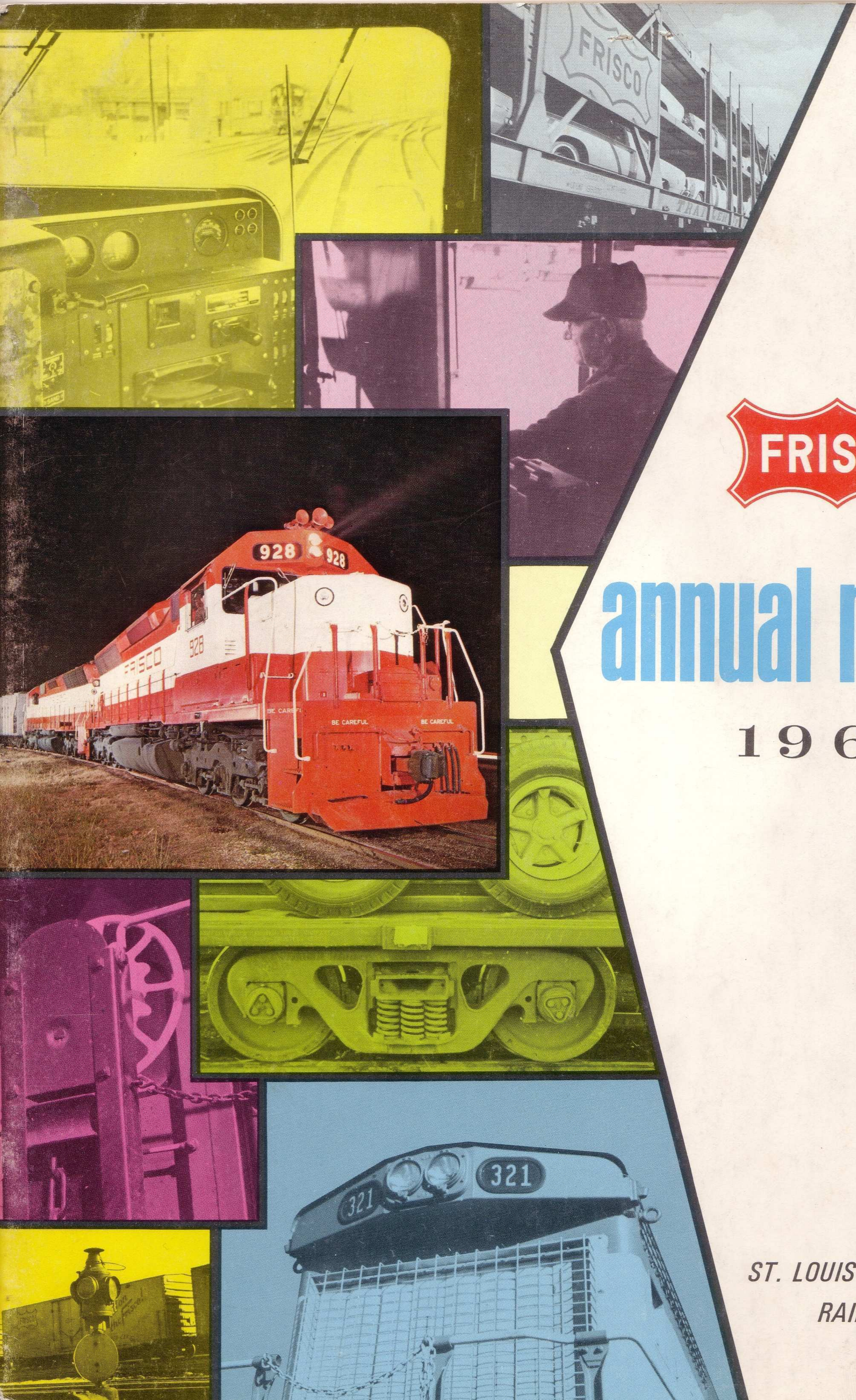
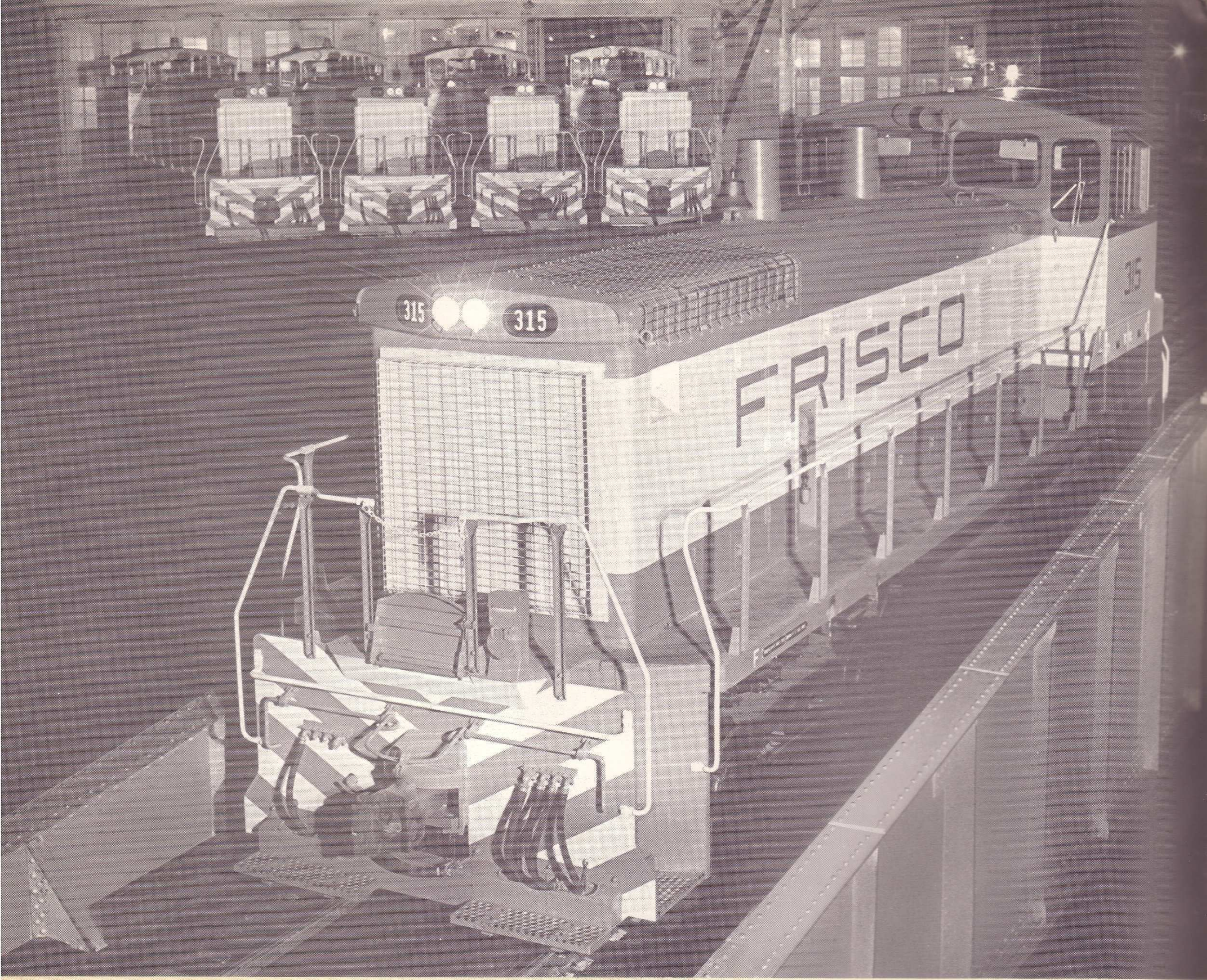


FRISCO

annual report

1968

ST. LOUIS-SAN FRANCISCO
RAILWAY COMPANY



FRISCO

"Dedicated to Service and Progress"

CONTENTS

St. Louis-San Francisco Railway Company

GENERAL OFFICES: 906 OLIVE STREET • ST. LOUIS, MO. 63101

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

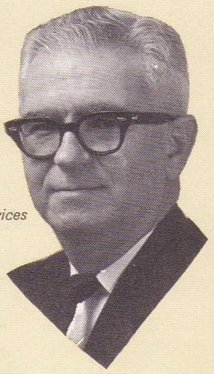
J. H. BROWN
Vice President-Operation

J. E. McCULLOUGH
Vice President and General Counsel

H. B. PARKER
Controller

J. K. BESHEARS
Vice President-Personnel

G. M. RAYBURN
Secretary and Treasurer



P. E. ODOM
Director of Management Services

DIRECTORS

Term expires 1969

Dudley E. Dawson, Jr.	*Mobile, Ala.*
J. E. Gilliland	*St. Louis, Mo.*
Bruce K. Goodman	*Evanston, Ill.*
E. D. Grinnell, Jr.	*St. Louis, Mo.*
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.*

Term expires 1971

B. B. Culver, Jr.	*St. Louis, Mo.*
R. C. Grayson	*St. Louis, Mo.*
Judson S. Sayre	*Chicago, Ill.*
Lewis B. Stuart	*St. Louis, Mo.*
C. P. Whitehead	*St. Louis, Mo.*

EXECUTIVE COMMITTEE

B. B. Culver, Jr.	J. E. Gilliland	R. C. Grayson
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 of the Board*	St. Louis, Mo.
R. C. Grayson	*President*	St. Louis, Mo.
E. D. Grinnell, Jr.	*Vice President-Traffic & Ind. Development*	St. Louis, Mo.
J. H. Brown	*Vice President-Operation*	Springfield, Mo.
J. E. McCullough	*Vice President and General Counsel*	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

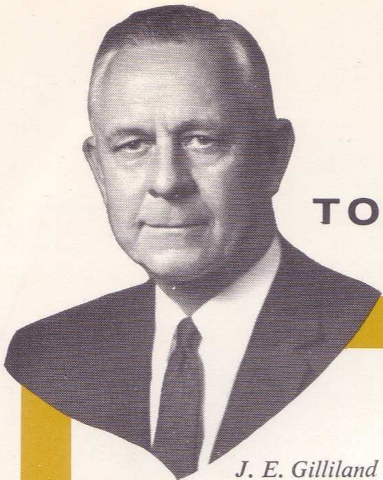
Transfer Agents for Common Stock:
First National City Bank, 111 Wall Street, New York, N.Y. 10015
Mercantile Trust Company National Association,
721 Locust Street, St. Louis, Mo. 63101

REGISTRARS

Registrars for Common Stock:
Bankers Trust Company, 16 Wall Street, New York, N.Y. 10015
St. Louis Union Trust Company, 510 Locust Street, St. Louis, Mo. 63101
Registrar for Bonds, Debentures and Equipment Trust Certificates:
First National City Bank, 111 Wall Street, New York, N.Y. 10015

Annual Meeting of Stockholders second Tuesday in May of each year

TO FRISCO SHAREHOLDERS



J. E. Gilliland

R. C. Grayson

March 4, 1969

Net income in 1968 was the second highest in the history of the Company. Earnings of $5.04 per share of Common were 5% ahead of the year before on a greater number of shares outstanding, the result of the retirement of all of the Frisco's Preferred Stock mostly through its conversion into Common. This matter is discussed more fully on Page 5.

For the Frisco, the year was one of continued progress and, in some respects, of record proportions. Freight revenue reached an all-time high; piggyback revenue continued to grow faster than the national increase in this class of traffic, and revenue from the movement of new automobiles and trucks rose to another new peak. Benefiting freight revenue were three freight rate increases, the first effective August 19, 1967, the second effective June 24, 1968 and the third effective November 28, 1968; together these resulted in a rate rise of between three and ten per cent depending upon the commodity.

Inflation was a dominant factor in the operation of the railroad. Higher payroll costs and increases in the prices of materials and supplies exerted strong upward pressures upon the costs of operation. The relationship between revenues and expenses, however, was highly gratifying as we spent fewer cents from each revenue dollar for operation while continuing to maintain high standards of maintenance for both roadway and equipment.

