



KANSAS CITY SOUTHERN





Kansas City Southern is a transportation holding company with two primary subsidiaries. The Kansas City Southern Railway Company is one of seven Class I railroads operating in the United States. Kansas City Southern de México, S.A. de C.V. is one of two large regional railroads in Mexico. KCS also owns 50% of the Panama Canal Railway Company in Panama. The combined North American rail network comprises approximately 7,100 route miles, including trackage rights, that link commercial and industrial markets in the United States and Mexico.

2020 FINANCIAL HIGHLIGHTS

Dollars in millions, except share and per share amounts. Years ended December 31.

	2020	2019	2018	2017
OPERATIONS				
Revenues	\$ 2,632.6	\$ 2,866.0	\$ 2,714.0	\$ 2,582.9
Operating income	1,003.0	886.3	986.3	921.6
Net income attributable to Kansas City Southern and subsidiaries	617.0	538.9	627.4	962.0

PER COMMON SHARE

Earnings per diluted share	\$ 6.54	\$ 5.40	\$ 6.13	\$ 9.16
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CLOSING STOCK PRICE RANGES

Common - High	\$ 204.13	\$ 155.10	\$ 119.88	\$ 113.44
Common - Low	100.54	92.87	90.84	80.82
4% Non-Cumulative Preferred - High	35.01	32.14	33.07	29.50
4% Non-Cumulative Preferred - Low	24.88	24.11	24.50	26.75

FINANCIAL CONDITION

Total assets	\$ 9,964.0	\$ 9,786.8	\$ 9,469.8	\$ 9,198.7
Total debt, including short-term borrowings	3,770.8	3,246.0	2,689.4	2,619.4
Total stockholders' equity	4,057.2	4,422.5	4,813.0	4,548.9
Total equity	4,383.6	4,745.9	5,132.7	4,865.4

COMMON STOCKHOLDER INFORMATION AT YEAR END

Stockholders of record	2,029	1,952	2,063	2,141
Shares outstanding (in thousands)	91,047	96,116	100,897	103,037
Average diluted shares outstanding (in thousands)	94,315	99,747	102,270	105,040

LETTER TO OUR STOCKHOLDERS



Patrick J. Ottensmeyer
President & Chief
Executive Officer
Kansas City Southern

The COVID-19 pandemic, and resulting economic downturn, impacted all aspects of Kansas City Southern's (KCS or the Company) operations, resulting in an exceptionally challenging year. Despite these challenges, KCS continued to aggressively implement principles of Precision Schedule Railroading (PSR), and delivered solid financial results.

Full year revenue was \$2.6 billion, down 8% from 2019. Despite the decline in revenue, KCS posted a record adjusted operating ratio* of 60.7%, a 2.5 point improvement over prior year. KCS's adjusted diluted earnings per share* was \$6.96, up 1%, despite a 6% volume decline. The Company also reported record free cash flow* of \$554 million, up a remarkable 29% over the prior year.

The pandemic impacted KCS's financial results, along with its operations and workforce. Our preparedness and resiliency were tested in 2020, and our workforce rose to the challenge. *Kansas City Southern will emerge from these challenging times a stronger, more resilient company, prepared to support its superior growth profile and facilitate North American trade.*

COVID-19 & KCS's Operational Performance

When the World Health Organization declared the novel Coronavirus (COVID-19) a pandemic on March 11, 2020, we truly had no clear roadmap for the path ahead. KCS's volumes were still robust, and we were preparing to close a record first quarter that surpassed even our own high expectations for revenue growth and margin improvement.

By the time KCS reported earnings in April, most of the United States and Mexico were under stay-at-home orders to slow the spread of the virus. The rail industry, however, was deemed essential in both countries, and KCS continued operating with two overarching objectives in mind – ***striving to remain focused on protecting the health, safety, and well-being of its employees and the communities in which it operates while working to maintain the continuity of its business operations.*** These were challenging tasks, as there was no playbook for a pandemic.

Economic activity quickly stalled across North America and most of KCS's customers modified production to both mitigate the impact of COVID-19 on their own employees and adjust to the rapid reduction in consumer demand. Stay-at-home orders kept traffic off the highways, and demand for refined fuels fell sharply. Shipments of several commodities, including finished vehicles and auto parts, ground to a halt. KCS's weekly volumes declined 30% from early March to early May – the swiftest drop in the Company's 134-year history.

The pandemic and resulting volume decline presented an unprecedented operational challenge. The Company had to adjust to changes in customer demand by rapidly reducing train starts and storing unused equipment. Crew availability added to the challenge, as a subset of KCS's workforce was unavailable due to COVID-19 quarantine protocol. A Mexican decree issued on March 31st further complicated operations by allowing all employees over the age of 60 or with certain preexisting conditions to shelter at home. At its peak, approximately 15% of our crew base was unavailable in Mexico, and crew availability challenges persisted into the first part of 2021.

KCS relied on its strong PSR foundation to address these challenges. As volumes declined, the Company responded rapidly, combining trains and reducing service where possible, while working closely with customers to ensure that essential freight continued to move. These actions resulted in fewer train starts, and longer, heavier and more efficient trains.

From March to May, we reduced our average daily train count by 39%. Longer and heavier trains drove a 4% improvement in fuel efficiency during this same period. KCS also was able to reduce costs that vary with volume, such as transportation, mechanical, engineering and overhead. As operational changes were implemented, KCS focused on incorporating these new efficiencies and savings into its permanent operating model.

When stay-at-home orders were lifted in May, volume rebounded and the surge in demand presented new operational challenges. The Company had to again scale resources rapidly, this time to handle the volume growth. But because many of the efficiencies and savings created during the downturn were maintained, KCS's network was able to absorb the new carloads at low incremental costs, permanently improving its cost structure.

We mourn the lives lost to COVID-19 over the past year. Despite significant adversity, the tenacity and resiliency of our essential workers kept essential freight moving. ***We thank our essential workers for their critical contributions to the Company's success. More than 6,500 men and women of KCS showed extraordinary courage and dedication throughout this very challenging period.***

Commercial Performance & North American Trade

The COVID-19 downturn impacted all areas of our business, some more significantly than others. When stay-at-home orders were announced, non-essential industrial production across North America paused. This pause in production impacted KCS's automotive volumes most significantly, along with the related auto supply chain including parts, metals and plastics. Consumer demand also slowed, negatively impacting our intermodal business. On the opposite end of the spectrum, our agriculture and minerals business was relatively unaffected, as demand for food products remained stable and most of our customers in this business unit were deemed essential.

Over the course of the year, changes to consumer behavior emerged. E-commerce skyrocketed as home deliveries shifted from a convenience to a critical tool in mitigating the spread of COVID-19. Trucking capacity tightened. Inventories were drawn down, requiring quick replenishment to keep up with consumer demand. Auto production resumed after stay-at-home orders were lifted in May, and then quickly rebounded in response to low dealership inventory and accelerating demand. Industrial

production also rebounded. As a result, by the end of September, KCS's weekly volumes had increased by approximately 60% from the lowest levels in the second quarter of 2020.

KCS's volume performance in 2020 was led by refined products exports from the U.S. gulf coast to Mexico, with 48% growth over 2019. Growth in this important business was driven by Mexico's increased reliance on imported gasoline and diesel given insufficient domestic production. This gap between supply and demand persists into 2021 and we expect it to provide a catalyst for KCS to continue delivering strong growth in this business.

KCS's franchise cross-border business as a whole also performed well, despite the COVID-19-driven economic slowdown. Volume across this strategic corridor grew 5%, compared to a 6% decline in overall consolidated volumes. This outperformance during an exceptionally challenging year speaks to the importance and resiliency of North American supply chains.

We are pleased that the U.S. – Mexico – Canada Agreement took effect on July 1, 2020. Looking forward, the resulting clarity in North American trade rules, along with a move to de-risk global supply chains and move them closer to consumer markets are laying the groundwork for accelerated nearshoring. Mexico offers competitive wages, a vibrant and educated workforce and compressed supply chains. ***KCS and its partners appreciate the benefits of doing business in Mexico, and we stand ready and able to support accelerated growth in North American trade.***

Financial Performance & Stockholder Returns

Given the uncertainty presented by the pandemic, KCS elected to withdraw most financial guidance when first quarter 2020 earnings were reported in April. The impact that COVID-19 would have on the economy and operations was unclear, and KCS could no longer reasonably guide to revenue, operating ratio or earnings per share.

Despite this uncertainty, our track record of strong operational execution gave us confidence to provide a free cash flow target of at least \$500 million in 2020. By October, business had improved and we were able to increase that target to at least \$550 million, implying free cash flow growth of 29% over 2019. This was a remarkable achievement in a challenging year.

KCS also took advantage of favorable credit markets in April to issue \$550 million of 3.50% Senior Unsecured Notes due in 2050. KCS initially used the offering proceeds to bolster the Company's cash reserves during the COVID-19-related downturn. In October, KCS announced that the proceeds would be used primarily to fund two new accelerated share repurchase (ASR) agreements for the repurchase of \$550 million worth of shares.

KCS followed the announcement of the ASR with an update to its capital allocation policy. Under the updated policy, KCS intends to continue deploying approximately 40-50% of its available cash to capital projects and strategic investments, and approximately 50-60% of its available cash to share repurchases and dividends. KCS also intends to increase its leverage ratio to the mid-2x range, from the low-2x range, providing greater flexibility to use debt as a means of increasing available cash.

In connection with the updated policy, KCS implemented a quarterly dividend approach that targets a payout ratio in the low-20% range. The Company also communicated a new \$3.0 billion share repurchase program, expiring December 31, 2023.

KCS's returns to stockholders in 2020 were up 23% over 2019, primarily driven by increased share repurchases. This result reflects the confidence that KCS's Board of Directors has in the durability and growth potential of the business and the Company's commitment to continue delivering strong stockholder returns.

Reducing Greenhouse Gas Emissions & Improving Fuel Efficiency

KCS is committed to mitigating the impact of climate change by reducing greenhouse gas (GHG) emissions and improving fuel efficiency. To this end, the Company is modernizing its operations through initiatives such as creating longer and heavier trains, managing horsepower-per-trailing-ton compliance and investing in fuel saving technologies. ***As a result of these fuel conservation and efficiency efforts, KCS avoided the use of 21.2 million gallons of diesel fuel in 2020, reducing our fuel consumption by 15.3%.***

Reinforcing its commitment to reducing GHG emissions, in 2020 the Company disclosed its first publicly reported multi-year emissions reduction target. Specifically, KCS intends to reduce its GHG emissions intensity 12% by the year 2025, from a 2018 base year. Additionally, in 2021, KCS has committed to setting a more aggressive science-based greenhouse gas emissions reduction target, consistent with what climate scientists say is needed to meet a goal of limiting global warming to well below 2° C above pre-industrial levels.

KCS recognizes that the rail industry plays a critical role in lowering overall transportation emissions; moving freight by rail instead of truck reduces GHG emissions by up to 75%. The Company is building on steps already taken to improve its fuel efficiency in an effort to support more sustainable North American supply chains.

Commitment to Safety & Workplace Inclusion

The safety and well-being of our workforce is KCS's highest priority. Despite an incredibly challenging year, ***KCS advanced its safety performance with a 27% improvement over 2019 in its consolidated frequency rate of reportable workplace injuries and illnesses.***

The past year also highlighted the topics of diversity, equity, and inclusion. KCS has a long-standing commitment to these principles, as embodied in the Company's Vision and Values: ***we will support Diversity and Civility by embracing our cross-cultural heritage and promoting a work environment that is inclusive of everyone. We will honor the rights of all individuals to be treated with respect and dignity.***

These are not just words. Diversity and civility are critical to KCS's culture and all employees are expected to abide by these principles. To ensure that these values permeate KCS's culture, in 2020 the executive team initiated and participated in dialogues covering the topics of inequality and diversity. These dialogues primarily took the form of small cross-cultural groups of employees, representing all areas of the business, meeting to openly discuss these matters and learn from each other. These conversations will continue as we seek to further promote diversity and inclusion across our workforce.

Looking Forward

Despite the COVID-19-driven volatility in our business last year, KCS persevered and is a stronger, more resilient and more efficient company as a result. We enter 2021 highly optimistic about our long-term growth potential, continued prospects for operational improvement through PSR, the opportunities afforded

us by our financial strength and the ability of our talented and dedicated employees to provide outstanding service to our customers. We will look to leverage these factors to deliver on our commitment ***to drive continued strong stockholder returns and provide value to all of KCS's stakeholders.***



*All reconciliations to GAAP are on page 104.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from **to**

Commission file number: 1-4717

KANSAS CITY SOUTHERN

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

427 West 12th Street

Kansas City , Missouri

(Address of principal executive offices)



44-0663509

*(I.R.S. Employer
Identification No.)*

64105

(Zip Code)

816.983.1303

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Preferred Stock, Par Value \$25 Per Share, 4%, Noncumulative	KSU	New York Stock Exchange
Common Stock, \$.01 Per Share Par Value	KSU	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

The aggregate market value of common stock held by non-affiliates of the registrant was \$14.01 billion as of June 30, 2020. There were 90,847,847 shares of \$.01 par common stock outstanding as of January 22, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Kansas City Southern's Definitive Proxy Statement for the 2021 Annual Meeting of Stockholders which will be filed no later than 120 days after December 31, 2020, is incorporated by reference in Part III.

KANSAS CITY SOUTHERN
2020 FORM 10-K ANNUAL REPORT
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Item 1. Business

COMPANY OVERVIEW

Kansas City Southern, a Delaware corporation, is a holding company with domestic and international rail operations in North America that are strategically focused on the growing north/south freight corridor connecting key commercial and industrial markets in the central United States (“U.S.”) with major industrial cities in Mexico. As used herein, “KCS” or the “Company” may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern.

KCS controls and owns all of the stock of The Kansas City Southern Railway Company (“KCSR”), a U.S. Class I railroad founded in 1887. KCSR serves a ten-state region in the midwest and southeast regions of the United States and has the shortest north/south rail route between Kansas City, Missouri and several key ports along the Gulf of Mexico in Alabama, Louisiana, Mississippi and Texas.

KCS controls and owns all of the stock of Kansas City Southern de México, S.A. de C.V. (“KCSM”). Through its 50-year concession from the Mexican government (the “Concession”), which could expire in 2047 unless extended, KCSM operates a key commercial corridor of the Mexican railroad system and has as its core route the most strategic portion of the shortest, most direct rail passageway between Mexico City and Laredo, Texas. Laredo is a principal international gateway through which a substantial portion of rail and truck traffic between the United States and Mexico crosses the border. KCSM serves most of Mexico’s principal industrial cities and three of its major seaports. KCSM’s rail lines provide exclusive rail access to the United States and Mexico border crossing at Nuevo Laredo, Tamaulipas. Under the Concession, KCSM has the right to use and operate the southern half of the rail bridge at Laredo, Texas, which spans the Rio Grande River between the United States and Mexico. The Company owns the northern half of this bridge through its ownership of Mexrail, Inc. (“Mexrail”).

KCSM also provides exclusive rail access to the port of Lazaro Cardenas on the Pacific Ocean. The Mexican government developed the port at Lazaro Cardenas principally to serve Mexican markets and as an alternative to the U.S. west coast ports for Asian and South American traffic bound for North America.

The Company wholly owns Mexrail which, in turn, wholly owns The Texas Mexican Railway Company (“Tex-Mex”). Tex-Mex owns a 160-mile rail line extending from Laredo, Texas to the port city of Corpus Christi, Texas, which connects the operations of KCSR with KCSM.

The KCS coordinated rail network (KCSR, KCSM and Tex-Mex, including trackage rights) comprises approximately 7,100 route miles extending from the midwest and southeast portions of the United States south into Mexico and connects with all other Class I railroads, providing shippers with an effective alternative to other railroad routes and giving direct access to Mexico and the southeast and southwest United States through alternate interchange hubs.

Panama Canal Railway Company (“PCRC”), an unconsolidated joint venture company owned equally by KCS and Mi-Jack Products, Inc. (“Mi-Jack”), was awarded a concession from the Republic of Panama to reconstruct and operate the Panama Canal Railway, a 47-mile railroad located adjacent to the Panama Canal that provides international container shipping companies with a railway transportation alternative to the Panama Canal. The concession was awarded in 1998 for an initial term of 25 years with an automatic renewal for an additional 25-year term. The Panama Canal Railway is a north-south railroad traversing the isthmus of Panama between the Atlantic and Pacific oceans.

Other subsidiaries and affiliates of KCS include the following:

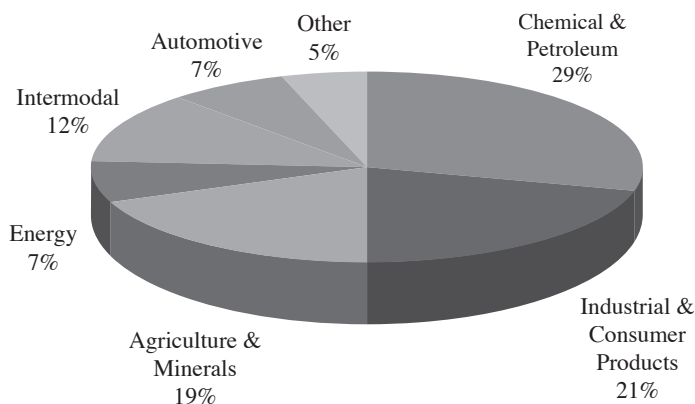
- KCSM Servicios, S.A. de C.V. (“KCSM Servicios”), a wholly-owned and consolidated subsidiary that provides employee services to KCSM;
- Meridian Speedway, LLC (“MSLLC”), a seventy percent-owned consolidated affiliate that owns the former KCSR rail line between Meridian, Mississippi and Shreveport, Louisiana, which is the portion of the rail line between Dallas, Texas and Meridian known as the “Meridian Speedway.” Norfolk Southern Corporation, through its wholly-owned subsidiary, The Alabama Great Southern Railroad Company, owns the remaining thirty percent of MSLLC;
- TFCM, S. de R.L. de C.V. (“TCM”), a forty-five percent-owned unconsolidated affiliate that operates a bulk liquid terminal in San Luis Potosí, Mexico;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. (“FTVM”), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and

- PTC-220, LLC (“PTC-220”), a fourteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for Positive Train Control (“PTC”). See Government Regulation section for further information regarding PTC.

MARKETS SERVED

Chemical and petroleum. This commodity group includes products such as chemicals, plastics, petroleum, liquefied petroleum gas, and petroleum refined products, such as gasoline and diesel. KCS transports these products across its network and through interchanges with other rail carriers. Refined fuels and liquefied petroleum gas groups of commodities supply Mexican demand. The chemical and plastic products are used in the automotive, housing and packaging industries as well as in general manufacturing. KCS hauls petroleum products across its network and as U.S. petroleum refineries have continued to increase their refining capacity, they have coordinated with KCS to develop additional long-term storage opportunities that complement a fluid freight railroad operation.

**2020 Revenues
Business Mix**



Industrial and consumer products. This commodity group includes forest products as well as metals and scrap. Forest products consist of shipments to and from paper and lumber mills in the southeast United States timber-producing region that KCS serves directly and indirectly through its various short-line connections. The United States is an important source of pulp paper and scrap paper for Mexico that ships by rail through KCS’s network. Metals and scrap consist of shipments of flat steel and long product as well as other minor moves of ores such as iron, zinc and copper. The majority of steel produced and metallic ore mined in Mexico are consumed within Mexico. Steel slab is used to make steel coils and plate-products that usually ship via rail. Higher-end finished products such as steel coils are used by Mexican manufacturers in automobiles, household appliances, the oil and gas industry, and other consumer goods that are imported from the United States through land borders and the seaports served by KCS’s rail network. KCS also transports steel coils, plates and pipe from U.S. and Mexican-based mini-mills to locations in the U.S. and Mexico for oil drilling, appliance and automotive applications. This commodity group also includes U.S. military transports, Mexico and U.S. domestic cement shipments and appliances manufactured in Mexico that are imported into the United States.

Agriculture and minerals. The agriculture and minerals commodity group consists primarily of grain and food products. Shipper demand for agriculture products is affected by competition among sources of grain and grain products, as well as price fluctuations in international markets for key commodities. In the United States, KCS’s rail lines receive and originate shipments of grain and grain products for delivery to feed mills and food and industrial consumers in the U.S. and Mexico. United States export grain shipments and Mexico import grain shipments include primarily corn, wheat, and soybeans. Food products consist mainly of soybean meal, grain meal, oils, distillers dried grains, corn syrup and sugar. Other shipments consist of a variety of products including ores, minerals, clay and glass used across North America.

Energy. The energy commodity group includes coal, frac sand, petroleum coke and crude oil. KCS hauls unit trains (trains transporting a single commodity from one source to one destination) of coal for electric generating plants in the central United States. The coal originates from the Powder River Basin in Wyoming and is interchanged to KCS at Kansas City, Missouri. Coal mined in the midwest United States is transported in non-unit trains to industrial consumers such as paper mills, steel mills, and cement companies. Frac sand originating primarily in Wisconsin, Illinois or Iowa is delivered to transloads located in northeast Texas, northern Louisiana and south Texas for distribution to gas and oil wells in the region. Frac sand business in Mexico is primarily for industrial purposes such as auto glass and bottle manufacturing. KCS’s shipments of frac sand to support the drilling industry have diminished over time as the use of in-basin frac sand has largely replaced frac sand originating in the upper Midwest. KCS transports petroleum coke from refineries in the United States to various industries in

the U.S. and Mexico including export through the Pabtex terminal located in Port Arthur, TX. The majority of crude by rail business originates in Canada, with spot shipments coming from west Texas, and is delivered to U.S. Gulf Coast refineries and tank farms in Texas, Louisiana, and Alabama.

Intermodal. The intermodal freight sector consists primarily of hauling freight containers or truck trailers on behalf of steamship lines, motor carriers, and intermodal marketing companies with rail carriers serving as long-distance haulers. KCS serves and supports the U.S. and Mexican markets, as well as cross-border traffic between the U.S. and Mexico. In light of the importance of trade between Asia and North America, the Company believes the Port of Lazaro Cardenas continues to be a strategically beneficial location for ocean carriers, manufacturers and retailers. Equally important, foreign direct investment in Mexico has caused the KCS Mexico/U.S. cross border corridor to emerge as an increasingly important tool for freight flow. The Company also provides premium service to customers over its line from Dallas through the Meridian Speedway— a critical link in creating the most direct route between the southwest and southeast/northeast U.S.

Automotive. KCS provides rail transportation to every facet of the automotive industry supply chain, including automotive manufacturers, assembly plants and distribution centers throughout North America. In addition, KCS transports finished vehicles imported and exported to and from various countries through a distribution facility at the Port of Lazaro Cardenas.

GOVERNMENT REGULATION

The Company's United States operations are subject to federal, state and local laws and regulations generally applicable to all businesses, subject to federal preemption under certain circumstances. Rail operations are also subject to the regulatory jurisdiction of the Surface Transportation Board ("STB"), the Federal Railroad Administration ("FRA") and the Pipeline and Hazardous Materials Safety Administration ("PHMSA") of the U.S. Department of Transportation ("DOT"), the Occupational Safety and Health Administration ("OSHA"), as well as other federal and state regulatory agencies. The STB has jurisdiction over disputes and complaints involving certain rates and charges, routes and services, the sale or abandonment of rail lines, applications for line extensions and construction, and consolidation or merger with, or acquisition of control of, rail common carriers. DOT and OSHA each has jurisdiction under several federal statutes over a number of safety and health aspects of rail operations, including the transportation of hazardous materials. In 2008, the President of the United States signed the Rail Safety Improvement Act of 2008 into law, which, among other things, revised hours of service for train and certain other employees and mandated implementation of PTC at certain locations by the end of 2015. PTC is a technology designed to help prevent train-to-train collisions, overspeed derailments, incursions into rail work zones, and entry into main line track if a switch is misaligned at certain locations, including main line track where toxic inhalation hazard or poison inhalation hazard movements occur or where passenger operations occur. The Surface Transportation Extension Act of 2015 amended the PTC deadline set by the Rail Safety Improvement Act of 2008 to require implementation of PTC by the end of 2018, and then further extended to December 31, 2020. By the end of 2018, the Company implemented PTC on all required sections of its rail network, locomotives and wayside assets. The Company completed interoperability with the required Class I freight railroads and Amtrak in June 2020 in compliance with the December 31, 2020 deadline. The implementation of PTC increased operating costs, and the number of employees the Company employs, and has required significant investments in new safety technology. The Company will continue to make investments in new safety technology.

KCS's U.S. subsidiaries are subject to extensive federal, state and local environmental regulations. These laws cover discharges to water, air emissions, toxic substances, and the generation, handling, storage, transportation and disposal of waste and hazardous materials. These regulations have the effect of increasing the costs, risks and liabilities associated with rail operations. Environmental risks are also inherent in rail operations, which frequently involve transporting chemicals and other hazardous materials.

Primary regulatory oversight of the Company's Mexican operations is provided by the Mexican Agencia Reguladora del Transporte Ferroviario ("Regulatory Agency of Rail Transportation" or "ARTF"). The ARTF establishes regulations concerning railway safety and operations, and is responsible for resolving disputes between railways and customers. KCSM must register its maximum rates with the ARTF and make regular reports to the ARTF and the Secretaría de Comunicaciones y Transportes ("Secretary of Communications and Transportation" or "SCT"). KCSM must provide reports on investments, traffic volumes, theft and vandalism on the general right of way, customer complaints, fuel consumption, number of locomotives, railcars and employees, and activities around maintenance of way, sidings and spurs, among other financial information and reports. The Company may freely set rates on a non-discriminatory basis up to the maximum rates registered with the ARTF. At any time, the ARTF may request additional information regarding the determination of such rates and may

issue recommendations with respect to proposed rate increases. If the ARTF or another party considers there to be no effective competition, they may request an opinion from the Comisión Federal de Competencia Económica (“Mexican Antitrust Commission” or “COFECE”) regarding market conditions. If the COFECE determines that there is no effective competition for particular movements, the ARTF could set rates for those movements or grant limited trackage rights to another railroad while the condition of no effective competition remains.

