



Kansas City Southern
Second Quarter 2013 Earnings Presentation

July 19, 2013



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Opening Comments - Dave Starling



Today's Presenters

Dave Starling President & CEO

Dave Ebbrecht EVP & COO

Pat Ottensmeyer EVP Sales & Marketing

Mike Upchurch EVP & CFO



KCS Second Quarter Overview

- Strong revenue growth of 6% despite challenges with Grain shipments
- Revenue from Strategic Growth Areas up 28%
- Strong operating performance – Q2 13 operating ratio improved 1.5 points over Q2 12 adjusted operating ratio*
- Refinanced approximately \$1.2 billion of corporate debt at historically low interest rates – improving weighted-average coupon and lengthening debt maturities

* All reconciliations to GAAP can be found on the KCS website in the Investors section.



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Second Quarter Results

	Q2 2013	Q2 2012	Variance
Carloads/Units (in thousands)	534.9	519.9	3%
Reported Revenues (in millions)	\$579.3	\$545.3	6%
Reported Operating Ratio	69.0%	62.6%	6.4 points
Adjusted Operating Ratio*	69.0%	70.5%	(1.5) points
Reported Diluted Earnings per Share	\$0.14	\$1.09	(87%)
Adjusted Diluted Earnings per Share *	\$0.96	\$0.88	9%

* All reconciliations to GAAP can be found on the KCS website in the Investors section.



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Update for Q2 2013

2013 Guidance

YTD 2013

- | | |
|---|--|
| <ul style="list-style-type: none"> • Mid-single digit volume growth | <ul style="list-style-type: none"> • YTD volume growth of 2% |
| <ul style="list-style-type: none"> • Mid-single digit pricing | <ul style="list-style-type: none"> • YTD core pricing in mid-single digit range |
| <ul style="list-style-type: none"> • Mid-single digit revenue growth** | <ul style="list-style-type: none"> • YTD revenue growth of 4% • Revenue growth expected to accelerate in the second half of the year |
| <ul style="list-style-type: none"> • Continued operating ratio improvement on a year-to-year basis | <ul style="list-style-type: none"> • YTD operating ratio improved 1 point over first half 2012 adjusted operating ratio* |

** Depending on FX impact.

* All reconciliations to GAAP can be found on the KCS website in the Investors section.

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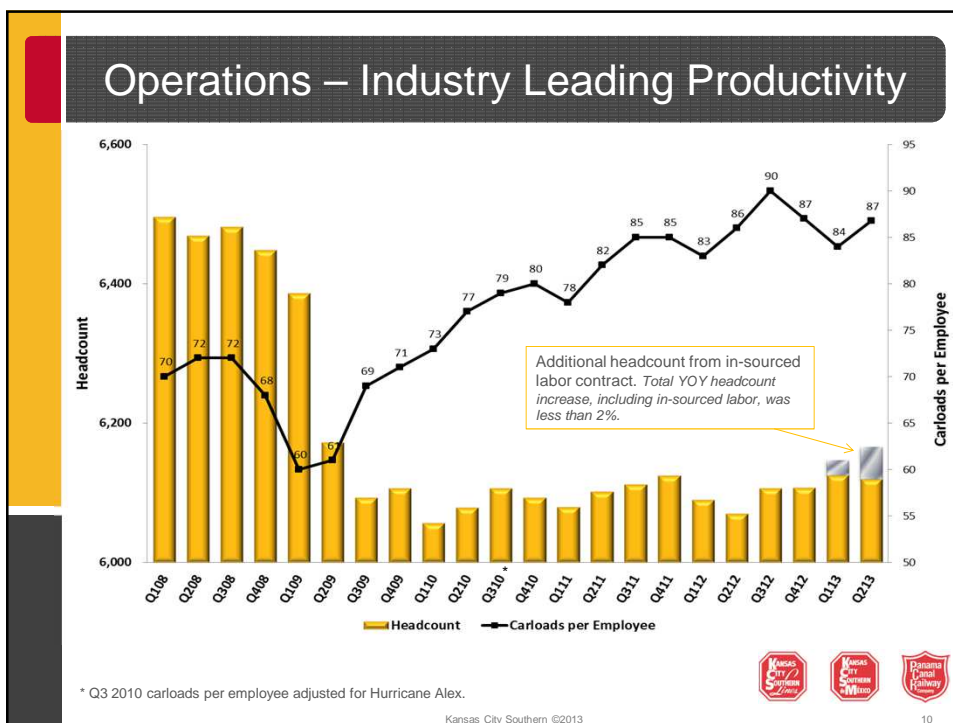
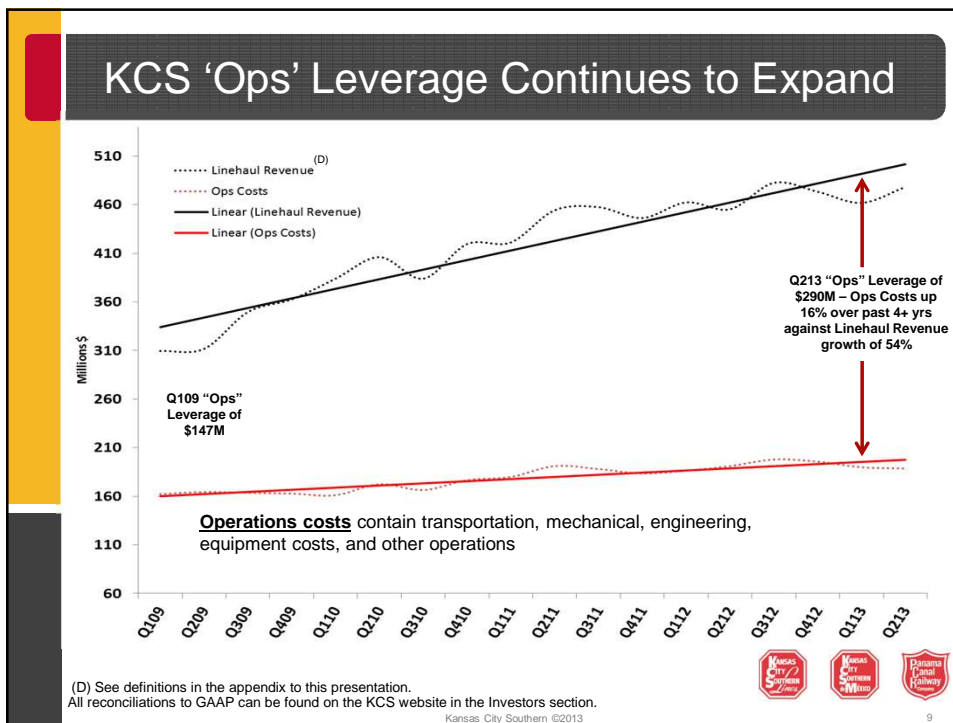
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Dave Ebbrecht