Contributing to the increased efficiency of operation was the long term effect of an improvement program which, year by year, has built a more modern plant and provided more powerful locomotives, as well as larger, more efficient freight cars. Capital expenditures during 1968 totaled $29.2 million; in 1967 they totaled $27.1 million.

With an improved plant and equipment, our competitive position has been strengthened. Incentive rates and better service have become important tools in attracting additional traffic to the rails. A better-than-average rate of industrial growth in Frisco states also has brought us a larger share of tonnage newly produced.

Looking ahead, we have every confidence in the Frisco's ability to play an increasingly important role in the further economic development of the Southeast and Southwest. Its central, in-between location likewise makes it an important link in trans-continental and north-south routing. We feel that 1969 will see us continue to move ahead. Barring an economic downturn, our traffic volume should continue to grow and, while its effect upon earnings cannot be measured exactly this far in advance, we fully expect our financial results to compare favorably with those of the year just closed.

The Directors join us in expressing appreciation to all of the men and women—stockholders, patrons and employes—whose efforts and cooperation made these results possible.

Chairman of the Board

President

FRISCO FACTS

CONSOLIDATED

	1968	1967
Operating revenues	$ 173,141,814	$ 157,582,931
Operating expenses	$ 124,575,050	$ 114,885,888
Ratio of expenses to revenues	71.95	72.91
Average number of employes	8,440	8,435
Payroll	$ 71,566,248	$ 66,675,012
Taxes	$ 16,781,693	$ 15,229,165
Taxes per share of Common Stock	$ 6.80	$ 6.40
Pre-Tax Income available for fixed charges	$ 25,446,901	$ 23,247,915
Fixed charges	$ 8,063,048	$ 6,953,955
Times fixed charges earned — Pre-Tax	3.16	3.34
Contingent interest	$ 1,476,875	$ 1,503,175
Income before dividends	$ 12,758,978	$ 11,989,785
Dividends per Preferred share	$ 5.00	$ 5.00
Earnings per Common share	$ 5.04	$ 4.80
Dividends per Common share	$ 2.20	$ 2.10

SYSTEM RAIL LINE FREIGHT STATISTICS

	1968	1967
Miles of road operated	4,910	4,910
Freight train revenue	$ 165,049,644	$ 147,623,227
Net ton-miles — revenue (thousands)	12,963,710	12,246,635
Gross ton-miles (thousands)	30,294,503	27,882,746
Train miles	9,487,536	8,872,202
Revenue per ton-mile	1.273¢	1.205¢
Revenue per train mile	$ 17.40	$ 16.64
Revenue tons per car	37.71	37.54
Revenue tons per train	1,366.39	1,380.34
Gross tons per train	3,193.08	3,142.71
Gross ton-miles per train hour	77,229	75,488

NET INCOME

Net income of $12,758,978, before sinking funds, was equivalent to $5.04 per share of Common on a greater number of shares outstanding; in 1967 earnings were equivalent to $4.80 per Common share.

The spiraling cost of labor and everything else the Company had to buy to provide transportation service elevated operating expenses to the highest point in history. Operating revenues, however, also were up to a new all-time high. Higher revenues, coupled with a continued improvement in efficiency, enabled the Company to increase its net income to the highest level since the record year of 1952.

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
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
1968	173,142	12,759	7.4

DIVIDENDS

Preferred dividends in 1968 totaled $5.00 per share, exclusive of the distribution of $4.64 and $3.90 per share to holders of Preferred Stock called for redemption on September 4 and October 11, 1968, respectively.

Four Common dividends, each in the amount of 55¢ per share, were paid on March 15, June 17, September 17 and December 16.

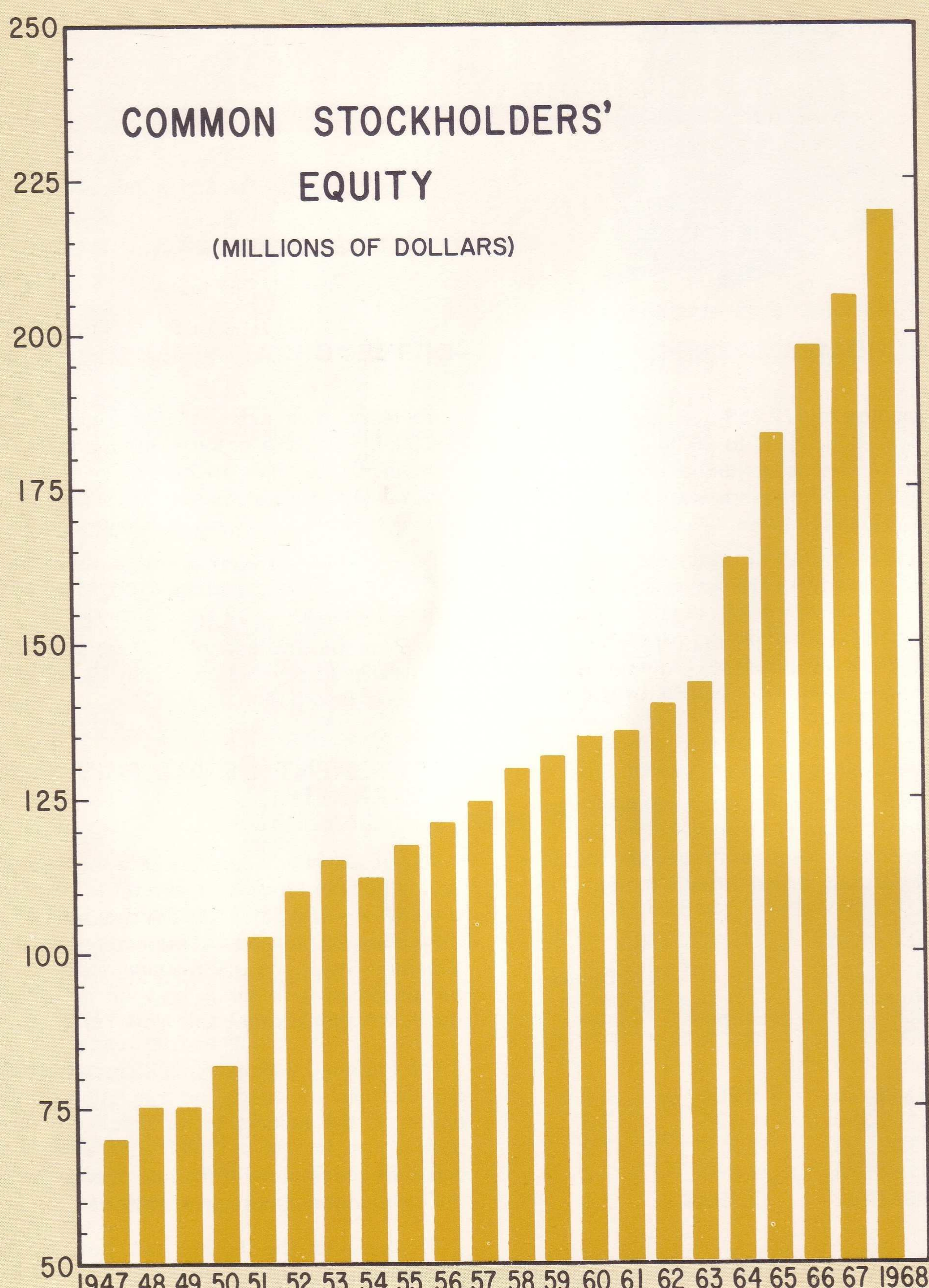
A Common dividend of 55¢ per share has been declared payable on March 17, 1969 to holders of record March 3.

RETIREMENT OF ALL FRISCO PREFERRED

As a result of two separate calls for redemption, all of the Frisco's Preferred has been retired. Of the 108,350 shares outstanding as of July 26th, 99,015 shares were converted into Common Stock and 9,335 shares were or will be redeemed with funds now on deposit at the First National City Bank, New York City.

The Preferred was redeemable at par ($100) plus accrued dividends, or convertible at the option of the holders on or before 15 days prior to the date as of which such stock was called for redemption at the rate of two shares of Common for each share of Preferred.

At year-end the Frisco had outstanding 2,595,549 shares of Common Stock.


COMMON STOCKHOLDERS'
EQUITY
(MILLIONS OF DOLLARS)
250
225
200
175
150
125
100
75
50
1947 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 1968

OPERATING REVENUES

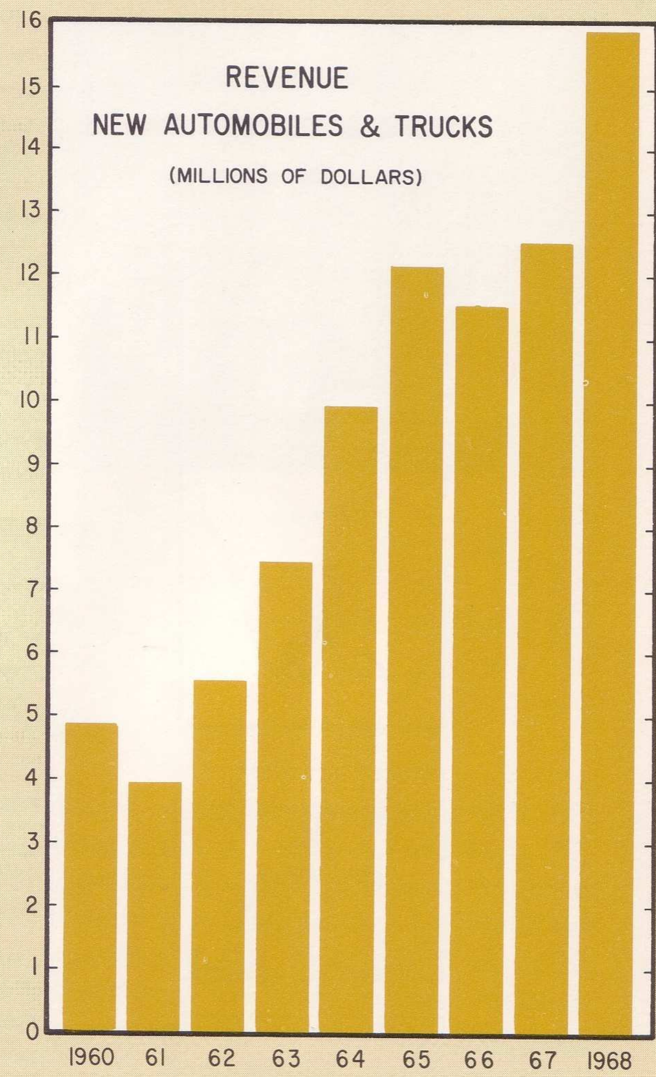
Operating revenues reached a record-breaking $173,141,814 and were 9.9% above the level of 1967 despite the discontinuance of all passenger service.

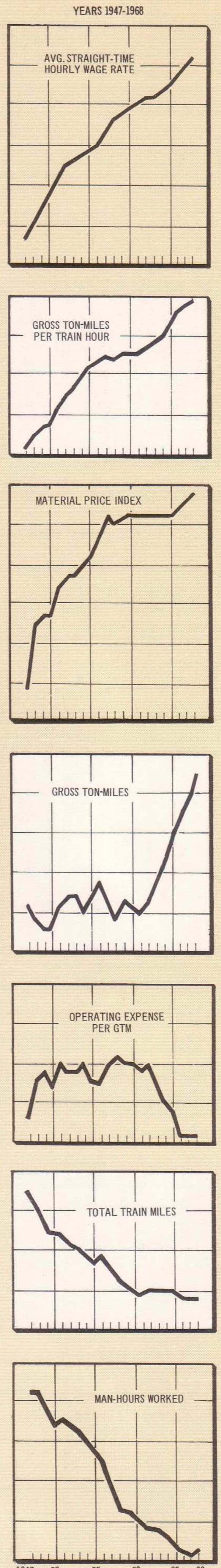
Freight revenue reached an all-time high of $165,680,434, up 10.6% from the level of the year before. Benefiting freight revenue were three rate increases which together resulted in a rate rise of between three and ten per cent, with certain exceptions.

