



# ***Kansas City Southern***

## ***Consolidated Investors' Report Third 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.

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## Third Quarter Press Release

### NEWS RELEASE



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### Kansas City Southern Reports Record Revenues and Carloads, Driven by Strong Cross-Border Revenue Growth

#### Third Quarter 2013 Results

- Revenues of \$622 million, an increase of 8% over third quarter 2012 on a 3% increase in carloads.
- Operating income of \$200 million, 11% higher than operating income in third quarter 2012.
- Operating ratio of 67.8%, a 0.9 point improvement over the operating ratio in third quarter 2012.
- Diluted earnings per share of \$1.07 compared with diluted earnings per share of \$0.82 in third quarter 2012. Adjusted diluted earnings per share of \$1.10 for third quarter 2013 increased 16% over adjusted diluted earnings per share of \$0.95 in the third quarter 2012.

**Kansas City, MO, October 18, 2013.** Kansas City Southern (KCS) (NYSE:KSU) reported record third quarter 2013 revenues of \$622 million. Overall, carload volumes were 3% higher than in third quarter 2012.

Third quarter revenue growth compared to 2012 was led by a 17% increase in Intermodal. Revenues from Industrial & Consumer, Agriculture & Minerals and Automotive grew by 7%. Revenues from Energy and Chemicals & Petroleum grew by 6% and 3%, respectively, over 2012.

Operating expenses for the third quarter were \$421 million, 6% higher than the corresponding 2012 period. Operating income for the third quarter of 2013 was \$200 million, 11% higher than 2012 operating income. KCS reported a third quarter 2013 operating ratio of 67.8%, a 0.9 point improvement over the 2012 operating ratio.

Reported net income in the third quarter of 2013 totaled \$119 million, or \$1.07 per diluted share, compared with \$91 million, or \$0.82 per diluted share, in the third quarter of 2012. Excluding the impacts of debt retirement costs and foreign exchange rate fluctuations, adjusted diluted earnings per share for third quarter 2013 was \$1.10 compared with \$0.95 a year ago.

“Kansas City Southern achieved record revenues and carloads as a result of solid, sustainable growth opportunities and strong execution by our team,” stated President and Chief Executive Officer David L. Starling. “This performance demonstrates KCS’ ability to absorb the impacts of a challenging economic environment while consistently delivering strong top-line and bottom-line results.

“The fact that KCS delivered revenue growth in all of its business units speaks to the strength and diversity of this franchise. In addition to the many exciting growth opportunities that we see on the horizon from Intermodal, Auto and Energy, KCS’ core carload franchise continues to deliver solid revenue performance and contribution to our overall growth in earnings. Particularly exciting is the fact that our cross-border revenue grew by 16% in the quarter. In addition to continued strength in cross-border intermodal, cross-border revenue also benefited from strength in steel shipments and an early rebound in export grain.

“Looking ahead, we expect a strong end to the year benefited by growth in export grain shipments. We also look forward to long-term improvement in our operating ratio as we move forward with our plan to increase the percentage of equipment we own versus lease.”

## GAAP Reconciliations

(\$ in millions, except per share amounts)

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

	Three Months Ended September 30, 2013			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 182.3	\$ 63.3	\$ 119.0	\$ 1.07
Adjustments for:				
Debt retirement costs	2.4	0.8	1.6	0.02
Foreign exchange loss	1.4	0.4	1.0	0.01
Foreign exchange component of income taxes	—	(0.4)	0.4	—
Adjusted	<u>\$ 186.1</u>	<u>\$ 64.1</u>	<u>122.0</u>	
Less: Noncontrolling interest	(i)	(ii)	0.6	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 121.4</u>	<u>\$ 1.10</u>
Adjusted effective income tax rate - see (a) below			<u>34.4%</u>	
			(ii)/(i)	

	Three Months Ended September 30, 2012			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 164.6	\$ 73.9	\$ 90.7	\$ 0.82
Adjustments for:				
Foreign exchange gain	(3.7)	(1.1)	(2.6)	(0.02)
Foreign exchange component of income taxes	—	(17.6)	17.6	0.15
Adjusted	<u>\$ 160.9</u>	<u>\$ 55.2</u>	<u>105.7</u>	
Less: Noncontrolling interest	(i)	(ii)	0.6	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 105.1</u>	<u>\$ 0.95</u>
Adjusted effective income tax rate - see (a) below			<u>34.3%</u>	
			(ii)/(i)	