KCSM holds a Concession from the Mexican government until June 2047 (exclusively through 2027, subject to certain trackage and haulage rights granted to other concessionaires), which is renewable under certain conditions for additional periods of up to 50 years. The Concession authorizes KCSM to provide freight transportation services over north-east rail lines, which are a primary commercial corridor of the Mexican railroad system. KCSM is required to provide freight railroad services to all users on a fair and non-discriminatory basis and in accordance with efficiency and safety standards approved periodically by the Mexican government. KCSM has the right to use, but does not own, all track and buildings that are necessary for the rail lines’ operation. KCSM is obligated to maintain the right of way, track structure, buildings and related maintenance facilities to the operational standards specified in the Concession agreement and to return the assets in that condition at the end of the Concession period. During the remainder of the Concession period, KCSM is required to pay the Mexican government an annual concession duty equal to 1.25% of gross revenues. The ARTF may request information to verify KCSM’s compliance with the Concession and any applicable regulatory framework.

The Company’s Mexican operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings and impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

Noncompliance with applicable legal provisions may result in the imposition of fines, temporary or permanent shutdown of operations or other injunctive relief, criminal prosecution or, with respect to KCSM, the termination of the Concession. KCS maintains environmental provisions that are believed by management to be appropriate with respect to known and existing environmental contamination of its properties that KCS may be responsible to remedy.

Government regulations are further discussed within Item 7, Management’s Discussion and Analysis of Financial Information and Results of Operations — Mexico Regulatory and Legal Updates.

COMPETITION

The Company competes against other railroads, many of which are much larger and have significantly greater financial and other resources. The railroad industry in North America is dominated by a few very large carriers. The larger U.S. western railroads (BNSF Railway Company and Union Pacific Railroad Company), in particular, are significant competitors of KCS because of their substantial resources and competitive routes.

In Mexico, KCSM’s operations are subject to competition from other railroads, particularly Ferrocarril Mexicano, S.A. de C.V. (“Ferromex”) and Ferrosur, S.A. de C.V. (“Ferrosur”), both controlled by Grupo Mexico S.A.B. de C.V. Ferromex and Ferrosur together are much larger and have significantly greater financial and other resources than KCSM, serving most of the major ports and cities in Mexico and together owning fifty percent of FTVM, which serves industries located in the Mexico City area.

The ongoing impact of past and future rail consolidation is uncertain. However, KCS believes that its investments and strategic alliances continue to competitively position the Company to attract additional rail traffic throughout its rail network.

The Company is subject to competition from motor carriers, barge lines and other maritime shipping, which compete across certain routes in KCS’s operating areas. In the past, truck carriers have generally eroded the railroad industry’s share of total transportation revenues. Intermodal traffic and certain other traffic face highly price sensitive competition, particularly from motor carriers. However, rail carriers, including KCS, have placed an emphasis on competing in the intermodal marketplace and working with motor carriers to provide end-to-end transportation of products.

While deregulation of U.S. freight rates has enhanced the ability of railroads to compete with each other and with alternative modes of transportation, this increased competition has generally resulted in downward pressure on freight rates

since deregulation. Competition with other railroads and other modes of transportation is generally based on the rates charged, the quality and reliability of the service provided and the quality of the carrier's equipment for certain commodities.

RAIL SECURITY

The Company and its rail subsidiaries have continued to research, develop and implement multidisciplinary approaches to secure the Company's assets and personnel against transnational criminal organizations that actively target transportation networks. In addition, the Company has developed a variety of vertically integrated strategies to mitigate the risk terrorist attacks could pose to the Company, its personnel and assets. Many of the specific measures the Company utilizes for these efforts are required to be kept confidential through arrangements with government agencies, such as the Department of Homeland Security ("DHS"), or through jointly-developed and implemented strategies and plans with connecting carriers.

KCSR and KCSM developed a proprietary security plan based on an industry-wide plan developed by the Association of American Railroads ("AAR") members which focuses on comprehensive risk assessments in five areas — hazardous materials; train operations; critical physical assets; military traffic; and information technology and communications. The security plan is kept confidential, with access to the plan tightly limited to members of management with direct security and anti-terrorism implementation responsibilities. The Company participates with other AAR members in periodic drills under the industry plan to test and refine its various provisions.

The Company also uses information technology in various ways in its operations. The risks associated with this technology from cyber attacks has increased in recent years. The Company continues to monitor these threats and attempted cyber attacks, and has put in place various safeguards to protect the Company's operations as well as its assets and digital information from cyber attacks.

To protect the confidentiality and sensitivity of both the AAR plans and the proprietary strategies the Company has developed to safeguard against criminal enterprises, terrorism, and other security and safety threats, the following paragraphs will provide only a general overview of some of these efforts.

The Company's security activities range from periodically providing security awareness updates to KCS employees and including safety and security information on the Company's internet website (which can be found under the "Corporate Responsibility" tab at www.kcsouthern.com) to its ongoing implementation of security plans for rail facilities in areas labeled by the DHS as High Threat Urban Areas ("HTUAs"). The Company's other activities to bolster security against terrorism include, but are not limited to, the following:

- Conferring regularly with other railroads' security personnel and with industry experts on security issues;
- Routing shipments of certain chemicals, which might be toxic if inhaled, pursuant to federal regulations;
- Initiating a series of over 20 voluntary action items agreed to between AAR and DHS as enhancing security in the rail industry;
- Conducting constant and targeted security training as part of the scheduled training for operating employees and managers;
- Developing smartphone applications to ensure immediate information, live video and pictures from security supervisors and protection assets pertaining to potential operational risks;
- Developing a multi-layered security model using high-speed digital imaging, system velocity and covert and overt security filters to mitigate the risk of illicit activity;
- Measuring key security metrics to ensure positive risk mitigation and product integrity trends;
- Performing constant due diligence with the existing security model and by benchmarking rail security, including cyber security, on a world-wide basis to monitor threat streams related to rail incidents;
- Implementing a Tactical Intelligence Center by KCSM, which provides constant training with core members in new technology helping to prevent, detect, deter, deny and respond to potentially illicit activities; and
- Deploying an array of non-intrusive technologies including, but not limited to, digital video surveillance and analytics as part of an intelligent video security solution, including a closed circuit television platform with geo-fencing for intrusion detection, to allow for remote viewing access to monitor ports of entry, intermodal and rail yards.

In addition, the Company utilizes dedicated security personnel with extensive special operations forces, intelligence, and law enforcement backgrounds to oversee the ongoing and increasingly complex security efforts of the Company in both the United States and Mexico. While the risk of theft and vandalism is higher in Mexico, KCSM remains among the safest methods of transportation for freight shipments in Mexico. KCSM's record in rail safety is due in large part to the implementation of a multi-layered safety and security process throughout the KCSM network. In addition to having its own internal system, the process is connected to, and supported by a high level of federal, state and local law enforcement. A primary focus of this effort involves maintaining constant diligence, intelligence and counterintelligence operations, technology-reporting applications and active vigilance while enhancing overall system velocity, which reduces the residual risk for incidents to occur.

RAILWAY LABOR ACT

Labor relations in the U.S. railroad industry are subject to extensive governmental regulation under the Railway Labor Act ("RLA"). Under the RLA, national labor agreements are renegotiated on an industry-wide scale when they become open for modification, but their terms remain in effect until new agreements are reached or the RLA's procedures (which include mediation, cooling-off periods, and the possibility of presidential intervention) are exhausted. Contract negotiations with the various unions generally take place over an extended period of time and the Company rarely experiences work stoppages during negotiations. Wages, health and welfare benefits, work rules and other issues have traditionally been addressed during these negotiations.

COLLECTIVE BARGAINING

Approximately 70% of KCSR employees are covered by collective bargaining agreements. These agreements do not have expiration dates, but rather remain in place until modified by subsequent agreements. KCSR participates in industry-wide multi-employer bargaining as a member of the National Carriers' Conference Committee (the "NCCC"), as well as local bargaining for agreements that are limited to KCSR's property. Multi-employer agreements are subject to a procedure that allows requests for changes to be served every five years. Long-term agreements were reached voluntarily or through the arbitration process during 2017 and 2018 covering all of the participating unions. The terms of these agreements will remain in effect until new agreements are reached in the next bargaining round. In November 2019, KCSR and its unions commenced negotiations in connection with the 2020 bargaining round.

KCSM Servicios union employees are covered by one labor agreement, which was signed on April 16, 2012, between KCSM Servicios and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana ("Mexican Railroad Union"), and which remains in effect during the period of the Concession, for the purpose of regulating the relationship between the parties. Approximately 79% of KCSM Servicios employees are covered by this labor agreement. The compensation terms under this labor agreement are subject to renegotiation on an annual basis and all other benefits are subject to negotiation every two years. The parties finalized negotiations over compensation terms and benefits that will apply until June 30, 2021, along with other terms.

Union labor negotiations have not historically resulted in any strike, boycott or other disruption in the Company's business operations.

INFORMATION ABOUT EXECUTIVE OFFICERS

All executive officers are elected annually and serve at the discretion of the Board of Directors. All of the executive officers have employment agreements with KCS and/or its subsidiaries.

Patrick J. Ottensmeyer — President and Chief Executive Officer— 63 — Served in this capacity since July 1, 2016. Mr. Ottensmeyer has been a director of KCS since July 1, 2016 and served as President of KCS since March 1, 2015. He served as Executive Vice President Sales and Marketing of KCS from October 16, 2008 through March 1, 2015. Mr. Ottensmeyer joined KCS in May 2006 as Executive Vice President and Chief Financial Officer.

Warren K. Erdman — Executive Vice President — Administration and Corporate Affairs — 62 — Served in this capacity since April 2010. Mr. Erdman served as Executive Vice President — Corporate Affairs from October 2007 until April 2010. He served as Senior Vice President — Corporate Affairs of KCS and KCSR from January 2006 to September 2007. Mr. Erdman served as Vice President — Corporate Affairs of KCS from April 15, 1997 to December 31, 2005 and as Vice President — Corporate Affairs of KCSR from May 1997 to December 31, 2005. Prior to joining KCS, Mr. Erdman served as Chief of Staff to United States Senator Kit Bond of Missouri from 1987 to 1997.

Brian D. Hancock — Executive Vice President and Chief Innovation Officer — 55 — Served in this capacity since October 1, 2018. Mr. Hancock served as Executive Vice President and Chief Marketing Officer from August 2015 until September 2018. Prior to joining KCS, Mr. Hancock served as Senior Vice President of Supply Chain for Family Dollar Stores, Inc., a variety store chain, from 2013 to July 2015. From 2011 to 2013, Mr. Hancock served as President – North America for The Martin – Brower Company, L.L.C. From 2005 to 2011, he served as Vice President – Global Supply Chain for Whirlpool Corporation.

Jeffrey M. Songer — Executive Vice President and Chief Operating Officer — 51 — Served in this capacity since March 2016. Mr. Songer served as Senior Vice President Engineering and Chief Transportation Officer of the Company from August 2014 to February 2016 and as Vice President and Chief Engineer for KCSR from June 2012 to July 2014. Prior to serving as KCSR’s Vice President and Chief Engineer, Mr. Songer served as Assistant Vice President — Engineering and Planning from March 2011 to June 2012, and as its General Director — Planning, Scheduling & Administration from January 2007 to March 2011.

Michael W. Upchurch — Executive Vice President and Chief Financial Officer — 60 — Served in this capacity since October 16, 2008. Mr. Upchurch joined KCS in March 2008 as Senior Vice President Purchasing and Financial Management. From 1990 through September 2006, Mr. Upchurch served in various senior financial leadership positions at Sprint Corporation, a telecommunications company, including Senior Vice President Financial Operations, Senior Vice President Finance Sprint Business Solutions and Senior Vice President Finance Long Distance Division.

Oscar Augusto Del Cueto Cuevas — President, General Manager and Executive Representative — KCSM — 54 — Served in this capacity since August 1, 2020. Mr. Del Cueto previously served as KCSM Servicios Vice President and General Director from November 2018 to July 2020 and as KCSM Servicios Vice President-Operations from January 2013 to October 2018. Mr. Del Cueto joined KCSM in 2006 and held various leadership positions prior to 2013. He has nearly 30 years of railway industry experience, working in institutional relations, communication, operations, planning and logistics.

Lora S. Cheatum — Senior Vice President — Human Resources — 64 — Served in this capacity since joining KCS in October 2014. Ms. Cheatum previously served as Senior Vice President Global Human Resources of Layne Christensen Company, a global water management, construction, and drilling company, from 2012 to October 2014. From 2010 to 2012, she served as Director — Field Operations at Fitness Together Holdings, Inc. Ms. Cheatum spent nine years with Kansas City Power & Light, from 2001 to 2010, where she was Vice President of Procurement and previously as Vice President Human Resources.

Michael J. Naatz — Executive Vice President and Chief Marketing Officer — 55 — Served in this capacity since October 1, 2018. Mr. Naatz served as Senior Vice President Operations Support and Chief Information Officer from August 2014 until September 2018 and as Senior Vice President and Chief Information Officer of the Company from May 2012 to July 2014. Prior to joining KCS, Mr. Naatz served as President of USF Holland, a YRC Worldwide, Inc. (“YRCW”) company, a leading provider of transportation and global logistics services, from 2011 to May 2012. From 2010 to 2011, Mr. Naatz served as President and Chief Customer Officer - Customer Care Division at YRCW. From 2008 to 2010, he served as Executive Vice President and Chief Information & Service Officer at YRCW. From 2005 to 2007, he served as President — Enterprise Services Division at YRCW. From 1994 to 2005, he held various leadership positions with USF Corporation.

Suzanne M. Grafton — Vice President and Chief Accounting Officer — 45 — Served in this capacity since July 24, 2017. Ms. Grafton served as Vice President of Audit and Enterprise Risk Management of the Company from April 2016 to July 2017 and as Vice President of Accounting from May 2014 to March 2016. From September 2006 to May 2014, Ms. Grafton served in various accounting leadership positions at KCS.

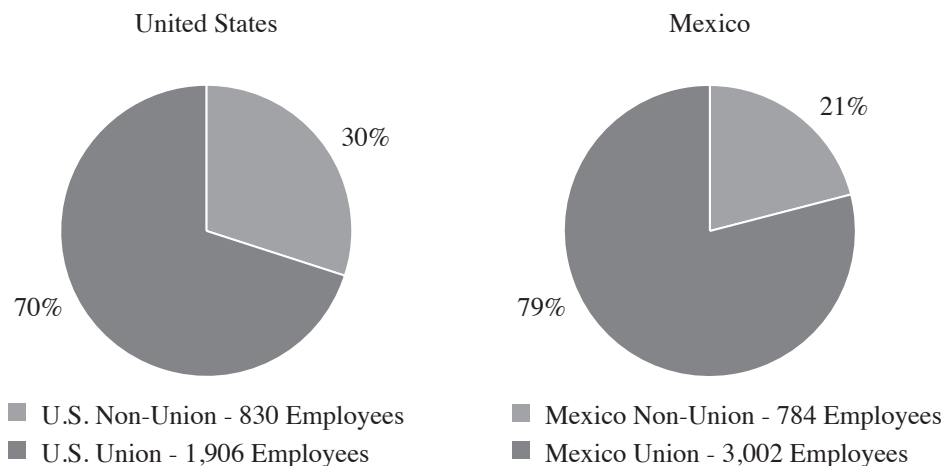
Adam J. Godderz — Senior Vice President — Chief Legal Officer and Corporate Secretary — 46 — Served in this capacity since February 1, 2020. Mr. Godderz served as General Counsel and Corporate Secretary from January 2019 to January 2020 and as Associate General Counsel and Corporate Secretary of the Company from June 2018 to December 2018. From November 2015 to May 2018, he served as Vice President of Labor Relations and Corporate Secretary. From January 2013 to November 2015, Mr. Godderz served as Associate General Counsel and Corporate Secretary. From September 2007 to January 2013, Mr. Godderz served as Associate General Counsel at KCS.

DESCRIPTION OF HUMAN CAPITAL RESOURCES

The employees of KCS are the Company's greatest asset. KCS employees are the foundation of the Company's success and keep the railroad moving every day, even during a global pandemic. The employees of KCS have a shared vision – to strive to be the fastest-growing, best-performing, most customer-focused transportation provider in North America.

A majority of the KCS workforce plays a critical role in the daily train operations and customer support. This portion of the workforce, including train crews, dispatchers, mechanical and engineering crews, field managers, and many others, cannot work from home. During the pandemic, these employees and freight rail transportation are part of what is deemed “critical infrastructure,” essential to the economy and the communities KCS serves.

As of December 31, 2020, the Company had approximately 6,522 employees, with 58% based in Mexico and 42% based in the U.S. In 2020, approximately 75% of KCS employees were represented by a collective bargaining agreement.



In managing the Company's business, management focuses on a number of human capital measures and objectives rooted in the KCS Vision, Values and Culture (described further below, and as noted on the Company's website at <https://www.kcsouthern.com/en-us/about-us/overview/vision-values>, which is not incorporated into this Form 10-K) and include the following:

- **Employee Health & Safety** - KCS is committed to operating in a safe, secure and responsible manner for the benefit of its employees, customers and the communities KCS serves in the U.S. and Mexico. See below for further discussion of employee health and safety as well as noted in the Company's sustainability report at <https://www.kcsouthern.com/corporate-responsibility/our-commitment/KCS-2019-Sustainability-Report.pdf> (the sustainability report is not incorporated into this Form 10-K).
- **Compensation and Benefits** - KCS strives to offer competitive compensation, benefits and services that meets the needs of its employees including, short and long-term incentive packages, employee stock purchase plan, defined contribution plan, healthcare benefits, and wellness and employee assistance programs. Management monitors market compensation and benefits to be able to attract, retain, and promote employees and reduce turnover and its associated costs. In addition, KCS's short and long-term incentive programs are aligned with the Company's vision and key business objectives and are intended to motivate strong performance. KCS engages a nationally recognized outside consulting firm to objectively evaluate its compensation and benefits and benchmark them against industry peers and other similarly situated organizations.

For the year ended December 31, 2020, compensation and benefits expense totaled \$476.5 million. See Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* for further discussion of compensation and benefits expense.

- **Productivity Measures** – KCS measures productivity of its workforce by analyzing its headcount compared to total gross ton miles, which is the number of miles moved by a train multiplied by the total weight of the freight cars.

	Years Ended December 31,	
	2020	2019
Gross Ton Miles (GTM) (in millions) ^(a)	94,434	101,819
Average Employees - Total	6,655	7,069
Average Employees - Union	4,983	5,353
GTM's per Average Employee (in millions)	14.19	14.40

(a) Excludes Locomotive Gross Ton Miles

- **KCS's Vision, Values and Culture ("KCS Culture")** - The KCS Culture is critically important to KCS's success and is a set of guidelines, beliefs and behaviors that help define KCS and create a foundation for growth and success. KCS's strong culture and core values should allow KCS to fulfill its vision and continue to endure in times of stress. The KCS Culture helps guide how employees make decisions, treat each other and serve customers. All employees are responsible for upholding the KCS Culture and conformance with the KCS Culture statement is 25% of the annual performance appraisal process for all management employees. Management uses performance evaluations as a tool to help strengthen relationships with employees and KCS's Culture.

Employee Health and Safety Overview

Management seeks to instill a culture valuing employee health and safety at KCS via training, education, initiatives, equipment and a strict adherence to applicable safety rules as further described below.

Operational safety

KCS is subject to federal, state, and local government regulations in the U.S. and Mexico with regard to safety. These regulations direct safety practices in the placement of rail cars carrying certain commodities in the train, routes, inspection of equipment and track, security procedures, equipment design and construction, speed restrictions, and work rules.

Management strives to instill a culture of safety, providing on-the-job training and classroom instruction to employees. Many positions, such as locomotive engineers and conductors, have extensive requirements for certification and licensing, as required by federal regulation. Certification-eligibility is based on a variety of factors, including prior safety conduct of the applicant, compliance with applicable regulations, knowledge of operating rules and performance testing. The Company offers certification and training programs to operations groups as business needs require. These training programs focus on operating rules, safety rules, and procedures required for specific tasks.

KCS's operational testing program provides processes for ongoing validation and understanding of, and adherence to operating rules and procedures by employees, and allows management to identify, monitor and manage potential safety risks in the business. This training is designed to gauge employees' knowledge of and compliance with KCS rules and procedures and determine the need for remedial training or guidance. Testing plans are developed based upon, among other things, a particular location's risks, recent trends, injuries or accidents and prior operational test performance.

Safety technology

KCS uses advanced technologies to help employees enhance operational safety including the following:

- **Advanced Inspection Equipment** — KCS uses technology to monitor, in real-time, the approximately 7,100 route miles of track, bridges, and tunnels that KCS uses in its operations. KCS employees and contractors inspect railroad tracks using specialized equipment such as track geometry cars, ground-penetrating radar, and laser technology. Additionally, different types of wayside detectors are positioned along the rail network to monitor the condition of the wheels on passing trains. These specialized technologies alert railroads to potential defects and help enable KCS to schedule maintenance in a timely manner.

- PTC — Since 2008, KCSR has worked to implement PTC, the largest and most complex safety system in the history of the railroad industry. PTC is an advanced technology system designed to automatically stop a train before certain incidents occur and protect KCS's employees, customers and communities along the network. The Company has invested \$257.4 million in PTC since 2008. PTC aims to prevent the following:
 - Train-to-train collisions;
 - Derailments caused by excessive train speed;
 - Train movements through misaligned track switches;
 - Unauthorized train entry into work zones.
- Asset Health Strategic Initiative ("AHSI") — AHSI is a multi-year rail industry program that applies information technology processes to help improve the safety and performance of freight cars and locomotives across North America. The program aims to help reduce mechanical service interruptions, improve the quality of railcar inspections, and increase rail yard and repair shop efficiencies by consolidating equipment information, including ownership information, repair and inspection history, and company recalls, among other things.

Health and Safety during COVID-19 pandemic

During the outbreak in March 2020 of the novel Coronavirus ("COVID-19"), which has been declared a pandemic, the U.S. and Mexico governments deemed rail transportation as "critical infrastructure" providing essential services during the global emergency. As a provider of critical infrastructure, Kansas City Southern has an obligation to keep employees working and freight operations moving. During this period, the Company strives to remain focused on protecting the health, safety, and well-being of its employees and the communities in which it operates while working to maintain the continuity of its business operations.

In response to the COVID-19 pandemic, KCS created a dedicated crisis team that implemented business continuity plans to help ensure the ongoing availability of its transportation services. KCS took a variety of health and safety measures, including separating dispatching and crew operations, implementing enhanced cleaning and hygiene protocols in its facilities and locomotives, implementing remote work policies where possible, performing temperature checks and requiring facial coverings. As a result, the Company did not experience significant COVID-19 related disruptions in its railroad operations during 2020. For the year ended December 31, 2020, the Company recognized approximately \$10.0 million of expense related to COVID-19 for the protection of its employees and the continuity of business operations.

AVAILABLE INFORMATION

KCS's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to those reports, are available for download at no cost on KCS's website (www.investors.kcsouthern.com) as soon as reasonably practicable after the electronic filing of these reports is made with the Securities and Exchange Commission. In addition, KCS's corporate governance guidelines, ethics and legal compliance policy, and the charters of the Audit Committee, the Finance and Strategic Investments Committee, the Nominating and Corporate Governance Committee and the Compensation and Organization Committee of the Board of Directors are available on KCS's website.

See Item 8, Financial Statements and Supplementary Data — Note 1, Description of the Business and Note 19, Geographic Information for more information on the description and general development of the Company's business and financial information about geographic areas.

Item 1A. Risk Factors

Risks Related to KCS's Operations and Business

Public health threats or outbreaks of communicable diseases could have a material adverse effect on the Company's operations and financial results.

The Company may face risks related to public health threats or outbreaks of communicable diseases. A widespread healthcare crisis, such as an outbreak of a communicable disease could adversely affect the global economy and the Company's and its business partners' ability to conduct business in the U.S. and Mexico for an indefinite period of time. COVID-19 has spread to multiple global regions, including the U.S. and Mexico, and has negatively impacted the global economy, disrupted

financial markets and international trade, resulted in increased unemployment levels and significantly impacted global supply chains, all of which negatively impacted the rail transportation industry and the Company's business. In an effort to halt the outbreak of COVID-19, both in the U.S. and Mexico, local, state, and federal governments have implemented various measures, including but not limited to, voluntary and mandatory quarantines, stay-at-home orders, travel restrictions, border closings, limitations on gatherings of people, and extended closures of nonessential businesses. The implementation of these measures resulted in a decline in demand that had a material impact on the Company's results of operations and financial condition during the year ended December 31, 2020. The Company's revenues decreased by approximately 8% during 2020, as compared to the prior year, and approximately \$10.0 million in additional expenses were incurred due to COVID-19 as part of the Company providing a safe and healthy work environment for KCS employees.

Although the Company has taken numerous measures to overcome the adverse impact derived from the COVID-19 outbreak and continued with the Company's normal business activities, this pandemic could continue to materially impact revenues and profit. In addition, COVID-19 could:

- continue to impact customer demand of the Company's transportation services;
- continue to cause the Company to experience an increase in costs as a result of the Company's emergency measures, and delayed payments from customers;
- continue to cause delays and disruptions in the supply chain resulting in disruptions in the commercial operation dates of certain projects;
- continue to impact availability of qualified personnel; and
- cause other unpredictable events.

