



# ***Kansas City Southern***

## ***Consolidated Investors' Report Fourth 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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## Fourth Quarter Press Release

### NEWS RELEASE



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## Kansas City Southern Reports Record Fourth Quarter and Full-Year 2013 Revenues, Carloads and Operating Income

### Fourth Quarter 2013 Results

- Revenue of \$616 million, an increase of 8% over fourth quarter 2012.
- Operating income of \$196 million, 13% higher than a year ago.
- Operating ratio of 68.1%, compared with 69.5% in fourth quarter 2012.
- Reported and adjusted diluted earnings per share for fourth quarter 2013 was \$1.03, a 12% increase over fourth quarter 2012 adjusted diluted earnings per share.

**Kansas City, MO., January 24, 2014.** Kansas City Southern (KCS) (NYSE:KSU) reported record fourth quarter 2013 revenues of \$616 million. Overall, carload volumes were 2% higher than in fourth quarter 2012.

Compared to 2012, fourth quarter revenue growth was led by a 30% increase in Agriculture & Minerals and an 18% increase in Intermodal. Automotive and Industrial & Consumer Products were also strong, both with revenues growing by 9% in the fourth quarter of 2013. Chemical & Petroleum revenue grew 2% and Energy revenue declined by 17% compared to the prior year, primarily due to a decline in utility coal shipments.

Operating income for the fourth quarter of 2013 was \$196 million compared with \$174 million a year ago, a 13% increase. KCS reported a fourth quarter 2013 operating ratio of 68.1%, a 1.4 point improvement from fourth quarter 2012. Operating expenses in the fourth quarter were \$420 million compared with \$395 million in the corresponding 2012 period, a 6% increase.

Reported net income in the fourth quarter of 2013 totaled \$114 million, or \$1.03 per diluted share, compared with \$93 million, or \$0.83 per diluted share, in the fourth quarter of 2012. Excluding debt retirement costs and the impacts of foreign exchange rate fluctuations, adjusted diluted earnings per share for fourth quarter 2013 was \$1.03 compared to \$0.92 in 2012.

For the full year of 2013, revenue was a record \$2.4 billion, up 6% over 2012. Carloads for 2013 were 2.2 million, an increase of 2% over the prior year.

Full-year operating income was \$739 million. Excluding one-time benefits from the elimination of a net deferred liability in 2012, full-year 2013 operating income increased 10% over prior year's adjusted operating income. The Company's 2013 operating ratio was 68.8% compared with the adjusted operating ratio of 69.9% in 2012, a 1.1 point improvement.

"The year 2013 proved to be another very good year for Kansas City Southern," stated President and Chief Executive Officer David L. Starling. "While some shifts in market conditions impacted volumes in our Agriculture & Minerals and Energy commodity groups, 2013 marks the fourth consecutive year KCS has recorded a double-digit percentage increase in its adjusted diluted earnings per share.

"KCS met its stated target of mid-single digit year-over-year revenue growth, coming in 6% higher than 2012. Also, KCS achieved a record operating ratio, improving by 1.1 points over the prior year's adjusted operating ratio. For 2013, the Company reported adjusted diluted earnings per share of \$3.98, a 12% improvement over prior year.

“Five years ago, KCS management established a primary corporate objective of attaining investment grade status. In 2013, after several years of delivering strong operating and financial results, the Company achieved this distinction. Given that long-term debt rates were near all-time lows during the year, the Company immediately capitalized on its upgraded rating and executed a major debt restructuring, which resulted in KCS extending its weighted-average maturity, reducing its weighted-average coupon and creating the lowest-cost debt portfolio in the industry. This restructuring benefitted us significantly in 2013 by lowering our interest expense by \$20 million over 2012, and by strengthening our balance sheet. Moreover, KCS is a stronger company going forward given its expanded financial flexibility.

“We expect to maintain our excellent growth momentum in 2014 and beyond. As 2014 evolves, investors can expect to see positive developments in a wide-range of commodity groups, including intermodal, automotive, steel and chemical & petroleum products. Particularly exciting is that growth in these areas, as well as the increase of crude oil traffic originating in Canada and terminating at various Gulf locations, should continue to ramp up over the next five years. And, while longer term, when the positive impact of Mexican energy reform is considered, KCS appears well-positioned for growth over the next decade.”

