



# ***Kansas City Southern***

## ***Consolidated Investors' Report Second Quarter 2013***

This document should be read in conjunction with the Company's 10-K, 10-Q and any 8-K statements filed with the Securities Exchange Commission.

This document includes statements concerning potential future events involving the Company which could materially differ from events that actually occur. The differences could be caused by a number of factors including those factors identified in the "Risk Factors" section of the Company's Form 10-K for the year ended December 31, 2012 filed by the Company with the SEC (File No. 1-04717). The Company will not update any forward looking statements in this presentation to reflect future events or developments.

## Contents

<b>Second Quarter Press Release .....</b>	<b>2</b>
<b>Income Information .....</b>	<b>6</b>
<b>Balance Sheet Information .....</b>	<b>7</b>
<b>Cash Flow Information .....</b>	<b>8</b>
<b>Revenue Statistics by Commodity - Quarterly .....</b>	<b>9</b>
<b>Revenue Statistics by Commodity - Year to Date .....</b>	<b>10</b>
<b>Productivity Statistics .....</b>	<b>11</b>
<b>Capital Expenditures .....</b>	<b>12</b>
<b>Debt Summary .....</b>	<b>13</b>
<b>Free Cash Flow .....</b>	<b>13</b>
<b>Credit Ratings .....</b>	<b>14</b>
<b>Non-GAAP Financial Information (Regulation G) .....</b>	<b>15</b>

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## Second Quarter Press Release

### NEWS RELEASE



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## Kansas City Southern Reports Record Revenues and Record Second Quarter Carloads

### Second Quarter 2013 Results

- Revenues of \$579 million, an increase of 6% over second quarter 2012 on a 3% increase in carloads.
- Operating income of \$179 million, 12% higher than adjusted operating income in second quarter 2012.
- Operating ratio of 69.0%, a 1.5 point improvement over the adjusted operating ratio in second quarter 2012.
- Diluted earnings per share of \$0.14 compared with diluted earnings per share of \$1.09 in second quarter 2012. Adjusted diluted earnings per share of \$0.96 for second quarter 2013 increased 9% over adjusted diluted earnings per share of \$0.88 in the second quarter 2012.

**Kansas City, MO, July 19, 2013.** Kansas City Southern (KCS) (NYSE:KSU) reported record second quarter 2013 revenues of \$579 million. Overall, carload volumes were 3% higher than in second quarter 2012.

Second quarter revenue growth compared to 2012 was led by a 26% increase in Energy, a 20% increase in Automotive and a 13% increase in Intermodal revenues. Revenues from Chemicals & Petroleum and Industrial & Consumer were also strong, growing by 11% and 4%, respectively, over 2012. Agriculture and Minerals revenues declined by 18%, primarily due to a decrease in grain volumes resulting from severe drought conditions experienced in the Midwestern region of the United States during 2012.

Operating expenses for the second quarter were \$400 million, 4% higher than the corresponding 2012 period after adjusting for a one-time benefit from the elimination of a net deferred statutory profit sharing liability in the second quarter 2012. Operating income for the second quarter of 2013 was \$179 million, 12% higher than 2012 adjusted operating income. KCS reported a second quarter 2013 operating ratio of 69.0%, a 1.5 point improvement over the 2012 adjusted operating ratio.

Reported net income in the second quarter of 2013 totaled \$15 million, or \$0.14 per diluted share, compared with \$120 million, or \$1.09 per diluted share, in the second quarter of 2012. Excluding the impacts of debt retirement costs, foreign exchange rate fluctuations and the one-time benefit from the elimination of a net deferred statutory profit sharing liability in second quarter 2012, adjusted diluted earnings per share for second quarter 2013 was \$0.96 compared with \$0.88 a year ago.

“Considering the weakness in grain volumes due to the drought in 2012, KCS reported impressive second quarter 2013 results as reflected by year-over-year increases in carloads (+ 3%), revenues (+ 6%) and adjusted earnings per share (+ 9%),” stated President and Chief Executive Officer David L. Starling. “The combination of solid revenue growth, a steady mid-single digit improvement to pricing and continued control over operating expenses resulted in a second quarter operating ratio of 69.0%, a 1.5 point improvement over last year's adjusted operating ratio. This performance speaks to the strength of KCS' operations and the diversity of the franchise.