The situation surrounding COVID-19 remains fluid and for this reason, KCS cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company's results of operations, financial position, and liquidity. The extent to which the COVID-19 pandemic may impact the Company's business, operating results, financial condition, or liquidity will depend on future developments, including the duration of the outbreak, travel restrictions, business and workforce disruptions, and the effectiveness of actions taken to contain and treat the disease.

Capacity constraints could materially adversely affect service and operating efficiency.

KCS may experience capacity constraints due to increased demand for rail services, unavailability of equipment, crew shortages, or extreme weather. Also, due to the interconnectivity between all railroads, especially in the U.S., congestion on other railroads could result in operational inefficiencies for KCS. Traffic congestion experienced in the U.S. or Mexican railroad system may result in overall traffic congestion which would impact the ability to move traffic to and from Mexico, which could result in operational inefficiencies for KCS and could have a material adverse effect on KCS's operations.

Significant expansions in the capacity of the Company's network can require a substantial amount of time and investment. Although KCS constantly monitors its network in an effort to optimize its rail services, there can be no assurance that such measures will adequately address capacity constraints on a timely basis.

KCS competes against other railroads and other transportation providers.

The Company's domestic and international operations are subject to competition from other railroads, as well as from truck carriers, barge lines, and other maritime shippers. Many of KCS's rail competitors are much larger and have significantly greater financial and other resources than KCS, which may enable rail competitors to reduce rates and make KCS's freight services less competitive. KCS's ability to respond to competitive pressures by matching rate reductions and decreasing rates without adversely affecting gross margins and operating results will depend on, among other things, the ability to reduce operating costs. KCS's failure to respond to competitive pressures, and particularly rate competition, in a timely manner could have a material adverse effect on the Company's consolidated financial statements.

The railroad industry is dominated by a few large carriers. These larger railroads could attempt to use their size and pricing power to block other railroads' access to gateways and routing options that are currently and have historically been available. In addition, if there is future consolidation in the railroad industry in the United States or Mexico, there can be no assurance that it will not have a material adverse effect on the Company's consolidated financial statements.

Trucking, maritime, and barge competitors provide rate and service competition to the railroad industry. These competitors are able to use public rights-of-way, require substantially smaller capital investment and maintenance expenditures than railroads and allow for more frequent and flexible scheduling. Continuing competitive pressures, any reduction in margins due to competitive pressures, developments that increase the quality or decrease the cost of alternative modes of transportation in the locations in which the Company operates, or legislation or regulations that provide motor carriers with additional advantages, such as increased size of vehicles and reduced weight restrictions, could result in downward pressure on freight rates, which in turn could have a material adverse effect on the Company's consolidated financial statements. KCS may also experience operational or service difficulties related to network capacity, fluctuations in customers' demand for rail service, or other events that could have a material adverse effect on KCS's consolidated financial statements.

A key part of KCS's growth strategy is based upon the conversion of truck traffic to rail. There can be no assurance the Company will succeed in its efforts to convert traffic from truck to rail transport or that the customers already converted will be retained. If the railroad industry in general is unable to preserve its competitive advantages vis-à-vis the trucking industry, revenue growth could be adversely affected. Additionally, revenue growth could be affected by, among other factors, an expansion in the availability, or an improvement in the quality, of the trucking services offered by carriers resulting from regulatory and administrative interpretations and implementation of certain provisions of current or future multinational trade agreements that are favorable to the trucking industry or unfavorable to the rail industry or KCS. Such actions may negatively impact KCS's ability to grow its existing customer base and capture additional cargo transport market share because of competition from the shipping industry and other railroads.

KCS's business strategy, operations and growth rely significantly on agreements with other railroads and third parties.

Operation of KCS's rail network and its plans for growth and expansion rely significantly on agreements with other railroads and third parties, including joint ventures and other strategic alliances, as well as interchange, trackage rights, haulage rights and marketing agreements with other railroads and third parties that enable KCS to exchange traffic and utilize trackage the Company does not own. KCS's ability to provide comprehensive rail service to its customers depends in large part upon its ability to maintain these agreements with other railroads and third parties, and upon the performance of the obligations under the agreements by the other railroads and third parties. The termination of, or the failure to renew, these agreements could have a material adverse effect on KCS's consolidated financial statements. KCS is also dependent in part upon the financial strength and efficient performance of other railroads. There can be no assurance that KCS would not be materially adversely affected by operational or financial difficulties of other railroads.

KCS depends on the stability, availability and security of its information technology systems to operate its business. Disruptions in KCS's information technology ("IT") systems could materially adversely affect the Company's business and operating results.

KCS relies on information technology in all aspects of its business. A significant disruption or failure of its IT systems, including its computer hardware, software, communications equipment, wayside equipment or locomotive onboard equipment could result in service interruptions, safety failures, security failures, regulatory compliance failures or other operational difficulties. Moreover, if KCS is not able to acquire new technology or to develop or implement new technology, KCS may suffer a competitive disadvantage, which could have a material adverse effect on KCS's consolidated financial statements.

The security risks associated with IT systems have increased in recent years because of the increased sophistication, activities and evolving techniques of perpetrators of cyber attacks. A failure in, or breach of, KCS's IT security systems, or those of its third party service providers, as a result of cyber attacks or unauthorized access to its network could disrupt KCS's business, result in the disclosure or misuse of confidential or proprietary information, increase its costs and/or cause losses and reputational damage. KCS also confronts the risk that a terrorist or nation-state sponsored group may seek to use its property, including KCS's information technology systems, to inflict major harm.

Although KCS has a comprehensive cyber security program designed to protect and preserve the integrity of its information technology systems, KCS has experienced and expects to continue to experience cyber attacks of its IT systems or networks. However, none of these cyber attacks to date had a material impact on KCS's operations or financial condition. While KCS devotes significant resources to network security, data encryption and other security measures to protect its systems and data, including its own proprietary information and the confidential and personally identifiable information of its customers, employees, and business partners, these measures cannot provide absolute security. The costs to eliminate or alleviate network security problems, bugs, viruses, ransomware, worms, malicious software programs and security

vulnerabilities could be significant, and KCS's efforts to address these problems may not be successful, resulting potentially in the theft, loss, destruction or corruption of information that KCS stores electronically, as well as unexpected interruptions, delays or cessation of service, any of which could cause harm to KCS's business operations. Moreover, if a computer security breach or cyber attack affects KCS's systems or results in the unauthorized release of proprietary or personally identifiable information, the Company's reputation could be materially damaged, customer confidence could be diminished, and KCS's operations could be impaired.

A significant disruption, failure or unauthorized access of KCS's information technology system could expose the Company to a risk of legal proceedings and potential liability and have a material adverse effect on KCS's consolidated financial statements. Further, legislative or regulatory action in these areas is evolving, and KCS may be unable to adapt its IT systems or to manage the IT systems of third parties to accommodate these changes.

Severe weather or other natural disasters could result in significant business interruptions that impact KCS's railroad operations and expenditures, and KCS's insurance coverage may not be sufficient to cover damages to KCS or all of KCS's liabilities.

The Company's railroad operations may be affected by severe weather or other natural disasters. The Company operates in and along the Gulf of Mexico, and its facilities, equipment, and railroad infrastructure may be materially adversely affected by hurricanes, floods, fires, earthquakes and other extreme weather conditions in the regions where the Company operates, and this could also adversely affect the Company's shipping, agricultural, chemical and other customers. Severe weather or other natural disasters could result in significant business interruption due to an increase in events such as train derailments or wash outs of track structure that could have a material adverse effect on KCS's consolidated financial statements. Insurance to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations and may not be sufficient to cover all of KCS's damages or damages to others. This insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of services, this could have a material adverse effect on KCS's consolidated financial statements.

KCS's business may be adversely affected by changes in general economic or other conditions.

KCS's operations may be materially adversely affected by changes in the economic conditions of the industries and geographic areas that produce and consume the freight that KCS transports. The relative strength or weakness of the United States and Mexican economies affects the businesses served by KCS. A significant and sustained decrease in crude oil prices could adversely affect the transport of crude oil by rail to the U.S. Gulf region as well as negatively impact railroad volumes related to equipment and other materials that support crude oil production. For example, energy revenues have historically decreased when oil prices decline due to lower frac sand and crude oil volumes. Prolonged negative changes in domestic and global economic conditions may affect KCS, as well as the producers and consumers of the commodities that KCS transports and may have a material adverse effect on KCS's consolidated financial statements.

The transportation industry is highly cyclical, generally tracking the cycles of the world economy. Although transportation markets are affected by general economic conditions, there are numerous specific factors within each particular market that may influence operating results. Some of KCS's customers do business in industries that are highly cyclical, including the energy, automotive, housing and agriculture industries. Any downturn or change in government policy in these industries could have a material adverse effect on operating results. Also, some of the products transported have had a historical pattern of price cyclicity which has typically been influenced by the general economic environment and by industry capacity and demand. KCS cannot assure that prices and demand for these products will not decline in the future, adversely affecting those industries and, in turn, this could have a material adverse effect on the Company's consolidated financial statements.

KCS may be subject to various claims and litigation that could have a material adverse effect on KCS's consolidated financial statements.

The Company is exposed to the potential of various claims and litigation related to labor and employment, personal injury, commercial disputes, freight loss and other property damage, and other matters that arise in the normal course of business. The Company may experience material judgments or incur significant costs to defend existing and future lawsuits. Although the Company maintains insurance to cover some of these types of claims and establishes reserves when appropriate, final amounts determined to be due on any outstanding matters may exceed the Company's insurance coverage or differ materially from the recorded reserves. Additionally, the Company could be impacted by adverse developments not currently reflected in the Company's reserve estimates. The Company is also subject to job-related personal injury and occupational

claims associated with the Federal Employer's Liability Act ("FELA"), which is applicable only to railroads. FELA's fault-based tort system produces results that are unpredictable and inconsistent as compared with a no-fault worker's compensation system. The variability inherent in this system could result in actual costs being different from the liability recorded. Any material changes to litigation trends or a catastrophic rail accident or series of accidents involving any or all of property damage, personal injury, and environmental liability could have a material adverse effect on KCS's consolidated financial statements.

A majority of KCS's employees belong to labor unions. Strikes or work stoppages could adversely affect operations.

The Company is a party to collective bargaining agreements with various labor unions in the United States and Mexico. As of December 31, 2020, approximately 70% and 79% of KCSR and KCSM Servicios employees, respectively, were covered by labor contracts subject to collective bargaining. The Company may be subject to, among other things, strikes, work stoppages or work slowdowns as a result of disputes under these collective bargaining agreements and labor contracts or KCS's potential inability to negotiate acceptable contracts with these unions. In the United States, because such agreements are generally negotiated on an industry-wide basis, determination of the terms and conditions of labor agreements have been and could continue to be beyond KCS's control. KCS is, therefore, subject to terms and conditions in industry-wide labor agreements that could have a material adverse effect on its consolidated financial statements. In the United States and Mexico, KCS is seeking to modernize its collective bargaining agreements and benefit from technological advancements in the industry. If the unionized workers in the United States or Mexico were to engage in a strike, work stoppage or other slowdown; if other employees were to become unionized or if KCS and its unions were unable to agree on the terms and conditions in future labor agreements, KCS could experience a significant disruption of its operations and higher ongoing labor costs. Although the U.S. Railway Labor Act imposes restrictions on the right of United States railway workers to strike, there is no law in Mexico imposing similar restrictions on the right of railway workers in that country to strike. Additionally, labor law reform adopted by Mexico introduces uncertainty into the existing union structure in Mexico, which may affect the risk of disruption in KCSM's operations.

KCS is dependent on certain key suppliers of core rail equipment.

KCS relies on a limited number of suppliers of core rail equipment (including locomotives, rolling stock equipment, rail and ties). The capital intensive nature and complexity of such equipment creates high barriers of entry for any potential new suppliers. If any of KCS's suppliers discontinue production or experience capacity or supply shortages, this could result in increased costs or difficulty in obtaining rail equipment and materials, which could have a material adverse effect on KCS's consolidated financial statements.

KCS's business is vulnerable to fluctuations in fuel costs and disruptions in fuel supplies.

KCS incurs substantial fuel costs in its railroad operations and these costs represent a significant portion of its transportation expenses. Significant price increases for fuel may have a material adverse effect on operating results. If KCS is unable to recapture its costs of fuel from its customers, operating results could be materially adversely affected. In addition, a severe disruption of fuel supplies resulting from supply shortages, political unrest, a disruption of oil imports, weather events, war, or otherwise, and the resulting impact on fuel prices could have a material adverse effect on KCS's consolidated financial statements.

KCS's business may be affected by future acts of terrorism, war or other acts of violence or crime.

Terrorist attacks and any government response thereto, and war or risk of war could have a material adverse effect on KCS's consolidated financial statements. KCS is involved in the transport of hazardous materials, which could result in KCS's rail lines, facilities, or equipment being direct targets or indirect casualties of acts of terror, which could cause significant business interruption and damage to KCS's property. As a result, acts of terrorism or war or acts of crime or violence could result in increased costs and liabilities and decreased revenues for KCS. In addition, insurance premiums charged for some or all of the applicable coverage currently maintained by KCS could increase dramatically or certain coverage may not be adequate to cover losses or may not be available in the future.

Risks Related to Laws and Regulations

KCS U.S. and Mexico rail common carrier subsidiaries are required by United States and Mexican laws, respectively, to transport hazardous materials, which could expose KCS to significant costs and claims.

Under United States federal statutes and applicable Mexican laws, KCS's common carrier responsibility requires it to transport hazardous materials. Any rail accident or other incident or accident on KCS's network, facilities, or at the facilities of KCS's customers involving the release of hazardous materials, including toxic inhalation hazard materials, could involve significant costs and claims for personal injury, property or natural resource damage, and environmental penalties and remediation in excess of the Company's insurance coverage for these risks, which could have a material adverse effect on KCS's consolidated financial statements. KCS is also required to comply with rules and regulations regarding the handling of hazardous materials. Noncompliance with these rules and regulations could subject KCS to significant penalties or other costs and exposure to litigation. Changes to these rules and regulations could also increase operating costs and negatively impact KCS's consolidated financial statements.

KCS's business is subject to regulation by federal, state and local legislatures and agencies that could impose significant costs on the Company's business operations.

KCS rail subsidiaries are subject to legislation and regulation enacted by federal, state and local legislatures and agencies in the U.S. and Mexico with respect to commercial terms with its customers and railroad operations, including with respect to health, safety, labor, environmental and other areas. Government regulation of the railroad industry is a significant determinant of the competitiveness and profitability of railroads. Changes in legislation or regulation could have a negative impact on KCS's ability to negotiate prices for rail services, could negatively affect competition among rail carriers, or could negatively impact operating practices, resulting in reduced efficiency, increased operating costs or increased capital investment, all of which could result in a material adverse effect on KCS's consolidated financial statements.

New economic regulation in the U.S. or Mexico in current or future proceedings could change the regulatory framework within which the Company operates which could materially change the Company's business and have a material adverse effect on the Company's consolidated financial statements.

KCS's failure or inability to comply with applicable laws and regulations could have a material adverse effect on the Company's consolidated financial statements and operations, including fines, penalties, or limitations on operating activities until compliance with applicable requirements is achieved. Congress and government agencies may change the legislative or regulatory framework within which the Company operates without providing any recourse for any adverse effects on the Company's business that occur as a result of such change. Additionally, some of the regulations require KCS to obtain and maintain various licenses, permits and other authorizations. Any failure to obtain or maintain these licenses, permits, and other authorizations could have a material adverse effect on KCS's business operations.

KCS is subject to environmental regulations, which may impose significant costs on the Company's business operations.

KCS subsidiaries' operations are subject to environmental regulation enacted by federal, state and local legislatures in the U.S. and Mexico. Environmental liability under federal and state law in the United States can also extend to previously owned or operated properties, leased properties and properties owned by third parties, as well as to properties currently owned and used by the Company. Environmental liabilities may also arise from claims asserted by adjacent landowners or other third parties. Given the nature of its business, the Company incurs, and expects to continue to incur, environmental compliance costs, including, in particular, costs necessary to maintain compliance with requirements governing chemical and hazardous material shipping operations, refueling operations and repair facilities. KCS presently has environmental investigation and remediation obligations at certain sites, and will likely incur such obligations at additional sites in the future.

The Company's Mexican subsidiaries' operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment, including standards for, among other things, water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. Under applicable Mexican law and regulations, administrative and criminal proceedings may be brought and economic sanctions imposed against companies that violate environmental laws, and non-complying facilities may be temporarily or permanently closed. KCSM is also subject to the laws of various jurisdictions with respect to the discharge of materials into the environment and to environmental laws and regulations issued by the governments of each of the Mexican states in which KCSM's facilities are located. The terms of KCSM's Concession from the Mexican government also impose environmental compliance obligations on KCSM. Failure to

comply with any environmental laws or regulations may result in the termination of KCSM's Concession or in fines or penalties that may affect profitability.

Liabilities accrued for environmental costs represent the Company's best estimate of the probable future obligation for the remediation and settlement of matters related to these sites. However, remediation costs may exceed such estimates, due to various factors such as evolving environmental laws and regulations, changes in technology, the extent of other parties' participation, discovery of unidentified environmental conditions and matters, developments in environmental surveys and studies, and the extent of corrective action that may ultimately be required. The Company cannot predict the effect, if any, that unidentified environmental matters or the adoption of unknown additional or more stringent environmental laws and regulations would have on KCS's consolidated financial statements.

KCS's failure or inability to comply with applicable environmental laws and regulations could have a material adverse effect on the Company's consolidated financial statements and operations, including fines, penalties, or limitations on operating activities until compliance with applicable requirements is achieved. Government entities may change the legislative or regulatory framework within which the Company operates that could result in adverse effects on the Company's business that occur as a result of such change. Additionally, some of the regulations require KCS to obtain and maintain various licenses, permits and other authorizations. Any failure to obtain or maintain these licenses, permits, and other authorizations could have a material adverse effect on KCS's business operations.

KCS's business may be affected by climate change and the market and regulatory responses to climate change.

Climate change could have a material adverse effect on KCS's operations and KCS's consolidated financial statements. Restrictions, caps, taxes, or other controls on emissions of greenhouse gases, including diesel exhaust, could significantly impact operations and increase operating costs. Restrictions on emissions could also affect KCS's customers that use commodities that KCS transports to produce energy, use significant amounts of energy in producing or delivering the commodities KCS transports, or manufacture or produce goods that consume significant amounts of energy or burn fossil fuels, including coal-fired power plants, chemical producers, farmers and food producers, and automakers and other manufacturers. Significant cost increases, government regulation, or changes of consumer preferences for goods or services relating to alternative sources of energy or emissions reductions could materially affect the markets for the commodities KCS transports, which in turn could have a material adverse effect on KCS's consolidated financial statements. Government incentives encouraging the use of alternative sources of energy could also affect certain customers and their respective markets for certain commodities KCS transports in an unpredictable manner that could alter traffic patterns, including, for example, the impacts of ethanol incentives on farming and ethanol producers. Moreover, increasing frequency, intensity and duration of extreme weather events such as flooding, storms and fires may result in substantial costs, including costs associated with KCS's response during the event, KCS's recovery from the event and preventive measures. Any of these factors, individually or in conjunction with one or more of the other aforementioned factors, or other unforeseen impacts of climate change could have a material adverse effect on KCS's consolidated financial statements.

Risks Related to KCS's Foreign Operations

KCSM's Mexican Concession is subject to revocation or termination in certain circumstances, which would prevent KCSM from conducting rail operations under the Concession and would have a material adverse effect on the Company's consolidated financial statements.

KCSM operates under the Concession granted by the Mexican government until June 2047, which is renewable for an additional period of up to 50 years, subject to certain conditions. The Concession gives KCSM exclusive rights to provide freight transportation services over its rail lines through 2027 (the first 30 years of the 50-year Concession), subject to certain trackage and haulage rights granted to other concessionaires. The SCT and ARTF, which are principally responsible for regulating railroad services in Mexico, have broad powers to monitor KCSM's compliance with the Concession, and they can require KCSM to supply them with any technical, administrative and financial information they request. Among other obligations, KCSM must comply with the investment commitments established in its business plan, which forms an integral part of the Concession, and must update the plan every three years. The SCT treats KCSM's business plans confidentially. The SCT and ARTF also monitor KCSM's compliance with efficiency and safety standards established in the Concession. The SCT and ARTF review, and may amend, these standards from time to time.

Under the Concession, KCSM has the right to operate its rail lines, but it does not own the land, roadway or associated structures. If the Mexican government legally terminates the Concession, it would own, control, and manage such public domain assets used in the operation of KCSM's rail lines. All other property not covered by the Concession, including all locomotives and railcars otherwise acquired, would remain KCSM's property. In the event of early termination, or total or partial revocation of the Concession, the Mexican government would have the right to cause the Company to lease all service-related assets to it for a term of at least one year, automatically renewable for additional one-year terms for up to five years. The amount of rent would be determined by experts appointed by KCSM and the Mexican government. The Mexican government must exercise this right within four months after early termination or revocation of the Concession. In addition, the Mexican government would also have a right of first refusal with respect to certain transfers by KCSM of railroad equipment within 90 days after revocation of the Concession.

The Mexican government may also temporarily seize control of KCSM's rail lines and its assets in the event of a natural disaster, war, significant public disturbance or imminent danger to the domestic peace or economy. In such a case, the SCT may restrict KCSM's ability to operate under the Concession in such manner as the SCT deems necessary under the circumstances, but only for the duration of any of the foregoing events. Mexican law requires that the Mexican government pay compensation if it effects a statutory appropriation for reasons of the public interest. With respect to a temporary seizure due to any cause other than international war, the Mexican Regulatory Railroad Service Law and regulations provide that the Mexican government will indemnify an affected concessionaire for an amount equal to damages caused and losses suffered. However, these payments may not be sufficient to compensate KCSM for its losses and may not be made timely.

The SCT may revoke the Concession if KCSM is sanctioned for the same cause at least three times within a period of five years for any of the following: unjustly interrupting the operation of its rail lines or for charging rates higher than those it has registered with the ARTF; unlawfully restricting the ability of other Mexican rail operators to use its rail lines; failing to make payments for damages caused during the performance of services; failing to comply with any term or condition of the Mexican Regulatory Railroad Service Law and regulations or the Concession; failing to make the capital investments required under its three-year business plan filed with the SCT; or failing to maintain an obligations compliance bond and insurance coverage as specified in the Mexican Regulatory Railroad Service Law and regulations. In addition, the Concession would terminate automatically if KCSM changes its nationality or assigns or creates any lien on the Concession, or if there is a change in control of KCSM without the SCT's approval. The SCT may also terminate the Concession as a result of KCSM's surrender of its rights under the Concession, or for reasons of public interest or upon KCSM's liquidation or bankruptcy. If the Concession is terminated or revoked by the SCT for any reason, KCSM would receive no compensation and its interest in its rail lines, and all other fixtures covered by the Concession, as well as all improvements made by it, would revert to the Mexican government. Revocation or termination of the Concession could have a material adverse effect on the Company's consolidated financial statements.

KCS's ownership of KCSM and operations in Mexico subject it to Mexican economic and political risks.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and on KCSM's operations in particular. For example, KCSM operations could be impacted with the introduction of new legislation or policies to regulate the railway industry, the energy market, or labor conditions. KCS cannot predict the impact that the political landscape, including multiparty rule, social unrest and civil disobedience, will have on the Mexican economy or KCSM's operations. For example, from time to time, social unrest in Mexico has resulted in service interruptions on KCSM's right of ways due to blockages from teachers' protests. Furthermore, KCS's consolidated financial statements and prospects may be adversely affected by currency fluctuations, inflation, interest rates, regulation, taxation and other political, social and economic developments in or affecting Mexico.

The social and political situation in Mexico could adversely affect the Mexican economy and KCSM's operations, and changes in laws, public policies and government programs could be enacted, each of which could also have a material adverse effect on KCS's consolidated financial statements.

The Mexican economy in the past has suffered balance of payment deficits and shortages in foreign exchange reserves. Although Mexico has imposed foreign exchange controls in the past, there are currently no exchange controls in Mexico. Any restrictive exchange control policy could adversely affect KCS's ability to obtain U.S. dollars or to convert Mexican pesos into dollars for purposes of making payments. This could have a material adverse effect on KCS's consolidated financial statements.

Downturns in the United States economy or in trade between the United States and Asia or Mexico and fluctuations in the peso-dollar exchange rates could have material adverse effects on KCS's consolidated financial statements.

The level and timing of KCS's Mexican business activity is heavily dependent upon the level of United States-Mexican trade and the effects of current or future multinational trade agreements on such trade. The Mexican operations depend on the United States and Mexican markets for the products KCSM transports, the relative position of Mexico and the United States in these markets at any given time, and tariffs or other barriers to trade. Failure to preserve trade provisions conducive to trade, or any other action imposing import duties or border taxes, could negatively impact KCS customers and the volume of rail shipments, and could have a material adverse effect on KCS's consolidated financial statements.

Downturns in the United States or Mexican economies or in trade between the United States and Mexico could have material adverse effects on KCS's consolidated financial statements and the Company's ability to meet debt service obligations. In addition, KCS has invested significant amounts in developing its intermodal operations, including the Port of Lazaro Cardenas, in part to provide Asian importers with an alternative to the west coast ports of the United States, and the level of intermodal traffic depends, to an extent, on the volume of Asian shipments routed through Lazaro Cardenas. Reductions in trading volumes, which may be caused by factors beyond KCS's control, including increased government regulations regarding the safety and quality of Asian-manufactured products, could have a material adverse effect on KCS's consolidated financial statements.