### GAAP Reconciliations

(\$ in millions, except per share amounts)

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

	<b>Three Months Ended December 31, 2013</b>			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 180.9	\$ 66.5	\$ 114.4	\$ 1.03
Adjustments for:				
Debt retirement costs	5.4	1.6	3.8	0.03
Foreign exchange gain	(4.9)	(1.4)	(3.5)	(0.03)
Foreign exchange component of income taxes	—	0.4	(0.4)	—
Adjusted	<u>\$ 181.4</u>	<u>\$ 67.1</u>	114.3	
Less: Noncontrolling interest	(i)	(ii)	0.6	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 113.7</u>	<u>\$ 1.03</u>
Adjusted effective income tax rate - see (a) below			<u>37.0%</u>	
			(ii)/(i)	

	<b>Three Months Ended December 31, 2012</b>			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 150.3	\$ 57.8	\$ 92.5	\$ 0.83
Adjustments for:				
Debt retirement costs	2.1	0.8	1.3	0.01
Foreign exchange loss	1.4	0.4	1.0	0.01
Foreign exchange component of income taxes	—	(7.3)	7.3	0.07
Adjusted	<u>\$ 153.8</u>	<u>\$ 51.7</u>	102.1	
Less: Noncontrolling interest	(i)	(ii)	0.7	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 101.4</u>	<u>\$ 0.92</u>
Adjusted effective income tax rate - see (a) below			<u>33.6%</u>	
			(ii)/(i)	

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

<b>Twelve Months Ended December 31, 2013</b>				
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 551.6	\$ 198.3	\$ 353.3	\$ 3.18
Adjustments for:				
Debt retirement costs	119.2	35.9	83.3	0.76
Foreign exchange loss	5.2	1.6	3.6	0.03
Foreign exchange component of income taxes	—	(1.3)	1.3	0.01
Adjusted	<u>\$ 676.0</u>	<u>\$ 234.5</u>	441.5	
Less: Noncontrolling interest	(i)	(ii)	1.9	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 439.6</u>	<u>\$ 3.98</u>
Adjusted effective income tax rate - see (a) below			<u>34.7%</u>	
			(ii)/(i)	

<b>Twelve Months Ended December 31, 2012</b>				
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As reported	\$ 616.4	\$ 237.0	\$ 379.4	\$ 3.43
Adjustments for:				
Debt retirement costs	20.1	7.6	12.5	0.11
Elimination of net deferred statutory profit sharing liability	(43.0)	(12.9)	(30.1)	(0.27)
Foreign exchange gain	(2.7)	(0.8)	(1.9)	(0.02)
Foreign exchange component of income taxes	—	(33.9)	33.9	0.31
Adjusted	<u>\$ 590.8</u>	<u>\$ 197.0</u>	393.8	
Less: Noncontrolling interest	(i)	(ii)	2.1	
Adjusted net income attributable to Kansas City Southern and subsidiaries - see (a) below			<u>\$ 391.7</u>	<u>\$ 3.56</u>
Adjusted effective income tax rate - see (a) below			<u>33.3%</u>	
			(ii)/(i)	

**Reconciliation of Operating Expenses to Adjusted Operating Expenses**

	Twelve Months Ended	
	December 31,	
	2013	2,012
Operating expenses as reported	\$ 1,630.7	\$ 1,522.7
Adjustment for elimination of net deferred statutory profit sharing liability	—	43.0
Adjusted operating expenses - see (b) below	<u>\$ 1,630.7</u>	<u>\$ 1,565.7</u>
Operating income as reported	\$ 738.6	\$ 715.9
Adjusted operating income - see (b) below	738.6	672.9
Operating ratio (c) as reported	68.8%	68.0%
Adjusted operating ratio - see (b) and (c) below	68.8%	69.9%