Frisco carloadings in 1968 totaled 837,273, up 6.8% from the level of the year before, while revenue ton-miles of service climbed 5.9% to a new peak for the sixth year in a row.

Nationally, the economy was vigorous, stimulated to some extent in the early part of the year by the stockpiling of steel in anticipation of a strike in that industry. With the signing of a new labor contract, steel production and sales fell sharply but, for the year as a whole, production was 2.8% ahead of the year earlier pace. Aside from an increase in the revenue derived from the movement of iron and steel, the Frisco enjoyed revenue gains in most major categories of freight. Revenue from the movement of new automobiles and trucks rose to $15,856,711, up 27.1% to a new Company record. For the fourteenth year in a row, piggyback revenue rose to another new high of $11,141,815, up 56.7% from the level of 1967 and at a growth rate which continued to exceed the national increase in this class of traffic; since the discontinuance of our last passenger trains in 1967, almost all mail and express has been moving in piggyback service. Revenue gains also were scored by metal products, electrical machinery, furniture and fixtures, pulp, paper and related products, canned fruits and vegetables and chemicals or allied products.

Agriculturally, the year was a good one. Farm income in Frisco states was up from the year before and the movement of wheat, corn and fresh vegetables contributed to the growth of freight revenue.





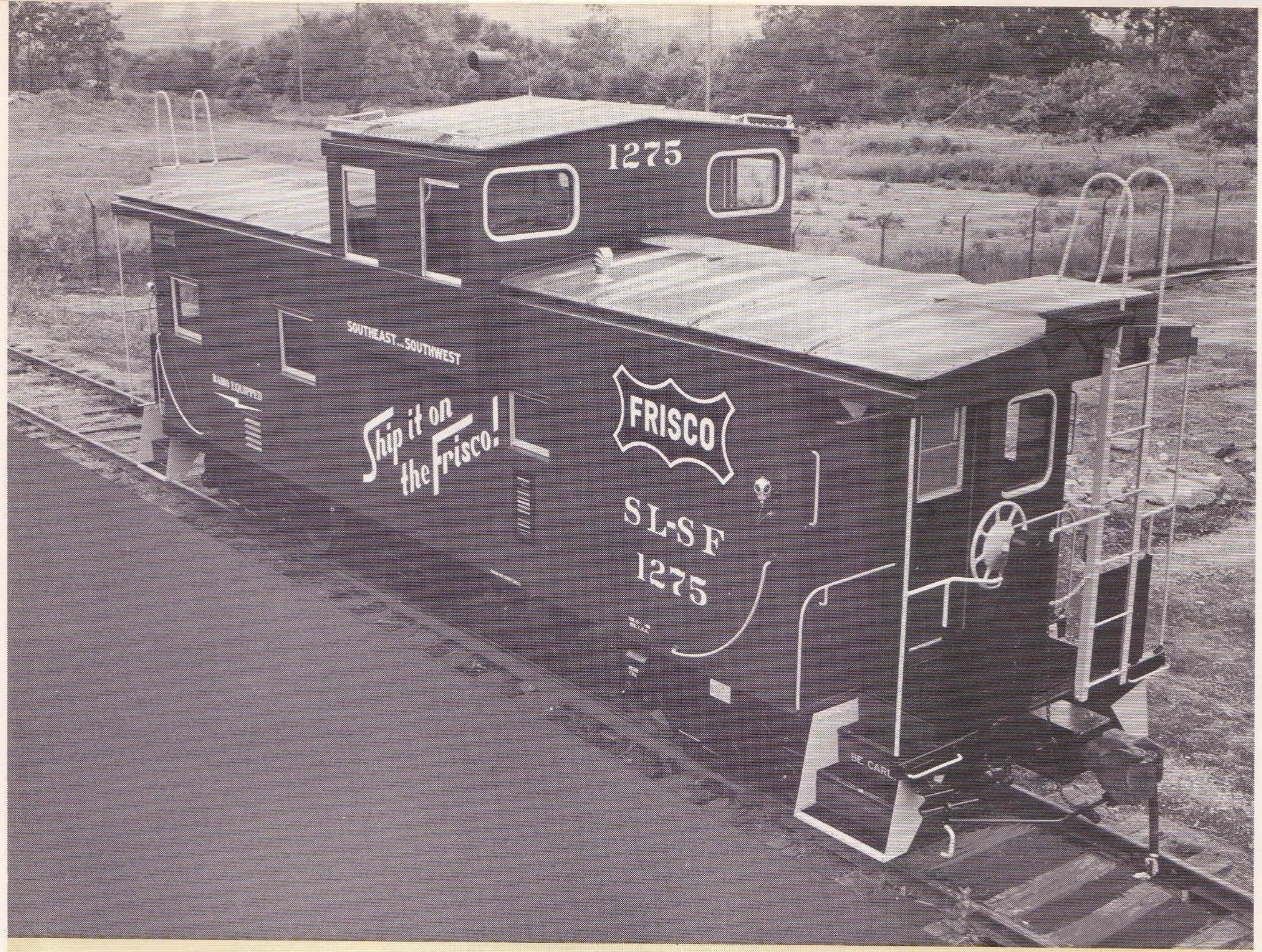
OPERATING EXPENSES

Operating expenses of $124,575,050, were up $9,689,162, or 8.4% from the level of the year earlier under the influence of a record volume of traffic and the upward pressure of higher payroll costs and increases in the prices of materials and supplies.

In the face of these upward thrusts, the Frisco managed to further increase operating efficiency. Better methods and machines enabled the Company to spend fewer cents from each revenue dollar for operation while continuing to maintain high standards of maintenance for both its fixed facilities as well as its rolling stock.

The tabulation below shows the number of cents spent from each revenue dollar for all of the major sub-divisions of operating expenses during 1968 and the year before.

	1968	1967
Transportation	37.0	36.8
Maintenance of Way	13.1	13.4
Maintenance of Equipment . .	13.2	13.7
Other	8.7	9.0
Operating Ratio	72.0	72.9



Ten of these all-steel, radio-equipped cabooses were put into service during 1968.

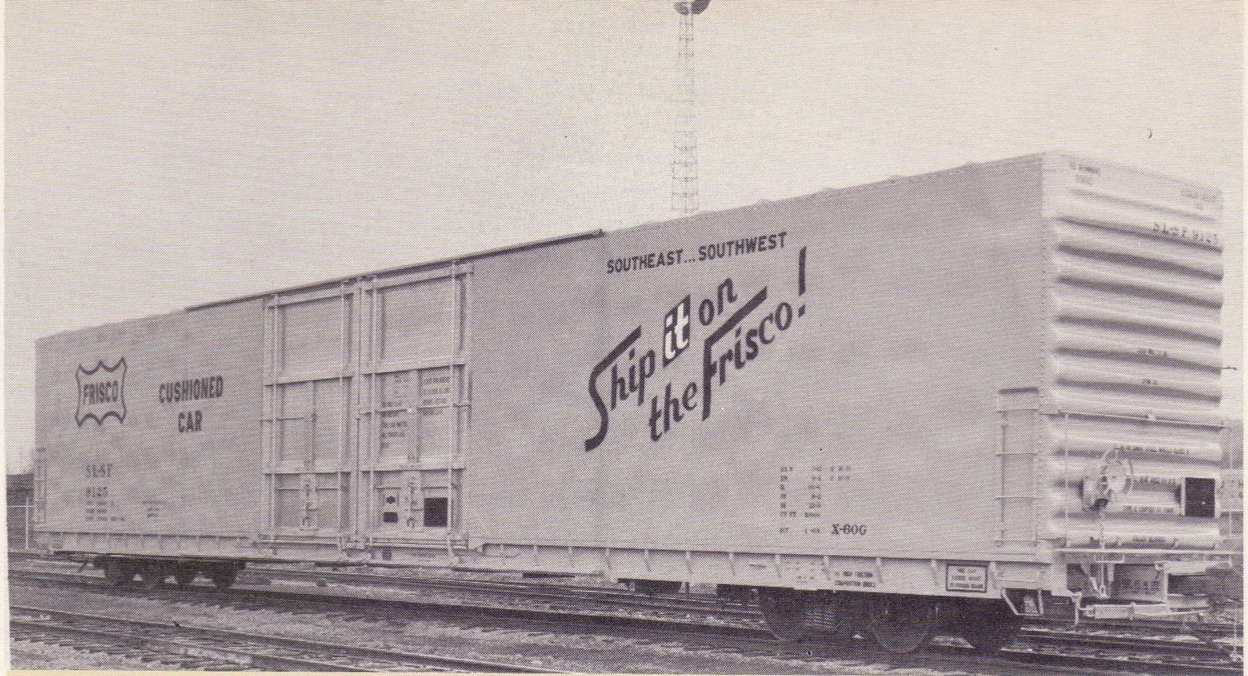
LABOR COSTS

In addition to improved fringe benefits, such as liberalization of vacation and holiday pay rules, National Agreements between the railroads and labor organizations generally granted wage increases in 1968 approximating 6% exclusive of adjustments made to raise rates for certain skilled employes. Agreements entered into during 1968 also provide for wage increases of 5% during 1969.

Wage increase and other demands served by the Shop Craft Employes, Signalmen, Conductors and Engineers remain pending at the year's end. National Mediation Board services have been terminated with respect to the demands served by the Conductors, Engineers and Signalmen and Emergency Boards are being created to investigate and report respecting such disputes.

In settlement of the labor organization's demands contained in a Notice served June 26, 1965, an Agreement was entered into on June 14, 1968 with the Brotherhood of Railroad Trainmen providing for restoration of, with certain exceptions, the crew consist requirements which existed prior to 1964. It is estimated that this Agreement increased Frisco's annual payroll cost by $0.5 million in 1968 and will add $1.8 million in 1969.

The cost of wage increases and fringe benefits provided for in Agreements signed during 1968, and changes effective in the Railroad Retirement Tax, is estimated at $1.8 million in 1968 and $3.7 million in 1969. For changes in the Railroad Retirement Tax, see page 10.



High capacity, cushioned underframe box car used exclusively for hauling automotive parts. Frisco owns 34 of these. Each car costs about $30,000 exclusive of interior devices.

TAXES

Estimated taxes in 1968 totaled $16,781,693 versus $15,229,165 in 1967.

In 1968, net Federal income tax credits from accelerated and guideline depreciation and amortization of defense facilities were equivalent to $1.08 per share of Common Stock; in 1967, these tax credits were equivalent to $0.89 per share of Common Stock. Since 1951, tax credits have accumulated to approximately $43,547,000 (see note 2, page 26).