Additionally, fluctuations in the peso-dollar exchange rates could lead to shifts in the types and volumes of Mexican imports and exports. Although a decrease in the level of exports of some of the commodities that KCSM transports to the United States may be offset by a subsequent increase in imports of other commodities KCSM hauls into Mexico and vice versa, any offsetting increase might not occur on a timely basis, if at all. Future developments in United States-Mexican trade beyond the Company's control may result in a reduction of freight volumes or in an unfavorable shift in the mix of products and commodities KCSM carries.

Extreme volatility in the peso-dollar exchange rate may result in disruption of the international foreign exchange markets and may limit the ability to transfer or convert Mexican pesos into U.S. dollars. Although the Mexican government currently does not restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer foreign currencies out of Mexico, the Mexican government could, as in the past, institute restrictive exchange rate policies that could limit the ability to transfer or convert pesos into U.S. dollars or other currencies for the purpose of making timely payments and meeting contractual commitments. Devaluation or depreciation of the peso against the U.S. dollar may also adversely affect U.S. dollar prices for KCS's securities.

Fluctuations in the peso-dollar exchange rates also have an effect on KCS's consolidated financial statements. A weakening of the peso against the U.S. dollar would cause reported peso-denominated revenues and expenses to decrease, and could increase reported foreign exchange loss due to the Company's net monetary assets that are peso-denominated. Exchange rate variations also affect the calculation of taxes under Mexican income tax law, and a strengthening of the peso against the U.S. dollar could cause an increase in the Company's cash tax obligation and effective income tax rate.

General Risk Factors

The unavailability of qualified personnel could adversely affect KCS's operations.

Changes in demographics, training requirements and the unavailability of qualified personnel could negatively affect KCS's ability to meet demand for rail service. Unforeseen increases in demand for rail services may exacerbate such risks, which could have a negative impact on KCS's operational efficiency and otherwise have a material adverse effect on KCS's consolidated financial statements.

Weaknesses in the short and long-term debt markets could negatively impact the Company's access to capital.

Due to the significant capital expenditures required to operate and maintain a safe and efficient railroad, the Company regularly obtains financing through the issuance of long-term debt instruments and commercial paper from time-to-time, as well as credit facilities provided by financial institutions. Significant, sustained instability or disruptions of the capital markets, including credit markets, or the deterioration of the Company's financial condition due to internal or external factors, could restrict or prohibit access and could increase the cost of financing sources. A significant deterioration of the Company's financial condition could also reduce credit ratings to below investment grade, limiting its access to external sources of capital,

and increasing the costs of short and long-term debt financing, and could have a material adverse effect on KCS's consolidated financial statements.

Item 1B. *Unresolved Staff Comments*

None.

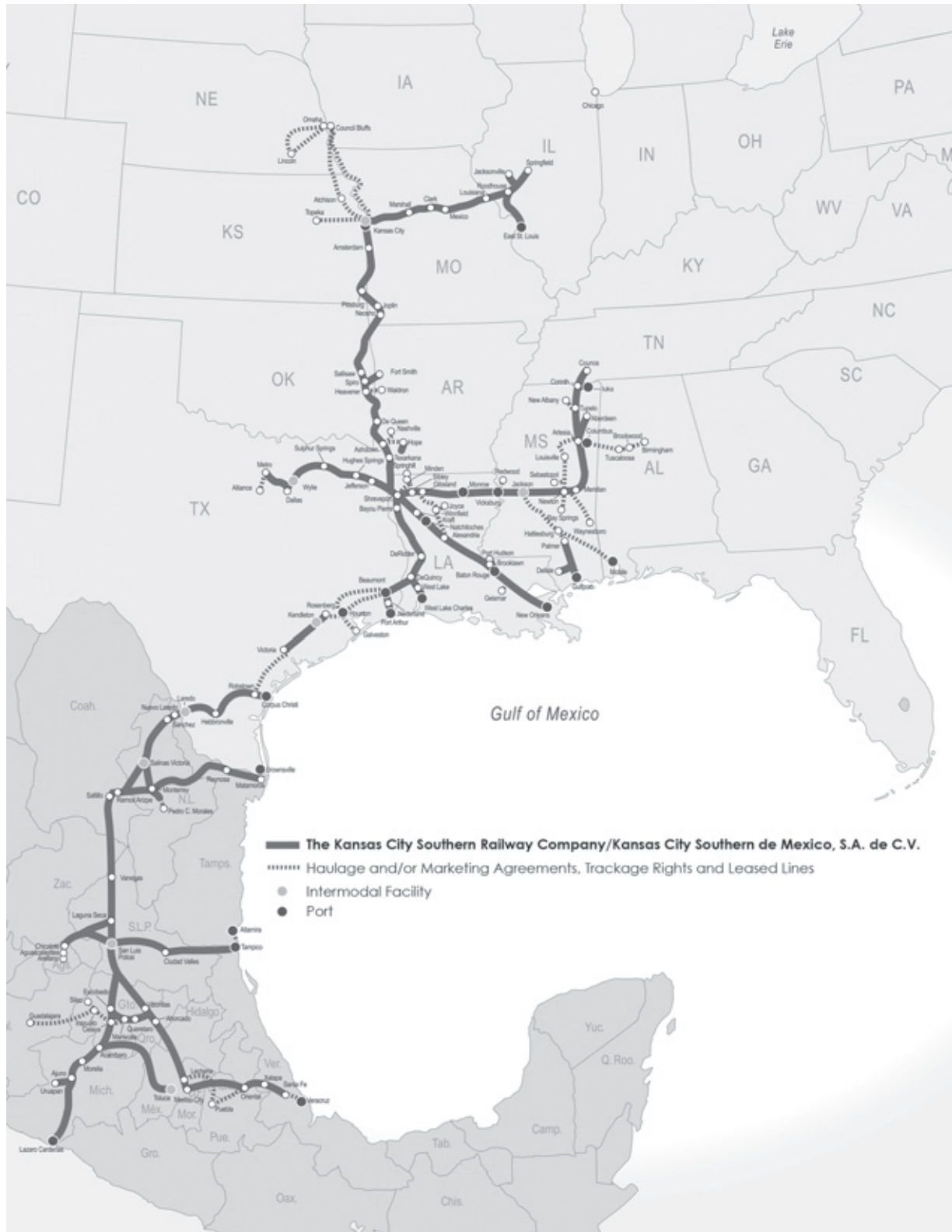
Item 2. *Properties*

Track Configuration

The Kansas City Southern Railway Company ("KCSR") operates over a railroad system consisting of approximately 3,300 route miles in ten states from the midwest and southeast portions of the United States south to the Mexican border, which includes approximately 640 miles of trackage rights that permit KCSR to operate its trains with its crews over other railroads' tracks.

Kansas City Southern de México, S.A. de C.V. ("KCSM") operates over a railroad system consisting of approximately 3,800 route miles. This includes approximately 3,300 route miles operated under its concession from the Mexican government (the "Concession"), and approximately 550 miles of trackage rights. Under the concession, KCSM does not own the land, roadway, or associated structures, but is provided the exclusive right to operate across these routes, while also requiring KCSM to make investments as described in a business plan filed every three years with the Mexican government. See Item 1A, Risk Factors — "KCSM's Mexican Concession is subject to revocation or termination in certain circumstances which would prevent KCSM from operating its railroad and would have a material adverse effect on the Company's consolidated financial statements."

Kansas City Southern Rail Network



Equipment Configuration

As of December 31, 2020 and 2019, KCS owned and leased the following units of equipment:

	2020			2019		
	Owned	Leased	Total	Owned	Leased	Total (i)
<i>Freight Cars:</i>						
Box cars	2,093	712	2,805	2,106	716	2,822
Hoppers (covered and open top)	4,883	865	5,748	4,998	1,073	6,071
Gondolas	2,423	1,180	3,603	2,424	1,179	3,603
Automotive	3,310	356	3,666	3,316	535	3,851
Flat cars (intermodal and other)	818	54	872	869	54	923
Tank cars	—	416	416	—	477	477
Total	13,527	3,583	17,110	13,713	4,034	17,747
<i>Locomotives:</i>						
Freight	759	—	759	662	88	750
Switching	198	—	198	199	—	199
Total	957	—	957	861	88	949

(i) KCS has reclassified 1,273 cars from Flat cars (intermodal and other) to Gondolas, which consists of 252 owned and 1,021 leased cars.

Average Age (in Years) of Owned and Leased Locomotives:

	2020	2019
Freight	16.5	15.5
Switching	46.9	45.8
All locomotives	22.9	21.9

Property and Facilities

KCS operates numerous facilities, including terminals for intermodal and other freight, rail yards for train-building, switching, storage-in-transit (the temporary storage of customer goods in rail cars prior to shipment) and other activities; offices to administer and manage operations; dispatch centers to direct traffic on the rail network; crew quarters to house train crews along the rail line; and shops and other facilities for fueling and maintenance and repair of locomotives, freight cars and other equipment.

Capital Expenditures

The Company's cash capital expenditures for the two years ended December 31, 2020 and 2019, and planned 2021 capital expenditures are included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures. See also Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Capitalization, Depreciation and Amortization of Property and Equipment (including Concession Assets) regarding the Company's policies and guidelines related to capital expenditures.

Item 3. Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. For more information on legal proceedings, see Item 1A, Risk Factors — "KCS may be subject to various claims and litigation that could have a material adverse effect on KCS's consolidated financial statements," Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Other Matters — Litigation, and Item 8, Financial Statements and Supplementary Data — Note 17, Commitments and Contingencies.

Item 4. *Mine Safety Disclosures*

Not applicable.

Part II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

The Company's common stock is traded on the New York Stock Exchange under the ticker symbol "KSU".

Dividend Policy

Common Stock. Any declarations and payments of dividends to holders of the Company's common stock are at the discretion of the Board of Directors, and are based on many factors, including the Company's financial condition, earnings, capital requirements and other factors that the Board of Directors deems relevant. Subject to these qualifications, the Company expects to continue to pay dividends on an ongoing basis.

Holders

There were 2,037 record holders of KCS common stock on January 22, 2021; however, the number of actual holders of KCS common stock is greater due to the practice of brokerage firms registering many shares for clients in the brokerage firm's name.

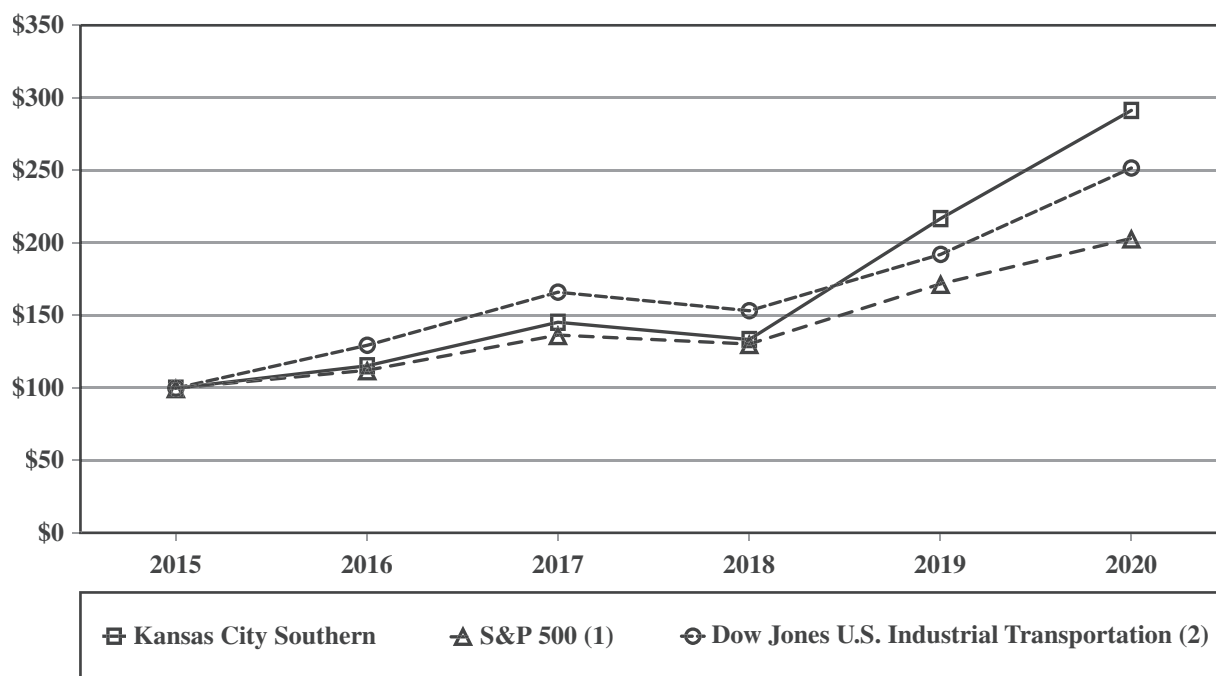
Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information about securities authorized for issuance under KCS's equity compensation plans.

Performance Graph

The following graph shows the changes in value over the five years ended December 31, 2020, of an assumed investment of \$100 in: (i) KCS's common stock; (ii) the stocks that comprise the Dow Jones U.S. Industrial Transportation Index; and (iii) the stocks that comprise the S&P 500 Index. The table following the graph shows the value of those investments on December 31 for each of the years indicated. The values for the assumed investments depicted on the graph and in the table have been calculated assuming that any cash dividends are reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN Among Kansas City Southern, the S&P 500 Index and the Dow Jones U.S. Industrial Transportation Index



	2015	2016	2017	2018	2019	2020
Kansas City Southern	\$ 100.00	\$ 115.34	\$ 145.04	\$ 133.34	\$ 216.47	\$ 291.27
S&P 500 ⁽¹⁾	100.00	111.96	136.40	130.42	171.49	203.04
Dow Jones U.S. Industrial Transportation ⁽²⁾	100.00	129.51	166.08	153.07	191.82	251.63

- (1) The S&P 500 is a registered trademark of Standard & Poor's, a division of S&P Global, Inc. The S&P 500 Index reflects the weighted average market value for 500 companies whose shares are traded on the New York Stock Exchange, American Stock Exchange and the Nasdaq Stock Market.
- (2) The Dow Jones U.S. Industrial Transportation Index is a registered trademark of S&P Dow Jones Indices LLC, a division of S&P Global, Inc.

Purchases of Equity Securities

On November 10, 2020, the Company announced that the Board of Directors approved a new common share repurchase program, pursuant to which up to \$3.0 billion in shares of common stock could be repurchased through December 31, 2023 (the “2020 Program”). The 2020 Program replaced KCS’s \$2.0 billion common share repurchase program announced on November 12, 2019 (the “2019 Program”), and eliminated the \$588.3 million of remaining authorization under the 2019 Program.

During 2020, the Company entered into two accelerated share repurchase (“ASR”) agreements under the 2019 Program, and paid \$500.0 million. The agreements were settled during January 2021. During 2020, KCS repurchased 143,343 shares of common stock for \$27.0 million under the 2020 Program, and 5,207,633 shares of common stock for \$869.2 million under the 2019 Program. Refer to Item 8, Financial Statements and Supplementary Data — Note 15, Stockholders’ Equity for additional detail on the Company’s common share repurchase program and ASR agreements.

During 2020, KCS repurchased 7,426 shares of \$25 par preferred stock for \$0.2 million at an average price of \$29.58 per share. See Item 8, Financial Statements and Supplementary Data — Note 15, Stockholders’ Equity for additional information.

The following table presents stock repurchases during each month for the fourth quarter of 2020:

Period	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be purchased under the Plans or Programs
<i>Common stock</i>				
October 1-31, 2020 ⁽²⁾	2,554,424	\$ 179.30	2,554,424	\$ 588,271,423
November 1-30, 2020	143,343	\$ 188.24	143,343	\$ 2,973,017,537
December 1-31, 2020	—	—	—	\$ 2,973,017,537
Total	2,697,767		2,697,767	
<i>\$25 Par preferred stock</i>				
October 1-31, 2020	—	—	—	—
November 1-30, 2020	2,970	\$ 30.72	—	—
December 1-31, 2020	—	—	—	—
Total	2,970		—	

(1) All \$25 par preferred stock repurchases were made other than through a publicly disclosed plan or program. Repurchases of \$25 par preferred stock were made through open market purchases and/or privately negotiated transactions.

(2) On October 20, 2020, the Company paid \$500.0 million under two ASR agreements and received an aggregate initial delivery of 2,374,168 shares. In January 2021, the ASR agreements were settled with the Company receiving 233,402 additional shares and a value of \$75.0 million, which is not included in the number of shares or the average price paid per share in the table above. The average price paid per share upon completion of the ASR agreements was \$191.75. See Item 8, Financial Statements and Supplementary Data — Note 15, Stockholders’ Equity for additional information.

Item 6. Selected Financial Data

The selected financial data below (*in millions, except per share amounts*) should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations as well as the consolidated financial statements and the related notes.

	2020	2019	2018	2017	2016
Earnings From Continuing Operations					
Revenues	\$ 2,632.6	\$ 2,866.0	\$ 2,714.0	\$ 2,582.9	\$ 2,334.2
Operating expenses (i) (ii) (iii) (iv)	1,629.6	1,979.7	1,727.7	1,661.3	1,515.7
Operating income	\$ 1,003.0	\$ 886.3	\$ 986.3	\$ 921.6	\$ 818.5
Net income (v) (vi) (vii) (viii)	\$ 619.1	\$ 540.8	\$ 629.4	\$ 963.9	\$ 479.9
Earnings per common share:					
Basic	\$ 6.57	\$ 5.42	\$ 6.16	\$ 9.18	\$ 4.44
Diluted	6.54	5.40	6.13	9.16	4.43
Financial Position					
Total assets (ix)	\$ 9,964.0	\$ 9,786.8	\$ 9,469.8	\$ 9,198.7	\$ 8,817.5
Total long-term debt obligations, including current portion and short-term borrowings	3,770.8	3,246.0	2,689.4	2,619.4	2,478.2
Total stockholders' equity	4,057.2	4,422.5	4,813.0	4,548.9	4,089.9
Total equity	4,383.6	4,745.9	5,132.7	4,865.4	4,404.5
Other Data Per Common Share					
Cash dividends declared per common share	\$ 1.64	\$ 1.48	\$ 1.44	\$ 1.38	\$ 1.32

- (i) During 2020, the Company recognized pre-tax expense of \$13.6 million within operating expenses related to the write-off of software development costs.
- (ii) During 2020 and 2019, the Company recognized pre-tax restructuring charges of \$17.0 million and \$168.8 million, respectively, within operating expenses related to the implementation of Precision Scheduled Railroading ("PSR") initiatives as well as the voluntary separation program.
- (iii) During 2018, the Company recognized a pre-tax gain of \$17.9 million within operating expenses for insurance recoveries related to damage from Hurricane Harvey in 2017.
- (iv) During 2018, 2017 and 2016, the Company recognized a pre-tax benefit of \$37.7 million, \$44.1 million and \$62.8 million, respectively, within operating expenses related to a credit that was available for the excise tax included in the price of fuel that was purchased and consumed in locomotives and certain work equipment in Mexico. Effective January 1, 2019, the Company began recognizing the benefit as a reduction of income tax expense due to changes in Mexican tax law; and beginning April 30, 2019, railroads in Mexico are no longer eligible for the tax credit due to changes in Mexican tax regulations.
- (v) During 2020, the Company recognized a \$14.5 million tax benefit for the reversal of 2018 and 2019 global intangible low-taxed income ("GILTI") tax expense recognized in prior years' consolidated financial statements, as the result of final regulations issued by the Treasury Department that provide for a high-tax exception to the GILTI tax retroactive to 2018.
- (vi) During 2019 and 2018, the Company recognized pre-tax debt retirement costs of \$1.1 million and \$2.2 million, respectively, related to debt retirement and restructuring activities that occurred during the periods.
- (vii) During 2019, the Company recognized a \$12.8 million net tax benefit related to the Mexican fuel excise tax credit generated through April 29, 2019, noted in (iv) above.
- (viii) During 2017, the Company recognized a provisional \$413.0 million net tax benefit, as a result of the Tax Cuts and Jobs Act (the "Tax Reform Act"), which was signed into law December 22, 2017. During 2018, the Company recognized a \$20.9 million net tax benefit for adjustments to the provisional tax impacts of the Tax Reform Act recognized in 2017.
- (ix) During the first quarter of 2019, the Company adopted ASU No. 2016-02, Leases, also known as Accounting Standard Codification ("ASC") Topic 842. Prior to 2019, the Company accounted for leases under ASC Topic 840, Leases.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following is a discussion of Kansas City Southern's results of operations, certain changes in its financial position, liquidity, capital structure and business developments for the years ended December 31, 2020 and 2019. This discussion should be read in conjunction with the included consolidated financial statements, the related notes, and other information included in this report.

CAUTIONARY INFORMATION

The discussions set forth in this Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. In addition, management may make forward-looking statements orally or in other writings, including, but not limited to, in press releases, quarterly earnings calls, executive presentations, in the annual report to stockholders and in other filings with the Securities and Exchange Commission. Readers can usually identify these forward-looking statements by the use of such verbs as "may," "will," "should," "likely," "plans," "projects," "expects," "anticipates," "believes" or similar verbs or conjugations of such verbs. These statements involve a number of risks and uncertainties. Actual results could materially differ from those anticipated by such forward-looking statements. Such differences could be caused by a number of factors or combination of factors including, but not limited to, the factors identified below and those discussed under Item 1A, Risk Factors, of this Form 10-K. Readers are strongly encouraged to consider these factors and the following factors when evaluating any forward-looking statements concerning the Company:

- public health threats or outbreaks of communicable diseases, such as the ongoing COVID-19 pandemic and its impact on KCS's business, suppliers, consumers, customers, employees and supply chains;
- transportation of hazardous materials;
- United States, Mexican and global economic, political and social conditions;
- the adverse impact of any termination or revocation by the Mexican government of Kansas City Southern de México, S.A. de C.V.'s ("KCSM") Concession;
- changes in legislation and regulations or revisions of controlling authority;
- the effects of adverse general economic conditions affecting customer demand and the industries and geographic areas that produce and consume the commodities KCS carries;
- the effect of demand for KCS's services exceeding network capacity or traffic congestion on operating efficiencies and service reliability;
- KCS's reliance on agreements with other railroads and third parties to successfully implement its business strategy, operations and growth and expansion plans, including the strategy to convert customers from using trucking services to rail transportation services;
- the dependence on the stability, availability and security of the information technology systems to operate its business;
- acts of terrorism, war or other acts of violence or crime or risk of such activities;
- uncertainties regarding the litigation KCS faces and any future claims and litigation;
- the outcome of claims and litigation, including those related to environmental contamination, personal injuries and property damage;
- compliance with environmental regulations;
- natural events such as severe weather, fire, floods, hurricanes, earthquakes or other disruptions to the Company's operating systems, structures and equipment or the ability of customers to produce or deliver their products;
- insurance coverage limitations;
- climate change and the market and regulatory responses to climate change;
- the impact of competition, including competition from other rail carriers, trucking companies and maritime shippers in the United States and Mexico;

- the effects of fluctuations in the peso-dollar exchange rate;
- changes in labor costs and labor difficulties, including strikes and work stoppages affecting either operations or customers' abilities to deliver goods for shipment;
- the effects of current and future multinational trade agreements on the level of trade among the United States, Mexico and Canada;
- the level of trade between the United States and Asia or Mexico;
- unavailability of qualified personnel;
- disruption in fuel supplies, changes in fuel prices and the Company's ability to recapture its costs of fuel from customers;
- KCS's reliance on certain key suppliers of core rail equipment; and
- material adverse changes in economic and industry conditions, including the availability of short and long-term financing, both within the United States and Mexico and globally.

Forward-looking statements reflect the information only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statements to reflect future events, developments, or other information. If KCS does update one or more forward-looking statements, no inference should be drawn that additional updates will be made regarding that statement or any other forward-looking statements.

CORPORATE OVERVIEW

Kansas City Southern, a Delaware corporation, is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. In the U.S., the Company serves the midwest and southeast regions of the U.S. Its international holdings serve northeastern and central Mexico and the port cities of Lazaro Cardenas, Tampico and Veracruz, and a fifty percent interest in Panama Canal Railway Company provides ocean-to-ocean freight and passenger service along the Panama Canal. KCS's North American rail holdings and strategic alliances are primary components of a railway system, linking the commercial and industrial centers of the U.S., Canada and Mexico. KCS's principal subsidiaries and affiliates include the following:

- The Kansas City Southern Railway Company ("KCSR"), a wholly-owned subsidiary;
- KCSM, a wholly-owned subsidiary;
- Mexrail, Inc. ("Mexrail"), a wholly-owned consolidated subsidiary which, in turn, wholly owns The Texas Mexican Railway Company ("Tex-Mex");
- KCSM Servicios, S.A. de C.V. ("KCSM Servicios"), a wholly-owned subsidiary;
- Meridian Speedway, LLC ("MSLLC"), a seventy percent-owned consolidated affiliate;
- Panama Canal Railway Company ("PCRC"), a fifty percent-owned unconsolidated affiliate;
- TFCM, S. de R.L. de C.V. ("TCM"), a forty-five percent-owned unconsolidated affiliate;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. ("FTVM"), a twenty-five percent-owned unconsolidated affiliate; and
- PTC-220, LLC ("PTC-220"), a fourteen percent-owned unconsolidated affiliate.

EXECUTIVE SUMMARY

COVID-19 Update

With the global outbreak of the Coronavirus Disease 2019 ("COVID-19") and the declaration of a pandemic by the World Health Organization on March 11, 2020, the U.S. and Mexico governments have deemed rail transportation as "critical infrastructure" providing essential services during this global emergency. As a provider of critical infrastructure, Kansas City Southern has an obligation to keep employees working and freight moving. KCS remains focused on protecting the health and well-being of its employees and the communities in which it operates while assuring the continuity of its business operations.

