



Kansas City Southern

Consolidated Investors' Report First Quarter 2012



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, 2011 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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First Quarter Press Release

NEWS RELEASE



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Kansas City Southern Reports Best Ever Quarterly Revenues and Record First Quarter Carloads, Operating Income and Operating Ratio

First Quarter 2012 Results

- All-time record quarterly revenues of \$548 million, an increase of 12% over first quarter 2011 on a 7% increase in carloads.
- Operating income of \$158 million, 23% higher than a year ago.
- Operating ratio of 71.2%, a 2.6 point improvement over first quarter 2011 and a 0.4 point sequential improvement over fourth quarter 2011.
- Diluted earnings per share of \$0.68 compared with diluted earnings per share of \$0.58 in first quarter 2011. Adjusted diluted earnings per share of \$0.75 for first quarter 2012.

Kansas City, MO, April 24, 2012. Kansas City, MO. Kansas City Southern (KCS) (NYSE:KSU) reported record first quarter 2012 revenues of \$548 million. Overall, carload volumes were 7% higher than in first quarter 2011.

First quarter revenue growth compared to 2011 was led by a 26% increase in Intermodal and a 21% increase in Automotive revenues. Revenues from Industrial and Consumer Products and Agriculture and Minerals were also strong with growth of 17% and 14%, respectively, over 2011. Chemical & Petroleum revenue grew 6% in the first quarter.

Starting in the first quarter 2012, KCS has expanded the Coal business unit to better reflect the Company's diversified opportunities in the energy sector. The expanded business unit has been renamed Energy and along with coal and petroleum coke, it includes crude oil, frac sand and other new energy markets. Energy revenue declined by 1% compared to 2011, primarily caused by a 10% decrease in utility coal. Coal and petroleum coke declined by 7% in the first quarter. Partially offsetting these declines were increases in revenue from crude oil and frac sand compared to first quarter 2011.

Operating income for the first quarter of 2012 was \$158 million compared with \$128 million a year ago, a 23% increase. KCS reported a first quarter 2012 operating ratio of 71.2%, a 2.6 point improvement from first quarter 2011. Operating expenses in the first quarter were \$390 million compared with \$361 million in the corresponding 2011 period.

Reported net income in the first quarter of 2012 totaled \$75 million, or \$0.68 per diluted share, compared with \$64 million, or \$0.58 per diluted share, in the first quarter of 2011. Excluding debt retirement costs, adjusted diluted earnings per share for first quarter 2012 was \$0.75.

“We are encouraged by the overall strength of our first quarter 2012 results,” stated KCS's president and chief executive officer David L. Starling. “The Company attained record first quarter volumes, revenues and operating ratio. The first quarter is typically the most challenging in terms of operations and volumes. For us to have an operating ratio of 71.2% in the quarter is a good start to the year.

“Already in 2012, we can point to a number of developments illustrative of our strengthening financial status. Reacting opportunistically to an attractive interest rate environment, we entered into a \$275 million bank term loan arrangement, which carries a LIBOR plus 125 basis point interest rate. The Company is using the proceeds of this term loan arrangement to redeem its 8% Senior Notes, tendering \$175 million of the Senior Notes during the first quarter, with the remaining \$100 million expected to be called in the second quarter of 2012.

“Also during the first quarter, Standard & Poor's upgraded its rating of KCS to BB+. This rating is only one notch below investment grade. The Company remains steadfast in its commitment to achieve investment grade status.

“Perhaps most reflective of our improved revenues, operating results and financial position is the announcement that we will pay a quarterly cash dividend on common stock beginning in the second quarter of 2012. While KCS remains, first and foremost, a company with significant long-term growth opportunities, our improved balance sheet and consistently strengthening operations and financials allow us to begin paying a dividend to our stockholders.”