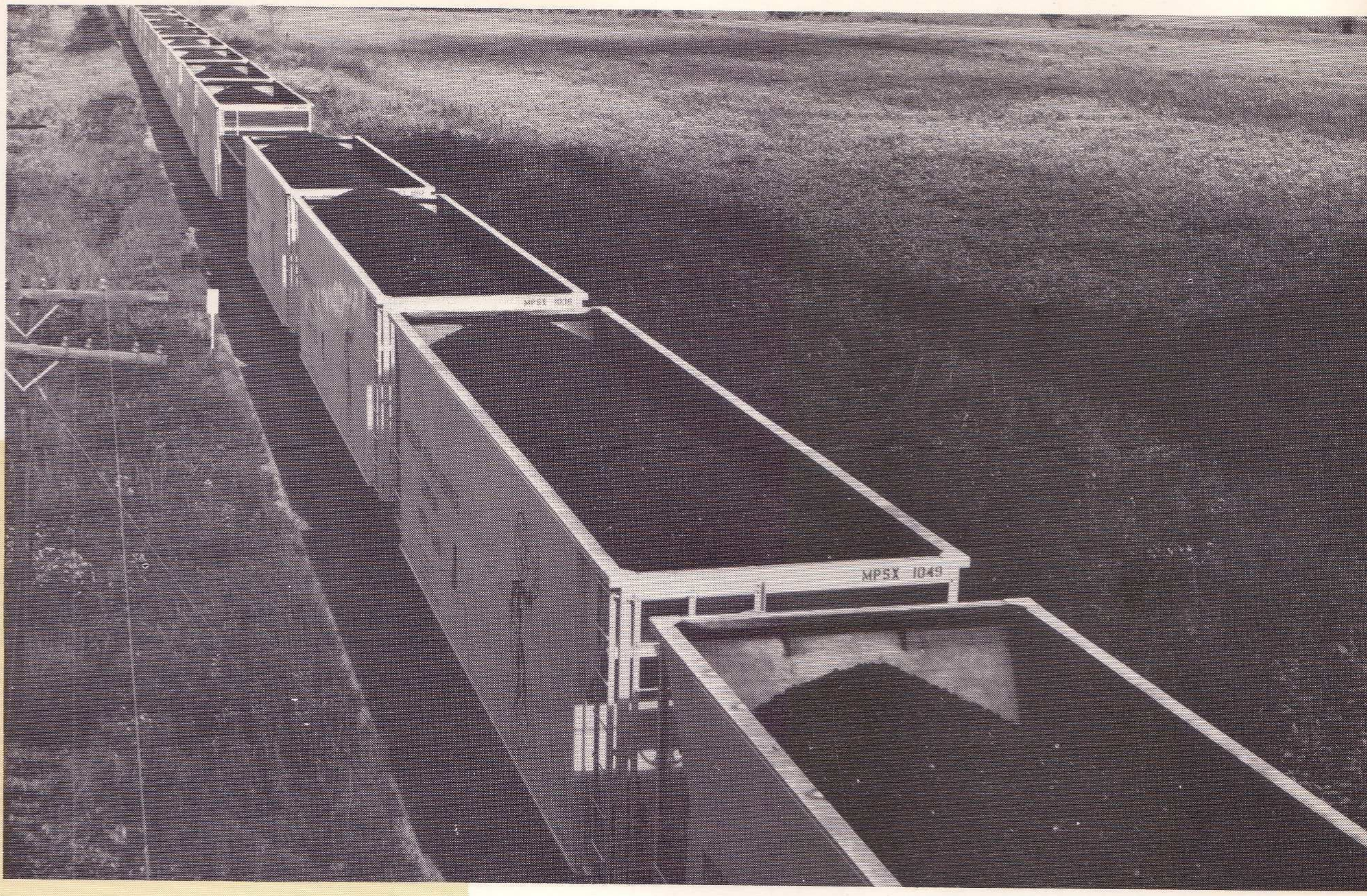
The 10% tax surcharge effective January 1, 1968 for corporations increased Federal income tax accruals approximately $285,000 for the year. The surcharge is due to expire June 30, 1969, unless extended beyond that date.

The 7% investment credit decreased Federal income tax accruals in the amount of $2,712,000 in 1968, compared with a decrease of $1,971,000 in 1967. Unused carry-forward of investment credit at December 31, 1968 approximated $2,700,000.

Payroll taxes in 1968 totaled $7,215,166, an increase of 15.5 % from the level of 1967. Following is a statement of Railroad Retirement and Unemployment Tax bases and rates for the years 1968 and 1967:

	1968	1967
Railroad Retirement Tax	8.90%	8.65%
Includes Hospital benefits of	0.60%	0.50%
Computed on earnings up to	$650 per mo.	$550 per mo.
Additional tax on compensated service	2¢ per hr.	2¢ per hr.
Railroad Unemployment tax	4%	4%
Computed on earnings up to	$400 per mo.	$400 per mo.
Total Payroll Taxes	$7,215,166	$6,247,208

Effective January 1, 1969, the Railroad Retirement Tax was increased to 9.55% (of which 0.60% is for hospital insurance benefits) on employe earnings up to $650 per month.



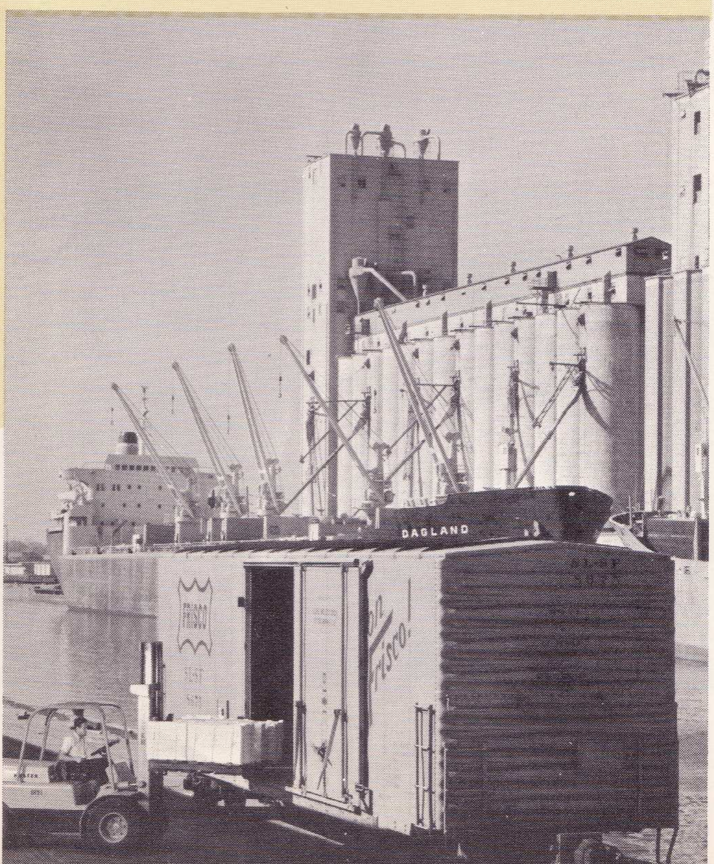
Mile-long unit coal train moves twice weekly from mines in Chelsea, Oklahoma, to power plants in Kansas City area.

MARKETING

Ways in which to offset higher costs of operation through the application of ICC-authorized increases in freight rates were under intensive study during the year. With certain exceptions, increases ranging from three to ten per cent were applied. It is expected that these rate increases will yield from $4-5 million in additional freight revenues in 1969.

The year was the first in which no passenger trains were operated. Mail and express traffic which formerly moved on passenger trains now has been converted to piggyback service hauled in freight trains. Almost all First Class U. S. Mail now moves via airplane but an attractive potential of other classes of mail is still available for rail movement.

The Arkansas-Verdigris river system which will bring barge traffic from the Mississippi River to Tulsa, Oklahoma, now is open to Little Rock, Arkansas. The Company is actively working in areas where this river system may compete with railroad traffic or where the Frisco might cooperate with barge lines in matters of mutual interest.



MANAGEMENT TRAINING

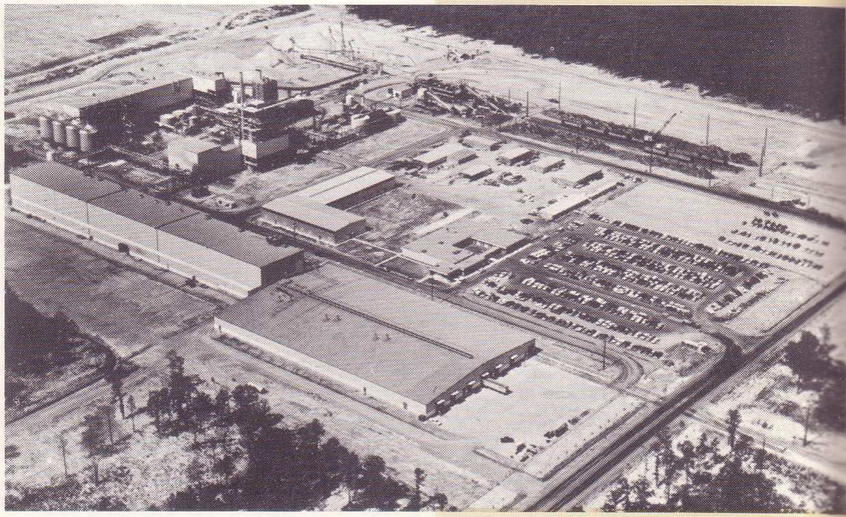
In-company training programs are conducted regularly for all management personnel. This training begins with the common denominator to all management techniques, the Human Element, and continues through such subjects as Communication (by telephone, in writing and person-to-person). Basic management techniques are explained and emphasized. Frisco managers are given the basic preparation for decision making, planning, controlling and leading. The skills of listening, observing and thinking creatively are developed and managers are given opportunities to have gainful experiences in the use of these skills.

Courses of a technical nature have also been taught in such fields as Critical Path Method, primarily for engineering personnel but extended also to all supervisors who might use this technique for planning and scheduling work.

Sales and sales management training have been given to the Marketing Department with emphasis on the skills of selling, handling objections, making the presentation and closing the sale. In 1968, videotape was used most effectively to enable salesmen to see themselves through the eyes of their prospects and shippers. Self-confrontation has proved to be an amazingly successful and useful tool. The salesman makes a practice call on another salesman who plays the part of the shipper. The television camera records what he says, how he says it and how he looks as he makes his call. Immediately after the practice call, through instant replay that salesman and several of his peers, in addition to the training director, hold a critique session offering suggestions for improving the salesman's ability to make a presentation, handle objections, secure immediate, undivided attention and ultimately close the sale.

New forest products complex of MacMillan Bloedel, Ltd. at Kimbrough, Alabama.

New Ford Tractor distribution center at Memphis, Tennessee.



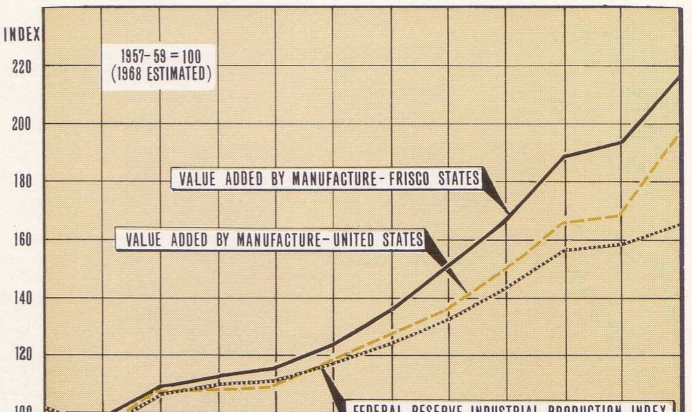
Nekoosa-Edwards Paper Company's new pulp and paper mill at Ashdown, Arkansas.

INDUSTRIAL DEVELOPMENT

Investment in new plants along the lines of the Frisco was at an all-time high. During the year a total of 97 new industries went into operation involving an investment of $246 million and giving employment to some 8,000 persons. These plants are expected to generate close to 35,000 cars of new traffic with revenue approximating $7 million annually. In addition, 30 existing plants were enlarged; these expansions are expected to generate close to 2,000 cars of additional traffic annually.

The better-than-average industrialization of Frisco territory has been an important factor in the steady growth of the railroad's traffic volume. Since 1961, for example, an average of more than two new plants per week have gone into production. Widely diversified, these new traffic-producing industries have brought a better balance to the economy of both the Southeast and Southwest. A graphic comparison of industrialization on the Frisco and the nation as a whole appears on the accompanying chart.

Such major terminals as Memphis, Tulsa, Kansas City and Springfield, Missouri, scored dramatic gains. In the larger cities, a number of new distribution centers were established to replace smaller, obsolete facilities. Firestone Tire & Rubber Company and Ford Motor Company opened large distribution warehouses at Kansas City and Memphis, respectively. The giant Zenith television manufacturing facility in Springfield, Missouri, began operations early in the year.



Frisco's newly-constructed automobile and truck facility at Memphis, Tenn. Spread out over 47 acres and paralleling the railroad's main line, this site has storage accommodations for 1200 vehicles, the largest such facility in the South.

