



KANSAS CITY SOUTHERN

Contributing to a Sustainable World
2014 Sustainability Report



www.kcsouthern.com



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CEO MESSAGE

At KCS we are committed to the safe transport of goods throughout North America in a way that is efficient and less environmentally intrusive than other modes of transport; and financially profitable and stable. We help connect consumers to the products they use, while supporting people, communities and businesses along the way.

This report continues to reinforce our commitment to:

- the quality of our services and our pursuit of customer satisfaction;
- the safety of our employees, the communities in which we operate and our network;
- serving as responsible stewards for the protection of our environment;
- developing our communities through engagement, charitable giving and employee volunteerism;
- providing employees with the tools they need for a fulfilling career and healthy lives; and
- delivering value to KCS shareholders.

REPORT ON 2014 ACCOMPLISHMENTS

KCS moved a record freight volume in 2014 while controlling costs and delivering consistent, reliable service to our customers. Through record revenues of \$2.6 billion in 2014, we were also able to reinvest over \$700 million on capital projects (27% of revenues) in a sustained effort to improve our network. This investment represents our commitment to take full advantage of future opportunities while further improving the current fluidity and safety of our network.

We remained focused on having a safe workplace for our employees while operating a safe railroad for our customers and the communities we serve. We continue to focus on public, employee and network safety by engaging in public outreach efforts such as Operation Lifesaver's "See Tracks? Think Train!" campaign and our Officer on a Train events, training our employees on rules and best practices, and consistently investigating safety improvement technologies. We also work with numerous security agencies to support our multi-layered security program across our approximately 6,500-mile network achieving best-in-class performance.

KCS provides one of the most economically and environmentally sound ways to transport cargo over long distances. We invest in technologies and assets which help us to minimize our impact on the environment, while providing the same high level of service. In 2014 alone we purchased 85 new, more environmentally friendly locomotives. Additionally, we are investigating and acquiring energy management technology to improve the fuel efficiency of our current fleet.

Our focused efforts, along with our industry partners, have increased demand for rail service, created new jobs, stimulated development and reduced highway congestion and air pollution in communities across our network.

OUR COMMITMENT GOING FORWARD

Going forward, KCS will look to continue upgrades throughout our network related to safety, security and performance. We will leverage our position as one of North America's leading and safest rail providers to deliver our services across the continent while further investing in our network where necessary to strengthen our dedication to our customers, our employees, our communities and the environment. Key steps and actions toward achieving our vision in these areas will be communicated in future reports.

David L. Starling
Chief Executive Officer

SUSTAINABILITY HIGHLIGHTS

Sharing our progress toward a more sustainable future



COMPANY AND INDUSTRY OVERVIEW

- With continued improvement in the industry, one gallon of fuel can move the average ton of freight 473 miles by rail.
- As a preferred shipping option, KCS has grown to \$2.6 billion in revenue, up 9% from 2013.
- We provide an efficient gateway between Mexico and the U.S. as the only company with railroad operations on both sides of the border.

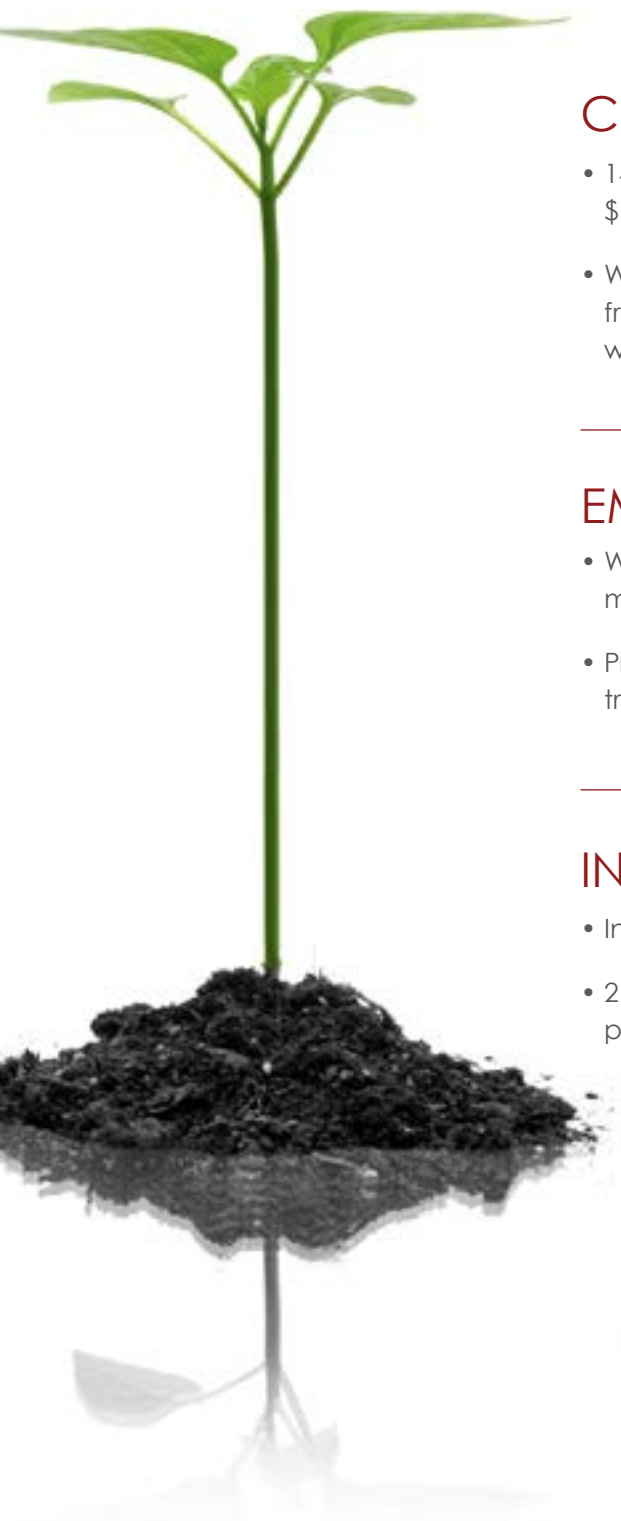
GOVERNANCE

- Nine Board members (seven of whom are independent) led five committees including Executive, Audit, Compensation and Organization, Finance and Nominating and Corporate Governance.

SAFETY

- Effective systems have been established and KCSR is certified by the Responsible Care® Management System (RCMS) for having a formal Health, Safety, Security and Environmental (HSSE) Management System.
- Continued concentration on crossing closures, law enforcement training and community events have led to further reductions of crossing incidents.
- Focus on preventing theft, vandalism or accidents for shipments in Mexico, resulted in only 0.03 percent of shipments with incidents.
- Hazmat management and training including emergency response drills.

SUSTAINABILITY HIGHLIGHTS



COMMUNITY

- 14 years of the Holiday Express train provided donations exceeding \$1 million and fifth year of Tren Navideño.
- We more than doubled our investment in diverse suppliers through purchases from businesses certified as small, disadvantaged, minority-owned, woman-owned or veteran-owned businesses.

EMPLOYEES

- We employed nearly 6,500 people with ~5,000 union and ~1,500 management employees.
- Promoted employees' health through health and wellness programs, training and events.

INVESTING IN OUR NETWORK

- Invested over \$700 million in capital expenditures.
- 2.3 million carloads delivered connecting North American producers with consumers.

COMPANY OVERVIEW

Exciting vision, timeless values, consistent performance

Headquartered in Kansas City, Missouri, Kansas City Southern ("KCS" or the "company") (NYSE: KSU) is a transportation holding company that has railroad investments in the United States, Mexico and Panama. The company's primary U.S. holding is The Kansas City Southern Railway (KCSR) serving the central and south-central United States. KCS' international holdings include Kansas City Southern de México, S.A. de C.V. (KCSM) serving northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz and KCSM Servicios, S.A. de C.V. (KCSMS), which provides employee services to KCSM. KCS also has a 50 percent interest in Panama Canal Railway Company providing ocean-to-ocean freight and passenger service along the Panama Canal. KCS' North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the United States, Mexico and Canada.

Information related to the Panama Canal Railway is not included in this report.



COMPANY OVERVIEW

OUR VISION

To be the leading transportation provider both within and between the United States and Mexico by consistently providing superior value to our customers, offering challenging careers to our employees and increasing value to our shareholders.



OUR VALUES

Safety.

We recognize that safety is our first priority. Every employee is responsible for his/her own safety and the safety of others and is empowered to take the actions necessary to accomplish this goal.

Financial Results.

We are committed to providing a financially strong company for our customers, employees and shareholders by reliably executing our service commitments, effectively managing our company resources and strategically investing for growth.

Communications.

We support an environment of honest, open communications where dialogue, information sharing and diverse perspectives are valued and individual contributions are encouraged and respected.

Accountability.

We recognize that individual efforts contribute to the success of our company and employees are given ownership of the processes they control and the responsibility for the outcome of their efforts.

Customer Focus.

We are focused on satisfying our customers by consistently meeting or exceeding their service expectations. This is accomplished by promising only what we can deliver and always delivering on what we promise.

Quality Principles.

We operate our company with a focus on meeting our customers' requirements through effective planning and control, teamwork, fact-based decision-making and a continuous pursuit of process improvement.

KCS Legacy.

We honor and carry on the legacy of KCS — its ambitious, entrepreneurial spirit and "can-do" attitude. We continue our tradition of being committed to family and being responsible citizens in the communities where we live and work.

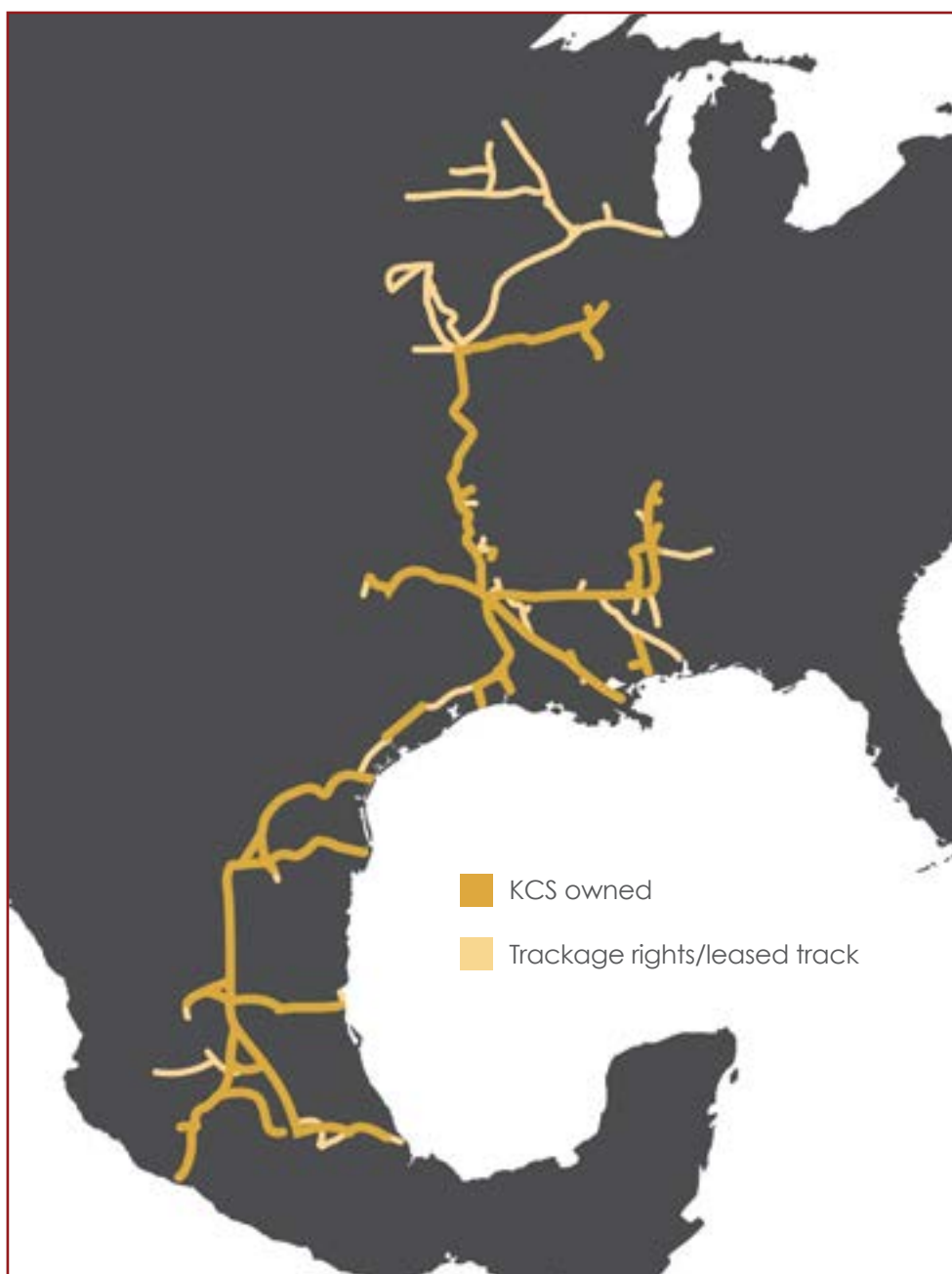
COMPANY OVERVIEW

OUR NETWORK

OUR CROSS-BORDER ADVANTAGE

Connecting North America's producers and consumers is the backbone of our success. Praised for our foresight and respected for the tremendous shareholder value we create, KCS and all of our achievements were born from one man's determination more than 125 years ago. Arthur E. Stilwell, a visionary and entrepreneur, founded the company known today as KCS in 1887. During a time when most railroads built east to west, Stilwell's vision was to provide a direct, north-to-south route to Mexico, focusing on moving grain, coal, lumber and minerals.