“Especially noteworthy was the performance of the Company's Energy commodity group, which grew by 26%. Each subgroup within Energy experienced strong growth, highlighted by revenue increases of 193% in crude oil and 19% in utility coal. Revenue from KCS' five strategic growth areas, namely crude oil, cross-border intermodal, automotive, frac sand and Lázaro Cárdenas, collectively grew by 28% in the second quarter and represented 19% of KCS' second quarter 2013 freight revenues.

“In addition to the Company's solid topline performance during the second quarter, KCS took advantage of its recent upgrade to investment grade status and a historically low interest rate environment to refinance approximately \$1.2 billion of corporate debt.

Among the benefits achieved by the refinancing was a reduction of the Company's weighted-average coupon from 5.4% to 3.7%, the lowest among Class I railroads. In addition, KCS extended its weighted-average debt maturity to 14 years. These accomplishments, along with improved debt-to-capital, leverage and coverage ratios, significantly strengthen KCS' balance sheet and provide the Company with expanded financial flexibility going forward.”

### GAAP Reconciliations

(\$ in millions, except per share amounts)

Reconciliation of Operating Expenses to Adjusted Operating Expenses:	Three Months Ended	
	June 30,	
	2013	2012
Operating expenses as reported	\$ 400.0	\$ 341.5
Adjustment for elimination of net deferred statutory profit sharing liability	—	43.0
Adjusted operating expenses - see (a) below	<u>\$ 400.0</u>	<u>\$ 384.5</u>
Operating income as reported	\$ 179.3	\$ 203.8
Adjusted operating income - see (a) below	179.3	160.8
Operating ratio (b) as reported	69.0%	62.6%
Adjusted operating ratio - see (a) and (b) below	69.0%	70.5%

### Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share:

	Three Months Ended June 30, 2013			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 29.9	\$ 14.2	\$ 15.7	\$ 0.14
Adjustments for:				
Debt retirement costs	111.4	33.7	77.7	0.70
Foreign exchange loss	22.2	6.7	15.5	0.14
Foreign exchange component of income taxes	—	2.3	(2.3)	(0.02)
Adjusted	<u>\$ 163.5</u>	<u>\$ 56.9</u>	<u>\$ 106.6</u>	
Less: Noncontrolling interest	(i)	(ii)	0.3	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (c) below			<u>\$ 106.3</u>	<u>\$ 0.96</u>
Adjusted effective income tax rate - see (c) below			<u>34.8%</u>	
			(ii)/(i)	

**Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share (continued):**

**Three Months Ended June 30, 2012**

	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 174.0	\$ 53.1	\$ 120.9	\$ 1.09
Adjustments for:				
Debt retirement costs	5.1	2.0	3.1	0.03
Elimination of net deferred statutory profit sharing liability	(43.0)	(12.9)	(30.1)	(0.27)
Foreign exchange loss	3.5	1.0	2.5	0.02
Foreign exchange component of income taxes	—	(1.0)	1.0	0.01
Adjusted	<u>\$ 139.6</u>	<u>\$ 42.2</u>	<u>\$ 97.4</u>	
Less: Noncontrolling interest	(i)	(ii)	0.5	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (c) below			<u>\$ 96.9</u>	<u>\$ 0.88</u>
Adjusted effective income tax rate - see (c) below			<u>30.2%</u>	<u>(ii)/(i)</u>

- (a) The Company believes adjusted operating expenses, operating income and operating ratio are meaningful as they allow investors to evaluate the Company's performance for different periods on a more comparable basis by excluding items that are not directly related to the ongoing operations of the Company.
- (b) Operating ratio is calculated by dividing operating expenses by revenues; or in the case of adjusted operating ratio, adjusted operating expenses divided by revenues.
- (c) The Company believes adjusted diluted earnings per share and the related adjusted effective income tax rate are meaningful as these measures allow investors to evaluate the Company's performance for different periods on a more comparable basis by excluding the impact of changes in foreign currency exchange rates and items that are not directly related to the ongoing operations of the Company.

Headquartered in Kansas City, MO, Kansas City Southern is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include Kansas City Southern de México, S.A. de C.V., serving northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. Kansas City Southern's North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada.