- (a) 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 on KCS' rail network or at KCS' 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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenues	\$ 621.6	\$ 577.4	\$ 1,753.7	\$ 1,670.2
Operating expenses:				
Compensation and benefits	111.4	108.4	328.4	323.5
Purchased services	57.2	54.6	160.4	169.3
Fuel	102.7	89.5	286.6	264.7
Equipment costs	39.5	42.9	120.0	124.3
Depreciation and amortization	57.2	49.8	165.0	146.9
Materials and other	53.3	51.5	150.8	142.2
Elimination of deferred statutory profit sharing liability, net	—	—	—	(43.0)
Total operating expenses	421.3	396.7	1,211.2	1,127.9
Operating income	200.3	180.7	542.5	542.3
Equity in net earnings of unconsolidated affiliates	4.8	4.4	13.8	15.1
Interest expense	(18.3)	(24.1)	(61.2)	(76.6)
Debt retirement costs	(2.4)	—	(113.8)	(18.0)
Foreign exchange gain (loss)	(1.4)	3.7	(10.1)	4.1
Other expense, net	(0.7)	(0.1)	(0.5)	(0.8)
Income before income taxes	182.3	164.6	370.7	466.1
Income tax expense	63.3	73.9	131.8	179.2
Net income	119.0	90.7	238.9	286.9
Less: Net income attributable to noncontrolling interest	0.6	0.6	1.3	1.4
Net income attributable to Kansas City Southern and subsidiaries	118.4	90.1	237.6	285.5
Preferred stock dividends	0.1	0.1	0.2	0.2
Net income available to common stockholders	\$ 118.3	\$ 90.0	\$ 237.4	\$ 285.3
Earnings per share:				
Basic earnings per share	\$ 1.08	\$ 0.82	\$ 2.16	\$ 2.60
Diluted earnings per share	\$ 1.07	\$ 0.82	\$ 2.15	\$ 2.59
Average shares outstanding ( <i>in thousands</i> ):				
Basic	110,003	109,739	109,956	109,684
Potentially dilutive common shares	370	388	361	377
Diluted	110,373	110,127	110,317	110,061

## Balance Sheet Information

(in millions)

(Unaudited)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 95.9	\$ 72.6
Accounts receivable, net	211.5	183.6
Materials and supplies	135.4	125.6
Deferred income taxes	96.7	92.1
Other current assets	78.2	48.4
Total current assets	<u>617.7</u>	<u>522.3</u>
Investments	42.6	51.5
Restricted funds	10.8	14.2
Property and equipment (including concession assets), net	6,120.4	5,684.8
Other assets	89.5	123.1
Total assets	<u><u>\$ 6,881.0</u></u>	<u><u>\$ 6,395.9</u></u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 51.8	\$ 60.2
Accounts payable and accrued liabilities	403.0	364.6
Total current liabilities	<u>454.8</u>	<u>424.8</u>
Long-term debt	1,728.6	1,547.6
Deferred income taxes	985.4	894.2
Other noncurrent liabilities and deferred credits	129.5	128.6
Total liabilities	<u>3,298.3</u>	<u>2,995.2</u>
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.2
Paid-in capital	939.3	925.3
Retained earnings	2,332.9	2,166.5
Accumulated other comprehensive loss	(2.1)	(2.4)
Total stockholders' equity	<u>3,277.3</u>	<u>3,096.6</u>
Noncontrolling interest	305.4	304.1
Total equity	<u>3,582.7</u>	<u>3,400.7</u>
Total liabilities and equity	<u><u>\$ 6,881.0</u></u>	<u><u>\$ 6,395.9</u></u>