GAAP RECONCILIATION

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

	Three Months Ended March 31,	
	2012	2011
Diluted earnings per share	\$ 0.68	\$ 0.58
Adjustment for debt retirement costs	0.07	-
Adjusted diluted earnings per share (a)	<u>\$ 0.75</u>	<u>\$ 0.58</u>

(a) The Company believes adjusted diluted earnings per share is meaningful as it allows investors to evaluate the Company's performance for different periods on a more comparable basis by excluding items that do not relate 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. The words “projects,” “estimates,” “forecasts,” “believes,” “intends,” “expects,” “anticipates,” and similar expressions are intended to identify 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 consume rail freight; revocation of the rail concession of KCS's subsidiary, Kansas City Southern de México, S.A. de C.V.; the termination, or failure to renew, agreements with customers, other railroads and third parties; interest rates; access to capital; disruptions to KCS's 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's 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 these factors may be found in filings by KCS with the Securities and Exchange Commission, including KCS's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 1-4717) and subsequent Quarterly Reports on Form 10-Q. 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	
	March 31,	
	2012	2011
Revenues	\$ 547.5	\$ 488.6
Operating expenses:		
Compensation and benefits	109.3	100.4
Purchased services	54.4	48.1
Fuel	88.3	79.5
Equipment costs	38.3	41.4
Depreciation and amortization	48.4	45.7
Materials and other	51.0	45.7
Total operating expenses	389.7	360.8
Operating income	157.8	127.8
Equity in net earnings of unconsolidated affiliates	5.8	3.6
Interest expense	(27.2)	(33.1)
Debt retirement costs	(12.9)	—
Foreign exchange gain (loss)	3.9	(0.1)
Other income, net	0.1	1.7
Income before income taxes	127.5	99.9
Income tax expense	52.2	35.8
Net income	75.3	64.1
Less: Net income attributable to noncontrolling interest	0.3	0.1
Net income attributable to Kansas City Southern and subsidiaries	75.0	64.0
Preferred stock dividends	0.1	1.4
Net income available to common stockholders	\$ 74.9	\$ 62.6
Earnings per share:		
Basic earnings per share	\$ 0.68	\$ 0.60
Diluted earnings per share	\$ 0.68	\$ 0.58
Average shares outstanding (<i>in thousands</i>):		
Basic	109,622	104,269
Potentially dilutive common shares	374	5,482
Diluted	109,996	109,751
Cash dividends declared per common share	\$ 0.195	\$ —

Balance Sheet Information

(in millions)

(Unaudited)

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 101.8	\$ 72.4
Accounts receivable, net	186.6	166.0
Materials and supplies	120.9	109.6
Deferred income taxes	205.1	225.0
Other current assets	69.5	69.5
<hr/> Total current assets	<hr/> 683.9	<hr/> 642.5
Investments	57.5	50.4
Restricted funds	16.7	21.7
Property and equipment (including concession assets), net	5,388.0	5,349.5
Other assets	107.9	108.9
<hr/> Total assets	<hr/> <u>\$ 6,254.0</u>	<hr/> <u>\$ 6,173.0</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	\$ 46.4	\$ 36.3
Accounts payable and accrued liabilities	400.1	401.1
<hr/> Total current liabilities	<hr/> 446.5	<hr/> 437.4
Long-term debt	1,585.5	1,602.8
Deferred income taxes	863.4	861.4
Other noncurrent liabilities and deferred credits	228.4	212.7
<hr/> Total liabilities	<hr/> 3,123.8	<hr/> 3,114.3
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.2
Paid-in capital	901.6	884.2
Retained earnings	1,928.8	1,875.3
Accumulated other comprehensive loss	(1.9)	(2.2)
<hr/> Total stockholders' equity	<hr/> 2,835.7	<hr/> 2,764.5
Noncontrolling interest	294.5	294.2
<hr/> Total equity	<hr/> 3,130.2	<hr/> 3,058.7
<hr/> Total liabilities and equity	<hr/> <u>\$ 6,254.0</u>	<hr/> <u>\$ 6,173.0</u>

Cash Flow Information

(in millions)

(Unaudited)