- (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, 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		Years Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Revenues	\$ 615.6	\$ 568.4	\$ 2,369.3	\$ 2,238.6
Operating expenses:				
Compensation and benefits	113.2	107.0	441.6	430.5
Purchased services	57.2	50.5	217.6	219.8
Fuel	103.0	94.9	389.6	359.6
Equipment costs	40.5	42.8	160.5	167.1
Depreciation and amortization	58.3	51.9	223.3	198.8
Materials and other	47.3	47.7	198.1	189.9
Elimination of deferred statutory profit sharing liability, net	—	—	—	(43.0)
Total operating expenses	419.5	394.8	1,630.7	1,522.7
Operating income	196.1	173.6	738.6	715.9
Equity in net earnings of unconsolidated affiliates	5.0	4.2	18.8	19.3
Interest expense	(19.4)	(23.8)	(80.6)	(100.4)
Debt retirement costs	(5.4)	(2.1)	(119.2)	(20.1)
Foreign exchange gain (loss)	4.9	(1.4)	(5.2)	2.7
Other expense, net	(0.3)	(0.2)	(0.8)	(1.0)
Income before income taxes	180.9	150.3	551.6	616.4
Income tax expense	66.5	57.8	198.3	237.0
Net income	114.4	92.5	353.3	379.4
Less: Net income attributable to noncontrolling interest	0.6	0.7	1.9	2.1
Net income attributable to Kansas City Southern and subsidiaries	113.8	91.8	351.4	377.3
Preferred stock dividends	—	—	0.2	0.2
Net income available to common stockholders	\$ 113.8	\$ 91.8	\$ 351.2	\$ 377.1
Earnings per share:				
Basic earnings per share	\$ 1.03	\$ 0.84	\$ 3.19	\$ 3.44
Diluted earnings per share	\$ 1.03	\$ 0.83	\$ 3.18	\$ 3.43
Average shares outstanding ( <i>in thousands</i> ):				
Basic	110,021	109,793	109,973	109,712
Potentially dilutive common shares	386	344	367	368
Diluted	110,407	110,137	110,340	110,080



## Balance Sheet Information

(in millions)

(Unaudited)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 429.5	\$ 72.6
Accounts receivable, net	198.3	183.6
Materials and supplies	121.3	125.6
Deferred income taxes	131.6	92.1
Other current assets	61.7	48.4
Total current assets	<u>942.4</u>	<u>522.3</u>
Investments	41.1	51.5
Restricted funds	4.2	14.2
Property and equipment (including concession assets), net	6,356.3	5,684.8
Other assets	91.4	123.1
Total assets	<u><u>\$ 7,435.4</u></u>	<u><u>\$ 6,395.9</u></u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Debt due within one year	\$ 332.0	\$ 60.2
Accounts payable and accrued liabilities	398.6	364.6
Total current liabilities	<u>730.6</u>	<u>424.8</u>
Long-term debt	1,856.9	1,547.6
Deferred income taxes	1,044.6	894.2
Other noncurrent liabilities and deferred credits	126.7	128.6
Total liabilities	<u>3,758.8</u>	<u>2,995.2</u>
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.2
Paid-in capital	942.5	925.3
Retained earnings	2,422.9	2,166.5
Accumulated other comprehensive loss	(2.0)	(2.4)
Total stockholders' equity	<u>3,370.6</u>	<u>3,096.6</u>
Noncontrolling interest	306.0	304.1
Total equity	<u>3,676.6</u>	<u>3,400.7</u>
Total liabilities and equity	<u><u>\$ 7,435.4</u></u>	<u><u>\$ 6,395.9</u></u>

## Cash Flow Information

(in millions)

(Unaudited)