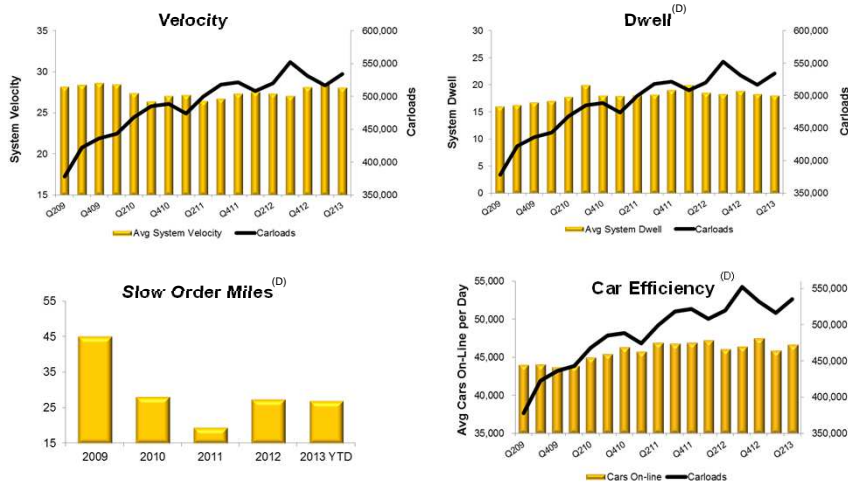


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Strong Operating Metrics Sustained in Q2