Today, KCS remains a unique North American railway network with rail assets on both sides of the Laredo/ Nuevo Laredo international gateway including the Kansas City Southern Railway in the U.S. and Kansas City Southern de México in Mexico. Extensive security measures with surveillance equipment and trained specialists to oversee shipments during transit and at all connection points along the way make the KCS rail network among the most secure means of moving freight between the U.S. and Mexico. For more information on network security, please visit page 25.





COMPANY OVERVIEW

SECTORS SERVED

KCS has a complete network of solutions for businesses and shippers of all sizes. We specialize in moving bulk shipments of grain, coal, chemicals, petroleum, industrial and consumer products, automotive components, machinery and appliances across many different sectors.

INDUSTRIAL AND CONSUMER PRODUCTS

\$623.3M

Revenue

347,400

Carloads

Timber, metals and ores such as iron, steel, zinc and copper

INTERMODAL

\$395.8M

Revenue

1,019,600

Carloads

Hauling freight containers or truck trailers on behalf of ocean carriers, motor carriers and intermodal marketing companies

CHEMICAL AND PETROLEUM

\$453.0M

Revenue

246,900

Carloads

Plastics, other petroleum-refined products and miscellaneous chemicals

ENERGY

\$326.8M

Revenue

299,200

Carloads/Units

Coal, frac sand, petroleum coke and crude oil

AGRICULTURE AND MINERALS

\$446.6M

Revenue

233,900

Carloads

Grain (primarily corn, wheat, and soybeans), food products, minerals, clay and glass

AUTOMOTIVE

\$238.4M

Revenue

127,100

Carloads

Every facet of the automotive industry supply chain, including automotive manufacturers, assembly plants and distribution centers

January 1, 2014 - December 31, 2014

COMPANY OVERVIEW

BENEFITS OF RAIL



Rail has the unique ability to reduce highway truck traffic, lower fuel consumption for freight transportation, reduce greenhouse gas (GHG) emissions and decrease air pollution. KCS and the rail industry provide a far more fuel efficient option for moving freight as compared to trucks. KCS and rail industry operators move a ton of freight an average of 473 miles on a single gallon of fuel.

Source: [AAR](#)

Because GHG emissions are directly related to fuel consumption, railroads naturally have a smaller carbon footprint than the less efficient means of transportation. Moving freight by rail instead of truck reduces GHG emissions by 75 percent on average. If just 10 percent of long-distance freight that is currently moved via highway were switched to rail, national fuel savings would approach one billion gallons a year and annual GHG emissions

would fall by more than 10 million tons, which is equivalent of taking nearly 2 million cars off the road or planting approximately 240 million trees.

A single freight train can accommodate the load of several hundred trucks reducing road traffic. Moving freight by rail also alleviates wear on road infrastructure and helps reduce the cost of maintaining existing highways.



COMPANY OVERVIEW

HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL COMMITMENT

KCS is committed to the safety of our employees, the quality of our services and responsible stewardship of our environment, the communities in which we operate and to our customers. In the U.S., KCSR's daily decisions and actions are guided by the following health, safety, security and environmental (HSSE) principles:

- Commitment to the continual improvement of the HSSE management system
- Efficient use of natural resources to minimize emissions and waste generation and to prevent pollution
- Providing the necessary training to promote safe work behavior and compliance with rules and operating practices and procedures
- Integration of HSSE responsibilities and considerations into daily operations and business decision-making processes
- Participation in the development of sound risk management policies within the transportation and chemical sectors
- Dedicating resources to improve employee security awareness and upgrade physical and cyber-security systems
- Commitment to compliance with applicable HSSE laws, regulations and other RCMS requirements

To empower employees to fulfill our HSSE commitment and principles, KCSR uses a structured HSSE management system to manage risk-based hazards and to protect human health, safety, security and the environment. The HSSE Management System is designed to fulfill the American Chemistry Council's Responsible Care® Management System (RCMS) 2013 Technical Specifications. RCMS provides a structured framework for continual improvement identifying risks and assessing needs, setting specific performance goals and sharing information with employees, contractors and the public. It also includes requirements for policy and leadership, planning, implementation, operation and accountability, performance measurement and quantitative action plan and management system review.

While RCMS is not applicable in Mexico, HSSE management remains a priority and similar procedures are followed at our Mexican-based subsidiary KCSM.

GOVERNANCE

How KCS does business is as important as the business it does

The growth and success of our company is attributed to the high degree of commitment of our board of directors and our executive officers who have extensive experience across a broad range of sectors including transportation, communications, government and manufacturing. Our executive officers are appointed annually and serve at the discretion of the board of directors.

Our board of directors meets at least four times a year to direct the company in matters such as selecting, evaluating and compensating the chief executive officer, reviewing and approving fundamental financial and business strategies and major corporate actions, assessing and mitigating risks and maintaining the integrity of the company in business dealings. The board of directors have five committees: Executive, Audit, Compensation and Organization, Nominating and Corporate Governance and Finance. The charters and members of these committees can be found on our website:

Board of Directors

GOVERNANCE POLICIES



To achieve and maintain KCS' position as a leading transportation provider both within and between the United States and Mexico, the company has policies in place that safeguard our values, protect our employees and honor our legacy. For more information on our governance policies, please visit: [KCS Governance](#)

CODE OF BUSINESS CONDUCT AND ETHICS

We have always required that our business be conducted in accordance with the highest ethical and legal standards to avoid any actual or perceived conflict of interest. Our Code of Business Conduct and Ethics for directors, officers and employees of KCSR summarizes standards related to honest business dealings, conflicts of interest, confidentiality, transparency, acceptance of entertainment and gifts, dealings with public officials, political contributions and other situations. Employees found violating KCSR policies can face discipline up to, and including, termination.

The officers, directors and employees of KCSMS are held to these same high

legal and ethical standards and are governed under the KCSMS business ethics and compliance policy: *Ética de Negocios y Cumplimiento con las Leyes*.

KCS has issued a supplier expectation policy that extends these same high and ethical standards to our vendors, contractors and suppliers.

ANTI-HARASSMENT POLICY

The Anti-Harassment Policy is in place to promote a work environment free from unlawful harassment. The anti-harassment policy applies to all employees, applicants, guests and other persons visiting our property. The policy applies whether on company property, while performing company-related business or at company-sponsored functions.

ANTI-RETALIATION POLICY

We believe every employee has a responsibility to report good faith concerns about violations of KCS policies or rules or suspected violations of the law and to cooperate truthfully and fully in any investigation regarding a report of workplace misconduct. We strictly prohibit retaliation against an employee who, in good faith, raises a concern, provides information or otherwise assists in an investigation or proceeding regarding conduct that he or she reasonably believes to be in violation of KCS policies and/or rules, or in violation of applicable laws.

GOVERNANCE

GOVERNANCE POLICIES

EQUAL EMPLOYMENT OPPORTUNITY POLICY

KCS provides equal opportunity in employment to all employees and applicants. In the U.S., the Equal Employment Opportunity Policy applies to all terms, conditions and privileges of employment, including hiring, training, orientation, placement, employee development, promotion, transfer, compensation, benefits, educational assistance, layoff and recall, social and recreational programs, employee facilities, termination and retirement. We do not discriminate in employment because of race, color, religion, sex, age, national origin, disability, military status, or other categories protected by law.

Likewise, in Mexico we promote a culture of gender equality through actions that generate and maintain equal opportunities and diversity. To strengthen the culture of equality among employees of KCSMS, we focus on gender equality training, sensitizing all staff in promoting a culture of respect and maintaining

Modelo Equidad de Genero (MEG) – Standard for Gender Equality certification. MEG certification is issued by the National Institute of Women to recognize companies that offer equal employment opportunities independent of race, gender, age, religion or sexual preference. In 2014, KCSM enhanced handicapped accessibility to its main buildings better aligning with MEG priorities.

INSIDER TRADING POLICY

Insiders of publicly owned companies (directors, officers, employees and other related persons) must comply with legal restrictions when they buy or sell securities of such companies. To reduce the likelihood of violations of the law and resultant liability, KCS has adopted an Insider Trading Policy which prohibits any Insider from buying or selling securities of KCS or of any of its subsidiaries or affiliates while aware of material, non-public information except pursuant to a Rule 10b5-1 Trading Plan. Insiders are also prohibited from disclosing inside information to any other person without express authorization to do so.

SPEAK UP! REPORT LINE

The Speak Up! report line, available in the U.S. and Mexico, is an ethics hotline maintained by a third-party vendor that provides our employees, customers, vendors and the public with constant access to an anonymous means of reporting questionable activity such as harassment, discrimination, insider trading, fraud, threats or incidents of workplace violence and other concerns. Allegations are logged and reviewed, investigated and addressed (if applicable) by representatives from our Human Resources, Legal, Internal Audit or Security departments. Reports can be made anonymously if desired. If reports are not made anonymously, confidentiality is maintained throughout the process where possible and retaliation and/or discrimination is not tolerated.

[Speak Up! Report Line](#)

A black and white photograph of a railroad worker in a hard hat and safety vest operating a large piece of machinery, possibly a track maintenance tool, on a railroad track. The worker is positioned on the right side of the frame, facing left. The machinery is a large, complex piece of equipment with a prominent circular component. The background shows a utility pole and some trees. The entire image is framed by a yellow border on the left and right sides.

SAFETY

If you see tracks, think safety

Safety is more than just one of our values, it is our priority. Our safety vision is to maintain an environment that encourages safe work behavior and emphasizes compliance and quality processes. This vision includes not only the safety of our employees, but also the safety of the communities we pass through and the borders we cross. Every day, we strive to maintain the safety and security of our employees, our communities and our network.



SAFETY

PUBLIC SAFETY

We understand that our operations affect the communities along our tracks and we take steps to further the safety of all individuals who may come across them. KCS participates in a variety of safety events and campaigns to engage employees and the public in railroad safety.

OFFICER ON A TRAIN

To increase local law enforcement and community member awareness of safety around trains, KCSR hosts Officer on a Train events in the United States. These events bring local law enforcement officers into a locomotive cab for a unique, real-time perspective of motorist and pedestrian activity as a train moves through the community. Meanwhile, other law enforcement officers are stationed along the railroad rights-of-way watching for crossing and trespasser violations and issuing citations. In 2014, KCSR hosted 13 events at which several hundred warnings, citations and other violations were issued in an ongoing effort to curtail dangerous motorist and trespasser behavior.

OPERATION LIFESAVER

KCS is an avid supporter of the Operation Lifesaver program in both the United States and Mexico, where it is known as Alto Total. Operation Lifesaver/Alto Total is a non-profit organization that provides public rail safety programs aimed at ending rail-related deaths, injuries and collisions. In 2014, KCS Operation Lifesaver/Alto Total volunteers coordinated nearly 700 presentations and special events reaching more than 112,000 people. KCS employees volunteered their time to support Operation Lifesaver/Alto Total events and safety presentations across the system in Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, Texas and Mexico.

SEE TRACKS? THINK TRAIN!