	Three Months Ended	
	March 31,	
	2012	2011
Operating activities:		
Net income	\$ 75.3	\$ 64.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48.4	45.7
Deferred income taxes	34.9	35.0
Equity in net earnings of unconsolidated affiliates	(5.8)	(3.6)
Share-based compensation	3.2	4.0
Excess tax benefit from share-based compensation	(13.2)	—
Deferred compensation	7.3	5.0
Cash payments related to hurricane damage	—	(1.0)
Insurance proceeds related to hurricane damage	—	10.5
Gain on sale of assets	—	(0.2)
Debt retirement costs	12.9	—
Changes in working capital items:		
Accounts receivable	(21.1)	(20.6)
Materials and supplies	(11.5)	(5.8)
Other current assets	4.8	6.4
Accounts payable and accrued liabilities	0.2	(12.6)
Other, net	4.1	(9.8)
Net cash provided by operating activities	<u>139.5</u>	<u>117.1</u>
Investing activities:		
Capital expenditures	(99.4)	(95.2)
Property investments in MSLLC	(6.7)	(6.7)
Insurance proceeds related to hurricane damage	—	4.5
Proceeds from disposal of property	2.7	1.5
Other, net	2.3	3.1
Net cash used for investing activities	<u>(101.1)</u>	<u>(92.8)</u>
Financing activities:		
Proceeds from issuance of long-term debt	229.6	—
Repayment of long-term debt	(237.0)	(5.8)
Debt costs	(15.0)	—
Proceeds from employee stock plans	0.3	0.4
Excess tax benefit from share-based compensation	13.2	—
Preferred stock dividends paid	(0.1)	(2.8)
Net cash used for financing activities	<u>(9.0)</u>	<u>(8.2)</u>
Cash and cash equivalents:		
Net increase during each period	29.4	16.1
At beginning of year	72.4	85.4
At end of period	<u>\$ 101.8</u>	<u>\$ 101.5</u>

Revenue Statistics by Commodity

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾
Chemical & Petroleum						
Chemicals	\$ 50.0	\$ 46.3	28.3	28.7	\$ 1,767	\$ 1,613
Petroleum	26.2	27.4	16.9	18.3	1,550	1,497
Plastics	25.7	22.6	16.3	15.6	1,577	1,449
Total	<u>101.9</u>	<u>96.3</u>	<u>61.5</u>	<u>62.6</u>	<u>1,657</u>	<u>1,538</u>
Industrial & Consumer Products						
Forest Products	64.9	55.1	34.0	32.7	1,909	1,685
Metals & Scrap	57.7	45.2	33.1	29.0	1,743	1,559
Other	16.0	18.2	18.0	20.4	889	892
Total	<u>138.6</u>	<u>118.5</u>	<u>85.1</u>	<u>82.1</u>	<u>1,629</u>	<u>1,443</u>
Agriculture & Minerals						
Grain	63.3	50.3	35.7	30.9	1,773	1,628
Food Products	35.4	34.6	15.7	17.2	2,255	2,012
Ores & Minerals	6.4	7.7	5.9	7.9	1,085	975
Stone, Clay & Glass	6.8	5.8	3.4	3.2	2,000	1,813
Total	<u>111.9</u>	<u>98.4</u>	<u>60.7</u>	<u>59.2</u>	<u>1,843</u>	<u>1,662</u>
Energy (i)						
Utility Coal	50.2	55.9	52.0	58.6	965	954
Coal & Petroleum Coke	8.1	8.7	10.5	10.1	771	861
Frac Sand	11.4	6.7	6.4	5.1	1,781	1,314
Crude Oil	1.3	0.6	0.8	0.4	1,625	1,500
Total	<u>71.0</u>	<u>71.9</u>	<u>69.7</u>	<u>74.2</u>	<u>1,019</u>	<u>969</u>
Intermodal	<u>68.1</u>	<u>54.2</u>	<u>208.1</u>	<u>175.9</u>	<u>327</u>	<u>308</u>
Automotive	<u>37.5</u>	<u>31.1</u>	<u>23.0</u>	<u>20.1</u>	<u>1,630</u>	<u>1,547</u>
Total for Commodity Groups	529.0	470.4	<u>508.1</u>	<u>474.1</u>	<u>\$ 1,041</u>	<u>\$ 992</u>
Other Revenue	<u>18.5</u>	<u>18.2</u>				
Total	<u>\$ 547.5</u>	<u>\$ 488.6</u>				

(i) Effective January 1, 2012, the Company established the Energy commodity group which includes the previous Coal commodity group and certain amounts previously included within the Agriculture & Minerals and Chemicals & Petroleum commodity groups. Prior period amounts have been reclassified to conform to the current year presentation. See page 8 and 9 for the summary of the 2011 quarterly and full year impacts.

Revenue by Commodity - 2011

(in millions)

The following 2011 quarterly and full-year revenue information has been reclassified to conform to the 2012 commodity group presentation. These reclassifications relate to presenting the Energy commodity group, which includes the previous Coal commodity group, and certain amounts previously included in the Agriculture & Minerals and Chemical & Petroleum commodity groups.