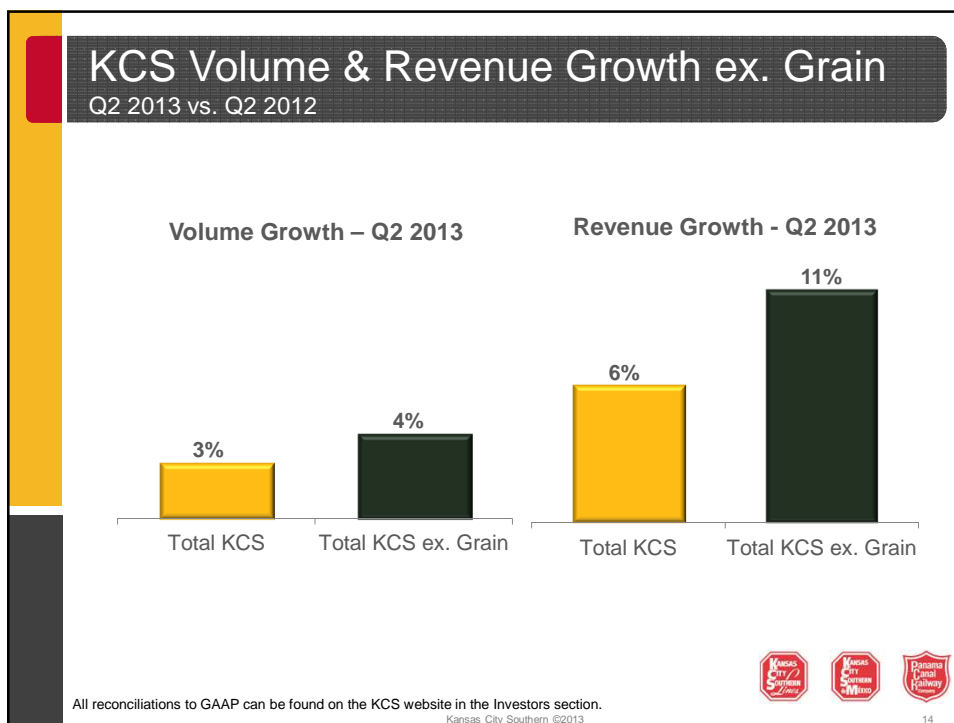
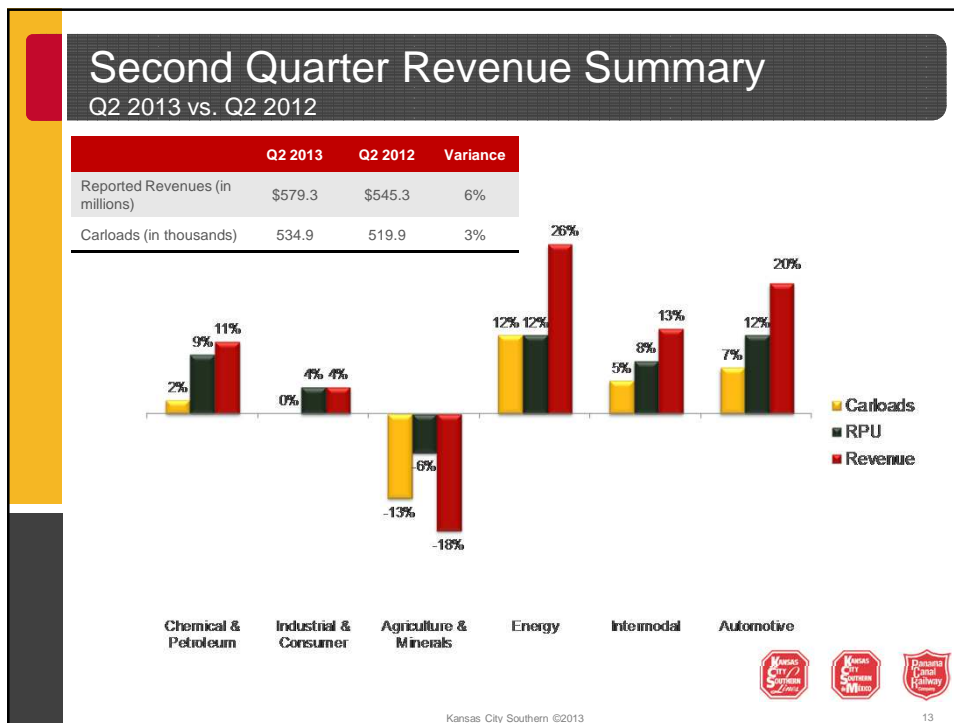


Note - Q3 2010 adjusted for Hurricane Alex.
 (D) See definitions in the appendix to this presentation.



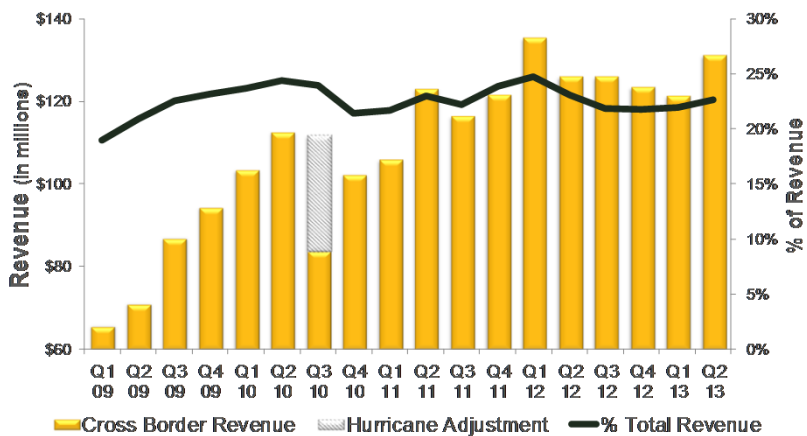
Pat Ottensmeyer





Cross Border^(D) Revenue Increased 4%

Q2 2013 vs. Q2 2012



(D) See definitions in the appendix to this presentation.

