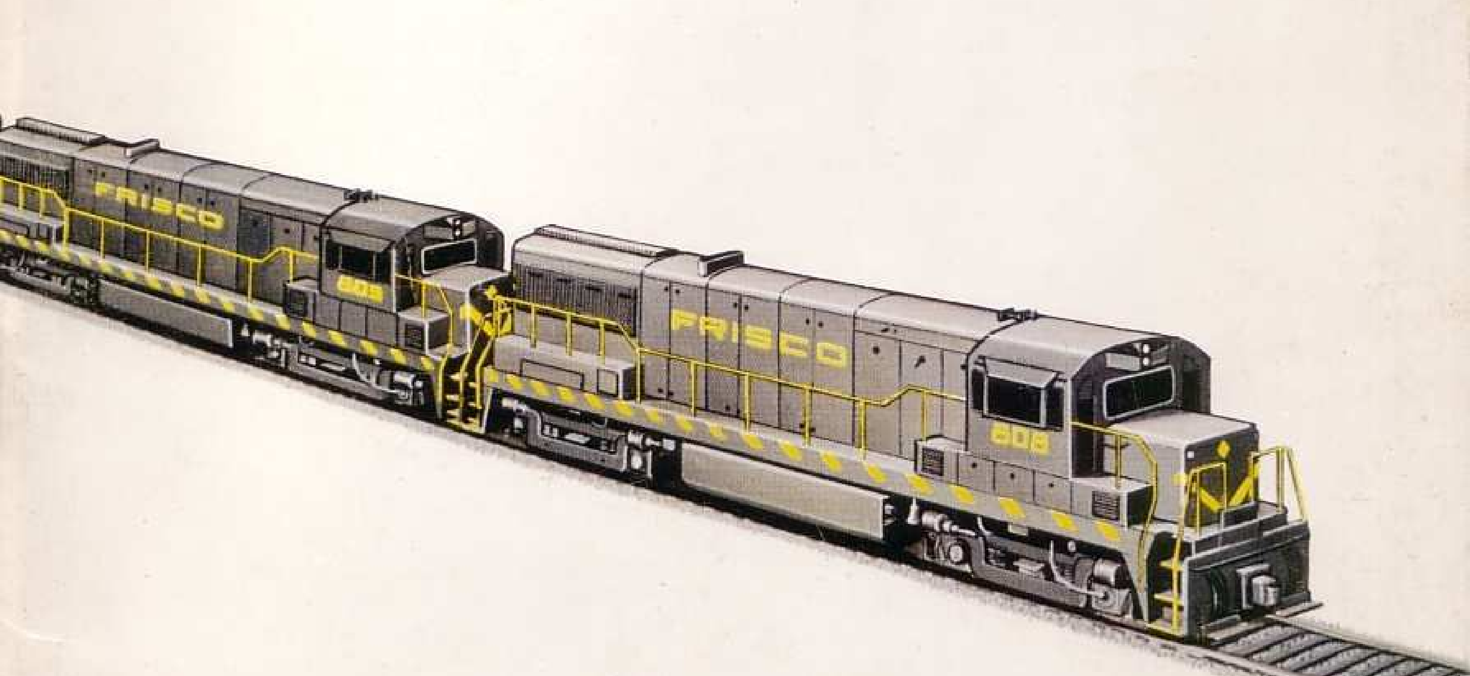
FRISCO

Annual Report 1964



ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY

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

L. W. MENK, *Chairman and President*, St. Louis, Mo.

DIRECTORS

Term expires 1965

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

Term expires 1966

ROBERT E. GARRETT	*Birmingham, Ala.*
BRUCE K. GOODMAN	*Evanston, Ill.*
HUGH L. HARRELL	*Oklahoma City, Okla.*
F. G. MCCLINTOCK	*Tulsa, Okla.*
L. W. MENK	*St. Louis, Mo.*

Term expires 1967

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

LESTER E. COX, L. W. MENK, B. B. CULVER, JR., JUDSON S. SAYRE, C. P. WHITEHEAD, WM. A. MCDONNELL, LEWIS B. STUART

FINANCE COMMITTEE

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

OFFICERS

L. W. MENK	*Chairman and President*	St. Louis, Mo.
R. C. GRAYSON	*Vice President-Operation*	Springfield, Mo.
J. E. GILLILAND	*Vice President-Traffic-Ind. Development*	St. Louis, Mo.
E. D. GRINNELL, JR.	*Vice President and General Counsel*	St. Louis, Mo.
H. B. PARKER	*Controller*	Springfield, Mo.
J. K. BESHEARS	*Vice President-Personnel*	Springfield, Mo.
R. P. deCAMARA	*Vice President-Staff*	Springfield, Mo.
G. M. RAYBURN	*Secretary and Treasurer*	St. Louis, Mo.
F. L. COULTER	*Vice President*	Los Angeles, Calif.

TRANSFER AGENT

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

REGISTRAR

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

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

FRISCO FACTS

	1964	1963
Operating revenues	$140,117,060	$131,643,094
Operating expenses	$107,576,716	$101,182,187
Ratio of expenses to revenues	76.78	76.86

	1964	1963
Taxes	$ 12,218,608	$ 11,205,320
Taxes per share of common stock	$ 6.46	$ 6.01
Income available for fixed charges	$ 15,418,301	$ 14,924,987
Fixed charges	$ 5,674,833	$ 5,527,179
Times fixed charges earned	2.72	2.70
Contingent interest	$ 2,620,112	$ 2,643,312
Income before dividends	$ 7,123,356	$ 6,754,496
Preferred dividends — $5 per share	$ 1,243,050	$ 1,367,425
Earnings per common share	$ 3.11	$ 2.93
Dividends per common share	$ 1.40	$ 1.25

	1964	1963
Freight revenue	$129,041,361	$120,508,440
Tons — revenue freight	30,397,212	29,805,868
Ton miles — revenue freight (thousands)	10,444,139	9,855,505
Avg. revenue per ton mile — revenue freight	1.236¢	1.223¢
Gross ton miles (thousands)	22,308,724	21,259,196
Train miles — freight	7,810,554	7,772,077
Gross ton miles per train mile	2,856	2,735
Average miles hauled — revenue freight	343.59	330.66
Gross ton miles per train hour	61,264	60,348

	1964	1963
Passenger revenue	$ 1,471,620	$ 1,770,355
Passengers carried	218,406	241,583
Passenger miles	52,356,132	61,992,101
Average revenue per passenger mile	2.810¢	2.856¢
Average distance carried	239.72	256.61
Train miles — passenger	2,194,615	2,249,446

	1964	1963
Average number of employes	8,718	9,008
Miles of road operated	5,054	5,020

SUMMARY OF OPERATIONS IN 1964

WE RECEIVED FROM:

	(000) omitted
Freight	$ 129,041
Passenger	1,472
Mail, express, switching, etc.	9,704
Other sources	2,117
Total	142,334

HOW IT WAS USED:

Conducting transportation	53,719
Upkeep of tracks and structures	15,751
Upkeep of equipment	12,339
Other operating expenses	16,143
Depreciation	9,625
Payroll, property and other taxes	10,252
Rental of equipment, net	6,925
Interest on debt	8,295
Federal income taxes	1,967
Miscellaneous charges, net	195
Total	135,211
Net Income for the Year	$ 7,123

SIMPLIFIED BALANCE SHEET

AS OF DECEMBER 31, 1964

WE OWNED:	(000) omitted
Road and Equipment representing our investment, less depreciation and amortization	$ 346,043
Cash and marketable securities, plus special deposits	31,010
Amounts due from railroads and others	10,929
Investment in capital funds and securities of and advances to affiliated companies	9,725
Material and supplies necessary for repairs and operation, costing	4,744
Other assets and deferred charges for which we have already paid	4,058
TOTAL ASSETS	$ 406,509

WE OWED:	
Funded debt due years 1965 through 2022	$ 188,373
Wages, materials purchased, balance due railroads and others	18,420
Interest on our funded debt	4,366
Taxes to Federal, State and Local Governments	4,758
Deferred liabilities and reserves for items awaiting final disposition	2,438
Total Liabilities	218,355
Stockholders' Equity:	
(1) For their investments in our business	124,528
(2) For income retained in the business	63,626
Total Stockholders' Equity	188,154
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 406,509

St. Louis-San Francisco Railway Company

REPORT FOR 1964

To the Stockholders:

Herewith is a report of operations of your Company for the period ended December 31, 1964.

NET INCOME

Net income of $7,123,356, before sinking funds, is the highest since 1956 and is equivalent to $3.11 per share of Common Stock versus $6,754,496, or $2.93 per share in 1963.

Reflecting higher revenues, the improvement in earnings was achieved despite declining tax credits and the absorption in the last quarter of substantial retroactive wage and fringe benefit increases. Non-recurring severance pay to crewmen whose jobs have been abolished also added to expenses but will result in economies in the future. Taxes are discussed on page 6 and labor costs on pages 19 and 20.

OPERATING REVENUES

Operating revenues in 1964 were $140,117,060, up $8,473,966 or 6.1% from the level of the preceding year.

Freight revenue reached a new post-war high of $129,041,361 versus $120,508,440 in 1963 as ton-miles of transportation service also set a post-war record. In the economy as a whole, the year was marked by an increase of more than 6% in the industrial production index, a new high in employment, and a rate of economic expansion which lifted the Gross National Product almost 5% in constant dollars. Agriculturally, the production of food and fiber was only a little short of the record set in 1963 as the nation's farmlands harvested good crops of wheat, soybeans and cotton.

Although Frisco carloadings of 754,757 were 0.5% ahead of the year-earlier total, some of the increase was attributable to the acquisition of the Northeast Oklahoma Railroad during the year. Revenue ton-miles were up 6%, as both the average haul and the average load per car increased 3.9% and 1.8%, respectively. Contributing to the improvement in freight revenue was a better "traffic mix" resulting from an increase in the movement of such higher-rated commodities as steel and automobiles. The average revenue per car rose from $160.48 in 1963 to $170.97.

Piggyback revenue set another annual record which continued unbroken a succession of new annual highs stretching back to 1955 when Trailer-on-Flat-Car service was initiated. Despite autumn strikes in the automobile industry, the Frisco enjoyed record-breaking revenue from the movement of new motor vehicles on multi-level railway equipment. Combined piggyback and automobile revenues now constitute almost 10% of all freight revenue and are discussed on pages 8 and 10.

Revenue gains also were registered by forwarder traffic, grain, forest products, canned goods, fertilizers and manufactured and miscellaneous.

Continuing a trend, passenger revenue slipped from $1,770,355 in 1963 to $1,471,620 in 1964.

OPERATING EXPENSES

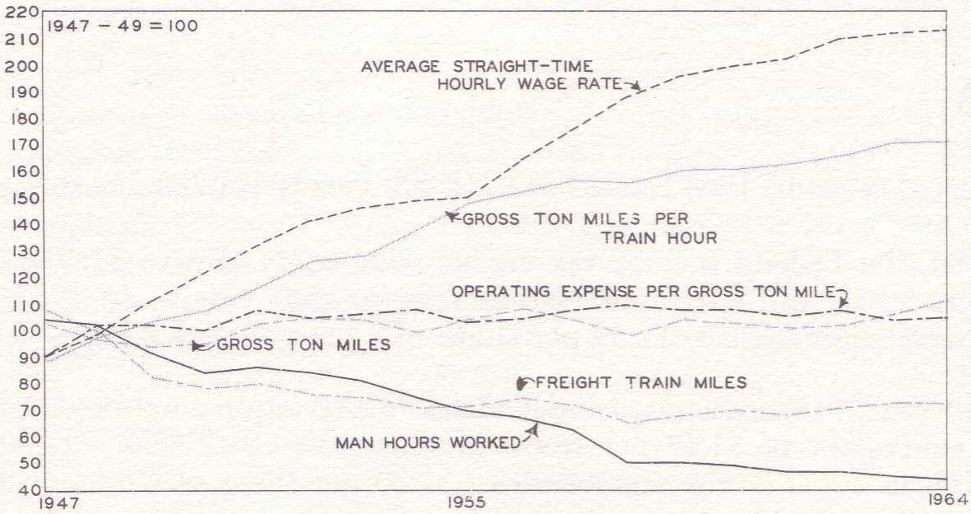
Operating expenses of $107,576,716 were up 6% under the influence of a greater volume of traffic as well as wage and fringe benefit increases applied retroactively to the beginning of the year. These higher payroll costs added approximately $2,084,000 to expenses in 1964; non-recurring severance pay to crewmen whose jobs were abolished added another $1,226,000.

