



Kansas City Southern

Consolidated Investors' Report Fourth 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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For additional information, please contact Investor Relations:

Ashley Thorne, Director Investor Relations
816-983-1501
athorne@kcsouthern.com

Bill Galligan, VP Investor Relations
816-983-1551
bgalligan@kcsouthern.com

Kansas City Southern
PO Box 219335
Kansas City, MO 64121-9335

www.kcsouthern.com

Fourth Quarter Press Release

NEWS RELEASE



P.O. BOX 219335
KANSAS CITY, MISSOURI 64121-9335

NYSE SYMBOL: KSU
WWW.KCSOUTHERN.COM

Media Contact: William H. Galligan
bgalligan@kcsouthern.com

Phone: 816/983-1551

Kansas City Southern Reports Record Fourth Quarter and Full-Year 2012 Revenues, Carloads and Operating Income

Fourth Quarter 2012 Results

- Revenue of \$568 million, an increase of 7% over fourth quarter 2011.
- Operating income of \$174 million, 15% higher than a year ago.
- Operating ratio of 69.5%, compared with 71.6% in fourth quarter 2011.
- Diluted earnings per share for fourth quarter 2012 was \$0.83. Adjusted diluted earnings per share was \$0.92 for fourth quarter 2012.

Kansas City, MO, January 22, 2013. Kansas City, MO. Kansas City Southern (KCS) (NYSE:KSU) reported record fourth quarter 2012 revenues of \$568 million. Fourth quarter carloads of 532 thousand, also a record, increased 2% over fourth quarter 2011.

Compared to 2011, fourth quarter revenue growth was led by a 33% increase in Automotive revenue and 14% increases in Chemical & Petroleum and Intermodal revenue. Industrial & Consumer Products was also strong with revenues growing by 11% in the fourth quarter of 2012. Energy and Agriculture & Minerals revenues declined by 1% and 11%, respectively.

Operating income for the fourth quarter of 2012 was \$174 million compared with \$150 million a year ago, a 15% increase. KCS reported a fourth quarter 2012 operating ratio of 69.5%, a 2.1 point improvement from fourth quarter 2011. Operating expenses in the fourth quarter were \$395 million compared with \$380 million in the corresponding 2011 period, a 4% increase.

Reported net income in the fourth quarter of 2012 totaled \$92 million, or \$0.83 per diluted share, compared with \$96 million, or \$0.87 per diluted share, in the fourth quarter of 2011. Excluding debt retirement costs and the impacts of foreign exchange rate fluctuations, adjusted diluted earnings per share for fourth quarter 2012 was \$0.92 compared to \$0.77 in 2011.

For the full year of 2012, revenue was a record \$2.2 billion, up 7% over 2011. Carloads for 2012 were 2.1 million, an increase of 5% over the prior year.

Full-year operating income was \$716 million, a 17% increase over the prior year, and the Company's 2012 operating ratio was 68.0% compared with 70.9% in 2011. Excluding one-time benefits from the elimination of a net deferred liability in 2012 and insurance recoveries in 2011, full-year 2012 adjusted operating income was \$673 million, an increase of 15% over prior year's adjusted operating income. The 2012 full-year adjusted operating ratio was 69.9%, a 2.2 point improvement over the prior year's adjusted operating ratio.

"It is to the credit of the entire KCS team that the Company successfully navigated its way through a host of challenging economic and climatic issues to make 2012 one of the best years in its 125-year history," stated David L. Starling, KCS president and chief executive officer.

"Despite the impact on our coal franchise of an unseasonably warm winter and low natural gas prices, the effect on our grain carloadings of one of the most severe droughts in U.S. history and finally, the dampening effect on overall economic activity late in the year due to fiscal cliff concerns, KCS achieved record carloadings and revenues in 2012. This success is due in large part to the

balanced and diverse mix of commodities that KCS transports and the ability of employees at every level of the company to react quickly and effectively to opportunities in the transportation marketplace.

“KCS reported a fourth quarter 2012 operating ratio of 69.5% compared to 71.6% in the fourth quarter of 2011. For the full year, KCS' adjusted operating ratio was 69.9%, a 2.2 point improvement to the full year 2011 adjusted operating ratio of 72.1%.