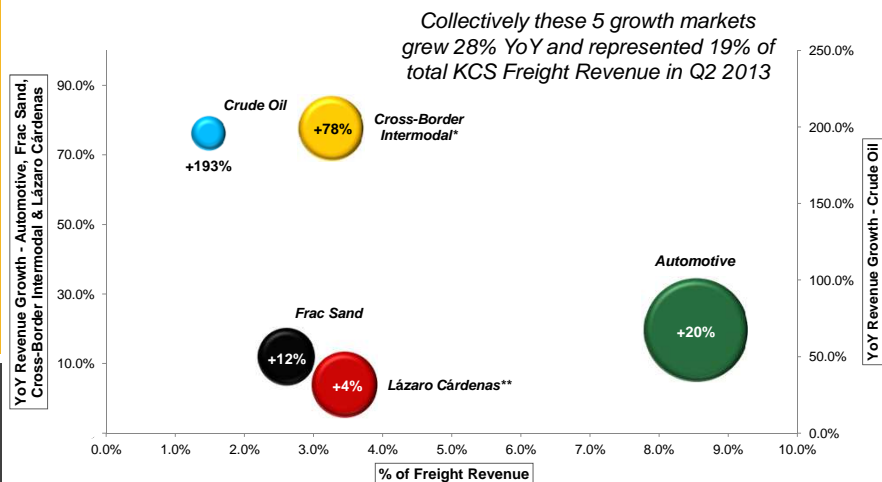
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Strategic Growth Areas up 28% in Q2 2013

Q2 2013 vs. Q2 2012



*Q2 13 vs. Q2 12 Cross-Border Intermodal Volume Growth: +85%
 **Q2 13 vs. Q2 12 Lázaro Cárdenas Volume Decline: 6%

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Market Outlook Update – Linehaul Revenue

Assumes constant F/X

	Previous Outlook	Updated FY 2013 Outlook
Chemical & Petroleum	+	+
Industrial & Consumer	+	+
Agriculture & Minerals	--	--
Energy	+	++
Intermodal	++	++
Automotive	++	++




+ Single digit revenue growth expected during period.
 ++ Double digit revenue growth expected during period.
 -- Double digit revenue decline expected during period.

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Market Developments

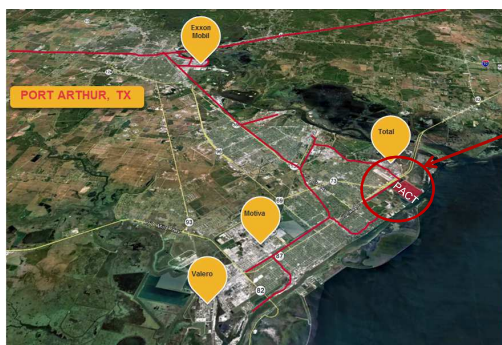
- The economy will be key and the economic outlook for 2013 continues to be positive in both U.S. and Mexico
- Core pricing outlook continues to be in the mid-single digit range
- Full year revenue outlook improved slightly from Q1 13 view
- Weakness in grain will continue into Q3 13, but should turn in Q4 13
 - Crop conditions have improved from 2012
 - New grain elevators will open in Summer/Fall 2013
- Strategic growth areas continue significant contribution to growth
- Long term new business pipeline is strong and continues to grow
 - Mexico auto growth & nearshoring
 - Cross-border Intermodal market share gains
 - New ethane/propane production capacity
- Crude oil opportunities continue to be promising
 - Port Arthur Crude Terminal update

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Port Arthur Crude Delivery Update

- KCS continues to work with a significant crude oil distributor on the due diligence for a crude oil terminal on existing KCS property at Port Arthur, Texas.
- KCS has entered into a purchase agreement for the adjoining 29-acre property, subject to final due diligence. This property has an existing dock that could be used to facilitate development of crude-by-rail to barge business.

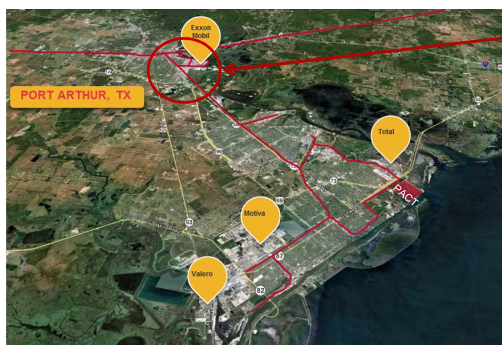


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Port of Beaumont Bulk Commodity Facility Update

- KCS completed its access on 7/15/13 to the new Port of Beaumont bulk commodity facility.
- One dock has been completed to allow 120-car unit trains to be loaded into barges.
- Crude oil storage tanks are under construction.



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Mike Upchurch



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Condensed Income Statement

(\$ in millions, except EPS Diluted)	Q2 2013	Q2 2012
Revenues	\$579.3	\$545.3
Operating Expenses	<u>400.0</u>	<u>341.5</u>
Adjusted Operating Expenses*	<u>400.0</u>	<u>384.5</u>
Operating Income	179.3	203.8
Adjusted Operating Income*	<u>179.3</u>	<u>160.8</u>
Equity Earnings	3.5	4.9
Interest Expense	(19.2)	(25.3)
Foreign Exchange Loss	(22.2)	(3.5)
Debt Retirement Costs & Other	<u>(111.5)</u>	<u>(5.9)</u>
Pre-tax Income	29.9	174.0
Income Tax Expense	<u>(14.2)</u>	<u>(53.1)</u>
Net Income	\$15.7	\$120.9
Reported EPS Diluted	\$0.14	\$1.09
Adjusted EPS Diluted*	\$0.96	\$0.88
Average Diluted Share Count (in thousands)	110,323	110,056

* All reconciliations to GAAP can be found on the KCS website in the Investors section.