To cope with these influences, as well as to better its competitive position, the Frisco strove for a further improvement in its performance. Modern, larger freight cars are being combined with more powerful locomotives to not only increase the efficiency of train operation but also to soften the impact of rising unit costs of equipment maintenance. Greater efficiency in roadway maintenance also is being achieved, as described on page 14.

RATIOS

Presented below is a tabulation showing the number of cents spent from each revenue dollar for major items of operating expense.

	1964	1963
Transportation...........	38.34	39.13
Maintenance of Way.....	12.82	12.71
Maintenance of Equipment	14.10	14.63
Other....................	11.52	10.39
Operating Ratio......	76.78	76.86

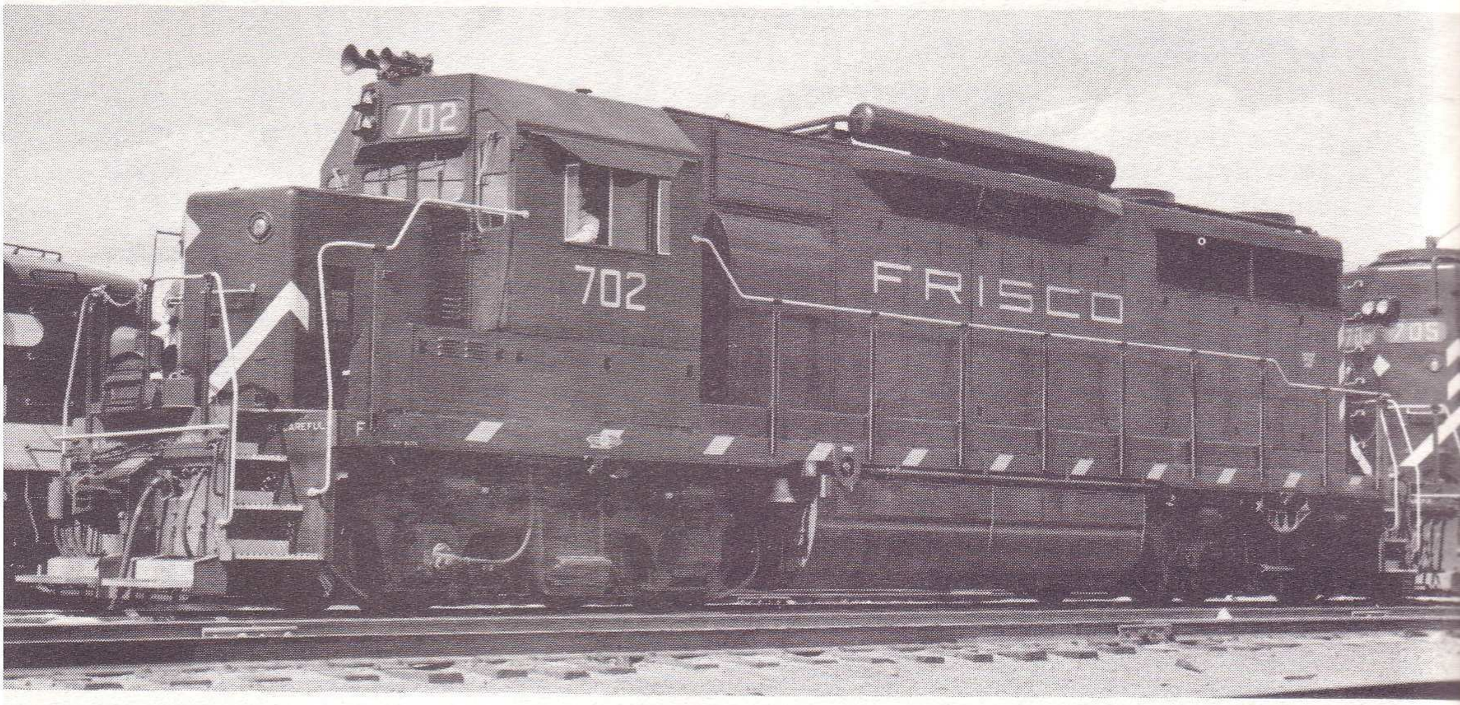


DIVIDENDS

A dividend of $5.00 per share on the Preferred Stock was paid in quarterly installments during the year. Four Common dividends of 35¢ each were paid on March 16, June 15, September 15 and December 15, making a total of $1.40 for the year. These dividends were declared out of the earnings of 1963.

On February 12, 1965, the full dividend of $5.00 per share was declared on the Preferred Stock, payable in quarterly installments of $1.25. At the same time, a dividend of 37½¢ per share of Common Stock was declared payable March 15 to holders of record March 1. These dividends were declared out of the earnings of 1964.

As set forth in a letter to stockholders dated February 16, 1965, counsel have advised that all dividends paid during 1964 are subject to Federal income tax as



2,500 horsepower Diesel-Electric locomotive. Seventeen were installed by the Frisco during the year.

dividend income. Litigation with respect to the taxable status of prior years' dividends is pending.

TAXES

Estimated taxes in 1964 totaled $12,218,608 versus $11,205,320 in 1963.

In 1964, net Federal Income tax credits were equivalent to $1.00 per share of Common Stock and increased Net Income to that extent; in 1963, these tax credits were equivalent to $1.33 per share of Common Stock.

For the year 1964, accelerated and guideline depreciation amounted to $2,800,000, or the equivalent of $1.48 per share of Common Stock which compares with $3,366,000 in 1963, or the equivalent of $1.80 per share of Common Stock.

Amortization of defense facilities was less than the amount of depreciation recorded in the accounts and charged to operating expenses in accordance with accounting requirements of the Interstate Commerce Commission. Therefore, Federal Income Tax accruals were increased and Net Income decreased in 1964 by $904,000, or the equivalent of a decrease of 48c per share of Common Stock which compares with $880,000 in 1963, or the equivalent of 47c per share of Common Stock. Since 1951, tax savings have accumulated to approximately $35,100,000.

Payroll taxes in 1964, at a rate of 7¼% for Railroad Retirement tax on employe earnings to $450 per month and 4% for Railroad Unemployment tax on employe earnings to $400 per month, were $4,783,784, a decrease of 2.4% from the level of 1963. Effective January 1, 1965, the rate for Railroad Retirement tax was increased to 8⅛%.

USE OF FINANCIAL RESOURCES

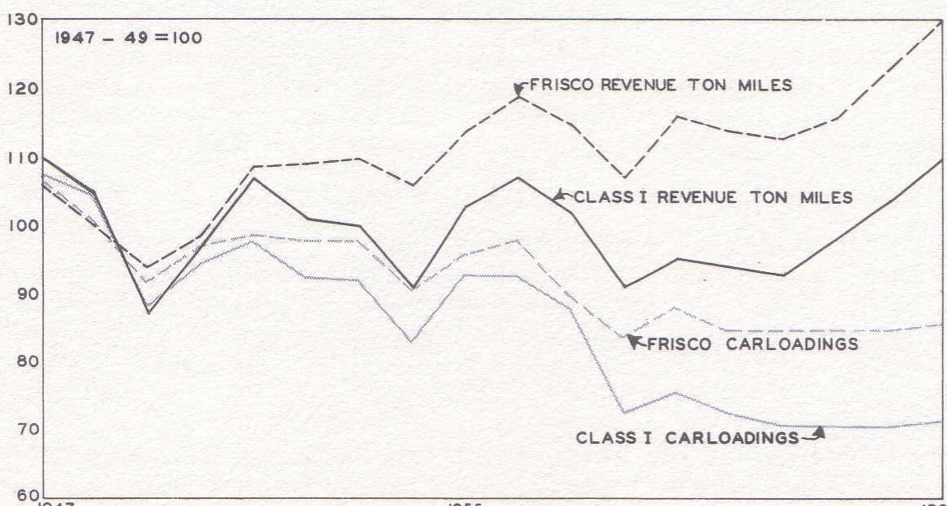
During the year, your Company reacquired 10,100 shares of Frisco Preferred Stock for $981,269 bringing the number of shares held in the Treasury to 39,626. An additional $1,434,860 was expended in the purchase of Company securities to be held in the Company's treasury in anticipation of the future requirements of the sinking funds. After the current sinking funds of $847,035 were satisfied primarily by the surrender of securities from the Company's treasury, we still have sufficient bonds in our treasury to meet the estimated requirements for almost five years.

Although Conditional Sale Agreements were used to finance equipment purchases, a downpayment of 20% was made which was a departure from the customary 100% Conditional Sale Financing. This will reduce our future interest payments by reducing the applicable interest rate.

At year end, the Company had net working capital (excess of current assets over current liabilities) of $19,320,983 vs. $26,297,984 at the end of the previous year. Year-end cash and temporary cash investments were $29,363,565 or $3,733,514 less than on December 31, 1963.

Below is a summary of your Company's sources of funds and their applications:

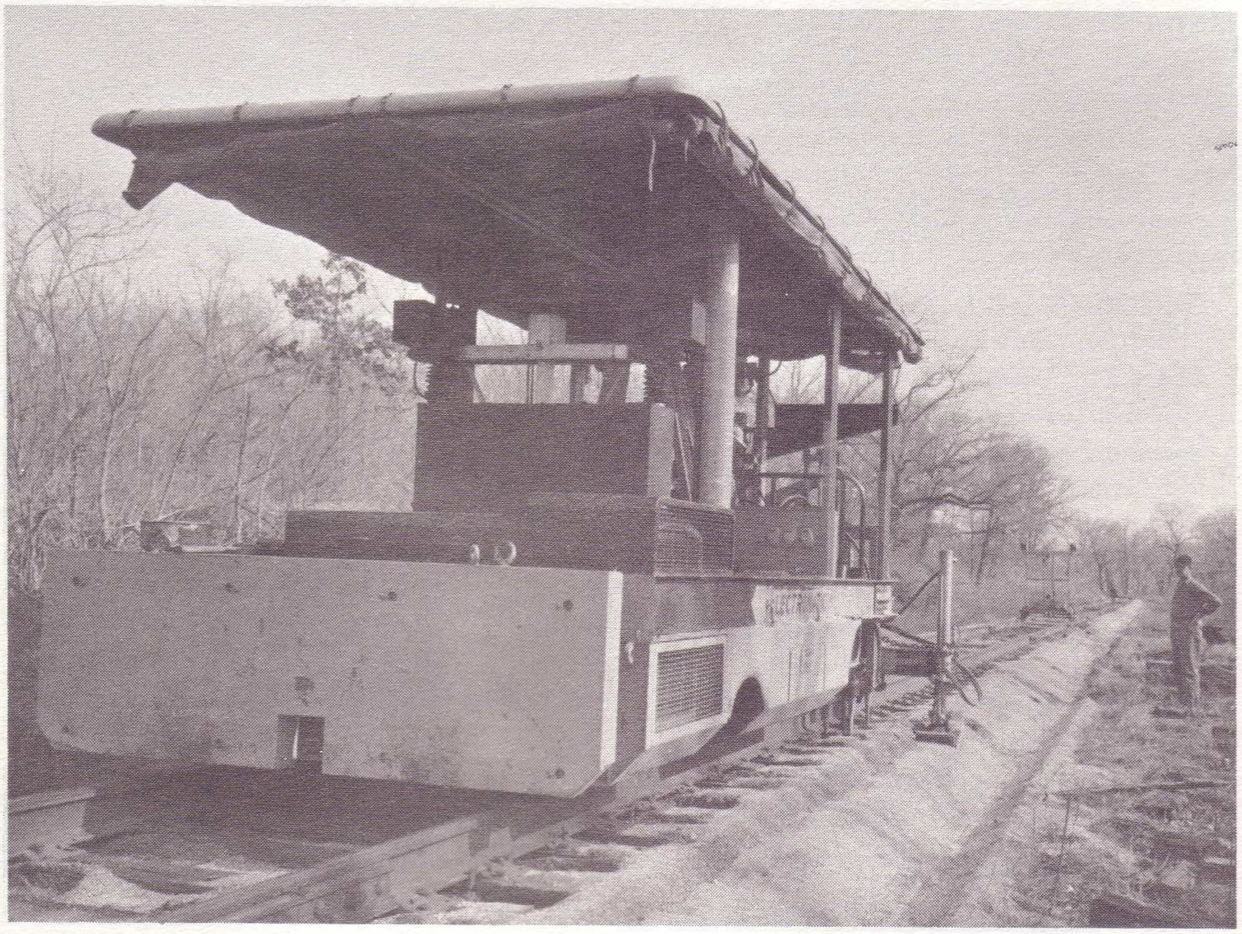
Sources of Funds:	
Net income for year	$ 7,123,354
Depreciation and other non-cash charges against income	9,800,821
Sale of Common Stock	474,930
Conditional Sale Agreements issued	10,648,371
Others, net	1,546,805
Decrease in working capital	6,977,001
Total Sources	$36,571,282
Applications of Funds:	
Property additions — Road and equipment	$21,603,927
Payment on equipment debt	7,475,061
Bonded indebtedness retired	1,434,860
Cash dividends paid	3,876,161
Purchase of Preferred Stock	981,269
Acquisition of Northeast Oklahoma R.R. Capital Stock	1,200,004
Total Applications	$36,571,282



