



Kansas City Southern

Consolidated Investors' Report First Quarter 2014

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, 2013 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 Record First Quarter Revenues and Carloads

First Quarter 2014 Results

- Record revenues of \$607 million, an increase of 10% over first quarter 2013 on a 4% increase in carloads.
- Operating income of \$160 million. Excluding lease termination costs, adjusted operating income of \$190 million, 17% higher than a year ago.
- Operating ratio of 73.7%. Excluding lease termination costs, adjusted operating ratio of 68.7%, a 1.8 point improvement over first quarter 2013.
- Diluted earnings per share of \$0.85. Adjusted diluted earnings per share of \$1.05 for first quarter 2014, an 18% increase over first quarter 2013.

Kansas City, MO., April 16, 2014. Kansas City Southern (KCS) (NYSE:KSU) reported first quarter 2014 revenues of \$607 million. Overall, carload volumes were 4% higher than in first quarter 2013.

First quarter revenue growth compared to 2013 was led by a 40% increase in Agriculture and Minerals, primarily due to an increase in grain volumes, after 2013 grain volumes were adversely affected by the severe drought conditions experienced in the Midwest region of the United States during 2012. Revenue from Intermodal and Automotive also grew by 10% and 7%, respectively. Chemical & Petroleum and Industrial & Consumer revenue each grew by 3%, and Energy revenue grew by 2%, compared to first quarter 2013.

After adjusting for lease termination costs, operating expenses in the first quarter were \$418 million, 7% higher than 2013 operating expenses. Adjusted operating income for the first quarter of 2014 was \$190 million compared with \$163 million a year ago, a 17% increase. KCS reported a first quarter 2014 adjusted operating ratio of 68.7%, a 1.8 point improvement from first quarter 2013.

Reported net income in the first quarter of 2014 totaled \$94 million, or \$0.85 per diluted share, compared with \$104 million, or \$0.94 per diluted share, in the first quarter of 2013. Excluding the impacts of lease termination costs, foreign exchange rate fluctuations and debt retirement costs, adjusted diluted earnings per share for first quarter 2014 was \$1.05, compared with \$0.89 in the first quarter of 2013, an 18% increase.

“We are pleased with how our company performed during the first quarter,” stated Kansas City Southern’s President and Chief Executive Officer David L. Starling. “All six commodity groups reported year-over-year revenue gains led by Agriculture & Minerals, which increased 40% over the prior year. Later in the first quarter, KCS also recorded higher than expected utility coal volumes and revenues as a result of higher natural gas prices, which made coal a more competitive option benefitting certain plants we serve.

“While it is still early in the second quarter, KCS business levels have improved in April. The indication that our core business appears to be gaining strength provides us with positive momentum towards achieving the 2014 goals we outlined to investors in January.”

GAAP Reconciliations

(\$ in millions, except per share amounts)

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

| | Three Months Ended March 31, 2014 | | | |
|--|-------------------------------------|-----------------------|-----------------|----------------------------------|
| | Income Before Income Taxes | Income Tax Expense | Net Income | Diluted Earnings per Share |
| As reported | \$ 143.0 | \$ 49.0 | \$ 94.0 | \$ 0.85 |
| Adjustments for: | | | | |
| Lease termination costs | 29.9 | 10.1 | 19.8 | 0.18 |
| Debt retirement costs | 6.6 | 2.2 | 4.4 | 0.04 |
| Foreign exchange gain | (3.1) | (0.9) | (2.2) | (0.02) |
| Foreign exchange component of income taxes | — | (0.2) | 0.2 | — |
| Adjusted | <u>\$ 176.4</u> | <u>\$ 60.2</u> | 116.2 | |
| Less: Noncontrolling interest | (i) | (ii) | 0.3 | |
| Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below | | | <u>\$ 115.9</u> | <u>\$ 1.05</u> |
| Adjusted effective income tax rate - see (a) below | | | <u>34.1%</u> | |
| | | | (ii)/(i) | |

| | Three Months Ended March 31, 2013 | | | |
|--|-------------------------------------|-----------------------|----------------|----------------------------------|
| | Income Before Income Taxes | Income Tax Expense | Net Income | Diluted Earnings per Share |
| As reported | \$ 158.5 | \$ 54.3 | \$ 104.2 | \$ 0.94 |
| Adjustments for: | | | | |
| Foreign exchange gain | (13.5) | (4.0) | (9.5) | (0.08) |
| Foreign exchange component of income taxes | — | (3.6) | 3.6 | 0.03 |
| Adjusted | <u>\$ 145.0</u> | <u>\$ 46.7</u> | 98.3 | |
| Less: Noncontrolling interest | (i) | (ii) | 0.4 | |
| Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below | | | <u>\$ 97.9</u> | <u>\$ 0.89</u> |
| Adjusted effective income tax rate - see (a) below | | | <u>32.2%</u> | |
| | | | (ii)/(i) | |