KCS created a dedicated crisis team that proactively implemented its business continuity plans to ensure the ongoing availability of its transportation services, while taking a variety of health and safety measures, including separating dispatching

and crew operations, implementing enhanced cleaning and hygiene protocols in its facilities and locomotives, implementing remote work policies, where possible, performing temperature checks and requiring facial coverings. As a result, to date, the Company has not experienced significant COVID-19 related disruptions in its railroad operations.

The Company began to experience the impacts of COVID-19 on customer demand in late March of 2020. Volumes significantly declined in the second quarter of 2020; however, by early June volumes began to rapidly rebound. By the end of the third quarter, weekly volumes were higher than pre-COVID-19 levels and had increased by approximately 60% from the lowest levels in the second quarter of 2020. Volumes remained relatively steady from the third quarter into the fourth quarter of 2020. For the year ended December 31, 2020, revenue decreased by 8% compared to the same period in 2019, primarily due to lower volumes as a result of COVID-19 and service interruptions at Lazaro Cardenas due to KCSM right-of-way blockages resulting from teachers' protests ("Teachers' Protests"), the weakening of the Mexican peso against the U.S dollar, and lower fuel surcharge due to lower fuel prices.

As revenues declined in the second quarter of 2020, the Company responded quickly and implemented a variety of cost-saving measures and accelerated Precision Scheduled Railroading ("PSR") initiatives by further consolidating trains, which increased train length and reduced crew costs. For the year ended December 31, 2020, operating expenses decreased by 18% compared to 2019, due to decreased restructuring charges, lower fuel prices, COVID-19 related volume declines, increased savings from PSR initiatives and the weakening of the Mexican peso against the U.S. dollar. See Strategic Initiatives for further discussion of PSR savings.

In the second quarter of 2020, the Company offered a voluntary separation program ("VSP") to its management employees, which resulted in a restructuring charge of \$9.7 million for the year ended December 31, 2020, consisting of severance and benefit costs that will be paid out in either lump-sum payments or incrementally over a six to twelve-month period. Approximately 6% of management employees were irrevocably accepted into the voluntary separation program. Management expects the voluntary separation program reductions to result in annualized savings of approximately \$11.0 million.

COVID-19 costs increased total expense for the year ended December 31, 2020 by approximately \$10.0 million, primarily due to wages paid to certain high-risk employees who were allowed to stay home pursuant to a Mexican presidential decree, were symptomatic, or in quarantine, as well as expenses related to cleaning and decontamination of locomotives and other workspaces, and costs of protective gear for KCS employees.

KCS believes it has a strong liquidity position to continue business operations and service its debt obligations. As disclosed in the Liquidity and Capital Resources section, the Company has total available liquidity of \$788.2 million as of December 31, 2020, consisting of cash on hand and a revolving credit facility, compared to available liquidity at December 31, 2019 of \$748.8 million. Furthermore, the Company does not have any debt maturities until 2023. During the year ended December 31, 2020, KCS did not significantly alter the terms of its freight agreements with customers. Cash flows from operations remain strong; however, planned capital expenditures were reduced by \$75.0 million, resulting in annual capital expenditures of \$410.2 million in 2020. If the Company experienced another significant reduction in revenues, the Company would have additional alternatives to maintain liquidity, including decreases in capital expenditures and cost reductions as well as adjustments to its capital allocation policy. To date, the Company has not reduced or suspended its share repurchase program or dividend payments. See Liquidity and Capital Resources section for additional information.

KCS continues to monitor the rapidly evolving COVID-19 situation and guidance from international and domestic authorities, including federal, state, and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside KCS' control requiring adjustments to operating plans. As such, given the dynamic nature of this situation, KCS cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company's results of operations, financial position, and liquidity. See Part II, Item 1A - "Risk Factors" - "Public health threats or outbreaks of communicable diseases, including the ongoing COVID-19 pandemic, could have a material adverse effect on the Company's operations and financial results."

Strategic Initiatives

During 2019, KCS began implementing principles of PSR, focusing on operational excellence and driving the following improvements:

- Customer service — improve and sustain consistency and reliability of service and create a more resilient and dependable network;
- Facilitating growth — additional capacity for new opportunities;
- Improving asset utilization — meet growing or changing demand with the same or fewer assets; and,
- Improving the cost profile of the Company — increased profitability driven by volume and revenue growth and improved productivity and asset utilization.

As a result of the PSR initiatives in 2019, management approved four separate restructuring plans that totaled \$168.8 million. The PSR plans included asset impairments, workforce reductions, and contract restructuring, which resulted in 2019 operating expense savings of approximately \$58.0 million.

The Company established the following key metrics to measure PSR progress and performance:

	Years ended		Improvement/ (Deterioration)
	December 31,		
	2020	2019	
Gross velocity (mph) (i)	15.1	13.5	12%
Terminal dwell (hours) (ii)	22.1	20.8	(6)%
Train length (feet) (iii)	6,671	5,981	12%
Car miles per day (iv)	110.6	110.9	—
Fuel efficiency (gallons per 1,000 GTM's) (v)	1.24	1.31	5%

(i) Gross velocity is the average train speed between origin and destination in miles per hour calculated as the sum of the miles traveled divided by the sum of total transit hours. Transit hours are measured as the difference between a train's origin departure and destination arrival date and times broken down by segment across the train route (includes all time spent including crew changes, terminal dwell, delays, and incidents).

(ii) Terminal dwell is the average amount of time in hours between car arrival to and departure from the yard (excludes cars that move through a terminal on a run-through train, stored, bad ordered, and maintenance-of-way cars). Calculated by dividing the total number of hours cars spent in terminals by the total count of car dwell events.

(iii) Train length is the average length of a train across its reporting stations, including the origin and intermediate stations. Length of a train is the sum of car and locomotive lengths measured in feet.

(iv) Car miles per day is the miles a car travels divided by total transit days. Transit days are measured from opening event to closing event (includes all time spent in terminals and on trains).

(v) Fuel efficiency is calculated by taking locomotive fuel consumed in gallons divided by thousand gross ton miles ("GTM's") net of detours with no associated fuel gallons. GTM's are the movement of one ton of train weight over one mile calculated by multiplying total train weight by distance the train moved. GTM's exclude locomotive gross ton miles.

As revenues declined rapidly in the second quarter of 2020 due to COVID-19, management accelerated PSR initiatives by rightsizing resources to volumes and further reduced costs. Train service plans were quickly adjusted as volumes began to decline and trains were consolidated, resulting in longer, more efficient trains. Record average train length reduced the number of train starts and crew costs, leading to operating efficiencies across the organization and record fuel efficiency. As volumes began to rebound rapidly in June and through the remainder of 2020, the Company remained focused on PSR initiatives and maintained cost reductions from consolidating trains and reducing crew costs. However, during the second half of 2020, the Company experienced four hurricanes and Teachers' Protests that negatively impacted the operating metrics for 2020.

At the beginning of 2020, the Company estimated incremental annual operating savings of approximately \$61.0 million. Due to acceleration of PSR initiatives in the second quarter of 2020, the Company realized incremental annual operating savings of approximately \$96.0 million. The Company estimates incremental annual savings of approximately \$50.0 million in 2021 due to PSR initiatives. The Company remains focused on executing these strategic initiatives, which will deliver improved customer service, facilitate growth, and drive better asset utilization while improving the cost profile of the Company.

2020 Financial Overview

Revenues decreased 8% for the year ended December 31, 2020, as compared to 2019, due to a 6% decrease in carload/unit volumes and a 3% decrease in revenue per carload/unit. Revenues decreased primarily due to lower volumes as a result of COVID-19 and Teachers' Protests, the weakening of the Mexican peso against the U.S. dollar, and lower fuel surcharge due to lower fuel prices.

Operating expenses decreased 18% compared to 2019, primarily due to decreased restructuring charges, lower fuel prices, COVID-19 related volume declines, increased savings from PSR initiatives and the weakening of the Mexican peso against the U.S. dollar. Operating expenses as a percentage of revenues ("operating ratio") decreased to 61.9% in 2020 from 69.1% in 2019.

The Company reported 2020 earnings per diluted share of \$6.54, compared to 2019 earnings per diluted share of \$5.40. The increase in earnings per diluted share was due to higher operating income, reduced income tax expense as a result of lower effective tax rate, and an increase in share repurchases. These increases were partially offset by a foreign exchange loss in 2020, compared to a gain in 2019, and an increase in interest expense due to the issuance of senior notes in the fourth quarter of 2019 and the second quarter of 2020.

RESULTS OF OPERATIONS

Year Ended December 31, 2020, compared with the Year Ended December 31, 2019

The following summarizes KCS's consolidated income statement components (*in millions*):

	2020	2019	Change
Revenues	\$ 2,632.6	\$ 2,866.0	\$ (233.4)
Operating expenses	1,629.6	1,979.7	(350.1)
Operating income	1,003.0	886.3	116.7
Equity in net earnings (losses) of affiliates	(1.4)	1.0	(2.4)
Interest expense	(150.9)	(115.9)	(35.0)
Debt retirement costs	—	(1.1)	1.1
Foreign exchange gain (loss)	(29.6)	17.1	(46.7)
Other income, net	2.1	1.0	1.1
Income before income taxes	823.2	788.4	34.8
Income tax expense	204.1	247.6	(43.5)
Net income	619.1	540.8	78.3
Less: Net income attributable to noncontrolling interest	2.1	1.9	0.2
Net income attributable to Kansas City Southern and subsidiaries	<u>\$ 617.0</u>	<u>\$ 538.9</u>	<u>\$ 78.1</u>

Revenues

The following summarizes revenues (*in millions*), carload/unit statistics (*in thousands*) and revenue per carload/unit:

	Revenues			Carloads and Units			Revenue per Carload/Unit		
	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Chemical and petroleum	\$ 763.8	\$ 737.2	4%	356.7	337.4	6%	\$ 2,141	\$ 2,185	(2%)
Industrial and consumer products	537.7	610.4	(12%)	300.5	320.9	(6%)	1,789	1,902	(6%)
Agriculture and minerals	505.4	506.3	—	251.0	253.3	(1%)	2,014	1,999	1%
Energy	195.0	246.2	(21%)	210.0	244.7	(14%)	929	1,006	(8%)
Intermodal	319.1	370.2	(14%)	924.5	979.8	(6%)	345	378	(9%)
Automotive	172.7	255.6	(32%)	110.7	154.9	(29%)	1,560	1,650	(5%)
Carload revenues, carloads and units	2,493.7	2,725.9	(9%)	2,153.4	2,291.0	(6%)	\$ 1,158	\$ 1,190	(3%)
Other revenue	138.9	140.1	(1%)						
Total revenues (i)	<u>\$ 2,632.6</u>	<u>\$ 2,866.0</u>	<u>(8%)</u>						

(i) Included in revenues:

Fuel surcharge	<u>\$ 208.7</u>	<u>\$ 298.1</u>
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Revenues include revenue for transportation services and fuel surcharges. For the year ended December 31, 2020, revenues and carload/unit volumes decreased 8% and 6%, respectively, compared to 2019. Revenues decreased primarily due to lower volumes as a result of COVID-19 and Teachers' Protests, the weakening of the Mexican peso against the U.S. dollar, and lower fuel surcharge due to lower fuel prices.

The volume declines in the intermodal and automotive business units were due to auto plant shutdowns and lower overall automotive production in Mexico as a result of COVID-19. In addition, intermodal volumes decreased as a result of Teachers' Protests. Frac sand and crude oil volumes within the Energy business unit decreased due to the decline in oil prices and industrial and consumer business unit was impacted by lower market demand as a result of COVID-19. These decreases were partially offset by increased volumes in the chemical and petroleum business unit primarily due to refined fuel product shipments to Mexico.

For the year ended December 31, 2020, revenue per carload/unit decreased by 3%, compared to the prior year, due to the weakening of the Mexican peso against the U.S. dollar, shorter average length of haul, and lower fuel surcharge, partially offset by positive pricing impacts and mix. The average exchange rate of Mexican pesos per U.S. dollar was Ps.21.5 for 2020, compared to Ps.19.3 for 2019, which resulted in a decrease to revenues of approximately \$43.0 million.

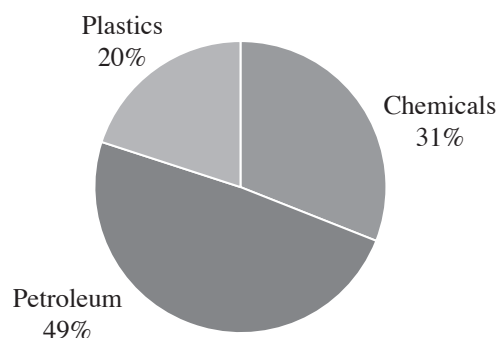
KCS's fuel surcharges are a mechanism to adjust revenue based upon changes in fuel prices above fuel price thresholds set in KCS's tariffs or contracts. Fuel surcharge revenue is calculated using a fuel price from a prior time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge revenue may differ.

Fuel surcharge revenue decreased \$89.4 million for the year ended December 31, 2020, compared to the prior year, primarily due to lower fuel prices and volumes.

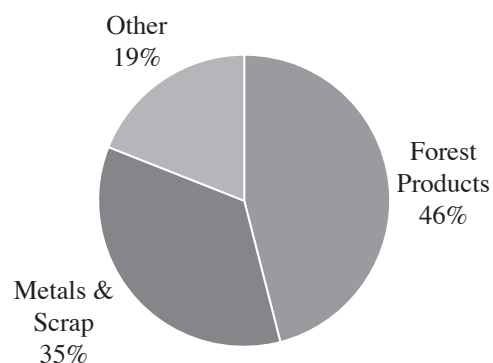
The following discussion provides an analysis of revenues by commodity group:

Revenues by commodity group for 2020

Chemical and petroleum. Revenues increased \$26.6 million for the year ended December 31, 2020, compared to 2019, due to a 6% increase in carload/unit volumes, partially offset by a 2% decrease in revenue per carload/unit. Volumes increased due to refined fuel product shipments to Mexico. Revenue per carload/unit decreased due to shorter average length of haul, the weakening of the Mexican peso against the U.S. dollar, and lower fuel surcharge, partially offset by mix and positive pricing impacts.

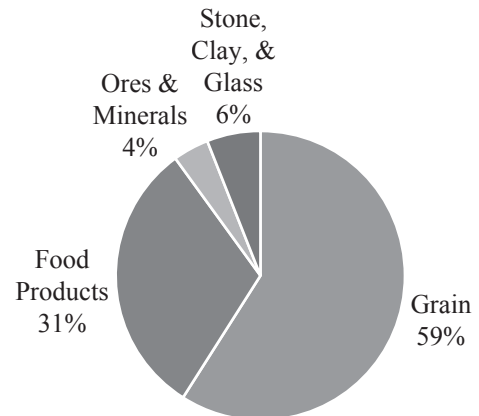


Industrial and consumer products. Revenues decreased \$72.7 million for the year ended December 31, 2020, compared to 2019, due to a 6% decrease in both carload/unit volumes and revenue per carload/unit. Volumes decreased primarily due to lower market demand as a result of the ongoing COVID-19 pandemic and weakness in the energy sector. Revenue per carload/unit decreased due to mix, the weakening of the Mexican peso against the U.S. dollar, lower fuel surcharge, and shorter average length of haul, partially offset by positive pricing impacts.

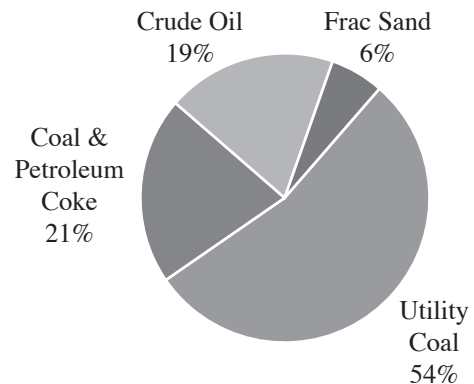


Revenues by commodity group for 2020

Agriculture and minerals. Revenues remained flat for year ended December 31, 2020, compared to 2019, as a 1% decrease in carload/unit volumes was offset by a 1% increase in revenue per carload/unit. Volumes decreased due to a decline in ores and minerals shipments due to lower demand as a result of weather delays impacting road infrastructure projects. Revenue per carload/unit increased due to mix, longer average length of haul, and positive pricing impacts, partially offset by lower fuel surcharge and the weakening of the Mexican peso against the U.S. dollar.



Energy. Revenues decreased \$51.2 million for the year ended December 31, 2020, compared to 2019, due to a 14% decrease in carload/unit volumes and a 8% decrease in revenue per carload/unit. Utility coal volumes decreased as a result of low natural gas prices and warm weather. Frac sand and crude oil volumes decreased due to the declines in oil prices. In addition, frac sand volumes decreased as a result of in-basin sand competition. Revenue per carload/unit decreased due to mix, lower fuel surcharge, shorter average length of haul, and the weakening of the Mexican peso against the U.S. dollar, partially offset by positive pricing impacts.



Intermodal. Revenues decreased \$51.1 million for the year ended December 31, 2020, compared to 2019, due to an 9% decrease in revenue per carload/unit and a 6% decrease in carload/unit volumes. Revenue per carload/unit decreased due to mix, shorter average length of haul, lower fuel surcharge, and the weakening of the Mexican peso against the U.S. dollar, partially offset by positive pricing impacts. Volumes decreased primarily due to COVID-19, auto plant shutdowns impacting cross-border traffic, and Teachers' Protests.

Automotive. Revenues decreased \$82.9 million for the year ended December 31, 2020, compared to 2019, due to a 29% decrease in carload/unit volumes due to auto plant shutdowns and lower overall automotive production in Mexico as a result of COVID-19. In addition, revenue per carload/unit decreased 5% due to the weakening of the Mexican peso against the U.S. dollar, mix, and lower fuel surcharge, partially offset by positive pricing impacts.

Operating Expenses

Operating expenses, as shown below (*in millions*), decreased \$350.1 million for the year ended December 31, 2020, compared to 2019, primarily due to decreased restructuring charges, lower fuel prices, COVID-19 related volume declines, increased savings from PSR initiatives and the weakening of the Mexican peso against the U.S. dollar.

The weakening of the Mexican peso against the U.S. dollar resulted in an expense reduction of approximately \$36.0 million for expense transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.21.5 for 2020 compared to Ps.19.3 for 2019.

	2020	2019	Change	
			Dollars	Percent
Compensation and benefits	\$ 476.5	\$ 529.1	\$ (52.6)	(10%)
Purchased services	198.1	219.2	(21.1)	(10%)
Fuel	219.8	340.4	(120.6)	(35%)
Equipment costs	85.8	108.6	(22.8)	(21%)
Depreciation and amortization	357.9	350.7	7.2	2%
Materials and other	260.9	262.9	(2.0)	(1%)
Write-off of software development costs	13.6	—	13.6	100%
Restructuring charges	17.0	168.8	(151.8)	(90%)
Total operating expenses	<u>\$ 1,629.6</u>	<u>\$ 1,979.7</u>	<u>\$ (350.1)</u>	<u>(18%)</u>

Compensation and benefits. Compensation and benefits decreased \$52.6 million for the year ended December 31, 2020, compared to 2019, due to a decrease in headcount and work hours of approximately \$54.0 million caused by volume declines as a result of COVID-19 and the continued application of PSR initiatives, the weakening of the Mexican peso against the U.S. dollar of approximately \$14.0 million and a decrease in incentive compensation of approximately \$6.0 million, partially offset by wage inflation of approximately \$17.0 million and approximately \$5.0 million of wages related to COVID-19. Wages related to COVID-19 were paid to employees that were symptomatic, quarantined, or under a stay-at-home order per Mexican presidential decree for COVID-19.

Purchased services. Purchased services expense decreased \$21.1 million for the year ended December 31, 2020, compared to 2019, due to decreases in repairs and maintenance and detour expense caused by COVID-19 related volume declines and the continued application of PSR initiatives of approximately \$14.0 million, the weakening of the Mexican peso against the U.S. dollar of approximately \$5.0 million, and savings from in-sourcing activities in 2019 related to PSR of approximately \$2.0 million.

Fuel. Fuel expense decreased \$120.6 million for the year ended December 31, 2020, compared to 2019, due to lower diesel fuel prices of approximately \$37.0 million and \$28.0 million in the U.S. and Mexico, respectively, lower consumption of approximately \$17.0 million and \$10.0 million in Mexico and the U.S., respectively, caused by volume declines as a result of the ongoing COVID-19 pandemic, increased efficiency of approximately \$17.0 million and the weakening of the Mexican peso against the U.S. dollar of approximately \$11.0 million. The average price per gallon was \$1.90 in 2020, compared to \$2.57 in 2019.

Equipment costs. Equipment costs decreased \$22.8 million for the year ended December 31, 2020, compared to 2019, due to lower lease expense of approximately \$17.0 million primarily due to the termination of locomotive leases during the second quarter of 2019 and the first quarter of 2020, and lower car hire expense of approximately \$6.0 million primarily as a result of reduced cycle times due to PSR initiatives.

Depreciation and amortization. Depreciation and amortization expense increased \$7.2 million for the year ended December 31, 2020, compared to 2019, due to a larger asset base, partially offset by lower depreciation as a result of PSR initiatives implemented during 2019.

Materials and other. Materials and other expense decreased \$2.0 million for the year ended December 31, 2020, compared to 2019, due to lower employee expenses of approximately \$13.0 million, the weakening of the Mexican peso against the U.S. dollar of approximately \$6.0 million and lower materials and supplies expense of approximately \$5.0 million. These decreases were partially offset by an increase in personal injury expense of approximately \$10.0 million, a one-time, vendor settlement of approximately \$5.0 million during 2019, higher derailments and casualty expense of approximately \$4.0 million, and approximately \$2.0 million of costs for decontamination services and enhanced facilities cleaning related to COVID-19.

Write-off of software development costs. For the year ended December 31, 2020, the Company recognized \$13.6 million of expense related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use.

Restructuring charges. For the year ended December 31, 2020, the Company recognized \$17.0 million of restructuring charges primarily related to the VSP of \$9.7 million and the purchase of impaired, leased locomotives of \$6.0 million. For the year ended December 31, 2019, the Company recognized \$168.8 million of restructuring charges related to the implementation of PSR initiatives, which included the impairment of certain locomotives and rail cars, workforce reduction, and contract restructuring activities. Refer to Item 8, Financial Statements and Supplementary Data — Note 3, Restructuring Charges for more information.

Non-Operating Expenses

Equity in net earnings (losses) of affiliates. Equity in net earnings (losses) of affiliates decreased \$2.4 million for the year ended December 31, 2020, compared to 2019, due to a decrease in net earnings from the operations of Panama Canal Railway Company as a result of lower container volumes due to a bridge strike in late June 2020 that shut down the railroad for approximately three months. In addition, equity in net earnings from the operations of TCM decreased due to increased tax expense and foreign exchange losses. These decreases were partially offset by an increase in equity in net earnings from the operations of FTVM as a result of losses recognized in 2019 related to the cancellation of Mexico City's new international airport.

Interest expense. Interest expense increased \$35.0 million for the year ended December 31, 2020, compared to 2019, due to higher average debt balances. For the year ended December 31, 2020, the average debt balance (including commercial paper) was \$3,679.4 million, compared to \$2,826.6 million in 2019. The average interest rate for the years ended December 31, 2020 and 2019 was 4.1% for both periods.

Debt retirement costs. The Company did not incur debt retirement costs during 2020. For the year ended December 31, 2019, debt retirement costs were \$1.1 million related to the write-off of previously capitalized debt issuance costs associated with the establishment of the new revolving credit facility in the first quarter of 2019 and the call premiums and write-off of unamortized debt issuance costs and original issue discounts associated with the redemption of the KCS and KCSM 2.35% senior notes in the fourth quarter of 2019.

Foreign exchange gain (loss). For the year ended December 31, 2020, foreign exchange loss was \$29.6 million, compared to a gain of \$17.1 million in 2019. Foreign exchange gain (loss) includes the re-measurement and settlement of net monetary assets denominated in Mexican pesos and the gain (loss) on foreign currency derivative contracts. The significant fluctuation in foreign exchange gain (loss) is a result of weakening of the Mexican peso against the U.S. dollar partially resulting from the increased market volatility driven by the global COVID-19 pandemic.

For the years ended December 31, 2020 and 2019, the re-measurement and settlement of net monetary assets and liabilities denominated in Mexican pesos resulted in a foreign exchange loss of \$7.1 million and a gain of \$3.0 million, respectively.

The Company enters into foreign currency derivative contracts to hedge its net exposure to fluctuations in the Mexican cash tax obligation due to changes in the value of the Mexican peso against the U.S. dollar. For the year ended December 31, 2020, foreign exchange loss on foreign currency derivative contracts was \$22.5 million, compared to a gain of \$14.1 million in 2019.

Other income, net. Other income, net, increased \$1.1 million for the year ended December 31, 2020, compared to 2019 primarily due to an increase in miscellaneous income.

Income tax expense. Income tax expense decreased \$43.5 million for the year ended December 31, 2020, compared to 2019, due to a lower effective tax rate. The decrease in the effective tax rate was primarily due to fluctuations in the foreign exchange rate and the issuance of final global intangible low-taxed income (“GILTI”) regulations that provide for a high-tax exception to the GILTI tax retroactive to 2018. See the tax rates reconciliation below.

The Treasury Department issued final regulations in July 2020 that provide for a high-tax exception to the GILTI tax. Specifically, if foreign earnings are subject to a foreign tax rate of at least 90% of the U.S. tax rate, an election can be made to not treat the high-taxed earnings as GILTI income. The final regulations can apply retroactive to tax years beginning after December 31, 2017, and render the GILTI tax immaterial to the consolidated financial statements. The Company recognized a \$14.5 million tax benefit in 2020 for the reversal of 2018 and 2019 GILTI tax expense recognized in prior years’ consolidated financial statements.