*This news release contains "forward-looking statements" within the meaning of the securities laws concerning potential future events involving KCS and its subsidiaries, which could materially differ from the events that actually occur. Words such as "projects," "estimates," "forecasts," "believes," "intends," "expects," "anticipates," and similar expressions are intended to identify many of these forward-looking statements. Such forward-looking statements are based upon information currently available to management and management's perception thereof as of the date of this news release. Differences that actually occur could be caused by a number of external factors over which management has little or no control, including: competition and consolidation within the transportation industry; the business environment in industries that produce and use items shipped by rail; loss of the rail concession of KCS' subsidiary, Kansas City Southern de México, S.A. de C.V.; the termination of, or failure to renew, agreements with customers, other railroads and third parties; interest rates; access to capital; disruptions to KCS' technology infrastructure, including its computer systems; natural events such as severe weather, hurricanes and floods; market and regulatory responses to climate change; credit risk of customers and counterparties and their failure to meet their financial obligations; legislative and regulatory developments and disputes; rail accidents or other incidents or accidents along KCS' rail network, facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards;*

*fluctuation in prices or availability of key materials, in particular diesel fuel; dependency on certain key suppliers of core rail equipment; changes in securities and capital markets; loss of key personnel; labor difficulties, including strikes and work stoppages; insufficiency of insurance to cover lost revenue, profits or other damages; acts of terrorism or risk of terrorist activities; war or risk of war; domestic and international economic conditions; political and economic conditions in Mexico and the level of trade between the United States and Mexico; the outcome of claims and litigation involving KCS or its subsidiaries; and other factors affecting the operation of the business. More detailed information about factors that could affect future events may be found in filings by KCS with the Securities and Exchange Commission, including KCS' Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 1-4717) and subsequent reports. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. KCS is not obligated to update any forward-looking statements in this news release to reflect future events or developments.*

## Income Information

(in millions, except share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues	\$ 579.3	\$ 545.3	\$ 1,132.1	\$ 1,092.8
Operating expenses:				
Compensation and benefits	110.1	105.8	217.0	215.1
Purchased services	50.9	60.3	103.2	114.7
Fuel	93.0	86.9	183.9	175.2
Equipment costs	38.6	41.1	80.5	81.4
Depreciation and amortization	54.7	48.7	107.8	97.1
Materials and other	52.7	41.7	97.5	90.7
Elimination of deferred statutory profit sharing liability, net	—	(43.0)	—	(43.0)
Total operating expenses	400.0	341.5	789.9	731.2
Operating income	179.3	203.8	342.2	361.6
Equity in net earnings of unconsolidated affiliates	3.5	4.9	9.0	10.7
Interest expense	(19.2)	(25.3)	(42.9)	(52.5)
Debt retirement costs	(111.4)	(5.1)	(111.4)	(18.0)
Foreign exchange gain (loss)	(22.2)	(3.5)	(8.7)	0.4
Other income (expense), net	(0.1)	(0.8)	0.2	(0.7)
Income before income taxes	29.9	174.0	188.4	301.5
Income tax expense	14.2	53.1	68.5	105.3
Net income	15.7	120.9	119.9	196.2
Less: Net income attributable to noncontrolling interest	0.3	0.5	0.7	0.8
Net income attributable to Kansas City Southern and subsidiaries	15.4	120.4	119.2	195.4
Preferred stock dividends	—	—	0.1	0.1
Net income available to common stockholders	\$ 15.4	\$ 120.4	\$ 119.1	\$ 195.3
Earnings per share:				
Basic earnings per share	\$ 0.14	\$ 1.10	\$ 1.08	\$ 1.78
Diluted earnings per share	\$ 0.14	\$ 1.09	\$ 1.08	\$ 1.77
Average shares outstanding ( <i>in thousands</i> ):				
Basic	109,968	109,689	109,936	109,657
Potentially dilutive common shares	355	367	356	371
Diluted	110,323	110,056	110,292	110,028

## Balance Sheet Information

(in millions)