In order to help increase public awareness, KCS has partnered with the AAR and Operation Lifesaver to promote the See Tracks? Think Train! campaign. The campaign includes bilingual television, radio, print and billboard advertisements aimed at getting drivers and pedestrians to think twice before taking dangerous risks around railroad tracks. Public service announcements were supplemented with on-going education efforts with Operation Lifesaver's network of volunteers who work with the public through events with railroads, transit agencies, schools, law enforcement, first responders, professional drivers and community organizations.

SAFETY

GRADE CROSSING SAFETY

A rail grade crossing is a location where a street, sidewalk, or pathway crosses one or more railroad tracks at grade.

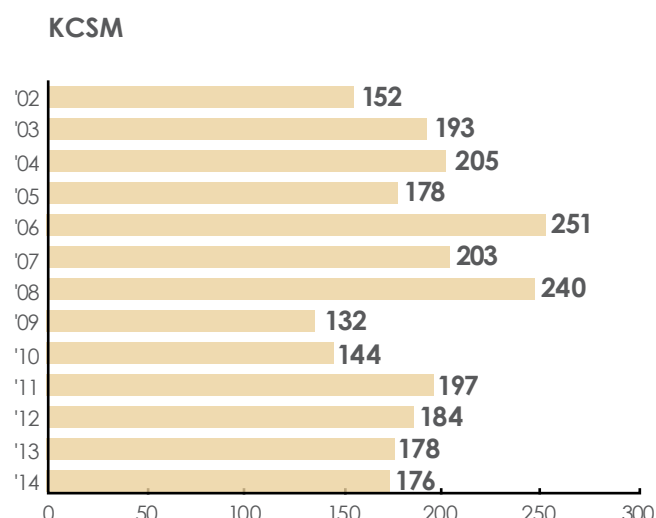
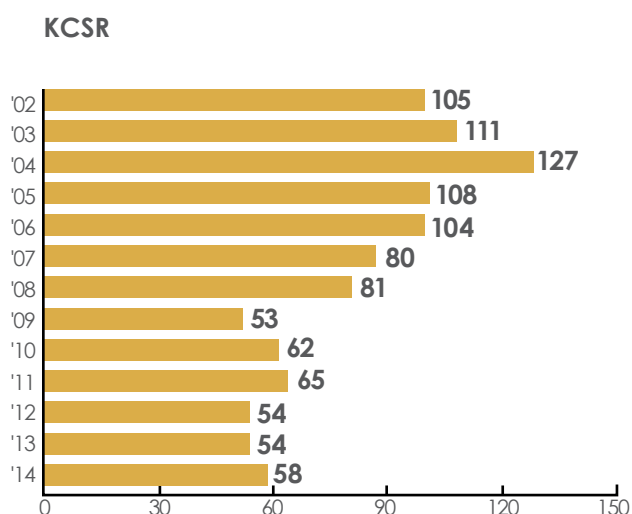
In recent years, KCSR has diligently worked to close many such public, private and unauthorized grade crossings, leading to a decrease in crossing incidents. KCSR collaborates with federal, state and local officials to prevent grade crossing collisions through a variety of initiatives such as

crossing consolidation, right-of-way maintenance, law enforcement training and general public awareness. However, the surest way to prevent collisions between trains and vehicles is to eliminate crossings wherever practical.

Crossings targeted for closure are typically those that duplicate access provided by nearby crossings, those that are not currently used or those that have low traffic volumes.

Since 2010, KCSR has permanently closed nearly 60 grade crossings. Additionally, we have helped implement safety improvements at approximately 167 grade crossings in the United States by installing new signals and gates. KCS is firmly committed to improving safety and reducing accidents at rail crossings and we will continue to invest resources as issues and opportunities are identified.

GRADE CROSSING COLLISIONS — CROSSING INCIDENTS



SAFETY

GRADE CROSSING SAFETY

VEGETATION CONTROL

Brush and weed growth near track structures or crossings can create a number of problems if not managed. Vegetation can hinder water drainage away from the track structure and obscure signs, signals, switches, trains and other on-track equipment from locomotive engineers, motorists and pedestrians. Additionally, overgrown vegetation can interfere with communications and present a fire hazard when dry.

As part of our vegetation management program, KCS uses herbicides and other control technologies in accordance with federal and state requirements. These methods provide an environmentally friendly way to not only control invasive plant life, but also promote the growth of desired plant life that minimizes the need for long-term vegetation management.

LOCOMOTIVE CAMERAS

In 2014, KCS continued installation of inward-facing cameras in our locomotives for use in conjunction with the outward-facing cameras that had previously been installed on our locomotives. Inward and outward-facing cameras provide additional security for train crew employees, enhance compliance with KCS and Federal Railroad Administration operating rules, help spot maintenance needs, and improve overall safety.

We use recordings to supplement existing security and safety measures, including individual employee and supervisor safety observations, safety training and consistent application of the company's rules and programs. Additionally, we use recordings in the course of analysis, investigation, regulatory compliance and discovery related to workplace safety. Such safety concerns can include crime, damage, injury, equipment failure, training, right-of-way conditions, alleged fraudulent behavior, or rules and policy violations.

CELL DETECTION TECHNOLOGY

To further improve the safety of our employees and the public, in 2014 KCS began installing cell detection technology on our locomotives. This technology has the ability to detect cell phones that are powered and transmitting, receiving or making phone calls, using data transmission, or being used as a mobile Wi-Fi hotspot while the locomotive is moving. The system can also trigger inward-facing cameras that produce still images and video.

SAFETY

INFRASTRUCTURE SAFETY TECHNOLOGY

At sensitive locations, KCS integrates defect detectors into the tracks to identify maintenance needs in passing trains or infrastructure concerns. We also deploy mobile technology throughout the system to maintain proper track conditions.



SUCH TECHNOLOGY INCLUDES:

- Centralized Traffic Control (CTC) - CTC is a railway signaling system that consolidates train routing decisions to a centralized dispatching center. The system allows KCS to control the flow of rail traffic through signaling and communication to train crews. The system also allows dispatchers to monitor trains on the system.
- Hot Box Detectors - Two infrared eyes sit on each side of the tracks staring up at the train's bearings. They register the heat radiating from every journal that passes over it. If a bearing reaches the maximum temperature for safe travel, the detector will flag and count it as a defect.
- High Water Detectors - Located next to the track if water gets over the detector all the signals in the immediate area go to a stop indication to prevent a train moving over a washed out section of track. A track inspector will be summoned to check the area to see if it is safe or not.
- High Wide Load Detectors - This is a structure that spans over the railroad with two laser beams that shine down on each side of the passing train and one above the train. Anything that cuts through the beam will be counted as a defect. Anything that is shifting over or protruding up will be counted as a defect.
- Dragging Equipment Detectors (DED) - A set of paddles that are positioned between the rails attached to the cross ties connected to the monitoring electronics. Anything dragging from the train that strikes the paddles, thus pushing them over and breaking a contact, will register this as a defect. It will then return to its normal position in preparation for any other possible defect.
- Switch Heaters - KCS uses switch heaters to keep switch points free of snow and ice that could potentially prevent the switch from operating appropriately.

INFRASTRUCTURE SAFETY TECHNOLOGY

- Broken Rail Detectors - A system designed to detect broken rail via electronic circuits to prevent derailments. If a break is detected, a red signal is displayed to notify a train crew to reduce train speed and be prepared to stop.
- Wheel Impact Detectors - Wheel sensors along the tracks sense flat spots on the train's wheels. The detector determines whether the wheel meets industry standards for replacement before it becomes dangerous.
- Geometry Cars - Geometry cars measure all industry-standard track geometry parameters including track gauge, horizontal and vertical

alignment, cross-level, twist and warp. The information gained from rail geometry testing helps to maintain track to standards, locate exceptions before they become serious problems, organize repairs on a priority basis and prevent derailments.

The cars also use lasers and cameras to measure more than 300 points on the rail surface for a full rail profile assessment. Rail profile information helps to classify rail by size and wear, planning long-range rail replacement, evaluation of grinding effectiveness, locating areas of accelerated wear and maximizing rail life.

Benefits also include locating weak gauges that affect safe movement of trains, identifying clusters of weak ties or broken fasteners and can be an effective long-term planning tool for track maintenance.

- Rail Flaw Detection Cars - These cars inspect the running rails for subsurface defects using proprietary technology and data management systems.

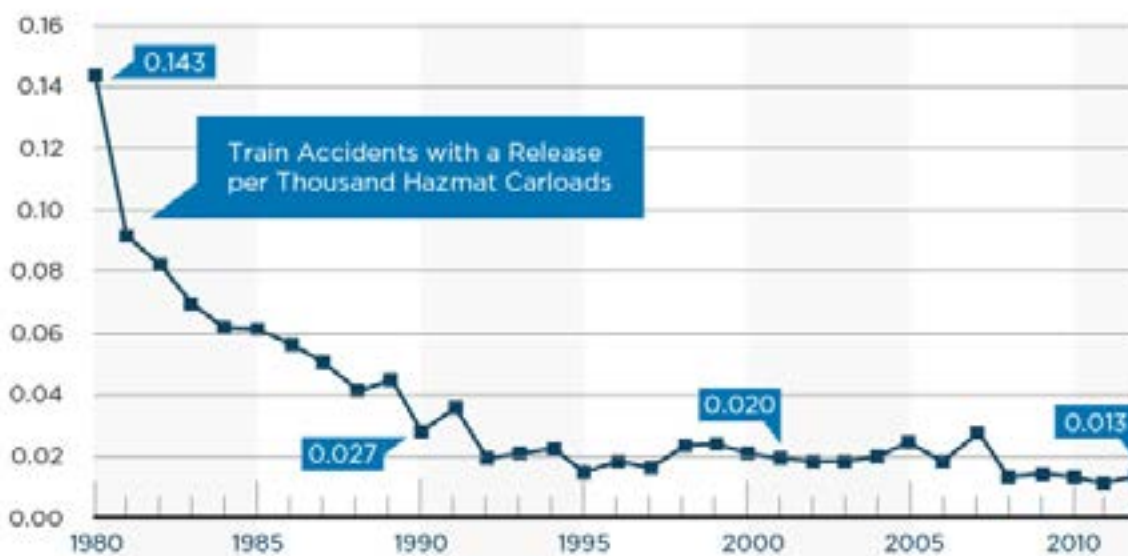


HAZMAT MANAGEMENT AND TRAINING

KCS readily recognizes the hazards associated with some of the materials we transport. Our goal is to have zero derailments and zero releases. According to the most recent information from the Association of American Railroads, 99.998 percent of all hazardous material (hazmat) rail shipments in the U.S. reached their destination without a release caused by a train accident, demonstrating rail is a safe way to transport these goods.

RAILROADS DELIVER HAZARDOUS MATERIALS SAFELY

99.998 percent of hazmat carloads are moved without accident



America's freight railroads transport some of the most essential hazardous materials with special attention to safety. Today, 99.998 percent of all hazmat shipments reach their destination without accident. Investment in infrastructure, special operating procedures, advanced technology, and community safety measures — just some of the many initiatives railroads undertake to ensure safe movement of hazmat — have helped lower the industry's hazmat accident rate by 91 percent since 1980 and 35 percent since 2000.

Source: Association of American Railroads, U.S. Federal Railroad Administration





SAFETY

HAZMAT MANAGEMENT AND TRAINING

We work diligently with the Association of American Railroads (AAR), the Pipeline and Hazardous Materials Safety Administration (PHMSA), our customers, our peers and others to improve the transport of hazardous materials. We have established programs and training that facilitate safe and efficient operations, minimizing impact to those who live in areas where we operate. One such program is Transportation Community Awareness Emergency Response (TRANSCAER®), a community outreach program designed to address community concerns through

planning and cooperation. To support the national outreach effort, KCS voluntarily coordinates drills for emergency responders, providing instruction on the safe transportation of hazardous materials and emergency procedures. Additionally, KCS is an active member of the AAR's Bureau of Explosives (BOE). The BOE is a unique membership organization dedicated to helping carriers, shippers and container manufacturers continually improve hazardous materials transportation safety. KCS is also an active participant in the AAR North American Tank Car Committee. The

Tank Car Committee is composed of the AAR, rail car owners and manufacturers, as well as, shippers of hazmat, rail customers, the U.S. Department of Transportation, Transport Canada and the National Transportation Safety Board (NTSB). The committee works together to develop technical standards for how rail cars, including tank cars used to move hazmat, are designed and constructed.

RECOGNIZING CUSTOMERS FOR SAFE SHIPPING

As part of our commitment as a Responsible Care company, KCSR established the Hazmat Shipper Safety Appreciation award in the United States to promote excellence in safety, environmental protection and regulatory compliance by our hazmat customers for their resolve in properly securing hazardous material containers for rail transportation.