The fluctuations of the Mexican peso during 2020 decreased the Company’s Mexican cash tax obligation by \$13.0 million for the year ended December 31, 2020. The fluctuations of the Mexican peso during 2019 increased the Company’s Mexican cash tax obligation by \$8.9 million for the year ended December 31, 2019.

Differences between the Company’s effective income tax rate and the U.S. federal statutory income tax rate of 21% for 2020 and 2019 follow (*in millions*):

	2020		2019		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Income tax expense using the statutory rate in effect	\$ 172.9	21.0%	\$ 165.6	21.0%	\$ 7.3	—
Tax effect of:						
Difference between U.S. and foreign tax rate	44.1	5.4%	47.6	6.0%	(3.5)	(0.6%)
GILTI tax, net	(14.5)	(1.8%)	2.7	0.3%	(17.2)	(2.1%)
Tax credits	(13.8)	(1.7%)	(16.8)	(2.1%)	3.0	0.4%
State and local income tax provision, net	12.5	1.5%	11.5	1.5%	1.0	—
Withholding tax	9.9	1.2%	9.5	1.2%	0.4	—
Foreign exchange (i)	(3.4)	(0.4%)	35.9	4.6%	(39.3)	(5.0%)
Mexican fuel excise tax credit, net (ii)	—	—	(12.8)	(1.6%)	12.8	1.6%
Other, net	(3.6)	(0.4%)	4.4	0.5%	(8.0)	(0.9%)
Income tax expense	<u>\$ 204.1</u>	<u>24.8%</u>	<u>\$ 247.6</u>	<u>31.4%</u>	<u>\$ (43.5)</u>	<u>(6.6%)</u>

- (i) Mexican income taxes are paid in Mexican pesos, and as a result, the effective income tax rate reflects fluctuations in the value of the Mexican peso against the U.S. dollar. The foreign exchange impact on income taxes includes the gain or loss from the revaluation of the Company’s net U.S. dollar-denominated monetary liabilities into Mexican pesos which is included in Mexican taxable income under Mexican tax law. As a result, a strengthening of the Mexican peso against the U.S. dollar for the reporting period will generally increase the Mexican cash tax obligation and the effective income tax rate, and a weakening of the Mexican peso against the U.S. dollar for the reporting period will generally decrease the Mexican cash tax obligation and the effective tax rate. To hedge its exposure to this cash tax risk, the Company enters into foreign currency derivative contracts, which are measured at fair value each period and any change in fair value is recognized in foreign exchange gain (loss) within the consolidated statements of income. Refer to Note 11, Derivative Instruments for further information.
- (ii) Not eligible for Mexican fuel excise tax credit for 2020. See discussion in the Mexico Tax Reform section below.

Mexico Regulatory and Legal Updates

Mexico Tax Reform. In December 2019, the Mexican government enacted changes in the tax law effective January 1, 2020 (“Mexico 2020 Tax Reform”). Mexico 2020 Tax Reform excluded railroads from eligibility for the Mexican fuel excise tax credit. Mexico 2020 Tax Reform also included permanent changes to the Value Added Tax (“VAT”) Law, Income Tax Law and Federal Fiscal Code which, among other things, requires certain VAT withholding, limits the deduction of interest expense and certain payments to related parties in preferential tax regimes, adopts a general anti-avoidance rule, requires mandatory disclosure of reportable transactions beginning in 2021, and permanently eliminates universal compensation, which allowed Mexican taxpayers to offset recoverable tax balances against balances due for other federal taxes. As a result of the elimination of universal compensation, the refundable VAT balance increased to \$103.1 million as of December 31, 2020. KCSM has a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully collectible.

See additional discussion on universal compensation in Liquidity and Capital Resources section below.

Proposed Changes to Law. KCSM currently insources its management and union employees, other than the President and Executive Representative of KCSM, from its affiliate, KCSM Servicios, a wholly-owned and consolidated subsidiary of the Company. On November 12, 2020, the President of Mexico filed an initiative before the Mexican Congress to amend several laws in order to prohibit outsourcing employees to third parties and insourcing employees from related, affiliate services companies. Under the proposed legislation, KCSM Servicios could be prohibited from providing certain outsourced employees to KCSM, resulting in some, if not all KCSM Servicios employees becoming employees of KCSM in order to be in compliance with the legislation. Failure to comply with the new law could result in a loss of tax deductions and VAT credits on third party and related party service payments and penalties. In December 2020, discussions and approval of this legislation were postponed until February 2021. The initiative will have preferential treatment when the Mexican Congress resumes its activities, which requires that action on the proposed legislation must be taken within 30 days. If approved, it is currently expected the changes will be effective immediately upon adoption, however the private sector is lobbying for a longer transition period.

Mexican employees are currently entitled under Mexican law to receive statutory profit sharing (Participación a los Trabajadores de las Utilidades or “PTU”) payments. The required cash payment to employees is equal to 10% of their employer’s profit subject to PTU as prescribed by Mexican law, which differs from profit determined under U.S. GAAP.

KCSM Servicios’s employees are eligible for PTU and receive PTU payments. KCSM does not have employees eligible for PTU under current law, and this proposed legislation does not change the Mexico PTU requirements. If the proposed legislation were to become law, some or possibly all of KCSM Servicios’s employees may need to become employees of KCSM and thus, would be eligible to receive PTU from KCSM. Payment of PTU by KCSM to these employees, as calculated under current law, could have a material adverse effect on the consolidated financial results of the Company. However, the Mexican government may consider, as part of its negotiations with the private sector, limitations on the PTU distribution amount to employees in order to reduce the financial impact. As such, any incremental PTU expense cannot be determined as of the date of this filing due to the uncertainties surrounding this potential legislation.

For a comparison of the Company’s results of operations for the fiscal years ended December 31, 2019 to the year ended December 31, 2018, see *Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations* in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the U.S. Securities and Exchange Commission on January 24, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Overview

On November 10, 2020, the Company announced that its Board of Directors (the “Board”) approved updates to its capital allocation policy (the “Policy”). Pursuant to the updated Policy, the Company intends to continue deploying available cash in the following manner:

- Approximately 40-50% to capital projects and strategic investments; and
- Approximately 50-60% to share repurchases and dividends.

In addition, from time to time, the Company also plans to prudently use additional debt to support the revised policy and intends to increase its Debt-to-EBITDA ratio to the mid-2x range, consistent with its current ratings from Standard & Poor's, Fitch and Moody's Ratings.

In connection with this updated Policy, the Board also approved the following actions:

- An increase in the quarterly dividend on KCS's common stock from \$0.40 to \$0.44 per share. The Board declared a cash dividend on its outstanding common stock for this increased amount payable on January 20, 2021, to stockholders of record at the close of business on December 31, 2020. In April 2021, the Company will implement a quarterly dividend approach that targets a low 20% range payout; and
- A new \$3.0 billion share repurchase program (the "2020 Program"), expiring December 31, 2023. This new program replaces the \$2.0 billion stock repurchase authorization announced in 2019 (the "2019 Program") under which the Company purchased approximately \$1.4 billion of Company stock.

During the fourth quarter of 2020, the Company entered into two accelerated share repurchase ("ASR") agreements under the 2019 Program, and paid \$500.0 million. The agreements were settled during January 2021. During 2020, KCS repurchased 143,343 shares of common stock for \$27.0 million under the 2020 Program, and 5,207,633 shares of common stock for \$869.2 million under the 2019 Program. Refer to Item 8, Financial Statements and Supplementary Data — Note 15, Stockholders' Equity for additional detail on the Company's common share repurchase program and ASR agreements.

During 2020, the Company repurchased 7,426 shares of its \$25 par preferred stock for \$0.2 million at an average price of \$29.58 per share.

During 2020, the Company invested \$410.2 million in capital expenditures. See Capital Expenditures section for further details.

On April 22, 2020, the Company issued \$550.0 million principal amount of senior unsecured notes due May 1, 2050, which bear interest semiannually at a fixed annual rate of 3.50% (the "3.50% Notes"). The net proceeds from the offering were used for general corporate purposes, including the repurchase of shares of the Company's common stock in the fourth quarter of 2020.

During 2020, the Company made remaining principal payments of approximately \$12.0 million in repayment of its 9.311% locomotive financing agreements, which matured in December 2020.

At December 31, 2020, the Company had \$444.7 million principal amount outstanding of 3.00% senior notes that mature May 15, 2023 (the "3.00% Notes") and \$200.0 million principal amount outstanding of 3.85% senior notes that mature November 15, 2023 (the "3.85% Notes"). The Company has the intention and ability to refinance the 3.00% Notes and the 3.85% Notes into a new long-term debt instruments prior to maturity. The Company has executed treasury lock agreements with an aggregate notional value of \$650.0 million and a weighted-average interest rate of 1.58% to hedge the U.S. Treasury benchmark interest rate associated with any future interest payments related to the anticipated refinancing of the 3.00% Notes and the 3.85% Notes. See Note 11, Derivative Instruments for further discussion of the treasury lock agreements.

The Company's financing instruments contain restrictive covenants that limit or preclude certain actions; however, the covenants are structured such that the Company expects to have sufficient flexibility to conduct its operations. The Company has been, and expects to continue to be, in compliance with all of its debt covenants.

For discussion regarding the agreements representing the indebtedness of KCS, refer to Note 12, Short-Term Borrowings and Note 13, Long-Term Debt of the consolidated financial statements.

During the first three quarters of 2020, the Company's Board of Directors declared quarterly cash dividends of \$0.40 per share or \$113.6 million on its common stock. During the last quarter of 2020, the Company's Board of Directors declared a cash dividend of \$0.44 per share or \$40.1 million on its common stock. Subject to the discretion of the Board of Directors, capital availability and a determination that cash dividends continue to be in the best interest of its stockholders, the Company intends to pay a quarterly dividend on an ongoing basis.

On December 31, 2020, total available liquidity (the cash balance plus revolving credit facility availability) was \$788.2 million, compared to available liquidity at December 31, 2019 of \$748.8 million.

As of December 31, 2020, the total cash and cash equivalents held outside of the U.S. in foreign subsidiaries was \$72.8 million, after repatriating \$196.3 million during 2020. The Company expects that this cash will be available to fund company operations without incurring significant additional income taxes.

Beginning January 2019, Mexico tax reform for 2019 eliminated universal compensation that allowed Mexican taxpayers the ability to offset other tax obligations with refundable VAT. Mexico 2020 Tax Reform permanently eliminated universal compensation. This negatively impacted KCSM's cash flow by approximately \$43.0 million and \$60.0 million in 2020 and 2019, respectively, while awaiting refunds of the value added tax from the Mexican government. As of December 31, 2020, the refundable VAT balance was \$103.1 million. KCSM has a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully collectible.

Cash Flow Information and Contractual Obligations

Summary cash flow data follows (*in millions*):

	2020	2019
Cash flows provided by (used for):		
Operating activities	\$ 1,080.0	\$ 1,104.0
Investing activities	(526.0)	(676.3)
Financing activities	(510.3)	(378.9)
Effect of exchange rate changes on cash	(4.3)	(0.5)
Net increase in cash and cash equivalents	39.4	48.3
Cash and cash equivalents beginning of year	148.8	100.5
Cash and cash equivalents end of year	<u>\$ 188.2</u>	<u>\$ 148.8</u>

During 2020, cash and cash equivalents increased \$39.4 million as a result of the impacts discussed below.

Operating Cash Flows. Net cash provided by operating activities decreased \$24.0 million for 2020, as compared to 2019, primarily due to increased cash paid to settle foreign currency derivative instruments and an increase in advance Mexican income tax payments, partially offset by payments made for settlement of a treasury lock in 2019.

Investing Cash Flows. Net cash used for investing activities decreased \$150.3 million for 2020, as compared to 2019, due to a \$175.3 million decrease in capital expenditures and a \$29.3 million decrease in investments in and advances to affiliates, partially offset by a \$39.2 million increase in expenditures for the purchase or replacement of assets under existing operating leases and a \$9.2 million decrease in proceeds from disposal of property. Additional information is included within the Capital Expenditure section of Liquidity and Capital Resources.

Financing Cash Flows. Net cash used for financing activities increased \$131.4 million for 2020, as compared to 2019, due to a decrease in proceeds from issuance long-term debt of \$301.9 million and an increase in shares repurchased, including under ASR agreements, of \$96.4 million, partially offset by a decrease in repayment of long-term debt of \$267.0 million.

For a comparison of liquidity and capital resources and the Company's cash flow activities for the fiscal year ended December 31, 2019 and 2018, see *Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the U.S. Securities and Exchange Commission on January 24, 2020.

Contractual Obligations. The following table outlines the material obligations and commitments as of December 31, 2020 (*in millions*):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 years
Long-term debt and short-term borrowings (including interest and finance lease obligations) (i)	\$ 7,188.3	\$ 155.1	\$ 947.9	\$ 262.9	\$ 5,822.4
Operating leases	74.5	26.6	31.1	13.7	3.1
Obligations due to uncertainty in income taxes	2.2	0.6	—	1.6	—
Capital expenditure obligations (ii)	401.1	142.7	258.4	—	—
Other contractual obligations (iii)	444.3	93.4	123.5	103.2	124.2
Total	<u>\$ 8,110.4</u>	<u>\$ 418.4</u>	<u>\$1,360.9</u>	<u>\$ 381.4</u>	<u>\$ 5,949.7</u>

- (i) For variable rate obligations, interest payments were calculated using the December 31, 2020 rate. For fixed rate obligations, interest payments were calculated based on the applicable rates and payment dates.
- (ii) Capital expenditure obligations include minimum capital expenditures under the KCSM Concession agreement and other regulatory requirements.
- (iii) Other contractual obligations include purchase commitments and certain maintenance agreements.

In the normal course of business, the Company enters into long-term contractual commitments for future goods and services needed for the operations of the business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company's liquidity. Such commitments are not included in the above table.

The SCT requires KCSM to submit a three-year capital expenditures plan every three years. The most recent three-year plan was submitted in 2020 for the years 2021 — 2023. KCSM expects to continue capital spending at current levels in future years and will continue to have capital expenditure obligations past 2023, which are not included in the table above.

Capital Expenditures

KCS has funded, and expects to continue to fund, capital expenditures with operating cash flows and short and long-term debt.

The following table summarizes capital expenditures by type for the years ended December 31, 2020 and 2019, respectively (*in millions*):

	2020	2019
Roadway capital program	\$ 239.8	\$ 264.9
Locomotives and freight cars	45.2	182.8
Capacity	65.4	84.8
Information technology	40.6	29.8
Positive train control	15.9	15.5
Other	3.3	6.5
Total capital expenditures (accrual basis)	<u>410.2</u>	<u>584.3</u>
Change in capital accruals	1.7	2.9
Total cash capital expenditures	<u>\$ 411.9</u>	<u>\$ 587.2</u>
Total cash purchase or replacement of assets under operating leases	<u>\$ 78.2</u>	<u>\$ 39.0</u>

Generally, the Company's capital program consists of capital replacement and equipment. For 2021, internally generated cash flows are expected to fund cash capital expenditures, which are currently estimated to be approximately 17% of revenue in 2021, assuming constant currency and fuel price. In addition, the Company periodically reviews its equipment and property under operating leases. Any additional purchase or replacement of equipment and property under operating leases during 2021 is expected to be funded with internally generated cash flows and/or debt.

Property Statistics

The following table summarizes certain property statistics as of December 31:

	<u>2020</u>	<u>2019</u>
Track miles of rail installed	89	122
Cross ties installed (thousands)	538	627

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The following is a description of the terms and conditions of the guarantees with respect to senior notes for which KCS is an issuer or provides full and unconditional guarantee.

Note Guarantees

As of December 31, 2020, KCS had outstanding \$3,736.2 million principal amount of senior notes due through 2069. The Kansas City Southern Railway Company ("KCSR") had outstanding \$2.7 million principal amount of senior notes due through 2045 (together, the "Senior Notes"). The senior notes for which KCS is the issuer are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by each of KCS's current and future domestic consolidated subsidiaries that from time to time guarantees certain of KCS's credit agreements, or any other debt of KCS, or any of KCS's significant subsidiaries that is a guarantor (each, a "Guarantor Subsidiary," and collectively, the "Guarantor Subsidiaries"). In addition, the senior notes for which KCSR is the issuer are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by KCS and each of its current and future domestic consolidated subsidiaries that from time to time guarantees KCSR's credit agreement, or any other debt of KCSR or any of KCSR's significant subsidiaries that is a Guarantor Subsidiary. The obligations of each Guarantor Subsidiary under its note guarantee are limited as necessary to prevent such note guarantee from constituting a fraudulent conveyance under applicable law. A guarantee of the Senior Notes by KCS or a Guarantor Subsidiary is subject to release in the following circumstances: (i) the sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the capital stock of the Guarantor Subsidiary made in a manner not in violation of the indenture; (ii) the designation of the subsidiary as an "Unrestricted Subsidiary" under the indenture; (iii) the legal defeasance or covenant defeasance of the Senior Notes in accordance with the terms of the indenture; or (iv) the Guarantor Subsidiary ceasing to be KCS's subsidiary as a result of any foreclosure of any pledge or security interest securing KCS's Revolving Credit Facility or other exercise of remedies in respect thereof.

KCSM and any other foreign subsidiaries of KCS do not, and will not, guarantee the Senior Notes ("Non-Guarantor Subsidiaries").

The following tables present summarized financial information for KCS and the Guarantor Subsidiaries on a combined basis after intercompany transactions have been eliminated, including adjustments to remove the receivable and payable balances, investment in, and equity in earnings from the Non-Guarantor Subsidiaries.

Summarized Financial Information

Income Statements

	KCS and Guarantor Subsidiaries	
	Years ended December 31,	
	2020	2019
Revenues	\$ 1,368.7	\$ 1,472.0
Operating expenses	846.9	1,068.5
Operating income	521.8	403.5
Income before income taxes	375.4	291.7
Net income	329.8	235.0

Balance Sheets

	KCS and Guarantor Subsidiaries	
	December 31, 2020	December 31, 2019
Assets:		
Current assets	\$ 298.8	\$ 332.9
Property and equipment (including concession assets), net	4,751.3	4,596.3
Other non-current assets	110.8	156.9
Liabilities and equity:		
Current liabilities	\$ 318.2	\$ 313.5
Non-current liabilities	4,841.2	4,267.7
Noncontrolling interest	326.4	323.4

Excluded from current assets in the table above are \$183.7 million and \$95.2 million of current intercompany receivables due to KCS and the Guarantor Subsidiaries from the Non-Guarantor Subsidiaries as of December 31, 2020 and December 31, 2019, respectively. Excluded from current liabilities in the table above are \$235.8 million and \$55.0 million of current intercompany payables due to the Non-Guarantor Subsidiaries from KCS and the Guarantor Subsidiaries as of December 31, 2020 and December 31, 2019, respectively.

The Senior Notes are structurally subordinated to the indebtedness and other liabilities of the Non-Guarantor Subsidiaries. The Non-Guarantor Subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Senior Notes or the indentures, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that KCS or the Guarantor Subsidiaries have to receive any assets of any of the Non-Guarantor Subsidiaries upon the liquidation or reorganization of any Non-Guarantor Subsidiary, and the consequent rights of holders of Senior Notes to realize proceeds from the sale of any of a Non-Guarantor Subsidiary's assets, would be effectively subordinated to the claims of such Non-Guarantor Subsidiary's creditors, including trade creditors and holders of preferred equity interests, if any, of such Non-Guarantor Subsidiary. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of the Non-Guarantor Subsidiaries, the Non-Guarantor Subsidiaries will pay the holders of their debts, holders of preferred equity interests, if any, and their trade creditors before they will be able to distribute any of their assets to KCS or any Guarantor Subsidiary.

If a Guarantor Subsidiary were to become a debtor in a case under the U.S. Bankruptcy Code or encounter other financial difficulty, under federal or state fraudulent transfer or conveyance law, a court may avoid, subordinate or otherwise decline to enforce its guarantee of the Senior Notes. A court might do so if it is found that when such Guarantor Subsidiary entered into its guarantee of the Senior Notes, or in some states when payments became due under the Senior Notes, such Guarantor Subsidiary received less than reasonably equivalent value or fair consideration and either:

- was insolvent or rendered insolvent by reason of such incurrence;
- was left with unreasonably small or otherwise inadequate capital to conduct its business; or

- believed or reasonably should have believed that it would incur debts beyond its ability to pay.

The court might also avoid the guarantee of the Senior Notes without regard to the above factors, if the court found that a Guarantor Subsidiary entered into its guarantee with actual intent to hinder, delay or defraud its creditors.

A court would likely find that a Guarantor Subsidiary did not receive reasonably equivalent value or fair consideration for its guarantee of the Senior Notes, if such Guarantor Subsidiary did not substantially benefit directly or indirectly from the funding made available by the issuance of the Senior Notes. If a court were to avoid a guarantee of the Senior Notes provided by a Guarantor Subsidiary, holders of the Senior Notes would no longer have any claim against such Guarantor Subsidiary. The measures of insolvency for purposes of these fraudulent transfer or conveyance laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer or conveyance has occurred, such that the Company cannot predict what standards a court would use to determine whether or not a Guarantor Subsidiary was solvent at the relevant time or, regardless of the standard that a court uses, that the guarantee of a Guarantor Subsidiary would not be subordinated to such Guarantor Subsidiary's other debt. As noted above, each guarantee provided by a Guarantor Subsidiary includes a provision intended to limit the Guarantor Subsidiary's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer or conveyance. This provision may not be effective to protect those guarantees from being avoided under fraudulent transfer or conveyance law, or it may reduce that Guarantor Subsidiary's obligation to an amount that effectively makes its guarantee worthless, and the Company cannot predict whether a court will ultimately find it to be effective.

On the basis of historical financial information, operating history and other factors, the Company believes that each of the Guarantor Subsidiaries, after giving effect to the issuance of its guarantee of the Senior Notes when such guarantee was issued, was not insolvent, did not have unreasonably small capital for the business in which it engaged and did not and has not incurred debts beyond its ability to pay such debts as they mature. The Company cannot predict, however, as to what standard a court would apply in making these determinations or that a court would agree with the Company's conclusions in this regard.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

KCS's accounting and financial reporting policies are in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management believes that the following accounting policies and estimates are critical to an understanding of KCS's historical and future performance. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of KCS's Board of Directors and the Audit Committee has reviewed the selection, application and disclosure of the Company's critical accounting policies and estimates.

Capitalization, Depreciation and Amortization of Property and Equipment (including Concession Assets)

Due to the highly capital intensive nature of the railroad industry, capitalization and depreciation of property and equipment are a substantial portion of the Company's consolidated financial statements. Net property and equipment, including concession assets, comprised approximately 90% of the Company's total assets as of December 31, 2020, and related depreciation and amortization comprised approximately 22% of total operating expenses for the year ended December 31, 2020.

KCS capitalizes costs for self-constructed additions and improvements to property including direct labor and material, indirect costs, and interest during long-term construction projects. The Company has a process in place to determine which costs qualify for capitalization, which requires judgment. Direct costs are charged to capital projects based on the work performed and the material used. Indirect costs are allocated to capital projects as a standard percentage, which is evaluated annually, and applied to direct labor and material costs. Asset removal activities are performed in conjunction with replacement activities; therefore, removal costs are estimated based on a standard percentage of direct labor and indirect costs related to capital replacement projects. For purchased assets, all costs necessary to make the asset ready for its intended use are capitalized. Expenditures that significantly increase asset values, productive capacity, efficiency, safety or extend useful lives are capitalized. Repair and maintenance costs are expensed as incurred.

KCS capitalizes certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property and Equipment" on the consolidated balance sheets. Costs incurred during the preliminary project and post-implementation stage, as well as maintenance and training costs, are expensed as incurred.

Property and equipment are carried at cost and are depreciated primarily on the group method of depreciation, which the Company believes closely approximates a straight line basis over the estimated useful lives of the assets measured in years. The group method of depreciation applies a composite rate to classes of similar assets rather than to individual assets. Composite depreciation rates are based upon the Company's estimates of the expected average useful lives of assets as well as expected net salvage value at the end of their useful lives. In developing these estimates, the Company utilizes periodic depreciation studies performed by an independent engineering firm. Depreciation rate studies are performed at least every three years for equipment and at least every six years for road property (rail, ties, ballast, etc.). The depreciation studies take into account factors such as:

- Statistical analysis of historical patterns of use and retirements of each asset class;
- Evaluation of any expected changes in current operations and the outlook for the continued use of the assets;
- Evaluation of technological advances and changes to maintenance practices;
- Historical and expected salvage to be received upon retirement;
- Review of accounting policies and assumptions; and
- Industry precedents and trends.

The depreciation studies may also indicate that the recorded amount of accumulated depreciation is deficient or in excess of the amount indicated by the study. Any such deficiency or excess is amortized as a component of depreciation expense over the remaining useful lives of the affected asset class, as determined by the study. The Company also monitors these factors in non-study years to determine if adjustments should be made to depreciation rates. The Company completed depreciation studies for KCSM in 2020 and KCSR in 2019. The impacts of the studies were immaterial to the consolidated financial results for all periods.

Also under the group method of depreciation, the cost of railroad property and equipment (net of salvage or sales proceeds) retired or replaced in the normal course of business is charged to accumulated depreciation with no gain or loss recognized. Actual historical costs are retired when available, such as with equipment costs. The use of estimates in recognizing the retirement of roadway assets is necessary as it is impractical to track individual, homogeneous network-type assets. Certain types of roadway assets are retired using statistical curves derived from the depreciation studies that indicate the relative distribution of the age of the assets retired. For other roadway assets, historical costs are estimated by deflating current costs using inflation indices and the estimated useful life of the assets as determined by the depreciation studies. The indices applied to the replacement value are selected because they closely correlate with the major costs of the items comprising the roadway assets. Because of the number of estimates inherent in the depreciation and retirement processes and because it is impossible to precisely estimate each of these variables until a group of assets is completely retired, the Company continually monitors the estimated useful lives of its assets and the accumulated depreciation associated with each asset group to ensure the depreciation rates are appropriate.