GAAP Reconciliations (continued)

(\$ in millions)

| Reconciliation of Operating Expenses to Adjusted Operating Expenses | Three Months Ended | |
|---|--------------------|-----------------|
| | March 31, | |
| | 2014 | 2013 |
| Operating expenses as reported | \$ 447.4 | \$ 389.9 |
| Adjustment for lease termination costs | (29.9) | — |
| Adjusted operating expenses - see (b) below | <u>\$ 417.5</u> | <u>\$ 389.9</u> |
| Operating income as reported | \$ 160.0 | \$ 162.9 |
| Adjusted operating income - see (b) below | 189.9 | 162.9 |
| Operating ratio (c) as reported | 73.7% | 70.5% |
| Adjusted operating ratio - see (b) and (c) below | 68.7% | 70.5% |

- (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.
- (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.

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, 2013 (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 | |
|--|--------------------|----------|
| | March 31, | |
| | 2014 | 2013 |
| Revenues | \$ 607.4 | \$ 552.8 |
| Operating expenses: | | |
| Compensation and benefits | 110.6 | 106.9 |
| Purchased services | 55.2 | 52.3 |
| Fuel | 103.9 | 90.9 |
| Equipment costs | 31.7 | 41.9 |
| Depreciation and amortization | 61.9 | 53.1 |
| Materials and other | 54.2 | 44.8 |
| Lease termination costs | 29.9 | — |
| Total operating expenses | 447.4 | 389.9 |
| Operating income | 160.0 | 162.9 |
| Equity in net earnings of unconsolidated affiliates | 5.7 | 5.5 |
| Interest expense | (18.7) | (23.7) |
| Debt retirement costs | (6.6) | — |
| Foreign exchange gain | 3.1 | 13.5 |
| Other income (expense), net | (0.5) | 0.3 |
| Income before income taxes | 143.0 | 158.5 |
| Income tax expense | 49.0 | 54.3 |
| Net income | 94.0 | 104.2 |
| Less: Net income attributable to noncontrolling interest | 0.3 | 0.4 |
| Net income attributable to Kansas City Southern and subsidiaries | 93.7 | 103.8 |
| Preferred stock dividends | 0.1 | 0.1 |
| Net income available to common stockholders | \$ 93.6 | \$ 103.7 |
| Earnings per share: | | |
| Basic earnings per share | \$ 0.85 | \$ 0.94 |
| Diluted earnings per share | \$ 0.85 | \$ 0.94 |
| Average shares outstanding (<i>in thousands</i>): | | |
| Basic | 110,086 | 109,907 |
| Potentially dilutive common shares | 317 | 358 |
| Diluted | 110,403 | 110,265 |

Balance Sheet Information

(in millions)

(Unaudited)

| | <u>March 31, 2014</u> | <u>December 31, 2013</u> |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 167.5 | \$ 429.5 |
| Accounts receivable, net | 195.6 | 198.3 |
| Materials and supplies | 131.8 | 121.3 |
| Deferred income taxes | 125.6 | 131.6 |
| Other current assets | 71.2 | 61.7 |
| Total current assets | <u>691.7</u> | <u>942.4</u> |
| Investments | 40.8 | 41.1 |
| Restricted funds | — | 4.2 |
| Property and equipment (including concession assets), net | 6,540.9 | 6,356.3 |
| Other assets | 87.6 | 91.4 |
| Total assets | <u><u>\$ 7,361.0</u></u> | <u><u>\$ 7,435.4</u></u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Debt due within one year | \$ 24.9 | \$ 332.0 |
| Commercial paper | 175.0 | — |
| Accounts payable and accrued liabilities | 374.4 | 398.6 |
| Total current liabilities | <u>574.3</u> | <u>730.6</u> |
| Long-term debt | 1,857.3 | 1,856.9 |
| Deferred income taxes | 1,067.4 | 1,044.6 |
| Other noncurrent liabilities and deferred credits | 122.7 | 126.7 |
| Total liabilities | <u>3,621.7</u> | <u>3,758.8</u> |
| Commitments and contingencies | — | — |
| Stockholders' equity | 7.2 | 7.2 |
| Paid-in capital | 942.2 | 942.5 |
| Retained earnings | 2,485.6 | 2,422.9 |
| Accumulated other comprehensive loss | (2.0) | (2.0) |
| Total stockholders' equity | <u>3,433.0</u> | <u>3,370.6</u> |
| Noncontrolling interest | 306.3 | 306.0 |
| Total equity | <u>3,739.3</u> | <u>3,676.6</u> |
| Total liabilities and equity | <u><u>\$ 7,361.0</u></u> | <u><u>\$ 7,435.4</u></u> |