(Unaudited)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 30.0	\$ 72.6
Accounts receivable, net	199.6	183.6
Materials and supplies	139.1	125.6
Deferred income taxes	89.1	92.1
Other current assets	85.9	48.4
Total current assets	<u>543.7</u>	<u>522.3</u>
Investments	38.0	51.5
Restricted funds	11.9	14.2
Property and equipment (including concession assets), net	6,063.5	5,684.8
Other assets	72.8	123.1
Total assets	<u><u>\$ 6,729.9</u></u>	<u><u>\$ 6,395.9</u></u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 48.3	\$ 60.2
Accounts payable and accrued liabilities	356.3	364.6
Total current liabilities	<u>404.6</u>	<u>424.8</u>
Long-term debt	1,765.7	1,547.6
Deferred income taxes	944.3	894.2
Other noncurrent liabilities and deferred credits	132.0	128.6
Total liabilities	<u>3,246.6</u>	<u>2,995.2</u>
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.2
Paid-in capital	935.2	925.3
Retained earnings	2,238.2	2,166.5
Accumulated other comprehensive loss	(2.1)	(2.4)
Total stockholders' equity	<u>3,178.5</u>	<u>3,096.6</u>
Noncontrolling interest	304.8	304.1
Total equity	<u>3,483.3</u>	<u>3,400.7</u>
Total liabilities and equity	<u><u>\$ 6,729.9</u></u>	<u><u>\$ 6,395.9</u></u>



## Cash Flow Information

(in millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2013	2012
<b>Operating activities:</b>		
Net income	\$ 119.9	\$ 196.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107.8	97.1
Deferred income taxes	53.4	81.5
Equity in net earnings of unconsolidated affiliates	(9.0)	(10.7)
Share-based compensation	8.3	5.7
Excess tax benefit from share-based compensation	(3.3)	(14.1)
Deferred compensation	—	7.3
Elimination of deferred statutory profit sharing liability	—	(47.8)
Distributions from unconsolidated affiliates	6.5	7.3
Debt retirement costs	111.4	18.0
Changes in working capital items:		
Accounts receivable	(14.0)	(20.5)
Materials and supplies	(12.0)	(6.6)
Other current assets	(27.0)	6.3
Accounts payable and accrued liabilities	(26.9)	(1.2)
Other, net	11.3	(8.4)
Net cash provided by operating activities	<u>326.4</u>	<u>310.1</u>
<b>Investing activities:</b>		
Capital expenditures	(265.9)	(195.2)
Acquisition of equipment under operating leases	(155.1)	(19.6)
Property investments in MSLLC	(22.6)	(26.6)
Proceeds from disposal of property	4.3	6.4
Other, net	(4.9)	3.7
Net cash used for investing activities	<u>(444.2)</u>	<u>(231.3)</u>
<b>Financing activities:</b>		
Proceeds from issuance of long-term debt	1,403.7	329.6
Repayment of long-term debt	(1,203.2)	(349.4)
Debt costs	(105.7)	(19.3)
Excess tax benefit from share-based compensation	3.3	14.1
Proceeds from employee stock plans	0.9	0.9
Dividends paid	(23.8)	(21.6)
Net cash provided by (used for) financing activities	<u>75.2</u>	<u>(45.7)</u>
Cash and cash equivalents:		
Net increase (decrease) during each period	(42.6)	33.1
At beginning of year	72.6	72.4
At end of period	<u>\$ 30.0</u>	<u>\$ 105.5</u>

## Revenue Statistics by Commodity - Quarterly

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 52.7	\$ 48.1	28.6	27.8	\$ 1,843	\$ 1,730
Petroleum	29.5	25.1	17.7	17.2	1,667	1,459
Plastics	26.8	24.8	16.1	15.9	1,665	1,560
<b>Total</b>	<u>109.0</u>	<u>98.0</u>	<u>62.4</u>	<u>60.9</u>	<u>1,747</u>	<u>1,609</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	65.2	61.5	31.2	31.4	2,090	1,959
Metals & Scrap	57.2	56.1	31.7	30.6	1,804	1,833
Other	19.7	19.6	20.7	21.6	952	907
<b>Total</b>	<u>142.1</u>	<u>137.2</u>	<u>83.6</u>	<u>83.6</u>	<u>1,700</u>	<u>1,641</u>
<b>Agriculture &amp; Minerals</b>						
Grain	42.2	59.3	26.7	33.4	1,581	1,775
Food Products	32.5	35.2	14.6	15.4	2,226	2,286
Ores & Minerals	5.3	4.8	5.3	5.0	1,000	960
Stone, Clay & Glass	6.7	6.7	3.3	3.4	2,030	1,971
<b>Total</b>	<u>86.7</u>	<u>106.0</u>	<u>49.9</u>	<u>57.2</u>	<u>1,737</u>	<u>1,853</u>
<b>Energy</b>						
Utility Coal	52.7	44.2	48.1	47.1	1,096	938
Coal & Petroleum Coke	9.9	8.0	14.9	10.9	664	734
Frac Sand	14.5	12.9	6.8	6.4	2,132	2,016
Crude Oil	8.2	2.8	4.5	1.7	1,822	1,647
<b>Total</b>	<u>85.3</u>	<u>67.9</u>	<u>74.3</u>	<u>66.1</u>	<u>1,148</u>	<u>1,027</u>
<b>Intermodal</b>	<u>86.6</u>	<u>76.4</u>	<u>238.8</u>	<u>228.0</u>	<u>363</u>	<u>335</u>
<b>Automotive</b>	<u>47.5</u>	<u>39.6</u>	<u>25.9</u>	<u>24.1</u>	<u>1,834</u>	<u>1,643</u>
<b>Total for Commodity Groups</b>	557.2	525.1	<u>534.9</u>	<u>519.9</u>	<u>\$ 1,042</u>	<u>\$ 1,010</u>
Other Revenue	<u>22.1</u>	<u>20.2</u>				
<b>Total</b>	<u>\$ 579.3</u>	<u>\$ 545.3</u>				