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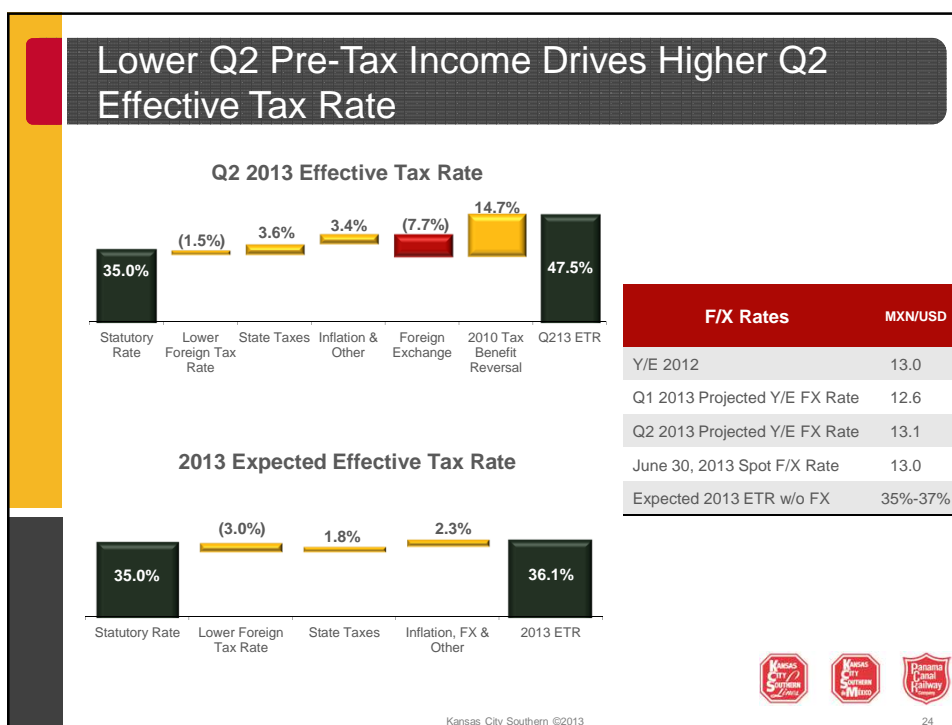
Adjusted Diluted Earnings per Share