Cash Flow Information

(in millions)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2014 | 2013 |
| Operating activities: | | |
| Net income | \$ 94.0 | \$ 104.2 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 61.9 | 53.1 |
| Deferred income taxes | 25.6 | 22.1 |
| Equity in net earnings of unconsolidated affiliates | (5.7) | (5.5) |
| Share-based compensation | 1.5 | 4.6 |
| Excess tax benefit from share-based compensation | (2.4) | (2.9) |
| Distribution from unconsolidated affiliates | 8.0 | — |
| Debt retirement costs | 6.6 | — |
| Changes in working capital items: | | |
| Accounts receivable | 4.2 | (18.7) |
| Materials and supplies | (10.6) | (13.1) |
| Other current assets | (8.8) | 5.2 |
| Accounts payable and accrued liabilities | (27.1) | (25.4) |
| Other, net | (3.9) | 2.0 |
| Net cash provided by operating activities | 143.3 | 125.6 |
| Investing activities: | | |
| Capital expenditures | (98.0) | (112.7) |
| Purchase or replacement of equipment under operating leases | (128.0) | — |
| Property investments in MSLLC | (19.6) | (12.9) |
| Proceeds from disposal of property | 1.4 | 2.9 |
| Other, net | 4.3 | (0.1) |
| Net cash used for investing activities | (239.9) | (122.8) |
| Financing activities: | | |
| Proceeds from commercial paper | 864.6 | — |
| Repayment of commercial paper | (689.8) | — |
| Proceeds from issuance of long-term debt | 175.0 | — |
| Repayment of long-term debt | (490.4) | (14.5) |
| Dividends paid | (23.8) | — |
| Debt costs | (3.6) | (0.5) |
| Excess tax benefit from share-based compensation | 2.4 | 2.9 |
| Proceeds from employee stock plans | 0.2 | 0.4 |
| Net cash used for financing activities | (165.4) | (11.7) |
| Cash and cash equivalents: | | |
| Net decrease during each period | (262.0) | (8.9) |
| At beginning of year | 429.5 | 72.6 |
| At end of period | \$ 167.5 | \$ 63.7 |

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, | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Chemical & Petroleum | | | | | | |
| Chemicals | \$ 49.9 | \$ 49.9 | 26.6 | 27.2 | \$ 1,876 | \$ 1,835 |
| Petroleum | 28.8 | 27.1 | 16.4 | 17.1 | 1,756 | 1,585 |
| Plastics | 26.5 | 25.4 | 14.8 | 15.2 | 1,791 | 1,671 |
| Total | <u>105.2</u> | <u>102.4</u> | <u>57.8</u> | <u>59.5</u> | <u>1,820</u> | <u>1,721</u> |
| Industrial & Consumer Products | | | | | | |
| Forest Products | 65.4 | 64.8 | 31.4 | 32.0 | 2,083 | 2,025 |
| Metals & Scrap | 65.9 | 61.6 | 34.0 | 33.9 | 1,938 | 1,817 |
| Other | 17.8 | 17.8 | 18.2 | 19.4 | 978 | 918 |
| Total | <u>149.1</u> | <u>144.2</u> | <u>83.6</u> | <u>85.3</u> | <u>1,783</u> | <u>1,691</u> |
| Agriculture & Minerals | | | | | | |
| Grain | 66.1 | 39.0 | 35.3 | 24.6 | 1,873 | 1,585 |
| Food Products | 35.2 | 30.5 | 14.9 | 13.4 | 2,362 | 2,276 |
| Ores & Minerals | 5.1 | 5.3 | 5.2 | 5.3 | 981 | 1,000 |
| Stone, Clay & Glass | 7.0 | 6.2 | 3.3 | 3.1 | 2,121 | 2,000 |
| Total | <u>113.4</u> | <u>81.0</u> | <u>58.7</u> | <u>46.4</u> | <u>1,932</u> | <u>1,746</u> |
| Energy | | | | | | |
| Utility Coal | 48.8 | 46.8 | 48.0 | 47.4 | 1,017 | 987 |
| Coal & Petroleum Coke | 9.8 | 9.6 | 14.1 | 13.7 | 695 | 701 |
| Frac Sand | 16.4 | 13.8 | 8.2 | 6.8 | 2,000 | 2,029 |
| Crude Oil | 3.2 | 6.1 | 2.0 | 3.1 | 1,600 | 1,968 |
| Total | <u>78.2</u> | <u>76.3</u> | <u>72.3</u> | <u>71.0</u> | <u>1,082</u> | <u>1,075</u> |
| Intermodal | <u>88.0</u> | <u>79.8</u> | <u>234.2</u> | <u>227.1</u> | <u>376</u> | <u>351</u> |
| Automotive | <u>52.4</u> | <u>49.1</u> | <u>28.7</u> | <u>27.1</u> | <u>1,826</u> | <u>1,812</u> |
| Total for Commodity Groups | 586.3 | 532.8 | <u>535.3</u> | <u>516.4</u> | <u>\$ 1,095</u> | <u>\$ 1,032</u> |
| Other Revenue | <u>21.1</u> | <u>20.0</u> | | | | |
| Total | <u>\$ 607.4</u> | <u>\$ 552.8</u> | | | | |

