assets	409	323
Total Current Assets	39,672	39,512
SPECIAL DEPOSITS	1,348	1,269
INVESTMENTS:		
Securities of and advances to affiliates (Page 29)	4,050	3,757
Other	80	81
Total Investments	4,130	3,838
PROPERTIES (Note 4, Page 27):		
Roadway and structures	317,668	311,759
Equipment	220,962	219,139
Non-operating property	7,433	7,417
Accrued depreciation — road	**56,382**	**56,874**
Accrued depreciation — equipment	**104,682**	**110,267**
Accrued depreciation — non-operating property	**472**	**429**
Total Properties	384,527	370,745
OTHER ASSETS:		
Discount on long term debt	2,247	2,256
Miscellaneous	1,872	1,414
Total Other Assets	4,119	3,670
Total Assets	$433,796	$419,034

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	December 31, 1967	December 31, 1966
	(000) omitted	
LIABILITIES		
CURRENT LIABILITIES:		
Audited accounts and wages payable	$ 3,536	$ 2,946
Accrued and miscellaneous accounts payable	11,539	11,470
Interest and dividends payable	4,358	4,370
Estimated federal taxes on income (Note 5, Page 27)	2,243	3,942
Other accrued taxes	2,755	3,239
Other current liabilities	3,245	2,793
Total Current Liabilities (excluding current portion of long term debt)	27,676	28,760
LONG TERM DEBT (Page 30):		
First Mortgage Bonds, 4% Series A — 1997	65,790	65,790
First Mortgage Bonds, 4% Series B — 1980	16,115	16,140
Income Debentures, 5% Series A — 2006	30,064	30,064
Notes payable	6,000	5,000
Equipment obligations	67,243	59,246
Other long term debt	2,985	3,230
Total Long Term Debt ($8,657,000 payable in 1968)	188,197	179,470
OTHER LIABILITIES:		
Estimated casualty and other reserves	688	1,038
Miscellaneous, including deferred credits	736	1,378
Total Other Liabilities	1,424	2,416
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6, Page 27):		
Preferred, $100 par value — Authorized 1,500,000 shares. Series A 5% issued 159,708 shares, less 44,821 shares in treasury in 1967 and 160,823 shares, less 44,821 shares in treasury in 1966	11,489	11,600
Common, no par value — Authorized 6,000,000 shares, issued 2,382,445 shares, less 50 shares in treasury in 1967 and 2,376,010 shares, less 50 shares in treasury in 1966	102,972	102,781
CAPITAL SURPLUS (Note 6, Page 27)	18,935	17,323
RETAINED INCOME (Page 26)	83,103	76,684
Total Shareholders' Equity	216,499	208,388
Total Liabilities and Shareholders' Equity	$433,796	$419,034

CONSOLIDATED RETAINED INCOME STATEMENT

		(000) omitted
Balance December 31, 1966	$	76,684
Add:		
Net income for the year		11,990
Deduct:		
Dividend on Preferred Stock — $5.00 per share payable in 1968		573
Dividend on Common Stock — $2.10 per share		4,998
		6,419
Balance December 31, 1967	$	83,103

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: Included in the consolidated financial statements are the accounts of the parent company, railroad subsidiaries, and wholly-owned non-railroad subsidiary companies. In prior years non-railroad subsidiaries were not consolidated and, for comparative purposes, the financial statements for 1966 have been restated to include these subsidiaries. The effect of this change upon net assets and income is 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:

	1967	1966
Net income (in conformity with ICC principles) as set forth in the consolidated income statement	$11,990,000	$12,324,000
Adjustments to generally accepted accounting principles:		
Provision for income tax effect of —		
Amortization of defense facilities	1,014,000	1,020,000
Accelerated and guideline depreciation	(3,126,000)	(3,061,000)
Net income (as it would be stated in conformity with generally accepted accounting principles)	$ 9,878,000	$10,283,000

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 $40,885,000 at December 31, 1967.