The availability of ample water and timber supplies in Frisco's territory continued to attract major lumber and paper installations. MacMillan Bloedel, Ltd. brought into production its new forest product complex at Kimbrough, Alabama, and now is producing substantial tonnages of lumber, plywood and linerboard. Nekoosa-Edwards also commenced operation of its $46-million pulp and paper mill at Ashdown, Arkansas. The Charmin Paper Products Division of Procter & Gamble began construction of a major conversion plant at Cape Girardeau, Missouri.

The growth of the automobile industry also portends additional facilities for the Frisco. Chrysler Corporation recently announced it would undertake a fifteen per cent plant expansion at Fenton, Missouri, on the outskirts of St. Louis. Suppliers, such as battery and tire manufacturers, are actively conducting plant site surveys and announcements are expected during the year.

At the writing of this report, there was a backlog of some seventy industries which had selected sites along the Frisco and had begun to build or were in the final stages of planning; these new plants involve an investment of some $205 million and are expected to generate more than 40,000 cars of traffic annually.

NEW MISSOURI MINERAL BELT

Frisco's stake in the world market for lead and zinc is emphasized by the construction of its new 33-mile line into the new Missouri Mineral Belt which went into operation in September 1967. Three of the four mines it was intended to serve were in operation by the end of 1968. Also operating at half-capacity was a new lead smelter at Buick, Missouri; full capacity will be achieved by the completion in March 1969 of a new mine-mill facility of American Metal Climax-Homestake Mining Company.

Not anticipated at the time the new line of railroad was constructed was the announcement during 1968 that the St. Joseph Lead Company would start its third major mine-mill facility in the mining district at Brushy Creek, Missouri; ore will be trucked to the rail head at Buick. Additionally, the American Zinc Company will market the mine tailings of the St. Joseph Lead Company mill at Viburnum as agricultural limestone.

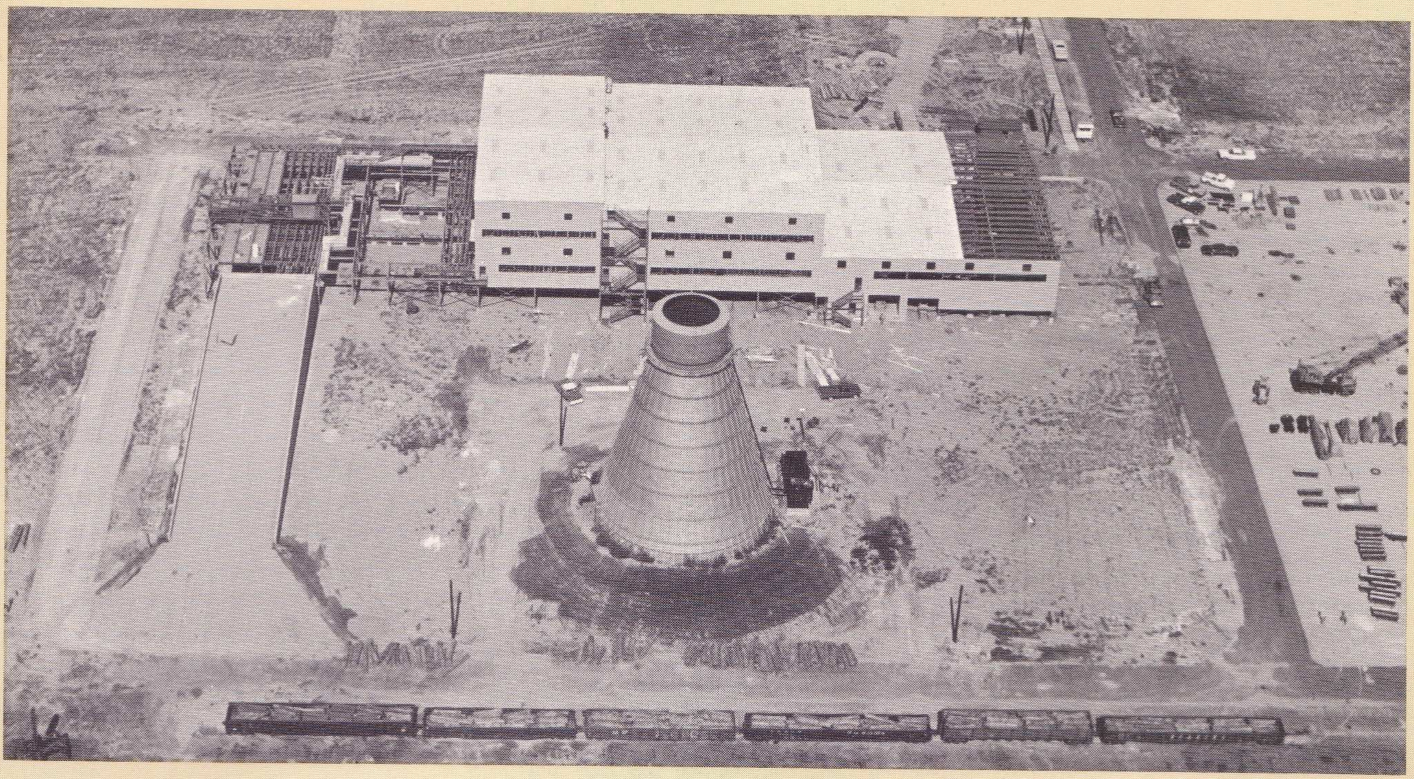
MERGERS

The Frisco has intervened in opposition to all of the proposals by various Western railroads to acquire all or portions of the Rock Island Railroad. The hearings have now been concluded and briefs in support of your Company's position were filed on January 27, 1969 and March 10, 1969. The matter now is pending before the Interstate Commerce Commission awaiting the proposed report and recommended order of the Examiners.

Your Company also has intervened as an interested party in the Illinois Central-Gulf, Mobile and Ohio merger proceedings. Hearings started on November 12, 1968 and are still in progress.

On October 1, 1968, after receiving authority from the Interstate Commerce Commission, the Frisco acquired the assets and took over the operation of its wholly-owned subsidiary, the Birmingham Belt Railroad Company; that Company then was dissolved.

Rocket-like tubes belong to the Texas Gas and Oil Company's plant at Custer City, Oklahoma. Plant manufactures petroleum gas from natural gas.



New stave manufacturing plant of National Distillers Products Company in Memphis, Tennessee. The structure in the foreground, resembling a space-capsule, is an incinerator.

LITIGATION

The Supreme Court of the United States on November 12, 1968 handed down a decision favorable to your Company in proceedings which involve the division of interline revenue on traffic between Eastern and Southern territories. In December 1968 the Eastern railroads filed a petition for rehearing to which the Frisco filed a reply in February 1969. The matter now is pending before the Supreme Court. Ultimately the case will be remanded to the Interstate Commerce Commission for further proceedings.

CAPITAL EXPENDITURES

Heightened by the acceptance of equipment originally intended for delivery in 1969, capital expenditures during 1968 totaled $29,151,377 versus $27,073,790 in 1967, as the Company continued its investment in new plant and equipment to meet the need for greater capacity and for more efficient tools to offset the rising pattern of wages and material prices.

Of the amount spent for additions and betterments during 1968, the major portion — $20,431,474 — went for new cars and locomotives, most of which were financed through Conditional Sale Agreements. Of the remainder, a total of $5,722,014 was spent on roadway and structures and $2,997,889 on other additions and improvements to our properties.

EQUIPMENT OBLIGATIONS

Equipment obligations outstanding at year-end, including those due in one year, totaled $77,075,043, an increase of $9,831,520, representing additional obligations incurred of $19,432,460, less serial maturities of $9,375,285 and prepayments of $225,655 during 1968.

Equipment debt instalments due in 1969 will amount to $8,824,182; equipment depreciation chargeable to operating expenses will approximate $8,800,000.


WASHINGTON
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
OREGON
IDAHO
WYOMING
NEBRASKA
CALIFORNIA
NEVADA
UTAH
COLORADO
KANSAS
ARIZONA
NEW MEXICO
TEXAS
PACIFIC OCEAN
SEATTLE
SPOKANE
PORTLAND
SHELBY
GREAT FALLS
BUTTE
BILLINGS
GRANGER
CHEYENNE
SALT LAKE CITY
SAN FRANCISCO
OAKLAND
DENVER
PUEBLO
ELLSWORTH
WICHITA
ARKANSAS CITY
AVARD
OKLAHOMA CITY
AMARILLO
SNYDER
ALTUS
LAWTON
DAVIDSON
ARDMORE
QUANAH
FLOYDADA
LOS ANGELES
BARSTOW
SAN DIEGO
FT. WORTH
EL PASO
GN
CMStP&P
NP
SP
UP
CBQ
DRGW
ATSF
MP
C&S
QA&P
FW&D
TP


MAINE
MINNESOTA
LAKE SUPERIOR
WISCONSIN
LAKE HURON
MICH.
LAKE MICHIGAN
LAKE ONTARIO
VT.
N. H.
MASS.
BOSTON
NEW YORK
BUFFALO
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CHICAGO
INDIANA
OHIO
CLEVELAND
PITTSBURGH
PHILADELPHIA
DES MOINES
COLUMBUS
MARYLAND
WASHINGTON
DEL.
W. VA.
MISSOURI
CINCINNATI
INDIANAPOLIS
VIRGINIA
KANSAS CITY
ST. LOUIS
CHARLOTTESVILLE
LOUISVILLE
LYNCHBURG
RICHMOND
SPRINGFIELD
ROLLA
CUBA
ST. GENEVIEVE
KENTUCKY
FT. SCOTT
PARSONS
JOPLIN
SALEM
BUICK
CAPE GIRARDEAU
NORTH CAROLINA
WINSTON SALEM
GREENSBORO
RALEIGH
CHICOPEE
SIKESTON
BEAUMONT
OZARK
WEST PLAINS
TENNESSEE
KNOXVILLE
CLAREMORE
MONETT
HAYTI
NEOSHO
KENNETT
CARUTHERSVILLE
NASHVILLE
ASHEVILLE
CHARLOTTE
HAMLET
FAYETTEVILLE
TULSA
ARKANSAS
BLYTHEVILLE
WILLOW SPRINGS
HOXIE
CHATTANOOGA
GREENVILLE
SOUTH CAROLINA
FAYETTEVILLE
SAPULPA
MUSKOGEE
JONESBORO
MEMPHIS
GEORGIA
HULBERT
OKMULGEE
FORT SMITH
ALABAMA
MISS.
COLUMBIA
ATLANTIC OCEAN
POTEAU
WINFIELD
BIRMINGHAM
TUPELO
AMORY
ATLANTA
CHARLESTON
MADILL
HUGO
ABERDEEN
ANNISTON
ASHDOWN
HOPE
COLUMBUS
REFORM
BESSEMER
MACON
SAVANNAH
PARIS
ALICEVILLE
COLUMBUS
JACKSON
BOLIGEE
JESUP
LOUISIANA
BRUNSWICK
DALLAS
MONTGOMERY
THOMASVILLE
VALDOSTA
JACKSONVILLE
SHREVEPORT
FLORIDA
MOBILE
PENSACOLA
NEW ORLEANS
HOUSTON
GALVESTON
ST. PETERSBURG
TAMPA
GULF OF MEXICO
MIAMI
FRISCO

Truck equipped with flanged wheel attachments which permit its operation over rails as well as highways.