“In addition, KCS met the top-line guidance targets for full-year 2012 of mid-single digit growth in volume, revenues and pricing that were outlined in July. With a host of new facilities that KCS will serve coming on-line in the second half of 2013 and in 2014, coupled with expanded business opportunities throughout all commodity groups, we believe in the Company's ability to generate strong revenue growth over both the short and longer term.

“Management remains focused on closely monitoring every aspect of KCS' ongoing operations while also overseeing the expansion of system capacity in order to stay ahead of the sustained growth we anticipate. We are committed to this in order to ensure good service for our customers and to maximize returns to our shareholders.”

GAAP RECONCILIATIONS

(\$ in millions, except per share amounts)

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

	Three Months Ended December 31,	
	2012	2011
Diluted earnings per share	\$ 0.83	\$ 0.87
Adjustment for debt retirement costs	0.01	0.14
Adjustment for foreign exchange loss	0.01	0.01
Adjustment for foreign exchange component of income taxes	0.07	(0.25)
Adjusted diluted earnings per share - see (a) below	<u>\$ 0.92</u>	<u>\$ 0.77</u>

Reconciliation of Operating Expenses to Adjusted Operating Expenses

	Twelve Months Ended December 31,	
	2012	2011
Operating expenses as reported	\$ 1,522.7	\$ 1,486.7
Adjustment for elimination of net deferred liability	43.0	—
Adjustment for gain on insurance recoveries	—	25.6
Adjusted operating expenses - see (b) below	<u>\$ 1,565.7</u>	<u>\$ 1,512.3</u>
Operating income as reported	\$ 715.9	\$ 611.6
Adjusted operating income - see (b) below	672.9	586.0
Operating ratio (c) as reported	68.0%	70.9%
Adjusted operating ratio - see (b) and (c) below	69.9%	72.1%

- 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 the impact of changes in foreign currency exchange rates and items that are not directly related to the ongoing operations of the Company.
- 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.
- 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. 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 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 December 31,		Years Ended December 31,	
	2012	2011	2012	2011
Revenues	\$ 568.4	\$ 530.3	\$ 2,238.6	\$ 2,098.3
Operating expenses:				
Compensation and benefits	107.0	109.7	430.5	423.8
Purchased services	50.5	51.3	219.8	204.8
Fuel	94.9	88.5	359.6	346.5
Equipment costs	42.8	42.8	167.1	172.0
Depreciation and amortization	51.9	47.1	198.8	186.2
Materials and other	47.7	40.5	189.9	179.0
Elimination of deferred statutory profit sharing liability, net	—	—	(43.0)	—
Gain on insurance recoveries related to hurricane damage	—	—	—	(25.6)
Total operating expenses	394.8	379.9	1,522.7	1,486.7
Operating income	173.6	150.4	715.9	611.6
Equity in net earnings of unconsolidated affiliates	4.2	4.6	19.3	18.2
Interest expense	(23.8)	(31.4)	(100.4)	(129.1)
Debt retirement costs	(2.1)	(24.5)	(20.1)	(38.7)
Foreign exchange gain (loss)	(1.4)	(2.3)	2.7	(9.2)
Other income (expense), net	(0.2)	(0.1)	(1.0)	2.2
Income before income taxes	150.3	96.7	616.4	455.0
Income tax expense	57.8	0.7	237.0	123.1
Net income	92.5	96.0	379.4	331.9
Less: Net income attributable to noncontrolling interest	0.7	0.3	2.1	1.6
Net income attributable to Kansas City Southern and subsidiaries	91.8	95.7	377.3	330.3
Preferred stock dividends	—	0.1	0.2	1.6
Net income available to common stockholders	\$ 91.8	\$ 95.6	\$ 377.1	\$ 328.7
Earnings per share:				
Basic earnings per share	\$ 0.84	\$ 0.87	\$ 3.44	\$ 3.04
Diluted earnings per share	\$ 0.83	\$ 0.87	\$ 3.43	\$ 3.00
Average shares outstanding (<i>in thousands</i>):				
Basic	109,793	109,566	109,712	108,208
Potentially dilutive common shares	344	346	368	1,622
Diluted	110,137	109,912	110,080	109,830
Cash dividends declared per common share	\$ 0.195	\$ —	\$ 0.780	\$ —