3. PENSION PLAN: The Company has a noncontributory pension plan covering officers and supervisory employes. The cost of the plan charged to income was $1,182,000 in 1967 and $1,388,000 in 1966, which amounts include 10% of past service costs. The Company's policy is to fund pension costs accrued. The actuarially-computed value of vested benefits under the plan as of December 31, 1967 exceeded the total pension fund by about $2,000,000.

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 depreciation accounting 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.

At December 31, 1967, nondepreciable property, including land and land rights, aggregated approximately $205,500,000.

5. FEDERAL INCOME TAXES: Federal taxes on income for the years 1963 through 1967 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 7 for details of investment tax credit.

6. CAPITAL STOCK AND SURPLUS: The Preferred Stock is redeemable at par plus accrued dividends. The stock is convertible at the option of the holders at any time on or before 15 days prior to the date as of which such stock shall have been called for redemption, at the rate of two shares of Common for each share of Preferred.

At December 31, 1967 there were 321,486 shares of authorized Common Stock reserved as follows:

(a) 319,416 shares for conversion of Preferred Stock.

(b) 2,070 shares for issuance under a restricted stock option plan authorized in 1952 for certain officers and key employes. No further options may be granted under the plan.

If all Preferred shares had been converted and all stock options exercised, 1967 earnings per Common share would have been reduced 21¢.

The increase in capital surplus of $1,612,000 during 1967 represents principally an adjustment of a reserve for losses from line abandonments.

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 a service interruption policy with The Imperial Insurance Company, Limited.

PRICE WATERHOUSE & CO.
14 SOUTH FOURTH STREET
ST. LOUIS

March 4, 1968

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

We have examined the balance sheet of the St. Louis-San Francisco Railway Company and its wholly-owned subsidiaries consolidated at December 31, 1967 and the statements of income and retained income for the year. Our examination was 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 financial position of St. Louis-San Francisco Railway Company and its wholly-owned subsidiaries consolidated at December 31, 1967 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

INVESTMENTS IN AFFILIATED COMPANIES

	NUMBER OF SHARES	PER CENT OWNED	PAR VALUE	BOOK VALUE
Stocks:				
New Mexico and Arizona Land Co..	500,258.48	50.03	$500,258	$ 515,469
*Birmingham Terminal Co.........	250	16⅔	25,000	25,000
Illinois Terminal Railroad Co......	181.818	9.09	1,818	1,818
*Kansas City Terminal Ry. Co.....	1,833⅓	8⅓	183,333	183,333
Pullman Co., The...............	8,456	1.1562	84,560	236,768
*Railway Express Agency, Inc......	29,064	1.45	29,064	1,400
*Terminal R. R. Association of St. Louis....................	2,058	6¼	205,800	1
Trailer Train Co................	500	2.44	500	50,000
*Union Terminal Co., The—Dallas..	60	12½	6,000	6,000
*Wichita Union Terminal Ry. Co....	333⅓	33⅓	33,333	12,502
				$1,032,291
Notes:				
Trailer Train Co................	....	....	....	$ 243,000
Railway Express Agency, Inc.....	....	....	....	404,817
				$ 647,817
Investment Advances:				
Birmingham Terminal Co.........	....	....	....	$ 275,891
Kansas City Terminal Ry. Co.....	....	....	....	1,120,357
Union Terminal Co., The—Dallas.	....	....	....	216,338
Wichita Union Terminal Ry. Co...	....	....	....	755,214
Wichita Terminal Association......	....	....	....	2,000
				$2,369,800
Total investments in affiliated companies................	....	....	....	$4,049,908

*Pledged under First Mortgage.

Notes to Page 30:

*Subject to sinking fund provisions under mortgage indentures:

First Mortgage Series A	$ 424,544
First Mortgage Series B	195,000
Income Debentures Series A.................	165,645

†Excludes bonds held in treasury as follows:

First Mortgage Series A....................	$ 918,000
First Mortgage Series B.....................	818,000
Income Debentures Series A..................	547,000

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A copy of a supplemental report which includes additional financial and statistical statements will be mailed to any stockholder or interested person upon request.

Write to:

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY
Room 1008, 906 Olive Street
St. Louis, Missouri 63101