Note: Class I railroads, referred to in the chart above, are those which had gross revenues of $3 million or more in 1964.

MARKET RESEARCH

The year saw a continuation of an aggressive effort to retrieve traffic formerly lost to other forms of transport. Larger freight cars, many of them specialized to meet the needs of specific shippers, are being offered, along with incentive rates and faster schedules, to encourage heavier loading as well as volume movements. Currently, arrangements are being made to move alumina in train-load lots. Incentive rates, heretofore restricted to shipments of unmixed carload lots, also will be applied to mixed carloads. Reduced rates on export wheat went into effect during the year; a new scale of rates on chemicals in packages became effective in January 1965. Similar competitive rate action is under study on flour, plasterboard and canned goods.

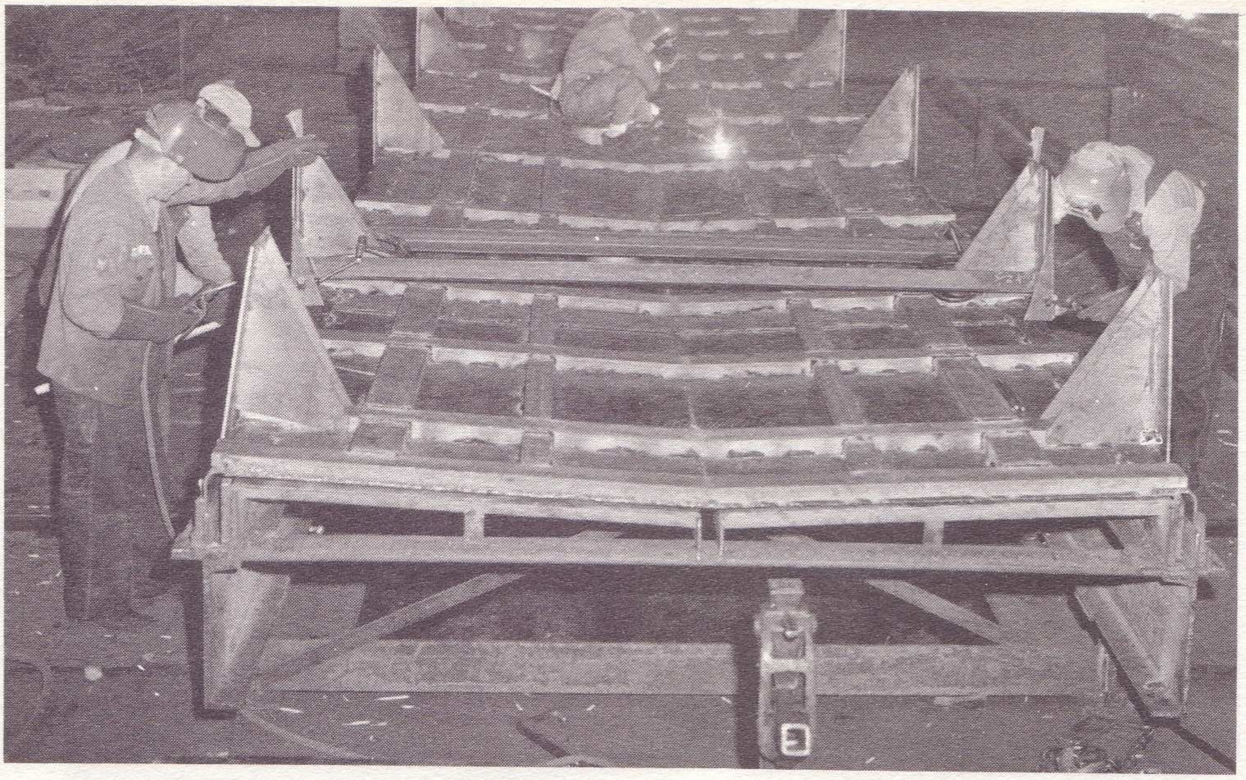


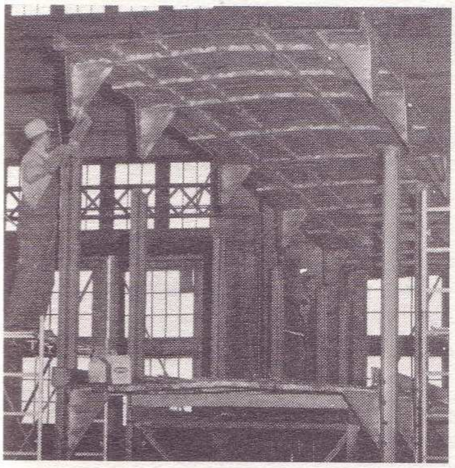
Electromatic Tamper which determines the elevation of the track and tamps the ballast under and around the ties. A cable from the top center of the Tamper connects with the cart preceding it, providing an infrabeam between the two vehicles to determine a perfectly level longitudinal and transverse guide for Tamper.

MULTI-LEVEL AUTO TRANSPORTS

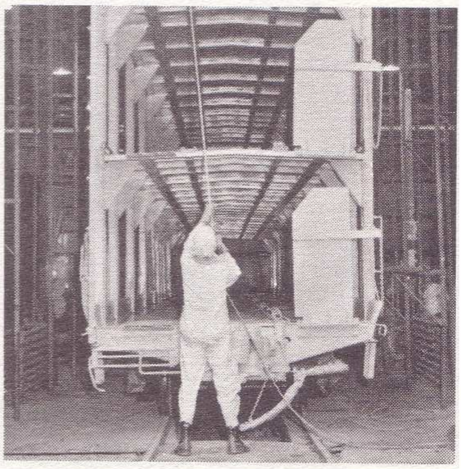
Frisco revenue from the movement of new motor vehicles on multi-level railway equipment set a new record — $9,909,813 versus $7,427,596 a year earlier as the automobile industry had its third straight year of high production despite autumn strikes.

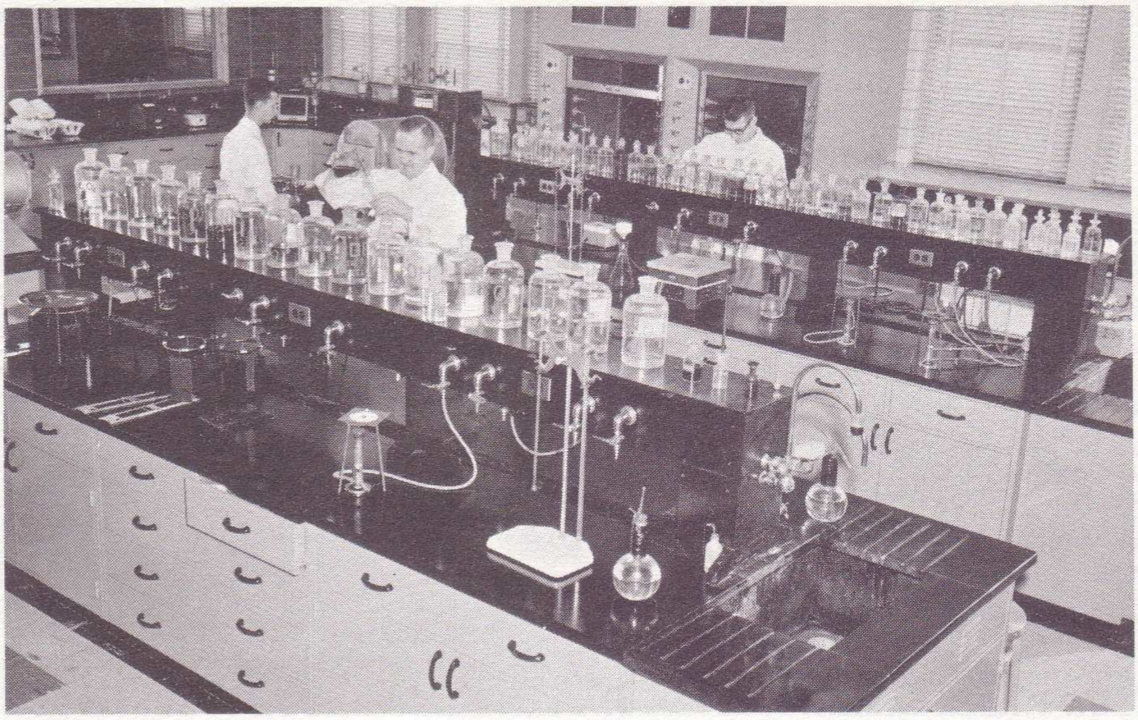
The movement of new automobiles via rail is one of the more dramatic illustrations of the progress that has been made in retrieving traffic formerly lost to other forms of transport. At one time, railroads handled more than two-thirds of all factory shipments of new automobiles. By 1946, the inroads of highway carriers had reduced the rail portion to 40%. By 1959, it was down to only 8%. In 1960,





Applying auto racks to flat cars in the Company's shops at Springfield, Missouri





For a number of years the Frisco has maintained its own testing laboratory in Springfield, Missouri. Here tests are conducted on all materials and supplies used in railway transportation. Pictured above is an interior view of the Company's Analytical Laboratory.

the Frisco led the industry in developing a new method of transporting automobiles on triple and double deck railway cars, each capable of carrying anywhere from 12 to 15 automobiles and enabling rail carriers to reduce substantially their costs and freight rates. The rail share of factory shipments of new automobiles rose from 8% in 1959 to 20½% in 1961, to 25% in 1962, to 28% in 1963 and to 33% in 1964.

TRAILER ON FLAT CAR SERVICE (Piggyback)

The year marked the end of the first decade of piggyback service on the Frisco. In that period, revenue rose uninterruptedly from $15,696 in 1955 to $2,695,257 in 1963 and $3,439,299 in 1964, as a constantly widening range of service was made available to shippers and motor carriers of freight.

In piggyback service, rates vary with the degree of service performed. Under Plan I, highway trailers owned by truck lines are transported on railway flatcars at through common carrier motor rates; the railroad, not knowing the contents of the trailers, receives an agreed upon proportion of the through motor carrier rate. Under Plan II, the railroad provides door-to-door service in railroad-owned equipment. Under Plan III, trailers are owned or controlled by the shipper who performs all of the non-rail transportation to and from the loading and unloading ramps. Plan IV is the same as Plan III except that the shipper owns or controls the flatcar as well as the trailer; railroads provide only the locomotive and the shipper provides all of the non-rail transportation. Under Plan V, traffic moves generally under joint railroad-truck or other combinations of coordinated service rates.

