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July 19, 1984

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Secretary
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FILED
JUL 19 1984
INTERSTATE
COMMERCE COMMISSION

Re: Finance Docket No. 30,400 and No.
30,400 (Sub No. 18)

Dear Mr. Bayne:

Enclosed for filing in the above-captioned matters are the following:

1. The original and twenty copies of Volume I and II of the responsive application (KCS-8) of The Kansas City Southern Railway Company and Louisiana and Arkansas Railway Company;
2. Twenty unbound copies of a map submitted as Exhibit 1 in connection with the enclosed responsive application; and
3. A check for \$1,700.00 in payment of the filing fee in connection with the enclosed responsive application.

As the certificate of service appended to the responsive application indicates, the application was served on, among other persons, all persons listed on the Commission's service list established by its order of June 27, 1984, as supplemented to date. A copy of the supplemented list used for these service purposes is attached.

Very truly yours,

Louis A. Rodriguez
Louis A. Rodriguez

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Very truly yours,

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ORIGINAL

KCS-8

VOLUME I

Before the

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30,400 (Sub No. 18)

FILED
JUL 19 1984

APPLICATION OF
THE KANSAS CITY SOUTHERN RAILWAY COMPANY INTERSTATE
AND LOUISIANA & ARKANSAS RAILWAY COMPANY COMMERCE COMMISSION
FOR INDEPENDENT RATEMAKING AUTHORITY,
TRACKAGE RIGHTS AND ASSET PURCHASES

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INTERSTATE COMMERCE COMMISSION

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AND LOUISIANA & ARKANSAS RAILWAY COMPANY
FOR INDEPENDENT RATEMAKING AUTHORITY,
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INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30,400 (Sub No. 18)

APPLICATION OF
THE KANSAS CITY SOUTHERN RAILWAY COMPANY
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FOR INDEPENDENT RATEMAKING AUTHORITY,
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SECTION 1180.6(a)(1)

DESCRIPTION OF PROPOSED TRANSACTION

The Kansas City Southern Railway Company ("KCSR"), and its wholly-owned subsidiary, Louisiana & Arkansas Railway Company ("L&A"; KCSR and L&A being hereinafter collectively referred to as "KCS"), hereby make application to the Interstate Commerce Commission (the "Commission"), pursuant to the provisions of Sections 11343-11344 of the Interstate Commerce Act, as amended (the "Act"): to acquire trackage rights over certain lines of the Southern Pacific Transportation Company ("SPT") and its wholly-owned subsidiary, St. Louis Southwestern Railway Company ("SSW"; SPT and SSW being hereinafter collectively referred to as "SP") (See Exhibits 2.2 through 2.5, Volume II); for the establishment of an independent ratemaking authority empowering KCS to quote, make and/or publish for its account rates for rail transportation services, and to enter with shippers into contracts for the provision of rail transportation services, via certain routes of the proposed merged system, for application to, from or between points now commonly served by SP and The Atchison, Topeka, and Santa Fe Railway Company ("ATSF") located on such routes (such independent ratemaking authority being hereinafter referred to as "IRMA"), as more fully described in the proposed form of agreement which is Exhibit 2.1 (Volume II)

hereto, and in verified statements to be filed by August 20, 1984;¹ and to purchase certain assets. This Application is an application responsive to the primary application submitted to the Commission by Santa Fe Southern Pacific Corporation ("SFSP") and its direct or indirect subsidiaries, filed in Finance Docket No. 30,400, for authority to merge ATSF and SP into a newly-formed corporation, Southern Pacific and Santa Fe Railway Company ("SPSF"). Hereinafter, SFSP, SFI, ATSF and SP are collectively referred to as the "Primary Applicants".

KCS opposes the transactions for which authority has been sought by the Primary Applicants. KCS' opposition is set forth in its Written Comments filed on June 4, 1984, pursuant to Section 11345(b)(1) of the Act, 49 C.F.R. § 1180.4(d), and the Commission's Order dated April 20, 1984 (49 Fed. Reg. 16,891).

By this Application, KCS proposes certain conditions, hereinafter described, that are responsive to, and designed to ameliorate the anticompetitive consequences of, the Primary

¹ In accordance with the Commission's order, served June 28, 1984, certain exhibits to this Application and the supporting verified statements will be filed on or before August 20, 1984. At that time there will also be filed a supplement to this volume of KCS' Application with a table cross-referencing between sections of this volume and the later filed materials.

In the event that the date for filing said exhibits and verified statements is further extended by the Commission, all references in this application to August 20, 1984 as the date by which certain materials will be filed should be deemed amended to refer to such later date.

Applicants' proposed merger, and that will also have the effect of protecting KCS' ability to provide essential rail transportation services to the shipping public. These conditions are:

1. The right, power and authority, pursuant to an agreement substantially in the form of Exhibit 2.1 (Volume II) to this Application, to quote, make and/or publish, for the account of KCS, rates for rail transportation services, and to enter with shippers into contracts for the provision of rail transportation services (the "Ratemaking Powers"), via routes of SPSF hereinafter identified, for application to, from or between points now commonly served by ATSF and SP (the "Common Points") and located on such routes, including the right to quote, make and/or publish joint rates or to enter into rail service contracts with shippers in conjunction with other railroads serving one or more Common Points. The Ratemaking Powers would also apply to connections with short line railroads at points other than Common Points in cases where the short line has competitive connections with ATSF and SP. The SPSF routes to which the Ratemaking Powers shall apply pursuant to the IRMA shall be: the existing ATSF and SP routes, via Fresno and Bakersfield, California,

between San Francisco/Oakland, California area points and Los Angeles/Long Beach, California area points; and the existing SP route between Los Angeles/Long Beach, California area points and Houston/Galveston, Texas. KCS would have access, either directly or via reciprocal switching, to all shippers served by SPSF at any of the Common Points. SPSF would act as KCS' agent for the purpose of handling, for KCS' account, rail traffic shipped pursuant to rates made by KCS under the IRMA.

2. In conjunction with the IRMA, the following:

(a) Trackage rights over the SP line from Avondale, Louisiana to West Lake, Louisiana, as follows:

From the point of beginning of SP ownership at or near West Bridge Junction (shown as approximately SP M.P. 10.5² in its Division Time Table for its Lafayette Division) to the point of SP's connection with KCS at Lockmoor (shown as approximately SP M.P. 222.8 in that Division Time Table).

(b) Trackage rights over the SP line from Beaumont, Texas to Houston, Texas, with rights of local access at Houston, as follows:

² All mile-post designations specified in this Application are those shown in division time tables provided to KCS by SP. They are subject to amendment should more accurate information be developed during the course of these proceedings.

From the point of KCS' connection with SP at Beaumont (shown as approximately SP M.P. 280.2 in its Division Time Table for its Lafayette Division) to the point of SP's connection with the track of Houston Belt and Terminal Railway Company ("HB&T") at Houston, near Tower 87 (Tower 87 is shown as approximately SP M.P. 356.8 in its Division Time Table for its Lafayette Division).

(c) Trackage rights over the SP line from Houston, Texas to Galveston, Texas, with rights of local access at Galveston, as follows:

KCS proposes to operate between Houston and Galveston over a combination of trackage rights and purchased track as follows: by trackage rights from the point of SP's connection with the tracks of HB&T at Houston, near Tower 86 (Tower 86 is shown as approximately SP M.P. 3.6 in its Division Time Table for its Houston Division) to Texas City Junction (shown in said Division Time Table as approximately SP M.P. 46.8). Primary Applicants state their intent, at page 45 of their Operating Plan (Exhibit 13 to their Application), to abandon 8 miles of SP track between Texas City and Galveston. KCS proposes, as a condition to the merger, that it be allowed to purchase such track designated for abandonment. KCS proposes to operate over such purchased track (Texas City Junction is shown as approximately SP M.P. 46.8 in its Division Time Table for its Houston Division and 8 miles from that point would be approximately SP M.P. 54.8). KCS also seeks the right to operate via trackage rights from the point where its purchased track would end into Galveston (i.e., from approximately SP's said M.P. 54.8 to approximately SP's station called "Galveston" shown in its Division Time Table for its Houston Division as SP M.P. 55.6), including the right to use SP's "Galvez Yard" at Galveston.

(d) In order to acquire operating rights over HB&T, the right to purchase 50% of ATSF's existing

interest in HB&T, but not including any aspect of that interest attributable to non-operating real property of HB&T or to operating properties used exclusively for passenger service.

(e) The right to purchase the SP line from Texas City, Texas to Galveston, Texas, which the Primary Applicants propose to abandon.

3. Trackage rights for KCS to operate over the SP line between Greenville, Texas and Fort Worth, Texas, with rights of local access at Fort Worth, as follows:

From the point of KCS' connection with SP at Greenville (shown as approximately SP M.P. 551.3 in its Division Time Table for its Pine Bluff Division) to and into SP's yard at Fort Worth (shown in that Division Time Table as approximately SP M.P. 630.2).

4. In connection with the trackage rights between Greenville, Texas and Fort Worth, Texas, the right of KCS to purchase Hodge Yard in Fort Worth, which the Primary Applicants propose to remove from active service.

KCS' proposed trackage rights agreements are Exhibits 2.2 through 2.5 (Volume II) to this Application.

KCS also requests that the Commission order Primary Applicants to enter into good faith negotiations with KCS regarding the amount that KCS will be required to pay as compensation for the foregoing trackage rights, IRMA and purchase of assets. In the event that the Primary Applicants and KCS should fail to reach agreement within 60 days of such order by the Commission, the parties should be required to submit their respective positions for resolution by the Commission. The merger of ATSF and SP would constitute an irrevocable acceptance of whatever terms are ultimately fixed as a result of administrative and judicial proceedings. Should KCS elect to commence operation over the designated lines, or to initiate its IRMA, or to commence use of the properties designated for purchase, prior to determination by the Commission of the appropriate consideration, KCS would be obligated to make payments based on the amounts ultimately fixed by the Commission or on judicial review, retroactive to the commencement by KCS of its said operations or usage.

SECTION 1180.6(a)(1)(i)

BRIEF SUMMARY OF PROPOSED TRANSACTION
AND NAMES AND ADDRESSES OF APPLICANTS

The nature of the transaction herein proposed by KCS involves:

1. an independent rate-making authority over certain lines of SPSF between San Francisco/Oakland, California, in the West and Houston/Galveston, Texas, in the East, under which KCS would, in effect, extend its railroad operations over such lines with rights of local access to all shippers served by SPSF at all stations which are today served by both ATSF and SP, together with an agency arrangement under which all such traffic originated, terminated or interlined by KCS would be transported by SPSF, as KCS' agent, in SPSF's trains, to the extent such traffic shall be routed over SPSF's lines to which the IRMA shall apply;

2. acquisition by KCS of trackage rights over SP's lines in Texas between Beaumont and Houston/Galveston, and between Greenville and Fort Worth, and over SP's lines in Louisiana between West Lake and Avondale; and

3. certain related conditions, including the purchase by KCS of certain properties proposed to be abandoned, or otherwise removed from active service, by SPSF, and a portion of ATSF's interest in HB&T.

A more detailed description of the proposed transaction may be found in the preceding Section 1190.6(a)(1); in Section

1180.6(a)(7)(vi), infra; in the independent ratemaking and trackage rights agreements, which are Exhibits 2.1 through 2.5 (Volume II) to this Application; and in verified statements to be filed by August 20, 1984.

Applicants are The Kansas City Southern Railway Company and its wholly-owned subsidiary, Louisiana & Arkansas Railway Company. Their shared business address is 114 West 11th Street, Kansas City, Missouri 64105. Questions regarding the transaction may be addressed to any of the following counsel:

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SECTION 1180.6(a)(1)(ii)

PROPOSED TIME SCHEDULE

KCS will commence operations under the trackage rights, will initiate its IRMA and will commence use of the properties designated for purchase, promptly upon consummation by the Primary Applicants of the proposed merger, or so much of it as shall have been approved by the Commission. Exhibit 13 (Operating Plan) to this Application, to be filed by August 20, 1984, will describe, from an operational standpoint, the anticipated steps for implementing operations under the IRMA and trackage rights, and with regard to the properties to be acquired through purchase.

SECTION 1180.6(a)(1)(iii)

PURPOSE SOUGHT TO BE ACCOMPLISHED
BY PROPOSED TRANSACTION

KCS operates rail facilities in the states of Kansas, Missouri, Oklahoma, Arkansas, Texas and Louisiana. Its principal routes run north-south between Kansas City and the Gulf Ports of New Orleans, Louisiana and Beaumont/Port Arthur, Texas, and east-west between New Orleans and Dallas, Texas, via Baton Rouge and Shreveport, Louisiana. The principal commodities carried by KCS include coal, grains, pulpwood, petroleum coke, chemicals, sulphur, soda ash, canned goods, wine and cotton.

Presently, KCS has east-west, joint-line routes with ATSF, via Dallas, between origins and destinations in California and

the New Orleans Gateway, or points served by KCS in Southeast Texas or in Louisiana.³ These joint ATSF-KCS routes compete with SP's parallel, single-line routes between the same origins and destinations. This joint line service of ATSF-KCS has experienced a marked growth in traffic volume over the past two years, both as a competitive response to the consolidation of the Union Pacific, Missouri Pacific and Western Pacific Railroads ("UP/MP/WP"), and as a result of vigorous competition between ATSF and SP for traffic moving to and from the West Coast and New Orleans/SFA. Indeed, KCS' interchange with ATSF at Dallas is ATSF's second largest interchange with any railroad, and the largest ATSF interchange likely to be affected by the merger.

ATSF is KCS' last friendly connection for traffic moving between the West Coast and KCS' service territory in East Texas/Louisiana or SFA Territory via New Orleans.

KCS has north-south joint-line routes with SP between Kansas City and:

- (a) Houston, Texas, interchanged with SP at Shreveport, Louisiana;
- (b) Galveston, Texas, interchanged with SP at Shreveport, Louisiana; and

³ The KCS portion of this joint route is via the L&A line between Dallas and New Orleans.

(c) Fort Worth, Texas, interchanged with SP (SSW) at Texarkana.

In each case, the joint-line SP-KCS route competes with a parallel, single-line route of ATSE. Significantly, the joint SP-KCS routes are the short-line routes between Kansas City and Houston/Galveston. SP is KCS' last friendly connection in each of the above-described markets. Every other carrier serving Houston/Galveston or Fort Worth offers single line service to Kansas City.

The effect of the merger proposed by the Primary Applicants would be to eliminate existing, effective competition between parallel routes in major commodity transportation corridors: east-west between the West Coast and New Orleans/SFA, and north-south between Kansas City and Houston/Galveston and Fort Worth. In particular, there is an enormous volume of rail-dependent traffic in the affected east-west corridors that after merger would be dependent, for transportation services and pricing, upon a monopolist.

In addition, KCS would be materially and adversely affected if the proposed merger were approved by the Commission without the conditions sought by this Application. According to the Primary Applicants, the cumulative impact on KCS of the proposed

transaction and the consolidation of UP/MP/WP would be the loss of \$26.7 million annually, or 8.8% of KCS' 1982 traffic. This includes \$14.6 million of diversions annually attributable to the proposed merger alone.

Primary Applicants' estimate of the diversion impact which the proposed merger would have on KCS and its shippers, although considerable in amount, substantially underestimates the potential diversion threat. As a consequence of these material, adverse impacts on KCS, the merger proposed by the Primary Applicants threatens to erode KCS' long-term ability to provide essential rail transportation services to the shipping public.

The purpose of the conditions proposed by KCS in this Application is to ameliorate the anticompetitive effects of the proposed merger, and to protect KCS' ability to continue to provide essential rail transportation services to the shipping public. The conditions would accomplish these goals as follows:

A. The Proposed IRMA

KCS' proposed IRMA would give KCS the right, power and authority to quote, make and/or publish for the account of KCS, rates for rail transportation services (and to enter into contracts for the provision of rail transportation services) via certain routes of SPSF, for application to, from or between those

points located on the specified routes which are now commonly served by ATSF and SP (the "Common Points"). KCS would have the right to interline traffic, pursuant to joint rates or contracts, with connections at any of the Common Points, and with short line railroads, at both Common Points and any other point where the short line has a connection with one of the Primary Applicants which is competitive with a connection between the short line and the other Primary Applicant. The SPSF routes to which the IRMA would apply are: the existing ATSF and SP routes, via Fresno and Bakersfield, California, between San Francisco/Oakland, California area points and Los Angeles/Long Beach, California area points; and the existing SP route between Los Angeles/Long Beach, California area points and Houston/Galveston, Texas. KCS would have access, either directly or via reciprocal switching, to all shippers so served by SPSF at any of the Common Points.

Pursuant to the proposed IRMA, KCS would be able to quote single-line rates and routes just as though KCS owned, or had operating rights over, the subject lines of railroad of SPSF. SPSF would be required to handle, for KCS' account and on a non-discriminatory basis, all rail traffic moving pursuant to rates

made by KCS under the IRMA.⁴ Thus, the proposed IRMA would have the effect of restoring the competition which would otherwise be lost due to the merger of the only two competing, parallel southern corridor lines of railroad between the West Coast and New Orleans/SFA. It would also offset the impact on KCS and its shippers of the substantial diversions to be suffered as a consequence of KCS' loss of its last friendly connection for the bulk of its east-west traffic.

The IRMA also offers what may turn out to be a final opportunity to preserve existing competition by preserving existing interline routes and concomitant shipper routing options. Transcontinental carriers, such as the Primary Applicants and UP/MP/WP, have adopted a policy of cancelling joint routes which compete with their single line routes, even where the single line route is circuitous. Today, each of the Primary Applicants has joint line routes with other railroads which compete with single line routes of the other Primary Applicant. Continuation by SPSF of existing route cancellation policies of the Primary Applicants would result in cancellation of those joint line routes. In contrast, KCS would have an incentive to work with joint line connections throughout the territory which would be served by its proposed IRMA and trackage

⁴ SPSF would receive a per-car, per-mile fee for handling cars pursuant to the IRMA.

rights. This would include offering a friendly connection to UP/MP/WP at points such as El Paso, Texas, Los Angeles and San Francisco, California and to The Missouri-Kansas-Texas Railroad Company ("MKT") at Houston, Texas.

Additional information concerning KCS' plans for operating and marketing the IRMA will be included in Exhibits 12, 13 and 14, and in verified statements to be filed by August 20, 1984.

B. IRMA-Related Trackage Rights and Purchases

As described in Section 1180.6(a)(1), above, in Exhibits 2.2 through 2.4 (Volume II), and in verified statements to be filed by August 20, 1984, KCS seeks access to Houston/Galveston, Texas, via a combination of trackage rights and purchases, and to New Orleans (Avondale) via trackage rights from West Lake, Louisiana.⁵

Both Houston and Galveston are ATSF/SP common points. Service by KCS to both points can be justified on all of the grounds which apply to the Common Points on the IRMA routes. There are several reasons why trackage rights would be the appropriate mechanism for serving Houston/Galveston:

⁵ KCS' existing route to New Orleans is via Shreveport and Baton Rouge; the existing route would be circuitous for traffic moving over the IRMA route.

(a) The distance between Beaumont and Houston/Galveston is well within the mileage range where trackage rights can be operated efficiently and without unduly interfering with operations by the line's owner;

(b) Under SPSF's proposed operating plan, it is critical that KCS be able to effect the physical interchange of its IRMA traffic with SPSF at Houston, rather than at Beaumont. Otherwise, time sensitive traffic in KCS' account would move between Houston and Beaumont in a local train, while SPSF's traffic would move in expedited service. (See the verified statement of T. S. Carter to be filed by August 20, 1984); and

(c) KCS would be able to integrate the trackage rights operations with operations over the 8-mile segment between Houston and Galveston that the Primary Applicants propose to abandon and that KCS seeks to purchase.

Trackage rights between West Lake and New Orleans are needed to make the IRMA competitive, from a service standpoint, with SPSF's service to or from New Orleans/SFA. According to the proposed operating plan filed by the Primary Applicants, SPSF's expedited service route to and from New Orleans/SFA will be over

Houston, rather than Dallas; KCS' existing route structure is compatible only with an expedited service routing over Dallas.

C. Trackage Rights to Forth Worth, Texas

As described in Section 1180.6(a)(1) above, in Exhibit 2.5 (Volume II), and in verified statements to be filed by August 20, 1984, KCS seeks direct access to Fort Worth, Texas via trackage rights from Greenville, Texas, and to purchase Hodge Yard in Fort Worth, which the Primary Applicants propose to remove from active service.

KCS' proposed access to Fort Worth is directly merger-related. It responds to the threatened loss of competing, parallel lines (ATSF single-line service and joint SSW-KCS service) between Fort Worth and Kansas City. Moreover, KCS' access to Fort Worth, coupled with the proposed IRMA, could result in KCS' being able to maintain east/west joint routes with SPSF.

Unless KCS is awarded the IRMA and related trackage rights between (1) Beaumont and Houston/Galveston and (2) West Lake and New Orleans (Avondale), it is deemed inevitable that SPSF will cancel its run-through train service with KCS over Dallas, followed by cancellation of existing ATSF/KCS joint routes over Dallas. However, if the IRMA and related trackage rights are

awarded, the pressure of competition via the IRMA may be sufficient to cause the merged company to maintain competitive joint routes and rates with KCS. This would be desirable from KCS' standpoint because it would provide an opportunity to sustain reasonable traffic density on the L&A route, assuming that it could be made service competitive with SPSF's single line route. That would require reducing by several hours the existing ATSF/KCS schedule over Dallas. The requested trackage rights between Greenville and Fort Worth, it is projected, would accomplish this. See the verified statement of T. S. Carter to be filed by August 20, 1984.

SECTION 1180.6(a)(1)(iv)

NATURE AND AMOUNT OF ANY NEW SECURITIES
OR OTHER FINANCIAL ARRANGEMENTS

KCS does not propose to issue any new securities in connection with the proposed transaction, which involves the acquisition of trackage rights, the granting and establishment of an independent ratemaking authority, and limited asset purchases. Payment for the trackage rights and the IRMA will be based on usage, and will be made from funds generated therefrom. Payment for the proposed asset purchases will be made from available working capital. Any additional equipment consisting of, but not necessarily limited to, locomotives,

rolling stock and work equipment which may be found to be needed in connection with the foregoing would be financed through conditional sales agreements or equipment trust certificates of KCS, with any necessary down payments made by KCS from available working capital. Any additional funds required to support the transportation operations related to the proposed transaction would be provided by KCS from available working capital.

Since this is a responsive Application, no agreements exist between the parties as to the value of any of the subject assets, including those which KCS proposes to purchase. In the event that following resolution of those asset values it should be necessary or desirable for KCS to finance a portion of the purchase price, and the nature of that financing requires approval by the Commission under 49 U.S.C.A. § 11301, KCS will at that time file the requisite application.

SECTION 1180.6(a)(2)

PUBLIC INTEREST JUSTIFICATIONS IN SUPPORT
OF KCS' APPLICATION

The transaction proposed by the Primary Applicants would merge into a single rail system parallel, competing railroad lines -- in fact, the only competing railroad lines -- serving some of the nation's fastest growing population centers and transportation markets. The resultant elimination of intramodal

competition would be directly contrary to the interests of the shipping public, and the public interest objectives of the Staggers Rail Act of 1980, 49 U.S.C.A. § 10101a.

Primary Applicants acknowledge, at least implicitly, that their proposed merger would effectively eliminate intramodal competition between major population centers in California, between California and Arizona and between California/Arizona and Texas. Nonetheless, Primary Applicants contend that intermodal competition will sufficiently protect the interests of the shipping public. Evidence now being developed by KCS for use in its case in opposition to the proposed merger, it is believed, will demonstrate conclusively that in a large number of relevant markets the limited substitutability of other transportation modes wholly undermines the capacity of intermodal competition to discipline the market and protect the public interest.

KCS' proposed conditions are designed to respond directly to, and ameliorate the anticompetitive consequences of, the proposed merger. At the same time, they will ensure KCS' continued ability to provide effective competition and essential rail transportation services to the shipping public, despite the enormous traffic losses which, the Primary Applicants concede, would cumulatively impact KCS as a result of the UP/MP/WF and

the ATSF/SP mergers. As will be discussed more fully in KCS' market impact analysis (Exhibit 12), and verified statements, to be filed by August 20, 1984, the relevant markets with respect to KCS' proposed conditions are the major commodity transportation corridors within California, between California and Arizona, between California/Arizona and Texas/Louisiana and between California/Arizona and New Orleans/SFA. Also relevant are major commodity transportation corridors between Kansas City and Houston/Galveston and between Kansas City and Fort Worth.

As discussed in Section 1180.6(a),(1)(iii) above, KCS' proposed IRMA, together with the IRMA-related trackage rights and asset purchases, would have the effect of preserving for shippers a competitive rail alternative between the West Coast, Arizona, Texas and New Orleans/SFA. The IRMA and related conditions are directly merger-related. They apply only to, from and between points presently served by both ATSF and SP, or competitive short line connections. Thus, the IRMA is designed to ensure that shippers losing a competitive rail option as a result of the proposed merger would have that competition restored by the IRMA.

The IRMA would also be uniquely consistent with significant goals of the national rail policy concerning rationalization of the national rail system and preservation of intramodal

competition. Assuming, for these purposes, that the Commission will conclude that the proposed merger offers a desirable opportunity for rationalization, through elimination of plant redundancies and enhancement of efficiencies, the IRMA offers a vehicle for preserving needed competition without the potentially serious drawbacks involved in trackage rights for unprecedented distances. Under the IRMA, SPSF would act as KCS' agent and carry its traffic over the IRMA routes in SPSF's trains, on SPSF's schedules, and would be required to do so on a nondiscriminatory basis. SPSF would thus secure the efficiency benefits of the merger, while the public would secure the benefits of preserved competition.

Both Houston and Galveston are ATSF/SP common points. Service by KCS to both points can be justified on all of the grounds which apply to the Common Points on the IRMA routes. As to these points, however, trackage rights would be the preferred method of protecting the public interest.

The distance between Beaumont and Houston/Galveston is well within the mileage range over which trackage rights can be operated efficiently, and without unduly interfering with operations by the line's owner. In light of SPSF's operating plan, trackage rights between Beaumont and Houston/Galveston would permit KCS to compete with SPSF for time sensitive traffic,

which might not be the case if the IRMA extended to Beaumont. Furthermore, trackage rights would permit KCS to integrate its proposed operations over the 8-mile segment between Houston and Galveston that the Primary Applicants propose to abandon and that KCS seeks to purchase.

KCS' proposed trackage rights between West Lake and New Orleans are designed to make the IRMA competitive, from a service standpoint, with SPSF's service to or from New Orleans/SFA. According to the proposed operating plan filed by the Primary Applicants, SPSF's expedited service route to and from New Orleans/SFA would be over Houston, rather than Dallas, whereas KCS' existing route structure is compatible only with the Dallas routing.

The IRMA also offers what may turn out to be a final opportunity to preserve existing competition by preserving existing interline routes and concomitant shipper routing options. Transcontinental carriers, such as the Primary Applicants and UP/MP/WP, have adopted a policy of cancelling joint routes which compete with their single line routes, even where the single line route is circuitous. Today, each of the Primary Applicants has joint line routes with other railroads which compete with single line routes of the other Primary Applicant. Continuation by SPSF of the existing route

cancellation policies of the Primary Applicants would result in cancellation of many joint line routes. In contrast, KCS would have an incentive to work with joint line connections throughout the service territory of its proposed IRMA and trackage rights. This includes offering a friendly connection to UP/MP/WP at points such as El Paso, Los Angeles and San Francisco, and to MKT at Houston.

KCS' proposed trackage rights to Houston/Galveston and to Fort Worth would also respond to the loss, as a direct result of the proposed merger, of parallel, competing lines between Kansas City and Houston/Galveston, and between Kansas City and Fort Worth. Without the proposed trackage rights, KCS would be foreclosed from continued participation in these markets because the merger would result in the loss of its last friendly connection.

KCS' proposed conditions would also serve to ensure KCS' continued ability to provide effective competition and essential rail transportation services to the shipping public. Primary Applicants concede that the cumulative impact on KCS of the UP/MP/WP consolidation and the ATSF/SP merger would be the loss of \$26.7 million of traffic annually, or 8.8% of KCS' 1982 revenues, including \$14.6 million annually attributable to the proposed merger alone. KCS expects to offer opposition testimony

establishing that its threatened revenue loss from the ATSE/SP merger would be far greater than that projected by the Primary Applicants.

(i) Effect on Inter- and Intramodal Competition. As discussed above, the principal effect, and indeed the purpose, of KCS' proposed transaction, would be the preservation of intramodal competition that would be lost if the merger is approved without conditions. KCS' proposed conditions could only enhance the merger's effect on intermodal competition, by ensuring that rail services will be competitively priced, notwithstanding the merger of parallel, competing railroads. See Exhibit 12 (market impact analysis), and verified statements, to be filed by August 20, 1984.

(ii) Financial Considerations and Consequences. KCS is a Class I railroad which operates 1622 miles of road in six states. KCS provides essential services which must be preserved in the public interest. As a regional carrier, KCS serves the public interest by providing effective competition and essential services to industries located in its service territory, thereby affording to those industries the vitally important opportunity to compete effectively with similar industries located in other regions. An impairment of KCS' existing efficiencies, which could result from a substantial reduction in traffic density,

would seriously and adversely affect KCS' continued capacity to provide this and other essential services to its shippers. In this connection, the primary application demonstrates, on its face, that the proposed merger would divert \$14.6 million in revenues from KCS annually; this diversion would be in addition to estimated losses, as of 1982, of \$12.1 million on account of the UP/MP/WP consolidation. KCS' own traffic diversion study indicates that the proposed merger would divert substantially more traffic from KCS than has been projected by the Primary Applicants.

The financial considerations of the IRMA, trackage rights and asset purchases herein requested involve: (1) payment of a per-car, per-mile fee to SPSF pursuant to the IRMA contract; (2) payment of a trackage rights car-mile charge to SPSF pursuant to the proposed trackage rights agreements; and (3) payment of the purchase price for the lines, yards and interest in HB&T proposed to be purchased.

(iii) Effect of Increase in Total Fixed Charges Resulting from the Application. If the transactions herein proposed are authorized by the Commission, it is expected that KCS would experience no increase in its total fixed charges. However, this is a responsive Application, and no agreements exist between the parties as to the value of the assets which KCS proposes to

purchase from the Primary Applicants. In the event that following resolution of those asset values, it should be necessary or desirable for KCS to finance a portion of the purchase price, an increase in KCS' fixed charges might result. Before taking any such action, KCS would bring the matter to the Commission's attention.

(iv) Effect of Transaction Upon the Adequacy of Transportation Service to the Public. As discussed in more detail in Sections 1180.6(a)(1), 1180.6(a)(iii), and 1180.6(a)(2) (general statement) above, KCS' proposed transaction will guarantee the continued adequacy of rail transportation services, and effective intramodal competition, in significant transportation markets and corridors, by ameliorating the anticompetitive impact of the proposed merger, and by ensuring KCS' continued ability to provide essential rail transportation services, including effective competition, to the shipping public. KCS' proposed conditions will have no deleterious impact upon the adequacy of rail or non-rail transportation services to the shipping public.

(v) Effect of Transaction on KCS' Employees. The impact, if any, on KCS' employees of the transactions proposed by this Application will be described in Exhibit 13, to be submitted by August 20, 1984, in accordance with the Commission's order served June 28, 1984.

(vi) Effect of Inclusion or Failure to Include Other Railroads. KCS considers that no issue of inclusion or failure to include other railroads under 49 U.S.C. § 11344 is raised by this responsive application.

SECTION 1180.6(a)(3)

OTHER SUPPORTING MATERIAL
OR DESCRIPTIVE STATEMENTS

None.

SECTION 1180.6(A)(4)

OPINION OF COUNSEL

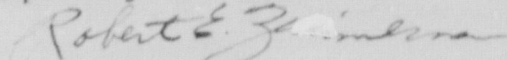
July 18, 1984

Interstate Commerce Commission
12th & Constitution Avenue, N.W.
Washington, D.C. 20423

Gentlemen:

I have reviewed the transaction described in this Application, the Articles of Incorporation and By-Laws of The Kansas City Southern Railway Company and the Certificate of Incorporation and By-Laws of Louisiana & Arkansas Railway Company, and the resolutions of the Board of Directors of both The Kansas City Southern Railway Company and Louisiana & Arkansas Railway Company approving and authorizing the entry into the transaction and the execution and filing of this Application. It is my opinion that the described transaction is within the corporate powers of both The Kansas City Southern Railway Company and Louisiana & Arkansas Railway Company and has been duly authorized in all respects by both such corporations. It is my further opinion that the transaction meets the requirements of the law and will be legally authorized and valid, if approved by the Commission.

Respectfully submitted,



Robert E. Zimmerman
Sr. Vice President - Law
The Kansas City Southern Railway
Company and Louisiana & Arkansas
Railway Company

SECTION 1180.6(A)(4)

OPINION OF COUNSEL

July 18, 1984

Interstate Commerce Commission
12th & Constitution Avenue, N.W.
Washington, D.C. 20423

Gentlemen:

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Respectfully submitted,



Robert E. Zimmerman
Sr. Vice President - Law
The Kansas City Southern Railway
Company and Louisiana & Arkansas
Railway Company

SECTION 1180.6(a)(5)

STATES IN WHICH KCS'
PROPERTY IS SITUATED

The states in which the property of each rail carrier comprising KCS is situated are as follows:

KCSR

Kansas
Missouri
Oklahoma
Arkansas
Texas
Louisiana

L&A

Arkansas
Texas
Louisiana

SECTION 1180.6(a)(6)

MAPS - EXHIBIT 1

Exhibit 1, included in Volume II of this Application, is a railroad map of portions of the States of Kansas, Missouri, Illinois, Oklahoma, Arkansas, Texas, Louisiana, New Mexico, Arizona and California, wherein the railroad lines of KCS are shown in red color, those segments of the railroad lines presently owned by SP over which KCS seeks trackage rights through this Application are shown in green color, and those railroad lines over which KCS seeks to establish an IRMA are indicated by broken green lines.

SECTION 1180.6(a)(7)(i)

NATURE OF THE PROPOSED TRANSACTION

The nature of the transaction herein proposed, as a condition to the Commission's granting the Primary Applicants' application herein, is the acquisition of trackage rights over certain segments of railroad lines presently owned by SP; and the establishment of an independent ratemaking authority over railroad lines presently owned by SP and lines presently owned by ATSF; and, in aid of the foregoing, the purchase of certain assets presently owned by each of the Primary Applicants. The significant terms and conditions are described in detail in Section 1180.6(a)(1) above, and in Exhibits 2.1 through 2.5 (Volume II). The consideration to be paid will be money, consisting of: usage charges, payable from time to time, in cash, for the trackage rights and the IRMA; and payment in cash for the line of railroad, yard facilities and capital stock proposed to be purchased by KCS.

SECTION 1180.6(a)(7)(ii)

AGREEMENTS - EXHIBIT 2

Inasmuch as this is a responsive Application, there are no existing agreements covering the transaction herein proposed. Exhibits 2.1 through 2.5, included in Volume II hereof, are draft

agreements setting forth the significant terms of the proposed IRMA and trackage rights.

SECTION 1180.6(a)(7)(iii)

DATE FOR PROPOSED
CONSOLIDATIONS OR MERGERS

Not applicable.

SECTION 1180.6(a)(7)(iv)

COURT ORDER - EXHIBIT ?

Not applicable. Neither KCSR nor L&A is a trustee, receiver, assignee, or personal representative of a real party in interest.

SECTION 1180.6(a)(7)(v)

DOES THE TRANSACTION INVOLVED INCLUDE ALL
THE PROPERTY OF THE APPLICANT CARRIERS?

KCS seeks to acquire from SPSF certain trackage rights, an independent ratemaking authority and certain limited assets through purchase. The proposed transaction involves no property of KCS. The properties of SP and ATSF involved in the proposed transaction are specified in Section 1180.6(a)(1) and 1180.6(a)(7)(vi); the lines of railroad involved in the proposed IRMA and trackage rights are identified in those same sections and in Exhibits 1 and 2.1 through 2.5.

SECTION 1180.6(a)(7)(vi)

PRINCIPAL ROUTES, PRINCIPAL TERMINALS,
PRINCIPAL POINTS OF INTERCHANGE,
MAIN LINE AND BRANCH LINE MILEAGE

LINES OF KCS

(i) KCSR:

The northern terminus of KCSR is Kansas City, Missouri-Kansas. KCSR's principal route extends from Kansas City, in a southerly direction through Missouri, Kansas, Oklahoma, Arkansas, Louisiana and into Texas, terminating at Port Arthur, Texas. It also serves Lake Charles, Louisiana, via a route branching from the Kansas City-Port Arthur route at DeQuincy, Louisiana. KCSR operates 788.54 miles of main line track and 51.08 miles of branch line track. Its major terminals are: Kansas City, Missouri-Kansas; Shreveport and Lake Charles, Louisiana; and Beaumont and Port Arthur, Texas. Its principal points of interchange are: Kansas City, Missouri-Kansas; Eve, Neosho and Joplin, Missouri; DeQueen, Ashdown, and Texarkana, Arkansas; Shreveport and Lake Charles, Louisiana; and Beaumont and Port Arthur, Texas.

(ii) L&A:

The principal route of L&A extends from Dallas, Texas, through Shreveport and Baton Rouge, Louisiana, to the Gulf Port

of New Orleans, Louisiana. This route includes a line extending from Alexandria, Louisiana, on the Dallas-New Orleans route, in a northerly direction to Hope, Arkansas. L&A's major terminals are: at Dallas, Texas; and Shreveport, Baton Rouge and New Orleans, Louisiana. Its principal points of interchange are: Dallas, Greenville, Jefferson, Mauriceville and Veals, Texas; Shreveport and Alexandria, Louisiana; Hope and Stamps, Arkansas; and Baton Rouge, New Orleans and Shrewsbury, Louisiana. L&A owns and operates 641.17 miles of main line track, and operates under trackage rights over an additional 96.12 miles of main line track.

LINES AND PROPERTIES OF ATSF AND SP AS TO WHICH
KCS PROPOSES TO ESTABLISH AN IRMA, ACQUIRE
TRackage RIGHTS OVER OR ACQUIRE THROUGH PURCHASE

1. The Proposed IRMA

The SPSF routes to which the Ratemaking Powers shall apply pursuant to KCS' proposed IRMA shall be: the existing ATSF and SP routes, via Fresno and Bakersfield, California, between San Francisco/Oakland, California area points and Los Angeles/Long Beach, California area points; and the existing SP route between Los Angeles/Long Beach, California area points and

Houston/Galveston, Texas. KCS would have access, either directly or via reciprocal switching, to all shippers served by SPSF at any of the Common Points. SPSF would act as KCS' agent for the purpose of handling, for KCS' account, rail traffic shipped pursuant to rates made by KCS under the IRMA. The total main-line mileage involved is 2878 miles; the total branch line mileage involved is 50 miles. At all Common Points, KCS would have the right to interchange traffic with all railroads with which SPSF has an interchange. The Common Points at which such interchanges exist are: Alameda, Bakersfield, Colton, Junction Station, Long Beach, Los Angeles, Los Angeles Harbor, Oakdale, Oakland, Port Chicago, Riverside, San Bernadino, San Francisco, and Stockton, California; and El Paso, Texas. KCS would have the right to interchange traffic with short line connections at specified points that are not Common Points. Such points of limited interchange are: Modesto, Modesto - Empire Junction and Plaster City, California. See Exhibit 1 for a view of the ATSF and SP lines over which the IRMA is proposed to operate.

2. IRMA-Related Trackage Rights and Purchases

In conjunction with the IRMA, KCS would require the following:

- (a) Trackage rights over the SP line from Avondale, Louisiana to West Lake, Louisiana (see Exhibit 1), as follows:

From the point of beginning of SP ownership at or near West Bridge Junction (shown as approximately SP M.P. 10.5⁶ in its Division Time Table for its Lafayette Division) to the point of SP's connection with KCS at Lockmoor (shown as approximately SP M.P. 222.8 in that Division Time Table).

The total main-line mileage involved is 212.3 miles; there is no branch line mileage involved. There are no principal interchanges involved.

(b) Trackage rights over the SP line from Beaumont, Texas to Houston, Texas (see Exhibit 1), with rights of local access at Houston, as follows:

From the point of KCS' connection with SP at Beaumont (shown as approximately SP M.P. 280.2 in its Division Time Table for its Lafayette Division) to the point of SP's connection with the track of HB&T at Houston, near Tower 87 (Tower 87 is shown as approximately SP M.P. 356.8 in its Division Time Table for its Lafayette Division).

The total main-line mileage involved is 76.6 miles; there is no branch line mileage involved. The principal interchanges involved are at Houston with SPSF, Galveston-Houston & Henderson Railway Company ("GH&H"), MKT, Burlington Northern, Inc. ("BN"), Missouri Pacific Railroad Company ("MP"), Port Terminal Railway Association, and with HB&T at its Basin Yard.

⁶ All mile-post designations specified herein are those shown in division time tables provided to KCS by SP. They are subject to amendment should more accurate information be developed during the course of these proceedings.

(c) Trackage rights over the SP line from Houston, Texas to Galveston, Texas (see Exhibit 1), with rights of local access at Galveston as follows:

KCS proposes to operate between Houston and Galveston over a combination of trackage rights and purchased track as follows: By trackage rights from the point of SP's connection with the tracks of HB&T at Houston, near Tower 86 (Tower 86 is shown as approximately SP M.P. 3.6 in its Division Time Table for its Houston Division) to Texas City Junction (shown in said Division Time Table as approximately SP M.P. 46.8). Primary Applicants state their intent, at page 45 of their Operating Plan (Exhibit 13 to their Application), to abandon 8 miles of SP track between Texas City and Galveston. KCS proposes, as a condition to the merger, to be allowed to purchase such track designated for abandonment. Thus, KCS proposes to operate over such purchased track (Texas City Junction is shown as approximately SP M.P. 46.8 in its Division Time Table for its Houston Division and 8 miles from that point would be approximately SP M.P. 54.8). KCS also seeks trackage rights from the point where its purchased track would end into Galveston (i.e., from approximately SP's said M.P. 54.8 to approximately SP's station called "Galveston" shown in its Division Time Table for its Houston Division as SP M.P. 55.6), including use of SP's "Galvez Yard" at Galveston.

The total main-line mileage involved is 44 miles; there is no branch line mileage involved. The principal interchange involved is at Texas City with the Texas City Terminal Railway.

(d) In order to acquire operating rights over HB&T, the right to purchase 50% of ATSF's existing

interest in HB&T, but not including any aspect of that interest attributable to non-operating real property of HB&T or to operating properties used exclusively for passenger service.

(e) The right to purchase the SP line from Texas City, Texas to Galveston, Texas (see Exhibit 1), which Applicants propose to abandon. The total main-line mileage involved in the proposed acquisition of right of way is 8.0 miles; there is no branch line mileage involved. The principal interchanges involved are at Texas City with the Texas City Terminal Railway and at Galveston with SPSF, BN, CH&H, MKT, MP and Galveston Wharves.

3. Additional Trackage Rights

Trackage rights for KCS to operate over the SP line between Greenville, Texas and Fort Worth, Texas (see Exhibit 1), with rights of local access at Fort Worth, as follows:

From the point of KCS' connection with SP at Greenville (shown as approximately SP M.P. 551.3 in its Division Time Table for its Pine Bluff Division) to and into SP's yard at Fort Worth (shown in that Division Time Table as approximately SP M.P. 630.2).

The total main-line mileage involved is 78.9 miles; there is no branch line mileage involved. The principal interchanges

involved are: at Fort Worth with SPSF, MKT, MP, Oklahoma-Kansas-Texas Railway Company and Fort Worth Belt Railway Company.

4. Additional Purchases

In connection with the trackage rights between Greenville, Texas and Fort Worth, Texas, the right of KCS to purchase Hodge Yard in Fort Worth, which the Primary Applicants propose to remove from active service.

SECTION 1180.6(a)(7)(vii)

WILL ANY GOVERNMENTAL FINANCIAL
ASSISTANCE BE INVOLVED?

No.

SECTION 1180.6(a)(8)

ENVIRONMENTAL DATA - EXHIBIT 4

Information and data with respect to the environmental implications of the transaction herein proposed by KCS, prepared as specified in the Commission's order served July 9, 1984, will be filed by August 20, 1984, in accordance with the Commission's order served June 28, 1984.

SECTION 1180.6(a)(9)

ENERGY DATA - EXHIBIT 5

Information and data as to the net change in gross ton miles and in energy consumption expected as a result of the acquisitions herein proposed by KCS, prepared as specified in the Commission's order served July 9, 1984, will be filed by August 20, 1984, in accordance with the Commission's order served June 28, 1984.

SECTION 1180.6(b)(1)

FORM 10-K - EXHIBIT 6

KCS does not file a Form 10-K with the Securities and Exchange Commission ("SEC").

SECTION 1180.6(b)(2)

FORM S-14 - EXHIBIT 7

KCS does not file a Form S-14 with the SEC.

SECTION 1180.6(b)(3)

CHANGE IN CONTROL - EXHIBIT 8

There has been no change in ownership, control, or officers from that indicated in KCS' most recent annual report Form R-1.

SECTION 1180.6(b)(4)

ANNUAL AND QUARTERLY REPORTS - EXHIBIT 9

L&A publishes no independent annual or quarterly reports to its sole shareholder, KCSR. KCSR publishes no independent annual or quarterly reports to its sole shareholder Kansas City Southern Industries, Inc. ("KCSI"). KCSI publishes an annual report and notice of annual meeting of stockholders which includes financial information pertaining to itself and to all of its subsidiaries. Annual reports, for the years 1982 and 1983, and KCSI's most recent quarterly report, appear at Exhibit 9 (Volume II) of this Application.

SECTION 1180.6(b)(5)

OTHER ISSUES RELEVANT TO THE
PROPOSED TRANSACTION

None.