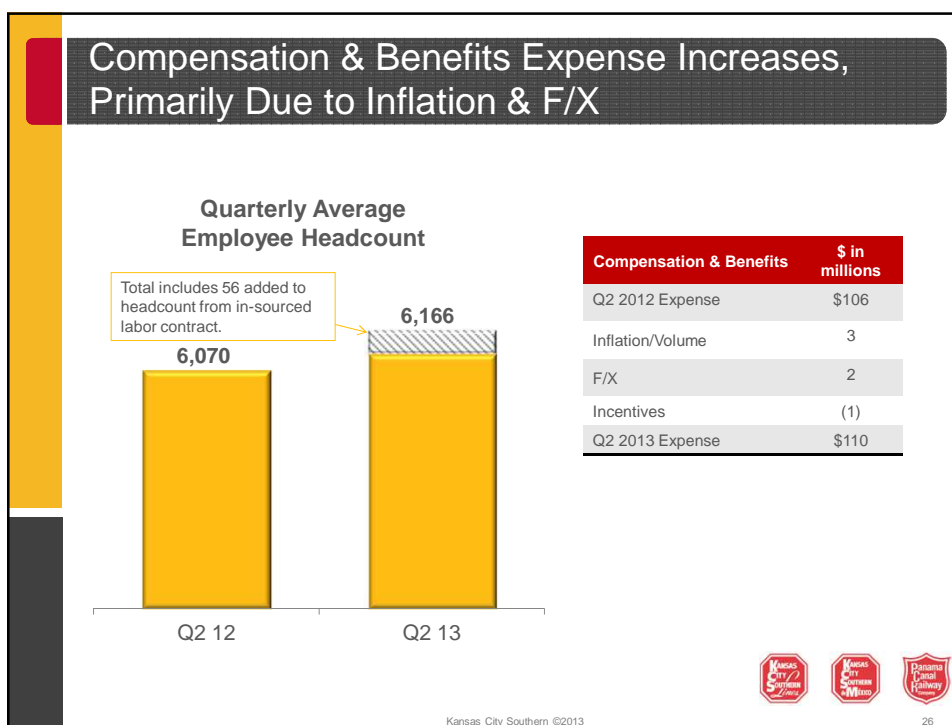
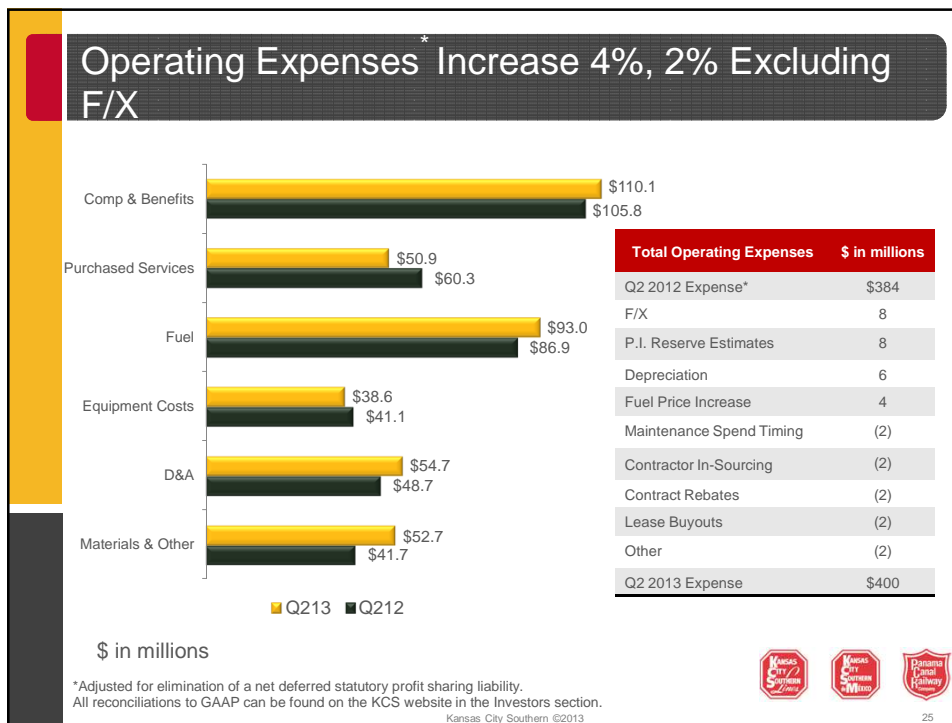
Q2 2013 vs. Q2 2012

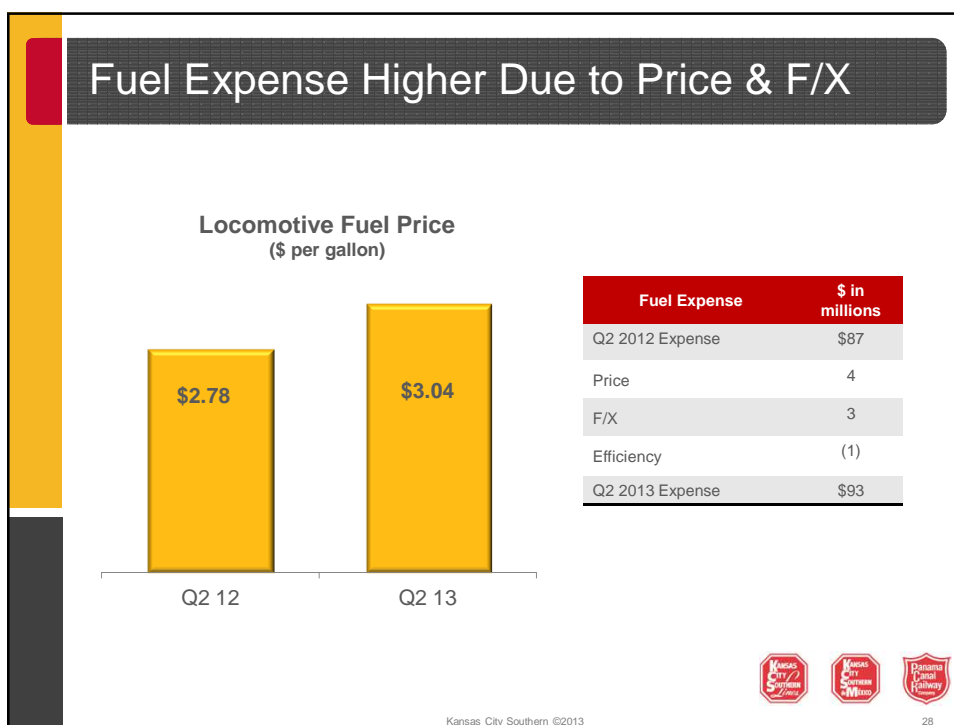
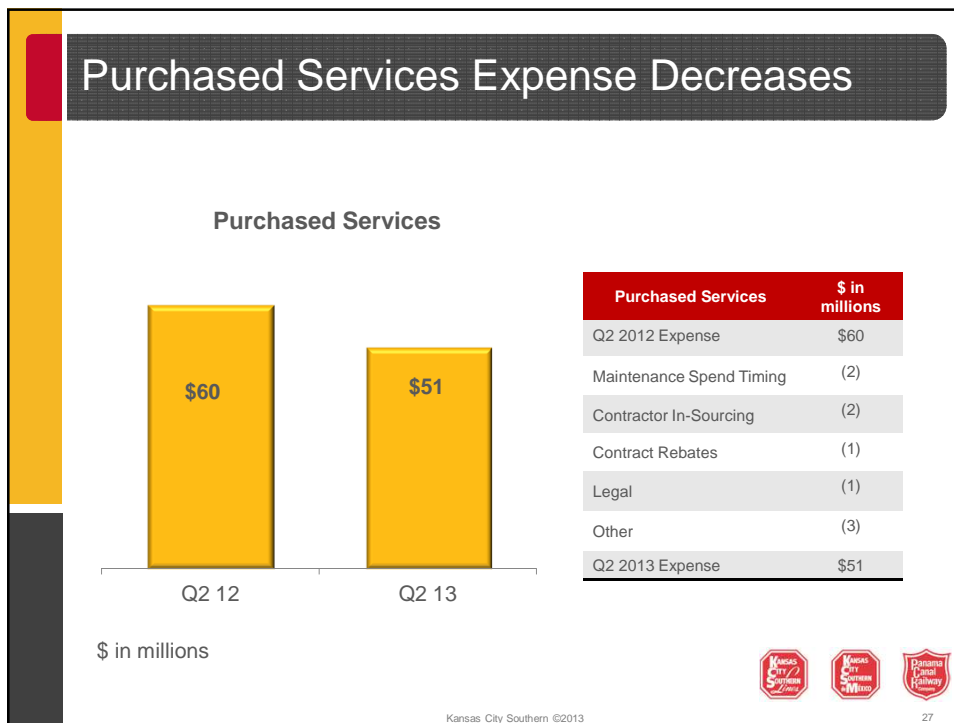
	Earnings per Share - Q2 2013	Earnings per Share - Q2 2012
Reported	\$0.14	\$1.09
Debt Retirement Costs	0.70	0.03
F/X Loss	0.14	0.02
Elimination of Net Deferred Statutory Profit Sharing Liability	--	(0.27)
F/X Component of Income Taxes	(0.02)	0.01
Adjusted	\$0.96	\$0.88