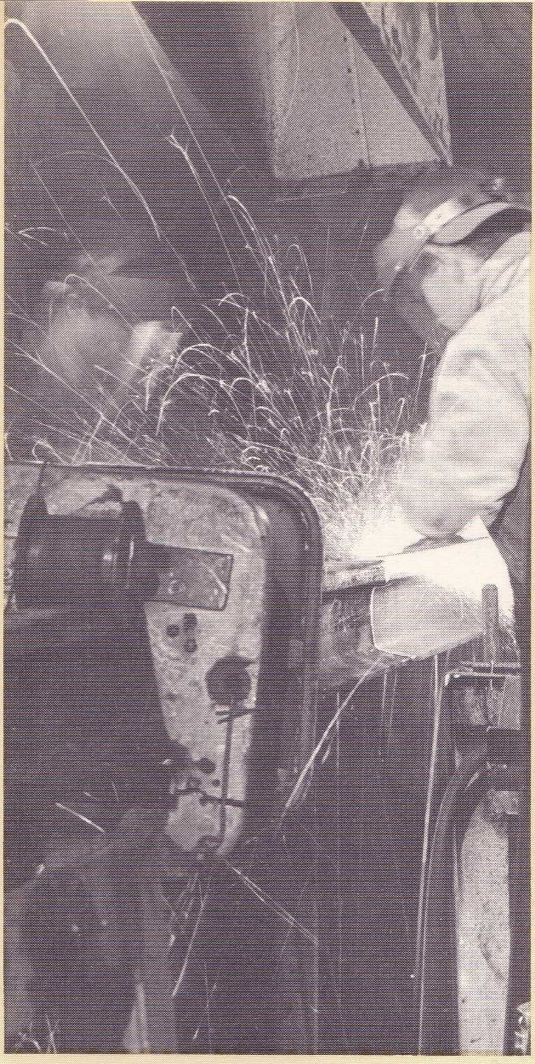
ROLLING STOCK

As the Frisco's traffic volume reached a new peak for the sixth year in a row, the Company continued its program to increase its carrying capacity. A total of 35 more powerful, dependable locomotives and 849 larger, more efficient freight cars — many equipped with specialized devices which speed loading and unloading and minimize damage in transit — were installed during the year. The tabulation on page 31 shows a breakdown, by types, of this rolling stock.

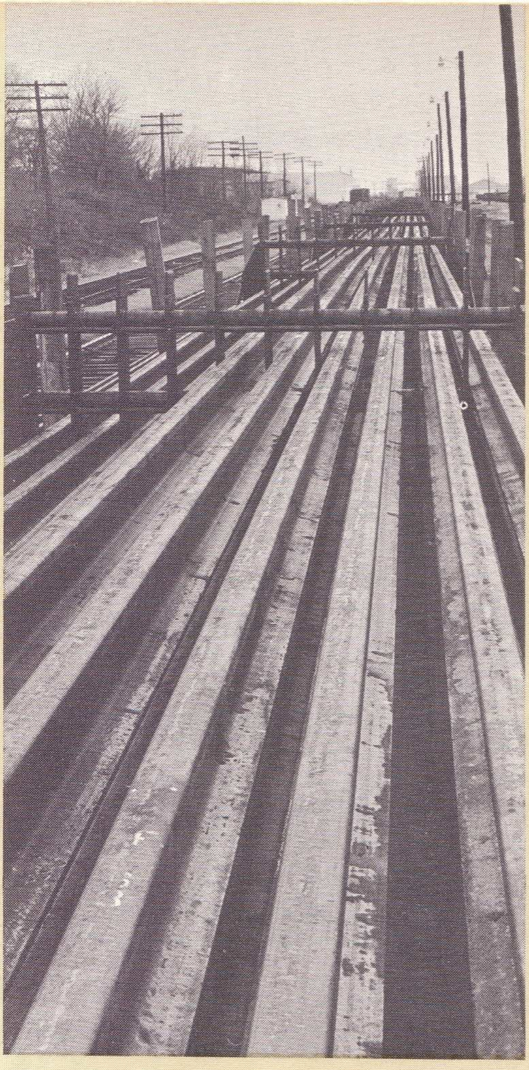
The Frisco Transportation Company — a wholly-owned motor subsidiary — likewise installed 30 new high cubic capacity over-the-road trailers, five new diesel tractors and 15 city units of new design.

It has been the practice of the Frisco to augment its freight car supply without additional capital investment by leasing railway equipment from others. At year-end, the Company had 721 freight cars under lease. In addition, the Frisco is a party to a leasing agreement under which it shares the use of 500 covered hoppers with a major chemical company. The Company also has under short or long term lease 734 flat cars owned by Trailer Train Company on which Frisco-owned automobile racks are mounted.

Jumbo open top hopper car. With a capacity of 7,000 cubic feet, these 100-ton cars are used primarily for transporting wood chips for forest and paper product patrons.



New rail sections being welded together in quarter-mile lengths.



Continuous welded rail has almost doubled the life of standard, jointed sections.

ROADWAY AND STRUCTURES

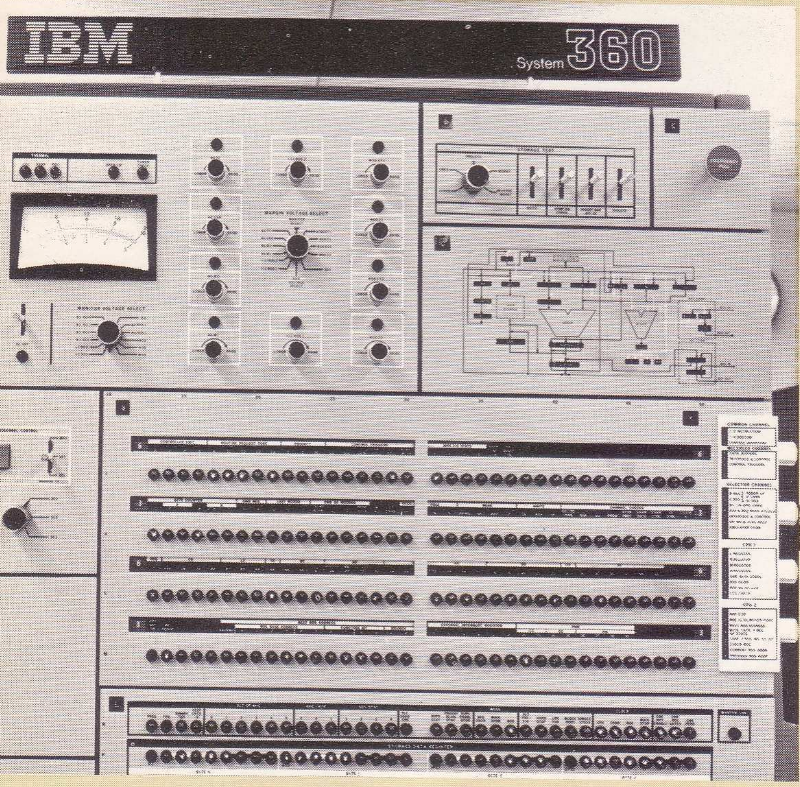
The year brought a continuation of heavy capital expenditures to further modernize and strengthen the Frisco's roadway and structures.

A total of 64.7 miles of new rail was laid, of which 50.8 miles consisted of 132-pound and 13.9 miles consisted of 115-pound rail. All but nine miles of the new rail was continuously welded and laid in quarter-mile lengths. The relay rail program for the Frisco and its subsidiary, the Alabama, Tennessee and Northern Railroad Co., totaled 55.1 miles. By the end of next year, the Frisco will have almost completed the installation of heavy rail on all of its heavy density main lines.

As part of its maintenance program, the Frisco also inserted 398,000 crossties, resurfaced some 850 miles of line and tested 3100 miles of railroad with electronic detector cars capable of locating hidden rail flaws before they can become service failures.

Frisco structures also came in for continued improvement as the Company replaced 200 panels of timber with 61 pre-stressed concrete bridge spans, 15 steel I-beam spans and two welded girders.

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, both were completed during the year.



The new IBM System 360 computer is a storehouse of information concerning train movements, car location, carloadings, and per diem data. Aside from keeping patrons better informed of the progress of their shipments, it is a valuable source of information to management in making the day-to-day decisions necessary to the operation of the railroad.

COMPUTER-CONTROLLED COMMUNICATIONS

Another "generation" of computers was installed during the year to speed the flow and storage of data vital to the operation of the railroad and its subsidiaries. Known as the IBM 360, the new computer is the center of a communications network which links all on-line teletype facilities at yard offices with off-line telex facilities in our 40 traffic offices throughout the United States.

Immediate information concerning train movements, car location, carloadings and related data can thus be obtained by communicating with the computer by means of a telex office machine.

Aside from affording a quick and easy method of tracing shipments for our patrons, the new computer-controlled communications network is offering management an expanded base of information for making decisions essential to the day-to-day operation of the railroad.

HOT BOX DETECTORS

The Frisco makes full use of modern electronics to improve the safety and efficiency of its operations.

To reduce journal bearing failures, which frequently result in derailments, hot box detectors have been installed at the approaches to the Company's major yards at Memphis, Tulsa and Springfield. Sensitive to heat, such devices warn yard forces of impending bearing failures.

Additionally, at roadside locations along the railroad, an improved type of hot box detection warns train crews of impending journal box failures. As a train moves by such a heat-sensitive device, an abnormal amount of heat from the journal box will cause a roadside yellow light to flash and keep flashing until the train has passed, thus warning the crew which can communicate with each other by radio. A white light, atop the yellow, will flash if any equipment is dragging along the roadbed. Two additional white lights indicate the side of the train affected. The flashing equipment used in these installations is assembled by Company forces.

Through the use of this Telex machine, some 40 Frisco off-line traffic offices have instantaneous communication with the Company's computer at Springfield, Missouri, thus making it possible to supply patrons with up-to-the-minute information on their shipments.

SAFETY

Safety activities during the year were intensified both on and off the job. For the seventeenth time, the Frisco received the National Safety Council's "Golden Spike" Award for exceptional public safety activities.

In cooperation with local communities, the Frisco arranged for the installation of "boulevard" type STOP signs at some 300 additional rail-highway crossings in an effort to reduce grade crossing accidents.

FINANCIAL STATEMENTS

Included in this report are the consolidated financial statements of the St. Louis-San Francisco Railway Company and its wholly-owned rail and non-rail subsidiaries together with the opinion thereon of the Company's independent accountants, Price Waterhouse & Co. 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.

MANAGEMENT CHANGES

In a move to improve the in-depth structure of top management, R. C. Grayson, 48 years old and formerly Vice President of Operation, was elected President of the Company effective January 1, 1969 succeeding J. E. Gilliland, President since 1965, who will remain as Chairman of the Board and serve as chief executive officer. Both will continue to be headquartered at St. Louis, Missouri.

J. H. Brown, 42 years old and formerly Assistant Vice President and General Manager, has succeeded Mr. Grayson as Vice President of Operation with headquarters at Springfield, Missouri.

Experienced in rail and motor carrier operations as well as sales, Mr. Grayson started with the Frisco as a Brakeman, subsequently becoming Conductor, Train Dispatcher, Terminal Trainmaster and Assistant Superintendent prior to being appointed Division Superintendent in 1950. In 1958 he became Vice President and General Manager of the Frisco Transportation Company, a wholly-owned motor subsidiary. Two years later he moved into the railroad's Traffic Department as General Sales Manager where he remained until his election as Vice President of Operation in 1964.

A graduate of the University of Missouri with a Bachelor of Science degree in Civil Engineering, Mr. Brown started with the Frisco as a Student Apprentice in 1948, rising through the ranks and becoming General Manager in 1966. In July of last year he was promoted to Assistant Vice President and General Manager.

Effective February 1, 1969, E. D. Grinnell, Jr., 48 years old and formerly Vice President and General Counsel, was appointed Vice President — Traffic and Industrial Development succeeding E. G. Kreyling, Jr., who left the railroad to accept a position with another company. Effective the same date, J. E. McCullough, 60 years old and formerly General Solicitor, was appointed Vice President and General Counsel.

A graduate of Dartmouth College and Washington University Law School, Mr. Grinnell has been a member of the Frisco Law Department since 1951. Prior to becoming General Counsel he specialized in handling rate matters before the Interstate Commerce Commission. He has held the positions of Attorney, Assistant General Attorney, General Attorney, General Solicitor and was elected Vice President and General Counsel on November 1, 1961.

Mr. McCullough, a graduate of Washburn University School of Law in Topeka, Kansas, came to the Frisco as an Attorney in March 1942, after serving as Attorney-Director for the Kansas Corporation Commission and in private practice in Topeka. He was named Assistant General Attorney in June 1948, General Attorney in July 1949 and General Solicitor in February 1953.