SECTION 1180.6(b)(6)

CORPORATE CHART - EXHIBIT 11

The above described Exhibit 11 is included in Volume II of this Application.

FD-30400

SUB NO. 18

(F)

A2

A

SECTION 1180.6(b)(7)

INFORMATION CONCERNING NON-CARRIER APPLICANTS

Not applicable.

SECTION 1180.6(b)(8)

DIRECT OR INDIRECT INTERCORPORATE
OR FINANCIAL RELATIONSHIPS NOT
OTHERWISE DISCLOSED

KCSR owns one-twelfth (1/12) of the outstanding common stock, \$100 par value per share, of Kansas City Terminal Railway Company. The following persons affiliated with KCS are also affiliated with or have interests in other carriers, as follows:

(1) W.N. Deramus, III, a director of KCSR and L&A, is a director of MAPCO, Inc. ("MAPCO"), a pipeline carrier, and owns directly 16,453 shares of MAPCO's common stock. He and his spouse, as joint trustees, own 4,998 shares of MAPCO's common stock in which Mr. Deramus disclaims any beneficial interest. He and his wife are also officers of a charitable foundation which owns 3,655 shares of MAPCO's common stock, in which Mr. Deramus disclaims any beneficial interest. Finally, Mr. Deramus' spouse and members of his immediate family own an aggregate of 18,762 shares of MAPCO's common stock, either directly or as trustees, in which shares Mr. Deramus disclaims any beneficial interest;

(2) J.E. Gregg is Vice President - Operations of KCSR and L&A and is also a director of the following common carriers: Kansas City Terminal Railway Company, Trailer Train Co. and Railbox Co.;

(3) W.N. Deramus, IV is Vice President - Administration of KCSR and L&A and owns directly five hundred (500) shares of the common stock of Rio Grande Industries, Inc., the parent company of Denver & Rio Grande Western Railway Company. Members of Mr. Deramus' family own, either directly or in trust, common stock of Rio Grande Industries, Inc., totalling, in the aggregate, 1,008 shares, in which shares Mr. Deramus disclaims any beneficial interest;

(4) KCS' parent company, KCSI, owns 12,598 shares of MAPCO's common stock.

SECTION 1180.7

MARKET IMPACT ANALYSIS - EXHIBIT 12

KCS' market impact analysis (Exhibit 12), together with KCS' supporting verified statements, will be submitted by August 20, 1984, in accordance with the Commission's Order served June 28, 1984.

SECTION 1180.8

OPERATIONAL DATA - EXHIBITS 13 and 14

KCS' operational data, including its operating plan (Exhibit 13), density charts (Exhibit 14) and supporting verified statements will be submitted by August 20, 1984, in accordance with the Commission's Order served June 28, 1984.

SECTION 1180.9

FINANCIAL INFORMATION - EXHIBITS 16, 17, 18 and 19

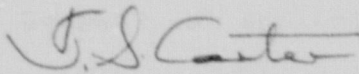
KCS' financial information, including its pro forma balance sheet (Exhibit 16), pro forma income statement (Exhibit 17), source and application of funds statement (Exhibit 18), list of property encumbrances (Exhibit 19), and supporting verified statements will be submitted by August 20, 1984, in accordance with the Commission's Order served June 28, 1984.

PRAYER FOR RELIEF

Wherefore, The Kansas City Southern Railway Company and Louisiana & Arkansas Railway Company pray that the Commission enter an order under 49 U.S.C.A. §§ 11343 and 11344 granting the relief herein sought by those Applicants, and such other and further relief as is just.

THE KANSAS CITY SOUTHERN
RAILWAY COMPANY

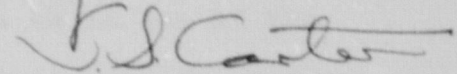
BY



T. S. Carter
President and Chief
Executive Officer

LOUISIANA & ARKANSAS
RAILWAY COMPANY

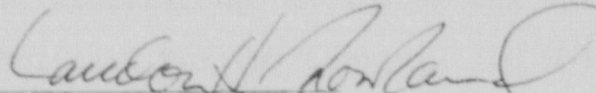
BY



T. S. Carter
President and Chief
Executive Officer

KANSAS CITY SOUTHERN INDUSTRIES, INC.

BY



Landon H. Rowland
President and Chief
Operating Officer

SECTION 1180.4(a)(2)(i)

SIGNATURES, OATHS, AND CERTIFICATIONS
OF APPLICANTS' EXECUTIVE OFFICERS *

The Kansas City Southern Railway Company

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

T.S. Carter, being duly sworn, deposes and says that he is President and Chief Executive Officer of The Kansas City Southern Railway Company, an applicant herein; that he is one of the executive officers duly designated to sign, to verify, and to file this Application on behalf of The Kansas City Southern Railway Company; that he has knowledge of the matters contained in this Application, to the extent that they relate to The Kansas City Southern Railway Company; and that the statements made in this Application are true and correct to the best of his knowledge and belief.

T.S. Carter

T.S. Carter

Subscribed and sworn to before me this 13th day of July, 1984.

Irene Paulhe

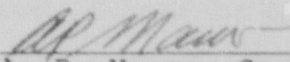
Notary Public of the
State of Missouri

My commission expires

March 22, 1987

IRENE PAULHE
Notary Public - State of Missouri
Commissioned in Platte County
My Commission Expires March 22, 1987

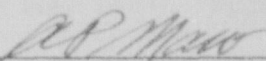
I, A. P. Mauro, hereby certify that I am Secretary of The Kansas City Southern Railway Company, an applicant herein, and that this Corporation's Board of Directors has duly authorized T. S. Carter, President and Chief Executive Officer of said Corporation, to sign, to verify, and to file this Application on behalf of applicant The Kansas City Southern Railway Company.



A. P. Mauro, Secretary

Dated this 13th day of July, 1984, at Kansas City, Missouri.

I, A. P. Mauro, hereby certify that I am Secretary of Louisiana & Arkansas Railway Company, an applicant herein, and that this Corporation's Board of Directors has duly authorized T. S. Carter, President and Chief Executive Officer of said Corporation, to sign, to verify, and to file this Application on behalf of applicant Louisiana & Arkansas Railway Company.


A. P. Mauro, Secretary

Dated this 13th day of July, 1984, at Kansas City, Missouri.

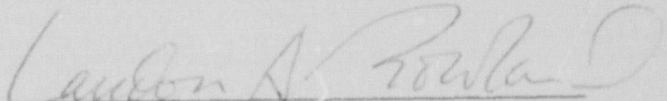
SECTION 1180.4(a)(2)(i)

SIGNATURES, OATHS AND CERTIFICATIONS
OF APPLICANTS' EXECUTIVE OFFICERS

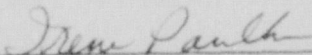
Kansas City Southern Industries, Inc.

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Landon H. Rowland, being duly sworn, deposes and says that he is President and Chief Operating Officer of Kansas City Southern Industries, Inc., a signatory hereto; that he is one of the executive officers duly designated to sign and verify this Application on behalf of Kansas City Southern Industries, Inc.; that he has knowledge of the matters contained in this Application, to the extent that they relate to Kansas City Southern Industries, Inc., The Kansas City Southern Railway Company and Louisiana & Arkansas Railway Company; and that the statements made in this Application are true and correct to the best of his knowledge and belief.


Landon H. Rowland

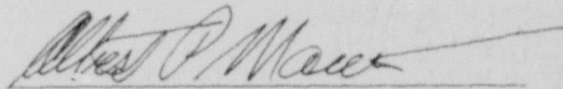
Subscribed and sworn to before me this 13th day of July, 1984.


Notary Public of the
State of Missouri

My Commission Expires: March 22, 1987

IRENE PAULHE
Notary Public - State of Missouri
Commissioned in Platte County
My Commission Expires March 22, 1987

I, Albert P. Mauro, hereby certify that I am Secretary of Kansas City Southern Industries, Inc., a signatory hereto, and that this Corporation's Board of Directors has duly authorized Landon H. Rowland, President and Chief Operating Officer of said Corporation, to sign and verify this Application on behalf of Kansas City Southern Industries, Inc.

A handwritten signature in cursive script, reading "Albert P. Mauro", is written over a horizontal line.

Albert P. Mauro, Secretary

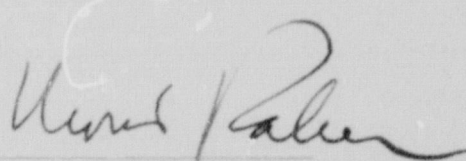
Dated this 13th day of July, 1984, at Kansas City, Missouri.

CERTIFICATE OF SERVICE

I hereby certify that I have on or before this day served a conformed copy of Volumes I and II of the foregoing Application, by first-class mail, properly addressed with postage prepaid, upon the following:

- (1) The Governors, Public Service Commissions or other State regulatory agencies, and State departments of transportation of the States of Kansas, Missouri, Illinois, Oklahoma, Arkansas, Texas, Louisiana, California, Arizona and New Mexico;
- (2) The Secretary and Transportation, and the Attorney General, of the United States of America;
- (3) The Federal Trade Commission, and
- (4) All persons listed on the Commission's Service List established by its order of June 27, 1984, as supplemented to date.

Dated at Boston, Massachusetts, this 19th day of July, 1984.


Morris Raker

VOLUME II

Before the

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30,400 (Sub No. 13)

**APPLICATION OF
THE KANSAS CITY SOUTHERN RAILWAY COMPANY
AND LOUISIANA & ARKANSAS RAILWAY COMPANY
FOR INDEPENDENT RATEMAKING AUTHORITY,
TRACKAGE RIGHTS AND ASSET PURCHASES**

EXHIBITS 1, 2, 9 and 11

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HARVEY E. BINES
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Sullivan & Worcester
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(617) 338-2800

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(202) 775-8190

ROBERT E. ZIMMERMAN
ROBERT K. DREILING
114 West Tith Street
Kansas City, Missouri 64105
(816) 556-0392

Due Date: July 19, 1984
Filing Date: July 19, 1984



INDEX OF EXHIBITS (VOLUME II)

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EXHIBIT 1: MAP

EXHIBIT 2: PROPOSED AGREEMENTS

EXHIBIT 2 (PROPOSED AGREEMENTS): INDEX

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EXHIBIT 2.1: INDEPENDENT RATEMAKING AGREEMENT

AGREEMENT FOR INDEPENDENT
RATEMAKING AUTHORITY

AGREEMENT, entered into this ___ day of _____, 19___, by and among THE SOUTHERN PACIFIC AND SANTA FE RAILWAY COMPANY, a Delaware corporation, hereinafter called "SPSF", THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY, a Delaware corporation, hereinafter called "ATSF", SOUTHERN PACIFIC TRANSPORTATION COMPANY, a Delaware corporation, hereinafter called "SPT", and THE KANSAS CITY SOUTHERN RAILWAY COMPANY, a Missouri corporation, and LOUISIANA & ARKANSAS RAILWAY COMPANY, a Delaware corporation, hereinafter collectively called "KCS".

In consideration of the mutual covenants herein contained, the parties agree as follows:

1. Purpose. The purpose of this Agreement is to establish an Independent Ratemaking Authority ("IRMA") to assure the preservation of competitive railroad freight service in connection with traffic to, from or between specified points which are either served by both ATSF and SPT (the "Common Points"), or are served by short line connecting railroads having common connections with ATSF and SPT (the "Short Line Interchange Points"). The Common Points are identified in Exhibit A hereto; the Short Line Interchange Points and related short line carriers

transportation services under an agency arrangement with KCS, as herein provided.

(b) KCS will fairly compensate SPSF for the use of its services, equipment and facilities, consistent at all times with the primary objective of establishing and perpetuating an arrangement under which KCS will be able to compete effectively against SPSF in the subject markets.

2. Ratemaking Authority. Subject to action by the Interstate Commerce Commission, as specified in § 15 of this Agreement, KCS shall have the right, power and authority to quote, make and/or publish for its own account, rates for rail transportation services, and to enter with shippers into contracts for the provision of rail transportation services, via SPSF routes, for application to, from or between Common Points and Short Line Interchange Points, and otherwise to act as a common carrier to the public via said routes. KCS' service hereunder will be via: the existing ATSF and SPT routes between Common Points in the area of San Francisco/Oakland, California and Common Points in the area of Los Angeles/Long Beach, California, via Fresno and Bakersfield, California; and the existing SPT routes between Common Points in the area of Los Angeles/Long Beach, California and Houston/Galveston, Texas. Said routes are identified on the map which is Exhibit C hereto.

are identified in Exhibit E hereto. To guard against the reduction or elimination of such competition as a consequence of the proposed merger of ATSF and SPT into SPSF, this Agreement empowers KCS to route traffic over certain of SPSF's lines of railroad, and to originate and/or terminate traffic thereon at Common Points; to receive traffic from or forward traffic to connecting railroads at Common Points and, in the case of the short line railroads designated in Exhibit B, at the Short Line Interchange Points; and to establish through routes and enter into rates applicable to such routings.

(a) With regard to traffic originating or terminating on SPSF at a Common Point, KCS shall have the right to fix the rate from the point of origination, or to the point of termination, as the case may be. For traffic both originating and terminating on SPSF at Common Points, KCS shall have the right to fix the rate from the point of origination to the point of termination. For traffic overhead with respect to SPSF, and which is interchanged between SPSF and the connecting carrier at a Common Point or at a Short Line Interchange Point, KCS shall have the right to fix the rate attributable to the movement over SPSF. In each case, the traffic shall be in KCS' account while moving over SPSF, and will move in SPSF's regularly scheduled trains or in special trains if so required or permitted by this Agreement. SPSF will furnish terminal and line haul

transportation services under an agency arrangement with KCS, as herein provided.

(b) KCS will fairly compensate SPSF for the use of its services, equipment and facilities, consistent at all times with the primary objective of establishing and perpetuating an arrangement under which KCS will be able to compete effectively against SPSF in the subject markets.

2. Rate-making Authority. Subject to action by the Interstate Commerce Commission, as specified in § 15 of this Agreement, KCS shall have the right, power and authority to quote, make and/or publish for its own account, rates for rail transportation services, and to enter with shippers into contracts for the provision of rail transportation services, via SPSF routes, for application to, from or between Common Points and Short Line Interchange Points, and otherwise to act as a common carrier to the public via said routes. KCS' service hereunder will be via: the existing ATSF and SPT routes between Common Points in the area of San Francisco/Oakland, California and Common Points in the area of Los Angeles/Long Beach, California, via Fresno and Bakersfield, California; and the existing SPT routes between Common Points in the area of Los Angeles/Long Beach, California and Houston/Galveston, Texas. Said routes are identified on the map which is Exhibit C hereto.

KCS shall have the right to enter into joint rates via joint routes with other connecting rail carriers at the Common Points, and with the designated short line carriers at the Short Line Interchange Points, and the right to quote, make, and/or publish rail rates and applicable routes for specific application to or from shippers situated at the Common Points, and to enter with such shippers into contracts for the provision of rail transportation services.

3. Agency. SPSF shall act as KCS' agent for the purposes of handling, for KCS' account, rail traffic shipped pursuant to rates made by KCS under the IRMA. As KCS' agent, SPSF shall have the following duties and obligations:

(a) Terminal Services. With respect to traffic originated or terminated for KCS' account at any Common Point, SPSF shall: (i) upon request by KCS or by any shipper directly or indirectly served by SPSF at such Common Point, provide such shipper with empty cars of the type requested for loading, switch such empty cars to the shipper's place of business or, if the shipper can be reached only through reciprocal switching services, arrange for such services and deliver such empty cars to the carrier providing such services; (ii) upon request by any shipper or by KCS, switch or

arrange for the reciprocal switching of loaded cars from the shipper's place of business, and deliver, or arrange for the delivery by reciprocal switching services, of all loaded cars consigned to any such shipper; (iii) perform all ramping and deramping of trailers and containers utilizing SPSF's intermodal ramp facilities; provided, however, that KCS shall be responsible for all drayage operations to and from the ramp facilities; and (iv) make available to KCS adequate storage facilities at SPSF's intermodal ramps for trailers and containers involved in ramping, deramping or drayage operations.

(b) Line Haul Transportation Services. With respect to traffic hereunder handled for KCS' account, SPSF shall: (i) upon receipt of loaded cars from a shipper or in interchange from KCS or other connecting carrier, place such loaded cars in its next regularly scheduled out-bound train, moving via the route shown on the accompanying waybill, in which SPSF would include such loaded cars if such cars were being handled for SPSF's account, or in such train as may be specified by KCS; (ii) handle such cars in such train with reasonable dispatch to the destination or interchange point designated on the waybill; and (iii) upon reaching such

destination or interchange point, effect prompt delivery of such cars to either the consignee or connecting carrier shown on the waybill. In the event any of KCS' shippers shall require multiple car or train load movements, SPSF shall accommodate such requirements, through appropriate adjustments in its train make-up and schedules, or otherwise, in the same manner and to the extent it would so accommodate its own shippers.

(c) Clerical Services. Subject to exceptions hereinafter provided, KCS shall perform all station clerical functions relating to cars and traffic hereunder handled by SPSF for KCS' account and SPSF shall not be required to perform such functions. To enable KCS to perform such functions, SPSF shall allow KCS to place at a convenient location in each of its station offices at each Common Point a computer printer connected by telephone line to KCS' computer center at Kansas City, Missouri, from which printer SPSF's operating personnel shall receive appropriate waybills to be used for routing cars handled for KCS' account under the IRMA. SPSF shall perform the following station clerical services on KCS' behalf: (1) SPSF shall record all information relating to the placement

or constructive placement of cars handled for KCS' account; (2) SPSF shall each day, by telephone, furnish to KCS' Customer Service Center at Shreveport, Louisiana, all such information relating to such car placements or constructive placements which it has that day recorded; and (3) SPSF shall, at the end of each month, furnish to KCS all records which it has prepared and maintained for that month with respect to such car placements or constructive placements. KCS shall be responsible for the assessment and collection of demurrage or detention charges accruing on cars handled for its account under the IRMA, and shall be entitled to all such charges so collected.

4. Consideration (a) In consideration of the grant herein of ratemaking authority, and of SPSF's performance of its agency duties on KCS' behalf, KCS shall pay SPSF a per car per mile fee which will reimburse SPSF for its variable costs of providing service to KCS' traffic under the IRMA (exclusive of car ownership costs, loss and damage liability and station clerical costs), plus a reasonable allowance, consistent with the primary objective of establishing KCS as an effective competitor for traffic to, from or between the Common Points and Short Line Interchange Points, for a return on SPSF's capital investment in the lines of railroad equipment and other

facilities directly used in the routing. The schedule of such charges to be in effect at the commencement of this Agreement is set forth in Exhibit D hereto.

(b) The charges for multiple car and train load movements shall reflect appropriate adjustments to the charges specified in Exhibit D to take into account the reduced costs attributable to such movements.

(c) Effective on the first day of ___ in 198___, and in every third year thereafter, KCS and SPSF shall, in accordance with the principles set forth in § 4(a), recalculate the per car per mile fee schedule set forth in Exhibit D. Effective on the first day of _____ in each year in which such recalculation does not take place, the per car per mile fee shall be adjusted to reflect the percentage change in the AAR Railroad Cost Recovery Index, Western District, which shall have taken place since the last adjustment or recalculation of the fee schedule.

(d) No separate charge will be made for the storage facilities referred to in § 3(a)(iv) of this Agreement.

5. Liability. (a) Employees of SPSF shall not be considered employees of KCS while, or by virtue of, performing any agency functions hereunder. SPSF hereby agrees to indemnify and hold KCS harmless against any claims or causes of action for

injury or death to persons or damage to property, exclusive of railroad cars in KCS' account and their contents, arising from SPSF's handling of cars hereunder for KCS' account. KCS, and not SPSF, shall be liable for any loss or damage to lading contained in cars hereunder handled for KCS' account. KCS hereby agrees to indemnify and hold SPSF harmless against any claims or causes of action for loss or damage to such lading arising from SPSF's handling of such cars hereunder; provided, however, that SPSF shall cooperate fully with KCS in its investigation of any such claim and shall promptly advise KCS of any claim for loss or damage to lading in any such car which shall have been filed with SPSF. In the event SPSF shall fail to advise KCS of the filing of any such claim within 180 days of its receipt, SPSF shall become liable for such loss or damage, and shall indemnify and hold KCS harmless against any claim or cause of action therefrom arising.

(b) All railroad cars handled by SPSF on KCS' behalf under the terms of the IRMA shall be deemed to be in KCS' per diem account while in SPSF's possession, and KCS shall incur all per diem liability thereon accruing while in SPSF's possession. SPSF shall neither be liable for per diem accruing on such cars nor for damage to or destruction of such cars while they are in its possession. KCS hereby agrees to indemnify and hold SPSF harmless against any claim or cause of action for damage to

railroad cars or equipment being handled by SPSF for KCS' account.

6. Non-Discrimination. SPSF shall handle traffic hereunder for KCS' account in its regularly scheduled trains or, if so required by this Agreement or agreed to by SPSF and KCS, in special trains and, in any case, as expeditiously as SPSF handles traffic for its own account. SPSF further agrees that it will in no manner discriminate against KCS' traffic, and that it will not afford traffic which it handles for its own account preferential treatment over traffic which it handles for KCS' account in accordance with the IRMA. SPSF further agrees that it will not divert operations and management from the SPSF routes utilized under the IRMA (the "IRMA Routes") to other SPSF routes, or perform maintenance and repair of the IRMA Routes in a manner which might impair or impede KCS' ability to exercise its rights under this Agreement. SPSF shall maintain car handling and car movement records documenting its handling of its own and KCS' traffic and shall make these available for inspection by KCS at all reasonable times. Disputes concerning claimed discrimination shall be submitted to arbitration in accordance with the terms of § 10 of this Agreement. In any instance in which the arbitrators find that SPSF has committed an act of discrimination, SPSF shall pay KCS liquidated damages, for each car in KCS' account which has been discriminated against, in an

amount equal to double the amount of all fees required under this Agreement to be paid to SPSF by KCS for handling such car. Further, in the event such an act of discrimination is found by the arbitrators to have resulted in a failure to transport the subject car or cars to destination with reasonable dispatch, SPSF shall indemnify and hold KCS harmless against any claim or cause of action made or brought by the shipper or shippers of such car or cars for damages arising from such failure.

7. Management, Maintenance and Operation. Subject to the provisions of § 6 of this Agreement, SPSF shall have exclusive control over the management, maintenance and operation of the IRMA Routes. SPSF shall employ all persons necessary to operate, maintain, repair and renew the IRMA Routes.

8. Additions and Betterments. Subject to the provisions of § 6 of this Agreement, SPSF may, without the approval of KCS, make any additions and betterments to the IRMA Routes as in the sole judgment of SPSF may be necessary, expedient or proper for their operation.

9. Fines and Penalties. KCS agrees to pay or reimburse SPSF for all fines and penalties imposed upon or incurred by SPSF by reason of any violation, or claim of violation, of any Federal or State laws governing the construction, condition, appliances, contents, defects, loading or omissions therein, of the cars that are handled by SPSF for KCS' account pursuant to the IRMA.

10. Arbitration. Any claim or dispute concerning questions of fact or law arising out of or relating to the construction of this Agreement or any part thereof, its performance or alleged breach, or any rights, duties or obligations of the respective parties, which is not disposed of by agreement of the parties, shall be submitted to arbitration pursuant to the following procedure:

(a) Either party may demand such arbitration in writing, which demand shall include the name of an arbitrator experienced in railway operations appointed by the party demanding arbitration, together with a statement of the matter in controversy.

(b) Within 20 days after such demand, the other party shall name a second arbitrator experienced in railway operations and make written response to the first party's statement of the matter in controversy. The two arbitrators so selected shall within 20 days name a third arbitrator experienced in railway operations or, in lieu of such agreement on a third arbitrator by the two arbitrators so appointed, a third arbitrator shall be appointed by the Arbitration Committee of the American Arbitration Association. In the event that a second arbitrator shall not have been named within

the 20-day period provided therefor, the arbitrator named by the party demanding arbitration shall act as sole arbitrator of the matter in controversy.

(c) In the event that an arbitrator shall die, resign, refuse to act or become incapable of acting as arbitrator prior to the entry of the arbitrators' award in the subject arbitration, the party which appointed such arbitrator shall, within 5 days, appoint a substitute arbitrator experienced in railway operations. In the event that the arbitrator unable or unwilling to act shall have been appointed by other than one of the parties, a substitute arbitrator shall be similarly appointed and shall have the same powers, duties and authority as the original arbitrator would have had if he had continued to act.

(d) Each party shall bear its own arbitration costs and expenses, including the fees and expenses of the arbitrator appointed by it, and all the fees and expenses of its own attorneys, exhibits and witnesses. The charges and expenses of the third arbitrator shall be borne equally by the parties to the arbitration.

(e) The arbitration hearing shall be held at Kansas City, Missouri and shall commence not less than 10 nor

more than 30 days after appointment of the third arbitrator, unless the parties otherwise agree. The hearing shall be held pursuant to the Rules of the American Arbitration Association in effect at the time of the demand.

(f) The arbitration hearing shall be concluded within 10 days unless otherwise ordered by the arbitrators, and the award thereon shall be made within 30 days after the close of the submission of evidence. An award rendered by a majority of the arbitrators shall be final and binding, and each of the parties shall be conclusively bound thereby; judgment on such award may be entered by either party in any court of competent jurisdiction, and execution may issue from such court for such collection or other enforcement of such award; provided, however that each of the parties hereto shall have the right to attack such award for fraud or misconduct on the part of either party hereto, or of the arbitrators or any of them.

11. Billing. With respect to traffic handled by SPSF for KCS' account, KCS shall be responsible for preparing and presenting bills for, and for collection of, line haul transportation charges accruing on such traffic.

12. Payment. At the close of each calendar month in which SPSF handles cars for KCS' account pursuant to the IRMA, SPSF shall furnish to KCS a statement of the cars so handled in that month and thereafter shall deposit a sight draft drawn against KCS for payment calculated in accordance with § 4 of this Agreement.

13. Information and Documentation. So much of the books, accounts and records of each party as are related to the subject matter of this Agreement shall at all reasonable times be open to inspection by the proper officers and agents of the parties to the extent permitted by law. KCS shall provide SPSF with sufficient documentation to permit SPSF properly to route KCS' cars over the IRMA Routes and make proper delivery thereof. The parties also agree to provide each other with such additional documentation or information as necessary to perform their respective obligations under this Agreement.

14. Successors and Assigns. The terms of this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

15. Regulatory Approval; Term. This Agreement shall be of no force and effect until an order shall have been entered by the Interstate Commerce Commission approving it, or providing

that no such formal approval is required. The rights and obligations of the parties specified in this Agreement shall inure to and bind the parties hereto upon the effectiveness of such order. This Agreement shall remain in full force and effect unless and until it shall be terminated by order of said Commission or such other body as may succeed to its jurisdiction in the premises.

16. Force Majeure. Neither SPSF nor KCS shall be required to perform its responsibilities under this Agreement during periods in which it is prevented from so performing by strikes, riots, civil commotion or other causes beyond said party's control, or if the IRMA Routes or any portion thereof shall be made unserviceable by any cause whatsoever beyond said party's control, including but not limited to floods, high water or other damage by the elements, Acts of God or by acts of military aggression by third parties or governmental action; provided, however, SPSF shall be obligated to use best efforts to mitigate the effects of the foregoing and to cooperate with KCS to reroute traffic handled for KCS' account over lines of SPSF, or of other carriers, not so affected.

17. Interpretation. This Agreement arises out of a condition imposed by the Interstate Commerce Commission in order to protect the public interest in connection with the SPSF

merger. This Agreement shall be construed liberally so as to secure to the public and to each party hereto all of the rights, privileges and benefits herein provided or manifestly intended.

18. Governing Law. Except in the case of Federal law pre-emption, this Agreement shall be governed by and construed in accordance with the laws of the State of Missouri.

19. Notice. Any notice, request, consent, report, statement, submission, demand or other communication required or otherwise provided for under this Agreement, including any given in connection with the arbitration provisions of § 10, shall be deemed to have been adequately given if set forth in writing delivered personally or sent by certified or registered United States mail, postage and charges prepaid, to the respective parties at the addresses set forth below, or to such other addresses as the parties may from time to time advise by notice in writing.

a. If to KCS:

b. If to SPSF:

The date of receipt of any such notice, request, consent, report, statement, submission, or demand shall be presumed (which

presumption is rebuttable) to be the date of delivery if served personally, or if mailed as aforesaid, on the third business day following the date of such mailing.

20. Entirety of the Agreement and Amendments. This writing constitutes the entire agreement between the parties and may be changed, waived, amended or altered only by a supplemental writing or writings, executed by the parties and identified to this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement in multiple counterparts as of the day and year first above written.

ATTEST:

THE SOUTHERN PACIFIC AND
SANTA FE RAILWAY COMPANY

Secretary

By _____
Its

ATTEST:

THE ATCHISON, TOPEKA AND SANTA
FE RAILWAY COMPANY

Secretary

By _____
Its

ATTEST:

SOUTHERN PACIFIC
TRANSPORTATION COMPANY

Secretary

By _____
Its

ATTEST:

THE KANSAS CITY SOUTHERN
RAILWAY COMPANY

Secretary

By _____
Its

ATTEST:

LOUISIANA & ARKANSAS
RAILWAY COMPANY

Secretary

By _____
Its

EXHIBIT A - Common PointsA. California:

Alameda (Oakland)	Harpertown	Pinole
Algozo	Hawthorne (El Segundo)	Pittsburg
Anaheim	Highgrove	Pomona
Antioch	Hollis	Port Chicago
Arvin	Huntington Park (LA)	Porterville
Avon	Irwindale (Baldwin Park)	Prospero
Azusa	Jasmin	Quality
Bakersfield	Jovista	Redlands
Bartonette	Junction Station (LA)	Reedley
Bealville	Kaiser	Rialto
Bell (Los Angeles)	LaMirada	Ribier
Belmont Ave. (Elk)	LaVerne	Richgrove
Bena	Laojac	Richmond
Big Bunch (Fairview)	Lamont	Riverbend (Elk)
Buena Park	Leerdo	Riverside
Burness	Lindsay	Saco
Calico	Long Beach	San Bernardino
Caliente	Los Angeles	San Dimas
Calwa (Fresno)	Los Angeles Harbor	San Francisco
Cameo (Bartonette)	Los Medanos	San Pablo
Carson	Los Nietos (Santa Fe Springs)	San Pedro (Richmond)
Cawelo (Leerdo)	Madera	Santa Ana
Cincotta (Bartonette)	Magunden	Santa Fe Springs
City of Commerce (LA)	Maltha	Seguro
Claremont	Marcel	Shell Point
Colton	Martinez	Slater
DiGiorgio	Merced	South Anaheim
Dinuba	Mococo	South Irvine
East Watson (Watson)	Mojave	Stockton
Edison	Monolith	Strathmore
El Segundo	Muscat (Kaiser)	Summit Switch
Elk	Nadeau (LA)	Tehachapi
Emeryville (Oakland)	North Riverside	Thenard
Etiwanda	(Riverside)	Torrance
Exeter	Oakdale	Trocha (Jovista)
Fairview	Oakland	Tulare
Famoso	Oil Junction	Upland
Fontana	Orange	Vernon (LA)
Fresno	Orris	Vestal
Fullerton	Patch	Visalia
Hammer Field (Bartorette)	Pico-Rivera	Watson
Hanford		West Lamont

EXHIBIT B - Short Line Interchange Points

Location:
(California)

Short Line Connection:

Modesto

Modesto and Empire Traction Company

Modesto - Empire Junction

Modesto and Empire Traction Company

Plaster City

San Diego & Arizona Eastern
Transportation Company

West Los Nietos
Wilmington
Wingfoot (LA)
Woodford
Zediker (Elk)
Zentner

B. Arizona:

Phoenix

C. New Mexico:

Deming

D. Texas:

El Paso
Alpine
Eagle Lake
Rosenberg

EXHIBIT B - Short Line Interchange Points

Location:
(California)

Short Line Connection:

Modesto

Modesto and Empire Traction Company

Modesto - Empire Junction

Modesto and Empire Traction Company

Plaster City

San Diego & Arizona Eastern
Transportation Company

EXHIBIT C

[The map to be attached as Exhibit C will identify those lines which are marked with a broken green line on the map which is Exhibit 1 to KCS' responsive application.]

EXHIBIT D

[To be supplied prior to commencement of operations under the IRMA, and based on then applicable variable costs.]

EXHIBIT 2.2: TRACKAGE RIGHTS AGREEMENT

HOUSTON TO GALVESTON, TEXAS

AGREEMENT, entered into this ____ day of _____, 19__ ,
by and between SOUTHERN PACIFIC AND SANTA FE RAILWAY COMPANY,
a corporation, hereinafter called "SPSF," and THE KANSAS CITY
SOUTHERN RAILWAY COMPANY, a corporation, hereinafter called
"KCS."

WITNESSETH,

WHEREAS, SPSF owns and operates a line of railroad, more
fully described in Section 1. below;

WHEREAS, KCS is desirous of obtaining from SPSF the right
to operate its trains over such line, subject to the terms and
conditions set forth below; and

WHEREAS, SPSF is agreeable to granting KCS such right,
subject to such terms and conditions.

IT IS, THEREFORE, AGREED AS FOLLOWS:

1. TRACK DESCRIPTION: The track over which operating
rights are herein granted KCS by SPSF is as follows:

Those portions of SPSF's main line track
between Houston, Texas and Galveston, Texas
as follows: (1) that segment extending from
the point of SPSF's connection with the
tracks of Houston Belt and Terminal Railway
Company ("HB&T") at Houston, near Tower 86
(Tower 86 is shown as M.P. ____ in SPSF's
Division Time Table for its Houston Division)

to Texas City Junction (shown in said Division Time Table as M.P. ____); (2) that segment extending from M.P. _____ as shown in SPSF's Division Time Table for its Houston Division; and (3) all tracks situated in SPSF's yard facility at Galveston, Texas, commonly known as "Galvez Yard."

2. GRANT OF RIGHTS: SPSF hereby grants unto KCS the right to use the track and yard facility described in Section 1. in the operation by KCS of its engines, trains and cars (which term shall include motor cars and hi-rail cars) including the right to construct, or have constructed, at the parties' joint expense, switch connections to the described track and the right to serve shippers located on and served by SPSF's tracks at Galveston, Texas.

3. USE CHARGE: For the rights herein granted, KCS shall pay SPSF a monthly use charge equal to (\$_____) DOLLARS per car-mile for each car, loaded or empty, handled by KCS in its train over the trackage rights segment in that month. It is agreed that the foregoing use charge has been and hereinafter shall be determined in accordance with the principles for setting trackage rights rental enunciated by the Interstate Commerce Commission in Union Pacific - Control - Missouri-Pacific; Western Pacific, 366 I.C.C. 459, at 589-90. Thus, this use charge is based upon trackage rights rental consisting of the following cost factors:

(a) All variable costs incurred by SPSF as a result of KCS' trackage rights operations;

(b) That portion of the fixed-costs relating to the trackage rights allocable, on the basis of use, to KCS' traffic moving over the trackage rights grant; and

(c) KCS' allocated share of the return on the value of SPSF's property included in the trackage rights grant, with such property being valued at its current market value and with the rate of return being SPSF's actual rate of return on the value of its rail properties.

It is further agreed that such rental and use charge shall be established as of the date operations commence under the trackage grant and shall be redetermined and adjusted in accordance with the above described principles every five (5) years thereafter on the anniversary date of such commencement of operations.

4. OPERATION AND MAINTENANCE: SPSF shall have exclusive management and control of operations and maintenance of the described track and shall establish all rules, regulations and orders thereto pertaining, all in compliance with law and promulgations of regulatory authorities. All rules, regulations and orders shall be reasonable, just and fair and all officers and employees of SPSF engaged in operation and maintenance of

the described track shall attend to the business of SPSF without preference over or discrimination against KCS. All passenger trains shall be given preference over other trains and all road trains shall be given equal dispatch according to their class. All operations upon and over the described track shall be conducted with due regard to and without unreasonable interference with the rights of all users. SPSF shall maintain and keep the described track, right-of-way and appurtenances in reasonable repair, suitable for handling the combined business of SPSF and KCS.

5. LIABILITY:

A. In determining liability for loss and damage under this agreement, the following definitions shall apply:

- (1) "Damages" shall mean all loss of or damage to any and all property and all injuries to or death of any and all persons and all liability therefor, including amounts paid under any state or federal law, and also embraces all costs and expense incident thereto (including the cost of rerailling cars) when suffered or occasioned in or in connection with use or attempted use of the described track by any road trains, engines, or cars of the parties, or in performance of any work or services in or incident to such use or attempted

use, or in connection with maintenance, repair, renewal or operation of the described track or making of additions and betterments thereto, changes therein, or retirements therefrom;

(2) "Joint Property" shall mean (i) any tools, work trains, or work equipment while engaged in or incident to maintaining, repairing, or renewing the described track, (ii) the described track itself, and (iii) any engine and equipment comprising any wrecking outfit while engaged in the performance of any service on the described track in the event the cost thereof is included in any Damages for which the parties hereto shall be jointly liable, (iv) any tools, work trains, or work equipment while engaged in or incident to the making of additions and betterments to the described track, or changes therein, or retirements thereto, when such additions and betterments, changes or retirement are mutually desired by the parties and agreed upon in writing.

(3) "Joint Employee" shall mean all officers and employees of the parties while engaged in (i) maintenance, repair, or renewal of the described track, (ii) performance of any wrecker service on the described

track, in the event the cost thereof is included in any Damages for which the parties hereto shall be jointly liable, (iii) dispatching, giving orders for, or directing movement of trains, engines and cars on and along the described track and (iv) making additions and betterments to the described track, changes therein, or retirements thereto, when such additions and betterments, changes or retirements are mutually desired by the parties and agreed upon in writing.

- (4) "Sole Property": The trains, cars and engines of either party, while being moved on and across the described track in line-haul or switching service shall be the Sole Property of the party performing such service. Any tools, work trains, or work equipment while engaged in or incident to the making of additions and betterments to the described track, changes therein, or retirements therefrom shall be considered the Sole Property of the party at whose request such additions and betterments, changes and retirements are being made pursuant to such party's rights hereunder. Any engine and equipment comprising any wrecking outfit while engaged in performance of any service on the described track, in the event the cost thereof is included in any Damage hereunder for which one party

shall be solely liable, shall be considered the Sole Property of such party.

- (5) "Sole Employee": Any officer or employee of either party, while engaged in the movement of trains, cars and engines on and across the described track in line-haul or switching service, shall be the Sole Employee of the party performing such service. Any officer or employee of any party, while engaged in or incident to the making of additions and betterments to the described track, changes therein or retirements thereto, shall be considered the Sole Employee of the party at whose request such additions and betterments, changes, or retirements are being made pursuant to that party's rights hereunder. Any officer or employee of any party, while engaged in or incident to the performance of any wrecker service on the described track, in the event the cost of such service is included in any Damage hereunder, for which one party shall be solely liable, shall be considered the Sole Employee of that party.
- (6) Singular forms of any of the terms as defined in this paragraph (6) shall comprehend and encompass the plural forms of any of such terms.

B. Damages shall be allocated to and liability therefor shall be assumed by the parties in accordance with the following:

- (1) When such Damages shall be due to (i) acts or omissions of a Sole Employee of one of the parties, or (ii) concurring acts or omissions of a Sole Employee of one of the parties and of a third person or persons, or (iii) concurring acts or omissions of a Joint Employee and of a Sole Employee of one of the parties, or (iv) any defect in or failure of any kind in the Sole Property (excluding Joint Property) of one of the parties, said Damages shall be borne by the party whose Sole Employee was solely or concurrently involved or by the party whose Sole Property was defective or failed;
- (2) When such Damages shall be due to (i) concurring acts or omissions of a Sole Employee of one of the parties and of a Sole Employee of the other of the parties, notwithstanding any concurrence by a third person or persons, or (ii) concurring acts or omissions of a Joint Employee and Sole Employees of both parties, notwithstanding any concurrence by a third person or persons, or (iii) defects in or failure of the Sole Property (excluding Joint Property) of both parties,

said Damages shall be borne equally by those parties whose Sole Employees or Sole Property are involved, except each such party involved shall bear all such Damages to its Sole Property and as to its Sole Employees, passengers and patrons and all other on its engines, cars or trains (other than engines, cars or trains while occupying status of Joint Property) or on or about the described track in the transaction of such party's business or business with such party:

- (3) When such Damages shall be due to (i) acts or omissions of a Joint Employee without any concurrence by Sole Employees of either of the parties, notwithstanding any concurrence by a third person or persons, or (ii) any other cause whatsoever not hereinbefore provided for, said Damages shall be borne by and prorated equally between the parties hereto; except that, in case of an occurrence in which the engines, cars, trains (other than engines, cars or trains while occupying the status of Joint Property) or Sole Employees of only one of the parties are concerned, then liability for resulting Damages shall be borne solely by that one of the parties whose sole engines, cars, trains or Sole Employees are solely concerned.

- (4) If it shall be impossible to determine whether any person is the sole passenger, patron or employee of either party, then liability for injury to or death of such person, or for loss of or damage to property of such person, shall be apportioned as in the case of third persons.
- (5) The acts and decisions of SPSF in the performance of any management, maintenance, repair, renewal, removal, improvement, operation or similar function of or for the Joint Property shall be deemed acts and decisions of a Joint Employee.
- (6) Each party shall pay all Damages for which such party shall be liable under the provisions of this Section 5. and shall indemnify and save harmless the other party against such Damages.
- (7) Each party shall have the right to settle, or cause to be settled for it, all claims for Damages for which such party shall be liable under provisions of this Section 5. and to defend or cause to be defended all suits for recovery of any such Damages.
- (8) In the event that both parties shall be liable hereunder for any Damages and the same shall be settled

by a voluntary payment of money or other valuable consideration by one of the parties so jointly liable therefor, release from liability shall be taken to and in the name of each party, provided, however, that no such settlement in excess of Five Thousand Dollars shall be made by or for either of the parties so jointly liable without authority of the other party. Any settlement made by either party in consideration of said sum or a lesser sum shall be binding upon the other party.

- (9) In case a suit shall be commenced against one of the parties for or on account of Damages for which the other party is solely or jointly liable under provisions of this Section 5., the party so sued shall give notice in writing to such other party of the pendency of such suit and thereupon such other party shall assume or join in defense of such suit.
- (10) Neither of the parties shall be concluded by any judgment against the other unless it shall have had reasonable notice requiring defense and reasonable opportunity to make such defense. When such notice and opportunity shall have been given, the party so notified shall be concluded by the judgment as to all matters which could have been litigated in such suit.

(11) All claims and demands for damages arising under provisions of this Section 5. shall be investigated by or for the account of the party whose employee is injured or whose property is damaged. In the event employees of both of the parties are injured or properties thereof are damaged, representatives of the parties who handle such claims shall agree among themselves as to which of said parties shall make the investigation; however, this shall not bar any party from making such investigation deemed necessary or desirable.

(12) If traffic on the described track, or business thereon, is at any time interrupted or delayed by derailments or from any cause other than the willful act of one of the parties, neither of the parties shall have any claim against the other party for loss or damage of any kind caused by or resulting from such interruption or delay.

6. EFFECTIVE DATE AND TERM: This agreement shall be effective as of the date of approval and authorization, if required, of the Interstate Commerce Commission, of the trackage rights herein described, and shall inure to the benefit of and be binding upon the parties, their respective successors, lessees

and assigns, but no sale, assignment, mortgage or lease by KCS of any interest or right given by this agreement separate and apart from the sale, assignment, mortgage or lease of its entire railroad, shall be valid without the written consent of SPSF. This agreement shall remain in effect until such time as the Interstate Commerce Commission shall authorize KCS' abandonment of its rights hereunder, pursuant to Sections 10901 and 11351 of Title 49 of the United States Code.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in quadruplicate on this _____ day of _____, 1984.

SOUTHERN PACIFIC AND SANTE FE
RAILWAY COMPANY

By _____

THE KANSAS CITY SOUTHERN RAILWAY
COMPANY

By _____

EXHIBIT 2.3: TRACKAGE RIGHTS AGREEMENT

HOUSTON TO BEAUMONT, TEXAS

AGREEMENT, entered into this _____ day of _____,
19____, by and between SOUTHERN PACIFIC AND SANTA FE RAILWAY
COMPANY, a corporation, hereinafter called "SPSF," and THE KANSAS CITY
SOUTHERN RAILWAY COMPANY, a corporation, hereinafter called "KCS."

WITNESSETH,

WHEREAS, SPSF owns and operates a line of railroad, more fully
described in Section 1. below;

WHEREAS, KCS is desirous of obtaining from SPSF the right to operate
its trains over such line, subject to the terms and conditions set forth below; and

WHEREAS, SPSF is agreeable to granting KCS such right, subject to such
terms and conditions.

IT IS, THEREFORE, AGREED AS FOLLOWS:

1. TRACK DESCRIPTION: The track over which operating rights are
herein granted KCS by SPSF is as follows:

That portion of SPSF's main line track between
Beaumont, Texas and Houston, Texas, as follows:

From the point of KCS' connection with SPSF at Beaumont
(shown as M.P. _____ in SPSF's Division Time Table for its
Lafayette Division) to the point of SPSF's connection with
the track of Houston Belt and Terminal Railway Company
("HB&T") at Houston, near Tower 87 (Tower 87 is shown as
M.P. _____ in SPSF's Division Time Table for its Lafayette
Division).

2. GRANT OF RIGHTS: SPSF hereby grants unto KCS the right to use the track described in Section 1. in the operation by KCS of its engines, trains and cars (which term shall include motor cars and hi-rail cars) including the right to construct, or have constructed, at the parties' joint expense, switch connections to the described track and the right to serve shippers located on and served by SPSF's tracks at Houston, Texas.