Productivity Statistics

| | Three Months Ended | |
|---|---------------------------|---------------|
| | March 31, | |
| | 2014 | 2013 |
| Gross Ton Miles (GTM) (in millions) (a) | 23,891 | 21,113 |
| Average Employees - Total | 6,259 | 6,147 |
| Average Employees - Union | 4,795 | 4,707 |
| GTM's per Average Employee (in millions) | 3.82 | 3.43 |
| Operating Ratio | 73.7% | 70.5% |
| Adjusted Operating Ratio * | 68.7% | 70.5% |
| Locomotive Fuel Statistics | | |
| Locomotive fuel consumed in gallons (in millions) | 33.5 | 30.1 |
| Average price per gallon | \$3.10 | \$3.02 |
| AAR Reported Performance Measures | | |
| Average train speed (miles per hour) | 27.5 | 28.6 |
| Average terminal dwell times (hours) | 19.3 | 18.3 |
| Revenue Ton Miles (in Millions) | | |
| Chemical & Petroleum | 1,697 | 1,693 |
| Industrial & Consumer Products | 2,726 | 2,480 |
| Agriculture & Minerals | 3,433 | 2,179 |
| Energy | 3,070 | 2,808 |
| Intermodal | 1,198 | 1,074 |
| Automotive | 382 | 348 |
| Total | <u>12,506</u> | <u>10,582</u> |

(a) Excludes Locomotive Gross Ton Miles

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

Capital Expenditures

(in millions)

| | Three Months Ended | |
|---|--------------------|-----------------|
| | March 31, | |
| | 2014 | 2013 |
| Roadway capital program | \$ 49.0 | \$ 59.5 |
| Locomotives and freight cars | 30.1 | 32.2 |
| Capacity | 5.8 | 7.6 |
| Information technology | 3.1 | 2.3 |
| Other | 2.3 | 1.4 |
| Total capital expenditures (accrual basis) | <u>90.3</u> | <u>103.0</u> |
| Change in capital accruals | 7.7 | 9.7 |
| Total cash capital expenditures | <u>\$ 98.0</u> | <u>\$ 112.7</u> |
| | | |
| Purchase or replacement of equipment under operating leases (accrual basis) | \$ 126.6 | \$ — |
| Change in capital accruals | 1.4 | — |
| Total cash purchase or replacement of equipment under operating leases | <u>\$ 128.0</u> | <u>\$ —</u> |
| | | |
| Track Renewal | | |
| Track miles of rail installed | <u>32</u> | <u>27</u> |
| Cross ties installed (thousands) | <u>146</u> | <u>155</u> |

Free Cash Flow*

(in millions)

| | Three Months Ended | |
|---|--------------------|---------------|
| | March 31, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 143.3 | \$ 125.6 |
| Cash used for capital expenditures | (98.0) | (112.7) |
| Other investing activities, net | (141.9) | (10.1) |
| Purchase or replacement of equipment under operating leases | 128.0 | — |
| Dividends paid | (23.8) | — |
| Free cash flow | <u>\$ 7.6</u> | <u>\$ 2.8</u> |