## Revenue Statistics by Commodity - Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 102.6	\$ 98.1	55.8	56.1	\$ 1,839	\$ 1,749
Petroleum	56.6	51.3	34.8	34.1	1,626	1,504
Plastics	52.2	50.5	31.3	32.2	1,668	1,568
<b>Total</b>	<u>211.4</u>	<u>199.9</u>	<u>121.9</u>	<u>122.4</u>	<u>1,734</u>	<u>1,633</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	130.0	126.4	63.2	65.4	2,057	1,933
Metals & Scrap	118.8	113.8	65.6	63.7	1,811	1,786
Other	37.5	35.6	40.1	39.6	935	899
<b>Total</b>	<u>286.3</u>	<u>275.8</u>	<u>168.9</u>	<u>168.7</u>	<u>1,695</u>	<u>1,635</u>
<b>Agriculture &amp; Minerals</b>						
Grain	81.2	122.6	51.3	69.1	1,583	1,774
Food Products	63.0	70.6	28.0	31.1	2,250	2,270
Ores & Minerals	10.6	11.2	10.6	10.9	1,000	1,028
Stone, Clay & Glass	12.9	13.5	6.4	6.8	2,016	1,985
<b>Total</b>	<u>167.7</u>	<u>217.9</u>	<u>96.3</u>	<u>117.9</u>	<u>1,741</u>	<u>1,848</u>
<b>Energy</b>						
Utility Coal	99.5	94.4	95.5	99.1	1,042	953
Coal & Petroleum Coke	19.5	16.1	28.6	21.4	682	752
Frac Sand	28.3	24.3	13.6	12.8	2,081	1,898
Crude Oil	14.3	4.1	7.6	2.5	1,882	1,640
<b>Total</b>	<u>161.6</u>	<u>138.9</u>	<u>145.3</u>	<u>135.8</u>	<u>1,112</u>	<u>1,023</u>
<b>Intermodal</b>	<u>166.4</u>	<u>144.5</u>	<u>465.9</u>	<u>436.1</u>	<u>357</u>	<u>331</u>
<b>Automotive</b>	<u>96.6</u>	<u>77.1</u>	<u>53.0</u>	<u>47.1</u>	<u>1,823</u>	<u>1,637</u>
<b>Total for Commodity Groups</b>	1,090.0	1,054.1	<u>1,051.3</u>	<u>1,028.0</u>	<u>\$ 1,037</u>	<u>\$ 1,025</u>
Other Revenue	<u>42.1</u>	<u>38.7</u>				
<b>Total</b>	<u>\$ 1,132.1</u>	<u>\$ 1,092.8</u>				