3. USE CHARGE: For the rights herein granted, KCS shall pay SPSF a monthly use charge equal to (\$) DOLLARS per car-mile for each car, loaded or empty, handled by KCS in its train over the trackage rights segment in that month. It is agreed that the foregoing use charge has been and hereinafter shall be determined in accordance with the principles for setting trackage rights rental enunciated by the Interstate Commerce Commission in Union Pacific - Control - Missouri Pacific; Western Pacific, 366 I.C.C. 459, at 589-90. Thus, this use charge is based upon trackage rights rental consisting of the following cost factors:

(a) All variable costs incurred by SPSF as a result of KCS' trackage rights operations;

(b) That portion of the fixed-costs relating to the trackage rights allocable, on the basis of use, to KCS' traffic moving over the trackage rights grant; and

(c) KCS' allocated share of the return on the value of SPSF's property included in the trackage rights grant, with such property being valued at its current market value and with the rate of return being SPSF's actual rate of return on the value of its rail properties.

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It is further agreed that such rental and use charge shall be established as of the date operations commence under the trackage grant and shall be redetermined and adjusted in accordance with the above described principles every five (5) years thereafter on the anniversary date of such commencement of operations.

4. OPERATION AND MAINTENANCE: SPSF shall have exclusive management and control of operations and maintenance of the described track and shall establish all rules, regulations and orders thereto pertaining, all in compliance with law and promulgations of regulatory authorities. All rules, regulations and orders shall be reasonable, just and fair and all officers and employees of SPSF engaged in operation and maintenance of the described track shall attend to the business of SPSF without preference over or discrimination against KCS. All passenger trains shall be given preference over other trains and all road trains shall be given equal dispatch according to their class. All operations upon and over the described track shall be conducted with due regard to and without unreasonable interference with the rights of all users. SPSF shall maintain and keep the described track, right-of-way and appurtenances in reasonable repair, suitable for handling the combined business of SPSF and KCS.

5. LIABILITY:

A. In determining liability for loss and damage under this agreement, the following definitions shall apply:

(1) "Damages" shall mean all loss of or damage to any and all property and all injuries to or death of any and all persons and

all liability therefor, including amounts paid under any state or federal law, and also embraces all costs and expense incident thereto (including the cost of rerailling cars) when suffered or occasioned in or in connection with use or attempted use of the described track by any road trains, engines, or cars of the parties, or in performance of any work or services in or incident to such use or attempted use, or in connection with maintenance, repair, renewal or operation of the described track or making of additions and betterments thereto, changes therein, or retirements therefrom;

(2) "Joint Property" shall mean (i) any tools, work trains; or work equipment while engaged in or incident to maintaining, repairing, or renewing the described track, (ii) the described track itself, and (iii) any engine and equipment comprising any wrecking outfit while engaged in the performance of any service on the described track in the event the cost thereof included in any damage for which the parties hereto shall be jointly liable, (iv) any tools, work trains, or work agreement while engaged in or incident to the making of additions and betterments to the described track, or changes therein, or retirements thereto, when such additions and betterments, changes or retirement are mutually desired by the parties and agreed upon in writing.

(3) "Joint Employee" shall mean all officers and employees of the parties while engaged in (i) maintenance, repair, or renewal of the described track; (ii) performance of any wrecker service on the described track, in the event the cost thereof is included in any Damages for which the parties hereto shall be jointly liable, (iii) dispatching, giving orders for, or directing movement of trains, engines and cars on and along the described track and (iv) making additions and betterments to the described track, changes therein, or retirements thereto, when such additions and betterments, changes or retirements are mutually desired by the parties and agreed upon in writing.

(4) "Sole Property": The trains, cars and engines of either party, while being moved on and across the described track in line-haul or switching service shall be the Sole Property of the party performing such service. Any tools, work trains, or work equipment while engaged in or incident to the making of additions and betterments to the described track, changes therein, or retirements therefrom shall be considered the Sole Property of the party at whose request such additions and betterments, changes and retirements are being made pursuant to such party's rights hereunder. Any engine and equipment comprising any wrecking outfit while engaged in performance of any service on the described track, in the event the cost thereof is included in any

Damage hereunder for which one party shall be solely liable, shall be considered the Sole Property of such party.

(5) "Sole Employee": Any officer or employee of either party, while engaged in the movement of trains, cars and engines on and across the described track in line-haul or switching service, shall be the Sole Employee of the party performing such service. Any officer or employee of any party, while engaged in or incident to the making of additions and betterments to the described track, changes thereon or retirements thereto, shall be considered the Sole Employee of the party at whose request such additions and betterments, charges, or retirements are being made pursuant to that party's rights hereunder. Any officer or employee of any party, while engaged in or incident to the performance of any wrecker service on the described track, in the event the cost of such service is included in any Damage hereunder, for which one party shall be solely liable, shall be considered the Sole Employee of that party.

(6) Singular forms of any of the terms as defined in this paragraph (6) shall comprehend and encompass the plural forms of any of such terms.

B. Damages shall be allocated to and liability therefor shall be assumed by the parties in accordance with the following:

(1) When such Damages shall be due to (i) acts or omissions of a sole employee of one of the parties, or (ii) concurring acts or omissions of a sole employee of one of the parties and of a third person or persons, or (iii) concurring acts or omissions of a Joint Employee and of a Sole Employee of one of the parties, or (iv) any defect in or failure of any kind in the sole property (excluding Joint Property) of one of the parties, said Damages shall be borne by the party whose sole employee was solely or concurrently involved or by the party whose sole property was defective or failed;

(2) When such Damages shall be due to (i) concurring acts or omissions of a sole employee of one of the parties and of a sole employee of the other of the parties, notwithstanding any concurrence by a third person or persons, or (ii) concurring acts or omissions of a Joint Employee and sole employees of both parties, notwithstanding any concurrence by a third person or persons, or (iii) defects in or failure of the sole property (excluding Joint Property) of both parties, said Damages shall be borne equally by those parties whose sole employees or sole property are involved, except each such party involved shall bear all such Damages to its sole property and as to its sole employees, passengers and patrons and all others on its engines, cars or trains (other than engines, cars or trains while occupying status of Joint Property) or on or about the described track in the transaction of such party's business or business with such party;

(3) When such Damages shall be due to (i) acts or omissions of a Joint Employee without any concurrence by sole employees of either of the parties, notwithstanding any concurrence by a third person or persons, or (ii) any other cause whatsoever not hereinbefore provided for, said Damages shall be borne by and prorated equally between the parties hereto; except that, in case of an occurrence in which the engines, cars, trains (other than engines, cars or trains while occupying the status of Joint Property) or sole employees of only one of the parties are concerned, then liability for resulting Damages shall be borne solely by that one of the parties whose sole engines, cars, trains or sole employees are solely concerned.

(4) If it shall be impossible to determine whether any person is the sole passenger, patron or employee of either party, then liability for injury to or death of such person or for loss of or damage to property of such person shall be apportioned as in the case of third persons.

(5) The acts and decisions of SPSF in the performance of any management, maintenance, repair, renewal, removal, improvement, operation or similar function of or for the Joint Property shall be deemed acts and decisions of a Joint Employee.

(6) Each party shall pay all Damages for which such party shall be liable under the provisions of this Section 5. and shall indemnify and save harmless the other party against such Damages.

(7) Each party shall have the right to settle, or cause to be settled for it, all claims for Damages for which such party shall be liable under provisions of this Section 5. and to defend or cause to be defended all suits for recovery of any such Damages.

(8) In the event that both parties shall be liable hereunder for any Damages and the same shall be settled by a voluntary payment of money or other valuable consideration by one of the parties so jointly liable therefor, release from liability shall be taken to and in the name of each party, provided, however, that no such settlement in excess of Five Thousand Dollars shall be made by or for either of the parties so jointly liable without authority of the other party. Any settlement made by either party in consideration of said sum or a lesser sum shall be binding upon the other party.

(9) In case a suit shall be commenced against one of the parties for or on account of Damages for which the other party is solely or jointly liable under provisions of this Section 5., the party so sued shall give notice in writing to such other party of the pendency of such suit and thereupon such other party shall assume or join in defense of such suit.

(10) Neither of the parties shall be concluded by any judgment against the other unless it shall have had reasonable notice requiring defense and reasonable opportunity to make such defense. When such notice and opportunity shall have been given, the party so notified shall be concluded by the judgment as to all matters which could have been litigated in such suit.

(11) All claims and demands for damages arising under provisions of this Section 5. shall be investigated by or for the account of the party whose employee is injured or whose property is damaged. In the event employees of both of the parties are injured or properties thereof are damaged, representatives of the parties who handle such claims shall agree among themselves as to which of said parties shall make the investigation; however, this shall not bar any party from making such investigation deemed necessary or desirable.

(12) If traffic on the described track, or business thereon, is at any time interrupted or delayed by derailments or from any cause other than the willful act of one of the parties, neither of the parties shall have any claim against the other party for loss or damage of any kind caused by or resulting from such interruption or delay.

6. EFFECTIVE DATE AND TERM: This agreement shall be effective as of the date of approval and authorization, if required, of the Interstate Commerce Commission, of the trackage rights herein described, and shall inure to the benefit of and be binding upon the parties, their respective successors, lessees and assigns, but no sale, assignment, mortgage or lease by KCS of any interest or right given by this agreement separate and apart from the sale, assignment, mortgage or lease of its entire railroad, shall be valid without the written consent of SPSF. This agreement shall remain in effect until such time as the Interstate Commerce Commission shall authorize KCS' abandonment of its rights hereunder, pursuant to Sections 10901 or 11351 of Title 49 of the United States Code.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in quadruplicate as of this _____ day of _____, 1984.

SOUTHERN PACIFIC AND SANTA FE
RAILWAY COMPANY

By _____

THE KANSAS CITY SOUTHERN RAILWAY
COMPANY

By _____

EXHIBIT 2.4: TRACKAGE RIGHTS AGREEMENT

WEST LAKE TO AVONDALE, LOUISIANA

AGREEMENT, entered into this _____ day of _____, 19____, by and between **SOUTHERN PACIFIC AND SANTA FE RAILWAY COMPANY**, a corporation, hereinafter called "SPSF," and **THE KANSAS CITY SOUTHERN RAILWAY COMPANY**, a corporation, hereinafter called "KCS."

WITNESSETH,

WHEREAS, SPSF owns and operates a line of railroad, more fully described in Section 1. below;

WHEREAS, KCS is desirous of obtaining from SPSF the right to operate its trains over such line, subject to the terms and conditions set forth below; and

WHEREAS, SPSF is agreeable to granting KCS such right, subject to such terms and conditions.

IT IS, THEREFORE, AGREED AS FOLLOWS:

1. **TRACK DESCRIPTION:** The track over which operating rights are herein granted KCS by SPSF is as follows:

That portion of SPSF's main line track between Avondale, Louisiana and West Lake, Louisiana, as follows:

From the point of beginning of SPSF's ownership at or near West Bridge Junction (shown as M.P. _____ in SPSF's Division Time Table for its Lafayette Division) to the point of SPSF's connection with KCS at Lockmoor (shown as M.P. _____ in that Division Time Table).

2. GRANT OF RIGHTS: SPSF hereby grants unto KCS the right to use the track described in Section 1. in the operation by KCS of its engines, trains and cars (which term shall include motor cars and hi-rail cars) including the right to construct, or have constructed, at the parties' joint expense, switch connections to the described track.

3. USE CHARGE: For the rights herein granted, KCS shall pay SPSF a monthly use charge equal to (\$) DOLLARS per car-mile for each car, loaded or empty, handled by KCS in its train over the trackage rights segment in that month. It is agreed that the foregoing use charge has been and hereinafter shall be determined in accordance with the principles for setting trackage rights rental enunciated by the Interstate Commerce Commission in Union Pacific - Control - Missouri Pacific; Western Pacific, 366 I.C.C. 459, at 589-90. Thus, this use charge is based upon trackage rights rental consisting of the following cost factors:

(a) All variable costs incurred by SPSF as a result of KCS' trackage rights operations;

(b) That portion of the fixed-costs relating to the trackage rights allocable, on the basis of use, to KCS' traffic moving over the trackage rights grant; and

(c) KCS' allocated share of the return on the value of SPSF's property included in the trackage rights grant, with such property being valued at its current market value and with the rate of return being SPSF's actual rate of return on the value of its rail properties.

It is further agreed that such rental and use charge shall be established as of the date operations commence under the trackage grant and shall be redetermined and adjusted in accordance with the above described principles every five (5) years thereafter on the anniversary date of such commencement of operations.

4. OPERATION AND MAINTENANCE: SPSF shall have exclusive management and control of operations and maintenance of the described track and shall establish all rules, regulations and orders thereto pertaining, all in compliance with law and promulgations of regulatory authorities. All rules, regulations and orders shall be reasonable, just and fair and all officers and employees of SPSF engaged in operation and maintenance of the described track shall attend to the business of SPSF without preference over or discrimination against KCS. All passenger trains shall be given preference over other trains and all road trains shall be given equal dispatch according to their class. All operations upon and over the described track shall be conducted with due regard to and without unreasonable interference with the rights of all users. SPSF shall maintain and keep the described track, right-of-way and appurtenances in reasonable repair, suitable for handling the combined business of SPSF and KCS.

5. LIABILITY:

A. In determining liability for loss and damage under this agreement, the following definitions shall apply:

(1) "Damages" shall mean all loss of or damage to any and all property and all injuries to or death of any and all persons and

all liability therefor, including amounts paid under any state or federal law, and also embraces all costs and expense incident thereto (including the cost of rerailling cars) when suffered or occasioned in or in connection with use or attempted use of the described track by any road trains, engines, or cars of the parties, or in performance of any work or services in or incident to such use or attempted use, or in connection with maintenance, repair, renewal or operation of the described track or making of additions and betterments thereto, changes therein, or retirements therefrom;

(2) "Joint Property" shall mean (i) any tools, work trains; or work equipment while engaged in or incident to maintaining, repairing, or renewing the described track, (ii) the described track itself, and (iii) any engine and equipment comprising any wrecking outfit while engaged in the performance of any service on the described track in the event the cost thereof included in any damage for which the parties hereto shall be jointly liable, (iv) any tools, work trains, or work agreement while engaged in or incident to the making of additions and betterments to the described track, or changes therein, or retirements thereto, when such additions and betterments, changes or retirement are mutually desired by the parties and agreed upon in writing.

(3) "Joint Employee" shall mean all officers and employees of the parties while engaged in (i) maintenance, repair, or renewal of the described track; (ii) performance of any wrecker service on the described track, in the event the cost thereof is included in any Damages for which the parties hereto shall be jointly liable, (iii) dispatching, giving orders for, or directing movement of trains, engines and cars on and along the described track and (iv) making additions and betterments to the described track, changes therein, or retirements thereto, when such additions and betterments, changes or retirements are mutually desired by the parties and agreed upon in writing.

(4) "Sole Property": The trains, cars and engines of either party, while being moved on and across the described track in line-haul or switching service shall be the Sole Property of the party performing such service. Any tools, work trains, or work equipment while engaged in or incident to the making of additions and betterments to the described track, changes therein, or retirements therefrom shall be considered the Sole Property of the party at whose request such additions and betterments, changes and retirements are being made pursuant to such party's rights hereunder. Any engine and equipment comprising any wrecking outfit while engaged in performance of any service on the described track, in the event the cost thereof is included in any

Damage hereunder for which one party shall be solely liable, shall be considered the Sole Property of such party.

(5) "Sole Employee": Any officer or employee of either party, while engaged in the movement of trains, cars and engines on and across the described track in line-haul or switching service, shall be the Sole Employee of the party performing such service. Any officer or employee of any party, while engaged in or incident to the making of additions and betterments to the described track, changes thereon or retirements thereto, shall be considered the Sole Employee of the party at whose request such additions and betterments, charges, or retirements are being made pursuant to that party's rights hereunder. Any officer or employee of any party, while engaged in or incident to the performance of any wrecker service on the described track, in the event the cost of such service is included in any Damage hereunder, for which one party shall be solely liable, shall be considered the Sole Employee of that party.

(6) Singular forms of any of the terms as defined in this paragraph (6) shall comprehend and encompass the plural forms of any of such terms.

B. Damages shall be allocated to and liability therefor shall be assumed by the parties in accordance with the following:

(1) When such Damages shall be due to (i) acts or omissions of a sole employee of one of the parties, or (ii) concurring acts or omissions of a sole employee of one of the parties and of a third person or persons, or (iii) concurring acts or omissions of a Joint Employee and of a Sole Employee of one of the parties, or (iv) any defect in or failure of any kind in the sole property (excluding Joint Property) of one of the parties, said Damages shall be borne by the party whose sole employee was solely or concurrently involved or by the party whose sole property was defective or failed;

(2) When such Damages shall be due to (i) concurring acts or omissions of a sole employee of one of the parties and of a sole employee of the other of the parties, notwithstanding any concurrence by a third person or persons, or (ii) concurring acts or omissions of a Joint Employee and sole employees of both parties, notwithstanding any concurrence by a third person or persons, or (iii) defects in or failure of the sole property (excluding Joint Property) of both parties, said Damages shall be borne equally by those parties whose sole employees or sole property are involved, except each such party involved shall bear all such Damages to its sole property and as to its sole employees, passengers and patrons and all others on its engines, cars or trains (other than engines, cars or trains while occupying status of Joint Property) or on or about the described track in the transaction of such party's business or business with such party;

(3) When such Damages shall be due to (i) acts or omissions of a Joint Employee without any concurrence by sole employees of either of the parties, notwithstanding any concurrence by a third person or persons, or (ii) any other cause whatsoever not hereinbefore provided for, said Damages shall be borne by and prorated equally between the parties hereto; except that, in case of an occurrence in which the engines, cars, trains (other than engines, cars or trains while occupying the status of Joint Property) or sole employees of only one of the parties are concerned, then liability for resulting Damages shall be borne solely by that one of the parties whose sole engines, cars, trains or sole employees are solely concerned.

(4) If it shall be impossible to determine whether any person is the sole passenger, patron or employee of either party, then liability for injury to or death of such person or for loss of or damage to property of such person shall be apportioned as in the case of third persons.

(5) The acts and decisions of SPSF in the performance of any management, maintenance, repair, renewal, removal, improvement, operation or similar function of or for the Joint Property shall be deemed acts and decisions of a Joint Employee.

(6) Each party shall pay all Damages for which such party shall be liable under the provisions of this Section 5. and shall indemnify and save harmless the other party against such Damages.

(7) Each party shall have the right to settle, or cause to be settled for it, all claims for Damages for which such party shall be liable under provisions of this Section 5. and to defend or cause to be defended all suits for recovery of any such Damages.

(8) In the event that both parties shall be liable hereunder for any Damages and the same shall be settled by a voluntary payment of money or other valuable consideration by one of the parties so jointly liable therefor, release from liability shall be taken to and in the name of each party, provided, however, that no such settlement in excess of Five Thousand Dollars shall be made by or for either of the parties so jointly liable without authority of the other party. Any settlement made by either party in consideration of said sum or a lesser sum shall be binding upon the other party.

(9) In case a suit shall be commenced against one of the parties for or on account of Damages for which the other party is solely or jointly liable under provisions of this Section 5., the party so sued shall give notice in writing to such other party of the pendency of such suit and thereupon such other party shall assume or join in defense of such suit.

(10) Neither of the parties shall be concluded by any judgment against the other unless it shall have had reasonable notice requiring defense and reasonable opportunity to make such defense. When such notice and opportunity shall have been given, the party so notified shall be concluded by the judgment as to all matters which could have been litigated in such suit.

(11) All claims and demands for damages arising under provisions of this Section 5. shall be investigated by or for the account of the party whose employee is injured or whose property is damaged. In the event employees of both of the parties are injured or properties thereof are damaged, representatives of the parties who handle such claims shall agree among themselves as to which of said parties shall make the investigation; however, this shall not bar any party from making such investigation deemed necessary or desirable.

(12) If traffic on the described track, or business thereon, is at any time interrupted or delayed by derailments or from any cause other than the willful act of one of the parties, neither of the parties shall have any claim against the other party for loss or damage of any kind caused by or resulting from such interruption or delay.

6. EFFECTIVE DATE AND TERM: This agreement shall be effective as of the date of approval and authorization, if required, of the Interstate Commerce Commission, of the trackage rights herein described, and shall inure to the benefit of and be binding upon the parties, their respective successors, lessees and assigns, but no sale, assignment, mortgage or lease by KCS of any interest or right given by this agreement separate and apart from the sale, assignment, mortgage or lease of its entire railroad, shall be valid without the written consent of SPSF. This agreement shall remain in effect until such time as the Interstate Commerce Commission shall authorize KCS' abandonment of its rights hereunder, pursuant to Sections 10901 or 11351 of Title 49 of the United States Code.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in quadruplicate as of this _____ day of _____, 1984.

SOUTHERN PACIFIC AND SANTA FE
RAILWAY COMPANY

By _____

THE KANSAS CITY SOUTHERN RAILWAY
COMPANY

By _____

EXHIBIT 2.5: TRACKAGE RIGHTS AGREEMENT
GREENVILLE TO FORT WORTH, TEXAS

AGREEMENT, entered into this _____ day of _____,
19____, by and between SOUTHERN PACIFIC AND SANTA FE RAILWAY
COMPANY, a corporation, hereinafter called "SPSF," and LOUISIANA &
ARKANSAS RAILWAY COMPANY, a corporation, hereinafter called "L&A."

WITNESSETH,

WHEREAS, SPSF owns and operates a line of railroad, more fully
described in Section 1. below;

WHEREAS, L&A is desirous of obtaining from SPSF the right to operate
its trains over such line, subject to the terms and conditions set forth below; and

WHEREAS, SPSF is agreeable to granting L&A such right, subject to
such terms and conditions.

IT IS, THEREFORE, AGREED AS FOLLOWS:

1. TRACK DESCRIPTION: The track over which operating rights are
herein granted L&A by SPSF is as follows:

That portion of SPSF's main line track between
Greenville, Texas and its Hodge Yard at Fort Worth, Texas,
as follows:

From the point of KCS' connection with SPSF at Greenville
(shown as M.P. _____ in SPSF's Division Time Table for its
Pine Bluff Division) to and into SPSF's Hodge Yard at Fort
Worth (shown in that Division Time Table as M.P. _____).

2. GRANT OF RIGHTS: SPSF hereby grants unto KCS the right to use the track described in Section 1. in the operation by KCS of its engines, trains and cars (which term shall include motor cars and hi-rail cars) including the right to construct, or have constructed, at the parties' joint expense, switch connections to the described track, and the right to serve shippers located on and served by SPSF's tracks at Fort Worth, Texas.

3. USE CHARGE: For the rights herein granted, L&A shall pay SPSF a monthly use charge equal to (\$) DOLLARS per car-mile for each car, loaded or empty, handled by L&A in its train over the trackage rights segment in that month. It is agreed that the foregoing use charge has been and hereinafter shall be determined in accordance with the principles for setting trackage rights rental enunciated by the Interstate Commerce Commission in Union Pacific - Control - Missouri Pacific; Western Pacific, 366 I.C.C. 459, at 589-90. Thus, this use charge is based upon trackage rights rental consisting of the following cost factors:

(a) All variable costs incurred by SPSF as a result of L&A's trackage rights operations;

(b) That portion of the fixed-costs relating to the trackage rights allocable, on the basis of use, to L&A's traffic moving over the trackage rights grant; and

(c) L&A's allocated share of the return on the value of SPSF's property included in the trackage rights grant, with such property being valued at its current market value and with the rate of return being SPSF's actual rate of return on the value of its rail properties.

It is further agreed that such rental and use charge shall be established as of the date operations commence under the trackage grant and shall be redetermined and adjusted in accordance with the above described principles every five (5) years thereafter on the anniversary date of such commencement of operations.

4. OPERATION AND MAINTENANCE: SPSF shall have exclusive management and control of operations and maintenance of the described track and shall establish all rules, regulations and orders thereto pertaining, all in compliance with law and promulgations of regulatory authorities. All rules, regulations and orders shall be reasonable, just and fair and all officers and employees of SPSF engaged in operation and maintenance of the described track shall attend to the business of SPSF without preference over or discrimination against L&A. All passenger trains shall be given preference over other trains and all road trains shall be given equal dispatch according to their class. All operations upon and over the described track shall be conducted with due regard to and without unreasonable interference with the rights of all users. SPSF shall maintain and keep the described track, right-of-way and appurtenances in reasonable repair, suitable for handling the combined business of SPSF and L&A.

5. LIABILITY:

A. In determining liability for loss and damage under this agreement, the following definitions shall apply:

(1) "Damages" shall mean all loss of or damage to any and all property and all injuries to or death of any and all persons and

all liability therefor, including amounts paid under any state or federal law, and also embraces all costs and expense incident thereto (including the cost of rerailling cars) when suffered or occasioned in or in connection with use or attempted use of the described track by any road trains, engines, or cars of the parties, or in performance of any work or services in or incident to such use or attempted use, or in connection with maintenance, repair, renewal or operation of the described track or making of additions and betterments thereto, changes therein, or retirements therefrom;

(2) "Joint Property" shall mean (i) any tools, work trains; or work equipment while engaged in or incident to maintaining, repairing, or renewing the described track, (ii) the described track itself, and (iii) any engine and equipment comprising any wrecking outfit while engaged in the performance of any service on the described track in the event the cost thereof included in any damage for which the parties hereto shall be jointly liable, (iv) any tools, work trains, or work agreement while engaged in or incident to the making of additions and betterments to the described track, or changes therein, or retirements thereto, when such additions and betterments, changes, or retirement are mutually desired by the parties and agreed upon in writing.

(3) "Joint Employee" shall mean all officers and employees of the parties while engaged in (i) maintenance, repair, or renewal of the described track; (ii) performance of any wrecker service on the described track, in the event the cost thereof is included in any Damages for which the parties hereto shall be jointly liable, (iii) dispatching, giving orders for, or directing movement of trains, engines and cars on and along the described track and (iv) making additions and betterments to the described track, changes therein, or retirements thereto, when such additions and betterments, changes or retirements are mutually desired by the parties and agreed upon in writing.

(4) "Sole Property": The trains, cars and engines of either party, while being moved on and across the described track in line-haul or switching service shall be the Sole Property of the party performing such service. Any tools, work trains, or work equipment while engaged in or incident to the making of additions and betterments to the described track, changes therein, or retirements therefrom shall be considered the Sole Property of the party at whose request such additions and betterments, changes and retirements are being made pursuant to such party's rights hereunder. Any engine and equipment comprising any wrecking outfit while engaged in performance of any service on the described track, in the event the cost thereof is included in any

Damage hereunder for which one party shall be solely liable, shall be considered the Sole Property of such party.

(5) "Sole Employee": Any officer or employee of either party, while engaged in the movement of trains, cars and engines on and across the described track in line-haul or switching service, shall be the Sole Employee of the party performing such service. Any officer or employee of any party, while engaged in or incident to the making of additions and betterments to the described track, changes thereon or retirements thereto, shall be considered the Sole Employee of the party at whose request such additions and betterments, charges, or retirements are being made pursuant to that party's rights hereunder. Any officer or employee of any party, while engaged in or incident to the performance of any wrecker service on the described track, in the event the cost of such service is included in any Damage hereunder, for which one party shall be solely liable, shall be considered the Sole Employee of that party.

(6) Singular forms of any of the terms as defined in this paragraph (6) shall comprehend and encompass the plural forms of any of such terms.

B. Damages shall be allocated to and liability therefor shall be assumed by the parties in accordance with the following:

(1) When such Damages shall be due to (i) acts or omissions of a sole employee of one of the parties, or (ii) concurring acts or omissions of a sole employee of one of the parties and of a third person or persons, or (iii) concurring acts or omissions of a Joint Employee and of a Sole Employee of one of the parties, or (iv) any defect in or failure of any kind in the sole property (excluding Joint Property) of one of the parties, said Damages shall be borne by the party whose sole employee was solely or concurrently involved or by the party whose sole property was defective or failed;

(2) When such Damages shall be due to (i) concurring acts or omissions of a sole employee of one of the parties and of a sole employee of the other of the parties, notwithstanding any concurrence by a third person or persons, or (ii) concurring acts or omissions of a Joint Employee and sole employees of both parties, notwithstanding any concurrence by a third person or persons, or (iii) defects in or failure of the sole property (excluding Joint Property) of both parties, said Damages shall be borne equally by those parties whose sole employees or sole property are involved, except each such party involved shall bear all such Damages to its sole property and as to its sole employees, passengers and patrons and all others on its engines, cars or trains (other than engines, cars or trains while occupying status of Joint Property) or on or about the described track in the transaction of such party's business or business with such party;

(3) When such Damages shall be due to (i) acts or omissions of a Joint Employee without any concurrence by sole employees of either of the parties, notwithstanding any concurrence by a third person or persons, or (ii) any other cause whatsoever not hereinbefore provided for, said Damages shall be borne by and prorated equally between the parties hereto; except that, in case of an occurrence in which the engines, cars, trains (other than engines, cars or trains while occupying the status of Joint Property) or sole employees of only one of the parties are concerned, then liability for resulting Damages shall be borne solely by that one of the parties whose sole engines, cars, trains or sole employees are solely concerned.

(4) If it shall be impossible to determine whether any person is the sole passenger, patron or employee of either party, then liability for injury to or death of such person or for loss of or damage to property of such person shall be apportioned as in the case of third persons.

(5) The acts and decisions of SPs in the performance of any management, maintenance, repair, renewal, removal, improvement, operation or similar function of or for the Joint Property shall be deemed acts and decisions of a Joint Employee.

(6) Each party shall pay all Damages for which such party shall be liable under the provisions of this Section 5. and shall indemnify and save harmless the other party against such Damages.

(7) Each party shall have the right to settle, or cause to be settled for it, all claims for Damages for which such party shall be liable under provisions of this Section 5. and to defend or cause to be defended all suits for recovery of any such Damages.

(8) In the event that both parties shall be liable hereunder for any Damages and the same shall be settled by a voluntary payment of money or other valuable consideration by one of the parties so jointly liable therefor, release from liability shall be taken to and in the name of each party, provided, however, that no such settlement in excess of Five Thousand Dollars shall be made by or for either of the parties so jointly liable without authority of the other party. Any settlement made by either party in consideration of said sum or a lesser sum shall be binding upon the other party.

(9) In case a suit shall be commenced against one of the parties for or on account of Damages for which the other party is solely or jointly liable under provisions of this Section 5., the party so sued shall give notice in writing to such other party of the pendency of such suit and thereupon such other party shall assume or join in defense of such suit.

(10) Neither of the parties shall be concluded by any judgment against the other unless it shall have had reasonable notice requiring defense and reasonable opportunity to make such defense. When such notice and opportunity shall have been given, the party so notified shall be concluded by the judgment as to all matters which could have been litigated in such suit.

(11) All claims and demands for damages arising under provisions of this Section 5, shall be investigated by or for the account of the party whose employee is injured or whose property is damaged. In the event employees of both of the parties are injured or properties thereof are damaged, representatives of the parties who handle such claims shall agree among themselves as to which of said parties shall make the investigation; however, this shall not bar any party from making such investigation deemed necessary or desirable.

(12) If traffic on the described track, or business thereon, is at any time interrupted or delayed by derailments or from any cause other than the willful act of one of the parties, neither of the parties shall have any claim against the other party for loss or damage of any kind caused by or resulting from such interruption or delay.

6. EFFECTIVE DATE AND TERM: This agreement shall be effective as of the date of approval and authorization, if required, of the Interstate Commerce Commission, of the trackage rights herein described, and shall inure to the benefit of and be binding upon the parties, their respective successors, lessees and assigns, but no sale, assignment, mortgage or lease by L&A of any interest or right given by this agreement separate and apart from the sale, assignment, mortgage or lease of its entire railroad, shall be valid without the written consent of SPSF. This agreement shall remain in effect until such time as the Interstate Commerce shall authorize L&A's abandonment of its rights hereunder, pursuant to Sections 10901 or 11351 of Title 49 of the United States Code.

IN WITNESS WHEREOF, the parties hereto have executed this agreement in quadruplicate as of this _____ day of _____, 1984.

SOUTHERN PACIFIC AND SANTA FE
RAILWAY COMPANY

By _____

LOUISIANA & ARKANSAS RAILWAY
COMPANY

By _____

EXHIBIT 9: ANNUAL REPORTS

Kansas City Southern Industries, Inc.
1982 Annual Report

Financial Highlights

(Dollars in Thousands, Except per Share Amounts and Statistics)

	<u>1982</u>	<u>1981</u>
For the Year		
Sales and revenues	\$384,291	\$368,227
Income from operations	60,147	65,785
Net income	33,280	38,732
Funds provided from operations	63,508	63,180
Property acquisitions	45,849	66,866
Investment acquisitions	9,969	7,581
<hr/>		
At Year End		
Working capital	4,322	2,085
Investments	80,174	70,350
Net property	428,154	415,148
Long-term debt due after one year	190,114	198,237
Stockholders' equity:		
Preferred	7,112	7,112
Common	252,234	225,904
Ratio of current assets to current liabilities	1.04-1	1.02-1
Ratio of long-term debt to long-term debt plus stockholders' equity	42.3%	46.0%
<hr/>		
Per Share		
Earnings per Common share	\$ 3.35	\$ 3.95
Dividends:		
Preferred	1.00	1.00
Common88	.79
Book value per Common share	25.47	23.07
<hr/>		

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Financial Services	20
Broadcasting and Manufacturing	27
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Registrars

Chemical Bank
55 Water Street
New York, New York 10041
and
United Missouri Bank of
Kansas City, N.A.
Kansas City, Missouri

Independent Accountants

Price Waterhouse
Kansas City, Missouri

Stocks Listed

New York Stock Exchange—
Symbol "KSU"

Transfer Agents

Chemical Bank
55 Water Street
New York, New York 10041
and
Office of the Corporation
114 West 11th Street
Kansas City, Missouri 64105

Annual Meeting of Stockholders

10:00 a.m., May 3, 1983
114 West 11th Street
Kansas City, MO 64105

Letter To Shareholders

To Our Shareholders, Employees, Clients and Friends:

Your management is pleased to present the detailed 1982 Annual Report on the operations and finances of the Company. 1982 reflected the first annual decline in earnings since 1975—not an unexpected result considering economic conditions. Furthermore, responses to the tests faced as a result of these difficult times demonstrate a number of attributes which characterize the various businesses which comprise Kansas City Southern Industries, Inc.

The progressive deterioration of the economy which began in 1981 and continued through 1982 caused an erosion in earnings. This erosion was most pronounced in our transportation segment due to fewer general commodity carloadings. As a result, 1982's net income of \$33.3 million declined 14% from 1981's income of \$38.7 million. 1982 consolidated revenues, however, reached an all time high of \$384.3 million. The reduced earnings contribution from transportation operations was cushioned by improved earnings from our other business segments. Financial services, especially DST Systems, Inc., experienced dramatic growth.

It is our intention, through the holding company vehicle, to offer our shareholders balanced, secure and promising prospects. Operating primarily in the areas of transportation and financial services, other important contributions to our performance are broadcasting, real estate and leasing.

In response to deregulation and rail mergers, Kansas City Southern Lines has pursued the concept of packaging transport services from combinations of rail and trucking options. Landa Motor Lines, a wholly-owned subsidiary of the railway company, obtained additional highway operating authority to serve in Missouri, Kansas, Arkansas, Oklahoma, Texas and Louisiana and also can now operate in the adjoining states of Nebraska, Iowa, Illinois, Mississippi and Alabama.

We continue to benefit from the Big "D" Connection with the Santa Fe Railroad, which provides five-day service from northern California to New Orleans through Dallas. Such services strengthen one of the best service routes in the country and allow us to respond to the growing shippers' needs in the Gulf Coast and Sun Belt areas. We also continue to provide transportation from the agricultural center of our nation.

Pioneer Western Corporation and its affiliated companies responded to the changing financial services industry by successfully introducing its first public and private oil and gas investment programs to its customers. Further offerings are planned as a result of initial market acceptance. Western Reserve Life Assurance Co., Pioneer Western's principal subsidiary, performed well in 1982 due to management's continued ability to train and motivate agency field operation personnel while creating and introducing new insurance products into the marketplace.

On March 16, 1983 DST Systems, Inc. filed a Registration Statement with the Securities and Exchange Commission covering an initial public offering of 1,375,000 shares of DST common stock. Prior to the offering, Kansas City Southern Industries was the holder of all of the outstanding common stock of DST. As a result of the offering, Kansas City Southern Industries, Inc., retains ownership of approximately 86% of the outstanding common stock of DST. The principal purposes of the offering are to increase the equity base of DST, retire indebtedness, increase working capital and provide a public market for DST's common stock.

In past years we have reported KCSI's opposition to the Union Pacific's acquisition of control over the Missouri Pacific and the Western Pacific. However, the ICC approved the merger on October 20, 1982, and KCSI's request for trackage rights over portions of the Missouri Pacific Railroad was denied. Kansas City Southern Lines, and several other rail carriers, have initiated legal pro-



William N. Deramus, III
Chairman of the Board



Irvine O. Hockaday, Jr.
President and Chief Executive Officer

ceedings in federal court as a result of this transaction and judicial proceedings are in process.

Another development by the Interstate Commerce Commission, although not affecting our operations for 1982, was the January 26, 1983, decision requiring a change in the method of accounting for railway track structure from the Retirement-Replacement-Betterment (RRB) Method to the Ratable Depreciation Accounting Method. This change, which was mandated by the ICC on a retroactive basis, is required for reports to the Commission for years beginning in 1983. We also expect that this method of financial reporting will be prescribed by the Financial Accounting Standards Board and Securities and Exchange Commission, and as a result we anticipate adopting this method for reporting to shareholders for fiscal year 1983. Although we have not yet determined its full impact, it will significantly change the reporting of our financial condition and operating results.

Application of this new accounting procedure will require a restatement of the value of our roadway property, resulting in an increase in its carrying cost. It will also, in all probability, result in a higher level of reported earnings but a lower

return on investment than the RRB Method. Cash flow will not necessarily change.

One of the major advantages of the old accounting method was that it reflected current costs of track replacements in income and was sensitive to changes in inflation. Conversely, the new method charges historic costs to income which, in these periods of high inflation, are much less than the cost to replace track. An illustration of the impact of inflation on earnings is shown in the supplemental financial data presented in pages 46 and 47 of this report. This supplemental data further indicates that if our assets were stated at levels consistent with general inflation, our consolidated net income for the year 1982 would have been \$12.6 million, as compared to the \$33.3 million reported under RRB. Use of depreciation accounting for track structures would result in higher earnings, making this gap even larger but, at the same time, this method would not provide any additional cash flow.

Your Company continues to monitor and oppose special legislation to allow the condemnation of private property for the construction of coal slurry pipelines. Several states have initiated legal action challenging the proposed use of Mis-

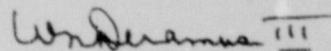
souri River water to transport the coal slurry through the pipeline. We are a party to these legal proceedings in order to protect the water interests of the states which are within our market and to preserve the environment of that region.

In 1982, we remained financially strong in the face of severe downturns in the national and world economy, deregulation and mergers. Our strategy of diversification through the holding company (KCSI) continues to provide geographic balance as well as complimentary businesses and markets. KCSI will continue to provide its subsidiaries with support in the areas of planning, resource allocation, management development and financial backup. At the same time, we expect each subsidiary to function as an independent and decentralized profit center.

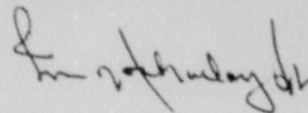
We are proud of the fact that 1,374 of our employees participated in the most recent offering of the Employee Stock Purchase Plan, adopted in 1977, and purchased 218,939 shares of common stock creating a partnership with our employees as well as with our shareholders in the prosperity and increased productivity of this Company.

The loyalty, effectiveness and dedication of our managers and employees is KCSI's most significant asset and has enabled this Company to perform positively in recent years even when faced with 1982's depressed economy. Therefore, it is appropriate that we conclude this letter by thanking this outstanding group of performers. They are highlighted both collectively and as individuals in this 1982 Annual Report.

1983 will be a year of challenge. Our objectives are to enhance long-term growth and to preserve and improve earnings in spite of probable poor economic conditions in selected areas.



William N. Deramus III
Chairman of the Board



Irvine O. Hockaday, Jr.
President and Chief Executive Officer

March 16, 1983

1982 In Review

SUMMARY AND BACKGROUND

The Company's consistent growth in earnings and revenue, spanning 1975 through 1981, was interrupted in 1982 as a result of the progressive deterioration of the economy which primarily affected the Company's transportation segment.

Net income declined from \$38.7 million in 1981 to \$33.3 million in 1982. However, severe erosion of transportation operations was partially offset by improved results from other business segments reflecting the overall balance and resilience of our blend of diverse operations. For example, the financial services segment of the Company, particularly DST Systems, Inc., continued a pattern of dramatic growth.

PERFORMANCE

With the foregoing comments as background, we are pleased to provide a capsule summary of 1982 in this section of our annual report. The following comments highlight 1982 operating results, products and services, capital employed, economic conditions, and, most importantly, the considerable accomplishments of our people. This section also provides an indication of our planned directions for 1983 and the future.

1982 began with first quarter earnings increasing 11%. Second quarter operations witnessed the commencement of a downtrend, although earnings did increase 9% over 1981. The decline accelerated in the third and fourth quarters and more than offset improved earnings during the first half of 1982. These factors resulted in our first annual earnings decline since 1975.

Despite a decline in rail revenues for the year, 1982 consolidated revenues reached an all time high of \$384.3 million. This revenue growth reflected the Company's ability to expand its overall range of products and services and increase its prices in the face of continuing inflation and a declining economy. However, these same economic conditions, coupled with price compression from railway deregulation, com-

bined to suppress railway freight rates on general commodities. As a result, 1982 railway revenues were adversely affected.

The slow but continuing decline in short-term interest rates contributed favorably to earnings. In addition, more cost-effective pricing arrangements on selected portions of corporate and subsidiary debt and lower overall levels of long-term debt reduced the Company's interest bill for the year. This reduction in interest expense improves earnings and provides a positive stimulus to future growth plans.

The changing nature of financial markets has provided significant new opportunities for DST and Pioneer Western. The successful development of these opportunities is discussed later in this report.

The real estate operations improved and revenue growth and income from operations both set new records. Thoughtful coordination of real estate goals with transportation-segment strategies contributed substantially to these results.

Broadcasting operations also improved in both revenues and income from operations compared with 1981. This was a laudable accomplishment considering the depressed economies of the areas serviced by our broadcasting companies. Excluding certain seasonal fluctuations, there was relatively weak demand for advertising time and a resultant compression of rates occurred. These negative factors were offset by creative and imaginative local programming and network programming adjustments. As a result, our television stations led their respective markets in total viewers as well as in most other broadcast ratings.

Increased income taxes were another factor that reduced earnings in 1982. Our overall consolidated income tax rate increased from 20.1% in 1981 to 24.5% in 1982 because of lower investment tax credits resulting from our railroad's curtailed capital spending program.



The officers of Kansas City Southern Industries, Inc., seated from left to right: Donald L. Graf, Vice President and Chief Financial Officer; Michael F. McClain, Senior Vice President, Marketing; Irvine O. Hockaday, Jr., President and Chief Executive Officer; and Robert E. Zimmerman, Senior Vice President, Law. Standing, from left to right: Richard P. Bruening, Vice President and General Counsel; Landon H. Rowland, Vice President; James E. Judge, Vice President and Manager of Corporate Systems; Thomas A. Giltner, Vice President and Comptroller; Jack L. Doveney, Vice President, Personnel; and Albert P. Mauro, Corporate Secretary. Not shown: Vernon C. Pragman, Treasurer; Phillip S. Brown, Vice President, Governmental Affairs; and Donald T. McMahon, Vice President, Industrial.

Employment levels fluctuated during 1982. DST Systems, Inc., increased its employment substantially, adding over 400 people in Kansas City and in the Boston area. Rail operations progressively reduced employment throughout this year. This reduction placed a great burden on our remaining people who have responded superbly.

On the regulatory front, your Company continued its opposition to the Union Pacific's proposed acquisition of control of the Missouri Pacific and Western Pacific companies. The extensive proceedings before the Interstate Commerce Commission were preliminarily concluded on October 20, 1982, with a formal decision by the commission approving the request of the Union Pacific Railroad, subject to certain conditions. The new system will be known as the Pacific Rail System. Although we asked for trackage rights over portions of the Missouri Pacific Railroad to insure competition with the proposed Pacific Rail System, the commission denied our request. The consolidation of the three railroads is expected to be implemented in 1983. We intend to continue seeking judicial relief. In the meantime, the management and employees of Kansas City Southern Lines are determined to compete successfully with this much larger system.

YEAR END SUMMARY

Despite a decline in earnings as noted in the foregoing operating results, your Company concluded 1982 with (1) an expanded array of products and services, principally in the financial services segment, (2) an improved overall finan-

cial condition to support growth in 1983 and (3) a commitment to re-establish the favorable earnings trends of prior years.

In summary, we concluded 1982 and entered 1983 on the following footing:

Consolidated net worth increased to \$259.3 million, as a result of earnings retention (less the \$9 million dividends paid to our shareholders). Additional capital was contributed by our employees who participated in the Company's stock purchase and stock option plans.

This growth in net worth translates to a book value per common share of \$25.47, an increase of 10% over 1981.

Working capital increased to \$4.3 million, double the \$2.1 million available at the end of the preceding year. The growth in working capital resulted from \$635 million in working capital provided from operations (\$328,000 above 1981) and significantly curtailed capital expenditures reflecting a commitment to liquidity in response to economic realities. Increased liquidity was accomplished while supporting the needs of our expanding financial services segments.

Looking toward 1983 and beyond, the Company has increased its lines of credit. Unused credit lines of \$26 million at the end of 1982 compare favorably to comparable unused lines at the end of 1981 totaling \$14 million.

Working capital increased to \$4.3 million, double the \$2.1 million available at the end of the preceding year.