	Three Months Ended				Year Ended
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	December 31, 2011
Chemical & Petroleum					
Chemicals	\$ 46.3	\$ 51.5	\$ 50.1	\$ 44.1	\$ 192.0
Petroleum	27.4	29.3	26.5	23.6	106.8
Plastics	22.6	25.0	26.0	23.9	97.5
Total	96.3	105.8	102.6	91.6	396.3
Industrial & Consumer Products					
Forest Products	55.1	56.4	62.5	59.0	233.0
Metals & Scrap	45.2	49.7	54.2	46.2	195.3
Other	18.2	18.9	20.1	18.1	75.3
Total	118.5	125.0	136.8	123.3	503.6
Agriculture & Minerals					
Grain	50.3	59.6	48.2	54.0	212.1
Food Products	34.6	40.5	38.5	36.7	150.3
Ores & Minerals	7.7	6.6	7.5	5.7	27.5
Stone, Clay & Glass	5.8	6.7	6.6	6.6	25.7
Total	98.4	113.4	100.8	103.0	415.6
Energy					
Utility Coal	55.9	58.1	64.6	66.9	245.5
Coal & Petroleum Coke	8.7	9.9	9.8	8.1	36.5
Frac Sand	6.7	8.1	7.3	9.7	31.8
Crude Oil	0.6	1.1	1.1	0.8	3.6
Total	71.9	77.2	82.8	85.5	317.4
Intermodal	54.2	62.0	65.7	69.9	251.8
Automotive	31.1	34.4	36.7	37.0	139.2
Total for Commodity Groups	470.4	517.8	525.4	510.3	2,023.9
Other Revenue	18.2	17.1	19.1	20.0	74.4
Total	\$ 488.6	\$ 534.9	\$ 544.5	\$ 530.3	\$ 2,098.3

Carloads and Units by Commodity - 2011

(in thousands)

The following 2011 quarterly and full-year carloads and units information has been reclassified to conform to the 2012 commodity group presentation. These reclassifications relate to presenting the Energy commodity group, which includes the previous Coal commodity group, and certain amounts previously included in the Agriculture & Minerals and Chemical & Petroleum commodity groups.

	Three Months Ended				Year Ended
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	December 31, 2011
Chemical & Petroleum					
Chemicals	28.7	30.9	29.6	26.3	115.5
Petroleum	18.3	18.9	18.3	16.6	72.1
Plastics	15.6	16.5	16.6	15.8	64.5
Total	62.6	66.3	64.5	58.7	252.1
Industrial & Consumer Products					
Forest Products	32.7	30.8	33.3	32.0	128.8
Metals & Scrap	29.0	28.9	32.5	26.7	117.1
Other	20.4	20.9	21.0	18.4	80.7
Total	82.1	80.6	86.8	77.1	326.6
Agriculture & Minerals					
Grain	30.9	34.7	29.4	33.3	128.3
Food Products	17.2	18.5	17.3	16.8	69.8
Ores & Minerals	7.9	6.6	6.9	5.7	27.1
Stone, Clay & Glass	3.2	3.5	3.6	3.1	13.4
Total	59.2	63.3	57.2	58.9	238.6
Energy					
Utility Coal	58.6	57.4	63.1	66.7	245.8
Coal & Petroleum Coke	10.1	10.9	11.2	10.1	42.3
Frac Sand	5.1	5.5	5.0	5.7	21.3
Crude Oil	0.4	0.7	0.8	0.7	2.6
Total	74.2	74.5	80.1	83.2	312.0
Intermodal	175.9	194.6	208.0	220.3	798.8
Automotive	20.1	20.5	21.4	23.6	85.6
Total for Commodity Groups	474.1	499.8	518.0	521.8	2,013.7

Productivity Statistics

	Three Months Ended	
	March 31,	
	2012	2011
Operating/Performance Statistics		
Gross Ton Miles (GTM) (in millions) (a)	22,018	20,847
Average Employees - Total	6,089	6,080
Average Employees - Union	4,690	4,679
GTM's per Average Employee (in millions)	3.62	3.43
Operating Ratio	71.2%	73.8%
Locomotive Fuel Statistics		
Locomotive fuel consumed in gallons (in millions)	31.1	30.2
Average price per gallon	\$2.84	\$2.63
AAR Reported Performance Measures		
Average train speed (miles per hour)	27.6	27.2
Average terminal dwell times (hours)	20.0	18.0
Revenue Ton Miles (in Millions)		
Chemical & Petroleum	1,888	1,766
Industrial & Consumer Products	2,415	2,200
Agriculture & Minerals	3,249	3,084
Energy	2,763	3,090
Intermodal	967	828
Automotive	253	166
Total	11,535	11,134