## Cash Flow Information

(in millions)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2013	2012
<b>Operating activities:</b>		
Net income	\$ 238.9	\$ 286.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	165.0	146.9
Deferred income taxes	86.9	142.3
Equity in net earnings of unconsolidated affiliates	(13.8)	(15.1)
Share-based compensation	11.3	8.3
Excess tax benefit from share-based compensation	(3.7)	(22.2)
Deferred compensation	—	7.3
Elimination of deferred statutory profit sharing liability	—	(47.8)
Distributions from unconsolidated affiliates	6.5	7.3
Debt retirement costs	113.8	18.0
Changes in working capital items:		
Accounts receivable	(28.8)	(38.9)
Materials and supplies	(7.0)	(10.0)
Other current assets	(16.9)	3.0
Accounts payable and accrued liabilities	16.5	49.6
Other, net	3.8	(19.6)
Net cash provided by operating activities	<u>572.5</u>	<u>516.0</u>
<b>Investing activities:</b>		
Capital expenditures	(381.8)	(296.3)
Purchase of equipment under operating leases	(155.1)	(22.9)
Property investments in MSLLC	(25.0)	(31.4)
Proceeds from disposal of property	6.2	12.2
Other, net	(8.1)	10.2
Net cash used for investing activities	<u>(563.8)</u>	<u>(328.2)</u>
<b>Financing activities:</b>		
Proceeds from issuance of long-term debt	1,468.7	329.7
Repayment of long-term debt	(1,301.8)	(363.8)
Debt costs	(109.3)	(19.3)
Dividends paid	(47.6)	(43.1)
Excess tax benefit from share-based compensation	3.7	22.2
Proceeds from employee stock plans	0.9	1.1
Net cash provided by (used for) financing activities	<u>14.6</u>	<u>(73.2)</u>
Cash and cash equivalents:		
Net increase during each period	23.3	114.6
At beginning of year	72.6	72.4
At end of period	<u>\$ 95.9</u>	<u>\$ 187.0</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 September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 54.1	\$ 51.4	29.5	28.1	\$ 1,834	\$ 1,829
Petroleum	27.2	27.9	16.5	18.7	1,648	1,492
Plastics	28.2	27.1	16.2	16.0	1,741	1,694
<b>Total</b>	<u>109.5</u>	<u>106.4</u>	<u>62.2</u>	<u>62.8</u>	<u>1,760</u>	<u>1,694</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	64.5	63.5	32.1	32.0	2,009	1,984
Metals & Scrap	63.6	54.8	33.7	31.8	1,887	1,723
Other	19.9	19.7	20.0	21.7	995	908
<b>Total</b>	<u>148.0</u>	<u>138.0</u>	<u>85.8</u>	<u>85.5</u>	<u>1,725</u>	<u>1,614</u>
<b>Agriculture &amp; Minerals</b>						
Grain	49.4	44.6	27.5	26.4	1,796	1,689
Food Products	34.2	34.4	15.5	15.4	2,206	2,234
Ores & Minerals	6.6	5.4	6.8	5.3	971	1,019
Stone, Clay & Glass	6.9	6.3	3.3	3.1	2,091	2,032
<b>Total</b>	<u>97.1</u>	<u>90.7</u>	<u>53.1</u>	<u>50.2</u>	<u>1,829</u>	<u>1,807</u>
<b>Energy</b>						
Utility Coal	61.2	62.5	57.5	61.0	1,064	1,025
Coal & Petroleum Coke	11.7	8.4	15.6	11.9	750	706
Frac Sand	16.3	13.4	7.9	6.9	2,063	1,942
Crude Oil	5.4	5.0	3.0	2.7	1,800	1,852
<b>Total</b>	<u>94.6</u>	<u>89.3</u>	<u>84.0</u>	<u>82.5</u>	<u>1,126</u>	<u>1,082</u>
<b>Intermodal</b>	<u>95.8</u>	<u>82.0</u>	<u>256.8</u>	<u>243.3</u>	<u>373</u>	<u>337</u>
<b>Automotive</b>	<u>51.4</u>	<u>48.2</u>	<u>28.0</u>	<u>28.1</u>	<u>1,836</u>	<u>1,715</u>
<b>Total for Commodity Groups</b>	596.4	554.6	<u>569.9</u>	<u>552.4</u>	<u>\$ 1,046</u>	<u>\$ 1,004</u>
Other Revenue	<u>25.2</u>	<u>22.8</u>				
<b>Total</b>	<u>\$ 621.6</u>	<u>\$ 577.4</u>				