In 1962, the Interstate Commerce Commission began a broad investigation of Trailer on Flat Car service in the United States. In 1964, it handed down a decision which was in part adverse to your Company's interest. The Frisco joined with other railroads in an appeal which is now before the U. S. District Court for the Northern District of Illinois in Chicago.

INDUSTRIAL DEVELOPMENT

Investment in new plants and equipment continued at a brisk pace throughout 1964 and the Frisco enjoyed one of its best years for industrial development. A total of 113 new industries went into operation along the lines of the railroad with new rail tonnage estimated at more than 31,000 cars per year. These new plants involved an investment in land, buildings and equipment of $41.7 million and give employment to more than 3,000 persons. In addition, 47 firms invested more than $28 million to expand their plants. Such additional productive capacity should generate another 10,000 cars of rail freight annually.

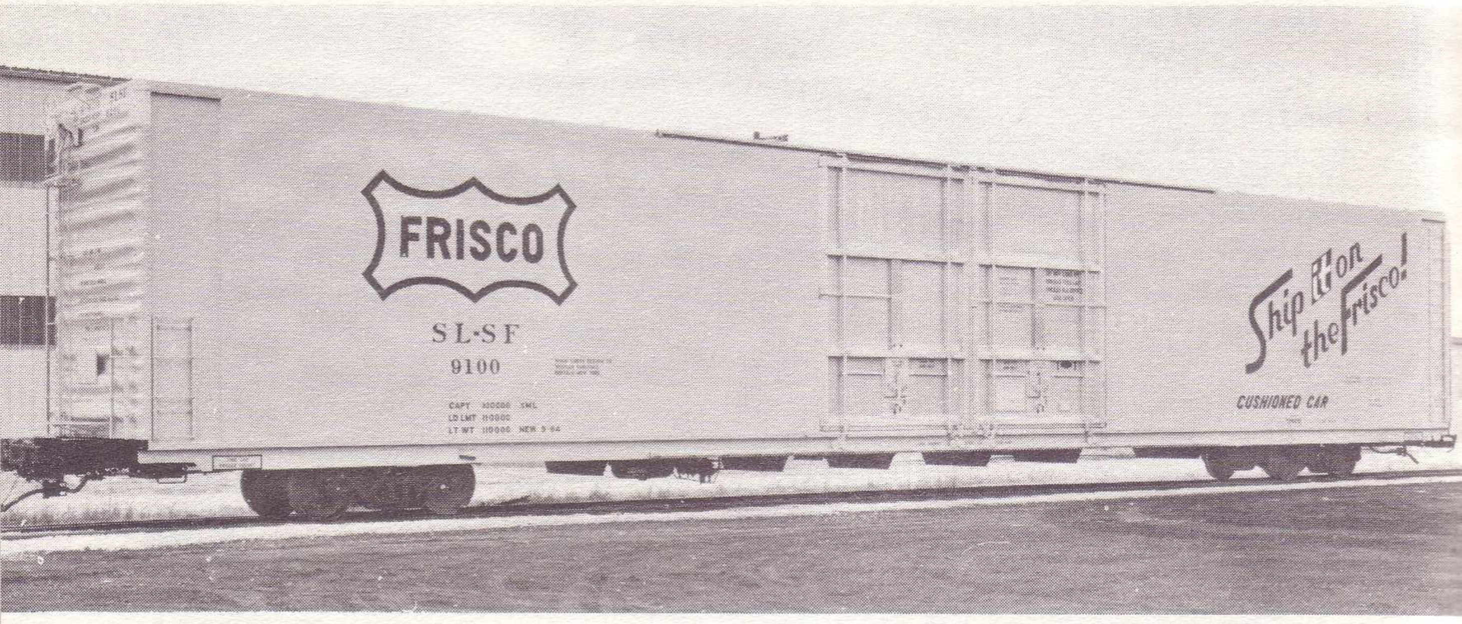
The year saw a continuation of the Frisco's program of developing its own industrial districts to insure the availability of suitable real estate for new plant construction. Private developers also are being encouraged to take similar steps as industrialization and the population moves westward.

Aerial views of some of the new plants which began operation during the year appear on page 32.

New vertical boring mill used to bore locomotive wheels to fit axles and for other dimensional cuttings leading to final application.

NEW LINE

The Interstate Commerce Commission has authorized the Frisco to build 41 miles of new railroad in Crawford, Iron and Reynolds Counties, Missouri, at an estimated cost of $5 million. The contemplated line would provide transportation for deposits of lead, iron, zinc and copper discovered in recent years. The authorization is permissive only and may be exercised within three years.



One of ten high cubic capacity box cars put in service in 1964. Car measures 93¼ feet over the couplers.

LINE ABANDONMENTS

The Interstate Commerce Commission has authorized the Frisco to abandon 8.72 miles of railroad between Scullin and Sulphur, Oklahoma.

On March 1, 1965, the Commission's Finance Review Board approved, effective April 5, 1965, your Company's application for authority to abandon 103.5 miles of unprofitable branch-line railroad running between Nash, Missouri, and Pocahontas, Arkansas.

In another proceeding, the Frisco has withdrawn its application to abandon a portion of its line between Harrisonville and Bolivar, Missouri; a further study is being made of the traffic potential of the territory.

MERGERS

A joint study is underway with the Atchison, Topeka and Santa Fe Railway Company to determine the feasibility of a merger between that road and the Frisco. Groups of specialists in all phases of railway operation are now analyzing the operating, traffic and financial aspects of such a consolidation. No conclusions have been reached yet but stockholders will be kept informed of developments.

Earlier in the year, a joint traffic study by the Frisco and the Chicago Great Western Railway Company, to determine the feasibility of some form of consolidation, was discontinued when the latter Company and the Chicago and North Western Railway announced they were investigating a possible merger.

On December 17, the Frisco filed a petition with the Interstate Commerce Commission opposing the proposed merger of the Union Pacific and Rock Island railroads. Frisco operations are competitive with those of the Rock Island and a substantial amount of the traffic we interchange with the Union Pacific is subject to diversion to a combined Union Pacific-Rock Island system.

NORTHEAST OKLAHOMA RAILROAD COMPANY

After receiving authority from the Interstate Commerce Commission, your Company purchased all of the capital stock of the 45-mile Northeast Oklahoma Railroad Company for $1,200,000. The purchase includes Northeast's rights to perform service as a motor common carrier of general commodities over specified routes in Oklahoma.

The high bay or heavy working area of the locomotive shop at Springfield, Missouri.

OKMULGEE NORTHERN RAILWAY COMPANY

Following receipt of authority from the Interstate Commerce Commission, the Frisco also purchased portions of the nine-mile line of the Okmulgee Northern Railway Company for $180,000.

LITIGATION

Pending are two cases involving the division of interline revenue:

One involves the division of interline revenue on traffic between Eastern and Southern territories. On March 2, 1965, the Interstate Commerce Commission served its report and order prescribing new divisions of interline revenue effective April 20, 1965. These new divisions are adverse to your Company's interest and it is expected that the proceedings will be appealed to the Court.

In the second proceeding, involving the division of interline revenue on traffic to and from Transcontinental Territory, the Interstate Commerce Commission on January 22, 1964 served a supplemental report and order adverse to the Frisco's interest. An appeal was taken to the U. S. District Court for the Southern District of California which on January 25, 1965 set aside the Commission's order and remanded the case to the Commission for further proceedings consistent with the Court's opinion. The Court's decision is subject to appeal and, until a final determination in the case, your Company will continue to accrue $35,000 monthly in its accounts for possible repayment to other railroads. These accruals began on July 1, 1963.

On September 24, 1964, the Frisco and other Oklahoma railroads raised intrastate freight rates in that state to the level of interstate rates. The Oklahoma Corporation Commission and others filed suit in the U. S. District Court for the Western District of Oklahoma against the Interstate Commerce Commission and others to set aside these higher rates. On November 25, 1964, the Court handed down a decision which upheld the higher intrastate rates but ruled that the railroads involved continue to keep separate the increased amount of monies received by them through the application of the increased rates until the expiration of the time allowed by law for the taking of an appeal to the U. S. Supreme Court.

ROADWAY AND STRUCTURES

A total of $5,411,545 was spent for capital improvements to roadway and structures. New 132-pound rail was laid on a total of 49.6 miles of track, of which 45.5 miles consisted of continuous, welded, ribbon rail laid in 1,404-foot lengths. With fewer joints, ribbon rail not only affords better riding qualities but also reduces maintenance costs. Crossties renewed totaled 375,240.

With labor costs on a constantly rising curve, the Frisco continued to apply the tools of an advancing technology. Among the newer machines being utilized are technically improved electronic tampers which have made possible new highs in efficiency and increased the output of surface and timber gangs by more than forty per cent in a one year period. Through the application of presently available machinery, the Company hopes to lift the output per gang to one mile of surfacing work per day. See picture on page 8.

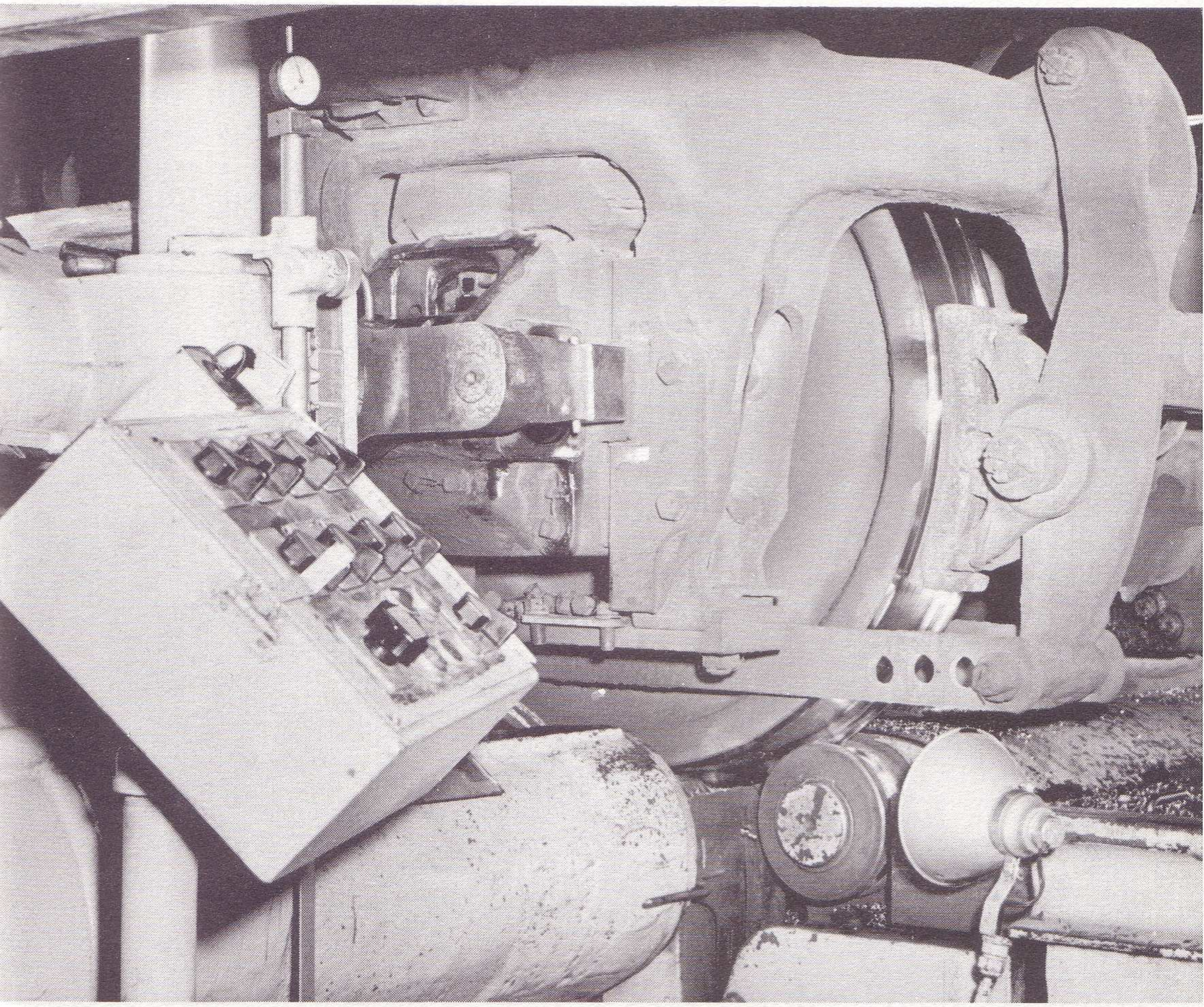
Remaining under observation is a one-mile installation of concrete ties referred to in previous reports.