In 2014, KCSR recognized 19 of our customers with our Hazmat Shippers Safety Appreciation award for originating more than 500 bulk hazmat shipments on KCSR without a non-accident release.

Our customers play a critical role in eliminating the occurrence of non-accident releases. The objective of this award is to recognize their support and to thank them for their help in ensuring the safe rail transportation of hazardous material.

Emergency response drills typically include a specially equipped train containing cars designed for hands-on training. These high and low-pressure tank cars can be used

to simulate a variety of scenarios and demonstrate proper incident response. Instruction topics can include emergency response contacts, tank car damage

assessment, how to approach a rail accident, securing rail hazmat data, emergency locomotive shutdown, spill mitigation techniques and other related topics.

SAFETY

EMPLOYEE SAFETY

Safety starts with our employees. We provide employees with safety training and programs, empowering them with the knowledge they need to make the right decisions for their own safety and the safety of their co-workers and communities.

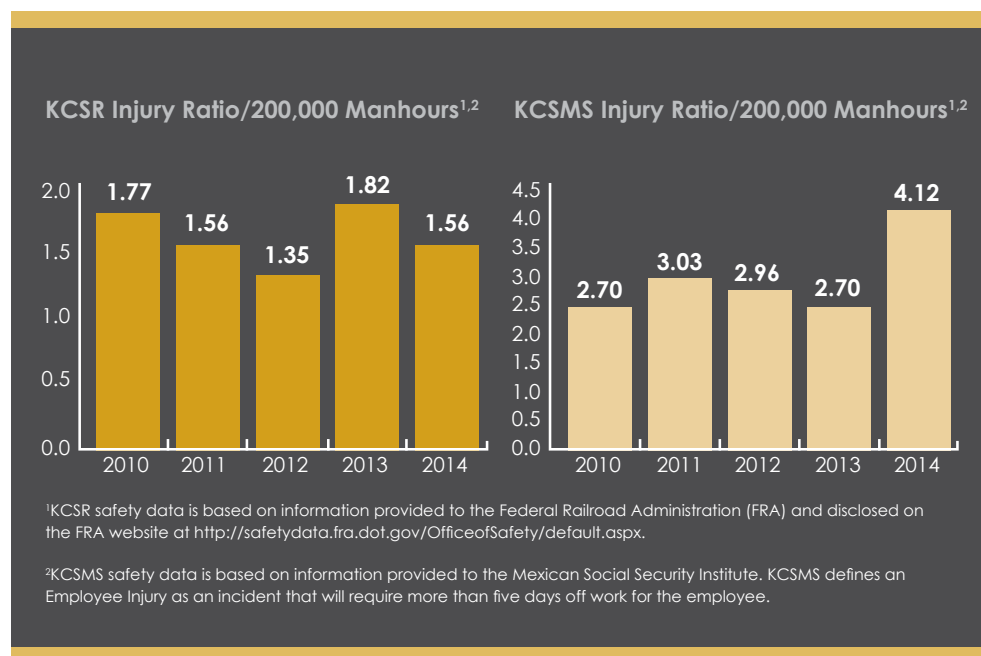
SAFETY PROGRAMS

We use numerous guidelines and mechanisms to drive safety performance. We strictly adhere to the General Code of Operating Rules (GCOR), a set of operating rules for railroads in the United States. These rules cover important issues such as employee responsibilities, signaling equipment, accidents and other topics that directly and indirectly affect railroad safety.

Our internally developed Safety Through Awareness and Responsibility (STAR) program outlines 17 core safety rules and includes craft-specific rules for transportation, mechanical, engineering and clerical functions. Additionally, Safe Job Procedures have been developed for high-risk tasks. The rules are updated or amended as new safety issues are identified.

The KCS Program of Operational Testing allows us to identify, monitor and manage an existing or emerging safety risk. This monthly testing is designed to gauge employees' knowledge and compliance with our safety procedures and determine the need for remedial training, encouragement, or guidance. Testing is developed at the territory level in response to identified risk trends, recent injuries or accidents and previously failed operational tests.

The KCS operating team established a new Transportation, Engineering and Mechanical (TEaM) Training Center to enhance our training programs for operating employees. The center focuses on operating rules, procedures, and compliance training. In 2014, KCS offered our first certification program in a specially-equipped mobile training trailer, bringing more training directly to employees. A proper training program is key to ensuring employees are prepared to perform their duties safely and make sound business decisions.



SAFETY

INDUSTRIAL HYGIENE

To help minimize employee injuries and confirm safe working conditions, KCS utilizes a team of industrial hygienists focused on anticipating, recognizing, evaluating and controlling workplace conditions that may cause injury or illness. Industrial hygienists use environmental monitoring and analytical methods to detect the extent of worker exposure and employ engineering, work practice controls and other methods to control potential health hazards. These experts analyze specific equipment and criteria such as respiratory protection, confined spaces, hazardous conditions and communication of hazards.

KCS requires and enforces the appropriate use of personal protective equipment (PPE) necessary for employees to work safely and productively. In addition to job-specific PPE, we maintain a hearing conservation program that is designed to provide information and procedural guidelines to protect KCS employees from occupational hearing loss. We periodically conduct noise monitoring to identify locations and employees for inclusion in the hearing conservation program.

Noise monitoring also provides data for the implementation of engineering controls that minimize workplace noise levels. In cases where noise cannot be lowered to safe levels, we provide employees with personal hearing protection devices. As part of our hearing conservation program, we provide annual audiometric testing for eligible employees. In addition, we provide them with annual training on the effects of noise on hearing, the proper use and care of hearing protection devices and the purpose and procedures for audiometric testing.

SAFETY

NETWORK SECURITY

Operating both within and between the United States and Mexico presents a number of unique challenges and opportunities. As part of our dedication to safe operations, we continually strive to maintain the safety and security of our approximately 6,500-mile network. We take this responsibility very seriously and strive to serve as the benchmark for rail security.

OPERATING ACROSS BORDERS

As a company transporting valuable and indispensable commodities between major trade partners, we recognize that KCS may be susceptible to crime. To proactively protect ourselves and our customers against these threats, we implemented a security model — a framework of standards — that is adaptable to any situation and guides our security program. As we continually improve and develop our program, we ensure our actions are scalable to our operations, predictable in outcome, efficient, effective and mitigate the risk at hand. Our goal is to detect and deter any threat we may face.

Our network-wide, multi-layered safety and security program includes high-security seals, rail car inspections, shipment escorts, security custodians, surveillance, canine units, security patrols and other security approaches to prevent unauthorized entry into the rail conveyances and railroad property. In addition to our own internal system of checks and balances, our security process is connected to and supported by a high level of federal, state and local law enforcement. KCS

rigorously complies with security laws and regulations, maintaining close coordination with Mexican and U.S. security authorities and intelligence agencies. Our security program is implemented through two primary functions — security technology and employees. We continually strive to employ more security technology to reduce the burden and risk on staff.

In 2014, KCSM's claims rate for theft, vandalism or accidents for shipments in Mexico was approximately 0.03 percent. Even though our incident rate is near zero, we continuously strive to improve our security measures.



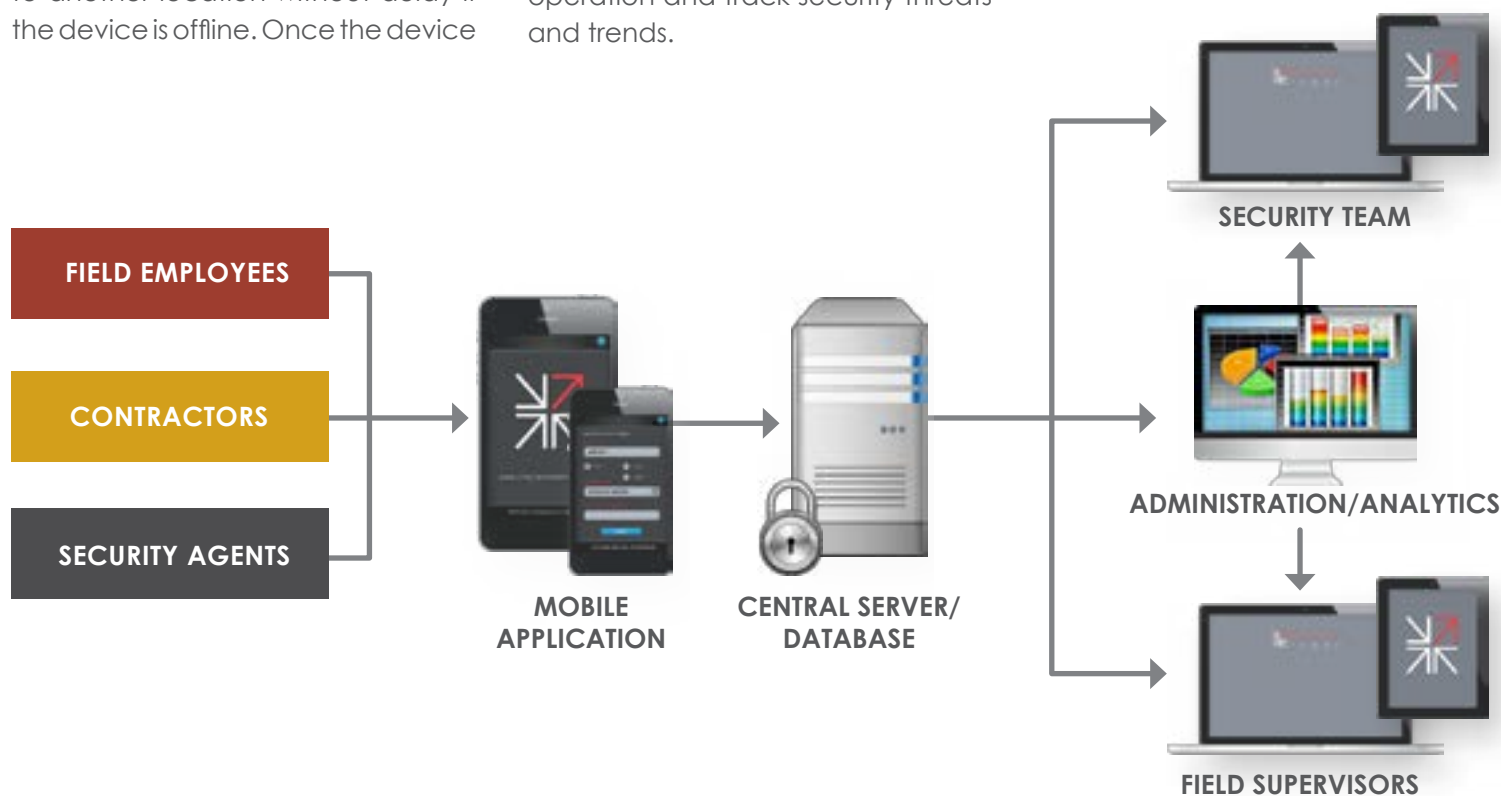
NETWORK SECURITY

MOBILE SECURITY APPLICATION

Due to unique challenges in Mexico, in 2014 the KCSM security team developed a mobile application to enhance the safety and security of our trains. The application allows our security team to collect data from field employees and contractors through reports and forms. Field employees are able to stream data simultaneously to field supervisors and back-end system data administrators. The application allows for both online and offline data collection allowing personnel to submit data efficiently and move to another location without delay if the device is offline. Once the device

regains connectivity, the application will automatically transmit data. With the new application security supervisors receive uniform and organized data almost immediately upon the field employee recording an incident or concern. This allows supervisors to respond immediately in critical or important situations as well as provides visual feedback through images. In addition to real-time data, the application also provides a repository of historical data which allows our security team to evaluate and optimize field operation and track security threats and trends.

In addition to security threats, the application also improves safety by providing a method for reporting right-of-way obstructions. The application allows field employees to record the type, location, and risk of obstructions. With the ability to attach images of the obstructions, supervisors are able to make real-time decisions that will improve the safety of our employees and the communities through which we travel.





SAFETY

NETWORK SECURITY

KCS strictly prohibits the transit of any individuals illegally riding our trains and is in no way complicit with their transit on any other railroads in the U.S. and Mexico. KCS actively engages with U.S., Mexican and State of Texas officials — such as the U.S. Department of Homeland Security and the Texas Department of Public Safety — to share intelligence and conduct continuous research to support and provide timely information related to the issue of illegal immigration. Should an individual gain access to one of our trains for illegal travel, we report to and work with local authorities. We respect the dignity of individuals who are improperly utilizing our network and stop at a location where they can exit safely.

CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM

Part of KCS's strategy against terrorism includes certifications and partnerships with groups like the Customs-Trade Partnership Against Terrorism (C-TPAT). C-TPAT seeks to safeguard the world's vibrant trade industry from terrorists maintaining the economic health of the United States and its neighbors. The partnership develops and adopts measures that add security but do not inhibit trade — a delicate balancing act.

C-TPAT partners agree to work with Customs and Border Protection (CBP) to protect the supply chain, identify security gaps and implement specific security measures and best practices. Additionally, partners provide CBP with a security profile outlining the specific security measures the company has in place. Applicants must address a broad range of security topics and present security profiles that list action plans to align security throughout their supply chain. KCS encourages all business partners and customers eligible for C-TPAT certification to join relevant programs.

KCS consistently communicates the importance of security to our employees through an ongoing C-TPAT training program that highlights the C-TPAT fundamentals, the extent and reach of the supply chain and our companies' security policies. In 2014, we provided several training sessions to different areas within the company and ongoing training is planned for 2015.

SAFETY

SECURITY INVESTMENTS

To increase the security of our railway operations, KCS has made significant investments in technology, security staff and intelligence.



TECHNOLOGY

KCS uses high-tech surveillance equipment and cameras as part of our standard security procedures. KCSM consistently monitors the condition of all cargo coming in and out of 18 rail yards along the Mexican network. At each checkpoint, images are taken of the top, bottom and sides of each car and we receive a video stream allowing us to effectively mitigate risks and monitor security without interrupting transport.

At the border, every train also passes through the Vehicle and Cargo Inspection System (VACIS). In 2008,

the U.S. Department of Homeland Security began screening trains entering the United States. CBP officers at the ports of entry use the VACIS to scan cargo and containers for explosives, weapons, drugs and other contraband. VACIS uses radiographic images to help inspectors find hidden compartments or unidentified items. The system scans each rail car as the train slowly moves past the VACIS equipment which remains stationary. The full image of the vehicle and its contents is produced at a nearby console which is operated by a trained inspector. All KCS trains are

scanned using the VACIS scanning system at the Laredo/Nuevo Laredo and the Matamoros/Brownsville gateways.

Utilizing these inspection portals, rail cars are monitored throughout the route. Upon delivery, KCS documents the condition of the freight and its seals. If our inspection reveals an anomaly of any kind, we coordinate with local and federal authorities to rapidly resolve the breach. The primary goal of these technologies is to monitor goods while maintaining train velocity reducing the likelihood of incidents.

SAFETY

SECURITY INVESTMENTS

SECURITY PERSONNEL AND EMPLOYEE TRAINING

We provide guidance for our employees to recognize security hazards and prevent breaches throughout our operations whether in the rail yard or in the office. We provide a variety of training programs to our employees, as well as daily security briefs. Employee training includes rail security awareness following U.S. Department of Transportation and Transportation Security Administration guidelines. The Rail Employee Awareness and Counter-Terrorism Training (REACT) program is a Homeland Security-related class that KCSR developed through a grant from the U.S. Government. In 2014, KCSR continued to train our front-line rail employees to recognize potential security situations. The program modules focus on awareness and prevention, detection and response to threats and vulnerabilities as well as reinforces security measures. Similarly, in Mexico, KCSMS employees receive monthly training to address issues and concerns related to terrorism and other potential security topics.

In addition to our employees, we work with third-party network security companies in Mexico, managed by KCSMS supervisors, to help secure our operations and mitigate threats. With the assistance of smartphones, tablets and applications, we have implemented

a robust reporting process that allows us to constantly monitor, analyze and improve security. We are the only Class I railway with a security dispatch system to communicate between trains, allowing for real-time reporting and a constant flow of information.

All locomotive conductors are trained to spot and report risks. To further secure the train, we employ security custodians who physically ride our trains through low-velocity areas (less than 20 miles per hour).

KCSM also has a fleet of 115 patrol vehicles that ride alongside both sides of the train through low-velocity areas until they reach adequate speeds (greater than 20 miles per hour).

As an added line of security, we train our customers on how to operate securely and efficiently when they use rail transportation. For example, customers receive training on how to use proper high-security seals to protect their cargo from theft.



COMMUNITY

All aboard to stronger and more sustainable communities

KCS recognizes that the diverse communities in which we operate are an important part of our success and we look for opportunities to give back through community engagement, charitable giving and employee volunteerism. Through these initiatives, we can create mutually beneficial relationships with our public partners that sustain long-term prosperity.

COMMUNITY

HIRING VETERANS

KCSR has a strong commitment to hiring veterans and military personnel. The company actively seeks to attract talented veterans to our workforce and provide them with competitive benefits and salaries that are generally above the national average. KCSR's culture allows for high levels of responsibility, upward mobility potential and rewards for outstanding performance making it a work environment compatible for individuals with a military background.

KCSR has consistently been recognized by the Employer Support of the Guard and Reserve organization for our employment policies and practices that are supportive of employee participation in the National Guard and Reserve. KCSR also collaborates with Joining Forces, a national initiative to engage all sectors of society, to give U.S. service members and their families the opportunities and support they have earned.

INROADS INTERNSHIP PROGRAM

Since 2006, KCSR has partnered with INROADS, an organization whose goal is to develop talented, underserved youth and provide them with business opportunities that prepare them for corporate and community leadership. KCSR commits to provide a multi-year professional opportunity for the interns we sponsor, considering them for full-time employment upon graduation. KCSR works to create, implement and monitor a career development plan for interns and designate a business advisor to evaluate their progress and offer guidance throughout the process. Based on the program's success in the U.S., KCSMS has also recently begun sponsoring Inroads interns.

DIVERSITY

Diversity is the key to innovation providing and allowing us to create new opportunities. It is policy for KCS and our U.S. and Mexican subsidiaries and affiliates to provide equal opportunity in employment to all employees and applicants to our team. For more information on our Equal Employment Opportunity Policy, please see page 14.



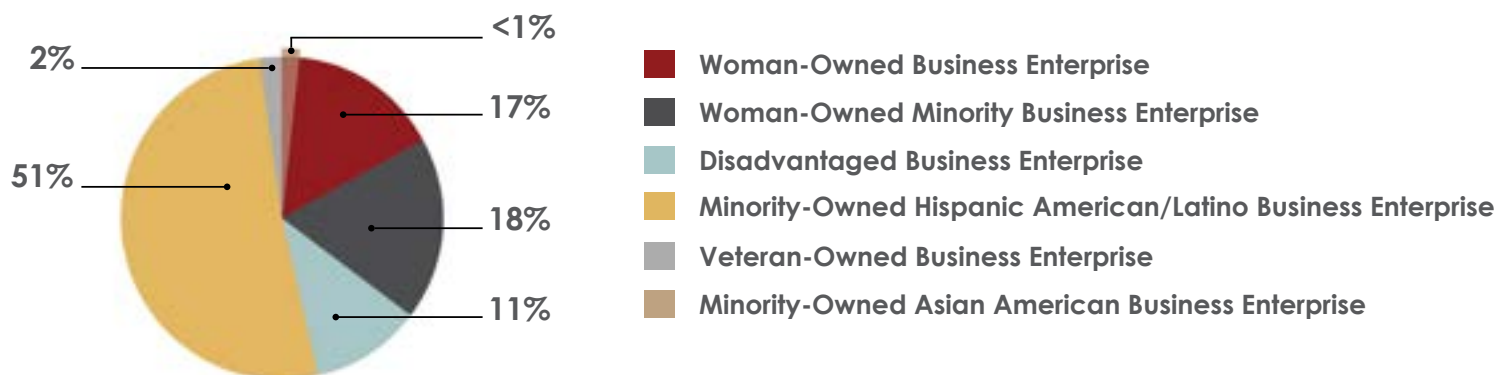
COMMUNITY

SUPPLIER DIVERSITY

KCS is committed to diversity among our suppliers. In our search for talent, we reach out to all segments of the business community, seeking qualified suppliers, large and small. We believe that working with suppliers from diverse segments of the business community supports our business objectives and strengthens local communities. In 2014, KCSR spent more than \$28 million with suppliers certified as a disadvantaged, minority-owned, woman-owned or veteran-owned business. We look to purchase goods and services from these business enterprises and encourage prospective suppliers to join us as partners and take advantage of our Supplier Diversity Program.

In 2014, KCSR added a third yard location to its partnership with the State of Louisiana. In Lake Charles, Mossville and Leesville, a group of people with disabilities and barriers to employment is providing high quality janitorial services in these KCSR yard offices. The janitorial service provider is affiliated with Employment Development Services (EDS), a non-profit agency designated by the Louisiana State Use Council, representing all certified work centers in the state. KCS prides itself on knowing that we are supporting people with disabilities and barriers to employment, giving them an opportunity to gain valuable experience, grow their skills, and achieve greater independence and quality of life. It's one small action positively affecting lives.

2014 KCSR TOTAL SPEND BY SUPPLIER DIVERSITY CATEGORY



COMMUNITY

COMMUNITY ENGAGEMENT



The Holiday Express was created in 2001 after volunteers dedicated over 8,000 hours to transforming the retired rail cars.

As part of KCS' relationship with our communities, we host a variety of events intended to develop and strengthen bonds with the public. Two such events in 2014 included KCS' 14th annual Holiday Express run in the United States and our fifth annual Tren Navideño in Mexico.

KCS HOLIDAY EXPRESS

The Holiday Express is a six-car train that brings Santa Claus and his elves to communities throughout the U.S. network at scheduled stops. 2014 marked the 14th year that KCS has operated the Holiday Express. These events are free and open to the public.

The Holiday Express also has a charitable component. At each scheduled stop, KCS makes a contribution of gift cards to the local Salvation Army to provide warm clothing and other necessities for children in need. Over 14 years, thanks to the generous contributions of KCS' employees, vendors and friends, the Holiday Express has donated well over \$1 million to this cause.

The 2014 Holiday Express attracted more than 83,700 visitors across our network and raised over \$150,000 for the Salvation Army.

TREN NAVIDEÑO

KCSM's Tren Navideño set out on its fifth annual journey seeing over 20,000 visitors through the train in 11 communities. This festive holiday train is comprised of a caboose and boxcar decorated with holiday images, the Alto Total (Operation Lifesaver) caboose, and a caboose commemorating the Mexican

Revolution. At each Tren Navideño stop, portions of the train opened for the viewing of holiday displays. A holiday movie is shown on large outdoor screens and refreshments and gifts are handed out to visitors. Each event is free and open to the public.



The Tren Navideño pulls railcars depicting holiday images and the Mexican Revolution.



COMMUNITY

KCS CHARITABLE FUND

The Kansas City Southern Charitable Fund, which is administered by the Greater Kansas City Community Foundation, supports tax-exempt 501(c)(3) charitable organizations and events benefiting communities and the citizens in our service areas. Distributions are only made to 501(c)(3) organizations as recognized by the Internal Revenue Service. In 2014, the Fund donated more than \$400,000 to tax-exempt entities serving the local communities in which KCSR operates.

MATCHING GIFTS PROGRAM

KCS recognizes the fundamental importance of supporting organizations about which our employees are passionate. Accordingly, we have adopted a matching gifts policy under which the company matches charitable gifts made by employees and directors of KCS and its related entities.

The company matches donations from any eligible KCS director, officer or employee. Donations from employees are matched on a 1:1 basis up to \$15,000 per employee per calendar year, and donations from KCS directors and officers in the position of vice president or above are matched on a 2:1 basis up to \$30,000 per employee per calendar year.