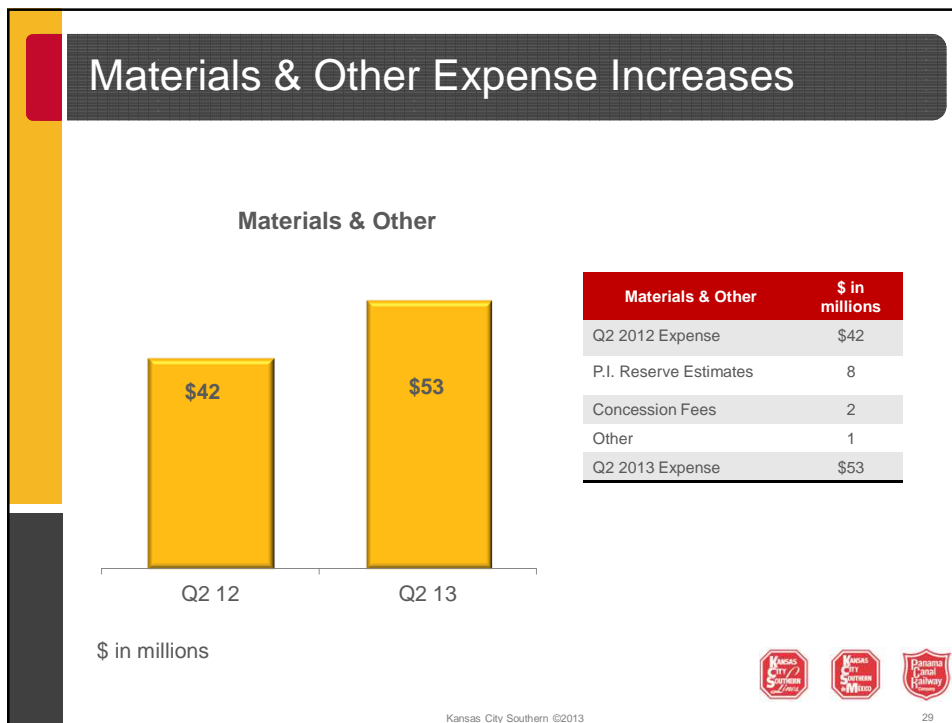
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Recapitalization Completed in Q2

Invest in Business

- Committed to superior growth profile
- 2013 Capex guidance - 25% of revenue
 - Includes 2% of revenue for new locomotives
- Q2 2013 Lease Buyouts – additional \$155M; O/R benefit of 30 bps