Estimation of the average useful lives of assets and net salvage values requires management judgment. Estimated average useful lives may vary over time due to changes in physical use, technology, asset strategies and other factors that could have an impact on the retirement experience of the asset classes. Accordingly, changes in the assets' estimated useful lives could significantly impact future periods' depreciation expense. Depreciation and amortization expense for the year ended December 31, 2020 was \$357.9 million. If the weighted average useful lives of assets were changed by one year, annual depreciation and amortization expense would change approximately \$11.0 million.

Gains or losses on dispositions of land or non-group property and abnormal retirements of railroad property are recognized through income. A retirement of railroad property would be considered abnormal if the retirement meets each of the following conditions: (i) is unusual in nature, (ii) is significant in amount, and (iii) varies significantly from the retirement profile identified through the depreciation studies. KCS recognized \$1.3 million and \$134.2 million as of December 31, 2020, and 2019, respectively, from asset impairments of certain locomotives and railcars as a result of the implementation of PSR. There were no other significant gains or losses from abnormal retirements of property or equipment for the year ended December 31, 2018. Refer to Note 3, Restructuring Charges of the consolidated financial statements for more information.

Costs incurred by the Company to acquire the Concession rights and related assets, as well as subsequent improvements to the Concession assets, are capitalized and amortized using the group method of depreciation over the lesser of the current expected Concession term, including probable renewal of an additional 50-year term, or the estimated useful lives of the assets and rights. The Company's ongoing evaluation of the useful lives of Concession assets and rights considers the aggregation of the following facts and circumstances:

- The Company's executive management is dedicated to ensuring compliance with the various provisions of the Concession and to maintaining positive relationships with the SCT and other Mexican federal, state, and municipal governmental authorities;
- During the time since the Concession was granted, the relationships between KCSM and the various Mexican governmental authorities have matured and the guidelines for operating under the Concession have become more defined with experience;
- There are no known supportable sanctions or compliance issues that would cause the SCT to revoke the Concession or prevent KCSM from renewing the Concession; and
- KCSM operations are an integral part of the KCS operations strategy, and related investment analyses and operational decisions assume that the Company's cross border rail business operates into perpetuity, and do not assume that Mexico operations terminate at the end of the current Concession term.

Based on the above factors, as of December 31, 2020, the Company continues to believe that it is probable that the Concession will be renewed for an additional 50-year term beyond the current term.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, operating lease right-of-use assets and intangible assets with finite lives are reviewed for impairment and written down to fair value when events or circumstances indicate that the carrying amount of a long-lived asset or asset group may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value would be reduced to

the estimated fair value. Future cash flow estimates for an impairment review would be based on the lowest level of identifiable cash flows, which are the Company's U.S. and Mexican operations. During the year ended December 31, 2020, \$13.6 million of expense was recognized related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use. Other than the abnormal impairments related to the implementation of Precision Scheduled Railroading ("PSR"), management did not identify any indicators of impairment for the years ended December 31, 2020 and 2019.

Income Taxes

Deferred income taxes represent a net asset or liability of the Company. For financial reporting purposes, management determines the current tax liability, as well as deferred tax assets and liabilities, in accordance with the asset and liability method of accounting for income taxes. The provision for income taxes is the sum of income taxes both currently payable and deferred into the future. Currently payable income taxes represent the liability related to the Company's U.S., state and foreign income tax returns for the current year and anticipated tax payments resulting from income tax audits, while the net deferred tax expense or benefit represents the change in the balance of net deferred tax assets or liabilities as reported on the balance sheet. The changes in deferred tax assets and liabilities are determined based upon the estimated timing of reversal of differences between the carrying amount of assets and liabilities for financial reporting purposes and the basis of assets and liabilities for tax purposes as measured using the currently enacted tax rates that will be in effect at the time these differences are expected to reverse. Additionally, management estimates whether taxable operating income in future periods will be sufficient to fully recognize any deferred tax assets. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized.

Income tax expense related to Mexican operations has additional complexities such as the impact of exchange rate variations, which can have a significant impact on the effective income tax rate.

Management believes that the assumptions and estimates related to the provision for income taxes are critical to the Company's results of operations. For the year ended December 31, 2020, income tax expense totaled \$204.1 million. For every 1% change in the 2020 effective rate, income tax expense would have changed by approximately \$8.2 million. For further information on the impact of foreign exchange fluctuation on income taxes, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange Sensitivity.

OTHER MATTERS

Litigation. Occasionally, the Company is a party to various legal proceedings, regulatory examinations, investigations, administrative actions, and other legal matters, arising for the most part in the ordinary course of business, incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job-related injuries and by third parties for injuries related to railroad operations. KCS aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. The outcome of litigation and other legal matters is always uncertain. KCS believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously, and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, KCS evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party to and records a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of KCS's defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from the current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to KCS's consolidated results of operations, liquidity or financial condition.

Although it is not possible to predict the outcome of any legal proceeding, in the opinion of the Company's management, other than as described in Note 17, Commitments and Contingencies of the consolidated financial statements, such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on the Company's consolidated financial statements.

Inflation. U.S. GAAP require the use of historical cost, which does not reflect the effects of inflation on the replacement cost of property. Due to the capital intensive nature of KCS's business, the replacement cost of these assets would be significantly higher than the amounts reported under the historical cost basis.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

KCS is exposed to certain market risks including interest rate, commodity, and foreign exchange risks and utilizes various financial instruments that have certain inherent market risks. These instruments have been entered into for hedging rather than trading purposes. The following information, together with information included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data — Note 11, Derivative Instruments, describe the key aspects of certain financial instruments that have market risk to KCS.

The analysis presented below for each of the Company's market risks uses a sensitivity model based on hypothetical changes (increases or decreases) to market risks using defined parameters and assumptions to quantify the potential impacts to the consolidated statements of income. The hypothetical changes to market risks do not represent KCS's view of future market changes. The effect of a change in a particular assumption was calculated without adjusting any other assumptions. These market risks and the potential impacts to the consolidated statements of income for the current year, have not materially fluctuated, individually or in the aggregate from the preceding year; thus only current year information is presented below.

Interest Rate Sensitivity. The Company is subject to interest rate risk associated with its debt. Changes in interest rates impact the fair value of outstanding fixed-rate debt, but there is no impact to current earnings or cash flow. Based upon the borrowing rates available to KCS and its subsidiaries for indebtedness with similar terms and average maturities, the fair value of long-term debt was approximately \$4,368.6 million and \$3,535.7 million at December 31, 2020 and 2019, respectively, compared with a carrying value of \$3,770.8 million and \$3,246.0 million at December 31, 2020 and 2019, respectively.

Changes in interest rates may impact the cost of future long-term debt issued by the Company, and as a result, represent interest rate risk to the Company. During 2020, the Company executed six 30-year treasury lock agreements with an aggregate notional value of \$650.0 million and a weighted-average interest rate of 1.58%. The purpose of the treasury locks is to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the \$444.7 million principal amount of 3.00% senior notes due May 15, 2023 and the \$200.0 million principal amount of 3.85% senior notes due November 15, 2023. The Company has designated the treasury locks as cash flow hedges, and for the year ended December 31, 2020, recognized an unrealized gain of \$28.1 million, net of tax, in the consolidated statements of comprehensive income. A hypothetical 100 basis points change in the 30-year U.S. Treasury Rate would result in a change in unrealized gain or loss of approximately \$147.0 million. Upon settlement in 2023, the unrealized gain or loss in accumulated other comprehensive income will be amortized to interest expense over the life of the future underlying debt issuances.

Alternatively, changes in interest rates do not affect the fair value of variable rate debt, but affect future earnings and cash flows. The Company's floating-rate indebtedness includes commercial paper borrowings, and any outstanding borrowings under revolving credit facilities. At December 31, 2020 and 2019, KCS had no commercial paper or revolving credit facility borrowings outstanding.

Commodity Price Sensitivity. KCS periodically participates in diesel fuel purchase commitments and derivative financial instruments. At December 31, 2020 and 2019, KCS did not have any outstanding fuel derivative financial instruments. The Company also holds fuel inventories for use in operations. These inventories are not material to KCS's overall financial position. Fuel costs are expected to reflect market conditions in 2021; however, fuel costs are unpredictable and subject to a variety of factors outside the Company's control. Assuming annual consumption of 117 million gallons, a hypothetical 10 cent change in the price per gallon of fuel would cause an \$11.7 million change in operating expenses. KCS mitigates the impact of increased fuel costs through fuel surcharge revenues from customers; however, in a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge revenue may differ.

Foreign Exchange Sensitivity. KCS's foreign subsidiaries use the U.S. dollar as their functional currency; however, a portion of the foreign subsidiaries' revenues and expenses is denominated in Mexican pesos. Based on the volume of revenue and expense transactions denominated in Mexican pesos, revenue and expense fluctuations have historically offset.

The Company has exposure to fluctuations in the value of the Mexican peso against the U.S. dollar due to its monetary assets and liabilities that are denominated in Mexican pesos. Monetary assets and liabilities include cash, accounts receivable and payable and other items that will convert to cash in the future and are remeasured into dollars using the current exchange rate. The remeasurement and settlement of monetary assets and liabilities is recognized in the consolidated statements of income as foreign exchange gains and losses. At December 31, 2020, the Company had Ps.2,688.8 million of net monetary assets denominated in Mexican pesos, as monetary assets exceeded monetary liabilities.

The following table presents the potential impacts to the consolidated statements of income that would result from a hypothetical change in the exchange rate of one Mexican peso per U.S. dollar at December 31, 2020:

	Hypothetical Change in Exchange Rate	Amount of Gain (Loss)	Affected Line Item in the Consolidated Statements of Income
Net monetary assets denominated in Mexican pesos at December 31, 2020:			
Ps.2,688.8 million	From Ps.19.9 to Ps.20.9	(\$6.4 million)	Foreign exchange gain (loss)
Ps.2,688.8 million	From Ps.19.9 to Ps.18.9	\$7.1 million	Foreign exchange gain (loss)

Mexican income taxes are paid in Mexican pesos, and as a result, the effective income tax rate reflects fluctuations in the value of the Mexican peso against the U.S. dollar. Most significantly, any gain or loss from the revaluation of the Company's net U.S. dollar-denominated monetary liabilities into Mexican pesos is included in Mexican taxable income under Mexican tax law. As a result, a strengthening of the Mexican peso against the U.S. dollar for the reporting period will generally increase the Mexican cash tax obligation and the effective income tax rate, and a weakening of the Mexican peso against the U.S. dollar for the reporting period will generally decrease the Mexican cash tax obligation and the effective tax rate.

The following table presents the potential impacts to the effective income tax rate and income tax expense that would result from a hypothetical change in the exchange rate of one Mexican peso at December 31, 2020:

Hypothetical Change in Exchange Rate	Increase (Decrease) in Effective Income Tax Rate	Amount of Expense (Benefit)	Affected Line Item in the Consolidated Statements of Income
From Ps.19.9 to Ps.20.9	(1.3%)	(\$11.1 million)	Income tax expense (benefit)
From Ps.19.9 to Ps.18.9	1.5%	\$12.2 million	Income tax expense (benefit)

The Company has executed derivative instruments to hedge its exposure to fluctuations in the Mexican cash tax obligation due to changes in the value of the Mexican peso against the U.S. dollar. These derivative instruments have historically offset the effects of foreign currency changes on income tax expense (benefit) resulting in minimal impact to net income. There were no outstanding foreign currency forward contracts as of December 31, 2020.

During January 2021, the Company entered into several foreign currency forward contracts with an aggregate notional amount of \$100.0 million, maturing in January and February of 2021. These contracts obligated the Company to purchase a total of Ps.1,993.5 million at a weighted-average exchange rate of Ps.19.9 to each U.S. dollar. During January 2021, the Company entered into offsetting contracts with an aggregate notional amount of \$58.9 million, which matured during January 2021 and obligated the Company to sell a total of Ps.1,195.3 million at a weighted-average exchange rate of Ps.20.3 to each U.S. dollar, resulting in cash paid of \$1.1 million. Given the settlement of these contracts during January 2021, the Company believes there was minimal market risk associated with these contracts at December 31, 2020. As of the date of this filing, there were \$40.0 million aggregate notional amount of contracts outstanding, which obligate the Company to purchase a total of Ps.798.2 million at a weighted average exchange rate of Ps.20.0 to each U.S. dollar.

The following table presents the potential impacts to the consolidated statements of income that would result from a hypothetical change in the exchange rate of one Mexican peso at maturity date for the foreign currency forward contracts entered into during January 2021 and outstanding as of the date of this filing:

Aggregate notional amount:	Hypothetical Change in Exchange Rate	Amount of Gain (Loss)	Affected Line Item in the Consolidated Statements of Income
\$40.0 million	From Ps.20.0 to Ps.21.0	(\$1.9 million)	Foreign exchange gain (loss)
\$40.0 million	From Ps.20.0 to Ps.19.0	\$2.1 million	Foreign exchange gain (loss)

The Company has not designated these foreign currency derivative instruments as hedging instruments for accounting purposes. The foreign currency derivative instruments will be measured at fair value each period and any change in fair value will be recognized in foreign exchange gain (loss) within the consolidated statements of income.

Item 8. *Financial Statements and Supplementary Data*

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All schedules are omitted because they are not applicable, are insignificant, or the required information is shown in the consolidated financial statements or notes thereto.

Management's Report on Internal Control over Financial Reporting

The management of Kansas City Southern is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. KCS's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework (2013)* (commonly referred to as the COSO Framework). Based on its evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2020, based on the criteria outlined in the COSO Framework.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which immediately follows this report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Kansas City Southern

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kansas City Southern and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Direct Costs that are Capitalized to Self-Constructed Property and Equipment (including Concession Assets)

As described in Note 2 to the consolidated financial statements, the Company capitalizes costs for self-constructed additions and improvements to property including direct labor and material, indirect costs, and interest during long-term construction projects. Expenditures that significantly increase asset values, productive capacity, efficiency, safety, or extend useful lives are capitalized. As disclosed by management, direct costs are charged to capital projects based on the work performed and the material used. Management has a process in place to determine which costs qualify for capitalization, which requires judgment. For the year-ended December 31, 2020, the Company capitalized costs of \$410.2 million.

The principal considerations for our determination that performing procedures relating to direct costs that are capitalized to self-constructed property and equipment (including concession assets) is a critical audit matter are (i) the significance of direct costs and complexities in self-constructed property and equipment (including concession assets); (ii) the significant judgment by management in determining whether direct costs qualify for capitalization; and (iii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating evidence related to the capitalization of direct costs.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the capitalization of direct costs to self-constructed property and equipment (including concession assets). These procedures also included, among others, selecting a sample of direct costs and (i) obtaining evidence to support the accuracy of capitalized additions to self-constructed properties based on the work performed and the material used and (ii) evaluating whether these costs qualify for capitalization.

/s/PricewaterhouseCoopers LLP
Kansas City, Missouri
January 29, 2021

We have served as the Company's auditor since 2017.

Kansas City Southern and Subsidiaries

Consolidated Statements of Income
Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
	(In millions, except share and per share amounts)		
Revenues	\$ 2,632.6	\$ 2,866.0	\$ 2,714.0
Operating expenses:			
Compensation and benefits	476.5	529.1	495.7
Purchased services	198.1	219.2	200.7
Fuel	219.8	340.4	348.2
Mexican fuel excise tax credit	—	—	(37.7)
Equipment costs	85.8	108.6	126.1
Depreciation and amortization	357.9	350.7	346.7
Materials and other	260.9	262.9	265.9
Write-off of software development costs	13.6	—	—
Restructuring charges	17.0	168.8	—
Gain on insurance recoveries related to hurricane damage	—	—	(17.9)
Total operating expenses	<u>1,629.6</u>	<u>1,979.7</u>	<u>1,727.7</u>
Operating income	1,003.0	886.3	986.3
Equity in net earnings (losses) of affiliates	(1.4)	1.0	2.6
Interest expense	(150.9)	(115.9)	(110.0)
Debt retirement costs	—	(1.1)	(2.2)
Foreign exchange gain (loss)	(29.6)	17.1	7.8
Other income, net	2.1	1.0	2.4
Income before income taxes	<u>823.2</u>	<u>788.4</u>	<u>886.9</u>
Income tax expense	<u>204.1</u>	<u>247.6</u>	<u>257.5</u>
Net income	619.1	540.8	629.4
Less: Net income attributable to noncontrolling interest	2.1	1.9	2.0
Net income attributable to Kansas City Southern and subsidiaries	<u>617.0</u>	<u>538.9</u>	<u>627.4</u>
Preferred stock dividends	0.2	0.2	0.2
Net income available to common stockholders	<u><u>\$ 616.8</u></u>	<u><u>\$ 538.7</u></u>	<u><u>\$ 627.2</u></u>
Earnings per share:			
Basic earnings per share	<u>\$ 6.57</u>	<u>\$ 5.42</u>	<u>\$ 6.16</u>
Diluted earnings per share	<u>\$ 6.54</u>	<u>\$ 5.40</u>	<u>\$ 6.13</u>
Average shares outstanding <i>(in thousands)</i> :			
Basic	93,826	99,316	101,852
Effect of dilution	489	431	418
Diluted	<u><u>94,315</u></u>	<u><u>99,747</u></u>	<u><u>102,270</u></u>

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
		(In millions)	
Net income	\$ 619.1	\$ 540.8	\$ 629.4
Other comprehensive income (loss):			
Unrealized gain (loss) on interest rate derivative instruments, net of tax of \$7.5 million, \$(4.9) million and \$1.0 million	28.1	(18.9)	2.6
Reclassification adjustment from cash flow hedges included in net income, net of tax of \$0.5 million and less than \$0.1 million	1.9	0.2	—
Foreign currency translation adjustments	(0.5)	0.5	0.1
Other comprehensive income (loss)	29.5	(18.2)	2.7
Comprehensive income	648.6	522.6	632.1
Less: comprehensive income attributable to noncontrolling interest	2.1	1.9	2.0
Comprehensive income attributable to Kansas City Southern and subsidiaries	<u>\$ 646.5</u>	<u>\$ 520.7</u>	<u>\$ 630.1</u>

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries

Consolidated Balance Sheets

December 31,

	2020	2019
	(In millions, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 188.2	\$ 148.8
Accounts receivable, net	247.1	274.2
Materials and supplies	127.2	150.6
Other current assets	63.3	155.0
Total current assets	625.8	728.6
Operating lease right-of-use assets	70.9	158.4
Investments	42.6	47.6
Property and equipment (including concession assets), net	8,997.8	8,806.3
Other assets	226.9	45.9
Total assets	\$ 9,964.0	\$ 9,786.8
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 6.4	\$ 18.0
Accounts payable and accrued liabilities	470.0	473.3
Total current liabilities	476.4	491.3
Long-term operating lease liabilities	45.4	85.7
Long-term debt	3,764.4	3,228.0
Deferred income taxes	1,185.4	1,128.0
Other noncurrent liabilities and deferred credits	108.8	107.9
Total liabilities	5,580.4	5,040.9
Stockholders' equity:		
\$25 par, 4% noncumulative, preferred stock, 840,000 shares authorized, 649,736 shares issued; 215,199 and 222,625 shares outstanding at December 31, 2020 and 2019, respectively	5.4	5.6
\$0.01 par, common stock, 400,000,000 shares authorized, 123,352,185 shares issued; 91,047,107 and 96,115,669 shares outstanding at December 31, 2020 and 2019, respectively	0.9	1.0
Additional paid-in capital	830.9	843.7
Retained earnings	3,219.6	3,601.3
Accumulated other comprehensive income (loss)	0.4	(29.1)
Total stockholders' equity	4,057.2	4,422.5
Noncontrolling interest	326.4	323.4
Total equity	4,383.6	4,745.9
Total liabilities and equity	\$ 9,964.0	\$ 9,786.8

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31,

	2020	2019	2018
	(In millions)		
Operating activities:			
Net income	\$ 619.1	\$ 540.8	\$ 629.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	357.9	350.7	346.7
Deferred income taxes	49.4	53.1	91.7
Equity in net (earnings) losses of affiliates	1.4	(1.0)	(2.6)
Share-based compensation	22.9	23.1	20.4
(Gain) loss on foreign currency derivative instruments	22.5	(14.1)	(6.3)
Foreign exchange (gain) loss	7.1	(3.0)	(1.5)
Restructuring charges	17.0	168.8	—
Write-off of software development costs	13.6	—	—
Gain on insurance recoveries related to hurricane damage	—	—	(17.9)
Distributions from affiliates	4.5	7.0	5.5
Settlement of foreign currency derivative instruments	(20.0)	11.9	13.9
Cash payments for restructuring charges	(10.0)	(6.3)	—
Refundable Mexican value added tax	(43.2)	(58.7)	—
Settlement of treasury lock agreements	—	(25.8)	—
Deemed mandatory repatriation tax	—	—	(18.7)
Insurance proceeds related to hurricane damage	—	—	17.9
Changes in working capital items:			
Accounts receivable	25.5	38.2	(67.4)
Materials and supplies	21.7	0.5	(4.5)
Other current assets	(22.8)	5.0	(39.2)
Accounts payable and accrued liabilities	16.0	9.4	(24.0)
Other, net	(2.6)	4.4	6.5
Net cash provided by operating activities	<u>1,080.0</u>	<u>1,104.0</u>	<u>949.9</u>
Investing activities:			
Capital expenditures	(411.9)	(587.2)	(520.3)
Purchase or replacement of assets under operating leases	(78.2)	(39.0)	(98.9)
Property investments in MSLLC	(24.8)	(27.5)	(26.1)
Investments in and advances to affiliates	(7.4)	(36.7)	(19.2)
Insurance proceeds related to hurricane damage	—	—	7.6
Proceeds from disposal of property	12.9	22.1	8.7
Other, net	(16.6)	(8.0)	(3.7)
Net cash used for investing activities	<u>(526.0)</u>	<u>(676.3)</u>	<u>(651.9)</u>
Financing activities:			
Net short-term borrowings	—	—	(348.1)
Proceeds from issuance of long-term debt	545.6	847.5	499.4
Repayment of long-term debt	(18.0)	(285.0)	(81.5)
Dividends paid	(152.3)	(144.3)	(147.5)
Shares repurchased	(888.9)	(792.5)	(243.5)
Debt issuance and retirement costs paid	(6.6)	(11.6)	(8.0)
Proceeds from employee stock plans	9.9	7.0	1.8
Net cash used for financing activities	<u>(510.3)</u>	<u>(378.9)</u>	<u>(327.4)</u>
Effect of exchange rate changes on cash	<u>(4.3)</u>	<u>(0.5)</u>	<u>(4.2)</u>
Cash and cash equivalents:			
Net increase (decrease) during each year	39.4	48.3	(33.6)
At beginning of year	148.8	100.5	134.1
At end of year	<u>\$ 188.2</u>	<u>\$ 148.8</u>	<u>\$ 100.5</u>

Supplemental information continued on next page.

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31,

Continued from previous page.

Continued from previous page.

	2020	2019	2018
	(In millions)		
Supplemental cash flow information			
Non-cash investing and financing activities:			
Capital expenditures accrued but not yet paid at end of year	\$ 22.3	\$ 24.0	\$ 26.9
Other investing activities accrued but not yet paid at the end of the year	31.9	31.2	53.8
Finance lease obligations incurred	0.8	—	—
Non-cash asset acquisitions	2.8	0.5	0.7
Dividends accrued but not yet paid at end of year	40.6	39.0	36.6
Cash payments:			
Interest paid, net of amounts capitalized	\$ 144.5	\$ 110.5	\$ 105.0
Income tax payments, net of refunds	182.3	170.5	221.0

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries
Consolidated Statements of Changes in Equity
(In millions, except per share amounts)

	\$25 Par Preferred Stock	\$.01 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total
Balance at December 31, 2017	<u>\$ 6.1</u>	<u>\$ 1.0</u>	<u>\$ 943.3</u>	<u>\$ 3,611.4</u>	<u>\$ (12.9)</u>	<u>\$ 316.5</u>	<u>\$ 4,865.4</u>
Reclassification due to adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income				0.7	(0.7)		—
Net income				627.4		2.0	629.4
Other comprehensive income					2.7		2.7
Contributions from noncontrolling interest						1.2	1.2
Dividends on common stock (\$1.44/share)			—	(146.7)			(146.7)
Dividends on \$25 par preferred stock (\$1.00/share)				(0.2)			(0.2)
Share repurchases	(0.4)	—	(21.1)	(222.0)			(243.5)
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	4.0				4.0
Share-based compensation			20.4				20.4
Balance at December 31, 2018	<u>5.7</u>	<u>1.0</u>	<u>946.6</u>	<u>3,870.6</u>	<u>(10.9)</u>	<u>319.7</u>	<u>5,132.7</u>
Net income				538.9		1.9	540.8
Other comprehensive loss					(18.2)		(18.2)
Contributions from noncontrolling interest						1.8	1.8
Dividends on common stock (\$1.48/share)			—	(146.5)			(146.5)
Dividends on \$25 par preferred stock (\$1.00/share)				(0.2)			(0.2)
Share repurchases	(0.1)	—	(48.4)	(661.5)			(710.0)
Forward contract for accelerated share repurchases			(82.5)				(82.5)
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	4.1				4.1
Share-based compensation			23.9				23.9
Balance at December 31, 2019	<u>5.6</u>	<u>1.0</u>	<u>843.7</u>	<u>3,601.3</u>	<u>(29.1)</u>	<u>323.4</u>	<u>4,745.9</u>
Net income				617.0		2.1	619.1
Other comprehensive income					29.5		29.5
Contributions from noncontrolling interest						0.9	0.9
Dividends on common stock (\$1.64/share)			—	(153.7)			(153.7)
Dividends on \$25 par preferred stock (\$1.00/share)				(0.2)			(0.2)
Share repurchases	(0.2)	(0.1)	(51.3)	(844.8)			(896.4)
Forward contract for accelerated share repurchases			(75.0)				(75.0)
Settlement of forward contract for accelerated share repurchases			82.5				82.5
Options exercised and stock subscribed, net of shares withheld for employee taxes		—	6.2				6.2
Share-based compensation			24.8				24.8
Balance at December 31, 2020	<u>\$ 5.4</u>	<u>\$ 0.9</u>	<u>\$ 830.9</u>	<u>\$ 3,219.6</u>	<u>\$ 0.4</u>	<u>\$ 326.4</u>	<u>\$ 4,383.6</u>

See accompanying notes to consolidated financial statements.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Description of the Business

Kansas City Southern (“KCS” or the “Company”), a Delaware corporation, is a holding company with principal operations in rail transportation.