Balance Sheet Information

(in millions)

(Unaudited)

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72.6	\$ 72.4
Accounts receivable, net	183.6	166.0
Materials and supplies	125.6	109.6
Deferred income taxes	92.1	225.0
Other current assets	48.4	69.5
Total current assets	522.3	642.5
Investments	51.5	50.4
Restricted funds	14.2	21.7
Property and equipment (including concession assets), net	5,684.8	5,321.6
Other assets	123.1	108.9
Total assets	\$ 6,395.9	\$ 6,145.1
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	\$ 60.2	\$ 36.3
Accounts payable and accrued liabilities	364.6	401.1
Total current liabilities	424.8	437.4
Long-term debt	1,547.6	1,602.8
Deferred income taxes	894.2	861.4
Other noncurrent liabilities and deferred credits	128.6	184.8
Total liabilities	2,995.2	3,086.4
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.2
Paid-in capital	925.3	884.2
Retained earnings	2,166.5	1,875.3
Accumulated other comprehensive loss	(2.4)	(2.2)
Total stockholders' equity	3,096.6	2,764.5
Noncontrolling interest	304.1	294.2
Total equity	3,400.7	3,058.7
Total liabilities and equity	\$ 6,395.9	\$ 6,145.1

Cash Flow Information

(in millions)

(Unaudited)

	Years Ended	
	December 31,	
	2012	2011
Operating activities:		
Net income	\$ 379.4	\$ 331.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	198.8	186.2
Deferred income taxes	197.3	120.7
Equity in net earnings of unconsolidated affiliates	(19.3)	(18.2)
Share-based compensation	10.7	8.5
Excess tax benefit from share-based compensation	(31.5)	(0.2)
Deferred compensation	7.3	19.5
Elimination of deferred statutory profit sharing liability	(47.8)	—
Distributions from unconsolidated affiliates	19.8	18.1
Gain on insurance recoveries related to hurricane damage	—	(25.6)
Cash payments related to hurricane damage	—	(3.3)
Insurance proceeds related to hurricane damage	—	40.2
Debt retirement costs	20.1	38.7
Changes in working capital items:		
Accounts receivable	(21.5)	(1.5)
Materials and supplies	(9.3)	(7.2)
Other current assets	(15.1)	(26.8)
Accounts payable and accrued liabilities	(3.0)	(7.5)
Other, net	(12.7)	(35.5)
Net cash provided by operating activities	<u>673.2</u>	<u>638.0</u>
Investing activities:		
Capital expenditures	(540.0)	(495.0)
Property investments in MSLLC	(35.2)	(33.3)
Contributions from noncontrolling interest	7.8	10.0
Insurance proceeds related to hurricane damage	—	12.4
Proceeds from disposal of property	14.7	10.0
Other, net	0.8	(14.5)
Net cash used for investing activities	<u>(551.9)</u>	<u>(510.4)</u>
Financing activities:		
Proceeds from issuance of long-term debt	329.6	550.0
Repayment of long-term debt	(375.9)	(653.3)
Debt costs	(22.1)	(36.6)
Proceeds from employee stock plans	1.9	2.1
Excess tax benefit from share-based compensation	31.5	0.2
Dividends paid	(86.1)	(3.0)
Net cash used for financing activities	<u>(121.1)</u>	<u>(140.6)</u>
Cash and cash equivalents:		
Net increase (decrease) during each period	0.2	(13.0)
At beginning of year	72.4	85.4
At end of year	<u>\$ 72.6</u>	<u>\$ 72.4</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 December 31,		Three Months Ended December 31,		Three Months Ended December 31,	
	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾
Chemical & Petroleum						
Chemicals	\$ 50.7	\$ 44.1	27.7	26.3	\$ 1,830	\$ 1,677
Petroleum	26.6	23.6	17.9	16.6	1,486	1,422
Plastics	26.7	23.9	16.0	15.8	1,669	1,513
Total	<u>104.0</u>	<u>91.6</u>	<u>61.6</u>	<u>58.7</u>	<u>1,688</u>	<u>1,560</u>
Industrial & Consumer Products						
Forest Products	64.0	59.0	31.7	32.0	2,019	1,844
Metals & Scrap	56.2	46.2	31.2	26.7	1,801	1,730
Other	17.1	18.1	19.0	18.4	900	984
Total	<u>137.3</u>	<u>123.3</u>	<u>81.9</u>	<u>77.1</u>	<u>1,676</u>	<u>1,599</u>
Agriculture & Minerals						
Grain	45.9	54.0	27.3	33.3	1,681	1,622
Food Products	35.0	36.7	15.3	16.8	2,288	2,185
Ores & Minerals	5.0	5.7	5.2	5.7	962	1,000
Stone, Clay & Glass	6.0	6.6	3.0	3.1	2,000	2,129
Total	<u>91.9</u>	<u>103.0</u>	<u>50.8</u>	<u>58.9</u>	<u>1,809</u>	<u>1,749</u>
Energy (i)						
Utility Coal	54.1	66.9	51.5	66.7	1,050	1,003
Coal & Petroleum Coke	10.1	8.1	13.2	10.1	765	802
Frac Sand	13.1	9.7	5.9	5.7	2,220	1,702
Crude Oil	7.3	0.8	3.5	0.7	2,086	1,143
Total	<u>84.6</u>	<u>85.5</u>	<u>74.1</u>	<u>83.2</u>	<u>1,142</u>	<u>1,028</u>
Intermodal	<u>80.0</u>	<u>69.9</u>	<u>234.8</u>	<u>220.3</u>	<u>341</u>	<u>317</u>
Automotive	<u>49.1</u>	<u>37.0</u>	<u>28.5</u>	<u>23.6</u>	<u>1,723</u>	<u>1,568</u>
Total for Commodity Groups	<u>546.9</u>	<u>510.3</u>	<u>531.7</u>	<u>521.8</u>	<u>\$ 1,029</u>	<u>\$ 978</u>
Other Revenue	<u>21.5</u>	<u>20.0</u>				
Total	<u>\$ 568.4</u>	<u>\$ 530.3</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.