## Revenue Statistics by Commodity - Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 156.7	\$ 149.5	85.3	84.2	\$ 1,837	\$ 1,776
Petroleum	83.8	79.2	51.3	52.8	1,634	1,500
Plastics	80.4	77.6	47.5	48.2	1,693	1,610
<b>Total</b>	<u>320.9</u>	<u>306.3</u>	<u>184.1</u>	<u>185.2</u>	<u>1,743</u>	<u>1,654</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	194.5	189.9	95.3	97.4	2,041	1,950
Metals & Scrap	182.4	168.6	99.3	95.5	1,837	1,765
Other	57.4	55.3	60.1	61.3	955	902
<b>Total</b>	<u>434.3</u>	<u>413.8</u>	<u>254.7</u>	<u>254.2</u>	<u>1,705</u>	<u>1,628</u>
<b>Agriculture &amp; Minerals</b>						
Grain	130.6	167.2	78.8	95.5	1,657	1,751
Food Products	97.2	105.0	43.5	46.5	2,234	2,258
Ores & Minerals	17.2	16.6	17.4	16.2	989	1,025
Stone, Clay & Glass	19.8	19.8	9.7	9.9	2,041	2,000
<b>Total</b>	<u>264.8</u>	<u>308.6</u>	<u>149.4</u>	<u>168.1</u>	<u>1,772</u>	<u>1,836</u>
<b>Energy</b>						
Utility Coal	160.7	156.9	153.0	160.1	1,050	980
Coal & Petroleum Coke	31.2	24.5	44.2	33.3	706	736
Frac Sand	44.6	37.7	21.5	19.7	2,074	1,914
Crude Oil	19.7	9.1	10.6	5.2	1,858	1,750
<b>Total</b>	<u>256.2</u>	<u>228.2</u>	<u>229.3</u>	<u>218.3</u>	<u>1,117</u>	<u>1,045</u>
<b>Intermodal</b>	<u>262.2</u>	<u>226.5</u>	<u>722.7</u>	<u>679.4</u>	<u>363</u>	<u>333</u>
<b>Automotive</b>	<u>148.0</u>	<u>125.3</u>	<u>81.0</u>	<u>75.2</u>	<u>1,827</u>	<u>1,666</u>
<b>Total for Commodity Groups</b>	1,686.4	1,608.7	<u>1,621.2</u>	<u>1,580.4</u>	<u>\$ 1,040</u>	<u>\$ 1,018</u>
Other Revenue	<u>67.3</u>	<u>61.5</u>				
<b>Total</b>	<u>\$ 1,753.7</u>	<u>\$ 1,670.2</u>				

## Productivity Statistics

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Gross Ton Miles (GTM) (in millions) (a)	24,099	22,665	66,985	66,198
Average Employees - Total	6,217	6,106	6,176	6,088
Average Employees - Union	4,763	4,698	4,731	4,685
GTM's per Average Employee (in millions)	3.88	3.71	10.85	10.87
Operating Ratio	67.8%	68.7%	69.1%	67.5%
Adjusted Operating Ratio *	67.8%	68.7%	69.1%	70.1%
<b>Locomotive Fuel Statistics</b>				
Locomotive fuel consumed in gallons (in millions)	33.6	31.9	94.2	94.2
Average price per gallon	\$3.06	\$2.80	\$3.04	\$2.81
<b>AAR Reported Performance Measures</b>				
Average train speed (miles per hour)	27.2	27.1	28.0	27.4
Average terminal dwell times (hours)	19.9	18.3	18.8	19.0
<b>Revenue Ton Miles (in Millions)</b>				
Chemical & Petroleum	1,813	1,827	5,298	5,432
Industrial & Consumer Products	2,630	2,416	7,553	7,261
Agriculture & Minerals	2,651	2,526	7,177	8,709
Energy	3,794	3,470	9,868	8,759
Intermodal	1,242	1,081	3,483	3,081
Automotive	376	356	1,060	875
Total	<u>12,506</u>	<u>11,676</u>	<u>34,439</u>	<u>34,117</u>

(a) Excludes Locomotive Gross Ton Miles

\* All reconciliations to GAAP can be found on page 14.