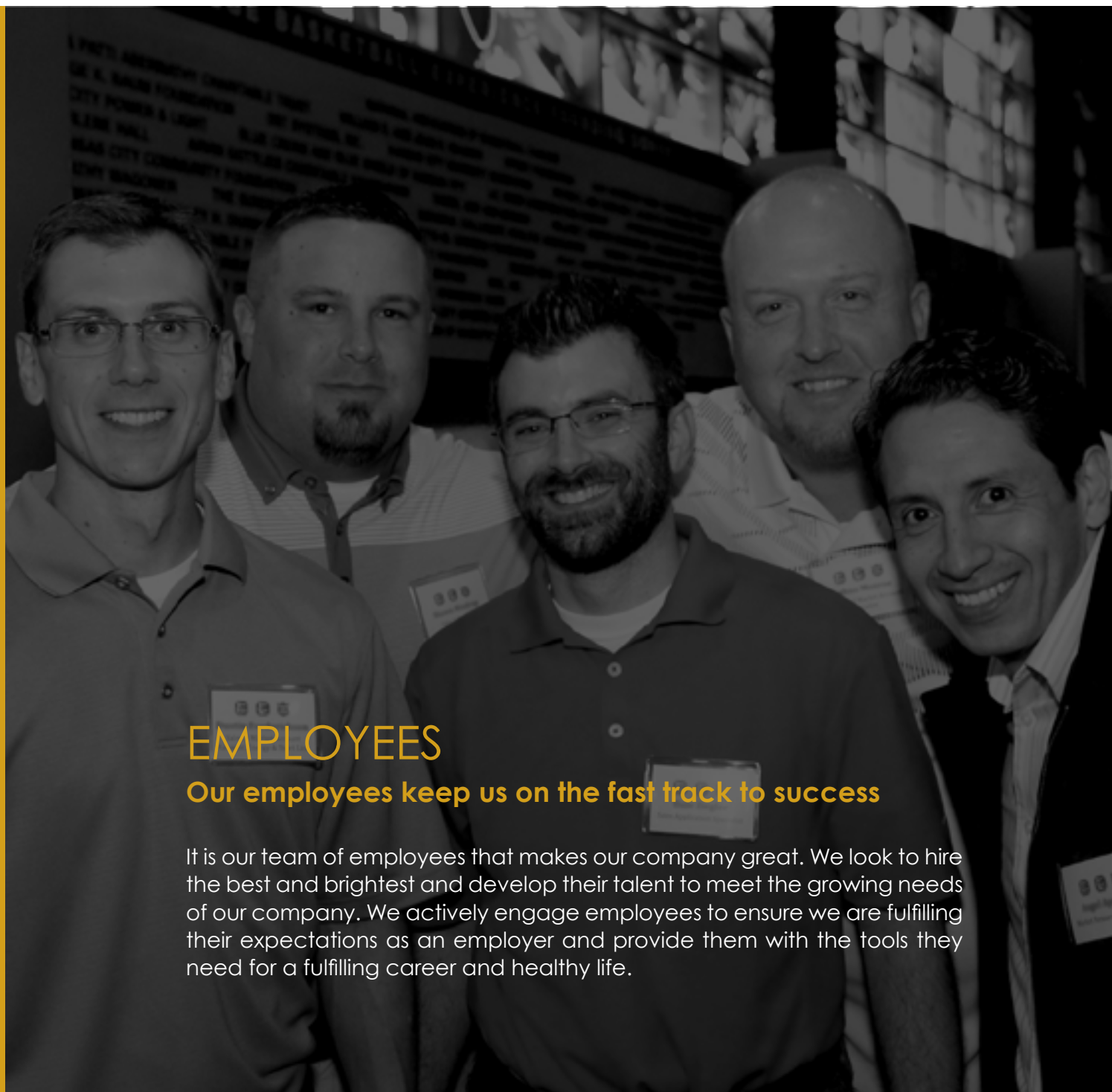
$$\begin{array}{r} \text{KCS Charitable Fund} \\ + \\ \text{Matching Gifts Program} \\ = \\ \$804,366 \end{array}$$

EMPLOYEE VOLUNTEERISM

We support volunteer endeavors wherever possible and encourage our employees to foster relationships within their local communities. As an example of KCS' employee volunteerism, in May 2014, KCSR's Health and Wellness Committee hosted a volunteer opportunity at Harvesters: the Community Food Network in Kansas City. Employees surpassed their goal and contributed the equivalent of nearly 43,000 meals.

In Mexico, KCSMS employees collaborated with Rayito de Luz ("A Little Sunshine") during the holiday season to make the wishes of 90 children come true. Employees "adopted" a child for the season and fulfilled the child's wish list to Santa. Additionally, KCSMS employees supported the Fundación Teletón (Telethon Foundation) with its objectives to assist children, youth and families with cancer, autism and other

disabilities. KCSMS also collaborates with Ciudad de los Niños (City of Children), a not-for-profit community school currently ranked as one of the top 20 schools in the nation, providing education, food, transportation and medical assistance to nearly 1,400 children and youth of underprivileged families.



EMPLOYEES

Our employees keep us on the fast track to success

It is our team of employees that makes our company great. We look to hire the best and brightest and develop their talent to meet the growing needs of our company. We actively engage employees to ensure we are fulfilling their expectations as an employer and provide them with the tools they need for a fulfilling career and healthy life.



EMPLOYEES

OUR EMPLOYEES

EMPLOYEE BREAKDOWN, YEAR-END 2014

EMPLOYEE GROUP	KCSR	KCSMS	TOTAL
UNION	2,404	2,592	4,996
MANAGEMENT	746	750	1,496

BENEFITS

KCSR provides a high-quality benefits package for all management employees. Management employees and their dependents may be eligible to participate in one or more of the benefit plans from the first day of active employment.

Benefits typically include:

- Comprehensive health insurance
- Dental insurance
- Vision coverage
- Flexible spending accounts
- Life insurance for employees and dependents
- Short- and long-term disability pay
- A 401(k) plan including company matching contributions
- A stock purchase plan
- Annual incentive plan

KCS unionized employees receive benefits negotiated as a function of the collective bargaining process and are craft-specific. Those benefits typically include health and welfare plans; supplemental sickness coverage (where applicable); dental, hearing, vision, accidental death and dismemberment insurance; and other similar provisions.

KCSMS offers a competitive benefits package including a Christmas bonus, vacation days, a vacation premium, a food allowance, a savings fund, major medical expense coverage and life insurance.

All KCS non-union employees have the opportunity to participate in an annual incentive plan that provides a bonus payout annually based on an employee's salary grade if specified corporate and individual objectives are met.

EMPLOYEES

HEALTH AND WELLNESS PROGRAM



KCS provides programs and opportunities to keep our employees healthy and productive both in and out of the workplace. We offer numerous health and wellness benefits and employee assistance programs to our team members to make sure everyone has the tools they need to live a healthy life.

KCSR has a Health and Wellness Committee that provides education and activities that focus on the psychological, physical, emotional and social needs necessary for enhancing personal well-being. The program's mission is to strengthen the health of the organization by stimulating interest and advocating healthier lifestyles for all employees. We offer free and voluntary health benefits, such as biometric

health screenings, to enable our employees to be proactive about their health. Some benefits are also available to KCSR employees' spouses and dependents such as smoking cessation, healthy weight classes and financial planning tools like Retirewise and 401k Fidelity workshops.

KCSMS provides health and wellness benefits that include presentations

for breast cancer awareness, low-cost flu vaccination programs for employees and their families and lactation rooms. Additionally, KCSMS offers training and events related to illness prevention, well-being assessments, biometric screens and other health topics. We also have an internal soccer league in which approximately 60 employees compete in three annual tournaments.

For the third consecutive year, the Consejo Empresarial de Salud y Bienestar (Entrepreneurial Health and Wellness Council), with support from FUNSALUD and Health Ministries, recognized KCSM with an Organización Responsablemente Saludable PLATA (ORS®) award for fostering a healthy work environment with a health and wellness program for KCSMS employees.

The ORS® award was given to nearly 40 companies focused on improving the quality of life of their respective employees. The objective is to generate healthier working environments, promote better lifestyles, and reduce the rate of chronic-degenerative diseases, obesity and high blood pressure and cholesterol levels.

EMPLOYEES

PROMOTING PHYSICAL ACTIVITY



Any KCSMS employee in Mexico can participate in the KCSMS Running Club. The company sponsors employees to participate in up to ten 5K events in the area each year. In 2014, more than 40 employees participated in the events.

We promote physical activity as an integral part of a healthy lifestyle. Regular physical activity can reduce the risk of premature death and chronic disease such as coronary heart disease, stroke, hypertension, colon cancer, breast cancer, type-2 diabetes and osteoporosis. If employees are not currently active, we encourage them to slowly add physical activity into their lifestyle and benefit from increased movement.

We host or participate in runs/walks for employees as one way to promote healthy lifestyles. Our Family Fun 5k and Wellness Fair took place in Kansas City. In 2014, this event promoted the wellness and longevity of KCSR employees and their families. Approximately 400 employees and

family members participated in the 5k and employees were able to build camaraderie by exercising with fellow employees and their families and receive valuable information through health and wellness vendors attending the event.

KCSMS hosts an annual Via Libre 5k, where employees spend a Sunday morning exercising with their co-workers and families. Approximately 720 employees and their family members participated in 2014.



EMPLOYEES

EMPLOYEE TRAINING AND DEVELOPMENT

KCS is committed to training and education programs that equip employees with the skills to succeed and grow in their day-to-day tasks and responsibilities. The company aspires to build a strong, nimble, customer-oriented culture focused on performance accountability and execution. KCS is currently evolving our training and education programs around four main competencies:

- Emerging leaders and executive development
- Degree completion and educational assistance
- Functional skill development
- Management and individual contributor development

To assist with these goals, KCS offers training and development opportunities to our employees to keep them engaged and prepared for new career challenges:

- Education Reimbursement Program
- Managing People
- Leading By Example:
Preparing New Leaders & Building
a Leadership Culture
- Skillsoft eLearning
- Language Learning Software
- University Partnership

Descriptions on page 40

EMPLOYEE ASSISTANCE PROGRAM

KCSR's Employee Assistance Program (EAP) provides confidential services for everyday challenges and is offered to employees, recently separated employees and their households. The goal of EAP is to help families maintain or restore balance and achieve their goals through the access to information and short-term counseling. EAP can provide assistance with issues such as:

- Stress at home or on the job
- Questions about healthy lifestyles
- Attorney referrals for legal needs
- Financial needs such as budgeting
- Parenting concerns
- Aging and retirement
- Drugs and alcohol
- Depression and anxiety
- Conflicts and communication issues
- Help with problem solving
- Support during difficult life events

EMPLOYEES

EMPLOYEE TRAINING AND DEVELOPMENT

EDUCATION REIMBURSEMENT PROGRAM:

This is a program designed to assist eligible employees in their professional development by encouraging voluntary academic studies that contribute to improved job performance. KCS provides financial assistance for employees interested in furthering their formal education.

LANGUAGE LEARNING SOFTWARE:

This is a web-based dynamic immersion tool for KCS management employees studying a foreign language for the first time, as well as those looking to improve their current language skills.

UNIVERSITY PARTNERSHIP:

KCS partners with Baker University, Universidad de Monterrey and Universidad del Valle de México allowing employees to earn college credit toward a degree for company sponsored training programs.

MANAGING PEOPLE:

This is a workshop-based program designed for KCSMS employees at all levels to enhance leadership skills critical to business growth, people development and financial success.

LEADING BY EXAMPLE: PREPARING NEW LEADERS & BUILDING A LEADERSHIP CULTURE:

This consists of two programs targeted at KCSR leaders from front-line/new managers up to vice presidents to enhance leadership skills critical to business growth, people development and financial success. All workshops are aligned with, and supportive of, the KCS Vision and Leadership Competencies.

SKILLSOFT ELEARNING:

Just-in-time, self-service development resources available for all KCS management employees to build skills as needed. Skillsoft courses are also eligible for college credit.



ENVIRONMENTAL PERFORMANCE

Not just another option; A cleaner, more efficient option

In alignment with our HSSE Commitment, our environmental performance efforts are driven by a dedication to operational efficiency, our use of leading-edge technologies and the management of our operational footprint. KCS looks to use natural resources efficiently to minimize emissions and prevent pollution while seeking improvements across the entire network.

ENVIRONMENTAL PERFORMANCE

OPERATIONAL EFFICIENCY

FUEL EFFICIENCY

Rail is one of the most environmentally efficient forms of transportation. On average, a Class I U.S. freight train can haul one ton of freight 473 miles on just one gallon of fuel. New locomotive technology, track improvements and employee training combine to produce better fuel economy, lower GHG emissions and a more sustainable future for all.

The majority of our GHG emissions is generated through the operation of our locomotive fleet. In 2014, KCS consumed approximately 137.1 million gallons of diesel fuel. The direct GHG emissions associated with our diesel fuel consumption totaled approximately 1.4 million metric tons of carbon dioxide (CO₂). Our GHG emissions increased slightly in 2014 due to our expanding operations and record carloads delivered. KCSR has increased fuel efficiency by nearly 38 percent, from 340 revenue ton miles (RTM) per gallon in 2005 to 470 RTM per gallon in 2014. This means we are

able to move more goods and emit considerably less emissions than in 2005.