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

Debt Summary

(in millions)

| | Expiration Date | Interest Rate | March 31, 2014 | December 31, 2013 |
|-------------------------------------|-----------------|---------------|-------------------|-------------------|
| KCSR Revolver | 11/15/2017 | Floating | \$ — | \$ — |
| KCSM Revolver | 11/15/2017 | Floating | — | — |
| KCSR Term Loan | 5/15/2018 | Floating | — | — |
| KCSR Term Loan A-2 | 5/15/2018 | Floating | — | 245.3 |
| Total Bank Facilities | | | <u>—</u> | <u>245.3</u> |
| KCSM Senior Notes | 10/28/2016 | Variable | 250.0 | 250.0 |
| KCSM Senior Notes | 2/1/2018 | 8.000% | — | 62.3 |
| KCSM Senior Notes | 5/15/2020 | 2.350% | 274.7 | 274.7 |
| KCSM Senior Notes | 5/15/2023 | 3.000% | 448.3 | 448.2 |
| KCSR Senior Notes | 11/15/2023 | 3.850% | 199.7 | 199.7 |
| KCSR Senior Notes | 5/15/2043 | 4.300% | 445.9 | 445.9 |
| Total Unsecured Senior Notes | | | <u>1,618.6</u> | <u>1,680.8</u> |
| KCSM GE Loan Agreement | 12/15/2020 | 9.311% | 72.7 | 74.6 |
| KCSM Loan and Security Agreement | 2/28/2023 | 5.737% | 41.5 | 43.8 |
| KCSM Loan Agreement | 9/29/2023 | 6.195% | 33.1 | 33.9 |
| Tex Mex RRIF Loan | 7/13/2030 | 4.290% | 39.0 | 39.4 |
| KCSR RRIF Loan | 2/24/2037 | 2.960% | 51.6 | 52.0 |
| Capital Leases | Various | Various | 24.2 | 17.2 |
| Other | Various | Various | 1.5 | 1.9 |
| Total Debt | | | <u>\$ 1,882.2</u> | <u>\$ 2,188.9</u> |

Commercial Paper Summary

(in millions)

| | Expiration Date | Weighted-Average Interest Rate | March 31, 2014 | December 31, 2013 |
|-------------------------------|-----------------|--------------------------------|-----------------|-------------------|
| KCSR Commercial Paper | Various | 0.691% | \$ 175.0 | \$ — |
| KCSM Commercial Paper | Various | Variable | — | — |
| Total Commercial Paper | | | <u>\$ 175.0</u> | <u>\$ —</u> |

Credit Ratings

Credit ratings are subject to change at any point in time. These ratings were applicable as of March 31, 2014.

| | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> |
|-----------------------------|----------------|----------------|--------------|
| KCS | | | |
| Outlook | Stable | Stable | Stable |
| Corporate | BBB- | NR | BBB- |
| Short-Term Corporate Credit | A-3 | NR | F3 |
| KCSR | | | |
| Outlook | Stable | Stable | Stable |
| Senior Unsecured | BBB- | Baa3 | BBB- |
| Commercial Paper | A-3 | P-3 | F3 |
| KCSM | | | |
| Outlook | Stable | Stable | Stable |
| Corporate | BBB- | NR | BBB- |
| Senior Unsecured | BBB- | Baa3 | BBB- |
| Commercial Paper | A-3 | P-3 | F3 |

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 Decrease in Cash and Cash Equivalents:

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 143.3 | \$ 125.6 |
| Net cash used for investing activities | (239.9) | (122.8) |
| Purchase of equipment under operating leases | 128.0 | — |
| Dividends paid | (23.8) | — |
| Free cash flow - see (a) below | 7.6 | 2.8 |
| Proceeds from commercial paper | 864.6 | — |
| Repayment of commercial paper | (689.8) | — |
| Proceeds from issuance of long-term debt | 175.0 | — |
| Repayment of long-term debt | (490.4) | (14.5) |
| Purchase of equipment under operating leases | (128.0) | — |
| Other financing activities | (1.0) | 2.8 |
| GAAP net decrease in cash and cash equivalents | \$ (262.0) | \$ (8.9) |

Non-GAAP Financial Information (Regulation G) - (Continued)

Reconciliation of Operating Expenses to Adjusted

Operating Expenses:

| | Three Months Ended | |
|--|--------------------|-----------------|
| | March 31, | |
| | 2014 | 2013 |
| Operating expenses as reported | \$ 447.4 | \$ 389.9 |
| Adjustment for lease termination costs | (29.9) | — |
| Adjusted operating expenses - see (b) below | <u>\$ 417.5</u> | <u>\$ 389.9</u> |
| Operating income as reported | \$ 160.0 | \$ 162.9 |
| Adjusted operating income - see (b) below | 189.9 | 162.9 |
| Operating ratio (c) as reported | 73.7% | 70.5% |
| Adjusted operating ratio - see (b) and (c) below | 68.7% | 70.5% |

- (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.