Although not directly reflected in the accompanying financial statements (see Note 11 in the financial section), on March 16, 1983 DST Systems, Inc. (DST), made a public offering of 1,375,000 shares of DST common stock. As a result of the sale of those shares, approximately \$30 million of additional equity capital will have been raised. A significant portion of that money will be used to retire the outstanding debt owed to the Company. It is expected that the public offering will create a public market for DST shares, give DST access to another source of funds for future growth and improve the debt-to-equity ratios and implicit credit ratings of both DST Systems, Inc. and Kansas City Southern Industries, Inc.

THE FUTURE

We believe the Company's portfolio of services and products will grow in a disciplined fashion during 1983.

Some improvement in general commodity loadings is expected during the latter part of 1983. Further, shipper preferences appear to favor a continuing movement to intermodal traffic between trains and trucks which we can serve effectively.

Unit coal train movements, principally from Kansas City to various utilities served by Kansas City Southern Lines, should continue to provide a stable base of traffic. Unit coal trains contribute favorably to our traffic mix and enhance operating performance as a result of certain economies associated with handling these movements and the relative predictability associated with them. Coal tonnage handled is expected to grow modestly in 1983. At the same time, our existing tariff arrangements provide opportunities to adjust our rates commensurate with changing levels of costs.

We continue to seek ways to provide new services to off-line shippers and enhance the service level to existing customers. This effort requires cooperation and coordination with other rail systems. Our Traffic and Operating Departments see growth opportunities through a variety of cooperative arrangements.

DST Systems, Inc., is expected to enjoy continued growth. Subsidence in the explosive growth of money market funds may be offset by other factors including the requirement that financial institutions withhold income tax on interest and dividends.

The other products and systems offered by DST Systems, Inc., are also expected to grow. Increasing customer awareness at both the retail and wholesale level, coupled with the many proprietary features of DST's software systems, should permit further market penetration by DST's Security Transfer System, Annuity System and Portfolio Accounting System.



The Deramus Yard in Shreveport, Louisiana, is the main terminal and the center of operations for Kansas City Southern Lines.

In 1982, Pioneer Western Corporation and its affiliated companies sold their first public and private oil and gas investment programs. Market acceptance of these programs and a demand for similar programs in 1983 has caused the company to actively plan further offerings.

The dominant subsidiary of Pioneer Western, Western Reserve Life Assurance Co., also performed well in a volatile marketplace due to management's success in obtaining, training and motivating its agency field operation. Pioneer Western's management has also been innovative in the introduction of new insurance products designed to meet the current needs of the marketplace.

Broadcasting operations also expect further change in the overall structure of their markets during 1983. Certain conditions which affected the growth of our television stations, such as local economic conditions in the market areas they serve, are beyond their control. Nonetheless, further growth can be accomplished through creative approaches in local news programming, expansion of television coverage of significant human interest and sporting events with local and regional appeal, and cooperative efforts with the networks with which our stations are affiliated.

Although not separately reflected in segment operating results, manufacturing operations of The American-Coleman Company in 1983 should benefit from an economic turnaround. The company's product lines are essentially capital intensive and demand for them is influenced by interest rates which affect the cost of acquiring capital goods, pricing and product features. It is contemplated that product line enhancements coupled with several major bidding efforts in 1982 will result in 1983 sales growth in the company's Champion Trailer Spotting Tractor and Aircraft Towing Tractor products. This growth is targeted in both the commercial and government sections of the economy.

Your Company continues to explore other opportunities to expand into new lines of business or, alternatively, expand existing lines into new



Employees using computer programs provide mutual fund shareholders with a full-service transfer agency, one of the financial recordkeeping services offered by DST Systems, Inc.

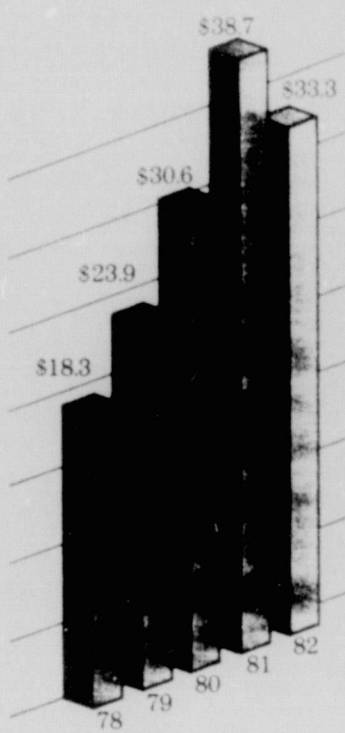
growth areas. To date, these activities have frequently been pursued in the form of joint venture arrangements with other parties. Our recent involvement as a party to Cellular Radio application filings in selected cities in the United States is an example of this effort and reflects our interest in monitoring the evolution of the telecommunications industry.

In summary, the foregoing review of 1982 reflects (1) a company actively involved in preserving its stream of earnings despite poor economic conditions, (2) responsive subsidiary management meeting these challenges, (3) a corporate enterprise stronger at the end of 1982 than it was when it began the year, and (4) a company with realistic and promising strategic growth plans for 1983 and ensuing years. This level of achievement has been possible through the efforts of our most valuable resource, our people. Their willingness to meet the challenges of the year, coupled with an ongoing commitment to future planning and accomplishment, enables our shareholders to view our future confidently.

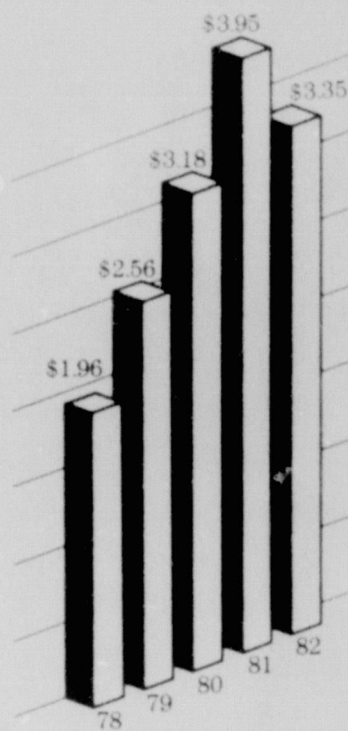
The balance of this annual report discusses individual segment results and concludes with the financial section.



Sales and Revenues
(Dollars in Millions)



Net Income
(Dollars in Millions)



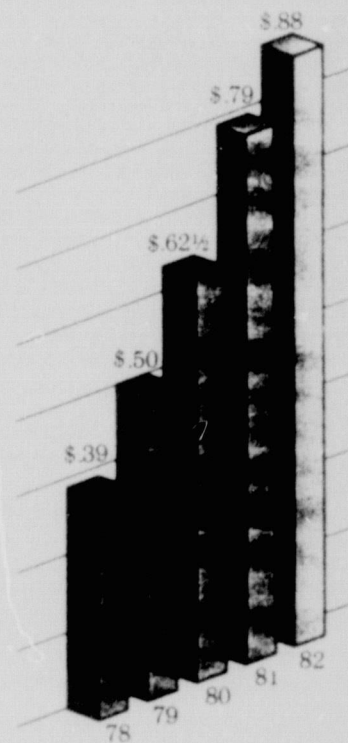
Earning per Common Share



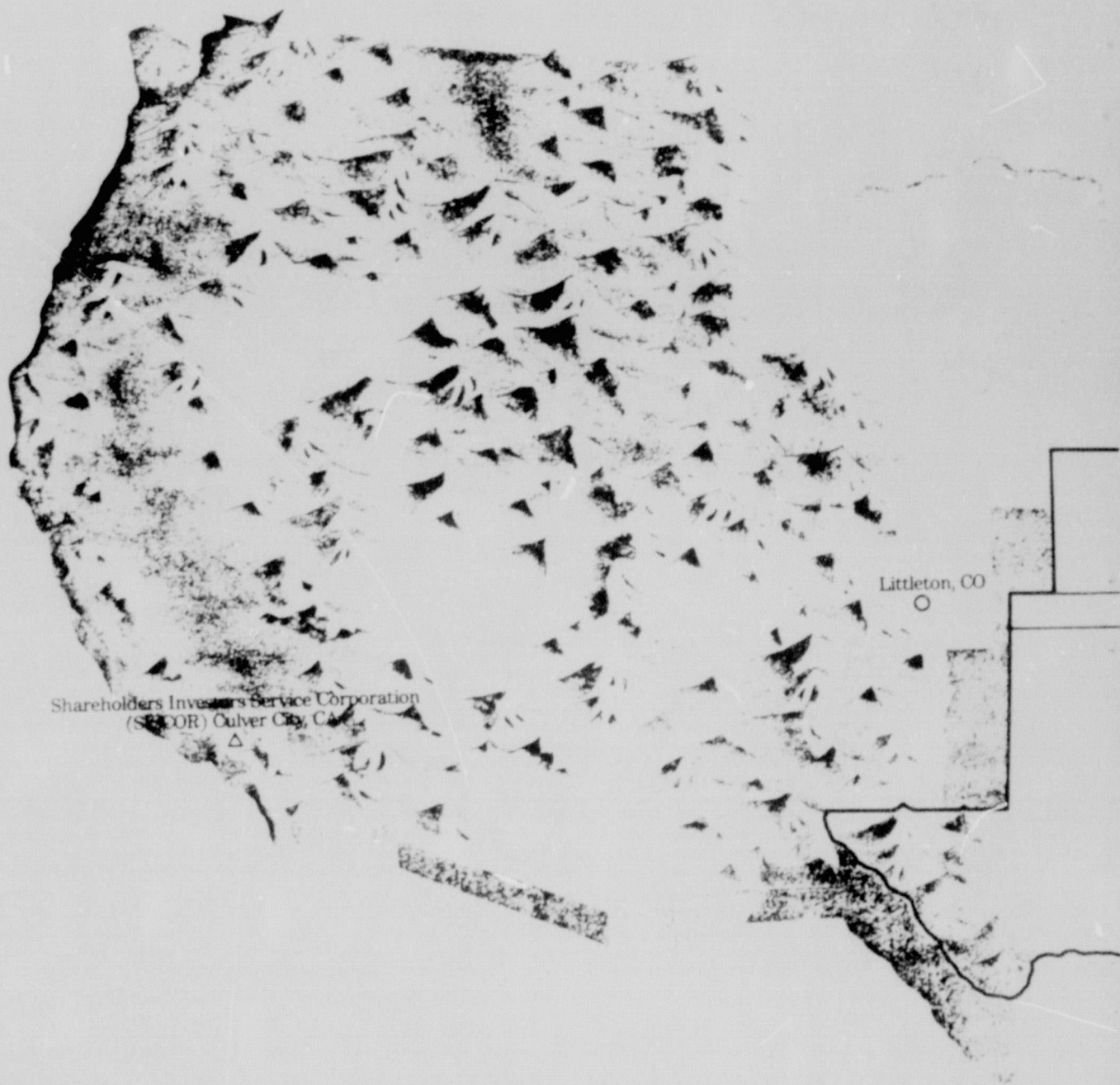
Common Stockholders' Equity
(Dollars in Millions)

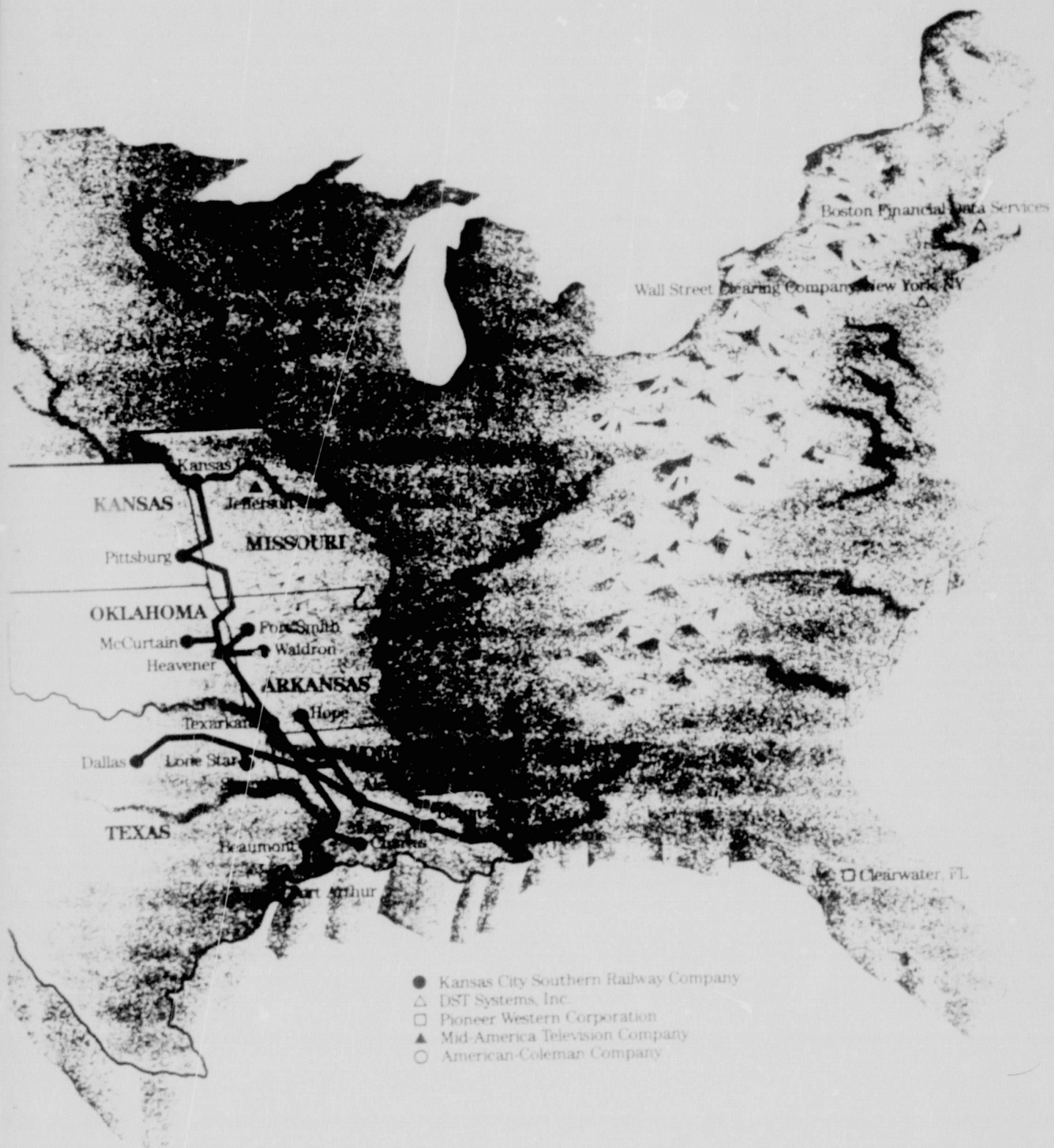


Price Range—Common Stock
■ High ■ Low



Dividends—Common Stock







Thomas S. Carter, President and Chief Executive Officer of The Kansas City Southern Railway Company, and officers gathered in the computer center, from left to right: Robert E. Zimmerman, Senior Vice President, Law; Jerry E. Gregg, Vice President, Operations; Leo J. Tamisiea, Vice President, Pricing; Jack L. Deveney, Vice President, Personnel; Donald T. McMahon, Vice President, Industrial; Richard P. Bruening, Vice President and General Counsel; Michael F. McClain, Senior Vice President, Marketing; and Donald L. Graf, Vice President and Chief Financial Officer. Not shown: Vernon C. Pragman, Treasurer; Thomas A. Giltner, Vice President and Comptroller; and Phillip S. Brown, Vice President, Governmental Affairs.

Transportation



On the steps of diesel locomotive No. 671, bottom to top: Thomas S. Carter, President and Chief Executive Officer of The Kansas City Southern Railway Company; Joe Webb, Assistant Vice President, Transportation; J.B. Rogers, Assistant Vice President, Mechanical; Johnny Hughes, Vice President, Executive Department; and Jerry Gregg, Vice President, Operations.

All along the 1663 miles of the Kansas City Southern Lines, people remember the good that often comes with economic hard times. Some say we learn how tough we are. The challenge during hard times is to eliminate weaknesses and use strengths to survive. The difficult economic conditions of 1982 have given us a clearer view and a greater appreciation of our strengths, including the people we serve as customers and the people who are this railway company.

As compared with 1981, this report shows that the tonnage handled by the KCS Lines increased by 8.4%, while our expenses increased 3.9% but revenues decreased 0.5%. What the figures do not reveal is the commitment of our employees who worked so hard in 1982 to overcome the effects of national economic problems. We have finished 1982 as a stronger, more viable railway serving the world from the heartland of America.



Shown at the Central Traffic Control Console in Shreveport, Louisiana, front to rear: B.W. Mabry, Secretary to the Chief Dispatcher; T.A. Tucker, Dispatcher; and B.M. Deaver, Director of Transportation.



The Operating Group of The Kansas City Southern Railway Company, from left to right: Jerry Grogg, Vice President, Operations; Joe Webb, Assistant Vice President, Transportation; Armeal George, Jr., Trainmaster; M.W. Hahn, Assistant Superintendent, Transportation; and D.E. Johnson, Superintendent.



The Mechanical Group of The Kansas City Southern Railway Company, from left to right: J.B. Rogers, Assistant Vice President, Mechanical; D.R. Johnson, Superintendent, Locomotives; T.L. Haney, Superintendent, Car Department; and C.R. (Bob) Jones, Superintendent of Shops.

REVENUES

Gross operating revenues from transportation in 1982 totaled \$313 million compared with \$314.5 million in 1981, a decrease of 0.5%. Revenue from handling general commodities such as agricultural, chemical, paper and forest products totaled \$225.3 million or 72% of total revenues. Unit coal train revenues totaled \$73.8 million or 23.6% of total revenues.

Switching revenues accounted for \$10.1 million or 3.2% of KCS Lines' revenues in 1982. Demurrage, the compensation paid when rail cars are detained for loading or unloading beyond the published time, accounted for \$2.4 million, or 0.8%; and all other transportation revenues totaled \$1.4 million or 0.4%.

Railways measure freight handled in net ton miles (one ton of freight moved one mile). During 1982, Kansas City Southern Lines handled cargo totaling 10.76 billion net ton miles, an increase of 8.4% over the 9.93 billion net ton miles in 1981. Unit coal trains were the major factor in this increase, while the volume of general commodities decreased slightly.

EXPENSES

Consolidated Operating Expenses for transportation operations during 1982 totaled \$272.5 million, compared with \$262.3 million in 1981, an increase of 3.9%.

Transportation Expenses for 1982 were \$112.6 million compared with \$109.6 million in 1981, an increase of 2.7%. Maintenance of Way Expenses for 1982 were \$59.9 million compared with \$57 million in 1981, an increase of 5.1%. Equipment Maintenance Expenses including equipment rentals in 1982 were \$46 million, compared with \$45.3 million in 1981, an increase of 1.5%. Traffic and General Expenses in 1982 were \$32.4 million compared with \$32 million in 1981, an increase of 1.2%.

We have finished 1982 as a stronger, more viable railway serving the world from the heartland of America.



The men who oversee the roadway of The Kansas City Southern Railway Company, from left to right: Bobby Moser, Engineer, Maintenance-of-Way; T.L. Barker, Division Engineer; John H. Hughes, Vice President, Executive Department; and A.W. Reid, Assistant Vice President, Maintenance-of-Way.



The Marketing Group of The Kansas City Southern Railway Company, from left to right: I.W. Ploth, Vice President, Market Development; H.W. Davis, Vice President, Sales; Leo J. Tamsiea, Vice President, Pricing; and Michael F. McClain, Senior Vice President, Marketing.

BUSINESS DEVELOPMENT

National economic conditions and the deregulation of the rail industry resulted in keen competition in all areas of transportation in 1982. Freight rates were lowered by motor carriers as well as railways. These revenue-reducing forces were offset at KCS Lines by the increase in unit coal train volume and a full year of operation by International Paper Company's new paper mill at Bayou Pierre, Louisiana.

Kansas City Southern Lines has kept pace with the concept of transport services which link railways and trucking lines. Landa Motor Lines, a wholly-owned subsidiary of Louisiana and Arkansas Railway Company, which is wholly-owned by The Kansas City Southern Railway Company, was granted additional highway operating authority to serve all points within KCS Lines' six-state region of Missouri, Kansas, Arkan-

sas, Oklahoma, Texas and Louisiana, plus authority to operate in the five adjoining states of Nebraska, Iowa, Illinois, Mississippi and Alabama. The KCS Lines' Marketing Department, through its sales group, has been actively promoting transportation opportunities using Landa Motor Lines' trucks and trains of KCS Lines.

In addition to the truck-train connection, KCS Lines continues to benefit from the Big "D" Connection, the coordination of freight schedules between trains of the Santa Fe and Kansas City Southern Lines meeting in Dallas. The Big "D" Connection provides five-day service from northern California to New Orleans.

Unit coal trains provide increased volume for KCS Lines and cost savings for our customers, including several major utility power plants along the KCS Lines.

Our coal-carrying capacity far exceeds even the most optimistic figures presented by developers of the proposed coal slurry pipeline.



The Kansas City Southern Railway Company Claim Department, seated from left to right: James H. Reynolds, General Claim Agent; Michael Thibodeaux, Assistant Claim Agent. Standing, from the left: Paul B. Gardner, Claim Agent; C. Michael Amis, Claim Agent; a. J. Gary L. LaBorde, Claim Agent.



Operating and Purchasing departments of The Kansas City Southern Railway Company, left to right: O.C. Burge, Assistant Vice President, Operations; R.O. Mustain, Signal Engineer; Jerry Gregg, Vice President, Operations; S.L. Carpenter, Director of Purchasing; and B.R. Amis, General Superintendent, Joint Agency.

Our coal-carrying capacity far exceeds even the most optimistic figures presented by developers of the proposed coal slurry pipeline. Special legislation, which would allow condemnation of private property for building the slurry pipelines, was not approved by the 97th Congress. Several states have initiated legal action challenging the proposed use of Missouri River water required to transport the coal slurry through pipelines.

During 1982, the industrial and real estate department of KCS Lines reviewed all lease and rental contracts, which resulted in an increase of \$1.7 million a year from these contracts. Land owned by the railway in and near oil and gas fields produced \$1.3 million in oil and gas lease revenue; during 1982.

EMPLOYEE RESOURCES

During 1982, new three-year contracts were negotiated and signed with all railway unions. A brief, four-day strike by the Brotherhood of Locomotive Engineers against all Class I Carriers, including KCS Lines, ended when labor and railway leaders signed agreements after recommendations made by a Presidential Emergency Board.

TRAINING PROGRAMS

In order to improve productivity and safety of the railway work forces, a number of training programs were implemented during 1982. A Train Dynamic Analyzer, which is a computer-assisted simulator for locomotive operation, is being used to train and retrain locomotive engineers.

Implementation of computer programs has been made in every department of the railway. Safety programs have been established at all levels of operations.

During 1982, Kansas City Southern Lines handled cargo totaling 10.8 billion net ton miles.

MERGERS

The Interstate Commerce Commission approved the Union Pacific's acquisition of the Missouri Pacific and Western Pacific. The transaction was finalized on December 22, 1982. KCS Lines and several other rail carriers have begun legal proceedings in federal court as a result.

MAINTENANCE PROGRAMS

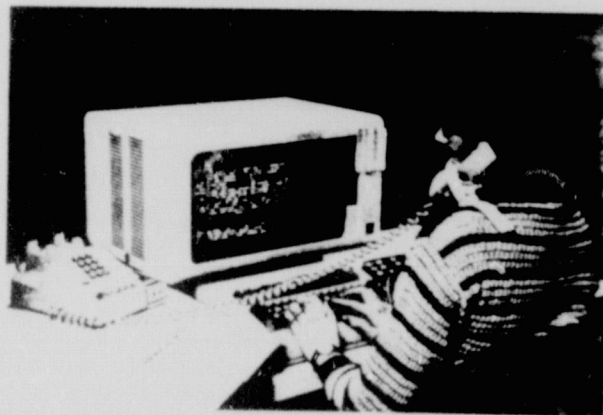
High standards of maintenance for both roadway and equipment were continued on KCS Lines during 1982. On the roadway, 409,000 cross ties were replaced, and 487,000 tons of ballast were applied. Of the 172 track-miles of rail replaced, 159 miles were replaced with continuous welded rail. In addition, 36 miles of in-track rail was welded; 2,483 miles of track, including yard track and sidings, were lined and surfaced; 240 road crossings were improved; and 168 sets of switch ties were set in place.

In the Locomotive Shops during 1982, 521 power assemblies were applied, 218 traction motors were replaced and 36 turbo chargers, 16 DC generators and three alternators were installed.

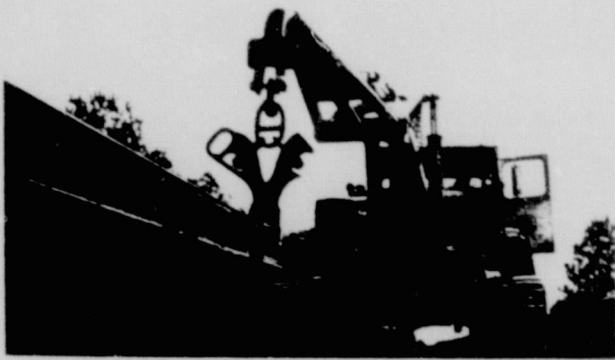
In the Car Shop, 251 car sets of roller bearings were installed, 19 cars were modified to permit safe handling of ties, 18 cabooses were reconditioned and a number of major "bad order" cars were repaired and returned to service.



Phillip Tucker, left, and Ed Riley III work in the Locomotive Shop at the Deramus Yard in Shreveport, Louisiana.



Mary Clark, Customer Service Clerk, takes an order at the Customer Service Center in Shreveport, Louisiana.



Alton Rivers operates a crane used for lifting rail.



Machinists Danny Brannon and Billy Wright, foreground, work on an SD 40-2, 3,000-horsepower diesel engine in the Locomotive Shop at Shreveport, Louisiana.

CAPITAL IMPROVEMENTS

As mentioned earlier, 159 miles of continuous welded rail were placed in service in 1982, bringing the total to 732 miles of continuous welded rail in the system. During 1982, 100 miles of Centralized Traffic Control was added to the system. KCS Lines now has 717 miles of its line protected by the CTC. In addition to this protection, 17 new hotbox-and-dragging-equipment detectors were installed.

In 1982, KCS Lines replaced 17 open-deck timber bridges with concrete and steel structures.

Nineteen used GP-40 diesel locomotives were purchased and placed in service. These units are in excellent condition and will improve our fleet of 301 diesel locomotives. The average age of our locomotives is 14.2 years. In addition to regular maintenance of locomotives, 70 Sentry TM fuel savers were installed on the high-horsepower units during 1982.

As a result of contracts with NASA, four special rail cars for the transport of solid-fuel rocket engines were purchased and placed in service. The rocket engines used in the space shuttle program are hauled in these special cars. Fifty-one cars were modified to haul wood chips for the paper manufacturing industry. Twenty-two cars were modified to handle coiled wire. At year's end, KCS Lines freight car fleet numbered 7,129 units.

Kansas City Southern Lines
has kept pace with the concept
of transport services which link
railways and trucking lines.

Management wishes to thank its valued shippers and customers who have placed their goods in our hands for safe, efficient transportation.

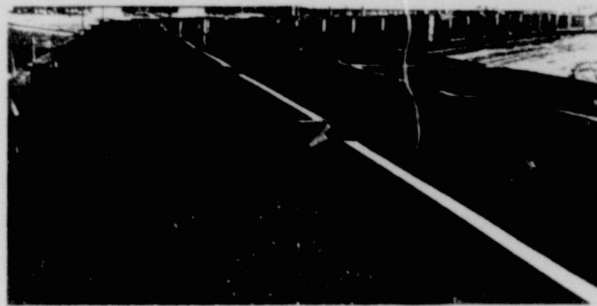
One new station building was completed and placed in service at Leesville, Louisiana, and the station building at Heavener, Oklahoma, was completely remodeled. New locker rooms were installed in the Car Shops at Shreveport. A new team track was constructed in the Kansas City yards. A number of improvements were made in the diesel locomotive shop building at Shreveport.

CONCLUSION

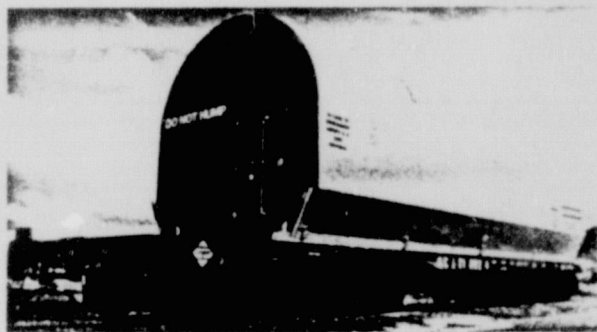
Management wishes to thank its valued shippers and customers, who have placed their goods in our hands for safe, efficient transportation. We realize that business activity for most, if not all, of our customers was depressed in 1982. Our hope is that 1983 will bring renewed and healthy growth in their businesses and ours and that together we will enjoy a long, sustained period of profit improvement. We are committed to doing our share to facilitate this process.

Management also wishes to express its sincere appreciation to its loyal employees and officers who have worked so hard during this most difficult year.

Kansas City Southern Lines will continue as a strong, viable railway well positioned to serve the midcontinent and gulf port regions, which are destined to outpace other areas when our country returns to better economic times.



Unit coal trains of 110 cars haul coal mined in Wyoming to power plants along The Kansas City Southern Railway as well as to the bulk marine terminal near Port Arthur, Texas, for loading onto ships.



This is one of three specially-designed flatcars provided by the Kansas City Southern Railway Company for transporting solid-fuel rocket engines manufactured by the Thiokol Corporation and used in NASA's Space Shuttle Program at Kennedy Space Center in Florida.





W. Scane Bouler, left, Chairman of the Board and Chief Executive Officer of the Pioneer Western Corporation, and Thomas A. McDonnell, President of DST Systems, Inc.

Financial Services



The officers of DST Systems, Inc., front row, left to right: Royce D. Closterman, Executive Vice President; Richard D. Stucky, Vice President; Thomas McDonnell, President, and Kent H. Flury, Vice President-Controller. Back row, left to right: David C. Ostermeyer, Vice President; Mark L. Harris, Vice President; Emory F. James III, Vice President and Corporate Secretary; Michael A. Waterford, Vice President; and Charles D. Carpenter, Vice President. Not shown, Laird E. Wiggin, Vice President.

DST Systems, Inc., is a financial recordkeeping company offering a wide range of services to the financial industry through its subsidiaries and joint venture entities. The primary markets for DST are financial service complexes managing mutual funds, providing annuities, insurance products and brokerage services to its clients.

During 1982, DST and its subsidiaries experienced growth in all product lines. Providers of financial services continued to develop new products utilizing money market funds as components and existing products were extended by adding new service features. DST has benefited from the availability of the Universal IRA, a strong equity market during the second half of the year, and record New York Stock Exchange volumes.

DST's business approach is concentrated on the development of sophisticated software systems for financial recordkeeping and integrated clerical operating procedures. This strategy utilizes a centralized computing capacity which has allowed DST to take advantage of the developments in computer technology and significant reduction in unit costs.

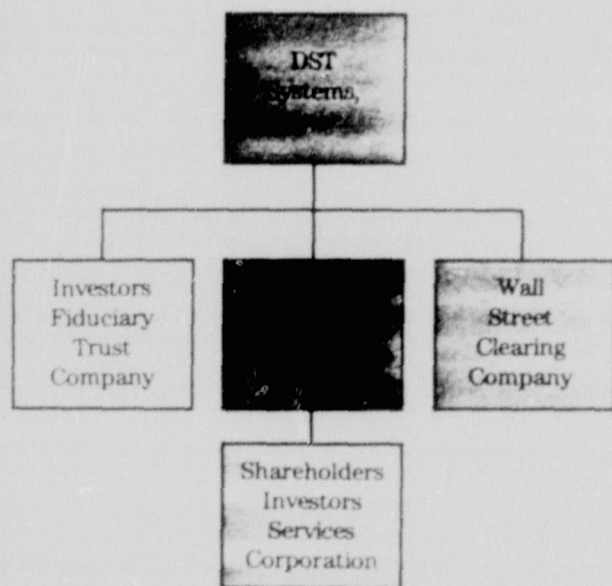
DST focuses its resources on software development and operating procedures. To support entry into new markets and to gain access to ancillary product lines and support services such as fiduciary and brokerage capabilities, DST has formed three joint venture partnerships.

Investors Fiduciary Trust Company, Inc. (IFTC), is a joint venture of DST and Kemper Financial Services, Inc. IFTC provides fiduciary services for tax-deferred investment plans such as Individual Retirement Accounts, Keogh and 403(b) plans. In 1982, IFTC began offering mutual fund custody services. It also acts in a similar capacity as trustee for Unit Investment Trusts. At the end of 1982, the trust company had \$1.5 billion of assets under custody. IFTC has recently been approved as a MasterCard and VISA issuer for its proprietary product, the Investors Moneycard.²⁰

Boston Financial Data Services, Inc. (BFDS), is a joint venture of DST and State Street Boston Corporation, the parent company of State Street Bank and Trust Company. BFDS provides shareholder recordkeeping services from its location in Boston, Massachusetts, utilizing DST's computer facility and software in a dedicated telecommunications network between Boston and Kansas City. BFDS combines DST's data processing expertise with the marketing capabilities of State Street Bank, the largest mutual fund custodian in the United States.

During 1982, BFDS acquired Shareholders Investors Service Corporation (SISCOR) located in Los Angeles, California. SISCOR services shareholder accounts for mutual funds and securities transfer clients. SISCOR provides a west coast processing facility similar to the one operated by BFDS in Boston, as well as direct exposure to west coast markets.

Wall Street Clearing Company (WSCC), located in New York's financial district, is a member of both the New York and American Stock Exchanges. WSCC provides clearing services to broker/dealers including the execution of securities trades on all major stock exchanges and over-the-counter markets. Margin, cash and option accounts are processed, and customer statements and required regulatory reports are also produced. WSCC has given DST direct exposure to the processing requirements of brokerage accounting and provides access to brokerage services for DST clients and their customers.



Employees in the Annuity Department of DST Systems, Inc.

DST distributes, both directly and through its joint venture organization, four primary application systems:

- **Mutual Fund System**

This system maintains the detailed records of shareowners of mutual fund companies. For investors in mutual funds, the DST Mutual Fund System processes such transactions as the purchase or redemption of shares, transfers of accounts and exchanges between funds. The system also calculates and pays dividends, and solicits and tabulates proxies. Approximately 6,000,000 shareholder accounts are processed for 375 mutual funds.

- **Securities Transfer System**

This DST system provides recordkeeping services for nonmutual fund companies. Banks, using terminals connected with DST's central computer facility, use the Securities Transfer System to service their clients.

- **Annuity System**

This system is DST's entrant in the insurance processing field. The Annuity System maintains policyholder records, processes subsequent purchases or withdrawals, calculates and pays commissions, and produces required statutory reserve and regulatory reports. Currently, more than 160,000 policies are maintained for 14 insurance companies.

- **Portfolio Accounting System**

This system maintains records of security positions held, tax costs, dates of acquisition, unrealized gains or losses, previous year's earnings and similar data. The Portfolio Accounting System is used by investment managers to control the portfolio inventories and for certain money management and trading activities.

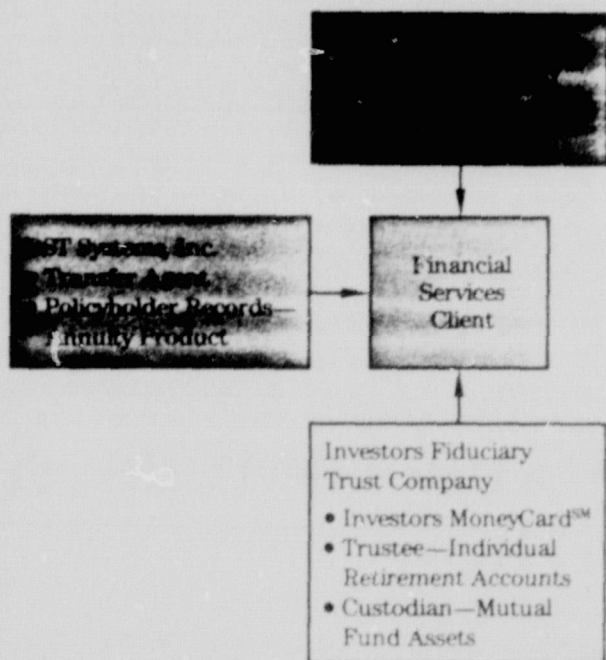
DST's business approach is concentrated on the development of sophisticated software systems for financial recordkeeping...

DST's joint ventures allow DST to service a diverse group of clients with a wide range of services by providing access to all systems through various subsidiary organizations.

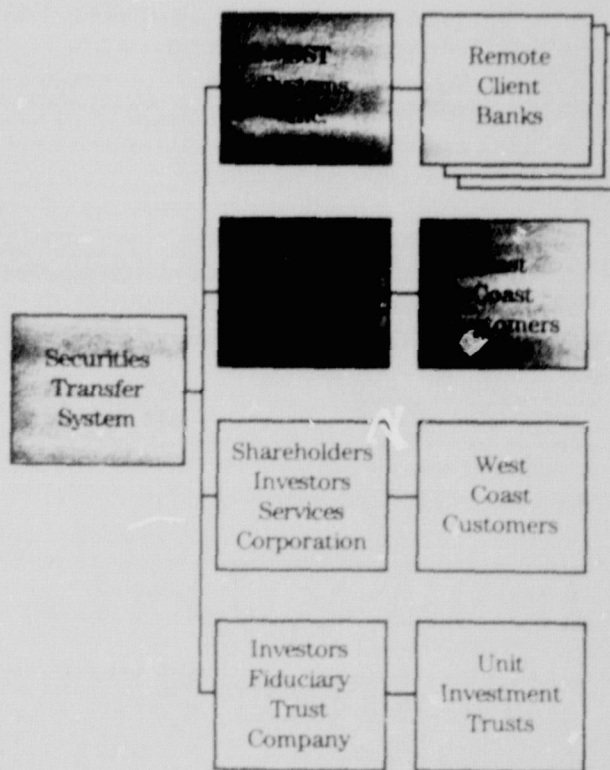
The following chart illustrates a situation in which DST, IFTC and Wall Street Clearing serve a common client. This diversity of product offerings, enabling the client to satisfy substantially all of its processing and supplementary product needs through DST's family of companies, has contributed to DST's growth.

Other DST clients may require access to a limited number of DST's products but have geographic or servicing preferences that lead them to contract with one of DST's joint venture partners. The following chart shows how one system, the Stock Transfer System, can be offered through three different distribution channels to different target markets.

Multiple DST organizations serve one client



DST Provides Distribution Alternatives



Continuing changes in product offerings by DST's clients have required DST to serve client needs with ongoing systems development. This has resulted in significant expansion of DST's clerical and operating forces. These talented and well-trained people have added a critical ingredient to the sophisticated capabilities of computer hardware.

In 1982, DST's revenue increased 86% from \$20.2 million to \$37.5 million. Correspondingly, operating income increased 76%.

The velocity of change that has occurred in the financial services industry in recent years continued, and the banking industry began offering brokerage services. The Depository Institution Deregulatory Committee (DIDC) allowed banking institutions to offer competitive interest rates on accounts to challenge money market funds. These and other changes caused DST's clients to alter their strategies and adapt their products to the changing environment. DST will continue to provide support services for these evolving products and to address industry needs effectively and rapidly.

In 1982, Pioneer Western continued its pattern of increased earnings contributions to KCSI. As a marketer of individual consumer financial products with a broad base in the economically hard-hit midwestern industrial section of the United States, this was a most challenging year for the people of Pioneer Western.

In the mid-1960's Pioneer Western became interested in offering the public expanded financial services and began marketing life insurance in conjunction with a mutual fund product. Since that time, the company has become a leader in financial planning, offering a continually increasing number of investment programs and life insurance products.



Jack R. Kenney is President and Chief Executive Officer of Western Reserve Life, the insurance company subsidiary of the Pioneer Western Corporation in Clearwater, Florida.

The oldest and largest Pioneer Western subsidiary, Western Reserve Life, began business in 1959. Western Reserve Life achieved a milestone during 1982 when it surpassed \$3 billion of life insurance in force. Assets of Western Reserve Life increased to \$135.3 million by year end, up from \$130.5 million at the end of the prior year. Income from investments rose from \$7.8 million to \$8.7 million in 1982. Net income from life insurance operations was \$6.1 million, up 9% from the \$5.6 million earned in 1981.

Today, consumers are searching for the path to financial success, a roadmap to financial security. They seek help with tax planning, investment growth, accumulation of assets and income-producing products. This is especially true in the middle-income market. This marketplace has been, and is today, well covered by life insurance agents. We believe our strategic marketing plan gives Western Reserve Life district agents advantages in the middle-income marketplace.

**In 1982, DST's revenue increased
86% from \$20.2 million
to \$37.5 million.**

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Western Reserve Life achieved a milestone during 1982 when it surpassed \$3 billion of life insurance in force.

Western Reserve Life's financial plan provides clients an overall view of financial planning which includes budgeting, asset accumulation, estate planning and protection, and tax shelter planning. The Western Reserve Life client is encouraged to develop a goal structure for financial success. Western Reserve Life's marketing strategy recognizes that life insurance is one ingredient of a financial plan that includes other financial products such as oil and gas investments and real estate.

Continued success of life insurance company operations depends upon a fine balance of professional disciplines. The actuarial staff must combine its expertise with that of the investment and operations departments to provide modern and competitively priced products. The sales, underwriting and policy holder services departments must complement each other in producing quality sales, responsible underwriting of mortality risks and outstanding customer services. Western Reserve Life personnel have provided the company with unusual strengths in each of these important professional areas.

In the increasingly competitive arena of financial services marketing, life insurance sales alone can no longer support the desired corporate growth of Pioneer Western nor the necessary financial rewards for sales representatives. From a life insurance base of over 1,100 sales representatives, most of whom are also licensed to sell

securities, and the Home Office operations staff of 200 people, Pioneer Western is able to market a broad range of investment products. Since the late 1960's, Pioneer Western has become a significant force in the marketing of mutual funds through its Western Reserve Financial Services broker/dealers and a large network of independent broker/dealers who sell our Western Reserve Life products. With the development of a broader understanding of the importance of complete financial planning by the buying public, Pioneer Western has moved to provide an even greater range of investment products to its sales force and their clients.

Pioneer Western makes a very strong commitment to its agents in the area of sales training. Financial services seminars for newly recruited agents are held monthly at the Home Office in Clearwater, Florida. In addition, field training programs are conducted throughout the country as required for new-product introduction and advanced training.

During 1982, Western Reserve Financial Services arranged with Wall Street Clearing Company, another KCSI subsidiary, to allow its sales group to accommodate clients in the sale and purchase of stocks and bonds. Western Reserve Financial Services also acts as the principal underwriter to other broker/dealer organizations for the marketing of Pioneer Western sponsored limited partnerships in oil and gas, as well as real estate.

Pioneer Western Energy Corporation began operation in 1982. This group's marketing efforts are based on the concept that ownership of oil and gas production is one of the most basic investment values. Pioneer Western Energy provides tax-advantaged investment opportunities for its clients. In 1982, a publicly registered developmental drilling limited partnership, and two private developmental drilling partnerships raised \$6.8 million for drilling in the Appalachian Basin. KCSI participated in the two private offerings as a completion-limited partner purchasing the functionally-allocated tangible costs.

In a year which saw Wall Street abandon the oil and gas industry and many of the long-term promoters of oil and gas drilling funds withdrawing from the market, Pioneer Western Energy's first nine months have been a significant success and Pioneer Western intends to expand its efforts in offering additional investment vehicles for 1983, including a public oil and gas income fund to supplement previous drilling programs. The success of these programs is enhanced by the development in the past of a talented, experienced and dedicated management staff.

During the past three years a major change in the makeup of financial services companies has taken place. The acquisition of life insurance companies by other life companies and other industries has been going on for years. However, starting with the acquisition of Bache, Halsey, Stuart and Shields, Inc., by the Prudential Insurance Company of America, major combinations of financial services companies threaten to change the distribution of life insurance and other financial services products. This trend



Drilling for oil and natural gas is part of the operation of the Pioneer Western Energy Corporation, another subsidiary of the Pioneer Western Corporation.

appears likely to accelerate. Companies that do not wish to become a part of one of the giants must combine a special product line of financial services with distinct marketing strategies. In each industry there are giants that dominate that industry, but there are also successful smaller companies that have developed a profitable niche.

Pioneer Western Corporation markets financial services which include life insurance products, planning, mutual funds, oil and gas, real estate and other tax-advantaged investments. Success will be achieved through innovative marketing, product design, and personalized services to our distribution system and our clients. A dedicated group of talented associates will make this possible and will insure Pioneer Western's continued success in a changing industry.

Companies that do not wish to become a part of one of the giants must combine a special product line of financial services with distinct marketing strategies.

Broadcasting & Manufacturing



Presidents of other major subsidiaries of Kansas City Southern Industries, Inc., include, from left to right, James B. Dehner, President of American Coleman Company, William R. Adams, President of Mid-America Television Company, and Marshall H. Dean, President of Carland, Inc.

Mid-America Television Company, KCSI's broadcast subsidiary, operates WEEK-TV, an NBC affiliate in Peoria, Illinois, and KRCG-TV, a CBS affiliate in Jefferson City, Missouri.

MATV's operating revenues increased 125%, from \$6.06 million in 1981 to \$6.81 million in 1982. Local advertising revenues of both stations increased 11%, with national advertising revenues increasing 9%. A new affiliate contract negotiated in 1982 between KRCG-TV and CBS increased affiliate network revenue 45%. During 1982, income from operations increased 29%, from \$1 million in 1981 to \$1.3 million in 1982.