## Productivity Statistics

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Gross Ton Miles (GTM) (in millions) (a)	21,773	21,515	42,886	43,533
Average Employees - Total	6,166	6,070	6,156	6,079
Average Employees - Union	4,722	4,666	4,714	4,678
GTM's per Average Employee (in millions)	3.53	3.54	6.97	7.16
Operating Ratio	69.0%	62.6%	69.8%	66.9%
Adjusted Operating Ratio *	69.0%	70.5%	69.8%	70.8%
<b>Locomotive Fuel Statistics</b>				
Locomotive fuel consumed in gallons (in millions)	30.6	31.2	60.7	62.3
Average price per gallon	\$3.04	\$2.78	\$3.03	\$2.81
<b>AAR Reported Performance Measures</b>				
Average train speed (miles per hour)	28.1	27.4	28.4	27.5
Average terminal dwell times (hours)	18.0	18.6	18.2	19.3
<b>Revenue Ton Miles (in Millions)</b>				
Chemical & Petroleum	1,792	1,717	3,485	3,605
Industrial & Consumer Products	2,443	2,430	4,923	4,845
Agriculture & Minerals	2,347	2,934	4,526	6,183
Energy	3,266	2,526	6,074	5,289
Intermodal	1,167	1,033	2,241	2,000
Automotive	336	266	684	519
Total	<u>11,351</u>	<u>10,906</u>	<u>21,933</u>	<u>22,441</u>

(a) Excludes Locomotive Gross Ton Miles

\* All reconciliations to GAAP can be found on page 15.

## Capital Expenditures

(in millions)

	Six Months Ended	
	June 30,	
	2013	2012
Roadway capital program	\$ 148.2	\$ 129.7
Equipment	73.8	9.4
Capacity	17.8	13.6
Information technology	5.1	3.3
Other	11.7	10.4
Total capital expenditures (accrual basis)	<u>256.6</u>	<u>166.4</u>
Change in capital accruals	9.3	28.8
Total cash capital expenditures	<u>\$ 265.9</u>	<u>\$ 195.2</u>
Acquisition of equipment under operating leases	<u>\$ 155.1</u>	<u>\$ 19.6</u>
<b>Track Renewal</b>		
Track miles of rail installed	<u>67</u>	<u>84</u>
Cross ties installed (thousands)	<u>482</u>	<u>292</u>

## Debt Summary

(in millions)

	Expiration Date	Interest Rate	June 30, 2013	December 31, 2012
KCSR Revolver	11/15/2017	Floating	\$ —	\$ —
KCSM Revolver	11/15/2017	Floating	10.0	—
KCSR Term Loan	5/15/2018	Floating	—	281.3
KCSR Term Loan A-2	5/15/2018	Floating	255.6	262.5
<b>Total Bank Facilities</b>			<u>265.6</u>	<u>543.8</u>
KCSM Senior Notes	4/1/2016	12.500%	—	95.0
KCSM Senior Notes	2/1/2018	8.000%	62.2	296.9
KCSM Senior Notes	5/15/2020	2.350%	274.7	—
KCSM Senior Notes	12/15/2020	6.625%	—	185.0
KCSM Senior Notes	6/15/2021	6.125%	42.5	200.0
KCSM Senior Notes	5/15/2023	3.000%	448.2	—
KCSR Senior Notes	5/15/2043	4.300%	445.9	—
<b>Total Unsecured Senior Notes</b>			<u>1,273.5</u>	<u>776.9</u>
KCSM GE Loan Agreement (Operating lease buyout)	12/15/2020	9.311%	78.2	81.7
KCSM Loan and Security Agreement	2/28/2023	5.737%	46.1	48.4
KCSM Loan Agreement	9/29/2023	6.195%	35.7	37.4
Tex Mex RRIF Loan	7/13/2030	4.290%	40.2	41.0
KCSR RRIF Loan	2/24/2037	2.960%	52.8	53.5
Capital Leases	Various	Various	19.4	21.9
Other	Various	Various	2.5	3.2
<b>Total Debt</b>			<u>\$ 1,814.0</u>	<u>\$ 1,607.8</u>

## Free Cash Flow\*

(in millions)

	Six Months Ended	
	June 30,	
	2013	2012
Net cash provided by operating activities	\$ 326.4	\$ 310.1
Cash used for capital expenditures	(265.9)	(195.2)
Other investing activities, net	(178.3)	(36.1)
Acquisition of equipment under operating leases	155.1	19.6
Dividends paid	(23.8)	(21.6)
Free cash flow	<u>\$ 13.5</u>	<u>\$ 76.8</u>

\* All reconciliations to GAAP can be found on page 15.

## Credit Ratings

Credit ratings are subject to change at any point in time. These ratings were applicable as of June 30, 2013.