DIRECTORATE CHANGES

At the Directorate's meeting on February 14, 1969, E. D. Grinnell, Jr., the Company's Vice President-Traffic and Industrial Development, was elected to fill a vacancy on the Board of Directors for the term ending May 13, 1969.

PRICE WATERHOUSE & CO.

ONE MEMORIAL DRIVE

ST. LOUIS

March 4, 1969

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

We have examined the consolidated balance sheet of the St. Louis-San Francisco Railway Company and its subsidiaries at December 31, 1968 and the related consolidated statements of income, retained income and sources and applications of funds 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 consolidated financial position of St. Louis-San Francisco Railway Company and its subsidiaries at December 31, 1968, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

CONSOLIDATED INCOME STATEMENT

	1968	1967
	(000) omitted	
OPERATING REVENUES:		
Freight	$165,680	$149,811
Other	7,462	7,772
Total operating revenues	173,142	157,583
OPERATING EXPENSES:		
Maintenance of way and structures	22,675	21,087
Maintenance of equipment	22,799	21,608
Transportation	64,057	57,947
Other	15,044	14,244
Total operating expenses (includes depreciation of $10,860,000 and $10,419,000, respectively)	124,575	114,886
Net operating revenue	48,567	42,697
OPERATING CHARGES:		
Taxes (except federal income taxes)	13,634	12,428
Equipment and joint facility rents	11,412	9,097
Total operating charges*	25,046	21,525
Net operating income*	23,521	21,172
OTHER INCOME, net	1,926	2,076
Balance for fixed and contingent charges*	25,447	23,248
FIXED AND CONTINGENT CHARGES:		
Interest on long term debt — fixed	7,887	6,666
Other fixed charges	176	288
Interest on long term debt — contingent	1,477	1,503
Total fixed and contingent charges	9,540	8,457
Income before federal income taxes	15,907	14,791
ESTIMATED FEDERAL INCOME TAXES:		
(Note 2, Page 26)	3,148	2,801
NET INCOME (in conformity with I.C.C. principles)	$ 12,759	$ 11,990
EARNINGS PER COMMON SHARE	$ 5.04	$ 4.80

*Before Federal income taxes.

CONSOLIDATED BALANCE SHEET

	December 31, 1968	December 31, 1967
	(000) omitted	
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,714	$ 3,648
Temporary cash investments	14,467	12,344
Cash deposits for interest, dividends, etc.	1,840	2,316
Accounts receivable	16,438	14,246
Material and supplies, at average cost	7,889	6,709
Other current assets	469	409
Total Current Assets	43,817	39,672
SPECIAL DEPOSITS	1,450	1,348
INVESTMENTS:		
Securities of and advances to affiliates (Page 29)	4,112	4,050
Other investments	631	80
Total Investments	4,743	4,130
PROPERTIES (Note 4, Page 27 and Page 29):		
Roadway and structures	321,005	317,668
Equipment	240,162	220,962
Non-operating property	7,615	7,433
Accrued depreciation — road	**57,577**	**56,382**
Accrued depreciation — equipment	**110,039**	**104,682**
Accrued depreciation — non-operating property	**536**	**472**
Total Properties — Net	400,630	384,527
OTHER ASSETS:		
Discount on long term debt	2,228	2,247
Miscellaneous	1,505	1,872
Total Other Assets	3,733	4,119
TOTAL ASSETS	$454,373	$433,796

Bold face type denotes credit.

CONSOLIDATED BALANCE SHEET

	December 31, 1968	December 31, 1967
	(000) omitted	
LIABILITIES		
CURRENT LIABILITIES:		
Audited accounts and wages payable	$ 4,093	$ 3,536
Accrued and miscellaneous accounts payable	14,415	11,539
Interest and dividends payable	3,887	4,358
Estimated federal taxes on income (Note 5, Page 27)	2,168	2,243
Other accrued taxes	2,945	2,755
Other current liabilities	4,815	3,245
Total Current Liabilities (excluding current portion of long term debt)	32,323	27,676
LONG TERM DEBT (Page 30):		
First Mortgage Bonds, 4% Series A — 1997	64,918	65,790
First Mortgage Bonds, 4% Series B — 1980	15,855	16,115
Income Debentures, 5% Series A — 2006	29,801	30,064
Purchase Money Mortgage Notes	6,000	6,000
Equipment obligations	77,075	67,243
Other long term debt	2,731	2,985
Total Long Term Debt ($9,084,000 payable in 1969)	196,380	188,197
OTHER LIABILITIES:		
Estimated casualty and other reserves	697	688
Miscellaneous, including deferred credits	1,988	736
Total Other Liabilities	2,685	1,424
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. All shares retired in 1968	....	11,489
Common, no par value — Authorized 6,000,000 shares, issued 2,595,599 shares, less 50 shares in treasury in 1968 and 2,382,445 shares, less 50 shares in treasury in 1967	113,565	102,972
CAPITAL SURPLUS	18,935	18,935
RETAINED INCOME (Page 28)	90,485	83,103
Total Shareholders' Equity	222,985	216,499
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$454,373	$433,796

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: Included in the consolidated financial statements are the accounts of the parent company and wholly-owned rail and non-rail subsidiary companies.

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:

	1968	1967
Net income (in conformity with ICC principles) as set forth in the consolidated income statement	$ 12,759,000	$11,990,000
Adjustments to generally accepted accounting principles:		
Provision for income tax effect of —		
Amortization of defense facilities...........	995,000	1,014,000
Accelerated and guideline depreciation......	(3,657,000)	(3,126,000)
Net income (as it would be stated in conformity with generally accepted accounting principles)	$ 10,097,000	$ 9,878,000

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 $43,547,000 at December 31, 1968.

3. PENSION PLAN: The Company has a noncontributory pension plan covering officers and supervisory employes. The cost of the plan charged to income was $1,147,000 in 1968 and $1,182,000 in 1967, which amounts include 10% of past service costs. The Company's policy is to fund pension costs accrued. Unfunded past service costs of the Company's pension plan amounted to approximately $3,000,000 at December 31, 1968.

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, 1968, nondepreciable property, including land and land rights, aggregated approximately $207,000,000.

5. FEDERAL INCOME TAXES: Federal taxes on income for the years 1966 through 1968 are subject to final determination by the Treasury Department. In the opinion of management, the reserve provided for federal taxes on income is adequate. See page 10 for details of investment tax credit.

6. CAPITAL STOCK: During 1968 the Company called all of its outstanding Preferred Stock for redemption, 50% on September 4, 1968 and the remainder on October 11, 1968. See page 5 for details. The Preferred Stock was redeemable at par plus accrued dividends or convertible at the option of the holders at any time on or before 15 days prior to the date as of which such stock was called for redemption, at the rate of two shares of Common for each share of Preferred.

During 1968, the outstanding Common Stock was increased by 211,104 shares as a result of conversion of Preferred Stock and 2,050 shares due to exercise of stock options.

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.

CONSOLIDATED RETAINED INCOME STATEMENT

		(000) omitted
Balance December 31, 1967		$ 83,103
Add:		
Net income for the year		12,759
Dividend on Preferred Stock declared in 1967 not paid due to conversions, in excess of accrued dividend on shares redeemed in 1968. See Page 5 for details		50
		95,912
Deduct:		
Dividend on Common Stock — $2.20 per share		5,427
Balance December 31, 1968		$ 90,485

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS

		(000) omitted 1968
SOURCES OF FUNDS:		
Net income		$ 12,759
Depreciation and other non-cash charges		11,247
Proceeds conditional sale agreements		19,433
Proceeds sale of property and salvage		2,133
Common Stock issued for conversion	$10,555	
Less: Preferred Stock converted	10,555	—
Miscellaneous		638
Total		46,210
APPLICATIONS OF FUNDS:		
Additions and betterments — road and equipment		29,151
Equipment obligations retired		9,601
First Mortgage Bonds retired		1,132
Income Debentures retired		263
Other long term debt retired		254
Preferred Stock retired		934
Dividends		5,377
Total		46,712
DECREASE IN WORKING CAPITAL		$ 502

SECURITIES OF AND ADVANCES TO AFFILIATES

	Number of Shares	Per Cent Owned	Par Value	Stocks (Book Value)	Notes and Advances (Book Value)	Total Investment (Book Value)
New Mexico and Arizona Land Co.	500,258.48	50.03	$500,258	$515,469	$.......	$515,469
*Birmingham Terminal Co.	250.00	16.66	25,000	25,000	269,902	294,902
Illinois Terminal Railroad Co.	181.82	9.09	1,818	1,818	....	1,818
*Kansas City Terminal Ry. Co.	1,833.33	8.33	183,333	183,333	1,192,668	1,376,001
Pullman Co., The	8,456.00	1.16	84,560	236,768	....	236,768
*Railway Express Agency, Inc.	29,064.00	1.45	29,064	1,400	404,817	406,217
*Terminal R. R. Association of St. Louis	2,058.00	6.25	205,800	1	....	1
Trailer Train Co.	500.00	2.44	500	50,000	243,000	293,000
*Union Terminal Co., The — Dallas	60.00	12.50	6,000	6,000	213,223	219,223
*Wichita Union Terminal Ry. Co.	333.33	33.33	33,333	12,502	754,289	766,791
Wichita Terminal Association	....	.....	......	......	2,000	2,000
Totals				$1,032,291	$3,079,899	$4,112,190

*Pledged Under First Mortgage.

PROPERTY CHANGES DURING THE YEAR 1968

	Balance Dec. 31, 1967	Additions and Betterments	Retirements	Balance Dec. 31, 1968
Roadway and Structures	$317,668,037	$ 5,722,014	$ 2,384,743	$321,005,308
Equipment (Page 31):				
Diesel Locomotives	59,069,022	7,451,804	736,415	65,784,411
Freight-Train Cars	150,536,973	14,490,640	2,151,581	162,876,032
Work and Miscellaneous	9,879,073	945,555	942,887	9,881,741
Motor Carrier Equipment	1,477,382	311,385	168,868	1,619,899
Total Equipment	220,962,450	23,199,384	3,999,751	240,162,083
Total Transportation Property	538,630,487	28,921,398	6,384,494	561,167,391
Non-Operating Property	7,432,753	229,979	48,374	7,614,358
Total Properties	$546,063,240	$29,151,377	$ 6,432,868	$568,781,749

LONG TERM DEBT

	Date of Maturity	Outstanding Dec. 31, 1968 Due After 1969	Outstanding Dec. 31, 1968 Due in 1969	Fixed and Contingent Interest Rate	Fixed and Contingent Interest Expense for 1968
FUNDED DEBT UNMATURED:					
First Mortgage Series A	1-1-97	$ 64,918,200†	*	4.00	$2,614,397
First Mortgage Series B	9-1-80	15,855,000†	*	4.00	639,706
Income Debentures Series A	1-1-06	29,800,500†	*	5.00	1,476,875
Purchase Money Mortgage Notes	8-1-92	6,000,000ϕ		6.75	205,875
Notes paid during year		....		6.00	181,069
		116,573,700			5,117,922
EQUIPMENT OBLIGATIONS#:	Serially to				
Trust Certificates:					
Series N	3-15-80	3,069,000	279,000	4.25	144,761
Series O	5-15-80	3,465,000	315,000	4.38	170,541
Matured during year					22,542
Conditional Sale Agreements:					
Numbers:					
1	12-1-70	1,172,600	1,172,600	3.50	109,442
2	5-1-71	105,000	70,000	3.50	7,553
3/4	9-1-71	310,345	155,172	4.25	22,535
5	12-1-71	226,104	133,333	4.25	20,162
6/9	7-1-72	2,776,668	1,110,667	5.00	236,017
10	2-10-74	277,500	61,667	4.75	17,169
11	2-1-75	375,650	68,300	5.63	26,254
12	3-1-75	1,663,107	320,000	5.75	124,350
13	8-1-75	1,201,320	208,000	5.25	77,629
14	6-1-76	739,933	117,400	4.75	44,442
15/16	1-1-77	1,064,700	152,400	4.75	63,241
17	11-1-77	771,982	101,758	5.00	48,408
18/22	8-1-78	3,070,310	350,783	4.50	162,318
23/27	1-15-79	5,669,197	596,758	4.38	285,637
28/29	3-15-79	755,043	79,478	4.45	38,758
30	9-1-75	1,109,396	184,899	4.75	65,138
31/39	1-15-81	9,206,958	800,605	5.25	537,656
40	4-1-76	646,528	99,466	5.60	44,561
41/43	3-1-82	3,373,791	269,903	6.25	235,003
44/45	3-1-82	2,941,706	235,336	5.75	188,317
46/50	7-1-82	7,184,882	552,683	6.25	500,869
51/56	1-1-83	12,199,346	969,346	6.70	886,927
57/58	10-1-80	3,666,630	333,330	6.75	25,568
59	12-15-83	1,208,165	86,298	7.25	....
		68,250,861	8,824,182		4,105,798
Other Long Term Debt		2,471,823	259,547		139,711
Totals		$187,296,384	$9,083,729		$9,363,431