In addition to the improved revenues and earnings, cost controls resulted in slower expense growth with broadcasting and operating expenses decreasing from 83% of revenue in 1981 to 81% of revenue in 1982.

The improved performance of both stations during a very difficult economic year is a reflection of a creative management and staff. Local news programming was expanded, as well as television coverage of human interest and sporting events with local and regional interest. The growth of electronic technology enabled the television operations to provide higher quality programs.

KRCG-TV in Jefferson City, the market leader in central Missouri, improved its picture and power in Central Missouri with a new TTG-50H (VHF) RCA transmitter and TF-12AH antenna making this station the most powerful in the market area. KRCG has also installed a new computer weather graphics system.

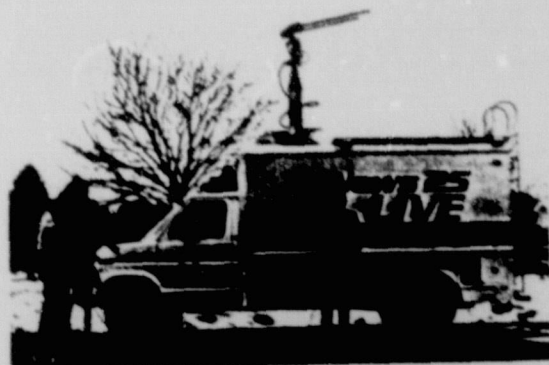
In 1982, The American-Coleman Company's income from operations increased significantly from the previous year. Revenues declined approximately 10%, reflecting the general state of the economy for capital equipment manufacturers.

In 1982, the company incurred startup expenses for manufacturing the Sentry fuel saver. This product has been introduced in both domestic and international markets and shows continuing promise.

Vehicle shipments declined 52% from the prior year, primarily because American-Coleman had no major government contracts in 1982. However, diversification into electronics and an increase in axle shipments helped offset most of the decline in vehicle revenues.

American-Coleman's primary product lines include the Champion trailer-spotting tractor used in shuttling trailers and containers in and around railroad piggyback yards, stevedoring operations and trailer terminal yards. A line of aircraft towing tractors is manufactured primarily for the U.S. Government. In addition, the company produces axles for its own use and for sales to commercial manufacturers. The Sentry Power Dispatch is a micro processor which automatically reduces power in railroad locomotives when that power is not needed. It has demonstrated significant fuel savings in extensive field testing.

Entering 1983, American-Coleman is well positioned to take advantage of improvement in general economic conditions and government contracts now in the bidding process.



WEEK-TV now uses a mobil unit which can broadcast live news coverage in the Peoria, Illinois area.



The American Coleman Company manufactures Champion trailer-spotting tractors used in moving trailers and containers in piggyback and trailer yards and in stevedoring operations.

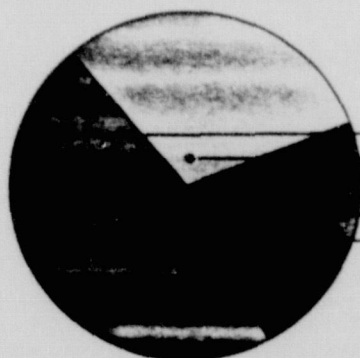
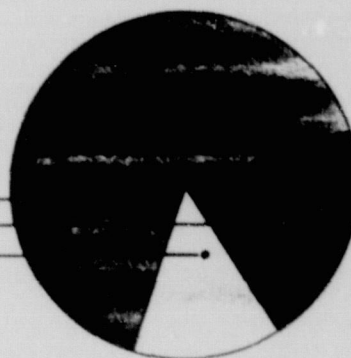
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Funds Generated—1982

From Operations — 65%
 Increase in Long-Term Debt — 22%
 From Other Sources — 13%



Funds Utilized—1982

For Property Acquisitions — 47%
 Reduction of Long-Term Debt — 30%
 Dividends — 9%
 Increase in Working Capital — 2%
 Other — 12%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Funds provided from operations constitute the primary source of the Company's liquidity. These funds aggregated \$63.5 million in 1982. Comparable amounts for 1981 and 1980 were \$63.2 million and \$45.5 million, respectively. A significant portion of the increase in 1982 and 1981 over 1980 resulted from an increase in deferred income taxes caused by higher tax depreciation permitted under the Economic Recovery Tax Act of 1981.

In addition, major capital expenditures for railroad rolling stock, locomotives and other equipment are normally financed through conditional sales agreements (CSAs) on a private placement basis and through intermediate term credit lines with banks. During 1982 the Transportation segment, because of adverse economic conditions, significantly curtailed equipment and property additions. Such additions were \$27.2 million less than 1981. In addition, much of the rolling stock acquired was used equipment, with approximately \$7 million financed under capital leases.

Other financial resources available consist of \$4 million under a revolving credit/term loan agreement by the Company's leasing subsidiary for equipment scheduled to be received in 1983, \$5 million bank line of credit for general corporate purposes of its Railway subsidiary, and \$17 million line of credit for general corporate purposes of the Company.

Another source of funds (\$25 million to \$30 million, depending on ultimate sale price of shares) in 1983 could result from the sale to the public of a portion of the common stock of a wholly-owned subsidiary of the Company (see Note 11, Subsequent Events).

Capital expenditures for equipment and facilities totaled \$45.9 million in 1982. Comparable expenditures in 1981 and 1980 were \$66.9 million and \$75.2 million, respectively. As noted above, the reduction in 1982 as compared to 1981 occurred in the Transportation segment.

Primary sources of financing have traditionally been from funds generated from internal operations, CSAs and bank loans. With the exception of Transportation road property, the Company expects to continue for the immediate future financing major capital expenditures through a combination of CSAs, bank loans and other intermediate or longer-term borrowings. Consistent with past practices, capital improvements and additions for road property will be financed using funds generated from internal operations.

Long-term debt was 42.3% of total capitalization at December 31, 1982, as compared to 46.0% at December 31, 1981. It is anticipated this ratio will continue to decline in 1983 from a combination of (1) repaying more long-term debt than that which is added for property acquisitions and (2) retention of earnings.

Operating Results

Consolidated sales and revenues increased \$114.2 million during the three year period when comparing 1982 with 1979. Percentage increases over the immediate prior year amount to 4.4% in 1982; 13.5% in 1981; and 20.1% in 1980. In 1982 related costs and expenses, as a percent of revenue, reversed a trend and increased to 84.3% from 82.1% in 1981 (the comparable amount in 1980 was 84.8%). Transportation segment had a decrease in both revenues and gross margins in 1982 as compared to 1981.

Transportation segment revenues increased \$88.2 million during the three year period ended December 31, 1982 but declined \$1.5 million in the latest year. The

overall growth for the three year period resulted from a combination of freight rate increases and volume increases from additional unit coal train movements, partially offset by declines in general commodity carloadings. As a result of adverse economic conditions in 1982, general commodity carloadings declined 16% from 1981. The dollar impact of this decline more than offset a \$31.6 million increase in unit coal train revenue.

A summary of the annual changes in Transportation revenues classified according to the approximate contributions made by rates and volume over each immediately preceding year follows (\$ in millions):

	1982	1981	1980
General Commodities			
Volume	\$(43.3)	\$(7.4)	\$(3.0)
Rates	10.7	35.7	41.3
Coal			
Volume	26.6	4.9	11.4
Rates	5.0	1.3	2.4
Other, Net	(0.5)	(0.5)	3.6
	<u>\$(1.5)</u>	<u>\$ 34.0</u>	<u>\$ 55.7</u>

During the period 1980 through 1982, the Company's Financial Services segment experienced substantial growth in revenues. Increases of 64.1% were realized in 1980; 60.8% in 1981; and 78.8% in 1982 over each immediately preceding year. This growth resulted primarily from high levels of mutual fund and money market accounts serviced, and from other services provided to the financial community. However, as a result of reductions in interest rates and competition from insured financial institutions, the rate of growth of accounts serviced declined in 1982.

In other areas of activity, Real Estate segment operations reflected continued increases in sales and gross margins. Broadcasting revenues increased with margins improving over the prior year and higher earnings were achieved by Western Reserve Life Assurance Co. (reported under the equity method of accounting).

Real Estate segment sales and revenues increased 21.2% in 1982 over the prior year and operating profits rose 25.7%. Operations benefited from higher oil and gas royalties and from increased rental income from the operator of the Company's export bulk handling facility near Pt. Arthur, Texas.

Western Reserve Life Assurance Co. recorded a 9.3% increase in net income in 1982 compared to 1981 and a 17.1% increase in 1981 compared to 1980, the first full year-to-year comparison. The earnings increases were caused by higher levels of premium income, increases in earnings on investments and market receptivity to its product lines.

The Company experienced a significant increase in interest expense from 1980 to 1981, with 1982 being substantially equivalent to the prior year. The increase resulted from a combination of higher debt levels and the placement of new debt at interest rates substantially higher than rates on older debt repaid.

Inflation

The high rates of inflation which have been experienced in recent years have an impact on the Company's reported earnings, stockholders' equity and other financial information, which are not effectively measured by traditional accounting methods. The supplementary financial information on pages 46 and 47 provides further information on the effects of inflation.

Consolidated Statement of Income and Retained Earnings

(Dollars in Thousands, Except per Share Amounts)

	For the Years Ended December 31,		
	1982	1981	1980
Sales and Revenues	\$384,291	\$368,227	\$324,334
Costs and expenses	<u>324,144</u>	<u>302,442</u>	<u>274,974</u>
Income from Operations	60,147	65,785	49,360
Interest on long-term debt	<u>24,179</u>	<u>24,213</u>	<u>18,518</u>
Income from consolidated operations before income taxes	35,968	41,572	30,842
Provisions for taxes on income (Note 6)	<u>8,825</u>	<u>8,376</u>	<u>4,975</u>
	27,143	33,196	25,867
Equity in earnings of Western Reserve Life Assurance Co. (Note 2)	6,137	5,614	4,794
Minority interest	—	(78)	(71)
Net Income	33,280	38,732	30,590
<hr/>			
Retained earnings, beginning of year	183,058	152,303	127,973
Less:			
Dividends—			
Preferred stock—\$1.00 per share	(284)	(284)	(284)
Common stock—\$.88 per share in 1982, \$.79 in 1981 and \$.62 1/2 in 1980	(8,666)	(7,693)	(5,976)
Acquisition of minority interest in subsidiary	(133)	—	—
Retained Earnings, End of Year	<u>\$207,255</u>	<u>\$183,058</u>	<u>\$152,303</u>
<hr/>			
Earnings per Common Share based on weighted average shares outstanding of 9,852,871 in 1982, 9,734,496 in 1981 and 9,543,994 in 1980	<u>\$ 3.35</u>	<u>\$ 3.95</u>	<u>\$ 3.18</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

(Dollars in Thousands)

<u>ASSETS</u>	December 31,	
	<u>1982</u>	<u>1981</u>
Current Assets:		
Cash and short-term investments	\$ 26,390	\$ 22,405
Accounts receivable	47,095	50,674
Inventories	25,663	28,182
Prepaid expenses	6,043	4,966
Total current assets	<u>105,191</u>	<u>106,227</u>
Investments:		
Held for operating purposes	22,050	13,492
Marketable equity securities (Note 3)	4,380	5,793
Investment in Western Reserve Life Assurance Co. (Note 2)	53,744	51,065
Total investments	<u>80,174</u>	<u>70,350</u>
Properties (Note 4)	585,384	569,876
Less—Accumulated depreciation and amortization	<u>157,230</u>	<u>154,728</u>
Net properties	<u>428,154</u>	<u>415,148</u>
Other Assets	8,740	7,887
Total Assets	<u>\$622,259</u>	<u>\$599,612</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Long-term debt due within one year	\$ 29,796	\$ 26,920
Accounts and wages payable	23,698	21,255
Other accrued and current liabilities (Note 9)	47,375	55,967
Total current liabilities	<u>100,869</u>	<u>104,142</u>
Long-Term Debt , less portion due within one year (Note 5)	190,114	198,237
Deferred Income Taxes (Note 6)	57,812	48,587
Other Deferred Credits	14,118	14,864
Minority Interest	<u> </u>	<u>766</u>
Stockholders' Equity (Note 7):		
Preferred stock:		
\$25 par, 4% noncumulative; 840,000 shares authorized, 649,736 shares issued, 284,490 shares outstanding	7,112	7,112
\$1 par, 2,000,000 shares authorized, none issued	<u> </u>	<u> </u>
Common stock:		
No par, 24,000,000 shares authorized, 12,100,548 shares issued, 9,903,646 shares outstanding (9,791,124 in 1981)	28,561	28,238
Capital surplus	16,418	14,608
Retained earnings (includes \$19,767,000 in 1982 and \$16,506,000 in 1981 equity in unconsolidated subsidiaries)	207,255	183,058
Total stockholders' equity	<u>259,346</u>	<u>233,016</u>
Commitments and Contingencies (Notes 6 and 10)	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	<u>\$622,259</u>	<u>\$599,612</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(Dollars in Thousands)

	For the Years Ended December 31,		
	1982	1981	1980
Financial Resources Provided By:			
Net income	\$ 33,280	\$ 38,732	\$ 30,590
Add (deduct) items not affecting working capital:			
Depreciation and amortization	30,117	25,410	19,656
Deferred income taxes (Note 6)	9,225	8,308	(316)
Equity in earnings of unconsolidated subsidiaries	(6,901)	(5,614)	(4,794)
Gain on investment distributed to stockholders as dividend (Note 3)	(1,982)	(2,168)	(2,128)
Other—net	(231)	(1,488)	2,282
Working capital provided from operations	63,508	63,180	45,290
Investments used for property additions			8,218
Decrease in investments	9,028	3,240	2,440
Increase in long-term debt	21,636	36,405	40,466
Properties retired	2,726	1,785	2,819
Sale and transfer of properties to Western Reserve Life Assurance Co.		7,396	
Increase in capital surplus (Note 7)	3,689	1,926	2,300
Other—net	(1,750)	515	3,754
Total Financial Resources Provided	<u>98,837</u>	<u>114,447</u>	<u>105,287</u>
Financial Resources Used For:			
Property acquisitions	45,849	66,866	75,249
Reduction of long-term debt	29,759	26,464	26,736
Dividends	8,950	7,977	6,260
Treasury stock acquisition (Note 7)	2,073	334	
Investment in Western Reserve Life Assurance Co. (Note 2)		2,769	(119)
Other investments	9,969	7,581	923
Total Financial Resources Used	<u>96,600</u>	<u>111,991</u>	<u>109,049</u>
Net Increase (Decrease) in Working Capital	<u>\$ 2,237</u>	<u>\$ 2,456</u>	<u>\$ (3,762)</u>
Increase (Decrease) In Components Of Working Capital:			
Cash and short-term investments	\$ 3,985	\$ 7,223	\$ 4,124
Accounts receivable	(3,579)	3,875	11,641
Inventories	(2,519)	(2,873)	3,949
Prepaid expenses	1,077	(10)	717
Long-term debt due within one year	(2,876)	(3,104)	(6,184)
Accounts and wages payable	(2,443)	(1,013)	(1,252)
Other accrued and current liabilities	8,592	(1,642)	(16,757)
Net Increase (Decrease) in Working Capital	<u>\$ 2,237</u>	<u>\$ 2,456</u>	<u>\$ (3,762)</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 — ACCOUNTING POLICIES

The accounting and reporting policies of Kansas City Southern Industries, Inc. and its subsidiaries conform with generally accepted accounting principles. The Company's significant accounting and reporting policies are:

Principles of Consolidation:

The consolidated financial statements include all majority owned subsidiaries other than Western Reserve Life Assurance Co. which is accounted for under the equity method. All significant intercompany items and transactions have been eliminated from the consolidated financial statements.

Inventories:

Inventories consist principally of materials and supplies for transportation operations and are valued at the lower of average cost or market.

Properties:

Properties are stated at cost. Substantially all depreciable properties except track structure, are depreciated on a straight-line method. Instead of "depreciation" accounting, an acceptable alternative practice of "replacement" accounting is used for track structure. Under this method, the cost of improvements and additions is capitalized and not depreciated; the cost of replacements in kind and losses on retirements are charged to operating expense in lieu of depreciation.

Additions, renewals and betterments for all other classes of property are capitalized. Expenditures for maintenance and repairs are charged against income. The cost of equipment and depreciable road property normally retired, less salvage, is charged to accumulated depreciation. The cost of miscellaneous property retired, and the cost of equipment and depreciable road property abnormally retired, together with accumulated depreciation thereon, are eliminated from the property accounts and gains or losses are reflected in income.

Annual depreciation rates are as follows:

	Range (%)
Road property	1 - 4
Equipment	2 - 6
Industrial and rental property	2 - 25
Capitalized leases	5 - 17

Income Taxes:

Provisions for income tax expense are based on the tax effects of transactions which are included in the determination of pre-tax accounting income, and appropriate provision is made for deferred income taxes. Available investment tax credits are accounted for under the flow-through method.

Provision has been made for additional taxes that might result from the distribution to the Company of earnings of unconsolidated less than wholly-owned subsidiaries accounted for under the equity method.

Treasury Shares:

The excess of par over cost of the Preferred shares held in Treasury is credited to capital surplus. Common shares held in Treasury are accounted for as if retired and the excess of cost over stated amount of such shares is charged to retained earnings.

Stock Plans:

The difference between cost of shares purchased for issuance under the Company's stock plans, and the proceeds, is charged or credited to capital surplus. The proceeds received from the exercise of stock options or subscriptions are credited to the capital accounts in the year they are exercised. Changes in the value of stock appreciation rights resulting from changes in the market price of the Company's Common stock are charged or credited to expense.

Revenue Recognition:

Transportation revenues are recognized in income upon completion of service; expenses related to shipments for which service has not been completed are charged to expense as incurred.

Segment Information

See pages 42 and 43 for certain information on the Company's operations in different industries.

Earnings per Share:

The computation of earnings per share is based on the weighted average number of Common shares outstanding during the year. Calculations do not include effects of stock options and stock purchase plans as the change in earnings per share would not be dilutive for 1980 through 1982.

**NOTE 2—WESTERN RESERVE
LIFE ASSURANCE CO. (WRL)**

The Company recognizes earnings from Western Reserve Life Assurance Co., unconsolidated life insurance subsidiary of Pioneer Western Corporation, under the equity method of accounting. Shown below is certain condensed financial information of Western Reserve Life

Assurance Co. which summarizes its financial condition at December 31, 1982 and 1981, and the results of its operations for the three years ended December 31, 1982 (in thousands):

	December 31,		
	1982	1981	
FINANCIAL CONDITION			
Assets:			
Investments	\$ 81,261	\$ 76,023	
Deferred insurance acquisition costs	37,144	35,905	
Other assets	16,846	18,528	
Total assets	<u>\$135,251</u>	<u>\$130,456</u>	
Liabilities and Stockholder's Equity:			
Future policy benefits	\$ 73,726	\$ 72,527	
Other liabilities	7,781	6,864	
Total liabilities	<u>81,507</u>	<u>79,391</u>	
Capital stock and surplus	37,474	37,375	
Retained earnings	16,270	13,690	
Total stockholder's equity	<u>53,744</u>	<u>51,065</u>	
Total liabilities and stockholder's equity	<u>\$135,251</u>	<u>\$130,456</u>	
OPERATING RESULTS			
	1982	1981	1980
Revenues	\$36,240	\$34,137	\$31,559
Costs and expenses	30,103	28,523	26,765
Net income	<u>\$ 6,137</u>	<u>\$ 5,614</u>	<u>\$ 4,794</u>

NOTE 3—MARKETABLE EQUITY SECURITIES

Marketable equity securities are stated at cost, which is less than aggregate market value, as follows (in thousands):

	December 31,	
	1982	1981
Market value	\$17,412	\$18,363
Cost	4,380	5,793
Excess, essentially representing gross unrealized gains	<u>\$13,032</u>	<u>\$12,570</u>

Net income includes nontaxable gains of \$1,982,000 in 1982, \$2,168,000 in 1981, and \$2,128,000 in 1980, which are included in sales and revenues, resulting from paying a portion of Common stock dividends in shares of MAPCO, Inc. (through June 30, 1982) and Kemper Corporation Common stock (subsequent to that date) equivalent in value of approximately \$.28 per share in 1982 and \$.29 per share in 1981 and 1980 (cash was paid in

lieu of fractional shares). The remainder of Common stock dividends was paid in cash in the amount of \$.60 per share in 1982, \$.50 per share in 1981 and \$.34 per share in 1980.

Other gains from sale of marketable securities amounted to \$966,000 in 1982, \$253,000 in 1981 and none in 1980.

NOTE 4—PROPERTIES

The balances of properties and related accumulated depreciation and amortization are as follows (in thousands):

	December 31,	
	1982	1981
Properties:		
Industrial and rental, including \$8,557,000 in 1982 (\$12,751,000 in 1981) acquired under capital leases	\$ 62,390	\$ 55,467
Transportation—		
Road properties	248,921	237,531
Equipment, including \$43,357,000 in 1982 (\$51,234,000 in 1981) acquired under capital leases	<u>274,073</u>	<u>276,878</u>
	<u>\$585,384</u>	<u>\$569,876</u>
Accumulated Depreciation and Amortization:		
Industrial and rental, including \$5,324,000 in 1982 (\$7,333,000 in 1981) for properties acquired under capital leases	\$ 21,903	\$ 23,123
Transportation—		
Road properties	38,678	35,123
Equipment, including \$21,159,000 in 1982 (\$32,787,000 in 1981) for equipment acquired under capital leases	<u>96,649</u>	<u>96,482</u>
	<u>\$157,230</u>	<u>\$154,728</u>

Related expense to maintain and repair the above properties is as follows (in thousands):

	December 31,		
	1982	1981	1980
Industrial and rental	\$ 2,493	\$ 1,647	\$ 1,307
Transportation—			
Road properties	57,131	55,354	48,380
Equipment	<u>24,916</u>	<u>26,533</u>	<u>26,293</u>
	<u>\$84,540</u>	<u>\$83,534</u>	<u>\$75,980</u>

NOTE 5—LONG-TERM DEBT

An aggregate principal amount of \$300 million of First Mortgage Bonds is authorized by the Second Supplemental Indenture to the First Mortgage of The Kansas City Southern Railway Company, \$50 million of which is authorized as Series C Bonds.

In 1982, the Company entered into a \$20 million Revolving Credit Loan Agreement for general corporate purposes, with the same lender as the Term Loan Agreement. A commitment fee of 1/2% per annum on the unused amount of the commitment is required. The revolving credit provisions mature August 1, 1985, at which time the Company may either repay the indebtedness outstanding at that time or elect to convert the balance to a Term Loan, payable in 8 equal semi-annual principal payments commencing January 1, 1986. This agreement contains cross covenants with the aforementioned Term Loan Agreement.

Among other provisions, the Company's Term and Revolving Credit Loan Agreements require positive working capital and restrict dividends on Common stock (other than stock dividends) to amounts which in the

aggregate would not exceed 50% of the Company's consolidated net income in such year. The Company's consolidated tangible net worth, as defined in the Agreements, of \$270,000,000 at December 31, 1982 exceeds the minimum tangible net worth requirement of \$210,000,000. The Agreements also limit additional borrowings and leasing commitments.

The Kansas City Southern Railway Company has a standby line of credit in the amount of \$5 million, which requires compensating balances of 10% of the total commitment plus 10% on any borrowed portion, with interest payable at prime rate. Compensating balance requirements have been met during the year.

Another line of credit amounting to approximately \$4 million requires no compensating balances. Interest rates under this line range from prime to prime plus 3/4% with an option to fix the rate for a specified period of time by the Company.

Total unused lines of credit of the Company and its subsidiaries amount to \$26 million at December 31, 1982.

NOTE 5 (continued)

The companies are obligated under bonds, notes and other evidences of indebtedness as follows (in thousands):

	Rates of Interest	Maturity Dates	Due in 1983	Totals December 31,	
				1982	1981
First Mortgage Series C Bonds	3 $\frac{1}{4}$ %	Dec. 1, 1984	\$ 600	\$30,615	\$31,395
Held in Treasury			(600)	(2,674)	(3,454)
Outstanding				27,941	27,941
Conditional Sales Agreements	7% to 13 $\frac{1}{2}$ %	Serially to June 1, 1996	9,853	100,114	110,244
Capital Lease Obligations	5 $\frac{1}{2}$ % to 15%	Serially to Sept. 15, 1997	4,685	33,906	32,283
Parent Company—					
Term Loan	prime*	Quarterly to May 1, 1987	4,572	20,571	25,143
Revolving Credit Loan	prime*	Aug. 1, 1985		3,000	
Term & Secured Loans of Subsidiaries	prime to 1 $\frac{1}{2}$ % over prime*	Serially to June 30, 1997	9,521	25,132	19,130
Industrial Revenue Bonds	7 $\frac{1}{2}$ % and 13 $\frac{1}{2}$ %	Serially, commencing June 1, 1984 to May 1, 2004		6,000	6,000
Promissory Notes	6 $\frac{3}{4}$ % to 16 $\frac{3}{4}$ %	Serially to Sept. 1, 1990	1,165	3,246	4,416
			<u>\$29,796</u>	<u>\$219,910</u>	<u>\$225,157</u>

*Loan agreements for which interest is calculated at prime, or a function thereof, also contain provisions which permit the Company and its subsidiaries, at their option, to fix the interest rate for specified periods of time.

Minimum annual payments required under existing capital lease obligations, present value thereof and maturities of total indebtedness as of December 31, 1982 are as follows (in thousands):

	Minimum Lease Payments	Less Interest	Net Present Value	Other Debt	Total
1983	\$ 7,139	\$ 2,454	\$ 4,685	\$ 25,111	\$ 29,796
1984	6,769	2,264	4,505	57,130	61,635
1985	5,612	1,952	3,660	18,071	21,731
1986	4,853	1,669	3,184	17,275	20,459
1987	4,498	1,414	3,084	12,218	15,302
Later years	19,596	4,808	14,788	56,199	70,987
Total	<u>\$48,467</u>	<u>\$14,561</u>	<u>\$33,906</u>	<u>\$186,004</u>	<u>\$219,910</u>

NOTE 6—INCOME TAXES

Income tax expense for the three years ended December 31, 1982 consists of the following components (in thousands):

	1982	1981	1980
Currently payable—			
State and local	\$ 781	\$ 361	\$ 1,488
Federal	(1,181)	(293)	3,803
Deferred federal income taxes	9,225	8,308	(316)
	<u>\$ 8,825</u>	<u>\$ 8,376</u>	<u>\$ 4,975</u>

Deferred income tax expense results from timing differences in the recognition of revenue and expense for tax and for financial statement purposes. The nature of these differences and their tax effect are summarized as follows (in thousands):

	1982	1981	1980
Excess of tax depreciation and amortization over book amounts	\$ 8,739	\$17,107	\$ 2,821
Investment tax credits	(1,838)	(9,224)	88
Transfers between currently payable and deferred	1,612		(1,600)
Other, net	712	425	(1,625)
	<u>\$ 9,225</u>	<u>\$ 8,308</u>	<u>\$ (316)</u>

The effective tax rate for 1982 was 25% (20% in 1981 and 16% in 1980). The differences between the effective rates and the U.S. Federal income tax rates are accounted for as follows (in thousands):

	1982	1981	1980
46% of income from consolidated operations before income taxes	\$16,565	\$15,123	\$14,187
Less tax effect of—			
Nontaxable gain on investment distributed to stockholders	912	997	979
Investment tax credits	6,411	9,224	8,239
Other	1,198	887	1,482
	<u>8,521</u>	<u>11,108</u>	<u>10,700</u>
Federal income tax expense	8,044	8,015	3,487
State and local income tax expense	781	361	1,488
	<u>\$ 8,825</u>	<u>\$ 8,376</u>	<u>\$ 4,975</u>

At December 31, 1982, the Company has investment tax credit carry-overs of \$12.4 million available to reduce future federal income taxes payable; all such credits have been used to reduce book tax expense in 1982 and prior years.

The Internal Revenue Service has completed examinations of the consolidated federal income tax returns for the years 1970 through 1977 and proposed additional

assessments aggregating \$8,200,000. Most of these deficiencies represent timing differences, payment of which will not require charges for additional income tax expense. Thus, management believes that final settlement of these tax years will have no material effect on the accompanying financial statements. Management anticipates that currently payable income taxes will not exceed income tax expense in any of the next three years, except for the outcome of the tax issues referred to

NOTE 7—STOCKHOLDERS' EQUITY

Treasury Stock:

Under various employee stock purchase and option plans, 179,849 Common shares were issued in 1982 (127,474 and 196,814 in 1981 and 1980, respectively) from Treasury stock previously acquired and accounted

for as if retired. Also, in 1982 the Company acquired 67,327 Common shares for issuance under these plans (9,200 in 1981).

NOTE 7 (continued)

Stock Purchase Plan:

The Company has an employee stock purchase plan (the Plan) established in 1977 which provides to substantially all full-time employees of the Company, its subsidiaries and certain other affiliated entities, the right to subscribe to an aggregate of 900,000 shares of the Company's Common stock. The purchase price for shares under any offering is to be 85% of the average

market price of the Company stock on the exercise date, but not more than 85% of the average market price on the offering date nor less than \$3.92 per share.

No offering under the Plan was made in 1982. The following table summarizes the activity in the Plan for the three years ended December 31, 1982:

Subscriptions	Shares	Price per Share (not to exceed maximum of—)	
Outstanding at December 31, 1979	130,850	\$ 9.23	
1980—Issued	12,020	15.01	
Cancelled	(7,462)	9.23	or 15.01
Exercised	(124,038)	9.23	or 15.01
Outstanding at December 31, 1980	11,370	15.01	
1981—Issued	261,138	20.40	
Cancelled	(29,616)	15.01	or 20.40
Exercised	(1,576)	15.01	or 20.40
Outstanding at December 31, 1981	241,316	15.01	or 20.40
1982—Cancelled	(12,859)	15.01	or 20.40
Exercised	(14,220)	15.01	or 20.40
Outstanding at December 31, 1982	<u>214,237</u>	20.40	

At December 31, 1982, there are 244,163 shares available for future offerings.

Stock Option Plan:

The Company also has an existing stock option plan established in 1978 whereby options to purchase up to 900,000 shares of the Company's Common stock may be granted to officers and other designated employees of the Company or its subsidiaries. The options are granted at 100% of the average market price of the Company's stock on the date of grant and are exercised not sooner than one year nor longer than three years following the

date of the grant.

The plan included stock appreciation rights (SAR's), the last of which were exercised in 1982. Net charges to expense for appreciation in market price of stock above the grant price for the years 1982, 1981, and 1980 were \$94,000, \$462,000 and \$3,468,000, respectively. Transaction activity is summarized below:

	Shares		Option Price per Share	
	Options	SAR's		
Outstanding at December 31, 1979	566,250	566,250	\$ 2.89	to \$15.50
1980—Granted	74,776	10,000	16.81	to 23.34
Exercised	(46,250)	(161,710)	2.89	to 15.50
Cancelled or expired	(172,210)	(249,606)	2.89	to 16.81
Outstanding at December 31, 1980	422,566	164,934	2.89	to 23.34
1981—Exercised	(127,534)	(61,706)	2.89	to 13.78
Cancelled or expired	(61,706)	(28,278)	2.89	to 13.78
Outstanding at December 31, 1981	233,326	74,950	11.47	to 23.34
1982—Granted	3,500		30.06	
Exercised	(134,855)	(46,213)	11.47	to 23.34
Cancelled or expired	(46,250)	(28,737)	11.47	to 23.34
Outstanding at December 31, 1982	<u>55,721</u>	<u>—</u>	16.81	to 30.06
Exercisable at December 31, 1982	52,221			
Shares reserved for granting:				
December 31, 1981	256,424			
December 31, 1982	252,924			

NOTE 7 (continued)

Changes in capital stock and capital surplus are summarized below (in thousands):

	Preferred Stock	Common Stock	Capital Surplus
Balance, December 31, 1979	\$7,112	\$27,331	\$10,382
Options and subscriptions exercised		566	1,937
Acquisition of minority interest of subsidiary			12
Tax benefits arising from stock transactions			351
Balance, December 31, 1980	<u>7,112</u>	<u>27,897</u>	<u>12,682</u>
Options and subscriptions exercised		367	2,107
Acquisition of Common stock		(26)	(308)
Tax benefits arising from stock transactions			127
Balance, December 31, 1981	<u>7,112</u>	<u>28,238</u>	<u>14,608</u>
Options and subscriptions exercised		517	3,517
Acquisition of Common stock		(194)	(1,879)
Tax benefits arising from stock transactions			15
Acquisition of minority interest in subsidiary			157
Balance, December 31, 1982	<u>\$7,112</u>	<u>\$28,561</u>	<u>\$16,418</u>

NOTE 8—PROFIT SHARING PLANS

The Company and certain of its subsidiaries maintain qualified profit sharing plans for employees not included in collective bargaining agreements. Contributions are made at the discretion of the Boards of Directors in

amounts not to exceed the maximum allowable income tax deductions. Profit sharing expense in 1982, 1981 and 1980 was \$2,977,000, \$3,291,000 and \$2,745,000, respectively.

NOTE 9—OTHER ACCRUED AND CURRENT LIABILITIES

The following items, exceeding 5% of total current liabilities, are included in other accrued and current liabilities in the consolidated balance sheet (in thousands):

	December 31,	
	1982	1981
Accrued per diem	\$ 5,149	\$ 6,120
Prepaid freight revenues due other railroads	12,520	12,047

NOTE 10—COMMITMENTS AND CONTINGENCIES

In addition to the capital leases described in Note 5, the Company and its subsidiaries lease various equipment, railway terminals and other operating facilities under fixed long-term rental agreements and agreements based on usage. Minimum annual payments required under these existing operating leases approximate \$2,000,000 each year for the next five years and an aggregate of \$2,800,000 thereafter. The total of such minimum rentals is \$12,800,000. Rent expense incurred in 1982 was \$42,687,000 (\$34,780,000 and \$23,763,000 in 1981 and 1980, respectively). Of this amount \$37,349,000

(\$30,954,000 and \$21,472,000 in 1981 and 1980, respectively) represents net contingent rents based principally on usage.

The Company's railroad subsidiary participates in a service interruption insurance policy and is contingently liable for additional premiums to a maximum of \$5,600,000 in the event of work stoppages on other participating railroads.

The Company is guarantor of \$7.5 million of principal indebtedness of an equal partnership between a subsidiary of the Company and another corporation.

NOTE 11—SUBSEQUENT EVENT

On February 4, 1983 DST Systems, Inc. (DST), a subsidiary of the Company, filed a registration statement containing a preliminary prospectus covering the registration of 1,250,000 shares of Common stock of that company plus 125,000 shares for over-allotments, if any. Sales of these shares are subject to compliance with

the Securities and Exchange Commission requirements, favorable stock market conditions and final approval of the selling price by the Executive Committee of DST. If the sale of all shares is consummated, the Company's ownership of DST would be decreased to 86%.

Report of Management



The accompanying financial statements and related notes of Kansas City Southern Industries, Inc. and consolidated subsidiaries were prepared by management in conformity with generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management has made judgments and estimates based on currently available information. Management is primarily responsible for the information, representations contained elsewhere in this Annual Report are consistent with the financial statements.

The Company has a formalized system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that its financial records are reliable. Management monitors the system for compliance, and the internal auditors measure its effectiveness and recommend possible improvements thereto. In addition, as part of their examination of the consolidated financial statements, the Company's independent public accountants, who are elected by the stockholders, review and test the internal accounting controls on a selective basis to establish a basis of reliance thereon in determining the nature, extent and timing of audit tests to be applied.

The Board of Directors pursues its oversight role in the area of financial reporting and internal accounting control through its Audit Committee. This committee, composed solely of non-management directors, regularly meets (jointly and separately) with the independent public accountants, management and internal auditors to monitor the proper discharge of responsibilities relative to internal accounting controls and consolidated financial statements.

Report of Independent Accountants



To the Board of Directors and Stockholders of
Kansas City Southern Industries, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Kansas City Southern Industries, Inc. and its subsidiaries at December 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A handwritten signature in cursive script that reads 'Price Waterhouse'.

Kansas City, Missouri
February 18, 1983

Five Year Summary of Financial Information By Business Segment

Narrative for Financial Information by Business Segment

Sales between business segments were not material and are therefore not presented. Operating profit represents gross sales and revenues, less costs and expenses of operations.

Identifiable assets by business segment are those assets used in operation by each segment. The changes in corporate and other assets from year to year are due primarily to fluctuations in temporary cash investments and repayment of loans.

Related depreciation expense and capital expenditures for the three year periods ended December 31, 1982 were as follows (in thousands):

Depreciation Expense

	1982	1981	1980
Transportation	\$25,289	\$21,964	\$16,280
Financial Services	3,147	1,967	1,877
Real Estate	802	809	907
Broadcasting	525	465	394
Other	354	205	198
	<u>\$30,117</u>	<u>\$25,410</u>	<u>\$19,656</u>

Capital Expenditures

Transportation	\$31,208	\$58,558	\$66,226
Financial Services	11,924	5,801	6,998
Real Estate	1,207	1,542	268
Broadcasting	930	290	511
Other	580	675	1,246
	<u>\$45,849</u>	<u>\$66,866</u>	<u>\$75,249</u>

(Dollars in Thousands)

1982
Amount Percent

Sales and Revenues

Transportation	\$312,977	81.4
Financial Services	40,597	10.6
Real Estate	10,016	2.6
Broadcasting	6,814	1.8
	<u>370,404</u>	<u>96.4</u>
Other	13,887	3.6
Total	<u>\$384,291</u>	<u>100.0</u>

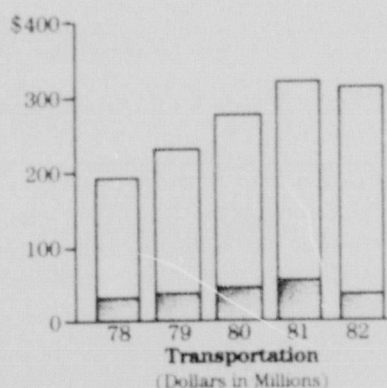
Operating Profit

Transportation	\$ 40,498	60.8
Financial Services	10,917	16.4
Real Estate	7,894	11.9
Broadcasting	1,299	1.9
Total operating profit	<u>60,608</u>	<u>91.0</u>
Other	5,982	9.0
	<u>66,590</u>	<u>100.0</u>

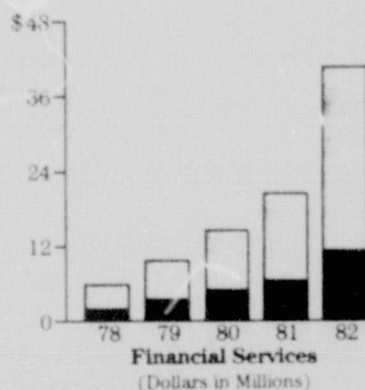
General corporate expenses	(6,443)
Interest expense	(24,179)
Income from consolidated operations before income taxes	35,968
Income taxes	(8,825)
Equity in earnings of Western Reserve Life Assurance Co.	6,137
Minority interest	
Net income	<u>\$ 33,280</u>

Assets at Year End

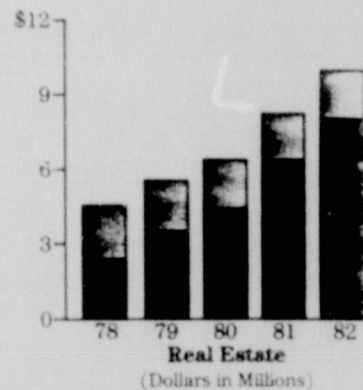
Transportation	\$453,719	72.9
Financial Services	44,971	7.2
Real Estate	20,142	3.3
Broadcasting	8,242	1.3
	<u>527,074</u>	<u>84.7</u>
Investment in Western Reserve Life Assurance Co.	53,744	8.6
Corporate and other assets	41,441	6.7
Total	<u>\$622,259</u>	<u>100.0</u>



■ Sales and Revenue
□ Operating Profit



■ Sales and Revenue
■ Operating Profit



■ Sales and Revenue
■ Operating Profit

1981		1980		1979		1978	
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
\$314,502	85.4	\$280,497	86.5	\$224,791	83.2	\$195,304	85.0
22,704	6.2	14,117	4.4	8,605	3.2	5,794	2.5
8,267	2.3	6,262	1.9	5,502	2.0	4,369	1.9
6,056	1.6	5,990	1.8	5,601	2.1	5,272	2.3
<u>351,529</u>	<u>95.5</u>	<u>306,866</u>	<u>94.6</u>	<u>244,499</u>	<u>90.5</u>	<u>210,739</u>	<u>91.7</u>
16,698	4.5	17,468	5.4	25,592	9.5	18,934	8.3
<u>\$368,227</u>	<u>100.0</u>	<u>\$324,334</u>	<u>100.0</u>	<u>\$270,091</u>	<u>100.0</u>	<u>\$229,673</u>	<u>100.0</u>

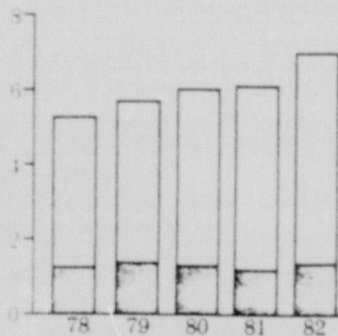
\$ 52,250	71.4	\$ 43,877	75.7	\$ 32,109	71.6	\$ 26,752	72.5
6,401	8.8	3,678	6.3	1,800	4.0	888	2.4
6,280	8.6	4,613	8.0	3,656	8.1	2,631	7.1
1,005	1.4	1,315	2.3	1,371	3.1	1,313	3.6
<u>65,936</u>	<u>90.2</u>	<u>53,483</u>	<u>92.3</u>	<u>38,936</u>	<u>86.8</u>	<u>31,584</u>	<u>85.6</u>
7,204	9.8	4,454	7.7	5,907	13.2	5,323	14.4
<u>73,140</u>	<u>100.0</u>	<u>57,937</u>	<u>100.0</u>	<u>44,843</u>	<u>100.0</u>	<u>36,907</u>	<u>100.0</u>

(7,355)		(8,577)		(4,945)		(3,939)	
<u>(24,213)</u>		<u>(18,518)</u>		<u>(12,581)</u>		<u>(7,898)</u>	

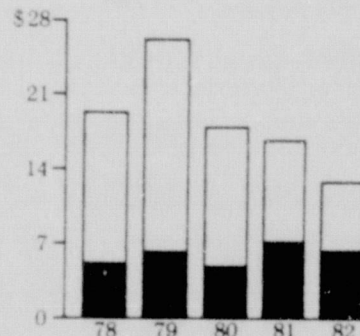
41,572		30,842		27,317		25,070	
<u>(8,376)</u>		<u>(4,975)</u>		<u>(6,468)</u>		<u>(6,529)</u>	

5,614		4,794		3,282			
<u>(78)</u>		<u>(71)</u>		<u>(200)</u>		<u>(253)</u>	
<u>\$ 38,732</u>		<u>\$ 30,590</u>		<u>\$ 23,931</u>		<u>\$ 18,288</u>	

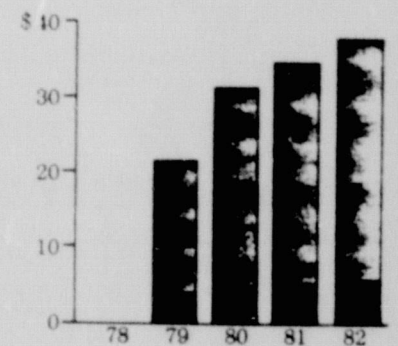
\$462,400	77.1	\$428,661	78.8	\$367,944	77.7	\$313,976	82.1
23,849	4.0	13,993	2.5	9,110	1.9	7,076	1.9
19,550	3.3	21,601	4.0	24,776	5.2	22,502	5.9
7,674	1.3	7,188	1.3	6,790	1.4	6,718	1.8
<u>513,473</u>	<u>85.7</u>	<u>471,443</u>	<u>86.6</u>	<u>408,620</u>	<u>86.2</u>	<u>350,272</u>	<u>91.7</u>
51,065	8.5	42,682	7.8	38,006	8.0		
35,074	5.8	30,171	5.6	27,167	5.8	32,049	8.3
<u>\$599,612</u>	<u>100.0</u>	<u>\$544,296</u>	<u>100.0</u>	<u>\$473,793</u>	<u>100.0</u>	<u>\$382,321</u>	<u>100.0</u>



□ Sales and Revenue
□ Operating Profit



□ Sales and Revenue
■ Operating Profit



(Subsequent to acquisition in 2nd Quarter 1979)
(Dollars in Millions)
■ Unconsolidated Revenues
■ Net Income

Five Year Financial Highlights

(Dollars in Thousands, Except per Share Data and Statistics)