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>
<b>KCS</b>			
Outlook	Stable	Stable	Stable
Corporate	BBB-	NR	BBB-
<b>KCSR</b>			
Outlook	Stable	Stable	Stable
Senior Secured (a)	NR	NR	NR
Senior Unsecured	BBB-	Baa3	BBB-
<b>KCSM</b>			
Outlook	Stable	Stable	Stable
Corporate	BBB-	NR	BBB-
Senior Secured (b)	NR	NR	NR
Senior Unsecured	BBB-	Baa3	BBB-

NR = Not Rated

- (a) In the 4<sup>th</sup> quarter of 2012, the KCSR credit facilities became unsecured obligations as a result of the “fall away” collateral provision whereby the KCSR facilities would convert from secured to unsecured obligations when investment grade senior unsecured debt ratings were assigned by at least two of the three primary rating agencies. Following the conversion of the facilities to unsecured, KCSR had no outstanding secured obligations that are rated by the rating agencies; as a result, the rating agencies no longer publish a Senior Secured rating for KCSR.
- (b) In the 1<sup>st</sup> quarter of 2013, the KCSM credit facilities became unsecured obligations as a result of the triggering of a similar “fall away” collateral provision to the one described for KCSR above. Following the conversion of the facilities to unsecured, KCSM had no outstanding secured obligations that are rated by the rating agencies; as a result, the rating agencies no longer publish a Senior Secured rating for KCSM.

## Non-GAAP Financial Information (Regulation G)

(in millions)

KCS reports its financial results in accordance with generally accepted accounting principles (“GAAP”). However, management believes that certain non-GAAP financial measures used to review and in certain cases manage the Company's business that fall within the meaning of Regulation G (Disclosure of non-GAAP financial measures) may provide its users of the financial information with additional meaningful comparison when reviewing the Company's results.

In press releases and analyst presentations, KCS has provided financial information adjusted for certain items, which are non-GAAP financial measures. KCS management uses non-GAAP information in its planning and forecasting processes and to further analyze its own financial trends and operational performance, as well as making financial comparisons to prior periods presented on a similar basis. The Company also uses some of these measures internally as part of its incentive compensation plans for management employees. Management believes investors and users of the Company's financial information should consider all of the above factors when evaluating KCS's results.

These non-GAAP measures should not be considered a substitute for GAAP measures. Some of KCS's non-GAAP measures may differ from similar measures used by other companies, even if similar terms are used to identify such measures.

Reconciliation of Free Cash Flow to Net Increase (Decrease) in Cash and Cash Equivalents:	Six Months Ended	
	June 30,	
	2013	2012
Net cash provided by operating activities	\$ 326.4	\$ 310.1
Net cash used for investing activities	(444.2)	(231.3)
Acquisition of equipment under operating leases	155.1	19.6
Dividends paid	(23.8)	(21.6)
Free cash flow - see (a) below	13.5	76.8
Proceeds from issuance of long-term debt	1,403.7	329.6
Repayment of long-term debt	(1,203.2)	(349.4)
Acquisition of equipment under operating leases	(155.1)	(19.6)
Other financing activities	(101.5)	(4.3)
GAAP net increase (decrease) in cash and cash equivalents	\$ (42.6)	\$ 33.1



	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Reconciliation of Operating Expenses to Adjusted Operating Expenses:</b>				
Operating expenses as reported	\$ 400.0	\$ 341.5	\$ 789.9	\$ 731.2
Adjustment for elimination of net deferred statutory profit sharing liability	—	43.0	—	43.0
Adjusted operating expenses - see (b) below	<u>\$ 400.0</u>	<u>\$ 384.5</u>	<u>\$ 789.9</u>	<u>\$ 774.2</u>
Operating income as reported	\$ 179.3	\$ 203.8	\$ 342.2	\$ 361.6
Adjusted operating income - see (b) below	179.3	160.8	342.2	318.6
Operating ratio (c) as reported	69.0%	62.6%	69.8%	66.9%
Adjusted operating ratio - see (b) and (c) below	69.0%	70.5%	69.8%	70.8%

- (a) The Company believes this measure provides the amount of liquidity generated by operations that can be used for the combination or any one of the following: debt reduction, incremental capital investment, and other investments.
- (b) The Company believes adjusted operating expenses, operating income and operating ratio are meaningful as they allow investors to evaluate the Company's performance for different periods on a more comparable basis by excluding items that are not directly related to the ongoing operations of the Company.
- (c) Operating ratio is calculated by dividing operating expenses by revenues; or in the case of adjusted operating ratio, adjusted operating expenses divided by revenues.