NEW OFFICE BUILDING

The Frisco's new general office building in Springfield, Missouri, was occupied on November 6. Owned by the 906 Olive Corporation — a wholly-owned subsidiary of the railroad — the new structure replaces the Company's obsolete building at that point. Three stories high, with 150,000 square feet of floor space, the new building employs arc-welded steel and a composite design to reduce the structure's weight 29 per cent. Photographs of the interior as well as exterior appear on page 18.

COMMUNICATIONS AND SIGNALS

Direct dialing telephone service was extended to include Tulsa, Oklahoma; Baxter Springs and Fort Scott, Kansas; Thayer and Joplin, Missouri; Memphis, Tennessee and Amory, Mississippi. This service is provided by the Bell Telephone System on leased Telpak circuits.



Wheel truing machine used to recontour treads of a multiple wear wheel to restore the standard contour. Located in a pit, the machine permits the work to be done without removal of the wheels from the cars or locomotives.

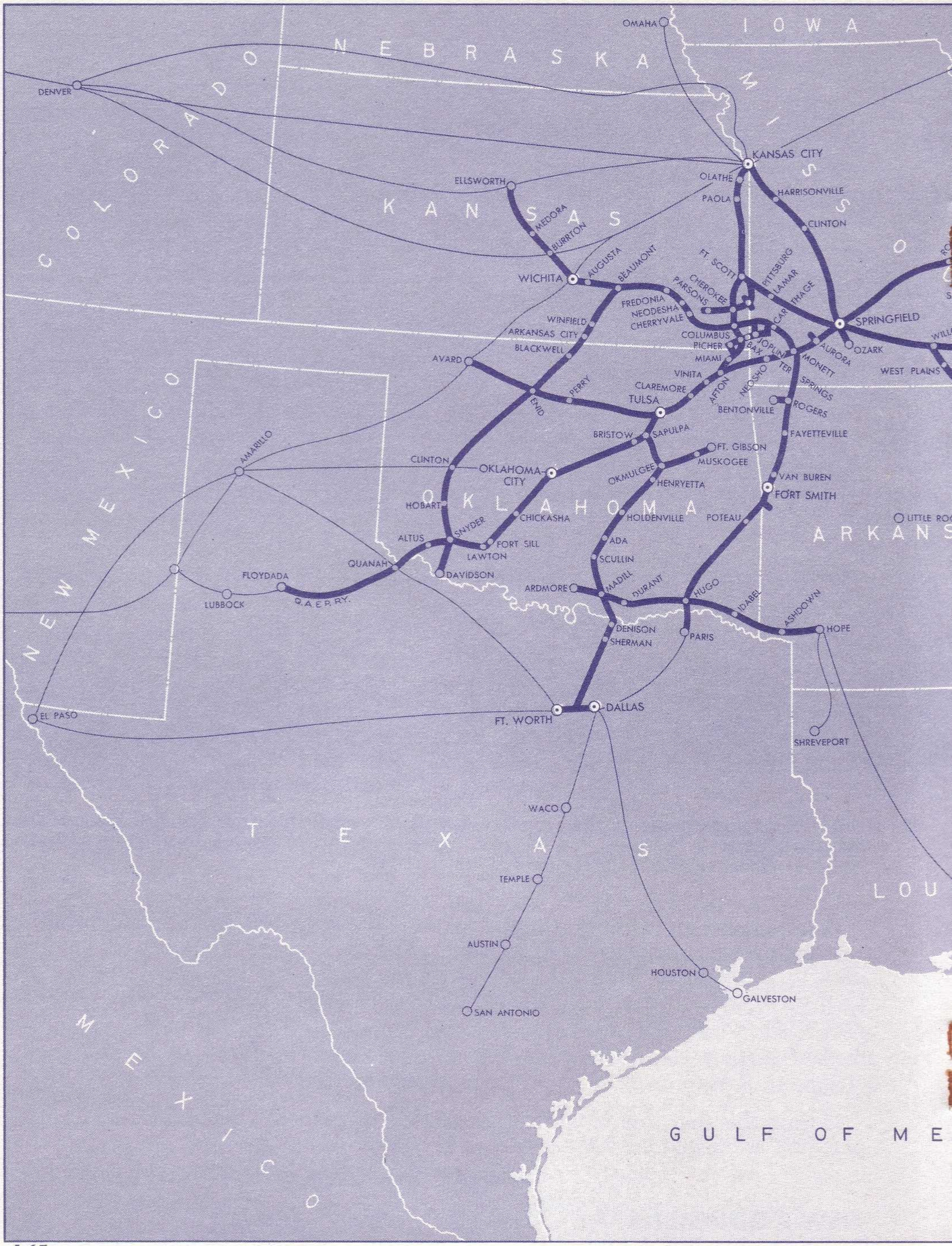
A leased teletype circuit to thirteen stations was placed in service to supplement railroad-owned circuits to 26 other stations. Together, these circuits are transmitting data to Springfield, Missouri, for the Frisco's new Management Information Control System which will enable the Company to better control its car movements and other operations.

Centralized Traffic Control is being extended from Thayer, Missouri, to Turrell, Arkansas, a distance of 123.1 miles, to afford more efficient train operation.

During the year, the Company progressed its plan to centralize all train dispatching at Springfield, Missouri.

NEW EQUIPMENT

Capital expenditures for equipment reflect the Frisco's progress in modernizing its freight car and locomotive fleets to meet the changing needs of shippers, as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IOWA
COLORADO
KANSAS
MISSOURI
OKLAHOMA
NEW MEXICO
TEXAS
ARKANS
LOU
MEXICO
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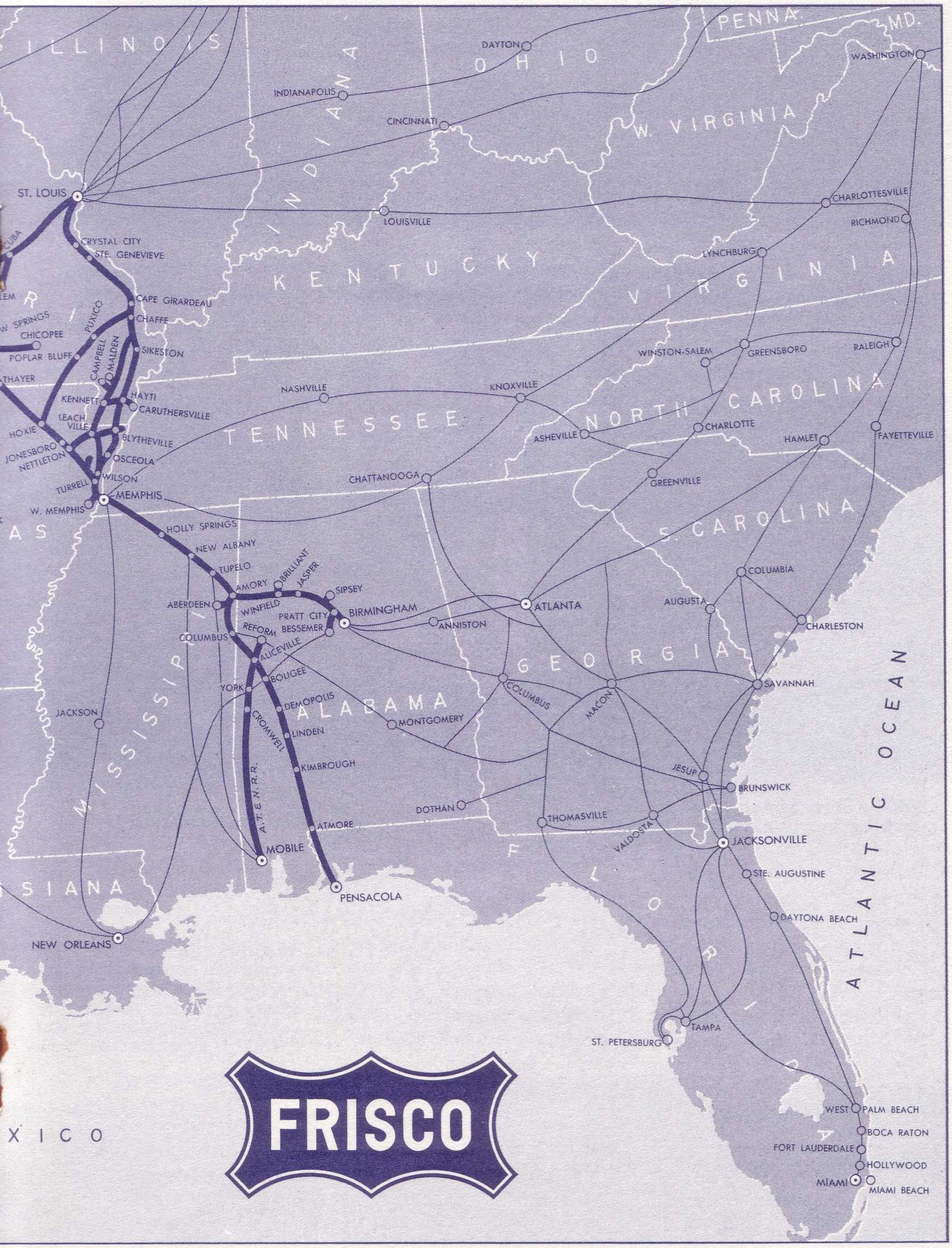
OMAHA
DENVER
KANSAS CITY
OLATHE
PAOLA
HARRISONVILLE
CLINTON
ELLSWORTH
MEDORA
BURRTON
WICHITA
AUGUSTA
BEAUMONT
FT. SCOTT
PITTSBURG
LAMAR
CHEROKEE
PARSONS
FREDONIA
NEODESHA
CHERRYVALE
CARTHAGE
SPRINGFIELD
OZARK
WINFIELD
ARKANSAS CITY
BLACKWELL
COLUMBUS
PICHER
MIAMI
JOPLIN
AURORA
MONETT
WEST PLAINS
AVARD
ENID
PERRY
VINITA
AFTON
NEOSHO
CLAREMORE
TULSA
BENTONVILLE
ROGERS
FAYETTEVILLE
BRISTOW
SAPULPA
FT. GIBSON
MUSKOGEE
AMARILLO
CLINTON
OKLAHOMA CITY
OKMULGEE
HENRYETTA
VAN BUREN
FORT SMITH
HOBART
CHICKASHA
HOLDENVILLE
POTEAU
LITTLE RO
ALTUS
SNYDER
FORT SILL
LAWTON
ADA
SCULLIN
QUANAH
DAVIDSON
FLOYDADA
LUBBOCK
Q.A.&P. RY.
ARDMORE
MADILL
DURANT
HUGO
IDABEL
ASHDOWN
HOPE
DENISON
SHERMAN
PARIS
EL PASO
FT. WORTH
DALLAS
SHREVEPORT
WACO
TEMPLE
AUSTIN
HOUSTON
GALVESTON
SAN ANTONIO