We have a cross-functional committee focused on fuel efficiency and conservation. The committee sets standards, publishes guidelines and monitors locomotive fueling, fuel consumption, train handling and shutdown and isolation procedures, all of which contribute to a locomotive's fuel efficiency. The committee also evaluates new technologies that contribute to fuel efficiency and conservation and promotes these efforts among employees.

In order to improve the efficiency, reliability and sustainability of our fleet, KCS has consistently worked to reduce the average age of our fleet through purchases, leases, retirements and overhauls. KCS has procured new Tier 3 EMD SD70ACe and GE ES44AC locomotives and is testing two environmentally friendly

Genset locomotives. We continue to overhaul the rest of the locomotive fleet every seven to ten years. We also repowered a group of older locomotives with highly efficient EMD 710ECO™ Tier 2 engines. This solution provides a unique combination of emissions reduction, fuel efficiency and locomotive reliability, improving railroad operations and addressing environmental concerns. KCSR has also obtained U.S. Environmental Protection Agency (USEPA) certifications for our heritage fleet of EMD locomotives bringing them up to Tier 0 emissions levels.

KCS also incorporates new technologies and engineering techniques in our rail infrastructure such as, improved train handling, newer wheels that improve traction and rails lubricated with an environmentally acceptable non-petroleum friction modifier to maximize fuel efficiency and reduce wheel and rail wear.

DIRECT GHG EMISSIONS ASSOCIATED WITH DIESEL FUEL CONSUMPTION

	KCS Gallons of Diesel Consumed	KCS Direct GHG Emissions from Diesel in Metric Tons CO ₂
2014	137,100,000	1,399,936
2013	127,700,000	1,303,952
2012	125,900,000	1,285,572

ENVIRONMENTAL PERFORMANCE

OPERATIONAL EFFICIENCY

AUTO ENGINE START/STOP

KCS utilizes Automatic Engine Start/Stop (AESS) on 65 percent of our locomotive fleet. AESS is a fully integrated software solution that monitors critical operating parameters, safely shutting down the engine during periods of idling.

DISTRIBUTED POWER

KCS uses distributed power, a process by which locomotives are “distributed” throughout the train to share the engine load. In some cases, distributed power trains allow us to run much larger trains than head-end power only trains, where the locomotives are only at one or both ends of the train.

In addition, the practice of using distributed power can improve train control and reduce track wear, coupling issues and derailments in areas of ascending grade and significant curves. For this reason, distributed power trains are required on certain portions of KCS’ network in order to minimize the risk of derailment in those terrains.

PARTNERSHIP WITH WI-TRONIX

In 2012, KCS collaborated with Wi-Tronix to implement a suite of remote monitoring technologies across our locomotive fleet in the United States and Mexico. The software — which provides access to onboard locomotive data, monitors fuel conservation and improves fleet productivity — was installed on all new locomotives and retrofitted on over 750 existing locomotives. In 2014 we completed implementation of Wi-Tronix software on all locomotives in our fleet.

We utilize Wi-Tracker™ to maximize both locomotive asset utilization and fuel efficiency. Wi-Tracker provides a full suite of tools such as statistics on utilization, engine shutdown and duty cycle, fuel monitoring, locomotive fault and exception-based alerting, geo-mapping and more.

Wi-Tronix enables us to detect fuel theft, to ensure locomotives do not run out of fuel on mainline track, to analyze locomotive faults and error messages and to download locomotive event recorder data remotely so we can identify train handling issues and monitor fuel consumption.

ELECTRIC CONSUMPTION

To reduce energy use at our rail yards and inside our facilities, KCS has replaced traditional lighting systems with more environmentally friendly, cost-effective and energy-efficient technologies such as automatic shutoff sensors and outdoor LED lighting. We also have installed solar panels and rechargeable batteries on our remote wayside signal systems.





ENVIRONMENTAL PERFORMANCE

PROTECTING THE ENVIRONMENT

MINIMIZING OUR IMPACT

KCS is proactive in monitoring our environmental emissions and reducing our demand on resources throughout our operations. For new engineering projects, we perform environmental studies and obtain permitting prior to construction of new track. KCS strives to minimize the effects that our construction and maintenance operations have on wetlands and other protected habitats and wildlife. We obtain permitting or perform environmental studies as required.

RESPONSIBLE WASTEWATER TREATMENT

We recognize water as a precious resource and take action to conserve and protect it whenever possible. KCS has greatly improved our overall water management through water supply leak monitoring and prevention and investment in more effective wastewater treatment to allow better separation of oil and solid matter from water for reuse or clean discharge. We make sure we meet or exceed standards of state and local authorities to ensure compliance with all water pollution laws.

KCS operates wastewater treatment plants at yard facilities throughout our network to ensure properly

treated wastewater discharges. Ongoing improvements to treat contact storm water and prevent storm water from coming in contact with fueling or maintenance operations help to safeguard stream and wetland habitats. For example, KCSR is currently investing over \$1 million to improve wastewater treatment at our Shreveport locomotive maintenance facility. Instead of backfilling an obsolete wastewater treatment lagoon, we have upgraded the area and allowed native plant species to create habitat for wildlife.

We are making efforts to minimize or prevent wastes that are difficult to treat from entering the water system. Special attention, and significant capital investment, are directed to containment and pollution prevention at fueling facilities, such as the use of track mats and track pans, among others. Additionally, we have mostly eliminated the use of VOC solvents (chlorinated cleaners).

Starting in 2014, KCSM used non-potable water to irrigate gardens at the Monterrey and Queretaro facilities and adjacent land.

ENVIRONMENTAL PERFORMANCE

PROTECTING THE ENVIRONMENT

RECYCLING AND REUSE

KCS recycles or reuses materials such as crossties, oil, scrap metal and batteries from locomotive and signal systems.

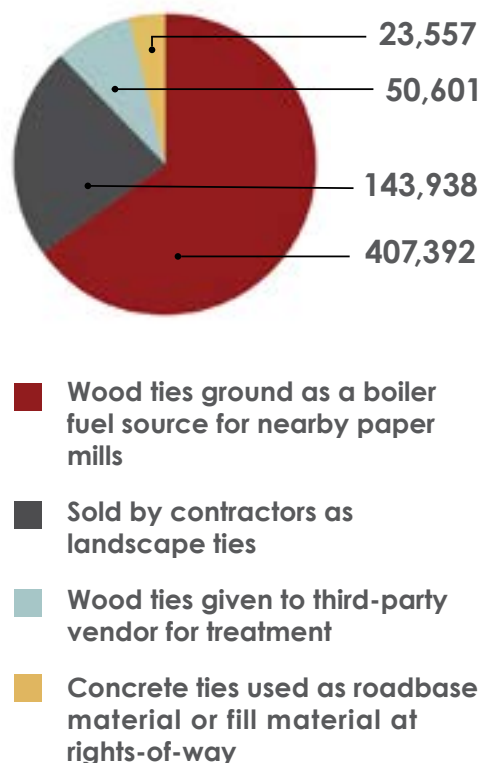
Railroad crossties must regularly be replaced to prevent safety issues associated with track degradation. In 2014, KCS replaced approximately 502,000 crossties which were recycled or reused throughout our supply chain either by contractors or within our own operations. We extend the life of railroad ties by using a borate tie-treatment process that can prevent fungus growth and rot.

KCSR contracts a recycler to transport all spent locomotive lubricating oils to a petroleum refiner for reclamation and removes all free oil from spent locomotive oil filters. In 2014, KCS recycled nearly 240,000 gallons of used oil.

We recycled or reused nearly 30,000 tons of scrap metal, rail cars, locomotives, and other rail material including rail, track plates and other track components. This material was either reused in KCS inventories or sold to third parties. KCSM is also implementing the use of rechargeable batteries to reduce environmental impact and waste. At our offices, workshops and warehouses, cardboard, paper and many obsolete electronic devices are recycled. KCSR uses a certified electronics contractor to collect

workstations, monitors, printers and other desktop accessories which are then refurbished and sold where possible with the remainder recycled. We also work with e-waste disposal charity Cells for Cells, whose proceeds benefit families affected by cancer, to dispose of mobile phones and phone accessories. All phones and other devices are recycled to recover precious metals. KCS is also implementing procedures and software to reduce the need for paper documentation by shifting to electronic storage.

REUSE OF CROSSTIES IN 2014



In 2014, KCS Logistical Support Manager, Bryan Murray, was nominated to receive the 2015 John H. Chafee Award. Each year, the AAR recognizes a Member of Congress and a railroad employee who demonstrated the highest level of environmental stewardship in the previous year.

In his current role, Murray supervises the day-to-day aspects of contractors involved in the used crosstie and metal material reclamation and/or disposal program. His efforts led to the reclamation and reuse of more than 154,000 tie plates, 41 track miles of rail and the beneficial reuse of more than one million crossties. Murray was instrumental in further developing the used crosstie disposal program as he established protocols for material retrieval and disposal, significantly increasing the railroad's ability to recycle large amounts of material. He has managed the used crosstie and metal programs well and plays a key role in reducing environmental risk. By sending used crossties to paper mills, Murray has helped save thousands of dollars in landfill costs.

ENVIRONMENTAL PERFORMANCE

SUSTAINABLE TECHNOLOGY

DATA CENTER REDESIGN/ENVIRONMENTAL IMPROVEMENTS

In conjunction with development of a secondary data center/ disaster recovery site KCS IT, through partnerships with outside professional services involved in the project, took advantage of the project to perform major updates of the primary data center in order to fully realize the goals of the project.

Throughout the remainder of 2014, full implementation of new enterprise networks, data center compute and storage projects were commissioned, funded and completed.



BENEFITS

To date, the following are highlights of the results of the program:

- December 2014 testing to recover critical systems was conducted, achieving expected outcomes and the outsourcing contract was terminated.
- Kansas City primary and secondary data centers are now in a fully redundant, higher capacity, and carrier diverse network.
- Data for critical systems from source to target is replicated in real time across these networks on disk storage for rapid recovery capabilities.

Additionally, through adoption of server virtualization, there has been reduction in power, cooling and physical server footprint

- **Power** – KCS has reduced the power consumption at the primary data center by 51% while overall capacity and capability have been increasing over the last three years
 - The commercial power load at the primary data center, on uninterruptable power systems measured at a peak of 194.6 kilowatt hours while in 2015 the systems measure a peak of 66 kilowatt hours, a 51% reduction over three years
 - As measured in May 2015, the secondary data center's power demands operate on 28.4 kilowatt hours of electricity due to new green, highly efficient power and cooling capabilities
- **Cooling** – The primary data center has reduced HVAC units from five, 30 ton HVAC units to three, units (40%

reduction from 2012) and is on track to reduce to two units (60% lower than 2012) by end of year 2015.

- **Footprint** – The primary data center floor space has reduced by two thirds.
 - Approximately 1000 square feet from 3,000 square feet due to server virtualization program, decreased footprint of new SAN equipment, and better floor space planning.
 - The new secondary data center space operates in only 800 square feet of floor space while allowing room to grow sustaining operational capacity without increasing floor space
- **Asset donation** – Starting in 2015, KCS IT began donating surplus equipment to the Boys and Girls Club of Kansas City.

ENVIRONMENTAL PERFORMANCE

RESPONSIBLE ASSOCIATIONS

KCS collaborates with a variety of organizations that promote environmentally responsible operations within the rail industry. We are active participants and sit on committees where appropriate in the organizations below.



KCS is a member of the Association of American Railroads promoting the fact that America's freight railroads operate the safest, most efficient, cost-effective and environmentally sound freight transportation system in the world.



In the United States, KCS has been a Responsible Care® partner company since 1999. Responsible Care is a global initiative aimed at driving continuous improvement in health, safety and environmental (HSE) performance and encouraging open and transparent communication with stakeholders.



In the United States, KCS is a partner in SmartWaySM Transport, an innovative collaboration between the USEPA and the freight sector designed to improve energy efficiency, reduce GHG and air pollutant emissions and improve energy security.



In June 2014 in a ceremony for World Environment Day at the University Museum of Contemporary Art (MUAC), the federal attorney for environmental protection (PROFEPA) recognized KCSM with a certificate for its efficient environmental practices.



TRANSCAER® is a community outreach program designed to address community concerns regarding the transportation of hazardous materials through planning and cooperation. For more information on hazardous material transport, please see pages 21 and 22.