## Capital Expenditures

(in millions)

	Nine Months Ended	
	September 30,	
	2013	2012
Roadway capital program	\$ 230.9	\$ 210.8
Equipment	82.9	14.8
Capacity	29.8	25.3
Information technology	8.4	4.7
Other	20.0	18.4
Total capital expenditures (accrual basis)	<u>372.0</u>	<u>274.0</u>
Change in capital accruals	9.8	22.3
Total cash capital expenditures	<u>\$ 381.8</u>	<u>\$ 296.3</u>
Purchase of equipment under operating leases	<u>\$ 155.1</u>	<u>\$ 22.9</u>
<b>Track Renewal</b>		
Track miles of rail installed	<u>108</u>	<u>108</u>
Cross ties installed (thousands)	<u>720</u>	<u>623</u>

## Debt Summary

(in millions)

	Expiration Date	Interest Rate	September 30, 2013	December 31, 2012
KCSR Revolver	11/15/2017	Floating	\$ —	\$ —
KCSM Revolver	11/15/2017	Floating	—	—
KCSR Term Loan	5/15/2018	Floating	—	281.3
KCSR Term Loan A-2	5/15/2018	Floating	252.2	262.5
<b>Total Bank Facilities</b>			<u>252.2</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%	29.4	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>1,260.4</u>	<u>776.9</u>
KCSM GE Loan Agreement (Operating lease buyout)	12/15/2020	9.311%	76.4	81.7
KCSM Loan and Security Agreement	2/28/2023	5.737%	43.8	48.4
KCSM Loan Agreement	9/29/2023	6.195%	34.8	37.4
Tex Mex RRIF Loan	7/13/2030	4.290%	39.8	41.0
KCSR RRIF Loan	2/24/2037	2.960%	52.4	53.5
Capital Leases	Various	Various	18.3	21.9
Other	Various	Various	2.3	3.2
<b>Total Debt</b>			<u>\$ 1,780.4</u>	<u>\$ 1,607.8</u>

## Free Cash Flow\*

(in millions)

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	\$ 572.5	\$ 516.0
Cash used for capital expenditures	(381.8)	(296.3)
Other investing activities, net	(182.0)	(31.9)
Purchase of equipment under operating leases	155.1	22.9
Dividends paid	(47.6)	(43.1)
Free cash flow	<u>\$ 116.2</u>	<u>\$ 167.6</u>

\* All reconciliations to GAAP can be found on page 14.

## Credit Ratings

Credit ratings are subject to change at any point in time. These ratings were applicable as of September 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 in Cash and Cash Equivalents:	Nine Months Ended	
	September 30,	
	2013	2012
Net cash provided by operating activities	\$ 572.5	\$ 516.0
Net cash used for investing activities	(563.8)	(328.2)
Purchase of equipment under operating leases	155.1	22.9
Dividends paid	(47.6)	(43.1)
Free cash flow - see (a) below	116.2	167.6
Proceeds from issuance of long-term debt	1,468.7	329.7
Repayment of long-term debt	(1,301.8)	(363.8)
Purchase of equipment under operating leases	(155.1)	(22.9)
Other financing activities	(104.7)	4.0
GAAP net increase in cash and cash equivalents	<u>\$ 23.3</u>	<u>\$ 114.6</u>

<b>Reconciliation of Operating Expenses to Adjusted Operating Expenses:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Operating expenses as reported	\$ 421.3	\$ 396.7	\$ 1,211.2	\$ 1,127.9
Adjustment for elimination of net deferred statutory profit sharing liability	—	—	—	43.0
Adjusted operating expenses - see (b) below	<u>\$ 421.3</u>	<u>\$ 396.7</u>	<u>\$ 1,211.2</u>	<u>\$ 1,170.9</u>
Operating income as reported	\$ 200.3	\$ 180.7	\$ 542.5	\$ 542.3
Adjusted operating income - see (b) below	200.3	180.7	542.5	499.3
Operating ratio (c) as reported	67.8%	68.7%	69.1%	67.5%
Adjusted operating ratio - see (b) and (c) below	67.8%	68.7%	69.1%	70.1%

- (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.