ILLINOIS
INDIANA
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MISSISSIPPI
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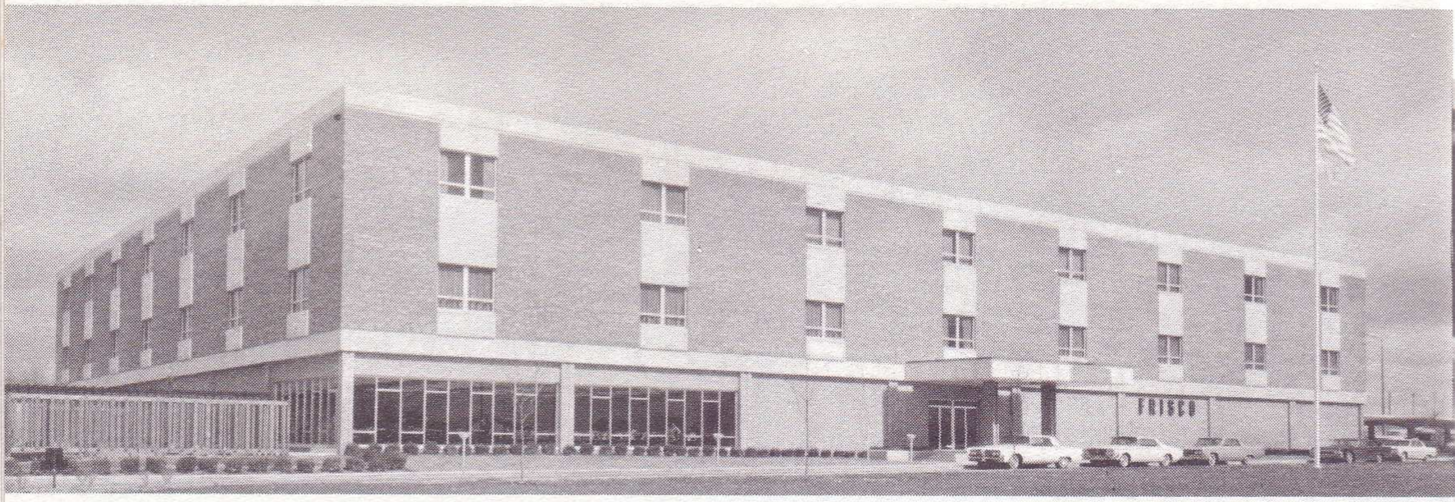
SIANA
ATLANTIC OCEAN
XICO
DAYTON
INDIANAPOLIS
CINCINNATI
WASHINGTON
ST. LOUIS
LOUISVILLE
CHARLOTTESVILLE
RICHMOND
CRYSTAL CITY
STE. GENEVIEVE
LYNCHBURG
CAPE GIRARDEAU
CHAFFE
PUXICO
CHICOPEE
POPLAR BLUFF
CAMPBELL
MALDEN
SIKESTON
THAYER
WINSTON-SALEM
GREENSBORO
RALEIGH
NASHVILLE
KNOXVILLE
KENNETT
HAYTI
CARUTHERSVILLE
ASHEVILLE
CHARLOTTE
HAMLET
FAYETTEVILLE
HOXIE
LEACH VILLE
BLYTHEVILLE
JONESBORO
NETTLETON
OSCEOLA
TURRELL
WILSON
CHATTANOOGA
GREENVILLE
W. MEMPHIS
MEMPHIS
HOLLY SPRINGS
NEW ALBANY
TUPELO
BRILLIANT
JASPER
AMORY
SIPSEY
COLUMBIA
ABERDEEN
WINFIELD
PRATT CITY
BIRMINGHAM
ATLANTA
AUGUSTA
BESSEMER
ANNISTON
CHARLESTON
COLUMBUS
REFORM
ALICEVILLE
BOLIGEE
YORK
SAVANNAH
DEMOPOLIS
MACON
JACKSON
CROMWELL
MONTGOMERY
LINDEN
KIMBROUGH
A.T.&N.R.R.
JESUP
BRUNSWICK
DOTHAN
THOMASVILLE
VALDOSTA
ATMORE
JACKSONVILLE
MOBILE
STE. AUGUSTINE
PENSACOLA
DAYTONA BEACH
NEW ORLEANS
TAMPA
ST. PETERSBURG
WEST PALM BEACH
BOCA RATON
FORT LAUDERDALE
HOLLYWOOD
MIAMI
MIAMI BEACH
FRISCO



New Office Building at Springfield, Missouri.

Rotary filing system used for recording freight car movements.

Centralized Mailing Room.

Computer Center.

Library for storing tapes used in computer operations. Recorded on tapes are payrolls, stockholder lists, car accounting and freight revenue information.

well as to soften the impact of rising unit costs of operating and maintaining its rolling stock. During the year $16,279,102 was invested in new rolling stock and in improving existing equipment, of which $5,630,731 was paid from the Company's treasury and the remainder financed through Conditional Sale Agreements.

Built in Company Shops:

10 cast steel underframe bulkhead flat cars with lading band anchors and laterally adjustable tie-downs; capacity: 70 tons each.

40 cast steel underframe bulkhead flat cars with lading band anchors; capacity: 70 tons each.

Purchased New:

17 Diesel-Electric locomotives, 2,500 horsepower each.

100 insulated box cars, equipped with cushion underframes, movable bulkheads, side fillers, high strength floors and roller bearings; capacity: 70 tons each.

100 non-insulated box cars, equipped with cushion underframes, flush doors, high strength floors and roller bearings; capacity: 70 tons each.

150 covered hopper cars with roller bearings; capacity: 100 tons — 4,427 cubic feet each.

100 open top hopper cars with roller bearings; capacity: 100 tons — 3,407 cubic feet each.

150 covered hopper cars with roller bearings; capacity: 100 tons — 3,000 cubic feet each.

10 high cubic capacity box cars equipped with cushion underframes and roller bearings; capacity: 70 tons each.

6 flat cars, 60 feet in length, with end cushioning; capacity: 70 tons each.

Equipment obligations outstanding at year-end, including those due in one year, totaled $50,430,308, an increase of $3,173,310, representing additional obligations incurred of $10,648,371 less serial maturities of $7,475,061 paid during 1964.

Equipment debt installments due in 1965 will amount to $7,255,440; equipment depreciation chargeable to operating expenses will approximate $7,500,000.

LABOR

Arbitration Board Award No. 282, which was placed in full effect on May 7, 1964, provided for (1) eventual elimination of 90% of firemen in freight and yard service, (2) termination allowances and other protective benefits for firemen, in certain categories, whose seniority is terminated, (3) the establishment of a National Joint Board to study the effect of the job elimination, and (4) the establishment of Special Boards to decide the size of train and yard crews.

By year end, the services of 281 firemen were terminated at a cost of $926,126 in severance pay; slightly more than one-fourth of the firemen voluntarily accepted the termination of their services. These terminations, when considered along with the number of new hirings which otherwise would have been necessary, have cut our normal complement of firemen in half. Approximately 300 firemen remain on our roster, some of whom will receive assignments as engineers. Since the end of the year, additional jobs have been abolished so that at this writing approximately 60% of our crew assignments are without unnecessary firemen. The terminations made up to February 28, 1965 will result in savings estimated at $3.3 million annually.

A Special Board of Adjustment, established on the Frisco to decide the size of train and yard crews, rendered its award June 6, 1964. The award provided for a reduction, through attrition, of one, and in some cases two, yardmen from each yard crew and similar reductions in road brakemen on certain crews.

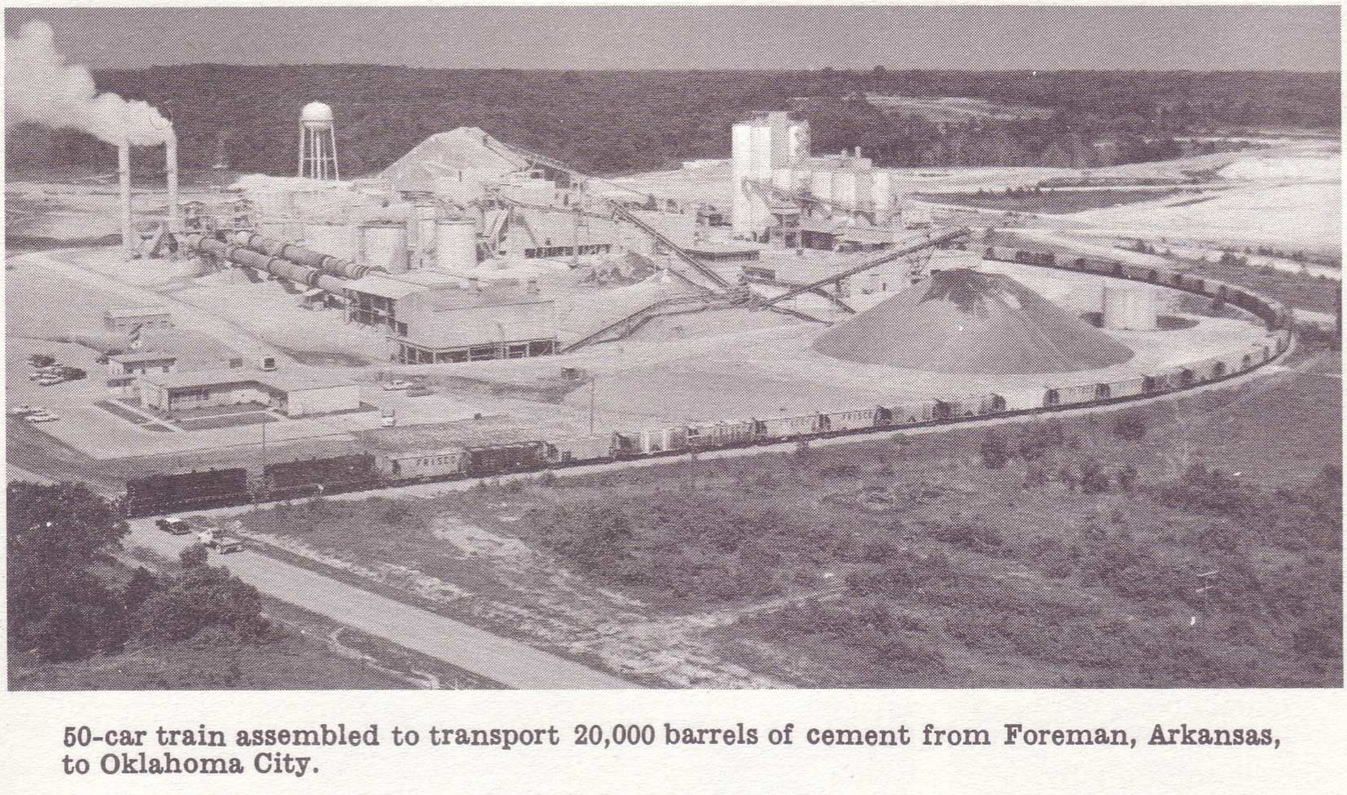
National agreements were signed in 1964 providing for wage increases, generally over a 3-year period beginning in 1964, for employes represented by operating and non-operating unions. The wage adjustments granted pursuant to these agreements increased Frisco's payroll by approximately $2,006,900 in 1964. It is estimated the 1965 payroll will be increased by $3,849,200 as a result of the agreements entered into in 1964-65.

The agreements made with operating and non-operating organizations also provided for establishment of fringe benefits or expansion of present fringe benefit programs. These include vacations, holidays, lodging and meal allowances while away from home, and life and health insurance for employe and dependents. It is estimated the establishment of new benefits and expansion of existing health and welfare programs will increase Frisco's costs by $1.9 million annually.

PURCHASE OF DATA TABULATING CORPORATION

Since the installation last year of a new computer system, the Frisco has been interested in offsetting some of the costs of leasing and operating such electronic equipment by selling computer time to other firms. Effective January 1, 1965, Clarkland, Inc. — a wholly-owned subsidiary of the Frisco — purchased all of the capital stock of Data Tabulating Corporation of Springfield, Missouri, for $120,000.

Data Tabulating Corporation is a profitable, growing enterprise which, under contract, does electronic data processing, automatic accounting and statistical work for business firms and others in the Mid-West.



50-car train assembled to transport 20,000 barrels of cement from Foreman, Arkansas, to Oklahoma City.