REGIONAL TRANSCAER® ACHIEVEMENT AWARD

In 2014, KCSR received the regional TRANSCAER® award for demonstrating commitment to ensuring that first responders to emergencies are better prepared to assist communities to prepare for and respond to a possible hazardous materials transportation incident. Our on-going commitment provides free training to emergency responders located in our service area benefitting the response community and assisting the chemical and transportation industries in the safe and responsible transportation of hazardous materials.

The award is given in recognition of extraordinary achievement by KCS in support of the TRANSCAER® initiative. Awards recipients must demonstrate evidence that their efforts resulted in the delivery of TRANSCAER® tools to new audiences, that their reputation and actions are consistent with TRANSCAER® principles, and that their efforts resulted in positive media coverage, positive program recognition, and/or enhanced public opinion.

ENVIRONMENTAL PERFORMANCE

CARBON CALCULATOR



VS



To raise awareness of carbon emissions and potential emissions savings when utilizing rail, KCS recently developed a carbon calculator¹. By entering an estimate of freight weight, commodity type and distance, the KCS carbon calculator estimates the CO₂ emissions savings potential associated with shipping by rail vs. truck.

[Try out the Carbon Calculator](#)

As part of our strategy to help customers reduce carbon emissions while providing quality transportation services, since 2010 KCSM has held an annual event to recognize exceptional customers for their reduction in greenhouse gas emissions through the use of rail instead of truck. In 2014 we provided the award to 15 customers who saved over 520,000 tons of GHG emissions in one year.

¹The KCS CO₂ Calculator is intended for estimates only. Depending on route and other factors, true emission totals may vary. The emissions factors were developed with the help of the AAR Carbon Calculator and the Greenhouse Gas Protocol Initiative.

INVESTING IN OUR NETWORK

Delivering value everywhere we go

Creating a cross border system has provided KCS with a unique franchise and an important competitive advantage. Investing ahead of growth has been a key strategy for KCS — a strategy that has and will continue to pay dividends as we take full advantage of future growth opportunities. In 2014, we recorded a double-digit percentage increase in our adjusted diluted earnings per share for the fifth consecutive year. We posted a record \$2.6 billion in revenue, up 9 percent from the previous year. We also moved a record freight load of 2.3 million carloads. This financial success allows us to dedicate special attention to key capital improvement projects ultimately positioning us to better serve our diverse customers and their wide array of needs.





INVESTING IN OUR NETWORK

CAPITAL EXPENDITURES

In 2014, KCS reinvested over \$700 million in capital expenditures, 17% higher than the previous year. Notable initiatives include the purchase of 169 gondolas to carry steel and 100 multi-max automobile transportation cars. KCS also increased locomotive purchases over 140% year over year to 85 units. We also vigorously targeted the intermodal market with the full ramp up construction of our new Wylie, TX intermodal facility, which opened July 9, 2015. On the corporate side,

KCS continued optimization of our lease/own structure. In 2014 we converted approximately 4,000 cars and locomotives from lease to ownership, representing an additional investment beyond our over \$700 million capital outlay.

In Mexico, we performed track upgrades on approximately 25 percent of the busy corridor between Monterrey and Nuevo Laredo, Mexico, increasing train speed on certain segments of this line to 70 miles per hour — now the fastest stretch

of railroad in Mexico. The entire corridor between Monterrey and Nuevo Laredo will be completed by 2016. We also continued to invest in the cross-border corridor through improvements to our yards at Sanchez, Salinas Victoria and San Luis Potosí that will help support the growing Intermodal business. Additional information regarding our financial performance can be found in our 2014 Annual Report.

FINANCIAL PERFORMANCE OVERVIEW

(\$ in millions, except per share amounts)

	YEARS ENDED DECEMBER 31,	
	2014	2013
Revenues	\$2,577.1	\$2,369.3
Operating Income	\$809.1	\$738.6
Adjusted Operating Income*	\$847.4	\$738.6
Operating Ratio	68.6%	68.8%
Adjusted Operating Ratio*	67.1%	68.8%
Diluted Earnings per Share	\$4.55	\$3.18
Adjusted Diluted Earnings per Share*	\$4.82	\$3.98
Carloads/Units (thousands)	2,274.1	2,164.8
Capital Expenditures	\$702.7	\$599.1

*All reconciliations to GAAP can be found on pages 54 and 55.

INVESTING IN OUR NETWORK

CUSTOMER INVESTMENTS



KCS specializes in accommodating business needs of all kinds. As a Class I railroad in North America, we are only one interchange away — either north/south or east/west — from every major market on the continent. Our broad and strategic network gives us a key competitive advantage that includes vital connections to all other Class I railroads, as well as to numerous regional and short-line rail services. Through these alliances, we can provide seamless service and competitive rates while maintaining superior service quality.

CUSTOMER INVESTMENTS AND PARTNERSHIPS

Through collaborative partnerships, we invest in our customers and our customers invest in rail transportation. We meet the specific needs of our customers by developing transportation solutions that best serve the local community and the broader supply chain. The following examples show how we work with our customers to serve as a strategic link between producers and consumers.

GLOBAL PARTNERS

In 2014, KCS announced plans to develop a unit train terminal in Port Arthur, Texas. The waterborne terminal, which will be constructed on a 200-acre parcel leased by Global from KCS, will serve initially as

a destination for heavy crude from Western Canada utilizing 340,000 barrels of initial storage capacity. Upon commencement of unit train service, the terminal is expected to have an initial capacity of up to two unit trains per day.

The Port Arthur terminal represents a significant opportunity to capitalize on strong demand for the movement of Western Canadian crude initially to one of the world's premier refining centers in the U.S. Gulf Coast.

GENERAL MOTORS DE MEXICO

In January, General Motors de Mexico announced the opening of a rail spur at its San Luis Potosi plant, providing direct access to the KCSM main line. The spur is intended to facilitate the movement of 45,000

plus vehicles per year, including the Chevrolet Aveo, which GM says is the best-selling car in Mexico. Distribution centers in Mexico and exports to Canada are the primary destinations for these vehicles.

With this connection, the San Luis Potosi GM plant has direct access to KCSM and through the larger KCS network, is only one interchange away from every major market in North America. The new rail infrastructure will be important to the momentum of the automotive industry and for Mexico's economic growth. With this project, Mexico continues to grow as one of the largest exporters of automobiles in the world.

INVESTING IN OUR NETWORK

SERVICE AND RELIABILITY

KCS provides the most efficient route from the heartland of the United States to major ports and cities of industry in Mexico. We are large enough to provide critical economies of scale and keep costs in line with the market, yet are able to provide customized solutions, attention-to-detail and friendly customer service.

Our newly commissioned, state-of-the-art network operating centers in Kansas City and Monterrey are highly effective ground control for keeping our trains — and our customers' shipments — on time and on budget. Our service representatives know and can share with our customers the location of their shipments to the mile and the minute. Additionally, we provide customers access to our online tools to place orders, request equipment and track shipments.

Our Transload and Warehouse program partners with selected logistics, trucking and warehouse firms to give customers efficient and cost-effective distribution and consolidation services. By offering a single bill door-to-door package that includes rail transportation, warehousing and trucking services, we strive to become an integral part of our customers' supply chain by improving their economics and response time. Services can be

tailored to meet a customer's special needs and provide maximum flexibility as well as enhanced service and quality. Transload terminals are powerful partners to convert cargo from truck to rail. This, in turn, leads to a reduction of greenhouse gases.

KCS provides bulk shippers with complete service from origin to destination using dedicated shuttle trains and a 24/7 bulk desk manager. The bulk desk manager monitors equipment availability and shuttle train transit times, coordinates with connecting carriers and regularly communicates with our shipper.

Walmart of Mexico and Central America recognized KCSM as its best rail service provider of 2014. This recognition was based on compliance with and the achievement of key performance indicators, such as quality and on-time service, among others. Other supply chain partners were recognized in the areas of trucking, ocean carriers, cargo consolidation, equipment, ports, etc.

“Our logistics service providers are an essential part of our commercial offering. Thanks to their collaboration and continuous search for efficiencies, we are able to maintain our profitable growth and offer low prices to our customers. For this reason, we recognize our partners who help us achieve and surpass our goals.”

— Antonio Ocaranza
Director Corporate Communications
Walmart of Mexico and Central America

APPENDIX

GRI INDEX

KCS developed this annual Sustainability Report to provide an overview of our economic, environmental and social performance in 2014. We plan to produce a report annually hereafter. In addition to our internal expertise, this report is informed by the Global Reporting Initiative (GRI)

Guidelines which provide a generally accepted framework for reporting social, economic and environmental performance.

KCS management prepared our Sustainability Report and takes ownership for the collection and verification of any data presented in

the report. The information contained in this report is representative of the company's principal operating entity and its international holdings unless noted otherwise.

Contact us with questions or comments about this report at sustainability@kcsouthern.com

REPORTING OVERVIEW	GRI	PAGE REPORTED
CEO Letter	G4-1, G4-39	3
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APPENDIX

NON-GAAP FINANCIAL INFORMATION (REGULATION G)

(\$ in millions, except per share amounts)

KCS reports its financial results in accordance with generally accepted accounting principles (GAAP). However, we believe that certain non-GAAP financial measures used to review and, in certain cases, manage company business that fall within the meaning of Regulation G (disclosure of non-GAAP financial measures) may provide an additional meaningful comparison when reviewing financial 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 our planning and forecasting processes and to further analyze our own financial trends and operational performance, as well as, make financial comparisons to prior periods presented on a similar basis. We also use some of these measures internally as part of our incentive compensation plans for management employees. We believe investors and users of the company's financial information should consider all

of the above factors when evaluating our results.

These non-GAAP measures should not be considered a substitute for GAAP measures. Some of KCS' non-GAAP measures may differ from similar measures used by other companies even if similar terms are used to identify such measures.

RECONCILIATION OF DILUTED EARNINGS PER SHARE TO ADJUSTED DILUTED EARNINGS PER SHARE

	Year Ended December 31, 2014			
	Income Before Income Taxes	Income Tax Expense	Net Income	Diluted Earnings per Share
As Reported	\$713.1	\$208.8	\$504.3	\$4.55
Adjustments for:				
Lease termination costs	38.3	13.0	25.3	0.23
Debt retirement costs	6.6	2.2	4.4	0.04
Foreign exchange loss	35.5	10.6	24.9	0.22
Foreign exchange component of income taxes	-	24.2	(24.2)	(0.22)
Adjusted	<u>\$793.5</u>	<u>\$258.8</u>	<u>\$534.7</u>	
Less: Noncontrolling interest and preferred stock dividends.			(1.9)	
Adjusted net income available to common stockholders - see (a) below			<u>\$532.8</u>	<u>\$4.82</u>

(a) We believe adjusted diluted earnings per share is meaningful as it allows investors to evaluate our 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 our ongoing operations.

APPENDIX

NON-GAAP FINANCIAL INFORMATION (REGULATION G)

(\$ in millions, except per share amounts)

RECONCILIATION OF DILUTED EARNINGS PER SHARE TO ADJUSTED DILUTED EARNINGS PER SHARE

	Year Ended December 31, 2013			
	<u>Income Before Income Taxes</u>	<u>Income Tax Expense</u>	<u>Net Income</u>	<u>Diluted Earnings per Share</u>
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>	<u>\$441.5</u>	
Less: Noncontrolling interest and preferred stock dividends.			(2.1)	
Adjusted net income available to common stockholders - see (a) below			<u>\$439.4</u>	<u>\$3.98</u>

(a) We believe adjusted diluted earnings per share is meaningful as it allows investors to evaluate our 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 our ongoing operations.

RECONCILIATION OF OPERATING EXPENSES TO ADJUSTED OPERATING EXPENSES

	Year Ended December 31,	
	<u>2014</u>	<u>2013</u>
Operating expenses as reported	\$1,768.0	\$1,630.7
Adjustment for lease termination costs	(38.3)	-
Adjusted operating expenses - see (b) below	<u>\$1,729.7</u>	<u>\$1,630.7</u>
Operating income as reported	\$809.1	\$738.6
Adjusted operating income - see (b) below	847.4	738.6
Operating ratio (c) as reported	68.6%	68.8%
Adjusted operating ratio - see (b) and (c) below	67.1%	68.8%

(b) We believe adjusted operating expenses, operating income and operating ratio are meaningful as they allow investors to evaluate our performance for different periods on a more comparable basis by excluding items that are not directly related to our ongoing operations.

(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.

This document 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 report. 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; availability of qualified 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; increased demand and traffic congestion; 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, 2014 (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 report to reflect future events or developments.