	1982	1981	1980	1979	1978
Summary of Operations					
Sales and Revenues	\$ 384,291	\$ 368,227	\$ 324,334	\$ 270,091	\$ 229,673
Costs and Operating Expenses	324,144	302,442	274,974	230,103	196,705
Income from Operations	60,147	65,785	49,360	39,892	32,968
Interest Expense	24,179	24,213	18,518	12,581	7,898
Taxes on Income	8,825	8,376	4,975	6,468	6,529
Equity in Earnings of Western Reserve Life Assurance Co.	6,137	5,614	4,794	3,282	
Minority Interest		(78)	(71)	(200)	(253)
Net Income	33,280	38,732	30,590	23,931	18,288
Less-Preferred Dividends	284	284	284	288	289
Income Available for Common Shares	32,996	38,448	30,306	23,643	17,999
Earnings per Common Share	3.35	3.95	3.18	2.56	1.96
Dividends Declared per Share:					
Preferred Stock	1.00	1.00	1.00	1.00	1.00
Common Stock*	.88	.79	.62½	.50	.39
Financial Condition, End of Year					
Cash and Short-Term Investments	\$ 26,390	\$ 22,405	\$ 15,182	\$ 11,058	\$ 7,204
Working Capital	4,322	2,085	(371)	3,391	7,394
Investments	89,174	70,350	55,186	57,531	10,148
Properties, Net	428,154	415,148	382,873	331,062	299,144
Total Assets	622,259	599,612	544,296	473,793	382,321
Long-Term Debt Due after One Year	190,114	198,237	188,296	174,566	123,481
Stockholders' Equity					
Preferred	7,112	7,112	7,112	7,112	7,227
Common	252,234	225,904	192,882	165,686	145,109
Per Common Share	25.47	23.07	19.94	17.49	15.84
Number of Shares Outstanding					
Preferred	284,490	284,490	284,490	284,490	289,070
Common	9,903,646	9,791,124	9,672,850	9,476,036	9,165,112
Other Statistical Data					
Property Acquisitions	\$ 45,849	\$ 60,866	\$ 75,249	\$ 52,243	\$ 46,943
Depreciation and Amortization	30,117	25,410	19,656	17,161	15,552
Per Share Market Price					
Preferred					
High	14%	11	11	13	12½
Low	6%	8	8	9	10
Common					
High	53	37½	26%	16%	12½
Low	24½	20%	12%	9%	6%
Ratios					
Current Assets to Current Liabilities	1.04-1	1.02-1	1-1	1.04-1	1.13-1
Long-Term Debt as a Percent of Stockholders' Equity Plus Long-Term Debt	42.3%	46.0%	48.5%	50.2%	44.7%
Return on Average Stockholders' Equity	13.5%	17.9%	16.4%	14.7%	12.7%

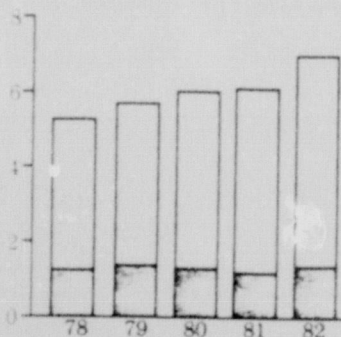
*Paid in various combinations of cash and Common stock of MAPCO, Inc. and Kemper Corporation

1981		1980		1979		1978	
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
\$314,502	85.4	\$280,497	86.5	\$224,791	83.2	\$195,304	85.0
22,704	6.2	14,117	4.4	8,605	3.2	5,794	2.5
8,267	2.3	6,262	1.9	5,502	2.0	4,369	1.9
6,056	1.6	5,990	1.8	5,601	2.1	5,272	2.3
351,529	95.5	306,866	94.6	244,499	90.5	210,739	91.7
16,698	4.5	17,468	5.4	25,592	9.5	18,934	8.3
<u>\$368,227</u>	<u>100.0</u>	<u>\$324,334</u>	<u>100.0</u>	<u>\$270,091</u>	<u>100.0</u>	<u>\$229,673</u>	<u>100.0</u>

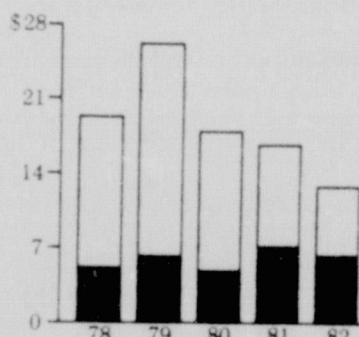
\$ 52,250	71.4	\$ 43,877	75.7	\$ 32,109	71.6	\$ 26,752	72.5
5,401	8.8	3,678	6.3	1,800	4.0	888	2.4
6,280	8.6	4,613	8.0	3,656	8.1	2,631	7.1
1,005	1.4	1,215	2.3	1,371	3.1	1,313	3.6
65,936	90.2	53,483	92.3	39,336	86.8	31,584	85.6
7,204	9.8	4,454	7.7	5,907	13.2	5,323	14.4
73,140	<u>100.0</u>	57,937	<u>100.0</u>	44,843	<u>100.0</u>	36,907	<u>100.0</u>

(7,355)		(8,577)		(4,945)		(3,939)	
(24,213)		(18,518)		(12,581)		(7,898)	
41,572		30,842		27,317		25,070	
(8,376)		(4,975)		(6,468)		(6,529)	
5,614		4,794		3,282		(253)	
(78)		(71)		(200)			
<u>\$ 38,732</u>		<u>\$ 30,590</u>		<u>\$ 23,931</u>		<u>\$ 18,288</u>	

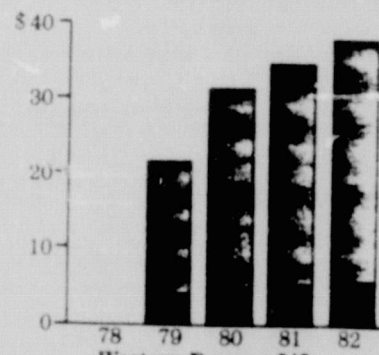
\$462,400	77.1	\$428,661	78.8	\$367,944	77.7	\$313,976	82.1
23,849	4.0	13,993	2.5	9,110	1.9	7,076	1.9
19,550	3.3	21,601	4.0	24,776	5.2	22,502	5.9
7,674	1.3	7,188	1.3	6,790	1.4	6,718	1.8
513,473	85.7	471,443	86.6	408,620	86.2	350,272	91.7
51,065	8.5	42,682	7.8	38,006	8.0		
35,074	5.8	30,171	5.6	27,167	5.8	32,049	8.3
<u>\$599,612</u>	<u>100.0</u>	<u>\$544,296</u>	<u>100.0</u>	<u>\$473,793</u>	<u>100.0</u>	<u>\$382,321</u>	<u>100.0</u>



□ Sales and Revenue
■ Operating Profit



□ Sales and Revenue
■ Operating Profit



■ Unconsolidated Revenues
■ Net Income

Other Financial Data

Quarterly Earnings Summary

(Dollars in Thousands, Except per Share Amounts)

	March 31,		June 30,		September 30,		December 31,	
	1982	1981	1982	1981	1982	1981	1982	1981
Sales and Revenues	\$102,017	\$87,841	\$99,473	\$91,245	\$92,553	\$95,610	\$90,248	\$93,531
Costs and expenses	84,036	72,586	82,772	75,321	79,603	77,202	77,733	77,333
Income from Operations	17,981	15,255	16,701	15,924	12,950	18,408	12,515	16,198
Interest on long-term debt	5,842	5,560	6,213	6,118	6,002	6,590	6,122	5,945
Income from consolidated operations before income taxes	12,139	9,695	10,488	9,806	6,948	11,818	6,393	10,253
Income taxes	4,233	2,389	3,012	2,873	970	2,769	610	345
Equity in earnings—WRL	7,906	7,306	7,476	6,933	5,978	9,049	5,783	9,908
Minority interest	1,117	836	1,716	1,534	1,619	1,468	1,685	1,776
Net Income	9,023	8,126	9,192	8,449	7,597	10,495	7,468	11,662
Dividends on Preferred stock	71	71	71	71	71	71	71	71
Income Available for Common Shares	\$ 8,952	\$ 8,055	\$ 9,121	\$ 8,378	\$ 7,526	\$10,424	\$ 7,397	\$11,591
<hr/>								
Earnings per Share	\$.91	\$.83	\$.93	\$.87	\$.76	\$ 1.06	\$.75	\$ 1.19

Dividends and Market Data

As of December 31, 1982, there were approximately 5,000 holders of the Company's Common stock which is listed on the New York Stock Exchange under the symbol "KSU." Dividends and price range data follow.

	Dividends Paid		Price Range			
	1982	1981	1982		1981	
			High	Low	High	Low
Preferred Stock						
First Quarter	\$.25	\$.25	\$ 8%	\$ 7%	\$10%	\$ 8½
Second Quarter .....	.25	.25	8%	6%	11	9½
Third Quarter .....	.25	.25	10%	7%	10	8½
Fourth Quarter .....	.25	.25	14%	9%	9%	8
Year	\$1.00	\$1.00	14%	6%	11	8
Common Stock						
First Quarter	\$.22(a)	\$.17½(c)	34%	24½	24½	20%
Second Quarter .....	.22(a)	.17½(c)	31%	26%	27%	23%
Third Quarter .....	.22(b)	.22 (a)	38	27½	30%	24½
Fourth Quarter .....	.22(b)	.22 (a)	53	35½	37%	24%
Year	\$.88	\$.79	53	24½	37%	20%

Notes:

- Paid in a combination of cash, \$0.15 per share, and MAPCO, Inc. Common stock, equivalent in value to \$0.07 per share. Fractional shares paid in cash.
- Paid in a combination of cash, \$0.15 per share, and Kemper Corporation Common stock, equivalent in value to \$0.07 per share. Fractional shares paid in cash.
- Paid in a combination of cash, \$0.10 per share, and MAPCO, Inc. Common stock, equivalent in value to \$0.07½ per share. Fractional shares paid in cash.

Effects of Changing Prices (Unaudited)

The Financial Accounting Standards Board (FASB) has issued a statement which requires presentation of supplementary financial data, designed to show the impact of inflation on a company's earnings and financial position.

During periods of accelerated and continued inflation, such as has been experienced during the past decade, the historical dollar accounting basis of financial statements generally does not reflect the total cumulative impact of increasing prices and the associated decline in the purchasing power of the dollar. The FASB statement prescribes two methods for measuring this inflationary impact. One measures the effect of general inflation by restating certain data into dollars having common purchasing power, or constant dollars. The second method measures the price increases of specific items in an effort to disclose current costs unique to specific companies and industries. Both approaches are directed primarily at developing inflation adjusted values for long-term assets such as properties. The constant dollar restatements are developed by indexing historical dollars into dollars of current purchasing power. For example, a box car which cost \$20,000 in 1967 would be adjusted to \$57,820 in 1982 because of a decline in the value of the dollar to \$.35 during that period. Conversely, current costs represent approximations of prices for specific assets at current year levels. In 1982, because of a lack of business in the freight car building industry, a box car could have been purchased for \$35,000. In addition to property adjustments, the constant dollar approach

revalues net monetary items for the loss of purchasing power incurred during inflationary periods. Monetary items are cash, receivables in fixed cash amounts, or liabilities to pay fixed cash amounts. Monetary assets lose purchasing power during inflationary periods because they will purchase fewer goods and services. Conversely, monetary liabilities gain because less purchasing power is required to satisfy debt payments. Debt issued to pay for the 1967 box cars could be paid in 1982 with dollars having a purchasing power of \$.35.

Two supplementary statements are required and are shown herein:

Income from Continuing Operations Adjusted for General Inflation and Current Cost (Below).

The statement of income from continuing operations, adjusted for general inflation and current cost, reduces the income of \$33.3 million as reported under conventional historical cost methods to \$12.6 million and \$13.4 million, under constant dollar and current cost methods, respectively. These changes reflect (1) increased depreciation on the inflation adjusted values of depreciable properties and (2) a restatement into average 1982 dollars. Depreciation used to adjust the historic income statement to constant dollar income statement reflects indexing of properties to average 1982 dollars using the Consumer Price Index—All Urban Consumers published by the U.S. Government.

Adjusted depreciation in the current cost column reflects specific price increases of properties devel-

Income from Continuing Operations Adjusted for General Inflation and Current Cost for the Year Ended December 31, 1982

(In Thousands)

	Conventional Historical Cost	Constant Dollar Average 1982 Dollars	Current Cost Average 1982 Dollars
Net sales and revenues	\$384,291	\$384,291	\$384,291
Depreciation and amortization expense	30,117	50,759	50,017
Other costs and expenses	294,027	294,027	294,027
Income from operations	60,147	39,505	40,247
Interest on long-term debt	24,179	24,179	24,179
Income from consolidated operations before income taxes	35,968	15,326	16,068
Provision for taxes on income	8,825	8,825	8,825
	27,143	6,501	7,243
Equity in earnings of Western Reserve Life Assurance Co	6,137	6,137	6,137
Income from continuing operations	\$ 33,280	\$ 12,638	\$ 13,380
Gain on net amounts owed from decline in purchasing power		\$ 10,914	\$ 10,914
Increase in specific prices (current cost) of properties held during year*			\$ 47,650
Effect of increase in general price level			66,860
Excess of increase in the general price level over increase in the specific prices			\$ 19,210

*At December 31, 1982 current cost of property, plant and equipment, net of accumulated depreciation and amortization was \$1,608,274,000.

oped mostly from direct price quotes, internal construction costs, and by applying the U.S. Government Producer Price Index—General Purpose Machinery and Equipment and the Engineering News Record Construction Cost Index. The FASB statement does not provide for the adjustment of income taxes to reflect the changes in expense resulting from constant dollar and current cost adjustments. The gain from holding net monetary liabilities reflects the decline of purchasing power of the dollar during the year. For the Company, most current assets, except inventories, and most liabilities are monetary and result in a net monetary liability. The increase in the general price level over specific prices represents the current cost of properties maintaining approximately the same level as in 1981. For example, the actual cost of a box car remained at the 1981 price of \$35,000. If the box car had increased with general inflation of approximately 6% in 1982, the cost would have been \$37,100 for a specific price increase of \$2,100 (6% of \$35,000).

The Company follows the generally accepted method of replacement accounting for track structures (principally rail and ties). These properties are not depreciated but rather, the costs of replacements in kind are charged to expense and only betterments (improvements) are capitalized. Track structures are being replaced on a planned program which, in the opinion of management, results in annual charges to expense that represent the current cost of maintain-

ing them. Accordingly, the track structure replacements charged to expense in the historical cost financial statements have not been adjusted for general inflation or current cost presentations. The constant dollar and current cost valuations of inventories were not materially different from historical values at year end. Accordingly, operating expenses for materials consumed have not been adjusted.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Below).

This statement reflects revenues and dividends per common share restated to average 1982 dollars. Net assets at year end consist of stockholders' equity as reported in the basic financial statements restated for the constant dollar and current cost property revaluations and for the constant dollar adjustments to net monetary liabilities.

Management cautions the reader in the use of and reliance upon these supplementary statements. Conventional Historic Cost accounting which employs depreciation, is an accounting convention designed to allocate asset costs over their useful lives rather than to provide a fund for asset replacement. Both the constant dollar and current cost presentations produce pro forma data that infer replacement of all property at a common point in time. This unrealistic timing assumption does not take into consideration increased revenues which would offset the increased costs of properties.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands, Except per Share Amounts)	1978*	Years Ended December 31,			
		1979	1980	1981	1982
Net Sales and Revenues	\$ 339,394	\$ 358,729	\$ 379,920	\$ 390,802	\$ 384,291
Historical Cost Information					
Adjusted for General Inflation					
Income from Continuing Operations		\$ 8,220	\$ 17,238	\$ 19,983	\$ 12,638
Income from Continuing Operations per Common Share .....		.85	1.77	2.03	1.25
Net Assets at Year End		790,413	806,448	875,172	916,704
Current Cost Information					
Income from Continuing Operations		\$ 4,536	\$ 12,647	\$ 22,031	\$ 13,380
Income from Continuing Operations per Common Share .....		.45	1.30	2.21	1.33
Change in Specific Prices greater than (less than) Increase in General Price Level		(65,563)	90,365	(101,192)	(19,210)
Net Assets at Year End		1,403,864	1,529,506	1,470,264	1,480,616
Other Information					
(in average 1982 dollars)					
Gain from Decline in Purchasing Power of Net Amounts Owed		\$ 32,129	\$ 33,352	\$ 24,128	\$ 10,914
Dividends Declared per Common Share	\$.58	.66	.73	.84	.88
Market Price per Common Share At Year End	15½	17¼	28¾	35¼	45¼
Average Consumer Price Index	195.4	217.4	246.8	272.4	289.1

*Missing information not required to be reported.

DIRECTORS

***J. Pat Beaird**

Self-employed (Managing
Personal Estate)
Shreveport, Louisiana

Thomas S. Carter

President and Chief
Executive Officer, The
Kansas City Southern
Railway Company
Kansas City, Missouri

Kirke Couch

President, Couch Truck
Leasing, Inc.
Shreveport, Louisiana

***William N. Deramus III**

Chairman of the Board
of this Company

****Edward M. Douthat**

Chairman of the Board
Locke Stove Company
Kansas City, Missouri

Raymond Gary

President
Gary Industries, Inc.
Madill, Oklahoma

****John Hawkinson**

President and Director
Kemper Group
of Funds
Chicago, Illinois

***Irvine O. Hockaday, Jr.**

President and Chief
Executive Officer
of this Company

***R. Crosby Kemper**

Chairman of the Board
and Chief Executive
Officer, United Missouri
Bancshares, Inc.
Kansas City, Missouri

*****Edward T. McNally**

Chairman of the Board
The McNally Pittsburg
Manufacturing
Corporation
Pittsburg, Kansas

Edwin Moore

President
Edwin Moore, Inc.
Shreveport, Louisiana

Harold L. Oppenheimer

Chairman of the Board
Oppenheimer
Industries, Inc.
Kansas City, Missouri

Justin R. Querbes, Jr.

Chairman of the Board
Querbes & Nelson, Inc.
Shreveport, Louisiana

Morton I. Sosland

President
Sosland Companies, Inc.
Kansas City, Missouri

***Nicholas H. Wheless, Jr.**

President, Wheless
Drilling Company
Shreveport, Louisiana

*Member Executive Committee

*Member Audit Committee

**Member Compensation Committee

OFFICERS

- William N. Deramus III**
Chairman of the Board
Chairman of Executive
Committee
- Irvine O. Hockaday, Jr.**
President and Chief
Executive Officer
- Michael F. McClain**
Senior Vice President
- Robert E. Zimmerman**
Senior Vice President—Law
- Phillip S. Brown**
Vice President—
Governmental Affairs
- Richard P. Bruening**
Vice President and
General Counsel
- John L. Deveney**
Vice President—Personnel
- Thomas A. Giltner**
Vice President and
Comptroller
- Donald L. Graf**
Vice President and
Chief Financial Officer
- James E. Judge**
Vice President—
Corporate Systems
- Donald T. McMahon**
Vice President—
Industrial
- Landon H. Rowland**
Vice President
- Vernon C. Pragman**
Treasurer
- * **Albert P. Mauro**
Secretary

SUBSIDIARIES

- Thomas S. Carter**
President
The Kansas City Southern
Railway Company
- Thomas A. McDonnell**
President
DST Systems, Inc.
- W. Scane Bowler**
President
Pioneer Western
Corporation
- John R. Kenney**
President
Western Reserve Life
Assurance Company of Ohio
- William R. Adams**
President
Mid-America Television
Company
- James B. Dehner**
President
American-Coleman
Company
- Marshall H. Dean**
President
Carland, Inc.

Corporate Offices 114 W. 11th Street, Kansas City, Missouri 64105 (816) 556-0303

KANSAS CITY SOUTHERN INDUSTRIES, INC.

ANNUAL
REPORT
1983

FINANCIAL HIGHLIGHTS Dollars in Thousands Except per Share Amounts, Years Ended December 31

		1983	1982*	1981*
For the Year	Revenues	\$404,931	\$384,291	\$368,227
	Income from operations	75,634	71,804	77,061
	Net income	41,837	39,575	44,821
	Working capital provided	167,640	123,228	135,497
	Working capital applied	170,806	120,991	133,041
At Year End	Working capital	1,156	4,322	2,085
	Investments	106,846	80,174	70,350
	Net properties	519,647	505,161	480,498
	Long-term debt	138,049	190,114	198,237
	Stockholders' equity:			
	Preferred	7,112	7,112	7,112
Common	358,110	293,818	261,193	
Measurements and Financial Ratios (Percentages)	Per share of Common stock:			
	Earnings	\$ 4.11	\$ 3.99	\$ 4.58
	Dividends paid	.88	.88	.79
	Book value	35.27	29.67	26.68
	Return on average Common stockholders' equity	13%	14%	18%
	Current ratio	101%	104%	112%
	Debt to equity	38%	63%	74%
Debt to total capital employed	27%	39%	42%	

*Restated to reflect change in accounting method (Note 2).

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LETTER TO SHAREHOLDERS

KCSI's revenues in 1983 reached record levels, and earnings also improved compared with 1982. KCSI's income from operations was \$75.6 million; net income was \$41.8 million; and earnings per share of \$4.11 were up 3% over 1982's earnings per share (restated for adoption of depreciation accounting for railroad track structure).



William N. Deramus III
and Landon H. Rowland

The Kansas City Southern Railway Company benefited from a recovery of general commodity freight traffic. Coal movements and revenues were the highest in the Company's history. Increases in operating income were also the result of consistent efforts to reduce expenses and to achieve higher levels of productivity. Conversion from "betterment" to "depreciation" accounting required extensive adjustments in the financial reports of the Railroad and KCSI, and contributed 50¢ per share to 1983 results and 64¢ to restated 1982 earnings per share.

DST Systems, Inc., (DST) increased its net worth by \$33.4 million as the result of a public offering of 14% of its common stock in March, 1983. DST completed its sixth consecutive year of uninterrupted growth with a record year of revenue and earnings. Revenues were up 31% to \$49 million, and net income was up 17% to \$9.1 million. Pioneer Western and Western Reserve Life had an excellent year in 1983. Western Reserve Life reported earnings at \$6.2 million on revenues of \$39.5 million. Insurance in force rose to \$3.25 billion. Sales of Pioneer Western Energy Corporation oil and gas investment programs, increased from \$6.8 million in 1982 to \$26.2 million in 1983.

While these financial results show the continuation of KCSI's established record of growth, they were achieved in an environment of uncertainty and change. Deregulation, the most important element of change, affected all of KCSI's major business lines in 1983. Transportation was most affected. As discussed elsewhere, the Railroad increased traffic in 1983 over 1982, and operating income increased 17%. However, all railroads have seen increasing amounts of boxcar traffic diverted to trailers and containers hauled on flat cars. While TOFC and COFC

KCSI

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traffic has grown phenomenally (KCS showed a 63% increase in tonnage carried in this category), this traffic is highly competitive and, together with the proliferation of special contract arrangements, has caused a reduction in historical profit margins.

Deregulation requires an emphasis on sophisticated, computer-driven information and operating systems. The Railroad's computer systems have been developed and maintained with an emphasis on those elements essential to survival in a deregulated environment.

The merger picture among railroads, particularly in the western half of the United States, remains uncertain. Creation of giant unitary rail systems west of the Mississippi continues as another aspect of deregulation. While KCSI believes the implications of these mergers for preservation of competition are poorly understood, they appear to have the blessing of the ICC. KCSI challenges to the proposed merger of the Union Pacific, Missouri Pacific and Western Pacific, as of the date of this report, are pending in federal court. KCSI expects to take a similar position with respect to the proposed merger of the Santa Fe and Southern Pacific railroads, since the proposed merger will affect Kansas City Southern Railroad's activities in the Gulf region and elsewhere.

Our transportation operations are strategically placed and already participating in the upturn out of the worst recession in recent times. By most standards, the region served by the KCS Lines is the most dynamic and has the brightest future of any in the continental United States. Improved service and low-cost operation are the keys to survival and prosperity in this new environment.

The principal effect of deregulation on our financial service businesses has been: to open up more opportunities and to make the existing operations of these businesses more valuable. Both Pioneer Western and DST are well positioned to take advantage of major changes now occurring in the design and delivery of financial services to a growing number of customers.

Pioneer Western had impressive results for 1983, especially in the development of its oil and gas program. Pioneer Western's existing

products have proved to be well designed for emerging and expanding consumer markets for securities, insurance and tax-advantaged investments. Pioneer Western's participation in these markets is assured because of its senior management's commitment and success in building a strong team of 1,200 men and women licensed to sell both insurance and investment products.

The distribution capabilities of Pioneer Western work well with the financial systems provided by DST. While the success of equity mutual funds contributed to DST's record results, deregulation of the financial markets and traditional financial institutions has created a marketplace for financial services and products. DST is well positioned to serve with an array of operating systems designed for that purpose. The mutual fund system created by DST in the late '60s has matured as a versatile transaction account system with a wide variety of applications.

Sale of DST stock to the public in early 1983 has provided capital to expand these systems. Construction of a unique data processing center in Kansas City, to be completed in late 1984 or early 1985, will provide a secure financial record storage facility enabling DST to continue its expansion. Managing these growth opportunities, with continuing additions of new business, is the challenge for DST.

KCSI's interest in developing complete capabilities in financial services led it to an agreement in principle to acquire Janus Management and Janus Capital corporations, the management companies of the Janus Fund and various private accounts, respectively. Janus Fund, a no-load fund, has achieved an enviable record among investment funds. Acquisition of the Janus companies is subject to a number of conditions, including approval by the shareholders of the Janus Fund.

Deregulation also creates opportunities for LDX Group, Inc., KCSI's communications subsidiary. LDX Group (LDX) was formed October 1, 1983, by combining KCSI's television, microwave, cellular radio, satellite and long-distance interests with the international communications consulting and long-distance telephone business of Telecom Engineering of St. Louis, Missouri. LDX has already achieved a



KCSI

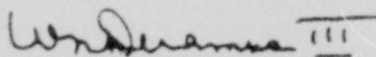
1983

significant market share in St. Louis, Denver and Kansas City for its long-distance operations. LDX has quality management with significant experience in the communications field, and is in a good position to develop the new communications markets opened by deregulation and the breakup and divestiture of AT&T. KCSI owns approximately 74% of LDX.

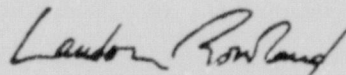
Irv Hockaday resigned as President and Chief Executive Officer of KCSI effective June 30, 1983, to join Hallmark Cards, Inc. He contributed significantly to the revenue and income growth of this Company for more than a decade, and the ongoing business will bear his mark. His role in expanding the financial services of KCSI, particularly through the acquisition of Pioneer Western, was important in assuring the success of that part of KCSI's business.

The KCSI Board of Directors also changed in important respects during 1983. The retirement of Pat Beard of Shreveport, a director since 1953, and the deaths of Edward Douthat of Kansas City, a director since 1949, and Edwin Moore of Shreveport, a director since 1958, are great losses. All of these men contributed significantly to KCSI's mastery of difficult operational challenges over their years of service. Their service included the ten-year period 1972-1982 in which *Fortune* magazine reported that KCSI had a 27.68% total return to investors, the second highest of all transportation companies.

Deregulation in various forms will enable KCSI to apply its unique geographic, physical and personnel resources to the enhancement of the Company's assets. Pursuit of new opportunities in traditional markets and the development of new markets, on both industry and regional bases, will enable KCSI to realize its long-term diversification goals.

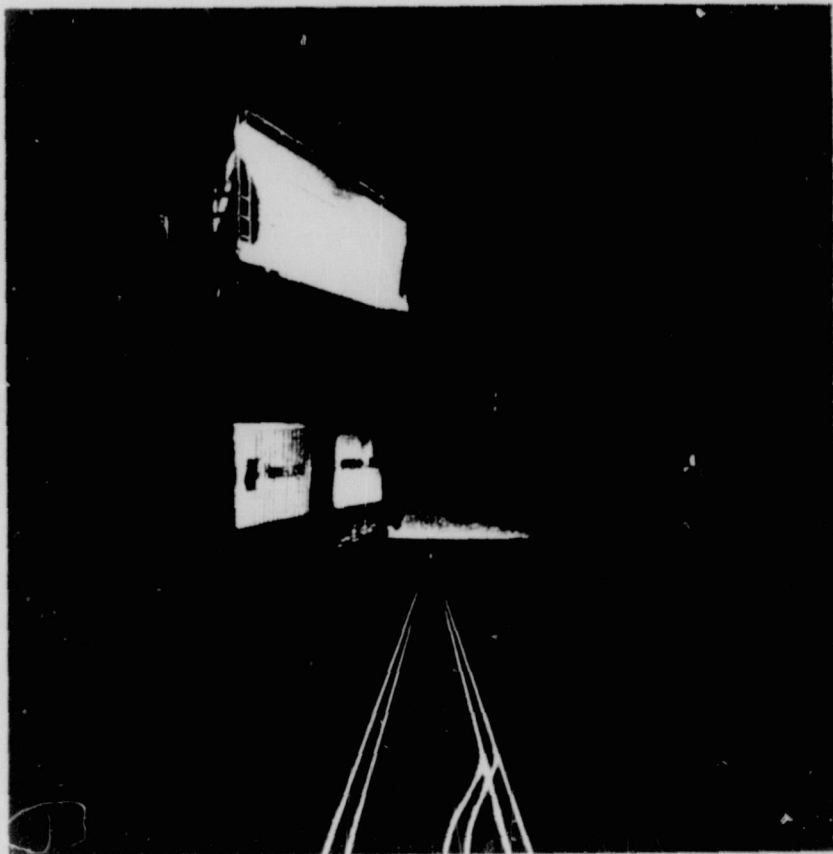


W.N. DERAMUS III
Chairman of the Board and
Chief Executive Officer



LANDON H. ROWLAND
President and
Chief Operating Officer

March 23, 1984



As we move forward in this deregulated environment,
we expect to exploit our special advantages
at every opportunity.

KCSI

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TRANSPORTATION

Deregulation of the transportation industry has resulted in a rethinking of market strategies as railroads use their pricing freedom as a competitive tool in competition with other modes of transportation. While enjoying certain unique advantages, this railroad competes with other railroads, with trucks and with barge lines for freight customers. At the same time, several major railroads have merged. Speculation about the emergence of super railroads continues. A closer look at the performance of The Kansas City Southern Railway Company will show how we are meeting these challenges.

This year we realized our first full year of the unit coal volume traffic, which was projected when we began planning for these moves some ten years ago. This traffic, which escalated gradually and amounted to 12.9 million tons in 1983, should continue to move well beyond the year 2000. Volume of export traffic moving through our Gulf ports declined considerably, due largely to the world economic situation, shifting world trade patterns and political issues, namely the depressed movement of U.S. produced grain to Russia. The 1983 drought caused a 50% drop in U.S. produced corn and soybeans, which also affected the export program.

In the latter half of 1983, we experienced what is clearly an upswing in traffic, most noticeably in tonnage from our paper mills and chemical plant customers, both of which are the direct result of an improving economy. Intermodal traffic, primarily that which is moving between Dallas and New Orleans, continued to show significant gains in volume.

In 1983, we saw a significant increase in TOFC (trailer on flat car) and COFC (container on flat car) traffic with a decrease in boxcar traffic. TOFC traffic as a rule has less tons per rail car than boxcar traffic, and as a result, less revenue per car. The Kansas City Southern Railway Company hauled more freight by weight and by carload in 1983, and it did so for less cost. This was accomplished by improving computer programs to record and control train operation costs, and by more efficient use of facilities, including rail yards, and lower fuel costs. KCS operated more trains for less money in 1983 than it did in 1982.

TRANSPORTATION OVERVIEW

The Kansas City Southern Railway Company

		1983	%	1982	%	
Revenues	General Commodities	\$217,115,000	68.99	\$225,249,000	72.09	
	Unit Coal Trains	80,841,000	25.69	73,832,000	23.63	
	Switching	10,611,000	3.37	10,073,000	3.22	
	Demurrage	1,642,000	.52	2,374,000	.76	
	Other	4,510,000	1.43	949,000	.30	
	Total	<u>\$314,719,000</u>	<u>100.00</u>	<u>\$312,477,000</u>	<u>100.00</u>	
Expenses	Transportation	\$112,768,000	43.07	\$115,806,000	43.71	
	Maintenance of Way	31,530,000	12.04	40,302,000	15.21	
	Maintenance c ^d					
	Equipment	61,678,000	23.58	58,226,000	21.97	
	Traffic & General Expenses	29,064,000	11.10	26,593,000	10.04	
	Depreciation	26,797,000	10.23	24,042,000	9.07	
	Total	<u>\$261,837,000</u>	<u>100.00</u>	<u>\$264,969,000</u>	<u>100.00</u>	
Operating Statistics	Thousands of net ton miles	11,384,000		10,776,000		
	Average freight revenue per thousands of net ton miles	\$ 26.11		\$ 27.75		
	Average freight revenue per carload	\$ 649.86		\$ 657.76		
	Tons of unit coal	12,876,569		12,576,951		
	Unit coal trains	1,265		1,262		
Commodity Carloads	Coal	133,785	29.18	130,531	28.71	
	Petroleum	60,966	13.30	61,646	13.56	
	Chemicals	56,239	12.26	53,635	11.80	
	Lumber and Wood	35,206	7.68	34,210	7.52	
	Farm Products	23,100	5.04	25,840	5.68	
	Pulp and Paper	41,995	9.16	36,364	8.00	
	Non-Metallic Minerals	10,199	2.22	18,994	4.18	
	Food Products	23,156	5.05	19,574	4.30	
	Stone, Clay, etc	10,920	2.38	10,358	2.28	
	Primary Metals	2,782	.61	7,012	1.54	
	Metallic Ores	1,416	.31	9,004	1.98	
	Waste and Scrap	3,211	.70	5,878	1.29	
	Transportation Equipment	3,928	.86	5,850	1.29	
	Miscellaneous and TOFC	41,375	9.02	22,752	5.00	
	Other	10,218	2.23	13,045	2.87	
		Total	<u>458,496</u>	<u>100.00</u>	<u>454,693</u>	<u>100.00</u>
	Other Property Statistics	Miles of welded rail in service	780.5		737	
Main line welded rail (%)		53.3		48.9		
Concrete ties in tracks (%)		6.1		5.7		
Miles of main line track in centralized traffic control system		780		717		
Solar panels in service at remote locations		88		59		
Cross ties replaced		282,805		461,200		
Miles of tracks lined and surfaced		2,368		2,483		
Tons of ballast applied		633,350		487,000		
Diesel locomotives added to fleet		14		19		
Wood ties in service		10,48		10,57		
Concrete ties in service		8,56		8,63		
Rail in main line		20,79		21,49		
Road locomotives		14,50		12,90		
All locomotives	16,90		14,20			
Freight cars	11,90		10,90			

KCSI

Average
Ages
(Years)

1983

When the KCS began hauling unit train coal in 1976, management had earlier determined that higher maintenance standards would be necessary for track and structures to handle the increased traffic and heavier loads. These standards have been maintained through 1983 and will be maintained in the future. It is expected that the costs for maintaining these higher standards will be somewhat less than was spent in prior years.

Improved productivity is essential to survival in this new environment, and safety is one of the factors in achieving better productivity. We have an active safety program in effect and over the last three years have succeeded in achieving significant annual reductions in the number of personal injuries and lost work days.

The softening of railroad rate structures can be seen across the board on nearly all commodities except unit coal traffic. This situation is due in large part to the Staggers Rail Act of 1980. While that legislation was designed to be beneficial to the railroad industry, various provisions unleashed changes that directly translated into price cutting. Deregulation of the trucking industry created a similar effect not just on common motor carriers but railroads as well.

Foremost among the changes following deregulation is the manner in which carriers market and price their services. With the close of 1983, the railroads witnessed the almost total loss of antitrust immunity and their ability to price services collectively. Associated with that is what many observers believe to be the end to collective, across-the-board rate increases which we have experienced for many years. Carriers will now be expected to negotiate prices in a more individual manner with their specific connections rather than under the umbrella of rate bureaus.

In December, 1983, the Interstate Commerce Commission ruled that all traffic moving in boxcars would no longer be subject to rate regulation. Moreover, carriers would no longer have the right to agree collectively on boxcar rental and rules governing the interchange of boxcars. Currently our Company, like most other carriers, has adopted the previously regulated published rates as applicable, but this may not

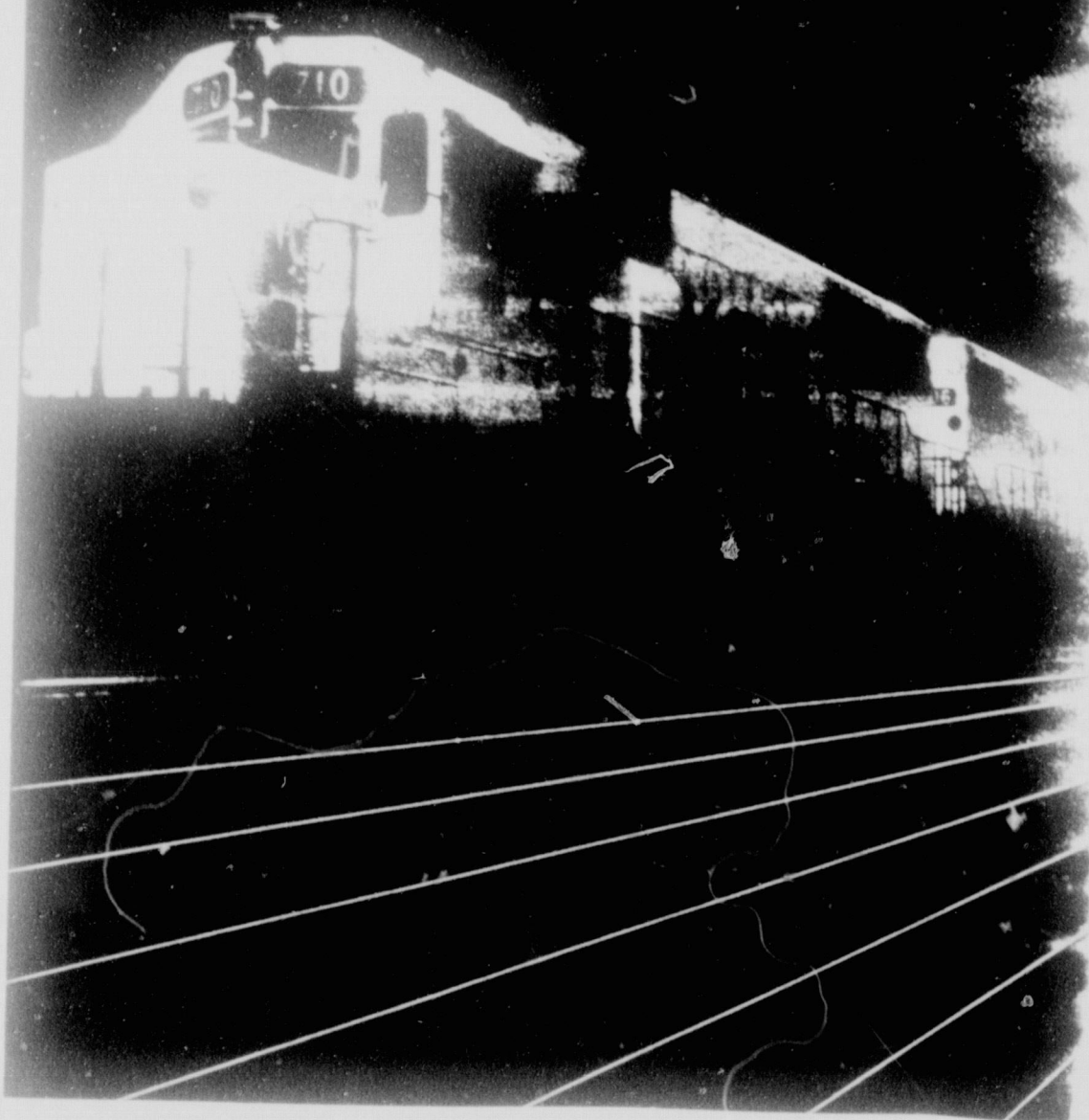
Coal

Chemical
Products

Forest Products

Agricultural
Products

Electricity



continue. If history repeats itself, boxcar deregulation will bring about a depression in the level of freight rates somewhat akin to that which the industry experienced in 1980 when TOFC/COFC traffic was deregulated. The entire issue is of major significance to our Company because of the volume of our traffic that has traditionally moved in boxcars.

Railroad merger activity is also expected to continue, as previously discussed. We expect 1984 to bring about a definite development in the struggle for control of the Milwaukee Road between the Grand Trunk Western, Soo Line and C&NW. Because Kansas City Southern interchanges traffic and operates a joint terminal at Kansas City with the Milwaukee Road, we are keenly interested in the outcome of this contest.

To cope with changing conditions in our markets, we have begun to accelerate our marketing effort in a variety of ways. We have carefully begun to use the authority recently granted our trucking subsidiary, Landa Motor Lines, to operate in eleven states. We expect to utilize the certificate in various ways in connection with our Railroad, including the blending of railroad carload traffic with highway transport. As the "Big D" Connection with Santa Fe shows, operating arrangements with other carriers are an effective means of improving service to our customers and responding to new competitive realities. We are exploring similar arrangements with several other carriers, and have recently begun a coordinated service arrangement with the Burlington Northern through Kansas City to handle traffic between the Pacific Northwest and Gulf Coast areas served by our system.

We have begun to improve the efficiency and productivity of our bulk commodity terminal at Port Arthur, Texas, for the handling of soda ash. We continue to be optimistic about the future of that commodity growth in export markets.

The Kansas City Southern Railway Company is an efficient low-cost carrier and it is also the shortest route between the Gulf Coast and the upper Midwest and also in the New Orleans-Dallas corridor. As we move forward in this new deregulated environment, we expect to exploit our special advantages at every opportunity.



With Pioneer Western, DST, and our other joint-venture companies,
we are well positioned for growth in
the financial services industry

KCSI

1983

FINANCIAL SERVICES

DST Systems, Inc. (DST) represents KCSI's participation in the growing recordkeeping requirements of a changing financial services industry. In defining the financial service industry, DST includes money managers (mutual funds), insurance companies, brokerage firms and banks. Traditionally, there have been clear distinctions among the products marketed by these institutions and, in some cases, regulatory separation of products and activities. In recent years, new products such as money market funds, flexible premium retirement annuities, cash management accounts and insured money market deposit accounts have resulted in increased competition across traditional lines.

DST believes that these new products and a continuing trend of deregulation will expand its customer base. The products are inherently complex and therefore have expanded recordkeeping requirements. DST has established a position in the traditional financial service markets, and it has expanded its capabilities to support new products through the development of software systems and ancillary support services in the fiduciary and brokerage areas.

DST's applications systems include: the *Mutual Fund Shareholder Accounting System*, which provides maintenance of records and transaction accounting for mutual fund shareowners; *Securities Transfer Systems*, a recordkeeping system for non-mutual fund companies; the *Annuities System* providing maintenance of policyholder records for variable and flexible premium retirement annuities; and the *Portfolio Accounting System*, which maintains inventory records for the underlying investment portfolios of mutual funds, banks and insurance companies.

DST delivers these systems directly or through one of its joint venture companies which are "channels of distribution." It has been DST's posture to form joint ventures with knowledgeable partners in order to allow DST to either participate in new product areas or address certain market segments that have geographic sensitivity or unique characteristics beyond DST's basic data processing capability.

In addition to penetrating new markets for joint ventures, DST's subsidiaries Investors Fiduciary Trust Company and Wall Street Clearing

FINANCIAL SERVICES OVERVIEW

DST Systems, Inc.

		1983	1982
Financial	Revenues	\$48,982,000	\$37,456,000
	Net Income	9,057,000	7,740,000
	Earnings per Share	\$ 0.95	\$ 0.91
Products and Customers	Mutual Fund System		
	Shareholder Accounts	8,041,000	6,020,145
	Mutual Funds	508	367
	Fund Groups	154	107
	Securities Transfer System		
	Security Holder Accounts	2,569,000	2,147,118
	Customers	18	16
	Annuity System		
	Policyholder Accounts	319,000	163,309
	Customers	23	14
Ownership	Portfolio Accounting, Research and Information System		
	Portfolios	78	38
	Customers	14	11
	KCSI % ownership	86%	100%

Pioneer Western Corporation & Western Reserve Life Assurance Co.

Scope	States Licensed and Operating in	48	47
	Licensed Representatives	1,200	1,125
Life Insurance	Life Insurance in Force, Year End	\$3.3 billion	\$3.0 billion
	New Premium Sales	\$12,500,000	\$9,300,000
Energy Programs	Oil and Gas Programs Sold	19	4
	Oil and Gas Program		
	Funds Raised	\$26,200,000	\$6,800,000
Ownership	Wells to be Drilled from Program Funds Raised	138	39
	KCSI % ownership	100%	100%

KCSI

1983

Company respectively provide fiduciary and brokerage capabilities for DST's clients in addition to their primary product offerings. For example, through Investors Fiduciary Trust Company, generic banking products such as the Investors MoneycardSM can be provided to DST clients. Wall Street Clearing Company services the client's discount brokerage needs.

As the financial services industry continues to change as a result of competition and deregulation, DST's business will expand through new systems development, additional partnerships and affiliations.

Recently, DST announced the formation of TPA Associates, a joint venture with Vantage Computer Systems of Hartford, Connecticut. This joint venture gives DST access to a universal life insurance processing system thus providing an entry for DST's services in that industry.

In March, DST's initial public offering of common stock raised \$33.4 million. DST's financial results for the year included growth in revenues to \$49 million from \$37.5 million in 1982 and after-tax earnings of \$9.1 million compared to \$7.7 million the year before.

Pioneer Western Corporation (PWC) sells individual consumer financial services products. Each of the PWC subsidiary companies, while registering financial gains in 1983, also made major investments to enhance earnings in the future. During 1983, PWC's life insurance company subsidiary, Western Reserve Life, experienced a slight earnings increase over the preceding year. Life insurance company earnings are primarily influenced by the amount and product mix of new business, income from investments, and policyholder mortality. During 1983, new life premiums and premiums from annuities reached an all-time high. Investment income for 1983 was nearly level with the prior year as a result of a substantial decrease in income from one of PWC's large commercial rental properties. Mortality experience was comparable to 1982.