†Excludes bonds held in treasury as follows:

First Mortgage Series A	$1,130,000
First Mortgage Series B	821,000
Income Debentures Series A	568,000

*Subject to sinking fund provisions under mortgage indentures in 1969:

First Mortgage Series A	$445,061
First Mortgage Series B	195,000
Income Debentures Series A	165,645

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

#Equipment obligations maturing in future years are:

1969	$8,824,182	1974	$6,118,064	1979	$4,146,107
1970	8,824,182	1975	5,749,508	1980	3,807,989
1971	7,542,506	1976	5,172,332	1981	2,480,356
1972	6,704,233	1977	4,894,683	1982	1,827,434
1973	6,148,897	1978	4,748,272	1983	86,298

EQUIPMENT OWNED

DESCRIPTION	Owned Dec. 31, 1967	Changes During 1968 Purchased or Built	Re-classified	Retired	Owned Dec. 31, 1968
DIESEL LOCOMOTIVES:					
Freight 3600 H.P. (A Units)	14	15	...	...	29
Freight 3000 H.P. (A Units)	.....	4	...	...	4
Freight 2500 H.P. (A Units)	65	...	...	...	65
Freight 1750 H.P. (A Units)	2	...	...	...	2
Freight 1750 H.P. (B Units)	13	...	...	...	13
Freight 1500 H.P. (A Units)	32	...	...	...	32
Freight 1500 H.P. (B Units)	27	...	...	...	27
All Purpose 1500 H.P.	130	...	...	1	129
Switch 1500 H.P.	.....	16	...	...	16
Switch 1200 H.P.	19	...	...	...	19
Switch 1000 H.P.	85	...	...	6	79
Switch 44 Ton	4	...	...	...	4
Total	391	35	...	7	419
LOCOMOTIVE BRAKE CARS	3	...	...	1	2
FREIGHT-TRAIN CARS:					
Box-Plain	5,033	...	19	303	4,749
Box-Equipped-Non-Insulated	1,133	260	...	10	1,383
Box-Equipped-Insulated	660	115	...	7	768
Gondola	2,127	200	...	96	2,231
Hopper-Open Top	3,363	125	...	44	3,444
Hopper-Covered	2,075	137	...	10	2,202
Flat-Including Special Equipped	702	2	...	63	641
Wood Rack & Bulkhead Flat	887	...	...	21	866
Multi-Level Auto Transport	189	...	...	2	187
Caboose	202	10	35	19	228
Other	3	...	...	...	3
Total	16,374	849	54	575	16,702
WORK EQUIPMENT:					
Tool and Material	607	...	76	100	583
Ballast	203	...	...	22	181
Boarding	179	...	1	44	136
Tank	148	...	...	8	140
Other	69	1	...	17	53
Total	1,206	1	77	191	1,093
MISCELLANEOUS EQUIPMENT:					
Motor Trucks	340	71	...	47	364
Automobiles	278	76	...	55	299
Airplane	1	...	...	...	1
Other	71	...	...	10	61
Total	690	147	...	112	725
FLOATING EQUIPMENT:					
Car Ferry	2	...	...	...	2
MOTOR CARRIER EQUIPMENT:					
Trucks	26	3	...	2	27
Tractors	67	15	...	6	76
Semitrailers	170	30	...	33	167
Service Cars	5	2	...	2	5
Total	268	50	...	43	275

ST. LOUIS-SAN FRANCISCO RAILWAY COMPANY
CONSOLIDATED FIVE-YEAR FINANCIAL REVIEW

CONDENSED INCOME ACCOUNT

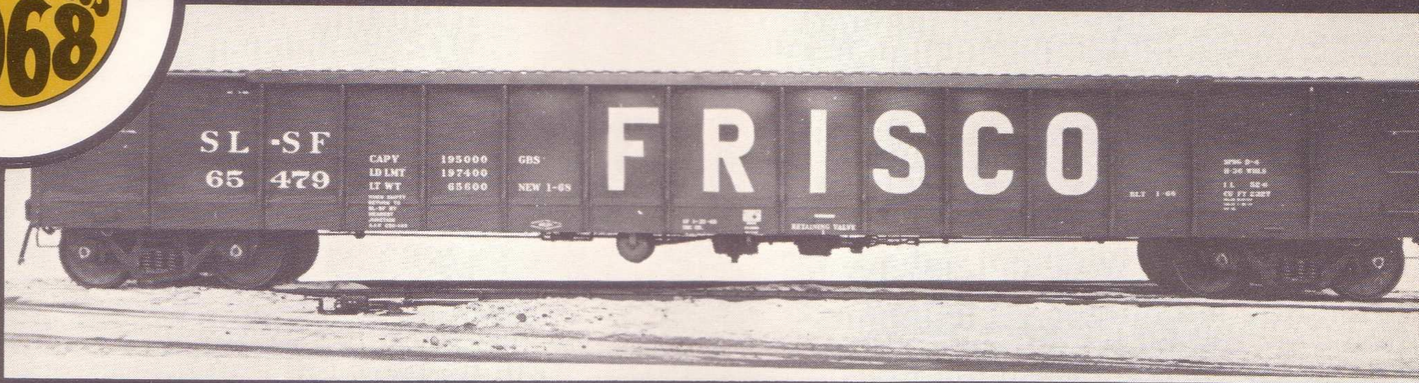
(000) omitted

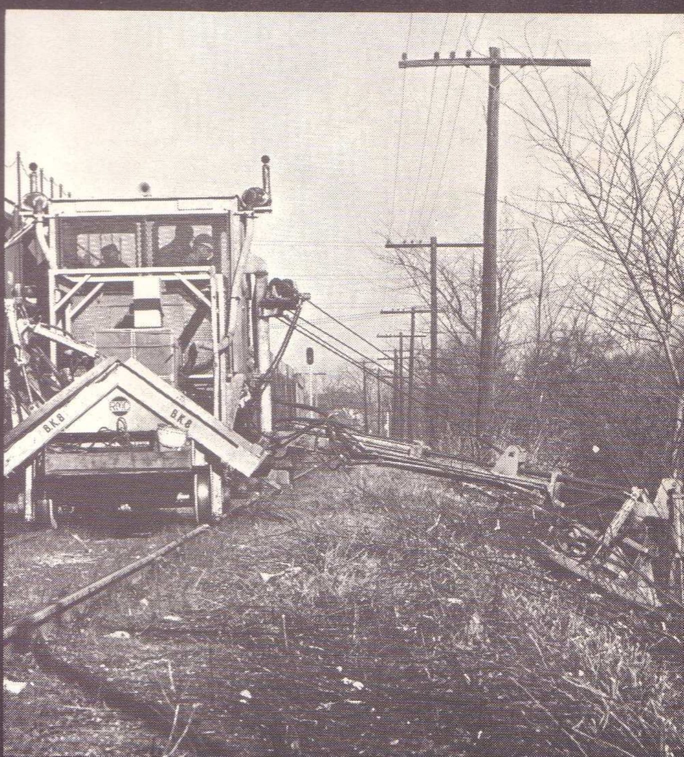
	1968	1967	1966	1965	1964
Operating revenues	$173,142	$157,583	$155,193	$152,390	$143,125
Operating expenses	124,575	114,886	111,239	112,516	110,438
Net operating revenue	48,567	42,697	43,954	39,874	32,687
Operating charges	25,046	21,525	19,360	17,963	17,327
Net operating income	23,521	21,172	24,594	21,911	15,360
Other income, net	1,926	2,076	1,294	1,647	1,915
Balance for fixed and contingent charges	25,447	23,248	25,888	23,558	17,275
Fixed and contingent charges	9,540	8,457	8,035	7,940	8,347
Income before Federal income taxes	15,907	14,791	17,853	15,618	8,928
Estimated Federal income taxes	3,148	2,801	5,529	4,493	1,974
Net income	$ 12,759	$ 11,990	$ 12,324	$ 11,125	$ 6,954

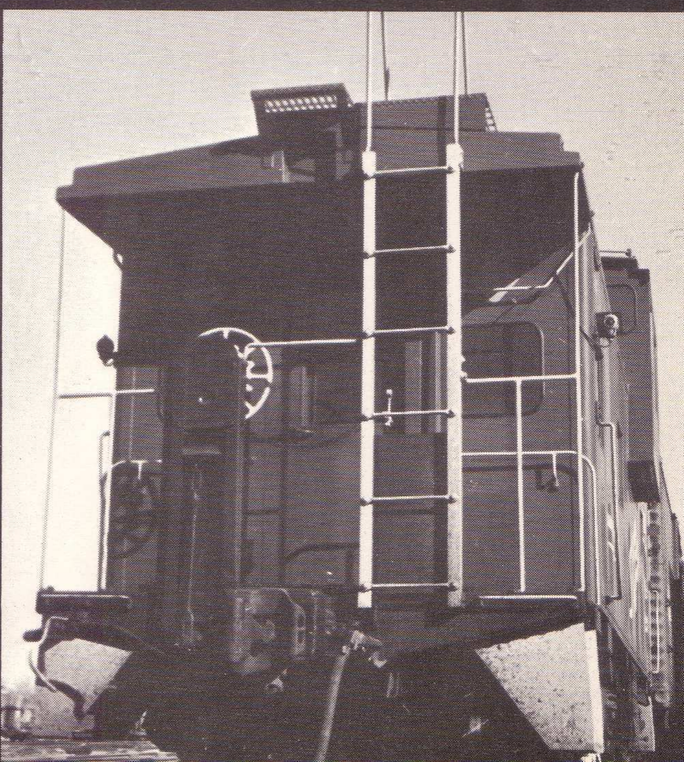
CONDENSED BALANCE SHEET AS OF DECEMBER 31ST

	1968	1967	1966	1965	1964
Current assets	$ 43,817	$ 39,672	$ 39,512	$ 38,141	$ 47,386
Current liabilities	32,323	27,676	28,760	27,282	27,746
Net current assets	11,494	11,996	10,752	10,859	19,640
Properties — net	400,630	384,527	370,745	359,179	353,914
Investments	4,743	4,130	3,838	3,789	3,775
Other assets	5,183	5,467	4,939	5,951	5,711
Total assets less current liabilities	422,050	406,120	390,274	379,778	383,040
Long term debt (including debt due within one year)	196,380	188,197	179,470	169,403	192,156
Other liabilities	2,685	1,424	2,416	2,948	2,660
Total long term debt and other liabilities	199,065	189,621	181,886	172,351	194,816
Net assets	$222,985	$216,499	$208,388	$207,427	$188,224
Shareholders' equity:					
Preferred stock	$......	$ 11,489	$ 11,600	$ 24,741	$ 24,741
Common stock	113,565	102,972	102,781	94,746	82,349
Retained income and capital surplus	109,420	102,038	94,007	87,940	81,134
Total shareholders' equity	$222,985	$216,499	$208,388	$207,427	$188,224

PROGRESS 1968







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