EMPLOYMENT AND WAGES

The average number of employes in 1964 was 8,718 and the total payroll $60,855,630. In 1963, the average number was 9,008 and the total payroll $61,522,772.

FINANCIAL STATEMENTS

Included in this report are the consolidated financial statements of the St. Louis-San Francisco Railway Company and its controlled railroad subsidiaries together with the opinion thereon of the Company's independent accountants, Price Waterhouse & Co. Among the other enterprises in which your Company 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.

For informational purposes, a condensed income account and balance sheet covering the railroad as well as non-railroad operations of the Company are presented on pages 30 and 31.

SAFETY

The National Safety Council presented its Public Safety Activity Award to the Frisco for the eleventh consecutive year. The award was bestowed for "distinguished service to safety" in promoting accident prevention off the job as well as on the job.

To stimulate employe participation in such activities, the Frisco during the year initiated a system-wide Safety Suggestion Contest and offered prizes for meritorious entries. All entries are judged by the National Safety Council.

MANAGEMENT CHANGES

Effective November 16, R. C. Grayson, formerly General Sales Manager, became Vice President-Operation with headquarters at Springfield, Missouri.

Effective December 1, William A. McDonnell, formerly Chairman of the Board, became Chairman of the Finance Committee at St. Louis, Missouri; other members are Elliot H. Stein and C. P. Whitehead.

On the same date, the President also assumed the duties of Chairman of the Board.

* * *

In recording the achievements of 1964, the Directors join me in thanking all of our stockholders, patrons and employes for their cooperation and loyalty.

CWMenk

Chairman and President

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

March 3, 1965

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 railroad subsidiaries consolidated at December 31, 1964 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 railroad subsidiaries consolidated at December 31, 1964 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, except for the disposition of the former Acquisition Adjustment account as described in Note 4.

Price Waterhouse & Co.

CONSOLIDATED INCOME STATEMENT

	1964	1963
	(000) omitted	
OPERATING REVENUES:		
Freight	$129,041	$120,508
Other	11,076	11,135
Total operating revenues	140,117	131,643
OPERATING EXPENSES:		
Maintenance of way and structures	17,959	16,728
Maintenance of equipment	19,756	19,256
Transportation	53,719	51,517
Other	16,143	13,681
Total operating expenses (includes depreciation of $9,625,000 and $9,251,000, respectively)	107,577	101,182
Net operating revenue	32,540	30,461
OPERATING CHARGES:		
Taxes (except federal income taxes)	10,236	10,099
Equipment and joint facility rents	6,925	6,272
Total operating charges	17,161	16,371
Net operating income (before federal income taxes)	15,379	14,090
OTHER INCOME:		
Profit on company bonds purchased	180	589
Other, net	1,826	1,338
Total other income	2,006	1,927
	17,385	16,017
FIXED AND CONTINGENT CHARGES:		
Fixed charges	5,675	5,527
Contingent interest	2,620	2,644
Total fixed and contingent charges	8,295	8,171
Income before federal income taxes	9,090	7,846
ESTIMATED FEDERAL INCOME TAXES: (Note 2, Page 26)	1,967	1,092
NET INCOME (in conformity with I.C.C. principles)	$ 7,123	$ 6,754

CONSOLIDATED BALANCE SHEET

	December 31, 1964	December 31, 1963
	(000) omitted	
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,576	$ 2,004
Temporary cash investments	25,788	31,093
Cash deposits for interest, dividends, etc.	1,646	2,432
Receivables from U. S. Government, individuals, agents and companies	10,864	10,671
Material and supplies, at average cost	4,744	4,422
Other current assets	246	152
Total Current Assets	46,864	50,774
SPECIAL DEPOSITS	1,187	1,316
INVESTMENTS (Page 28):		
Securities of and advances to subsidiaries and affiliates	8,508	7,380
Other	30	33
Total Investments	8,538	7,413
PROPERTIES (Note 4, Page 27):		
Roadway and structures	300,597	307,558
Equipment	201,606	190,032
Non-operating property	3,894	3,368
Accrued depreciation — road	**54,230**	**35,580**
Accrued depreciation — equipment	**105,572**	**102,438**
Accrued depreciation — non-operating property	**252**	**225**
Excess of the stated value of assets acquired over liabilities assumed upon reorganization	—	**43,901**
Total Properties	346,043	318,814
OTHER ASSETS:		
Discount on long term debt	2,303	2,415
Miscellaneous	1,574	1,321
Total Other Assets	3,877	3,736
Total Assets	$406,509	$382,053

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	December 31, 1964	December 31, 1963
	(000) omitted	
LIABILITIES		
CURRENT LIABILITIES:		
Audited accounts and wages payable	$ 2,937	$ 2,780
Accrued and miscellaneous accounts payable	12,678	10,651
Interest and dividends payable	4,458	5,058
Estimated federal taxes on income (Note 5, Page 27)	2,065	1,307
Other accrued taxes	2,693	2,395
Other current liabilities	2,712	2,285
Total Current Liabilities (excluding current portion of long term debt)	27,543	24,476
LONG TERM DEBT (Page 29):		
First Mortgage Bonds, 4% Series A — 1997	66,390	66,981
First Mortgage Bonds, 4% Series B — 1980	16,390	16,771
Second Mortgage Income Bonds, 4½% — 2022	25,099	25,279
Income Debentures, 5% Series A — 2006	30,064	30,563
Equipment obligations	50,430	47,257
Total Long Term Debt ($7,255,000 payable in 1965)	188,373	186,851
OTHER LIABILITIES:		
Estimated casualty and other reserves	1,267	912
Miscellaneous, including deferred credits	1,172	1,203
Total Other Liabilities	2,439	2,115
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6, Page 27):		
Preferred, $100 par value, authorized 1,500,000 shares — Series A 5% issued 287,036 shares, less 39,626 shares in treasury in 1964, and 29,526 shares in treasury in 1963	24,741	25,751
Common, no par value — Authorized 6,000,000 shares, issued 1,891,337 shares, less 50 shares in treasury in 1964 and 1,865,161 shares, less 50 shares in treasury in 1963	82,349	81,874
CAPITAL SURPLUS (Note 6, Page 27)	17,438	607
RETAINED INCOME (Page 26)	63,626	60,379
Total Shareholders' Equity	188,154	168,611
Total Liabilities and Shareholders' Equity	$406,509	$382,053

CONSOLIDATED RETAINED INCOME STATEMENT

	(000) omitted
Balance December 31, 1963	$ 60,379
Add:	
Net income for the year	7,123
Deduct:	
Dividend on Preferred Stock — $5.00 per share	1,243
Dividend on Common Stock — $1.40 per share	2,633
	3,876
Balance December 31, 1964	$ 63,626

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: Included in the consolidated financial statements are the accounts of the parent company and railroad subsidiaries: Quanah, Acme & Pacific Railway Company; Alabama, Tennessee and Northern Railroad Company; Birmingham Belt Railroad Company, and Northeast Oklahoma Railroad Company.

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 provide 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:

	1964	1963
Net income (in conformity with ICC principles) as set forth in the consolidated income statement	$7,123,000	$6,754,000
Adjustments to generally accepted accounting principles:		
Provision for the future income tax effect of —		
Amortization of defense facilities	904,000	880,000
Accelerated and guideline depreciation	(2,800,000)	(3,366,000)
Net income (as it would be stated in conformity with generally accepted accounting principles)	$5,227,000	$4,268,000

The cumulative reduction in federal income taxes, due to the above-mentioned differences, not reflected in the accompanying balance sheet, amounted to $35,100,000 at December 31, 1964.

3. PENSION PLAN: Unfunded past service costs of the Company's pension plan amounted to approximately $6,331,000 at December 31, 1964. The cost of the plan charged to income in 1964 was $1,297,000, including $794,000 of past service; in 1963 the cost was $1,172,000, including $763,000 past service.

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.

At the time of reorganization the excess of the stated value of assets acquired over liabilities assumed was recorded as an "acquisition adjustment" and reflected as a reduction of properties. This account has remained substantially unchanged since the date of reorganization. Pursuant to an order of the Interstate Commerce Commission, the credit balance of $43,901,000 in Acquisition Adjustment was disposed of as follows: $17,246,000 was credited to Accrued Depreciation — Road, representing $15,103,000 for adjustment of the depreciation reserve at date of reorganization, and $2,143,000, representing a reserve for losses from imminent line abandonments; $9,880,000 was credited to Properties — Roadway and Structures, representing primarily interest during construction; and the remainder of $16,775,000 was credited to Capital Surplus on the basis that accumulated earnings from the date the plan of reorganization was originally approved (July 6, 1940) to the effective date of the plan of reorganization (January 1, 1947) exceeded this amount but was not included in shareholders' equity.

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, 1964, nondepreciable property, including land and land rights, aggregated approximately $191,400,000.

5. FEDERAL INCOME TAXES: Federal taxes on income for 1963 and 1964 are subject to final determination by the Treasury Department. In the opinion of management, the reserve provided for federal taxes on income is adequate.

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, 1964 there were 1,260,201 shares of authorized common stock reserved as follows:

(a) 574,072 shares for conversion of preferred stock.

(b) 652,290 shares for conversion of second mortgage income bonds at rate of 25 shares for each $1,000 of bonds.

(c) 33,839 shares for issuance under a restricted stock option plan authorized in 1952 for certain officers and key employes. Options on 26,176 shares were exercised in 1964. No further options may be granted under the plan.

The increase in capital surplus of $16,831,000 during 1964 is comprised of $16,775,000 transferred from Acquisition Adjustment (see note 4), $29,000 representing the difference between cost and par value of preferred stock reacquired, and $27,000 arising from the purchase of the Northeast Oklahoma Railroad Company.

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.

INVESTMENTS IN AFFILIATED AND OTHER COMPANIES

	NUMBER OF SHARES	PER CENT OWNED	PAR VALUE	BOOK VALUE
AFFILIATED COMPANIES				
Stocks:				
Clarkland, Inc.	500	100	$ 50,000	$ 76,010
Clarkland Royalty, Inc.	100	100	1,000	1,000
*Frisco Transportation Co.	4,500	100	450,000	450,000
Greater Tulsa, Inc. Preferred Stock	630	100	6,300	6,300
Greater Tulsa, Inc. Common Stock	70	100	700	700
906 Olive Corporation	1,500	100	150,000	150,000
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	183,334	183,334
Pullman Co., The	8,456	1.1562	84,560	257,908
*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
*Tulsa Union Depot Co.	1,000	100	No Par	1,000
*Union Terminal Co., The—Dallas	60	12½	6,000	6,000
*Wichita Union Terminal Ry. Co.	333⅓	33⅓	33,333	12,502
				$ 1,738,442
Notes:				
Clarkland, Inc.	....	....	....	$ 1,351,265
906 Olive Corporation	....	....	....	175,000
Railway Express Agency, Inc	....	....	....	404,817
				$ 1,931,082
Investment Advances:				
906 Olive Corporation	....	....	....	$ 130,000
Birmingham Terminal Co.	....	....	....	293,413
Clarkland, Inc.	....	....	....	2,194,813
Kansas City Terminal Ry. Co.	....	....	....	915,848
Frisco Transportation Co.	....	....	....	335,000
Union Terminal Co., The—Dallas	....	....	....	207,617
Wichita Union Terminal Ry. Co.	....	....	....	759,713
Wichita Terminal Association	....	....	....	2,000
				$ 4,838,404
Total investments in affiliated companies	....	....	....	$ 8,507,928
OTHER INVESTMENTS	....	....	....	$ 29,776

*Pledged under mortgages.