Western Reserve Life has continued to improve its marketing position. The 1,200 sales representatives, most of whom are also licensed to sell securities, will benefit during 1984 from two new securities-related

Policyholder Record-keeping

Oil & Gas Syndicates

PIONEER WESTERN

Real Estate

Portfolio Accounting

Mutual Fund Recordkeeping

Stocks, Bonds & Mutual Funds

Securities Transfer

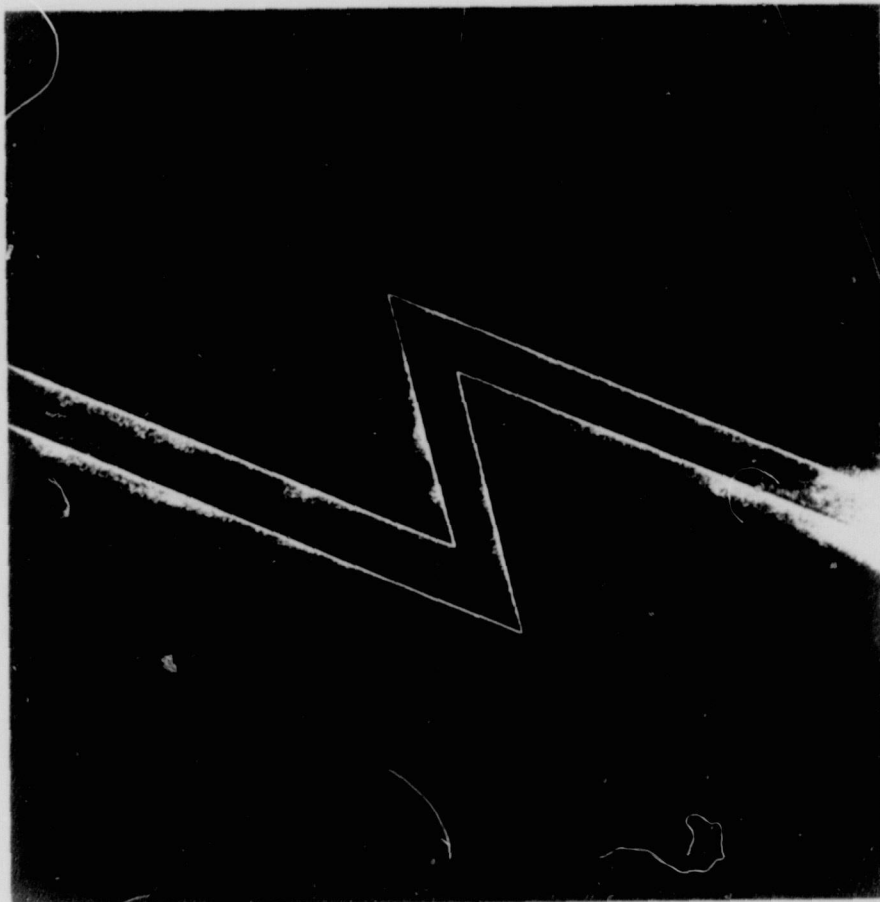
Insurance & Annuity Products

life insurance products and a computer software package.

Pioneer Western Energy Corporation markets limited partnership investments in publicly-registered, developmental oil and gas drilling programs, oil and gas income partnerships, and private placements for oil and gas drilling. In 1983, which was its first full year of operations, Pioneer Western Energy recorded a small loss, with sales of drilling programs increasing 327% to \$26.2 million. Our 1983 sales effort will result in Pioneer Western Energy participating in the drilling of 138 new oil and gas wells in the Appalachian basin. During 1982 and 1983, drilling of new gas and oil wells in the United States decreased significantly. As a result, our drilling programs are benefiting from the selection of better drilling sites. During the same time, drilling costs declined, benefiting our investors.

PW Securities is becoming a more important part of Pioneer Western. Founded in the late 1960s to license Western Reserve Life agents to sell mutual funds, PW Securities now trades stocks and bonds through Wall Street Clearing Co., a DST joint venture. PW Securities also acts as dealer/manager for Pioneer Western Energy limited partnerships. Sales increased 87% in 1983, and we expect continued rapid growth.

Pioneer Western Corporation has a distinct advantage in the financial services industry. Having marketed both life insurance and securities products for 16 years, Pioneer Western has the experience to handle the changes in our industry much better than many of our competitors. We will continue marketing a limited number of products to a well chosen market rather than embracing the "financial supermarket" concept.



The management of LDX Group believes the blend of our communications operations will provide both financial stability and capital for the developmental companies of the group.

KCSI

1983

COMMUNICATIONS

LDX Group, Inc., is a holding company which owns four communication service companies in different stages of development. LDX Group was formed in 1983 to consolidate the communications interests and capabilities of Kansas City Southern Industries, Inc., and Telcom Engineering, Inc. Telcom Engineering is a 24-year old international telecommunications consulting company providing design, planning, implementation, management and training to the communications industry.

Through its subsidiary companies, LDX Group intends to respond to market opportunities resulting from the changing communications technology, the deregulation of the telecommunications industry, and the divestiture of the Bell telephone system from AT&T.

The management of LDX Group believes its blend of communications operations will provide both financial stability and capital for the developmental companies of the group. LDX sees immediate market opportunities as a result of the deregulation of the telecommunications industry for its long distance resale company. The competition for services once controlled by AT&T has begun, and LDX has joined in the competition for customers in this \$45 billion business. We think we can adapt to the rapid technological changes in the telecommunications industry faster and with less capital investment.

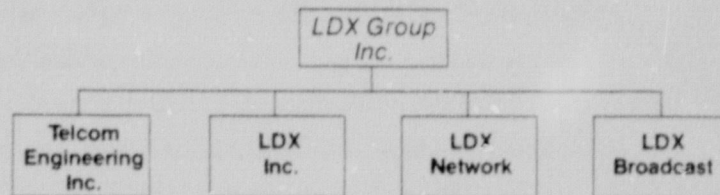
A description of the operating subsidiaries of LDX Group suggests the approach we plan to use to market communications services.

LDX, Inc., is a long distance telephone resale company providing discount service to business and residential subscribers. LDX purchases transmission facilities from interchange carriers such as AT&T, MCI, and Western Union at bulk rates, and resells long distance transmission at a price that is higher than cost but lower than AT&T's Direct Distance Dialing.

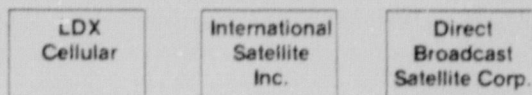
Using a switching device developed by Telcom Engineering and manufactured by American-Coleman, another subsidiary of KCSI, LDX offers one-plus long distance dialing. The LDX-American-Cole-

COMMUNICATIONS OVERVIEW

LDX
Corporate
Organization



Development
Ventures



KCSI retains 74% ownership of LDX Group, Inc.

LDX Broadcast, Inc.

Network Affiliations	WEEK-TV Peoria, Illinois	NBC
	KRCG-TV Columbia/Jefferson City, Missouri	CBS
Local Market Ranking	WEEK-TV	First
	KRCG-TV	First
Financial		<u>1983</u> <u>1982</u>
	Operating Revenues	\$8,042,931 \$6,813,674
	Income from Operations	1,690,710 1,299,077

LDX, Inc.

Growth Indices	Customer Base Served, Year End (31,162 at February 29, 1984)	25,000	1,721
	Cities Served, Year End	St. Louis Denver Kansas City	St. Louis Denver

Mid-America Cellular Systems, Inc.

Applications	Applications filed with FCC to operate cellular radio systems:		
	Top 30 SMSA's	3	3
	31-60 SMSA's	10	10
	61-90 SMSA's	18	0

KCSI

1983

man switching device, called the Coleman Phone Dispatch, switches long distance calls through the LDX switching computer to provide the caller with least-cost routing of long distance calls. The LDX bill for the long distance service shows customers how much was saved in long distance charges using LDX compared with AT&T charges for the same call.

LDX now offers long distance service through switching centers in St. Louis, Kansas City and Denver. LDX began service in the St. Louis area in April, 1982. Service in the Denver area began in October, 1982. LDX began serving Kansas City customers in September, 1983. At the end of 1983, LDX was serving about 25,000 business and residential customers and now serves 31,162 customers in several states.

LDX Network, Inc., operates a 1,600-mile microwave relay transmission system along The Kansas City Southern Railway. The microwave communication system is licensed by the FCC to transmit in the industrial frequency band. LDX Network now serves only the communications needs of the Railroad.

LDX Broadcast, Inc., owns and operates two commercial television stations, WEEK-TV, an NBC affiliate in Peoria, Illinois, and KRCG-TV, a CBS affiliate in the Columbia-Jefferson City, Missouri, area. The stations were part of Mid-America Television Company, a wholly-owned subsidiary of KCSI, before the reorganization into LDX Group. Both stations are rated number one in their market areas.

Telcom Engineering, in addition to telecommunications consulting services, also provides management and data support to the other operating companies in LDX Group. Telcom Telegraphics, a division of Telcom Engineering, has developed a computer program for digitized mapping, record handling and interaction with the accounting and operations data base for the telephone industry. The Telcom Telegraphics system was developed using Telcom's international experience in the development and installation of computer-assisted mapping for telephone systems.

In addition to its four wholly-owned subsidiary companies, LDX



Group, Inc., has a majority investment in Mid-America Cellular Systems, Inc., a development-stage company which has filed 31 applications with the FCC to operate cellular radio systems in the first 90 markets to be approved within the continental United States. LDX also expects to file additional applications as the FCC permits.

Cellular radio technology makes it possible to send and receive voice and data in densely populated areas using portable telephones. Before cellular radio technology, mobile phone use was limited to several dozen users at one time. The use of radio cells will increase simultaneous use to thousands at a time. Cellular radio is inherently attractive because of capital and labor advantages over traditional "hard wire" telephone service.

LDX Group also has minority investments in the Direct Broadcast Satellite Corporation and International Satellite, Inc. Both companies are in early stages of development. The Direct Broadcast Satellite company plans to operate satellites serving U.S. television markets and International Satellite expects to serve the trans-Atlantic communications market.



Deregulation in several industries provides
new opportunities for KCSI's unique real estate locations
and manufacturing capabilities.

KCSI

1983

REAL ESTATE & MANUFACTURING

Real estate owned by Kansas City Southern Industries, Inc., has been developed primarily for industries located along the route of The Kansas City Southern Railway Company. Over the years KCSI and its subsidiary companies have purchased land adjacent to the railway right of way, and currently hold approximately 6,800 acres. This land has been available for industrial development, which generates new business for the Railroad. The real estate holdings are supportive of the business strategies of KCSI and its subsidiaries in areas such as:

- Development of export distribution facilities which support rail transportation operations

- Development of mineral resources of corporate holdings

- Purchase and or sale of industrial property

- Property management activities

- Acquisition of land and related property for industrial development and location of new on-line shippers.

The bulk handling facility at Port Arthur, Texas, is presently undergoing renovation to increase its capacity and speed of handling soda ash for export. The renovation is expected to be completed in mid 1984 for the export of movements of natural soda ash from the Green River Basin in Wyoming.

The economic recession slowed industrial growth in 1983. Plant capacity utilizations, on a national basis, decreased to a low of 69% before the economy experienced improvement in the latter part of the year. In the fourth quarter, unemployment dropped to 8.4%, and a vigorous increase in manufacturing output returned manufacturing plants to 79% capacity level. This trend, coupled with renewed confidence in the economy, is resulting in increased industrial expansion. This Company's real estate operations should benefit from this improved condition in 1984.

The American-Coleman Company operated at a loss in 1983. Both the Champion sporting tractor and the Sentry fuel saver, used on



locomotives to reduce fuel use, had sales well below target objectives. In June, 1983, American-Coleman began production of the Coleman Phone Dispatch, an electronic store-and-forward trunk dialer sold to long distance carriers in competition with AT&T. We are pleased with early sales of the Coleman Phone Dispatch, and with increasing demand as our product becomes better known in the long distance industry. Total sales for the year, however, were not sufficient to cover all of the startup costs for manufacturing this new product.

LOCATIONS OF KCSI & AFFILIATE OPERATIONS



LDX INC
AMERICAN COLEMAN

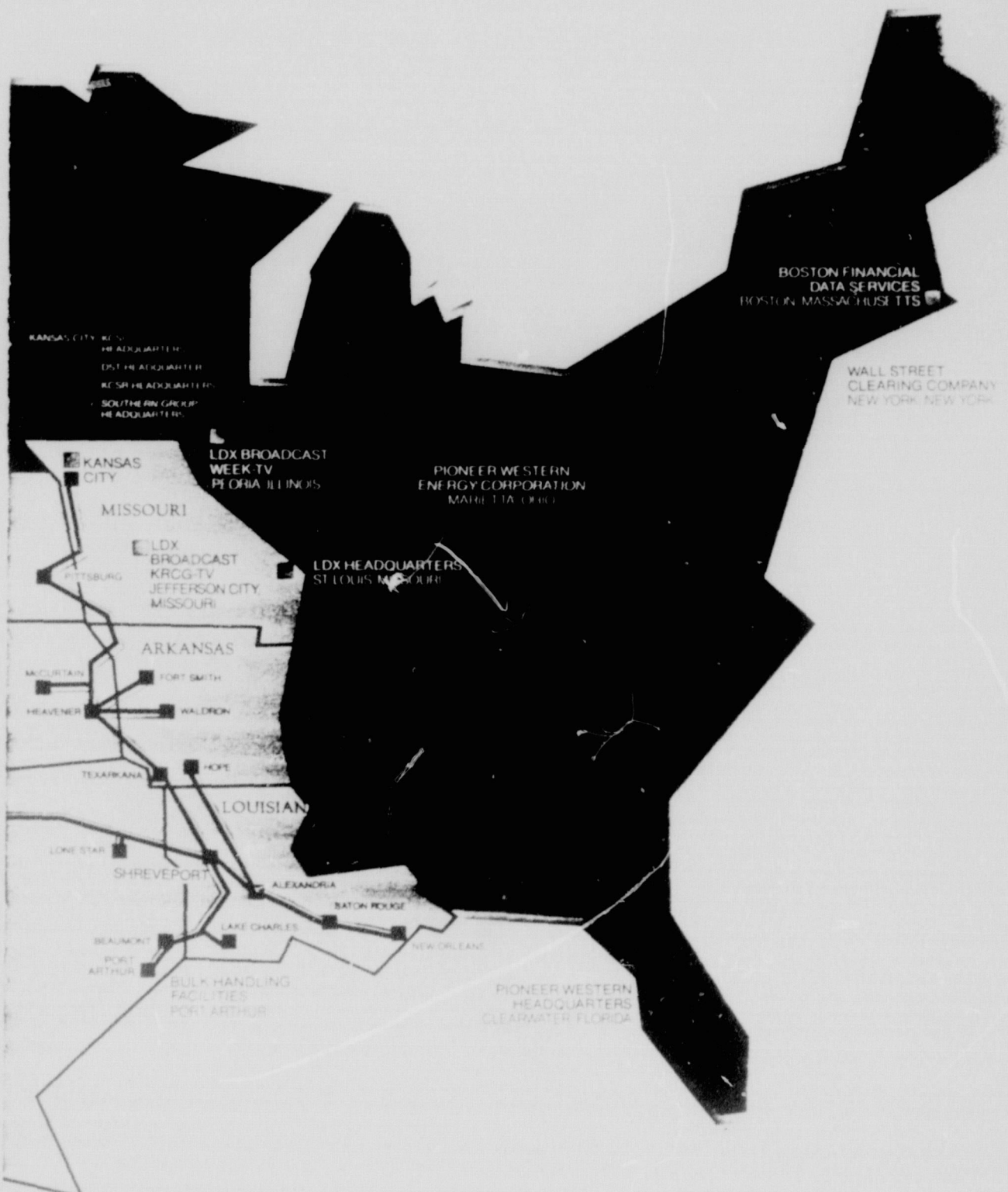
KANSAS

OKLAHOMA

TEXAS

SISCO
LOS ANGELES, CALIFORNIA

- KANSAS CITY SOUTHERN RAILWAY COMPANY
- DST SYSTEMS INC
- PIONEER WESTERN
- FOX INC
- LDX CROWAVE
- AMERICAN COLEMAN



KANSAS CITY, MISSOURI
 RESEARCH HEADQUARTERS
 DISTRICT HEADQUARTERS
 RESEARCH HEADQUARTERS
 SOUTHERN GROUP
 HEADQUARTERS

BOSTON FINANCIAL
 DATA SERVICES
 BOSTON, MASSACHUSETTS

WALL STREET
 CLEARING COMPANY
 NEW YORK, NEW YORK

KANSAS CITY
 MISSOURI

LDX BROADCAST
 WEEK TV
 PEORIA, ILLINOIS

PIONEER WESTERN
 ENERGY CORPORATION
 MAHETA, OHIO

MISSOURI

PITTSBURG
 LDX BROADCAST
 KRCC-TV
 JEFFERSON CITY,
 MISSOURI

LDX HEADQUARTERS
 ST. LOUIS, MISSOURI

ARKANSAS

MACURTAIN
 HEAVENER
 FORT SMITH
 WALDRON

TEXARKANA

LOUISIANA

LONE STAR
 SHREVEPORT

ALEXANDRIA

BATON ROUGE

BEAUMONT
 PORT ARTHUR

LAKE CHARLES
 BULK HANDLING
 FACILITIES
 PORT ARTHUR

PIONEER WESTERN
 HEADQUARTERS
 CLEARWATER, FLORIDA

KCSI DIRECTORS & MANAGEMENT

Pictured from the left: W. Scane Bowler, Chairman, President and Chief Executive Officer, Pioneer Western Corp.; Landon H. Rowland, President and Chief Operating Officer, KCSI; Marshall H. Dean, President, Southern Group, Inc.; Thomas S. Carter, Chairman, President and Chief Executive Officer, The Kansas City Southern Railway Co.; John R. Kenney, President and Chief Executive Officer, Western Reserve Life Assurance Co.; and Thomas A. McDonnell, President and Chief Executive Officer, DST Systems, Inc.



DIRECTORS

W. Scane Bowler
Chairman of the Board,
President & Chief
Executive Officer,
Pioneer Western Corporation,
Clearwater, Florida

Thomas S. Carter
Chairman of the Board,
President & Chief
Executive Officer,
The Kansas City Southern
Railway Company,
Kansas City, Missouri

Kirke Couch
President,
Couch Truck Leasing, Inc.,
Shreveport, Louisiana

***William N. Deraemus III**
Chairman of the Board
& Chief Executive Officer
of this Company

Raymond Gary
President & Chief
Executive Officer,
Gary Industries, Inc.,
Madill, Oklahoma

***John Hawkinson**
*** President & Director,
Kemper Group of Funds,
Chicago, Illinois

***Irvine O. Hockaday, Jr.**
** Executive Vice President,
Haltmark Cards, Inc.,
Kansas City, Missouri

R. Crosby Kemper
Chairman of the Board
& Chief Executive Officer,
United Missouri
Bancshares, Inc.,
Kansas City, Missouri

Thomas A. McDonnell
President & Chief
Executive Officer,
DST Systems, Inc.,
Kansas City, Missouri

***Edward T. McNally**
** Chairman of the Board,
*** McNally Pittsburg, Inc.,
Pittsburg, Kansas

Harold L. Oppenheimer
Chairman of the Board,
Oppenheimer Industries, Inc.,
Kansas City, Missouri

Justin R. Querbes, Jr.
Chairman of the Board,
Querbes & Nelson, Inc.,
Shreveport, Louisiana

Landon H. Rowland
President & Chief
Operating Officer
of this Company

Morton I. Sosland
President,
Sosland Companies, Inc.,
Kansas City, Missouri

***Nicholas H. Wheless, Jr.**
** Chairman of the Board,
*** Wheelless Industries, Inc.,
Shreveport, Louisiana

* Member Executive Committee
** Member Audit Committee
*** Member Compensation
Committee

In Memoriam

Kansas City Southern Industries, Inc., lost the services of two directors in 1983 due to the deaths of Edward M. Douthat on April 6, 1983, and Edwin Moore on June 5, 1983.

Mr. Douthat had served as a director since 1962. He was a member of the Executive and Compensation Committees at the time of his death. He also served as a director of The Kansas City Southern Railway Company and the Louisiana and Arkansas Railway Company from 1949 to 1982.

Mr. Moore had served as a director since 1962. He also served as a director of The Kansas City Southern Railway Company and the Louisiana and Arkansas Railway Company from 1958 to 1982.

KCSI

Retirement

Mr. J. Pat Beard retired as a director December 31, 1983. He had served as a director since 1962, and he was a member of the Executive Committee when he retired. He also served as a director of The Kansas City Southern Railway Company and the Louisiana and Arkansas Railway Company from 1953 to 1982.

1983



Landon H. Rowland, right, President and Chief Operating Officer, KCS, meeting with James B. Dehner, seated left, President, The American-Coleman Co., and the management team of KCS's new operational group, LDX Group, Inc., from the left: Dr. Charles L. Brazie, Executive Vice President; William G. Skelly, Vice President; James C. Barnard, President; Charles Witting, Executive Vice President—Finance; and Phillip S. Brown, Secretary.

OFFICERS

William N. Deramus III
Chairman of the Board &
Chief Executive Officer
Chairman of the
Executive Committee

Landon H. Rowland
President & Chief
Operating Officer

Donald L. Graf
Senior Vice President—
Finance

Michael F. McClain
Senior Vice President—
Marketing

Robert E. Zimmerman
Senior Vice President—Law

Phillip S. Brown
Vice President—
Governmental Affairs

Richard P. Bruening
Vice President &
General Counsel

John L. Deveney
Vice President—Personnel

Thomas A. Giltner
Vice President
& Comptroller

James E. Judge
Vice President—
Corporate Systems

Donald T. McMahon
Vice President—
Industrial

Vernon C. Pragman
Treasurer

Albert P. Mauro
Secretary

SUBSIDIARY PRESIDENTS

Thomas S. Carter
Chairman, President & Chief
Executive Officer
The Kansas City Southern
Railway Company

Thomas A. McDonnell
President & Chief
Executive Officer
DST Systems, Inc.

W. Scane Bowler
Chairman, President & Chief
Executive Officer
Pioneer Western Corporation

John R. Kenney
President & Chief
Executive Officer
Western Reserve Life
Assurance Company

James C. Barnard
President
LDX Group, Inc.

James B. Dehner
President
The American-Coleman
Company

Marshall H. Dean
President
Southern Group, Inc.

Management Changes

Irvine O. Hockaday, Jr., resigned as President and Chief Executive Officer, effective June 30, 1983, to become Executive Vice President, Hallmark Cards, Inc.

Landon H. Rowland, Vice President, was appointed President and Chief Operating Officer, effective July 1, 1983.

William N. Deramus III, Chairman of the Board, assumed the responsibilities of Chief Executive Officer, effective July 1, 1983.

Donald L. Graf, Vice President and Chief Financial Officer, was appointed Senior Vice President—Finance, effective May 20, 1983.

New Directors

Landon H. Rowland was elected a director on May 20, 1983, to fill the vacancy created by the death of Mr. Doufhat.

W. Scane Bowler was elected a director on August 21, 1983, to fill the vacancy created by the death of Mr. Moore.

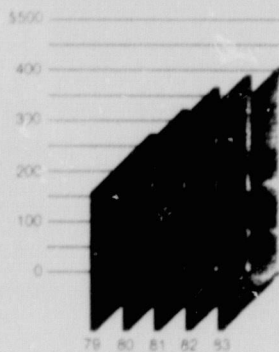
Thomas A. McDonnell was elected a director on August 21, 1983, to fill a new position when the directors increased the size of the board to sixteen members.

FINANCIAL REVIEW

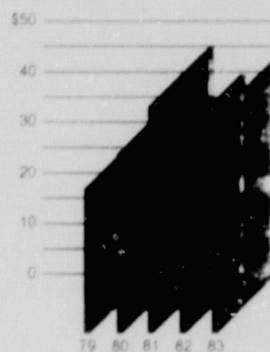
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1983 REVIEW

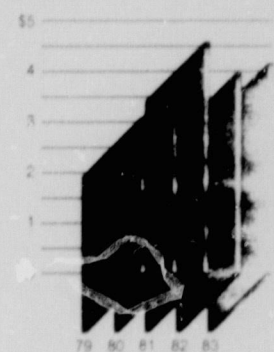
Sales And Revenues
(Dollars in Millions)



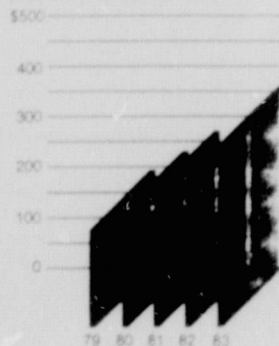
Net Income
(Dollars in Millions)



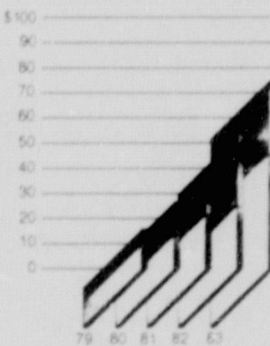
Earnings Per Common Share



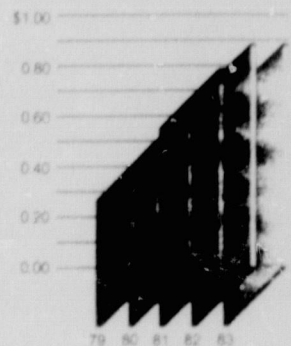
Common Stockholders' Equity
(Dollars in Millions)



Price Range Common Stock



Dividends Common Stock



KCSI

1983

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REPORTS

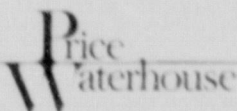
KCSI

Report of Management

The accompanying financial statements and related notes of Kansas City Southern Industries, Inc. and consolidated subsidiaries were prepared by management in conformity with generally accepted accounting principles appropriate in the circumstances. In preparing the financial statements, management has made judgments and estimates based on currently available information. Management is responsible for not only the financial information but also all other information in this Annual Report. All representations contained elsewhere are consistent with the financial statements.

The Company has a formalized system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that its financial records are reliable. Management monitors the system for compliance, and the internal auditors measure its effectiveness and recommend possible improvements thereto. In addition, as part of their examination of the consolidated financial statements, the Company's independent accountants, who are elected by the stockholders, review and test the internal accounting controls on a selective basis to establish the extent of their reliance thereon in determining the nature, extent and timing of audit tests to be applied.

The Board of Directors pursues its oversight role in the area of financial reporting and internal accounting control through its Audit Committee. This committee, composed solely of non-management directors, meets regularly with the independent accountants, management and internal auditors to monitor the proper discharge of responsibilities relative to internal accounting controls and to evaluate the quality of external financial reporting.



Report of Independent Accountants

To the Board of Directors and Stockholders of
Kansas City Southern Industries, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in stockholders' equity and of changes in financial position present fairly the financial position of Kansas City Southern Industries, Inc. and its subsidiaries at December 31, 1983, 1982, and 1981, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for track structure as described in Note 2 of the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A handwritten signature in cursive script that reads "Price Waterhouse".

Kansas City, Missouri
February 17, 1984

CONSOLIDATED
STATEMENT OF INCOME *Dollars in Thousands, Except per Share Amounts. Years Ended December 31*

		1983	1982*	1981*
Revenues	Primary business segments	\$393,748	\$372,225	\$353,235
	Other revenues and income	11,183	12,066	14,992
	Total	404,931	384,291	368,227
Costs and Expenses	Primary business segments	315,695	300,078	276,023
	Other costs and expenses	5,209	5,966	7,788
	General corporate expenses	8,393	6,443	7,355
	Total	329,297	312,487	291,166
Operating Income	Income from operations	75,634	71,804	77,061
Interest	Interest on debt	18,902	24,179	24,213
Pre-Tax Income	Income from consolidated operations before income taxes	56,732	47,625	52,848
Income Taxes	Provision for taxes on income (Note 9)	20,140	14,187	13,563
		36,592	33,438	39,285
Other	Equity in earnings of WRL (Note 5)	6,234	6,137	5,614
	Minority interest	(989)		(78)
Net Income	Net income for the year	\$ 41,837	\$ 39,575	\$ 44,821
Earnings Per Common Share	Earnings on weighted average shares outstanding of 10,119,832; 9,852,871 and 9,734,496	\$ 4.11	\$ 3.99	\$ 4.58
Dividends Per Common Share	Paid in form of—			
	Cash	\$.60	\$.60	\$.50
	Kemper Corporation Common stock	.28	.14	
	MAPCO, Inc. Common stock		.14	.29
	Total	\$.88	\$.88	\$.79

KCSI

1983

*Restated to reflect change in accounting method (Note 2).
See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET Dollars in Thousands at December 31

	ASSETS	1983	1982*	1981*
Current Assets	Cash and short-term investments	\$ 49,236	\$ 26,390	\$ 22,405
	Accounts receivable	54,218	47,095	50,674
	Inventories	23,841	25,663	28,182
	Prepaid expenses	7,183	6,043	4,966
	Total	<u>134,478</u>	<u>105,191</u>	<u>106,227</u>
Investments	Investments held for operating purposes (Note 6)	39,648	22,050	13,492
	Marketable securities, at cost; market values of \$21,802, \$17,412 and \$18,363	7,923	4,380	5,793
	Investment in WRL (Note 5)	59,275	53,744	51,065
	Total	<u>106,846</u>	<u>80,174</u>	<u>70,350</u>
	Properties	Cost (Notes 2 and 8)	797,425	749,200	717,056
Accumulated depreciation and amortization		(277,778)	(244,039)	(236,558)
Net		<u>519,647</u>	<u>505,161</u>	<u>480,498</u>
Other	Other assets	11,990	8,740	7,887
Total	Assets	<u>\$772,961</u>	<u>\$699,266</u>	<u>\$664,962</u>
	LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities	Debt due within one year	\$ 53,753	\$ 29,796	\$ 26,920
	Accounts and wages payable	22,437	23,698	21,255
	Other accrued liabilities (Note 3)	57,132	47,375	55,967
	Total	<u>133,322</u>	<u>100,869</u>	<u>104,142</u>
Other Liabilities and Contingencies	Long term debt (Note 7)	138,049	190,114	198,237
	Deferred income taxes (Note 9)	110,376	93,235	78,648
	Other deferred credits	15,264	14,118	14,864
	Contingencies (Notes 7 and 9)	263,689	297,467	291,749
Minority Interest	Consolidated subsidiaries	10,728	—	766
Preferred Stockholders' Equity	\$25 par, 4% noncumulative Preferred stock	7,112	7,112	7,112
Common Stockholders' Equity	No par Common stock	29,283	28,561	28,238
	Capital surplus	49,629	16,418	14,608
	Retained earnings (Note 2)	279,198	248,839	218,347
	Total	<u>358,110</u>	<u>293,818</u>	<u>261,193</u>
Net Worth	Total stockholders' equity (Note 10)	<u>365,222</u>	<u>300,930</u>	<u>268,305</u>
Total	Liabilities and stockholders' equity	<u>\$772,961</u>	<u>\$699,266</u>	<u>\$664,962</u>

*Restated to reflect change in accounting method (Note 2).
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT
OF CHANGES IN FINANCIAL POSITION *Dollars in Thousands, Years Ended December 31*

		1983	1982*	1981*
Working Capital Provided	Net income	\$ 41,837	\$ 39,575	\$ 44,821
	Items not affecting working capital:			
	Depreciation and amortization	44,495	40,213	34,505
	Deferred income taxes	17,141	14,587	13,495
	Equity in undistributed earnings of unconsolidated subsidiaries	(5,357)	(6,901)	(5,614)
	Gain on Kemper Corporation and MAPCO, Inc. Common stock distributed to stockholders as a dividend	(2,056)	(1,982)	(2,168)
	Other, net	5,457	(231)	(1,488)
	Provided from operations	<u>101,517</u>	<u>85,261</u>	<u>83,551</u>
	Decrease in investment:	2,765	9,028	3,240
	Proceeds from long-term financing	20,149	21,636	36,405
	Sale of Common stock by subsidiary (Note 10)	33,353		
	Properties transferred to WRL			7,396
	Increase in capital surplus	6,202	3,689	1,926
Properties retired	3,654	3,614	2,979	
Total	<u>167,640</u>	<u>123,228</u>	<u>135,497</u>	
Working Capital Applied	Property acquisitions	62,635	68,490	88,431
	Reduction of long-term debt	72,214	29,759	26,464
	Dividends	9,208	8,950	7,977
	Treasury stock acquired	1,569	2,073	334
	Investment in WRL			2,769
	Other investments	22,503	9,969	7,581
	Other, net	2,677	1,750	(515)
Total	<u>170,806</u>	<u>120,991</u>	<u>133,041</u>	
Change	Net increase (decrease) in working capital	<u>\$ (3,166)</u>	<u>\$ 2,237</u>	<u>\$ 2,456</u>
Changes in Working Capital Components	Cash and short-term investments	\$ 22,846	\$ 3,985	\$ 7,223
	Accounts receivable	7,123	(3,579)	3,875
	Inventories	(1,822)	(2,519)	(2,873)
	Prepaid expenses	1,140	1,077	(10)
	Debt due within one year	(23,957)	(2,876)	(3,104)
	Accounts and wages payable	1,261	(2,443)	(1,113)
	Other accrued liabilities	(9,757)	8,592	(1,642)
Change	Net increase (decrease) in working capital	<u>\$ (3,166)</u>	<u>\$ 2,237</u>	<u>\$ 2,456</u>

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*Restated to reflect change in accounting method (Note 2).
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Dollars in Thousands, Except per Share Amounts, Years Ended December 31

		1983	1982*	1981*
Preferred Stock	\$25 par, 4% noncumulative, 840,000 shares authorized, 649,736 shares issued, 284,490 shares outstanding	\$ 7,112	\$ 7,112	\$ 7,112
	\$1 par, 2,000,000 shares authorized, none issued			
Common Stock	No par, 24,000,000 shares authorized, 12,100,548 shares issued, 10,154,579; 9,903,646 and 9,791,124 shares outstanding			
	Beginning of year	28,561	28,238	27,897
	Options exercised	799	517	367
	Common stock acquired	(77)	(194)	(26)
	End of year	29,283	28,561	28,238
Capital Surplus	Beginning of year	16,418	14,608	12,682
	Options exercised	5,433	3,517	2,107
	Acquisition of minority interest in subsidiary		157	
	Tax benefits associated with stock plans	742	15	127
	Sale of Common stock by subsidiary (Note 10)	28,528		
	Common stock acquired	(1,492)	(1,879)	(308)
	End of year	49,629	16,418	14,608
Retained Earnings	Beginning of year, as previously reported			152,303
	Adjustment (Note 2)			29,200
	Beginning of year, as restated	248,839	218,347	181,503
	Net income	41,837	39,575	44,821
	Dividends—			
	Preferred stock, \$1.00 per share	(284)	(264)	(284)
	Common stock, \$.88, \$.88 and \$.79 per share	(8,924)	(8,666)	(7,693)
	Acquisition of minority interest in subsidiary		(133)	
	Sale of Common stock by subsidiary (Note 10)	(2,270)		
	End of year, including equity in unconsolidated subsidiaries of \$25,951, \$19,767 and \$16,506	279,198	248,839	218,347
Total	Stockholders' equity (Note 10)	\$365,222	\$300,930	\$268,305

*Restated to reflect change in accounting method (Note 2).
See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

The accounting and financial reporting policies of Kansas City Southern Industries, Inc. and its subsidiaries conform with generally accepted accounting principles. Significant accounting and reporting policies are described below.

a. Principles of Consolidation. The consolidated financial statements include all majority owned subsidiaries, except Western Reserve Life Assurance Co. (WRL), which is accounted for under the equity method. All significant intercompany transactions have been eliminated.

b. Inventories. All inventories, which consist principally of materials and supplies for transportation operations, are valued at the lower of average cost or market.

c. Properties and Depreciation. Properties are stated at cost. The Company applies depreciation accounting for its properties. Additions and renewals constituting a unit of property are capitalized and depreciated over the estimated remaining life of such assets. Ordinary maintenance and repairs are charged to expense as incurred. (See Note 2 for explanation of change in accounting made retroactively in 1983.)

The cost of equipment and road property normally retired, less salvage, is charged to accumulated depreciation. The cost of industrial and rental property retired, and the cost of equipment and road property abnormally retired, together with accumulated depreciation thereon, are eliminated from the property accounts and the related gains or losses are reflected in income.

Depreciation on properties is computed using composite straight-line rates for financial statement purposes and accelerated depreciation methods for income tax purposes. Annual depreciation rates (ranges) for financial statement purposes are as follows:

Road property	1% - 10%
Equipment	2% - 6%
Industrial and rental property	2% - 25%
Capitalized leases	5% - 17%

d. Income Taxes. Provisions for income tax expense are based on the tax effects of transactions which are included in the determination of pretax accounting income, and appropriate provision is made for deferred income taxes. Available investment tax credits are accounted for under the flow-through method.

e. Treasury Stock. The excess of par over cost of the Preferred shares held in Treasury is credited to capital surplus. Common shares held in Treasury are accounted for as if retired and the excess of cost over stated amount of such shares has been charged to retained earnings.

f. Stock Plans. The difference between the cost of shares purchased for issuance under the Company's stock plans and the proceeds is recorded in capital surplus. Proceeds received from the exercise of stock options or subscriptions are credited to the appropriate capital accounts in the year they are exercised. Changes in the value of stock appreciation rights resulting from market price fluctuations of the Company's Common stock are charged or credited to expense on a current basis.

g. Revenue Recognition. Revenues are recognized in income upon completion of service. Costs are charged to expense as incurred.

h. Segment Information. Financial information on the Company's operations in different business segments is presented on page 46. Sales between segments are not material and are therefore not disclosed. Operating profits by business segment represent gross sales and revenues, less costs and expenses of operations. Identifiable assets by business segment are those assets used in operations.

Transportation revenues include \$49 million and \$39 million in 1983 and 1982, respectively, received from Southwestern Electric Power Company, which amounts exceed 10% of consolidated revenue.

i. Earnings per Share. The computation of earnings per share is based on the weighted average number of Common shares outstanding during the year. Earnings per share calculations do not give effect to outstanding stock options and stock purchase plan subscriptions because their effect upon earnings per share is not material.

Note 2. Accounting Change

In prior years, the Railroad industry had used two generally accepted accounting principles in accounting for track structure for reporting to stockholders: the Retirement Replacement Betterment (RRB) method and the Ratable Depreciation method. Prior to 1983, the Interstate Commerce Commission (ICC) required that all railroads employ the RRB method for regulatory reporting to the ICC, which method the Company and its wholly-owned subsidiary, The Kansas City Southern Railway Company, also used for stockholder reporting purposes.

In 1983, the ICC mandated that all railroads change to Ratable Depreciation on track structure in their reports to the ICC.

In order to avoid duplicate recordkeeping and to conform with what is now prevailing industry practice, the Company and its wholly-owned subsidiary elected to change their method of accounting

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2.
(Continued)

for track structure to Ratable Depreciation accounting retroactive to all prior accounting periods covered by financial statements and supplementary data. Accordingly, prior years information in the accompanying financial statements has been restated to give effect to the change in accounting for track structure.

Application of this accounting change has resulted in the following restatement of previously reported financial statement data (in thousands):

	1983	1982	1981
Balance sheet			
Increase in properties	\$ 181,069	\$ 163,816	\$ 147,180
Increase in accumulated depreciation	(94,030)	(86,809)	(81,830)
Change in properties, net	\$ 87,039	\$ 77,007	\$ 65,350
Increase in deferred income taxes	\$ 39,717	\$ 35,423	\$ 30,061
Net income and earnings per share			
Increase in depreciation expense	\$ 11,196	\$ 10,096	\$ 9,095
Decrease in maintenance expense	20,531	21,753	20,371
Increase in operating income	9,335	11,657	11,276
Increase in income taxes	4,294	5,362	5,187
Increase in net income	\$ 5,041	\$ 6,295	\$ 6,089
Increase in earnings per share	\$.50	\$.64	\$.63

Note 3.
Other
Accrued
Liabilities

The following items, exceeding 5% of total current liabilities, are included in other accrued liabilities (in thousands):

	1983	1982	1981
Accrued per diem	\$ 6,126	\$ 5,149	\$ 6,120
Prepaid freight revenues due other railroads	14,995	12,520	12,047

Note 4.
Acquisitions

In October, 1982, Kansas City Southern Industries, Inc. (the Company) acquired 12-1/2% of LDX, Inc., a reseller of long-distance telephone service. Effective October 1, 1983, the Company and the other equity owners of LDX, Inc. formed a new communications holding company, known as LDX Group, Inc. (LDX). The Company acquired additional equity for a total of 74% of the outstanding Common stock of LDX in exchange for its Common stock investment in two previously wholly-owned subsidiaries, Mid-America Television Company (television broadcasting) and Veals, Inc. (owner of private microwave system leased to The Kansas City Southern Railway Company). The Company's investment in LDX approximates \$10 million. LDX earnings have been included in the consolidated financial statements from October 1, 1983, the effective date of formation.

Assuming the formation had been effective as of January 1, 1981, the Company's consolidated financial statements, on an unaudited pro forma basis, would not have been materially different from amounts reported herein.

As a result of combining the Mid-America Television Company broadcasting operations and Veals, Inc. microwave operations with LDX, Inc. long-distance telephone service operations, the Company has redesignated the former Broadcasting segment as "Communications", with the operations of the above companies to be included therein. Where necessary, prior year segment information has been reclassified using the new term, Communications.

On November 25, 1983, the Company and Janus Capital Corporation announced an agreement in principle for acquisition by the Company of a majority interest in Janus Capital Corp., an Janus Management Corp., privately owned investment advisors. Janus Management Corp. is the manager of Janus Fund with approximately \$280 million under management in the fund, and Janus Capital Corp. manages approximately \$120 million in investments for private accounts. The transaction is subject to execution of a definitive agreement, Board of Directors approval by Kansas City Southern Industries, Inc. and approval by the Janus Fund Board of Directors and shareholders. This transaction, if consummated, would have no impact on results of operations or financial condition of Kansas City Southern Industries, Inc. for the year ended December 31, 1983.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5.
Western
Reserve Life
Assurance
Co. (WRL)**

The Company recognizes earnings from WRL, unconsolidated life insurance subsidiary of Pioneer Western Corporation, under the equity method of accounting. Condensed financial information, which summarizes financial condition and results of operations, is shown below (in thousands):

	1983	1982	1981
Financial condition			
Investments	\$ 93,625	\$ 81,261	\$ 76,023
Deferred insurance acquisition costs	38,582	37,144	35,905
Other assets	12,407	16,846	18,526
Assets	\$144,614	\$135,251	\$130,456
Future policy benefits	\$ 77,796	\$ 73,726	\$ 72,527
Other liabilities	7,543	7,781	6,864
Capital stock and surplus	37,771	37,474	37,375
Retained earnings	21,504	16,270	13,690
Liabilities and stockholder's equity	\$144,614	\$135,251	\$130,456
Operating results			
Revenues	\$ 39,511	\$ 36,240	\$ 34,137
Costs and expenses	33,277	30,103	28,523
Net income	\$ 6,234	\$ 6,137	\$ 5,614

**Note 6.
Joint
Ventures**

Investments in joint ventures accounted for under the equity method of accounting include all entities in which the Company or its subsidiaries have at least 20% but not more than 50% voting control interest. The Company's investments in joint ventures at December 31, 1983 include 50% interests in Rycom Instruments, Inc. and Lonestar K.C. Concrete Tie Company, and lesser interests in other companies. DST Systems, Inc., an 86% owned subsidiary, has 50% interests in Boston Financial Data Services, Inc., Investors Fiduciary Trust Company, Wall Street Clearing Company (partnership), Downtown Investors (partnership), and Two Heritage Drive Realty Associates (partnership), plus certain other venture operations in formation stages.

Condensed financial information of the joint ventures is shown below (in thousands):

	1983	1982	1981
Investment			
Investment in joint ventures	\$ 28,611	\$ 15,101	\$ 7,897
Equity in earnings	489	1,061	1,324
Financial condition			
Current assets	\$173,930	\$ 66,440	\$ 34,869
Non-current assets	76,834	59,217	17,523
Total assets	250,764	125,657	52,392
Current liabilities	171,822	64,178	33,166
Non-current liabilities	36,845	36,827	6,024
Equity of shareholders and partners	42,097	24,652	13,202
Total liabilities and equity	250,764	125,657	52,392
Operating results			
Revenues	\$ 89,142	\$ 65,425	\$ 32,841
Costs and expenses	87,972	63,815	30,738
Net income	\$ 1,170	\$ 1,610	\$ 2,103

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-Term Debt

A summary of the components of long-term debt and other pertinent provisions follows (in thousands):

	1983	1982	1981
• Railway Series C First Mortgage Bonds, 3¼%, due December 1, 1984	\$ 29,835	\$ 30,615	\$ 31,395
Bonds held in treasury	(1,894)	(2,674)	(3,454)
	<u>27,941</u>	<u>27,941</u>	<u>27,941</u>
• Railway Conditional Sales Agreements, 7%-13¼%, due serially to June 1, 1996	90,537	100,114	110,244
• Capital Lease Obligations, 5¼%-15%, due serially to September 15, 1997	30,014	33,906	32,283
• Parent Company Bank Revolving Credit Loan, prime/optional preferential sub-prime pricing		3,000	
• Parent Company Bank Term Loan, prime/optional preferential sub-prime pricing, due quarterly through May 1, 1987	16,000	20,571	25,143
• Term and Secured Loans of other subsidiaries, prime/optional preferential sub-prime pricing, due serially to November 30, 1988	19,272	25,132	19,130
• Industrial Revenue Bonds, 7¼%, due serially from June 1, 1984 to May 1, 2004	5,000	6,000	6,000
• Promissory Notes, 8%-17%, due serially to September 1, 1990	3,038	3,246	4,416
	<u>191,802</u>	<u>219,910</u>	<u>225,157</u>
Less debt due within one year	53,753	29,796	26,920
Long term debt	<u>\$138,049</u>	<u>\$190,114</u>	<u>\$198,237</u>

Under terms of the Second Supplemental Indenture to the First Mortgage of The Kansas City Southern Railway Company, an aggregate principal amount of \$300 million of First Mortgage Bonds is authorized, \$50 million of which is authorized as Series C Bonds. All bonds outstanding in the aggregate of \$28 million, mature December 1, 1984 and are classified as current liabilities at December 31, 1983 in the accompanying financial statements.