	Years Ended	
	December 31,	
	2013	2012
<b>Operating activities:</b>		
Net income	\$ 353.3	\$ 379.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	223.3	198.8
Deferred income taxes	111.2	197.3
Equity in net earnings of unconsolidated affiliates	(18.8)	(19.3)
Share-based compensation	13.6	10.7
Excess tax benefit from share-based compensation	(4.2)	(31.5)
Deferred compensation	—	7.3
Elimination of deferred statutory profit sharing liability	—	(47.8)
Distributions from unconsolidated affiliates	12.5	19.8
Debt retirement costs	119.2	20.1
Changes in working capital items:		
Accounts receivable	(14.4)	(21.5)
Materials and supplies	7.1	(9.3)
Other current assets	(1.8)	(15.1)
Accounts payable and accrued liabilities	0.3	(3.0)
Other, net	(3.0)	(12.7)
Net cash provided by operating activities	<u>798.3</u>	<u>673.2</u>
<b>Investing activities:</b>		
Capital expenditures	(594.8)	(517.1)
Purchase or replacement of equipment under operating leases	(211.8)	(22.9)
Property investments in MSLLC	(31.6)	(35.2)
Contributions from noncontrolling interest	—	7.8
Proceeds from disposal of property	8.2	14.7
Other, net	(3.3)	0.8
Net cash used for investing activities	<u>(833.3)</u>	<u>(551.9)</u>
<b>Financing activities:</b>		
Proceeds from issuance of long-term debt	1,918.4	329.6
Repayment of long-term debt	(1,343.2)	(375.9)
Debt costs	(117.8)	(22.1)
Proceeds from employee stock plans	1.5	1.9
Excess tax benefit from share-based compensation	4.2	31.5
Dividends paid	(71.2)	(86.1)
Net cash provided by (used for) financing activities	<u>391.9</u>	<u>(121.1)</u>
Cash and cash equivalents:		
Net increase during each period	356.9	0.2
At beginning of year	72.6	72.4
At end of year	<u>\$ 429.5</u>	<u>\$ 72.6</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,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 51.5	\$ 50.7	27.8	27.7	\$ 1,853	\$ 1,830
Petroleum	27.1	26.6	16.0	17.9	1,694	1,486
Plastics	27.2	26.7	15.5	16.0	1,755	1,669
<b>Total</b>	<u>105.8</u>	<u>104.0</u>	<u>59.3</u>	<u>61.6</u>	<u>1,784</u>	<u>1,688</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	64.1	64.0	30.7	31.7	2,088	2,019
Metals & Scrap	66.8	56.2	33.7	31.2	1,982	1,801
Other	18.6	17.1	18.7	19.0	995	900
<b>Total</b>	<u>149.5</u>	<u>137.3</u>	<u>83.1</u>	<u>81.9</u>	<u>1,799</u>	<u>1,676</u>
<b>Agriculture &amp; Minerals</b>						
Grain	70.2	45.9	37.5	27.3	1,872	1,681
Food Products	36.7	35.0	16.4	15.3	2,238	2,288
Ores & Minerals	5.5	5.0	5.7	5.2	965	962
Stone, Clay & Glass	6.7	6.0	3.0	3.0	2,233	2,000
<b>Total</b>	<u>119.1</u>	<u>91.9</u>	<u>62.6</u>	<u>50.8</u>	<u>1,903</u>	<u>1,809</u>
<b>Energy</b>						
Utility Coal	41.0	54.1	41.9	51.5	979	1,050
Coal & Petroleum Coke	10.1	10.1	14.4	13.2	701	765
Frac Sand	14.2	13.1	6.9	5.9	2,058	2,220
Crude Oil	5.1	7.3	3.2	3.5	1,594	2,086
<b>Total</b>	<u>70.4</u>	<u>84.6</u>	<u>66.4</u>	<u>74.1</u>	<u>1,060</u>	<u>1,142</u>
<b>Intermodal</b>	<u>94.4</u>	<u>80.0</u>	<u>242.9</u>	<u>234.8</u>	<u>389</u>	<u>341</u>
<b>Automotive</b>	<u>53.5</u>	<u>49.1</u>	<u>29.3</u>	<u>28.5</u>	<u>1,826</u>	<u>1,723</u>
<b>Total for Commodity Groups</b>	592.7	546.9	<u>543.6</u>	<u>531.7</u>	<u>\$ 1,090</u>	<u>\$ 1,029</u>
Other Revenue	<u>22.9</u>	<u>21.5</u>				
<b>Total</b>	<u>\$ 615.6</u>	<u>\$ 568.4</u>				