LONG TERM DEBT

	DATE OF MATURITY	OUTSTANDING DEC. 31, 1964	1965 MATURITIES	INTEREST EXPENSE FOR 1964
FUNDED DEBT UNMATURED—				
First Mortgage Series A 4%	Jan. 1997	$ 66,390,200†	*	$ 2,664,443
First Mortgage Series B 4%	Sep. 1980	16,390,000†	*	661,025
Second Mortgage Income Series A 4½%	Jan. 2022	25,098,600†	*	1,129,437
Income Debentures Series A 5%	Jan. 2006	30,063,500†	*	1,490,675
		$137,942,300		$ 5,945,580
EQUIPMENT OBLIGATIONS—				
Trust Certificates:	Serially to			
Series F 2¼%	May 1965	$ 150,000	$ 150,000	$ 4,500
Series G 2⅜%	Aug. 1965	247,000	247,000	9,287
Series H 2⅜%	Dec. 1965	373,000	373,000	16,979
Series I 2⅞%	Aug. 1966	678,000	339,000	25,176
Series J 3⅛%	Dec. 1966	630,000	315,000	29,121
Series K 2⅞%	Dec. 1967	561,000	187,000	21,057
Series L 3⅜%	Jun. 1968	1,380,000	345,000	51,425
Series M 3%	Jan. 1969	2,000,000	500,000	75,000
Matured during year	......	......	......	7,089
Conditional Sale Agreements:				
Dated Dec. 1, 1955, No. 1, 3½%	Dec. 1970	7,035,600	1,172,600	273,607
Dated Apr. 1, 1956, No. 2, 3½%	May 1971	455,000	70,000	17,354
Dated Sep. 1, 1956, Nos. 3 & 4, 4¼%	Sep. 1971	1,086,207	155,172	48,912
Dated Sep. 1, 1956, No. 5, 4¼%	Jun. 1972	957,312	133,333	44,191
Dated Jan. 1, 1957, Nos. 6, 7, 8, 9, 5%	Jul. 1972	8,330,001	1,110,667	458,150
Dated Dec. 15, 1958, No. 10, 4¾%	Feb. 1974	585,833	61,667	28,885
Dated Dec. 1, 1959, No. 11, 5⅝%	Feb. 1975	717,150	68,300	41,620
Dated Mar. 1, 1960, No. 12, 5¾%	Mar. 1975	3,360,000	320,000	200,867
Dated Aug. 1, 1960, No. 13, 5¼%	Aug. 1975	2,281,041	206,550	123,395
Dated May 1, 1961, No. 14, 4¾%	Jun. 1976	1,326,933	117,400	66,747
Dated Jan. 2, 1962, No. 15 & 16, 4¾%	Jan. 1977	1,826,700	152,400	92,197
Dated Nov. 1, 1962, No. 17, 5%	Nov. 1977	1,322,854	101,758	69,111
Dated Jul. 1, 1963, No. 18/22, 4½%	Aug. 1978	4,910,960	350,783	226,255
Dated Jan. 15, 1964, No. 23/27 4¼%	Jan. 1979	8,652,986	596,758	254,299
Dated Mar. 15, 1964, No. 28/29 4.45%	Mar. 1979	1,152,435	79,478	26,340
		$ 50,020,012	$ 7,152,866	$ 2,211,564
MISCELLANEOUS OBLIGATIONS—				
Lease Purchase Agreements	Aug. 1968	$ 410,296	$ 102,574	$ 24,366

*Subject to sinking fund provisions under mortgage indentures:

First Mortgage Series A	$ 371,099
First Mortgage Series B	195,000
Second Mortgage Income Series A	130,458
Income Debentures Series A	165,645

†Excludes bonds held in treasury as follows:

First Mortgage Series A	$1,806,000
First Mortgage Series B	1,209,000
Second Mortgage Income Series A	993,000
Income Debentures Series A	1,135,000

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY SYSTEM

CONDENSED INCOME ACCOUNT AS OF DECEMBER 31, 1964

(000

	SLSF Ry.	NEO R.R.	QA&P Ry.	AT&N R.R.
Operating revenues	$ 132,740	$ 774	$ 3,219	$ 3,040
Operating expenses	103,825	469	1,227	1,710
Net operating revenue	28,915	305	1,992	1,330
Operating charges	15,432	144	578	885
Net operating income	13,483	161	1,414	445
Other income, net	2,282	14	8	**12**
Total income	15,765	175	1,422	433
Fixed and contingent charges	8,367	—	185	—
Income before Federal income taxes	7,398	175	1,237	433
Estimated Federal income taxes	1,305	72	404	184
Net income	$ 6,093	$ 103	$ 833	$ 249

CONDENSED BALANCE SHEET AS OF DECEMBER 31, 1964

	SLSF Ry.	NEO R.R.	QA&P Ry.	AT&N R.R.
Assets:				
Current assets	$ 45,008	$ 764	$ 5,547	$ 589
Property investment — net	331,108	1,062	4,124	6,840
Investments — other	17,648	—	—	—
Other assets and deferred charges	6,676	4	9	12
Total assets	$ 400,440	$ 1,830	$ 9,680	$ 7,441
Liabilities:				
Current liabilities	$ 30,714	$ 493	$ 658	$ 799
Long term debt due within one year	7,255	—	—	—
Long term debt	181,118	—	—	1,254
Casualty reserves	1,211	—	55	—
Amount payable to affiliate companies	—	—	2,915	1,675
Other liabilities and deferred credits	1,167	18	2	302
Total liabilities	$ 221,465	$ 511	$ 3,630	$ 4,030
Shareholder's equity:				
Preferred Stock	$ 24,741	$ —	$ —	$ —
Common Stock	82,349	388	150	1,246
Capital surplus	14,893	253	—	828
Retained income	56,992	678	5,900	1,337
Total shareholder's equity	$ 178,975	$ 1,319	$ 6,050	$ 3,411
Total liabilities and shareholder's equity	$ 400,440	$ 1,830	$ 9,680	$ 7,441

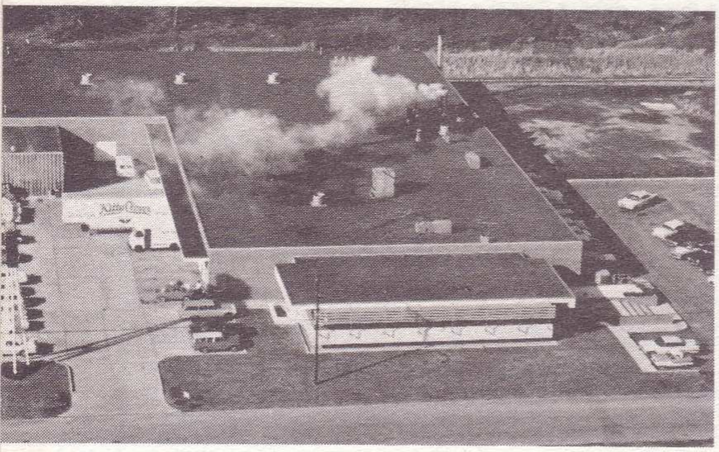
*After inter-company eliminations.
Bold face type denotes contra.

AND WHOLLY OWNED SUBSIDIARY COMPANIES

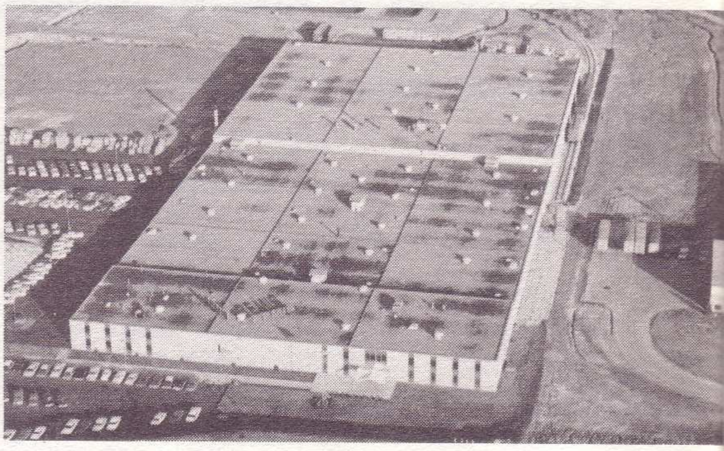
omitted)

Birm. Belt R. R.	* Total Railroads	Frisco Transptn. Company	Clarkland Inc.	906 Olive Corp.	Other Co's	* Total All Co's
$ 344	$ 140,117	$ 2,917	$ 111	$ 489	$ —	$ 143,125
346	107,577	2,840	67	375	—	110,438
2	32,540	77	44	114	—	32,687
119	17,161	169	33	57	—	17,327
121	15,379	**92**	11	57	—	15,360
77	2,006	**1**	—	—	—	1,915
44	17,385	**93**	11	57	—	17,275
101	8,295	—	15	46	—	8,347
145	9,090	**93**	**4**	11	—	8,928
2	1,967	—	—	7	—	1,974
$ **147**	$ 7,123	$ **93**	$ **4**	$ 4	$ —	$ 6,954

Birm. Belt R. R.	* Total Railroads	Frisco Transptn. Company	Clarkland Inc.	906 Olive Corp.	Other Co's	* Total All Co's
$ 206	$ 46,864	$ 329	$ 189	$ 223	$ 21	$ 47,386
2,982	346,043	243	3,795	3,957	1	353,914
—	8,538	3	105	—	—	3,775
9	5,064	40	569	32	7	5,711
$ 3,197	$ 406,509	$ 615	$ 4,658	$ 4,212	$ 29	$ 410,786
$ 20	$ 27,543	$ 286	$ 84	$ 61	$ 11	$ 27,746
—	7,255	—	151	164	—	7,570
—	181,118	—	384	3,085	—	184,586
—	1,267	—	—	—	—	1,267
3,831	—	335	3,546	305	—	—
2	1,172	—	—	221	—	1,393
$ 3,853	$ 218,355	$ 621	$ 4,165	$ 3,836	$ 11	$ 222,562
$ —	$ 24,741	$ —	$ —	$ —	$ 6	$ 24,741
50	82,349	450	50	150	3	82,349
984	17,438	—	119	—	—	17,405
1,690	63,626	**456**	324	226	9	63,729
$ **656**	$ 188,154	$ **6**	$ 493	$ 376	$ 18	$ 188,224
$ 3,197	$ 406,509	$ 615	$ 4,658	$ 4,212	$ 29	$ 410,786



Aerial view of new Kitty Clover Potato Chip Co. plant at Kansas City, Mo.



Aerial view of new Bemis Bros. Bag Company plant at Fenton, Missouri

Aerial view of new Alabama Power Company plant at Demopolis, Alabama

Aerial View of Blue Valley Industrial District, Kansas City, Mo.

Aerial view of new True Temper Corporation plant at Amory, Mississippi

INDEX

Abandonments....12
Balance Sheet (Consolidated) for Frisco and rail subsidiaries....24, 25
Balance Sheet, Simplified.... 3
Balance Sheet (Condensed) for railroad and non-railroad subsidiaries..30, 31
Capital Expenditures....14, 15, 19
Communications....14, 15
Crossties....14
Data Tabulating Corporation, purchase of....20
Debt, Long Term....29
Directors and Officers....Cover
Dividends....1, 5, 26
Employment....21
Equipment, New....15, 19
Expenses, Operating....1, 5, 23
Financial Resources, Use of.... 7
Financial Statements....21, 22-31
Financial Statements, Notes to....26, 27
Frisco Facts.... 1
Income, Net....2, 4, 23, 26, 31
Income Account (Condensed) for Frisco and wholly-owned Subsidiary Co's....30, 31
Income Statement (Consolidated)....23
Industrial Development....11
Investments in Affiliated and Other Companies....28
Labor....19, 20
Line Extension....11
Litigation....13, 14
Management Changes....21
Map....16, 17
Market Research.... 8
Mergers....12
Multi-Level Auto Transports....8, 10
Office Building, New....14
Net Income....2, 4, 23, 26, 31
Northeast Oklahoma R.R. Co....13
Okmulgee Northern Ry. Co....13
Opinion of Independent Accountants....22
Piggyback....10
President's Letter....4-21
Rail, New....14
Revenues....1, 2, 4, 23, 30, 31
Roadway and Structures....14
Safety Award....21
Signals....14, 15
Source and Application of Funds.... 7
Summary of Operations in 1964.... 2
Taxes.... 6
Trailer on Flat Car Service....10
Wages....21

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:

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