Revenue Statistics by Commodity - Year to Date

	Revenues (in millions)		Carloads and Units (in thousands)		Revenue per Carload/Unit	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾	2012	2011 ⁽ⁱ⁾
Chemical & Petroleum						
Chemicals	\$ 200.2	\$ 192.0	111.9	115.5	\$ 1,789	\$ 1,662
Petroleum	105.8	106.8	70.7	72.1	1,496	1,481
Plastics	104.3	97.5	64.2	64.5	1,625	1,512
Total	410.3	396.3	246.8	252.1	1,662	1,572
Industrial & Consumer Products						
Forest Products	253.9	233.0	129.1	128.8	1,967	1,809
Metals & Scrap	224.8	195.3	126.7	117.1	1,774	1,668
Other	72.4	75.3	80.3	80.7	902	933
Total	551.1	503.6	336.1	326.6	1,640	1,542
Agriculture & Minerals						
Grain	213.1	212.1	122.8	128.3	1,735	1,653
Food Products	140.0	150.3	61.8	69.8	2,265	2,153
Ores & Minerals	21.6	27.5	21.4	27.1	1,009	1,015
Stone, Clay & Glass	25.8	25.7	12.9	13.4	2,000	1,918
Total	400.5	415.6	218.9	238.6	1,830	1,742
Energy (i)						
Utility Coal	211.0	245.5	211.6	245.8	997	999
Coal & Petroleum Coke	34.6	36.5	46.5	42.3	744	863
Frac Sand	50.8	31.8	25.6	21.3	1,984	1,493
Crude Oil	16.4	3.6	8.7	2.6	1,885	1,385
Total	312.8	317.4	292.4	312.0	1,070	1,017
Intermodal	306.5	251.8	914.2	798.8	335	315
Automotive	174.4	139.2	103.7	85.6	1,682	1,626
Total for Commodity Groups	2,155.6	2,023.9	2,112.1	2,013.7	\$ 1,021	\$ 1,005
Other Revenue	83.0	74.4				
Total	\$ 2,238.6	\$ 2,098.3				

(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.