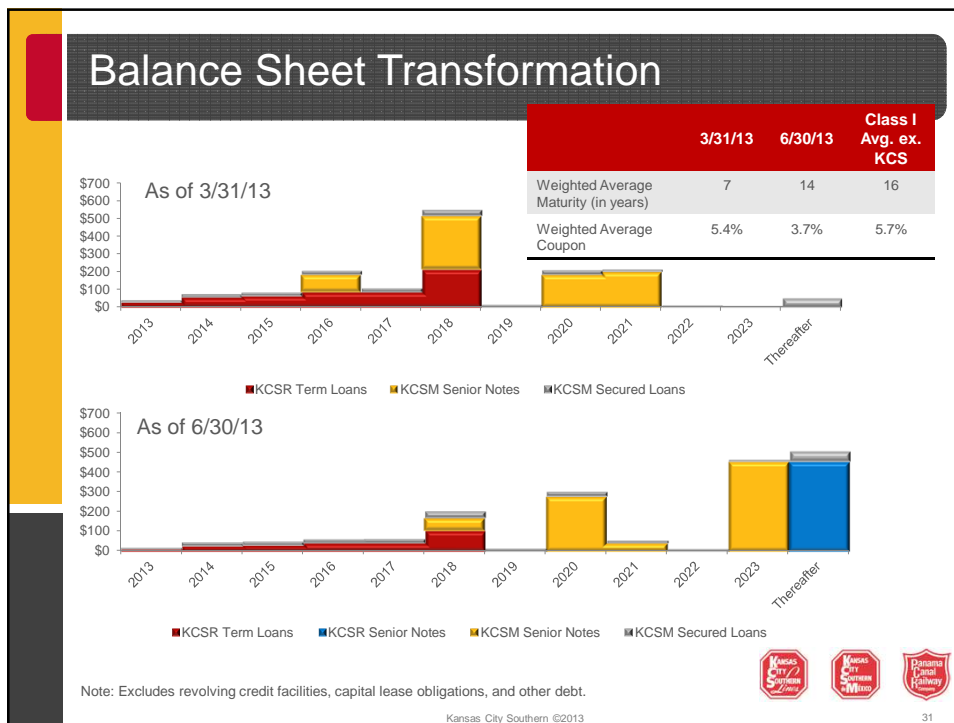
Optimize Capital Structure

- KCSM called remaining \$98M of 12.5% notes using cash and revolver
- KCSM and KCSR completed concurrent debt offerings totaling \$1.175B
- New Sr. Notes Issued:
 - 3.7% weighted-average coupon
 - Extended debt maturities from 7 to 14 years
- \$80M 2013 Interest expense; 20% reduction to 2012 interest expense
- \$26M 2013 Pretax savings compared to 2012; \$0.15 EPS benefit

Shareholder Returns

- Q2 cash dividend declared on May 2, 2013; paid July 3, 2013
- Quarterly payout of \$0.215 per share or \$23.8 million
- Annualized payout of \$0.86 per share or \$95.2 million

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Closing Comments – Dave Starling

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Appendix

Definitions:

- **Linehaul revenue** is revenue provided by transportation services, excluding fuel surcharge and other revenue
- **System dwell** is defined as the average time a car resides at the specified terminal location.
- **Slow order miles** are defined as speed restrictions on a rail line, which are set below the track's normal speed limit and tend to disrupt timetables and time-sensitive shipments.
- **Car efficiency** is defined as a measure of productivity that compares total units of shipped goods (carloads) to total cars online.
- **Cross border** is defined as traffic that moves on Kansas City Southern both north and south of the U.S. / Mexico border. Traffic interchanged with a competing railroad at the border is not considered cross border.



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Q2 2013 Adjusted Effective Tax Rate ~ 35%

\$ in millions	Pre-tax	Tax Effect	After-Tax	Diluted EPS
Reported	\$ 29.9	\$ 14.2	\$15.7	\$0.14
Debt Retirement Costs	111.4	33.7	77.7	0.70
F/X Loss	22.2	6.7	15.5	0.14
F/X Component of Income Taxes	--	2.3	(2.3)	(0.02)
Adjusted	\$163.5	\$56.9	\$106.6	\$0.96
Adjusted Effective Income Tax Rate		34.8%		

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Hedge Offsets F/X Tax Impact

\$ in millions	Q1 13	Q2 13	YTD 13	Projected Y/E 2013
F/X Impact on Income Tax - Benefit (Expense)	\$(1.5)	\$2.3	\$0.8	\$4.9
F/X Gain(Loss) on MX Peso Exposure	3.0	(5.6)	(2.6)	(0.7)
Unhedged F/X Income Statement Impact	1.5	(3.3)	(1.8)	4.2
F/X Hedge Gain(Loss)	6.4	(9.9)	(3.5)	(3.5)
Net F/X Income Statement Impact	\$7.9	\$(13.2)	\$(5.3)	\$0.7

Note: The above is net of tax at the 30% statutory Mexico tax rate.



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