The parent Company has a \$40 million Revolving Credit Loan Agreement, (increased by \$20 million in 1983) for general corporate purposes, with the same lender as its Term Loan Agreement. A commitment fee of ¾% per annum on the unused amount of the commitment is required. The revolving credit provisions mature August 1, 1985, at which time the Company may either repay any indebtedness outstanding at that time or elect to convert the balance to a Term Loan, payable in eight equal semi-annual principal payments commencing January 1, 1986. This agreement contains cross covenants with the aforementioned Term Loan Agreement.

Among other provisions, the parent Company's Revolving Credit and Term Loan Agreements (1) restrict dividends on Common stock, other than stock dividends, to amounts which in the aggregate would not exceed 50% of the Company's consolidated net income in such year, (2) require consolidated tangible net worth of \$210 million at December 31, 1983, and (3) limit additional borrowings, guarantees, and leasing commitments.

The Kansas City Southern Railway Company has a standby line of credit in the amount of \$5 million, which requires compensating balances of 10% of the total commitment plus 10% on any borrowed portion, with interest payable at the prime rate. Compensating balance requirements have been met during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. (Continued)

Two subsidiaries also have unused lines of credit under formal loan agreements at December 31, 1983. One agreement, with unused credit lines of \$4.3 million, requires no compensating balances. A commitment fee of ¼% per annum on the unused amount of the commitment is required. Interest rates under this line range from prime plus ¼% to sub-prime preferential pricing exercisable by the Company, for specified periods of time. Another agreement with unused lines of \$2.1 million is secured by Television subsidiary Common stock and contains other restrictions incidental to Communications operations. Interest rate provisions in this agreement also provide for prime based or sub-prime preferential borrowing.

Total unused lines of credit of the Company and its consolidated subsidiaries approximated \$51.4 million at December 31, 1983.

The Company is also guarantor of \$18.4 million principal indebtedness of partnerships involving the Company or its subsidiaries.

Minimum annual payments required under existing capital leases, present value thereof and other debt maturities are as follows (in thousands):

	Minimum Lease Payments	Less Interest	Net Present Value	Other Debt	Total
1984	\$ 6,840	\$ 2,337	\$ 4,503	\$ 49,250	\$ 53,753
1985	5,872	2,039	3,833	22,392	26,225
1986	5,110	1,729	3,381	17,601	20,982
1987	4,754	1,445	3,309	12,547	15,856
1988	4,450	1,213	3,237	8,427	11,664
Later Years	15,483	3,732	11,751	51,571	63,322
Total	\$42,509	\$12,495	\$30,014	\$161,788	\$191,802

In addition to the capital leases described above, the Company and its subsidiaries lease various equipment, railcars, terminals and other operating facilities principally under agreements where rents are based on usage. Rent expense was \$33 million, \$29 million, and \$25 million in 1983, 1982 and 1981, respectively.

Note 8. Properties

The balances of properties and related accumulated depreciation and amortization are as follows (in thousands):

	1983	1982*	1981*
Properties			
Industrial and rental, including \$9,660, \$8,617 and \$12,751 acquired under capital leases	\$ 86,450	\$ 66,730	\$ 59,056
Transportation—			
Road properties	435,008	408,396	380,370
Equipment, including \$38,676, \$43,357 and \$51,234 acquired under capital leases	275,967	274,074	277,630
	<u>797,425</u>	<u>749,200</u>	<u>717,056</u>
Accumulated depreciation and amortization			
Industrial and rental, including \$5,841, \$5,324 and \$7,333 on capital leases	\$ 31,565	\$ 24,189	\$ 25,065
Transportation—			
Road properties	134,464	123,201	114,667
Equipment, including \$19,477, \$21,159 and \$32,787 on capital leases	111,749	96,649	96,826
	<u>\$277,778</u>	<u>\$244,039</u>	<u>\$236,558</u>

*Restated to reflect change in accounting method (Note 2).

In late December, 1982, a bridge near the terminus of The Kansas City Southern Railway's main line at Lake Charles, Louisiana, was destroyed in a barge accident. Trackage arrangements have been made by the Company to use an adjacent railroad bridge in lieu of replacing the bridge.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8.
(Continued)

In 1983, the Company reached a \$3.5 million insurance settlement covering replacement value of the bridge. As a result, both revenues and income from operations include a \$3.4 million gain (proceeds less unrecovered basis) from the settlement of the claim. Income taxes include \$1.2 million additional tax provision on the gain and net income was increased by \$2.2 million, or 22¢ per share.

Note 9.
Income Taxes

Income tax expense consists of the following components (in thousands):

	1983	1982*	1981*
Currently payable—			
State and local	\$ 1,377	\$ 781	\$ 361
Federal	1,622	(1,181)	(293)
Deferred federal	17,141	14,587	13,495
	<u>\$20,140</u>	<u>\$14,187</u>	<u>\$13,563</u>

Deferred federal income tax expense results from timing differences in the recognition of revenue and expense for tax and for financial statement purposes. The nature of these differences and their tax effect are summarized below (in thousands):

	1983	1982*	1981*
Tax depreciation and amortization in excess of financial statement amounts	\$17,212	\$14,101	\$22,294
Investment tax credits	1,438	(1,838)	(9,224)
Transfers between currently payable and deferred	(737)	1,612	
Other, net	(772)	712	425
	<u>\$17,141</u>	<u>\$14,587</u>	<u>\$13,495</u>

The Company's effective tax rates were 35.5%, 29.8%, and 25.7%, respectively. Differences between the effective rates and the U.S. federal income tax statutory rates are as follows (in thousands):

	1983	1982*	1981*
46% statutory rate applied to income from consolidated operations before income taxes	\$26,097	\$21,908	\$24,310
Less the tax effect of—			
Nontaxable gain on investment distributed to stockholders	946	912	997
Investment tax credits	4,426	6,411	9,224
Other	1,962	1,179	887
	<u>7,334</u>	<u>8,502</u>	<u>11,108</u>
Federal income tax expense	18,763	13,406	13,202
State and local income tax expense	1,377	781	361
	<u>\$20,140</u>	<u>\$14,187</u>	<u>\$13,563</u>

* Restated to reflect change in accounting method (Note 2).

At December 31, 1983, the Company had investment tax credit carry-overs of \$12.8 million available to reduce future federal income taxes payable; all such credits have been used to reduce book tax expense in 1983 and prior years.

The Internal Revenue Service has completed examinations of the consolidated federal income tax returns for years 1970 through 1979 and has proposed additional assessments aggregating \$10 million. Most of these deficiencies represent timing differences, payment of which will not require charges for additional income tax expense. Thus, management believes that final settlement of these matters will have no material effect on the accompanying financial statements. Management anticipates that currently payable income taxes will not exceed income tax expense in any of the next three years, except for final resolution of the tax issues referred to above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 10.
Stockholders'
Equity**

a. Treasury Stock. The Company issued from Treasury Stock, 277,320, 179,849 and 127,474 shares of Common stock in 1983, 1982 and 1981, respectively to fund exercise of options and subscriptions under various employee stock purchase and option plans. The treasury stock previously acquired had been accounted for as if retired. The Company also acquired 25,827 Common shares in 1983, 67,327 in 1982 and 9,200 in 1981 for issuance under these plans.

b. Stock Purchase Plan (Plan). The Plan, established in 1977, provides to substantially all full-time employees of the Company, its subsidiaries and certain other affiliated entities, the right to subscribe to an aggregate of 1.9 million shares (increased by 1.0 million in 1983) of Common stock. The purchase price for shares under any stock offering is to be 85% of the average market price on either (1) the exercise date, or (2) the offering date, whichever is lower, but in no event less than \$3.92 per share.

An additional offering under the Plan was made in September, 1983. At December 31, 1983, there are 1,099,268 shares available for future offerings. The following table summarizes activity in the Plan:

	Number of Shares	Maximum Price Range per Share
1980—Outstanding	11,370	\$15.01
1981—Subscribed	261,138	20.40
—Cancelled	(29,616)	15.01 or \$20.40
—Exercised/Issued	(1,576)	15.01 or 20.40
—Outstanding	241,316	15.01 or 20.40
1982—Cancelled	(12,859)	15.01 or 20.40
—Exercised/Issued	(14,220)	15.01 or 20.40
—Outstanding	214,237	20.40
1983—Subscribed	149,967	55.46
—Cancelled	(5,033)	20.40 or 55.46
—Exercised/Issued	(214,283)	20.40 or 55.46
—Outstanding	144,888	55.46

c. Stock Option Plans (Plans). The Plans, established in 1978 and 1983, provide for the granting of options to purchase up to 1.4 million shares of the Company's Common stock by officers and other designated employees. Such options are granted at 100% of the average market price of the Company's stock on the date of grant and may not be exercised sooner than one year, nor longer than three years following the date of the grant.

The Plans include stock appreciation rights (SARs). Net charges to expense for appreciation in market price of stock above the grant price were \$136,000, \$94,000 and \$462,000, in 1983, 1982, and 1981, respectively. Transaction activity is summarized below:

	Shares		Option Price Range
	Options	SARs	
1980—Outstanding	422,566	164,934	\$ 2.89- \$23.34
1981—Exercised	(127,534)	(61,706)	2.89- 13.78
—Cancelled/Expired	(61,706)	(28,278)	2.89- 13.78
—Outstanding	233,326	74,950	11.47- 23.34
1982—Granted	3,500		30.06
—Exercised	(134,855)	(46,213)	11.47- 23.34
—Cancelled/Expired	(46,250)	(28,737)	11.47- 23.34
—Outstanding	55,721		16.81- 30.06
1983—Granted	179,330	37,500	53.88
—Exercised	(54,721)		16.81- 30.06
—Cancelled/Expired	(1,000)		23.34
—Outstanding	179,330	37,500	53.88

KCSI

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10.
(Continued)

At December 31, 1983, none of the outstanding options or SARs were exercisable, because such options or SARs had not been held for the required time period. Shares reserved for granting aggregated 554,131 and 233,461 at December 31, 1983 and 1982, respectively.

d. DST Systems, Inc. (DST) Stock Offering. DST, a previously wholly-owned subsidiary of the Company, sold 1,375,000 shares of its Common stock in a public offering in March, 1983. Net proceeds of \$33.4 million were received from the offering. As a result of the stock offering, the Company's ownership in DST was reduced to approximately 86%. The Company's capital surplus was increased by \$28.5 million and retained earnings were decreased by \$2.3 million, for a net increase of \$26.2 million as a result of dilution to minority shareholders caused by the difference between their purchase price and the book value of DST shares.

Note 11.
Profit
Sharing
Plans

The Company and certain of its subsidiaries maintain qualified profit sharing plans for employees not included in collective bargaining agreements. Contributions are made at the discretion of the Boards of Directors in amounts not to exceed the maximum allowable for federal income tax purposes. Profit sharing expense was \$4.5 million, \$3.0 million, and \$3.3 million in 1983, 1982 and 1981, respectively.

Note 12.
Quarterly
Comparisons

The following unaudited summary compares earnings and stockholder data by quarters for 1983 and 1982. Dollar amounts, except per share amounts, are in thousands.

Quarters Ended	December 31,		September 30,		June 30,		March 31,	
	1983	1982	1983	1982	1983	1982	1983	1982
Revenues	\$104,567	\$90,248	\$106,957	\$92,553	\$98,634	\$99,473	\$94,773	\$102,017
Costs and expenses	88,611	75,817	82,836	74,573	80,473	79,341	77,377	82,756
Income from operations	15,956	14,431	24,121	17,980	18,161	20,132	17,396	19,261
Interest expense	4,711	6,122	4,504	6,002	4,521	6,213	5,166	5,842
	11,245	8,309	19,617	11,978	13,640	13,919	12,230	13,419
Taxes on income	3,460	1,491	6,913	3,284	5,031	4,590	4,736	4,822
	7,785	6,818	12,704	8,694	8,609	9,329	7,494	8,597
Equity in WRL	2,105	1,685	1,538	1,619	1,520	1,716	1,071	1,117
Minority interest	(203)		(365)		(392)		(29)	
Net income	9,687	8,503	13,877	10,313	9,737	11,045	8,536	9,714
Preferred dividends	71	71	71	71	71	71	71	71
Income available for Common shares	\$ 9,616	\$ 8,432	\$ 13,806	\$ 10,242	\$ 9,666	\$ 10,974	\$ 8,465	\$ 9,643
Earnings per share	\$.95	\$.86	\$ 1.37	\$ 1.04	\$.95	\$ 1.11	\$.84	\$.98
Dividends per share:								
Preferred—cash	\$.25	\$.25	\$.25	\$.25	\$.25	\$.25	\$.25	\$.25
Common—								
Cash	\$.15	\$.15	\$.15	\$.15	\$.15	\$.15	\$.15	\$.15
Kemper Corp.								
Common stock	.07	.07	.07	.07	.07		.07	
MAPCO, Inc.								
Common stock						.07		.07
Total	\$.22	\$.22	\$.22	\$.22	\$.22	\$.22	\$.22	\$.22
Stock price range (\$)								
Preferred								
High	14	14 1/2	15 1/4	10 1/4	15 1/2	8 1/2	12 1/4	8 1/2
Low	11 1/2	9 1/2	12	7 1/4	12	5 1/2	10 1/2	7 1/2
Common								
High	68 1/2	53	74 1/2	38	73 1/2	31 1/2	56 1/2	34 1/2
Low	54 1/2	35 1/2	59 1/2	27 1/2	48 1/2	26 1/2	44	24 1/2

FINANCIAL INFORMATION BY BUSINESS SEGMENT

Dollars in Thousands, Five Years Ended December 31

		1983	1982*	1981*	1980*	1979*
Segment Revenues	Transportation	\$316,582	\$312,977	\$314,502	\$280,497	\$224,791
	Financial Services	54,038	40,597	22,704	14,117	8,605
	Real Estate	7,147	10,016	8,267	6,262	5,502
	Communications	15,981	8,635	7,762	7,329	5,710
	Subtotal	393,748	372,225	353,235	308,205	245,608
	Other	11,183	12,066	14,992	16,129	24,483
	Total	\$404,931	\$384,291	\$368,227	\$324,334	\$270,091
Segment Operating Income	Transportation	\$ 57,789	\$ 51,871	\$ 63,364	\$ 52,311	\$ 39,951
	Financial Services	13,081	10,917	6,401	3,678	1,800
	Real Estate	6,113	7,894	6,280	4,613	3,656
	Communications	1,070	1,465	1,167	1,473	1,516
	Total operating profit	78,053	72,147	77,212	62,075	46,923
	Other	5,974	6,100	7,204	4,454	5,907
			84,027	78,247	84,416	66,529	52,830
Other	General corporate expense	(8,393)	(6,443)	(7,355)	(8,577)	(4,945)
	Operating income	75,634	71,804	77,061	57,952	47,885
	Interest expense	(18,902)	(24,179)	(24,213)	(18,518)	(12,581)
	Consolidated income before income taxes	56,732	47,625	52,848	39,434	35,304
	Income taxes	(20,140)	(14,187)	(13,563)	(8,927)	(10,142)
	Equity in earnings of WRL	6,234	6,137	5,614	4,794	3,282
	Minority interest	(989)		(78)	(71)	(200)
	Net income	\$ 41,837	\$ 39,575	\$ 44,821	\$ 35,230	\$ 28,244
Assets at Year End	Transportation	\$560,674	\$547,426	\$539,123	\$482,067	\$412,531
	Financial Services	71,255	44,971	23,849	13,993	9,110
	Real Estate	22,339	20,142	19,550	21,601	24,776
	Communications	26,391	10,759	9,326	7,856	7,685
		680,659	623,298	591,848	525,517	454,102
	Investment in WRL	59,275	53,744	51,065	42,682	38,006
	Corporate and other	33,027	22,224	22,049	30,171	27,167
Total	\$772,961	\$699,266	\$664,962	\$598,370	\$519,275	
Depreciation and Amortization Expense	Transportation	\$ 37,883	\$ 35,041	\$ 30,826	\$ 25,159	\$ 21,712
	Financial Services	4,297	3,147	1,967	1,872	1,200
	Real Estate	840	802	809	907	901
	Communications	1,148	869	698	627	590
	Other	327	354	205	198	134
	Total	\$ 44,495	\$ 40,213	\$ 34,505	\$ 28,763	\$ 24,537
	Capital Expenditures	Transportation	\$ 43,547	\$ 53,098	\$ 78,905	\$ 83,504	$ 66,195
Financial Services		7,414	11,924	5,801	6,998	306
Real Estate		2,259	1,207	1,542	268	956
Communications		8,556	1,681	1,508	514	303
Other		859	580	675	1,246	567
Total		\$ 62,635	\$ 68,490	\$ 88,431	\$ 92,530	\$ 68,327

*Restated (See Notes 2 and 4).
See accompanying notes to consolidated financial statements.

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FIVE YEAR HIGHLIGHTS Dollars in Thousands, Except per Share Amounts, Five Years Ended December 31

		1983	1982*	1981*	1980*	1979*
Operations	Revenues	\$404,931	\$384,291	\$368,227	\$324,334	\$270,091
	Costs and expenses	329,297	312,487	291,166	266,382	222,206
	Income from operations	75,634	71,804	77,061	57,952	47,885
	Interest expense	18,902	24,179	24,213	18,518	12,581
	Taxes on income	20,140	14,187	13,563	8,927	10,142
	Equity in earnings of WRL	6,234	6,137	5,614	4,794	3,282
	Minority interest	(989)		(78)	(71)	(200)
	Net income	41,837	39,575	44,821	35,230	28,244
	Preferred dividends	284	284	284	284	288
	Income available for					
	Common shares	41,553	39,291	44,537	34,946	27,956
	Earnings per					
	Common share	4.11	3.99	4.58	3.66	3.03
	Dividends paid per share:					
	Preferred-cash	1.00	1.00	1.00	1.00	1.00
	Common—					
	Cash	.60	.60	.50	.33 $\frac{1}{4}$	.25
	Kemper Corp.					
	Common stock	.28	.14			
	MAPCO, Inc.					
Common stock		.14	.29	.28 $\frac{1}{4}$	.25	
Total	.88	.88	.79	.62 $\frac{1}{2}$	.50	
Financial Condition	Cash and short-term investments	\$ 49,236	\$ 26,390	\$ 22,405	\$ 15,182	\$ 11,058
	Working capital	1,156	4,322	2,085	(371)	3,391
	Investments	106,846	80,174	70,350	55,186	57,531
	Properties, net	519,647	505,161	480,498	436,947	376,484
	Total assets	772,961	699,266	664,962	598,370	519,275
	Long-term debt	138,049	190,114	198,237	188,296	174,566
	Stockholders' equity:					
	Preferred	7,112	7,112	7,112	7,112	7,112
	Common	358,110	293,818	261,193	222,082	160,246
	Per Common share	35.27	29.67	26.68	22.96	20.08
	Stockholder Statistics	Shares outstanding:				
Preferred		284,490	284,490	284,490	284,490	284,490
Common—						
Weighted average		10,119,832	9,852,871	9,734,496	9,543,994	9,230,202
End of year		10,154,579	9,903,646	9,791,124	9,672,850	9,476,036
	Number of Common stockholders, year end	5,000	5,000	5,000	4,800	4,500
Stock Price Ranges	Preferred					
	High	15 $\frac{1}{2}$	14 $\frac{1}{4}$	11	11	13
	Low	10 $\frac{1}{2}$	6 $\frac{1}{4}$	8	8	9
	Common					
High	74 $\frac{1}{4}$	53	37 $\frac{1}{4}$	26 $\frac{1}{4}$	16 $\frac{1}{4}$	
Low	44	24 $\frac{1}{2}$	20 $\frac{1}{4}$	12 $\frac{1}{4}$	9 $\frac{1}{4}$	
Financial Ratios (Percentages)	Current ratio	101%	104%	102%	100%	104%
	Debt to equity	38%	63%	74%	82%	88%
	Debt to total capital employed	27%	39%	42%	45%	47%

*Restated to reflect change in accounting method (Note 2).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Years Ended December 31, 1983

Introduction

Management's discussion and analysis of financial condition and results of operations focuses on the following three areas: (1) liquidity, capital structure and resources, (2) operating results, and (3) inflation and changing prices. The information contained herein should be read in conjunction with the consolidated financial statements, related notes and supplementary information, all of which are contained in the financial section of this report.

Liquidity, Capital Structure and Resources

Principal sources of liquidity and capital resources for the Company in 1983 consisted of (1) funds provided from operations, (2) proceeds from long term financing, and (3) sale of Common stock by a subsidiary company. Excluding the latter, such sources had traditionally also been the principal providers of funds in prior years. Funds provided from operations, aggregated \$101.5 million in 1983, increased 19% over the \$85.3 million provided from operations in 1982 and 21% over the \$83.6 million provided from operations in 1981. Such increases resulted from higher levels of earnings coupled with higher depreciation, amortization and deferred income taxes. The increase in depreciation and amortization results from a continuing buildup in depreciable assets used in the Company's primary business segments, and the higher levels of deferred federal income taxes results from deferrals provided under recent tax legislation, most notably the Economic Recovery Tax Act of 1981.

In addition to funds generated from operations which are used to fund both working capital and Railway track structure capital needs, the Company has traditionally funded the balance of its capital expenditures in the Transportation segment using conditional sales agreements (CSA's) for major purchases of Railway rolling stock and also through intermediate term bank loans for other equipment. The Company continued to use these sources in financing its 1983 capital programs and other investments. In addition, a subsidiary in the Company's Financial Services segment, DST Systems, Inc. (DST) consummated an equity offering in late March 1983 which resulted in \$33.4 million proceeds (net) from the sale of a portion of its stock to the public. These proceeds were used to retire bank indebtedness, with the unused proceeds currently contemplated for use in financing a computer facility planned for construction in 1984.

Capital expenditures for equipment and facilities totaled \$62.6 million in 1983. Comparable expenditures in 1982 and 1981 were \$68.5 million and \$88.4 million, respectively. Major purchases in 1983 consisted of building improvements to real estate held for operating purposes, peripheral data processing and switching equipment and Railway track structure, equipment and facilities expenditures. The reduction in 1983, as compared to prior years, occurred in the Transportation segment, which significantly curtailed equipment and property additions, pending an improvement in business conditions.

The Company and its subsidiaries also maintain open lines of credit with commercial banks under various formal lending agreements for use in financing both seasonal working capital requirements and also for other capital spending programs, acquisitions, and general corporate purposes. These unused lines of credit approximated \$51 million, \$26 million, and \$14 million at the end of fiscal years 1983, 1982 and 1981, respectively.

Long-term debt was 27% of total capitalization at December 31, 1983, as compared to 39% at December 31, 1982. It is anticipated this ratio will continue to decline in 1984 as a result of repayments of principal maturities, lower financing of property acquisitions, and retention of earnings.

Operating Results

Consolidated revenues increased \$80.6 million during the three year period when comparing 1983 with 1980. Included in 1983 revenues is approximately \$3.4 million gain from settlement of an insurance claim on the Kansas City Southern Lines Calcasieu River bridge in Lake Charles, Louisiana. This bridge, which was destroyed in a barge accident in late December 1982, has been dismantled and will not be replaced. Trackage arrangements have been made by the Railway to use an adjacent railroad bridge so that Kansas City Southern Lines continues to provide direct rail service to Lake Charles, Louisiana.

Percentage increases in revenues, excluding the gain on insurance settlement, over the immediate prior years were 4% in 1983, 4% in 1982, and 14% in 1981. In 1983 related costs and expenses, as a percent of revenues from operations, increased to 82% from 81% in 1982. (The comparable amount in 1981 was 79%.) The most notable changes in revenues and gross margins were in the Transportation, Financial Services and Communications segments. Transportation segment revenues increased \$32.7 million during the three year period ended December 31, 1983 with an increase of \$205,000 in the latest year, excluding the non-recurring \$3.4 million gain from the bridge claim, previously described. The overall growth for the three year period resulted from a combination of rate and volume increases in unit coal train movements, partially offset by declines in general commodity carloadings. General commodity carloadings increased 2% from 1982, the result of improved economic conditions in the latter part of 1983. Transportation operations also continued to benefit from spending controls and slightly lower fuel prices than in 1982.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A summary of the annual changes in Transportation revenues classified according to the approximate contributions made by rates and volume (and mix as shown under Other, net) over each immediately preceding year follows (in thousands):

	1983	1982	1981
General commodities			
Volume	\$ 1.8	\$(43.3)	\$ (7.4)
Rates	2.4	10.7	35.7
Coal			
Volume	1.5	26.6	4.9
Rates	4.6	5.0	1.3
Other, net	(6.7)	(0.5)	(0.5)
	<u>\$ 3.6</u>	<u>\$ (1.5)</u>	<u>\$ 34.0</u>

During the period 1981 through 1983, the Company's Financial Services segment, comprised of DST and the Financial Services operations of Pioneer Western Corporation, experienced substantial growth in revenues and gross margins. Increases in revenues of 61% were realized in 1981, 79% in 1982, and 33% in 1983 over each immediately preceding year. Correspondingly, operating income increased by 74%, 71% and 20% in 1981, 1982 and 1983, respectively. This growth resulted primarily from high levels of mutual fund and money market accounts serviced by DST with the more significant growth in 1983 attributable to mutual funds, and also from increasing market acceptance of Pioneer Western Corporation's energy program investment products.

Communications segment revenues increased 85% and operating income declined 27% in 1983 as a result of the formation of LDX Group in the fourth quarter (See Note 4 for additional information). Operating income was adversely affected by start up losses from LDX Group's development of long distance reseller services.

Real Estate segment revenues declined 29% in 1983 over the prior year and operating profits decreased 23%, primarily from lower levels of activity in the Company's export bulk handling facility near Pt. Arthur, Texas.

Western Reserve Life Assurance Co. recorded a 2% increase in net income in 1983 compared to 1982 and a 9% increase in 1982 compared to 1981. The earnings increase in 1983 resulted from a continuation of favorable mortality and other benefits experience.

The Company experienced a significant decrease in interest expense from 1982 to 1983. The decrease resulted from a general decline in short-term interest rates, lower debt levels associated with routine amortization of debt which exceeded the rate at which new debt was added, and also from a significant reduction of DST debt which was retired using proceeds of its Common stock offering.

Inflation and Changing Prices (Unaudited)

The Company's financial statements which appear on pages 34 to 46 are prepared in accordance with generally accepted accounting principles which follow the historical cost basis of accounting. They portray actual transactions in terms of the number of dollars earned or expended without regard to changes in the purchasing power of the dollar. Often, costs incurred over various periods of time are deducted from current revenues so that income from operations is the result of matching revenues and costs in dollars with differing amounts of purchasing power. Traditional financial statements also do not reflect the current cost of assets used in the rendering of goods and services which can change for a variety of complex reasons, some of which have little to do with inflation.

In recognition of these influences, the Financial Accounting Standards Board (FASB) requires two forms of supplementary disclosure: (1) constant dollars which are intended to deal with the effects of general inflation, and (2) current costs which deal with changes in specific prices. These two disclosures appear in the statement of continuing operations adjusted for changing prices, which is described further and shown below.

Statement of Income from Continuing Operations Adjusted for Changing Prices (Unaudited)

Constant Dollars. The objective of the constant dollar disclosures is to express all revenues and expenses in dollars of equivalent purchasing power (constant dollars), and in this case dollars whose purchasing power is equivalent to the average purchasing power of the dollar for the year 1983, referred to as Average 1983 Dollars. This adjustment is made using the Consumer Price Index for All Urban Consumers, prescribed by the FASB for this purpose. In addition to property adjustments, the constant dollars approach revalues net monetary items for the loss of purchasing power incurred during inflationary periods. Monetary items are cash, receivables in fixed dollar amounts, or liabilities to pay fixed dollar amounts. Monetary assets lose purchasing power during inflationary periods because they will purchase fewer goods and services. Conversely, monetary liabilities gain because less purchasing power is required to satisfy debt payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*

**Statement of
Income from
Continuing
Operations
Adjusted for
Changing
Prices
(Unaudited)
(Continued)**

Current Costs. The objective of the current costs disclosures is to match costs, adjusted for specific price changes, of property and equipment, and inventories used in operations against current revenues. The adjusted earnings, therefore, include amounts based on the current costs of replacing these assets rather than on the historical costs actually expended to acquire them. The current cost amounts were derived by estimating replacement costs through the use of recent prices paid for similar items or groups of items, engineering estimates, direct price quotes, internal construction costs, and by applying the U.S. Government Producer Price Index—General Purpose Machinery and Equipment and the Engineering News Record Construction Cost Index. Depreciation is also calculated on the basis of current costs, using the same methods, depreciable lives and salvage values as used in the primary financial statements. Details are shown below for the year ended December 31, 1983 (dollars in thousands):

	As Reported in the Primary Statements (Historical Costs)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
Revenues	\$404,931	\$404,931	\$404,931
Depreciation and amortization expenses	44,495	76,210	88,812
Other costs and expenses	284,802	284,802	284,802
Income from operations	75,634	41,919	31,317
Interest on long-term debt	18,902	18,902	18,902
Income from consolidated operations before income taxes	56,732	23,017	12,415
Provision for taxes on income	20,140	20,140	20,140
	36,592	2,877	(7,725)
Equity in earnings of WRL	6,234	6,234	6,234
Minority interest	(989)	(986)	(986)
Income (loss) from continuing operations	<u>\$ 41,837</u>	<u>\$ 8,125</u>	<u>\$ (2,477)</u>
Gain on net amounts owed from decline in purchasing power		<u>\$ 11,202</u>	<u>\$ 11,202</u>
Increase in specific prices (current costs) of properties in 1983			<u>\$ 69,288</u>
Effect of increase in general price level			<u>70,748</u>
Excess of increase in general price level over increase in specific prices			<u>\$ 1,460</u>

At December 31, 1983, current cost of property, plant and equipment, net of accumulated depreciation and amortization was \$1,311,421,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*

**Five Year
Comparison of
Selected
Supplementary
Financial Data
Adjusted for
Effects of
Changing Prices
(Unaudited)**

This statement reflects revenues and dividends per Common share for the five years ended December 31, 1983, restated to average 1983 dollars. Net assets at year end consist of stockholders' equity as reported in the primary financial statements restated for the constant dollar and current cost property revaluations and for the constant dollar adjustments to net monetary liabilities (dollars in thousands, except per share amounts).

	1983	1982*	1981*	1980*	1979*
Revenues	\$ 404,931	\$ 396,653	\$ 403,373	\$ 392,145	\$ 370,723
Historical cost information adjusted for general inflation					
Income (loss) from continuing operations	\$ 8,125	\$ 7,832	\$ 15,778	\$ (7,918)	\$ (16,978)
Income (loss) from continuing operations per Common share	.77	.77	1.59	(.86)	(1.87)
Net assets at year end	1,030,797	982,910	953,934	873,799	870,119
Current cost information					
Income (loss) from continuing operations	\$ (2,477)	\$ (4,574)	\$ 4,475	\$ (25,953)	\$ (31,030)
Income (loss) from continuing operations per Common share	(.27)	(.49)	.43	(2.75)	(3.39)
Change in specific prices greater than (less than) increase in general price level	(1,460)	5,758	(95,759)	71,106	(30,263)
Net assets at year end	1,225,420	1,179,286	1,160,147	1,221,364	1,133,779
Other information (in average 1983 dollars)					
Gain from decline in purchasing power of net amounts owed	\$ 11,202	\$ 12,516	\$ 27,445	\$ 37,636	\$ 36,879
Dividends per Common share	.88	.91	.87	.75	.69
Market price per Common share at year end	56½	47¼	36¼	29¼	18¼
Average consumer price index	298.4	289.1	272.4	246.8	217.4

Limitations

Management cautions the reader in the use of and reliance upon these supplementary statements. Conventional Historical Cost accounting which employs depreciation, is an accounting convention designed to amortize the original cost of assets over their useful lives, rather than to provide a fund for asset replacement. Conversely, the constant dollar and current cost presentations produce pro forma data that infers theoretical replacement of all property at a common point in time. This unrealistic timing assumption does not take into consideration the increased revenues which would offset the increased costs of replacement, nor technological improvements in the new assets acquired that might enhance productivity and thereby lower other costs of providing comparable products and/or services.

*Restated to reflect change in accounting method (Note 2).

Stocks Listed

New York Stock Exchange
Symbol: KSU

Transfer Agents

Chemical Bank
55 Water Street
New York, New York 10041
and
Office of the Corporation
114 West 11th Street
Kansas City, Missouri 64105

Registrars

Chemical Bank
New York, New York
and
United Missouri Bank
of Kansas City, N.A.
Kansas City, Missouri

Independent Accountants

Price Waterhouse
2900 Commerce Tower
911 Main Street
Kansas City, Missouri 64199

Annual Meeting of Stockholders

10:00 a.m. May 1, 1984
114 West 11th Street
Kansas City, Missouri 64105

Corporate Offices

114 West 11th Street
Kansas City, Missouri 64105
(816) 556-0303

KCSI

1983

LETTER TO STOCKHOLDERS

Consolidated Results

Kansas City Southern Industries, Inc. (KCSI) posted first quarter consolidated net income of \$9.3 million, a 9% increase over the \$8.5 million earned in the first quarter of 1983. Earnings per share of 90¢ were 7% higher than last year's 84¢ per share.

First quarter 1984 earnings benefited from less interest expense, lower income taxes resulting from a declining effective tax rates, and increased earnings of Western Reserve Life Assurance Co. Although revenues increased 22% to \$116 million, operating income declined 2% to \$17 million, due principally to lower Real Estate operating profits, and development costs of the Company's newly formed Communications group.

Segments Review

Transportation Segment revenues increased 10% from a combination of higher general commodity freight carloadings and a general increase in most freight rates which became effective January 1, 1984. These factors were partially offset by changes in general commodity mix, most notably higher levels of intermodal freight traffic (trailers and containers), lower unit coal train carloadings and modest increases in operating expenses and related costs. A combination of mild weather in the first quarter of 1984, coupled with fewer capital projects in 1984 resulted in increased maintenance activity and related charges on a quarterly comparison basis.

In addition to DST Systems, Inc. (DST) and financial services operations of Pioneer Western Corporation, KCSI's Financial Services Segment now also includes Southern Leasing of Kansas City, Inc., a recently formed subsidiary which leases a variety of capital equipment to Kansas City area and regional companies. Total segment revenues of \$16.3 million increased \$4.2 million (35%) over 1983. Operating income of \$3.5 million increased \$300,000 (9%) over first quarter 1983. Revenue growth resulted from continued expansion of DST and Pioneer Western products and services, and also from the newly established operations of Southern Leasing.

In a separate earnings release, DST reported first quarter net income of \$2.3 million, equivalent to 24¢ per DST common share. Its net income rose 20% over first quarter 1983 and earnings per share of 24¢ were up 4% over the 23¢ per share posted in 1983. DST's operations continued to experience effects of losses by a West Coast subsidiary of one of its joint ventures.

Our Communications Segment revenues rose dramatically to \$11.3 million. This was \$9.1 million over the \$2.2 million level for 1983. This growth results from a continuing buildup in the long distance telephone customer base of LDX Group formed by Kansas City Southern Industries, Inc. and Telcom Engineering in the fourth quarter of 1983. Although revenues have grown significantly, operating income has been negatively impacted by startup costs as the customer base is further developed. Operations are on target, however, and are expected to exceed prior year's operating income, possibly in second quarter, 1984.

Real Estate operations remain depressed principally because of a decline in volume of export distribution services at the Company's Port Arthur, Texas coal and coke bulk handling facility. Revenues declined 43% and operating income 63% for the quarter.

Net income of Western Reserve Life Assurance Co. increased 19% to \$1.3 million for the first quarter of 1984 on a 17% increase in net life insurance premiums, as compared to first quarter 1983.

Dividends

On February 17, the Board of Directors declared a 22¢ quarterly dividend on the Company's Common stock, payable in a combination of cash, 15¢ per share, and Kemper Corporation Common stock, equivalent in value to 7¢ per share (Kemper Corporation Common stock closing bid price was \$37.75 per share on February 17). The dividend was paid on March 27, 1984 to stockholders of record at the close of business on February 28, 1984. Distribution of the Kemper Corporation stock generated non-taxable gains of \$511,000, which are included in the "Other" caption under Segment Revenues in the Company's Income Statement. In 1983, comparable non-taxable gains were \$504,000.

The Company also declared a regular quarterly dividend of 25¢ per share on the outstanding Preferred stock which was paid on April 10, 1984 to stockholders of record on March 23, 1984.

Stockholders' Meeting

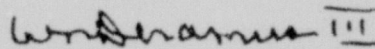
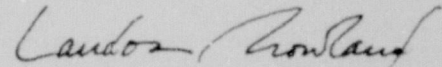
The annual meeting of stockholders was held on Tuesday, May 1, 1984 in the offices of the Company at Kansas City, Missouri. The stockholders elected Messrs. Thomas S. Carter, Kirke Couch, John Hawkinson, R. Crosby Kemper, and Harold L. Oppenheimer to serve as directors until the annual meeting of stockholders in 1987. The stockholders also

approved the election of Price Waterhouse to audit the consolidated financial statements and accounts of the Company for the year 1984.

We are pleased to provide you with this report and will be happy to answer any questions you may have.

Sincerely,

Sincerely,

Kansas City, Missouri
May 2, 1984

W. DERAMUS III
Chairman of the Board and
Chief Executive Officer

LANDON H. ROWLAND
President and
Chief Operating Officer

CONSOLIDATED CONDENSED STATEMENT OF INCOME (Unaudited) Dollars in Thousands, Quarter Ended March 31

		1984	1983
Segment Revenues	Transportation	\$ 84,085	\$ 76,322
	Financial Services	16,264	12,038
	Communications	11,326	2,242
	Real Estate	1,058	1,868
	Other	3,301	2,303
		Total	<u>116,034</u>	94,773
Costs and Expenses	Primary business segments	95,784	74,390
	Other	1,396	1,300
	General corporate expenses	1,859	1,687
		Total	<u>99,039</u>	77,377
Segment Operating Income	Transportation	12,749	12,958
	Financial Services	3,487	3,203
	Communications	134	370
	Real Estate	579	1,549
	Other	46	(684)
		Total	<u>16,995</u>	17,396
Interest	Interest on debt	<u>4,518</u>	<u>5,166</u>
Pre-tax Income	Income from consolidated operations before income taxes	<u>11,477</u>	<u>12,230</u>
Income Taxes	Provision for taxes on income	<u>4,161</u>	<u>4,736</u>
		8,316	7,494
Other	Equity in earnings of Western Reserve Life Assurance Co.	1,275	1,071
	Minority interest	(319)	(29)
		<u>9,272</u>	<u>8,536</u>
Earnings	Net income	<u>\$ 9,272</u>	<u>\$ 8,536</u>

The accompanying Consolidated Condensed Financial Statements and supplementary information contained in this report should be read in conjunction with the financial statements and notes thereto included in the Company's 1983 Annual Report to Stockholders.

CONSOLIDATED CONDENSED BALANCE SHEET (Unaudited)

Dollars in Thousands, Quarter Ended March 31

		1984	1983
Current Assets	Cash and short-term investments	\$ 53,031	\$ 43,007
	Accounts receivable	52,855	49,070
	Inventories	22,587	24,145
	Prepaid expenses	7,699	4,894
	Total	136,172	121,116
Other Assets	Investments	117,655	67,018
	Properties, net	516,659	506,544
	Other assets	15,845	7,701
	Total	649,159	601,263
Total	Assets	\$781,331	\$722,379
Current Liabilities	Debt due within one year	\$ 52,647	\$ 25,307
	Accounts and wages payable	18,244	16,692
	Other accrued liabilities	60,016	52,317
	Total	130,907	94,316
Other Liabilities	Long-term debt	136,109	175,285
	Deferred income taxes	113,948	97,643
	Other deferred credits	15,741	10,194
	Total	265,798	283,122
Minority Interest	Consolidated subsidiaries	11,225	7,134
Stockholders' Equity	Preferred stock	7,112	7,112
	Common stock	29,339	29,182
	Surplus	50,787	50,701
	Retained earnings	286,163	235,812
	Total	373,401	332,807
Total	Liabilities and stockholders' equity	\$781,331	\$722,379

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)


Dollars in Thousands, Quarter Ended March 31

		1984	1983
Working Capital Provided	Net income	\$ 9,272	\$ 8,536
	Other items, net	13,226	13,344
	<i>Provided from operations</i>	22,498	21,880
	Decrease in investments	1,845	959
	Increase in long-term debt	4,669	8,691
	DST Systems, Inc. sale of stock	—	33,353
	Properties retired	302	803
	Other, net	920	1,542
	Total	30,234	67,228
Working Capital Applied	Property acquisitions	10,486	12,954
	Reduction in long-term debt	6,609	23,520
	Dividends	2,307	2,298
	Investments	6,723	5,978
	Total	26,125	44,750
Change	Net increase in working capital	\$ 4,109	\$ 22,478

FINANCIAL HIGHLIGHTS (Unaudited)

Dollars in Thousands, Except Common Stock Data, Quarter Ended March 31

		1984	1983
Dollars	Revenues		
	Income from operations	\$ 116,034	\$ 94,773
	Net income	16,995	17,396
	Income available for Common stockholders	9,272	8,536
		9,201	8,465
Common Stock	Earnings per share	.90	.84
	Dividends per share	.22	.22
	Weighted average shares outstanding	10,166,178	10,047,565




KANSAS CITY SOUTHERN INDUSTRIES, INC.

1984 INTERIM REPORT

FIRST QUARTER

End of March 31, 1984



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KCSI

1984

THIRD CLASS BULK MAIL
U.S. POSTAGE
PAID
PERMIT NO. 777
KANSAS CITY, MO

Kansas City Southern Industries, Inc.
114 West 41st Street, Kansas City, Missouri 64111

EXHIBIT 11: CORPORATE CHART

BUSINESS SEGMENTS AND CORPORATIONS/PARTNERSHIPS WITHIN EACH BUSINESS SEGMENT (% OWNERSHIP)

KANSAS CITY SOUTHERN INDUSTRIES, INC.
114 West 11th Street, Kansas City, Missouri 64105

OVER 50% CONTROLLED ENTITIES ON LEFT -- 50% OR LESS CONTROLLED ENTITIES ON RIGHT -- (Excludes less than 20% Equity Investments and/or Inactive Corporations)

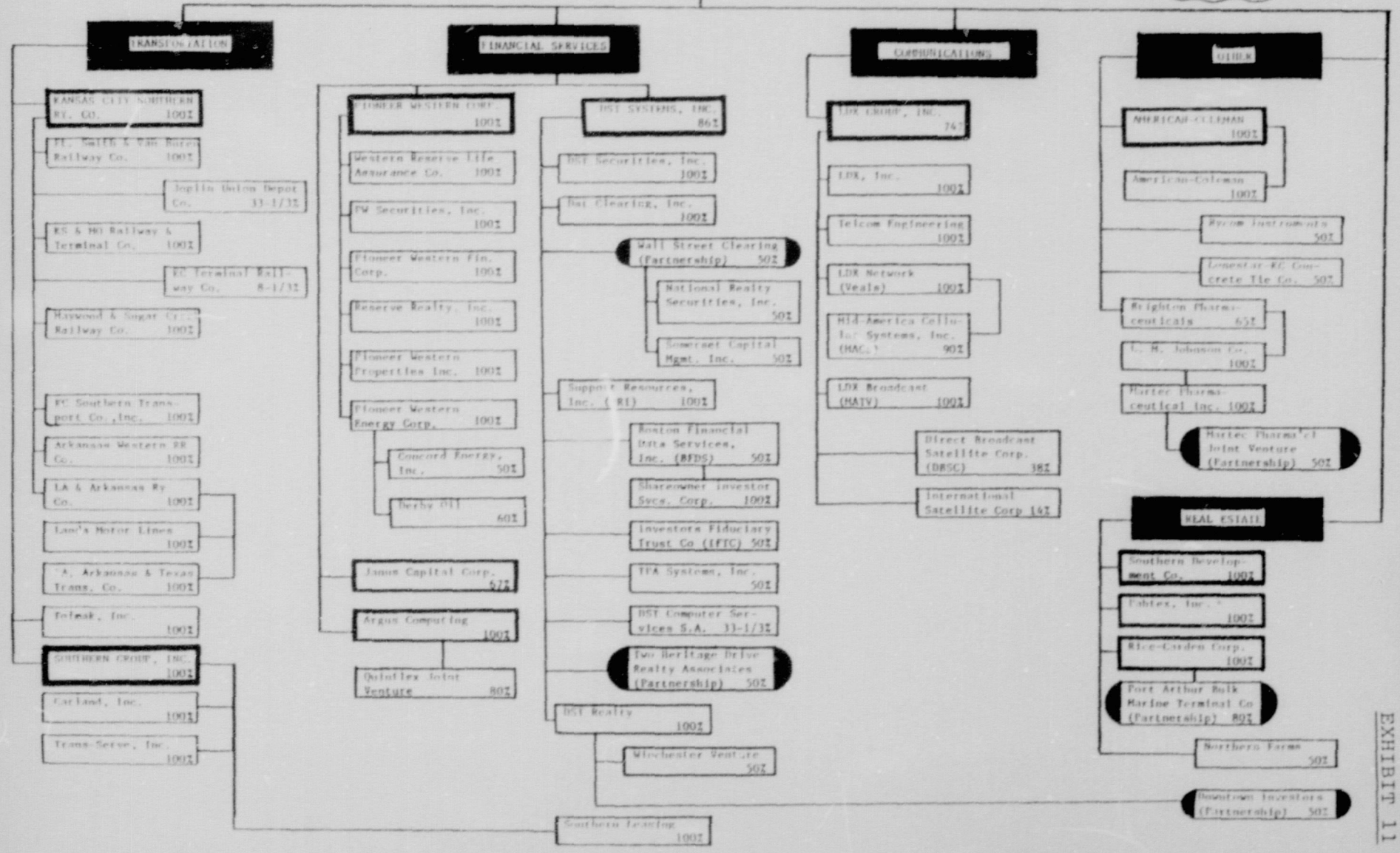


EXHIBIT 11