Productivity Statistics

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Gross Ton Miles (GTM) (in millions) (a)	22,312	22,472	88,510	87,478
Average Employees - Total	6,107	6,124	6,093	6,104
Average Employees - Union	4,680	4,737	4,684	4,711
GTM's per Average Employee (in millions)	3.65	3.67	14.53	14.33
Operating Ratio	69.5%	71.6%	68.0%	70.9%
Adjusted Operating Ratio *	69.5%	71.6%	69.9%	72.1%
Locomotive Fuel Statistics				
Locomotive fuel consumed in gallons (in millions)	31.7	32.2	125.9	125.4
Average price per gallon	\$2.99	\$2.75	\$2.86	\$2.76
AAR Reported Performance Measures				
Average train speed (miles per hour)	28.2	27.4	27.6	27.0
Average terminal dwell times (hours)	18.9	19.1	19.0	18.4
Revenue Ton Miles (in Millions)				
Chemical & Petroleum	1,780	1,639	7,212	7,098
Industrial & Consumer Products	2,470	2,230	9,731	9,032
Agriculture & Minerals	2,442	2,977	11,151	12,174
Energy	3,196	3,501	11,955	13,044
Intermodal	1,059	997	4,140	3,712
Automotive	357	267	1,232	924
Total	11,304	11,611	45,421	45,984

(a) Excludes Locomotive Gross Ton Miles

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

Capital Expenditures

(in millions)

	Years Ended	
	December 31,	
	2012	2011
Roadway capital program	\$ 293.7	\$ 273.8
Locomotive acquisitions	71.1	173.7
Equipment (i)	67.6	15.7
Capacity	51.4	25.7
Information technology	8.6	14.3
Other	30.3	87.5
Total capital expenditures (accrual basis)	<u>522.7</u>	<u>590.7</u>
Locomotives financed under operating lease buyout	—	(91.1)
Change in capital accruals	17.3	(4.6)
Total cash capital expenditures	<u>\$ 540.0</u>	<u>\$ 495.0</u>

- (i) In the second quarter of 2012, KCSR paid \$19.6 million to purchase 315 jumbo covered hoppers that were previously leased under an operating lease.

Track Renewal

Track miles of rail installed	<u>133</u>	<u>125</u>
Cross ties installed (thousands)	<u>997</u>	<u>778</u>

Debt Summary

(in millions)

	Expiration Date	Interest Rate	December 31, 2012	December 31, 2011
KCSR Revolver	11/15/2017	Floating	\$ —	\$ 50.0
KCSM Revolver	11/15/2017	Floating	—	—
KCSR Term Loan	5/15/2018	Floating	281.3	296.3
KCSR Term Loan A-2	5/15/2018	Floating	262.5	—
Total Bank Facilities			<u>543.8</u>	<u>346.3</u>
KCSR Senior Notes	6/1/2015	8.000%	—	275.0
KCSM Senior Notes	4/1/2016	12.500%	95.0	94.3
KCSM Senior Notes	2/1/2018	8.000%	296.9	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>776.9</u>	<u>1,050.8</u>
KCSM GE Loan Agreement (Operating lease buyout)	12/15/2020	9.311%	81.7	88.1
KCSM Loan and Security Agreement	2/28/2023	5.737%	48.4	52.8
KCSM Loan Agreement	9/29/2023	6.195%	37.4	40.9
Tex Mex RRIF Loan	7/13/2030	4.290%	41.0	42.5
KCSR RRIF Loan	2/24/2037	2.960%	53.5	—
Capital Leases	Various	Various	21.9	13.2
Other	Various	Various	3.2	4.5
Total Debt			<u>\$ 1,607.8</u>	<u>\$ 1,639.1</u>

Free Cash Flow*

(in millions)

	Years Ended December 31,	
	2012	2011
Net cash provided by operating activities	\$ 673.2	\$ 638.0
Cash used for capital expenditures	(540.0)	(495.0)
Capital expenditures directly financed by third party	—	50.0
Other investing activities, net	(11.9)	(15.4)
Dividends paid	(86.1)	(3.0)
Free cash flow	<u>\$ 35.2</u>	<u>\$ 174.6</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 December 31, 2012.