## Revenue Statistics by Commodity - Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
	2013	2012	2013	2012	2013	2012
<b>Chemical &amp; Petroleum</b>						
Chemicals	\$ 208.2	\$ 200.2	113.1	111.9	\$ 1,841	\$ 1,789
Petroleum	110.9	105.8	67.3	70.7	1,648	1,496
Plastics	107.6	104.3	63.0	64.2	1,708	1,625
<b>Total</b>	<u>426.7</u>	<u>410.3</u>	<u>243.4</u>	<u>246.8</u>	<u>1,753</u>	<u>1,662</u>
<b>Industrial &amp; Consumer Products</b>						
Forest Products	258.6	253.9	126.0	129.1	2,052	1,967
Metals & Scrap	249.2	224.8	133.0	126.7	1,874	1,774
Other	76.0	72.4	78.8	80.3	964	902
<b>Total</b>	<u>583.8</u>	<u>551.1</u>	<u>337.8</u>	<u>336.1</u>	<u>1,728</u>	<u>1,640</u>
<b>Agriculture &amp; Minerals</b>						
Grain	200.8	213.1	116.3	122.8	1,727	1,735
Food Products	133.9	140.0	59.9	61.8	2,235	2,265
Ores & Minerals	22.7	21.6	23.1	21.4	983	1,009
Stone, Clay & Glass	26.5	25.8	12.7	12.9	2,087	2,000
<b>Total</b>	<u>383.9</u>	<u>400.5</u>	<u>212.0</u>	<u>218.9</u>	<u>1,811</u>	<u>1,830</u>
<b>Energy</b>						
Utility Coal	201.7	211.0	194.9	211.6	1,035	997
Coal & Petroleum Coke	41.3	34.6	58.6	46.5	705	744
Frac Sand	58.8	50.8	28.4	25.6	2,070	1,984
Crude Oil	24.8	16.4	13.8	8.7	1,797	1,885
<b>Total</b>	<u>326.6</u>	<u>312.8</u>	<u>295.7</u>	<u>292.4</u>	<u>1,104</u>	<u>1,070</u>
<b>Intermodal</b>	<u>356.6</u>	<u>306.5</u>	<u>965.6</u>	<u>914.2</u>	<u>369</u>	<u>335</u>
<b>Automotive</b>	<u>201.5</u>	<u>174.4</u>	<u>110.3</u>	<u>103.7</u>	<u>1,827</u>	<u>1,682</u>
<b>Total for Commodity Groups</b>	2,279.1	2,155.6	<u>2,164.8</u>	<u>2,112.1</u>	<u>\$ 1,053</u>	<u>\$ 1,021</u>
Other Revenue	<u>90.2</u>	<u>83.0</u>				
<b>Total</b>	<u>\$ 2,369.3</u>	<u>\$ 2,238.6</u>				

## Productivity Statistics

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Gross Ton Miles (GTM) (in millions) (a)	23,730	22,312	90,715	88,510
Average Employees - Total	6,222	6,107	6,188	6,093
Average Employees - Union	4,762	4,680	4,740	4,684
GTM's per Average Employee (in millions)	3.81	3.65	14.66	14.53
Operating Ratio	68.1%	69.5%	68.8%	68.0%
Adjusted Operating Ratio *	68.1%	69.5%	68.8%	69.9%
<b>Locomotive Fuel Statistics</b>				
Locomotive fuel consumed in gallons (in millions)	33.4	31.7	127.7	125.9
Average price per gallon	\$3.08	\$2.99	\$3.05	\$2.86
<b>AAR Reported Performance Measures</b>				
Average train speed (miles per hour)	27.8	28.2	27.9	27.6
Average terminal dwell times (hours)	21.9	18.9	19.6	19.0
<b>Revenue Ton Miles (in Millions)</b>				
Chemical & Petroleum	1,697	1,780	6,995	7,212
Industrial & Consumer Products	2,645	2,470	10,198	9,731
Agriculture & Minerals	3,605	2,442	10,782	11,151
Energy	2,644	3,196	12,512	11,955
Intermodal	1,195	1,059	4,678	4,140
Automotive	385	357	1,445	1,232
Total	<u>12,171</u>	<u>11,304</u>	<u>46,610</u>	<u>45,421</u>

(a) Excludes Locomotive Gross Ton Miles

\* All reconciliations to GAAP can be found on page 16.