(a) - Excludes Locomotive Gross Ton Miles

Capital Expenditures

(in millions)

	Three Months Ended	
	March 31,	
	2012	2011
Roadway capital program	\$ 59.5	\$ 59.4
Capacity	4.0	0.1
Equipment	4.9	1.0
Information technology	1.5	1.0
Other	4.5	13.8
Total capital expenditures (accrual basis)	74.4	75.3
Change in capital accruals	25.0	19.9
Total cash capital expenditures	\$ 99.4	\$ 95.2
Track Renewal		
Track miles of rail installed	22.9	37.0
Cross ties installed (thousands)	139	204

Debt Summary

(in millions)

	Expiration Date	Interest Rate	March 31, 2012	December 31, 2011
KCSR Revolver	7/15/2016	Floating	\$ —	\$ 50.0
KCSM Revolver	9/30/2016	Floating	—	—
KCSR Term Loan	1/15/2017	Floating	292.5	296.3
KCSR Term Loan A-2	1/15/2017	Floating	172.8	—
Total Bank Facilities			<u>465.3</u>	<u>346.3</u>
KCSR Senior Notes	6/1/2015	8.000%	100.3	275.0
KCSM Senior Notes	4/1/2016	12.500%	94.4	94.3
KCSM Senior Notes	2/1/2018	8.000%	296.6	296.5
KCSM Senior Notes	12/15/2020	6.625%	185.0	185.0
KCSM Senior Notes	6/15/2021	6.125%	200.0	200.0
Total Unsecured Senior Notes			<u>876.3</u>	<u>1,050.8</u>
KCSM GE Loan Agreement (Operating lease buyout)	12/15/2020	9.311%	86.6	88.1
KCSM Loan and Security Agreement	2/28/2023	5.737%	50.7	52.8
KCSM Loan Agreement	9/29/2023	6.195%	40.0	40.9
Tex Mex RRIF Loan	7/13/2030	4.290%	42.1	42.5
KCSR RRIF Loan	2/24/2037	2.960%	54.6	—
Capital Leases	Various	Various	12.1	13.2
Other	Various	Various	4.2	4.5
Total Debt			<u>\$ 1,631.9</u>	<u>\$ 1,639.1</u>

Free Cash Flow*

(in millions)

	Three Months Ended	
	March 31,	
	2012	2011
Net cash provided by operating activities	\$ 139.5	\$ 117.1
Cash used for capital expenditures	(99.4)	(95.2)
Other investing activities, net	(1.7)	2.4
Preferred stock dividends paid	(0.1)	(2.8)
Free cash flow after dividends paid	<u>\$ 38.3</u>	<u>\$ 21.5</u>

* All reconciliations to GAAP can be found on page 13.

Credit Ratings and Statistics

Credit ratings are subject to change at any point in time. These ratings were applicable as of March 31, 2012.

	<u>S&P</u>	<u>Moody's</u>
KCS		
Outlook	Positive	Stable
Corporate	BB+	Ba1
KCSR		
Outlook	Positive	Stable
Senior Secured	BBB	Baa3
Senior Unsecured	BB+	Ba2
KCSM		
Outlook	Positive	Stable
Senior Secured	BBB-	Ba1
Senior Unsecured	BB+	Ba2
Corporate	N/A	Ba2
	March 31,	December 31,
	2012	2011
Debt/Capitalization Ratio (Total Debt/Total Debt + Equity)	<u>34.3%</u>	<u>34.9%</u>

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.

	Three Months Ended	
	March 31,	
Reconciliation of Free Cash Flow to Net Increase in Cash and Cash Equivalents:	2012	2011
Net cash provided by operating activities	\$ 139.5	\$ 117.1
Net cash used for investing activities	(101.1)	(92.8)
Preferred stock dividends paid	(0.1)	(2.8)
Free cash flow - see (a) below	38.3	21.5
Proceeds from issuance of long-term debt	229.6	—
Repayment of long-term debt	(237.0)	(5.8)
Other financing activities	(1.5)	0.4
GAAP net increase in cash and cash equivalents	<u>\$ 29.4</u>	<u>\$ 16.1</u>

(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.