	S&P		Moody's		Fitch
KCS					
Outlook	Positive		Stable		Stable
Corporate	BB+		NR		BBB-
KCSR					
Outlook	Positive		Stable		Stable
Senior Secured (i)	NR		NR		NR
Senior Unsecured	BB+	(ii)	Baa3		BBB-
KCSM					
Outlook	Positive		Stable		Stable
Corporate	BB+		Ba1		BBB-
Senior Secured	BBB-		Baa3		NR
Senior Unsecured	BB+		Ba1		BBB-

NR = Not Rated

- (i) In the 4th 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; as a result, the rating agencies no longer publish a Senior Secured rating for KCSR.
- (ii) Upon the conversion of the KCSR credit facilities from secured to unsecured, S&P assigned a senior-unsecured BBB-issue-level rating to those facilities. This rating was specific to those credit facilities based on the terms and conditions thereof; KCSR's overall senior unsecured rating did not change.

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.

	Years Ended			
	December 31,			
	2012	2011	2012	2011
Reconciliation of Free Cash Flow to Net Increase (Decrease) in Cash and Cash Equivalents:				
Net cash provided by operating activities	\$ 673.2	\$ 638.0		
Net cash used for investing activities	(551.9)	(510.4)		
Capital expenditures directly financed by third party	—	50.0		
Dividends paid	(86.1)	(3.0)		
Free cash flow - see (a) below	35.2	174.6		
Proceeds from issuance of long-term debt	329.6	550.0		
Debt proceeds directly related to capital expenditures	—	(50.0)		
Repayment of long-term debt	(375.9)	(653.3)		
Other financing activities	11.3	(34.3)		
GAAP net increase (decrease) in cash and cash equivalents	\$ 0.2	\$ (13.0)		
	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2012	2011	2012	2011
Reconciliation of Operating Expenses to Adjusted Operating Expenses				
Operating expenses as reported	\$ 394.8	\$ 379.9	\$ 1,522.7	\$ 1,486.7
Adjustment for elimination of net deferred liability	—	—	43.0	—
Adjustment for gain on insurance recoveries	—	—	—	25.6
Adjusted operating expenses - see (b) below	\$ 394.8	\$ 379.9	\$ 1,565.7	\$ 1,512.3
Operating income as reported	\$ 173.6	\$ 150.4	\$ 715.9	\$ 611.6
Adjusted operating income - see (b) below	173.6	150.4	672.9	586.0
Operating ratio (c) as reported	69.5%	71.6%	68.0%	70.9%
Adjusted operating ratio - see (b) and (c) below	69.5%	71.6%	69.9%	72.1%

(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.

Diluted Earnings per Share and Adjusted Diluted Earnings per Share

Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	2012	2011
Diluted earnings per share	\$ 0.83	\$ 0.87	\$ 3.43	\$ 3.00
Adjustment for elimination of net deferred liability	—	—	(0.27)	—
Adjustment for gain on insurance recoveries	—	—	—	(0.15)
Adjustment for debt retirement costs	0.01	0.14	0.11	0.23
Adjustment for foreign exchange (gain)/loss	0.01	0.01	(0.02)	0.06
Adjustment for foreign exchange component of income taxes	0.07	(0.25)	0.31	(0.24)
Adjusted diluted earnings per share - see (a) below	<u>\$ 0.92</u>	<u>\$ 0.77</u>	<u>\$ 3.56</u>	<u>\$ 2.90</u>

Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share	Three Months Ended			
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Diluted earnings per share	\$ 0.83	\$ 0.82	\$ 1.09	\$ 0.68
Adjustment for elimination of net deferred liability	—	—	(0.27)	—
Adjustment for debt retirement costs	0.01	—	0.03	0.07
Adjustment for foreign exchange (gain)/loss	0.01	(0.02)	0.02	(0.02)
Adjustment for foreign exchange component of income taxes	0.07	0.15	0.01	0.07
Adjusted diluted earnings per share - see (a) below	<u>\$ 0.92</u>	<u>\$ 0.95</u>	<u>\$ 0.88</u>	<u>\$ 0.80</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 the impact of changes in foreign currency exchange rates and items that are not directly related to the ongoing operations of the Company.