## Capital Expenditures

(in millions)

	Years Ended	
	December 31,	
	2013	2012
Roadway capital program	\$ 307.0	\$ 293.7
Locomotive acquisitions	81.8	71.1
Equipment	111.5	44.7
Capacity	49.0	51.4
Information technology	15.4	8.6
Other	34.4	30.3
Total capital expenditures (accrual basis)	599.1	499.8
Change in capital accruals	(4.3)	17.3
Total cash capital expenditures	<u>\$ 594.8</u>	<u>\$ 517.1</u>
Purchase or replacement of equipment under operating leases		
Locomotives	\$ 155.3	\$ —
Equipment	57.9	22.9
Total purchase or replacement of equipment under operating leases (accrual basis)	213.2	22.9
Change in capital accruals	(1.4)	—
Total cash purchase or replacement of equipment under operating leases	<u>\$ 211.8</u>	<u>\$ 22.9</u>
<b>Track Renewal</b>		
Track miles of rail installed	<u>138</u>	<u>133</u>
Cross ties installed (thousands)	<u>929</u>	<u>997</u>

## Debt Summary

(in millions)

	Expiration Date	Interest Rate	December 31, 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	245.3	262.5
<b>Total Bank Facilities</b>			<u>245.3</u>	<u>543.8</u>
KCSM Senior Notes	4/1/2016	12.500%	—	95.0
KCSM Senior Notes	10/28/2016	Variable	250.0	—
KCSM Senior Notes	2/1/2018	8.000%	62.3	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%	—	200.0
KCSM Senior Notes	5/15/2023	3.000%	448.2	—
KCSR Senior Notes	11/15/2023	3.850%	199.7	—
KCSR Senior Notes	5/15/2043	4.300%	445.9	—
<b>Total Unsecured Senior Notes</b>			<u>1,680.8</u>	<u>776.9</u>
KCSM GE Loan Agreement (Operating lease buyout)	12/15/2020	9.311%	74.6	81.7
KCSM Loan and Security Agreement	2/28/2023	5.737%	43.8	48.4
KCSM Loan Agreement	9/29/2023	6.195%	33.9	37.4
Tex Mex RRIF Loan	7/13/2030	4.290%	39.4	41.0
KCSR RRIF Loan	2/24/2037	2.960%	52.0	53.5
Capital Leases	Various	Various	17.2	21.9
Other	Various	Various	1.9	3.2
<b>Total Debt</b>			<u>\$ 2,188.9</u>	<u>\$ 1,607.8</u>

## Free Cash Flow\*

(in millions)

	Years Ended December 31,	
	2013	2012
Net cash provided by operating activities	\$ 798.3	\$ 673.2
Cash used for capital expenditures	(594.8)	(517.1)
Other investing activities, net	(238.5)	(34.8)
Purchase or replacement of equipment under operating leases	211.8	22.9
Dividends paid	(71.2)	(86.1)
Free cash flow	<u>\$ 105.6</u>	<u>\$ 58.1</u>

\* All reconciliations to GAAP can be found on page 16.

## Credit Ratings

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

	Years Ended	
	December 31,	
Reconciliation of Free Cash Flow to Net Increase in Cash and Cash Equivalents:	2013	2012
Net cash provided by operating activities	\$ 798.3	\$ 673.2
Net cash used for investing activities	(833.3)	(551.9)
Purchase of equipment under operating leases	211.8	22.9
Dividends paid	(71.2)	(86.1)
Free cash flow - see (a) below	105.6	58.1
Proceeds from issuance of long-term debt	1,918.4	329.6
Repayment of long-term debt	(1,343.2)	(375.9)
Purchase of equipment under operating leases	(211.8)	(22.9)
Other financing activities	(112.1)	11.3
GAAP net increase in cash and cash equivalents	\$ 356.9	\$ 0.2

<b>Reconciliation of Operating Expenses to Adjusted Operating Expenses:</b>	<b>Three Months Ended</b>		<b>Years Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Operating expenses as reported	\$ 419.5	\$ 394.8	\$ 1,630.7	\$ 1,522.7
Adjustment for elimination of net deferred statutory profit sharing liability	—	—	—	43.0
Adjusted operating expenses - see (b) below	<u>\$ 419.5</u>	<u>\$ 394.8</u>	<u>\$ 1,630.7</u>	<u>\$ 1,565.7</u>
Operating income as reported	\$ 196.1	\$ 173.6	\$ 738.6	\$ 715.9
Adjusted operating income - see (b) below	196.1	173.6	738.6	672.9
Operating ratio (c) as reported	68.1%	69.5%	68.8%	68.0%
Adjusted operating ratio - see (b) and (c) below	68.1%	69.5%	68.8%	69.9%

- (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.