The Company is engaged in the freight rail transportation business operating through a single coordinated rail network under one reportable business segment. The Company generates revenues and cash flows by providing its customers with freight delivery services both within its regions, and throughout North America through connections with other Class I rail carriers. KCS’s customers conduct business in a number of different industries, including electric-generating utilities, chemical and petroleum products, paper and forest products, agriculture and mineral products, automotive products, and intermodal transportation.

The primary subsidiaries of the Company consist of the following:

- The Kansas City Southern Railway Company (“KCSR”), a wholly-owned consolidated subsidiary. KCSR is a U.S. Class I railroad that services the midwest and southeast regions of the United States;
- Kansas City Southern de México, S.A. de C.V. (“KCSM”), a wholly-owned consolidated subsidiary which operates under the rights granted by the concession acquired from the Mexican government in 1997 (the “Concession”) as described below;
- Mexrail, Inc. (“Mexrail”), a wholly-owned consolidated subsidiary; which wholly owns The Texas Mexican Railway Company (“Tex-Mex”);
- KCSM Servicios, S.A. de C.V. (“KCSM Servicios”), a wholly-owned consolidated subsidiary which provides employee services to KCSM; and
- Meridian Speedway, LLC (“MSLLC”), a seventy percent-owned consolidated affiliate. MSLLC owns the former KCSR rail line between Meridian, Mississippi and Shreveport, Louisiana, which is the portion of the rail line between Dallas, Texas and Meridian known as the “Meridian Speedway”.

Including equity investments in:

- Panama Canal Railway Company (“PCRC”), a fifty percent-owned unconsolidated affiliate which provides ocean to ocean freight and passenger services along the Panama Canal;
- TFCM, S. de R.L. de C.V. (“TCM”), a forty-five percent-owned unconsolidated affiliate that operates a bulk liquid terminal in San Luis Potosí, Mexico;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. (“FTVM”), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and
- PTC-220, LLC (“PTC-220”), a fourteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for positive train control.

The KCSM Concession. KCSM holds a concession (the “Concession”) from the Mexican government until June 2047 (exclusive service through 2027, subject to certain trackage and haulage rights granted to other concessionaires), which is renewable under certain conditions for additional periods of up to 50 years under the Concession. The Concession is to provide freight transportation services over north-east rail lines which are a primary commercial corridor of the Mexican railroad system. KCSM has the right to use, but does not own, all track and buildings that are necessary for the rail lines’ operation. KCSM is required to pay the Mexican government an annual concession duty equal to 1.25% of gross revenues during the Concession period.

Employees and Labor Relations. KCSR participates in industry-wide multi-employer bargaining as a member of the National Carriers’ Conference Committee, as well as local bargaining for agreements that are limited to KCSR’s property. Approximately 70% of KCSR employees are covered by collective bargaining agreements.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

KCSM Servicios union employees are covered by one labor agreement, which was signed on April 16, 2012, between KCSM Servicios and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana (“Mexican Railroad Union”), and which remains in effect during the period of the Concession, for the purpose of regulating the relationship between the parties. Approximately 79% of KCSM Servicios employees are covered by this labor agreement.

Union labor negotiations have not historically resulted in any strike, boycott, or other disruption in the Company’s business operations.

Note 2. Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements are presented using the accrual basis of accounting and include the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

The equity method of accounting is used for all entities in which the Company or its subsidiaries have significant influence, but not a controlling interest. The Company evaluates less-than-majority-owned investments for consolidation pursuant to consolidation and variable interest entity guidance. The Company does not have any less-than-majority-owned investments requiring consolidation.

During the first quarter of 2020, the Company adopted Accounting Standards Update (“ASU”) 2016-13, “*Financial Instruments - Credit Losses*,” which required the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaced the existing incurred loss model and is applicable to the measurement of credit losses on financial assets, including trade receivables. Adoption of the new standard did not have a material impact on the Company’s consolidated financial statements.

During the first quarter of 2020, the Company early adopted the SEC’s, *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant’s Securities* rules, which simplify the disclosure requirements related to the Company’s registered securities under Rule 3-10 of Regulation S-X. The final rule also allows for the simplified disclosure to be included within Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Use of Estimates. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the recoverability and useful lives of assets and income taxes. Changes in facts and circumstances may result in revised estimates and actual results could differ from those estimates.

Revenue Recognition. The primary performance obligation for the Company is to move customers’ freight from an origin to a destination. A performance obligation is created when a customer under a transportation contract or public tariff submits a bill of lading for the transport of goods. The Company recognizes revenue proportionally as a shipment moves from origin to destination, using the distance shipped to measure progress, as the customer simultaneously receives and consumes the benefit over time. Related expenses are recognized as incurred. Revenue associated with in-transit shipments at period end is recognized based on the distance shipped as of the balance sheet date. Payment is received at the time or shortly after the performance obligation is satisfied.

The transaction price is generally in the form of a fixed fee determined at the inception of the transportation contract or the inception of the bill of lading. Certain customer agreements have variable consideration that are based on milestone achievements in the form of rebates, discounts or incentives. The Company makes judgments to determine whether the variable consideration is probable of occurring and should be included in the estimated transaction price at the beginning of the period to apply a more consistent rate throughout the year based on an analysis of historical experience with the customer, forecasted shipments and other economic indicators. The Company adjusts the estimate on a quarterly basis.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Other revenues, including switching, storage, and demurrage are distinct services and are recognized as services are performed or as contractual obligations are fulfilled. The consideration for other revenue is allocated between the separate services based upon the stand-alone transaction price.

Foreign Exchange Gain (Loss). For financial reporting purposes, foreign subsidiaries maintain records in U.S. dollars, which is the functional currency. The dollar is the currency that reflects the economic substance of the underlying events and circumstances relevant to the entity. Monetary assets and liabilities denominated in Mexican pesos (“pesos” or “Ps.”) are remeasured into U.S. dollars (“dollars”) using current exchange rates. The difference between the exchange rate on the date of the transaction and the exchange rate on the settlement date, or balance sheet date if not settled, is included in the income statement as foreign exchange gain or loss.

Cash Equivalents. Short-term liquid investments with an initial maturity of three months or less are classified as cash and cash equivalents.

Accounts Receivable, net. Accounts receivable are net of an allowance for uncollectible accounts as determined by historical experience and adjusted for economic uncertainties, known trends, and reasonable supportable forecasts. Accounts are charged to the allowance when a customer enters bankruptcy, when an account has been transferred to a collection agent or submitted for legal action, or when a customer is significantly past due and all available means of collection have been exhausted. At December 31, 2020 and 2019, the allowance for estimated credit losses was \$7.8 million and \$7.0 million, respectively. For the years ended December 31, 2020, 2019 and 2018, bad debt expense was \$1.5 million, \$0.4 million and \$0.3 million, respectively.

Materials and Supplies. Materials and supplies consisting of diesel fuel, items to be used in the maintenance of rolling stock and items to be used in the maintenance or construction of road property are valued at the lower of average cost or net realizable value.

Derivative Instruments. Derivatives are measured at fair value and recorded on the balance sheet as either assets or liabilities. Changes in the fair value of derivatives are recorded either through current earnings or as other comprehensive income, depending on hedge designation. Gains and losses on derivative instruments classified as cash flow hedges are reported in other comprehensive income and are reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flow of the hedged item.

Property and Equipment (including Concession Assets). KCS capitalizes costs for self-constructed additions and improvements to property including direct labor and material, indirect costs, and interest during long-term construction projects. For purchased assets, all costs necessary to make the asset ready for its intended use are capitalized. Expenditures that significantly increase asset values, productive capacity, efficiency, safety or extend useful lives are capitalized. Repair and maintenance costs are expensed as incurred. The Company has a process in place to determine which costs qualify for capitalization, which requires judgment.

KCS capitalizes certain costs incurred with developing or obtaining internal-use software. Costs incurred during the preliminary project and post-implementation stage, as well as maintenance and training costs are expensed as incurred.

Property and equipment are carried at cost and are depreciated primarily on the group method of depreciation, which the Company believes closely approximates a straight line basis over the estimated useful lives of the assets measured in years. The group method of depreciation applies a composite rate to classes of similar assets rather than to individual assets. Composite depreciation rates are based upon the Company’s estimates of the expected average useful lives of assets as well as expected net salvage value at the end of their useful lives. In developing these estimates, the Company utilizes periodic depreciation studies performed by an independent engineering firm. Depreciation rate studies are performed at least every three years for equipment and at least every six years for road property (rail, ties, ballast, etc.). The Company completed depreciation studies for KCSM in 2020 and KCSR in 2019. The impacts of the studies were immaterial to the consolidated financial results for all periods.

Under the group method of depreciation, the cost of railroad property and equipment (net of salvage or sales proceeds) retired or replaced in the normal course of business is charged to accumulated depreciation with no gain or loss recognized.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Gains or losses on dispositions of land or non-group property and abnormal retirements of railroad property are recognized through income. A retirement of railroad property would be considered abnormal if the cause of the retirement is unusual in nature, is significant in amount, and varies significantly from the retirement profile identified through the depreciation studies.

Costs incurred by the Company to acquire the Concession rights and related assets, as well as subsequent improvements to the Concession assets, are capitalized and amortized using the group method of depreciation over the lesser of the current expected Concession term, including probable renewal of an additional 50-year term, or the estimated useful lives of the assets and rights.

Impairment of Long-Lived Assets. Long-lived assets, including property and equipment, operating lease right-of-use assets and intangible assets with finite lives are reviewed for impairment and written down to fair value when events or circumstances indicate that the carrying amount of a long-lived asset or asset group may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value would be reduced to the estimated fair value. Future cash flow estimates for an impairment review would be based on the lowest level of identifiable cash flows, which are the Company's U.S. and Mexican operations. During the year ended December 31, 2020, \$13.6 million of expense was recognized related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use. Other than the abnormal impairments related to the implementation of Precision Scheduled Railroading ("PSR"), management did not identify any indicators of impairment for the years ended December 31, 2020 and 2019.

Leases. During the first quarter of 2019, the Company adopted ASU No. 2016-02, Leases, also known as Accounting Standard Codification ("ASC") Topic 842. Prior to 2019, the Company accounted for leases under ASC Topic 840, Leases and for the year ended December 31, 2018, had \$49.3 million of rental expense under operating leases. The Company leases transportation equipment, as well as office and other operating facilities, under various finance and operating leases. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the implicit rate is not readily determinable in most of the Company's lease agreements, the Company uses its estimated secured incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of approximately 1 year to 9 years, which may include the option to extend the lease when it is reasonably certain the Company will exercise that option. The Company does not separately identify lease and nonlease components (i.e. maintenance costs) except for fleet vehicles and real estate. The Company does not have lease agreements with residual value guarantees, sale leaseback terms or material restrictive covenants. Additionally, short-term leases and leases with variable lease costs are immaterial, and the Company does not have any sublease arrangements.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in business combinations. As of December 31, 2020 and 2019, the goodwill balance was \$13.2 million, which is included in other assets in the consolidated balance sheets. Goodwill is not amortized, but is reviewed at least annually, or more frequently as indicators warrant, for impairment. An impairment loss would be recognized to the extent that the carrying amount exceeds the reporting units' fair values. The Company performed its annual impairment review for goodwill during the fourth quarter of 2020 and 2019, and concluded there was no impairment.

Investments and Impairment. The Company reviews equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable in accordance with generally accepted accounting principles. This determination requires significant judgment. In making this judgment, the Company considers available quantitative and qualitative evidence in evaluating potential impairment of these investments. If it is determined that an indicator of impairment exists, the Company assesses whether the carrying value exceeds the fair value of the asset. If the carrying value of the investment exceeds its fair value, the Company will evaluate, among other factors, general market conditions, the duration and extent to which the carrying value is greater than the fair value, and KCS's intent and ability to hold, or plans to sell, the investment. The Company also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

impairment charge will be recorded and a new carrying basis in the investment will be established. No impairment charges were recognized during the years ended December 31, 2020 and 2019.

Fair Value of Financial Instruments. Non-financial assets and liabilities are recognized at fair value on a nonrecurring basis. These assets and liabilities are measured at fair value on an ongoing basis but are subject to recognition in the financial statements only in certain circumstances. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into three levels based upon the observability of inputs. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

Environmental Liabilities. The Company recognizes liabilities for remediation and restoration costs when the Company's obligation is probable and the costs can be reasonably estimated. Costs of future expenditures for environmental remediation and restoration are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Costs of ongoing compliance activities related to current operations are expensed as incurred.

Personal Injury Claims. Personal injury claims in excess of self-insurance levels are insured up to certain coverage amounts, depending on the type of claim and year of occurrence. The Company's personal injury liability is based on actuarial studies performed on an undiscounted basis by an independent third party actuarial firm and reviewed by management. The liability is based on claims filed and an estimate of claims incurred but not yet reported. Adjustments to the liability are reflected as operating expenses in the period in which the adjustments are known. Legal fees related to personal injury claims are recognized in operating expense in the period incurred.

Health and Welfare and Postemployment Benefits. The Company provides certain medical, life and other postemployment benefits to certain active employees and retirees. The Company uses actuaries to assist management in measuring the benefit obligation and cost based on the current plan provisions, employee demographics, and assumptions about financial and demographic factors affecting the probability, timing and amount of expected future benefit payments. Significant assumptions include the discount rate, rate of increase in compensation levels, and the health care cost trend rate. Actuarial gains and losses determined at the measurement date (December 31) are recognized immediately in the consolidated statements of income.

Share-Based Compensation. The Company accounts for all share-based compensation in accordance with fair value recognition provisions. Under this method, compensation expense is measured at grant date fair value and is recognized over the requisite service period in which the award is earned. Forfeitures are recognized as they occur. The Company issues treasury stock to settle share-based awards.

Income Taxes. Deferred income tax effects of transactions reported in different periods for financial reporting and income tax return purposes are recognized under the asset and liability method of accounting for income taxes. This method gives consideration to the future tax consequences of the deferred income tax items and immediately recognizes changes in income tax laws in the year of enactment.

The Company has recognized a deferred tax asset, net of a valuation allowance, for net operating loss and tax credit carryovers. The Company projects sufficient future taxable income to realize the deferred tax asset recorded less the valuation

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

allowance. These projections take into consideration assumptions about future income, future capital expenditures and inflation rates. If assumptions or actual conditions change, the deferred tax asset, net of the valuation allowance, will be adjusted to properly reflect the expected tax benefit.

Treasury Stock. The excess of repurchase price over par value of shares held in treasury is allocated between additional paid-in capital and retained earnings.

Note 3. Restructuring Charges

COVID-19. In March 2020, the World Health Organization categorized Coronavirus Disease 2019 (“COVID-19”) as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The U.S. and Mexico governments have deemed rail transportation as “critical infrastructure” providing essential services during this global emergency. As a provider of critical infrastructure, Kansas City Southern has an obligation to keep employees working and freight moving. KCS remains focused on protecting the health and well-being of its employees and the communities in which it operates while assuring the continuity of its business operations.

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which includes modifications to the limitation on business interest expense and net operating loss provisions, and provides a payment delay of employer payroll taxes during 2020 after the date of enactment. Payments of approximately \$11.0 million of employer payroll taxes otherwise due in 2020, were delayed with 50% due by December 31, 2021 and the remaining 50% by December 31, 2022. The CARES Act did not have a material impact on the Company’s consolidated financial statements.

The Company began to experience the impacts of COVID-19 on customer demand in late March 2020. Volumes significantly declined in the second quarter of 2020; however, by early June volumes began to rapidly rebound. For the year ended December 31, 2020, revenues declined 8%, as compared to the same period in 2019, primarily due to lower volumes as a result of COVID-19 and service interruptions at Lazaro Cardenas due to KCSM right-of-way blockages from teachers’ protests, lower fuel surcharge due to lower fuel prices and the weakening of the Mexican peso against the U.S dollar.

As revenues declined in the second quarter of 2020, the Company responded quickly and implemented a variety of cost-saving measures and accelerated PSR initiatives by further consolidating trains, which increased train length and reduced crew costs. In June of 2020, the Company offered a voluntary separation program, which resulted in a restructuring charge of \$9.7 million for the year ended December 31, 2020, consisting of severance and benefit costs that will be paid out in either lump-sum payments or incrementally over a six to twelve-month period. Approximately 6% of management employees were irrevocably accepted into the voluntary separation program.

PSR. During 2019, the Company began implementing principles of PSR, which focus on providing reliable customer service, facilitating growth, improving asset utilization, and improving the cost profile of the Company. As a result of the PSR initiatives in 2019, management approved four separate restructuring plans that totaled \$168.8 million. The restructuring plans were substantially completed in 2019.

During 2020, the Company recognized approximately \$7.3 million in additional restructuring charges related to PSR. During the first quarter of 2020, the Company purchased 91 locomotives for \$78.2 million that were part of two existing leases. Of the 91 locomotives, 13 were impaired during the fourth quarter of 2019. The purchase of the impaired lease locomotives resulted in \$6.0 million of make-whole payments recognized as incremental restructuring charges in the first quarter of 2020. During the second quarter of 2020, the Company recognized approximately \$1.3 million of restructuring charges from the disposal of held for sale equipment.

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Notes to Consolidated Financial Statements-(Continued)

Expenses related to PSR initiatives and the voluntary separation program are shown in the following table (*in millions*):

	Years ended	
	2020	2019
Restructuring charges:		
Asset impairments	\$ 7.3	\$ 157.8
Workforce reduction	9.7	7.0
Contract restructuring	—	4.0
Total restructuring charges	<u>\$ 17.0</u>	<u>\$ 168.8</u>

Asset Impairments. During 2019, the Company committed to plans to dispose of certain locomotives and freight cars to increase operational fluidity, reduce maintenance expense, and improve labor and fuel efficiency. Accordingly, the Company performed an impairment analysis to adjust the carrying amount of each asset to the lower of its depreciated book value or its estimated fair value, less costs to dispose, and stopped recognizing depreciation expense. Additionally, the Company wrote-off parts inventory associated with the locomotive and freight car models that were disposed. During 2020, the purchase of impaired lease locomotives resulted in make-whole payments recognized as incremental restructuring charges.

Workforce Reduction. The Company recognized severance costs associated with the voluntary separation program and PSR initiatives which focused on improving the cost profile of the Company.

Contract Restructuring. The Company terminated certain third-party vendor contracts in order to drive operational efficiencies, which resulted in contract termination penalties.

Note 4. Leases

Leases	Classification	December 31, 2020	December 31, 2019
Assets		<i>(in millions)</i>	
Operating	Operating lease right-of-use assets	\$ 70.9	\$ 158.4
Finance	Property and equipment (including Concession assets), net	5.7	8.7
Total leased assets		<u>\$ 76.6</u>	<u>\$ 167.1</u>
Liabilities			
Current			
Operating	Accounts payable and accrued liabilities	\$ 24.6	\$ 45.4
Finance	Long-term debt due within one year	2.3	1.9
Noncurrent			
Operating	Long-term operating lease liabilities	45.4	85.7
Finance	Long-term debt	5.2	6.8
Total lease liabilities		<u>\$ 77.5</u>	<u>\$ 139.8</u>

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Lease Cost	Classification	Years ended	
		December 31, 2020	December 31, 2019
Operating lease cost:		<i>(in millions)</i>	
	Equipment costs	\$ 23.3	\$ 43.0
	Materials and other	5.0	10.7
Finance lease cost:			
Amortization of finance lease assets	Depreciation and amortization	1.6	2.7
Interest on lease liabilities	Interest expense	0.9	1.1
Total lease cost		<u>\$ 30.8</u>	<u>\$ 57.5</u>

Cash Flow Information	Years ended	
	December 31, 2020	December 31, 2019
	<i>(in millions)</i>	
Cash paid for operating leases included in operating activities	\$ 45.6	\$ 58.7
Cash paid for finance leases included in operating activities	0.9	1.1
Cash paid for finance leases included in financing activities	2.0	2.7
Right-of-use assets obtained in exchange for operating lease liabilities	18.4	35.2
Right-of-use assets obtained in exchange for financing lease liabilities	0.8	—

Lease Term and Discount Rate	December 31, 2020	December 31, 2019
Weighted-average remaining lease term <i>(years)</i>		
Operating leases	3.7	4.9
Finance leases	3.1	3.9
Weighted-average discount rate		
Operating leases	3.1 %	3.9 %
Finance leases	11.4 %	11.1 %

Remaining Maturities of Lease Liabilities

Year Ending December 31 <i>(in millions)</i>,	Operating Leases	Finance Leases
2021	\$ 26.6	\$ 2.9
2022	18.5	2.9
2023	12.6	2.6
2024	10.3	0.3
2025	3.4	—
Thereafter	3.1	—
Total lease payments	74.5	8.7
Less imputed interest	4.5	1.2
Total	<u>\$ 70.0</u>	<u>\$ 7.5</u>

As of December 31, 2020, the Company did not have any additional operating or financing leases that had not yet commenced.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Note 5. Revenue

Disaggregation of Revenue

The following table presents revenues disaggregated by the major commodity groups as well as the product types included within the major commodity groups (*in millions*). The Company believes disaggregation by product type best depicts how cash flows are affected by economic factors. See Note 19, Geographic Information in the consolidated financial statements for revenues by geographical area.

	Years ended December 31,		
	2020	2019	2018
<i>Chemical & Petroleum</i>			
Chemicals	\$ 236.7	\$ 246.9	\$ 236.3
Petroleum	375.0	341.8	241.9
Plastics	152.1	148.5	143.9
Total	763.8	737.2	622.1
<i>Industrial & Consumer Products</i>			
Forest Products	247.8	261.4	268.0
Metals & Scrap	188.4	232.9	208.2
Other	101.5	116.1	114.8
Total	537.7	610.4	591.0
<i>Agriculture & Minerals</i>			
Grain	299.6	298.4	289.9
Food Products	154.6	149.4	145.7
Ores & Minerals	21.8	25.0	20.9
Stone, Clay & Glass	29.4	33.5	29.9
Total	505.4	506.3	486.4
<i>Energy</i>			
Utility Coal	105.6	126.9	117.3
Coal & Petroleum Coke	41.8	43.2	44.3
Frac Sand	11.3	27.4	37.4
Crude Oil	36.3	48.7	57.3
Total	195.0	246.2	256.3
<i>Intermodal</i>	319.1	370.2	382.8
<i>Automotive</i>	172.7	255.6	253.2
Total Freight Revenues	2,493.7	2,725.9	2,591.8
<i>Other Revenue</i>	138.9	140.1	122.2
Total Revenues	\$ 2,632.6	\$ 2,866.0	\$ 2,714.0

Major customers

No individual customer makes up greater than 10% of total consolidated revenues.

Contract Balances

The amount of revenue recognized in 2020 from performance obligations partially satisfied in the previous year was \$17.7 million. The performance obligations that were unsatisfied or partially satisfied as of December 31, 2020, were \$28.0 million, which represents in-transit shipments that are fully satisfied the following month.

A receivable is any unconditional right to consideration, and is recognized as shipments have been completed and the relating performance obligation has been fully satisfied. At December 31, 2020 and 2019, the accounts receivable, net balance

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

was \$247.1 million and \$274.2 million, respectively. Contract assets represent a conditional right to consideration in exchange for goods or services. The Company did not have any contract assets at December 31, 2020 and 2019.

Contract liabilities represent consideration received in advance from customers, and are recognized as revenue over time as the relating performance obligation is satisfied. The amount of revenue recognized in 2020 that was included in the opening contract liability balance was \$30.2 million. The Company has recognized contract liabilities within the accounts payable and accrued liabilities financial statement caption on the balance sheet. These are considered current liabilities as they will be settled in less than 12 months.

The following tables summarize the changes in contract liabilities (*in millions*):

Contract liabilities

	Years ended December 31,	
	2020	2019
Beginning balance	\$ 30.5	\$ 32.4
Revenue recognized that was included in the contract liability balance at the beginning of the period	(30.2)	(32.4)
Increases due to consideration received, excluding amounts recognized as revenue during the period	29.6	30.5
Ending balance	<u>\$ 29.9</u>	<u>\$ 30.5</u>

Note 6. Hurricane Harvey

In late August 2017, Hurricane Harvey made landfall on the Texas coast and caused flood damage to the Company's track infrastructure and significantly disrupted the Company's rail service. The Company filed a claim in the fourth quarter of 2017 under its insurance program for property damage, incremental expenses, and lost profits caused by Hurricane Harvey. In the third quarter of 2017, the Company recognized a receivable for probable insurance recovery offsetting the impact of incremental expenses recognized in the quarter. During 2018, the Company partially settled its insurance claim for \$35.5 million. As a result of the nonrefundable partial settlement, the Company recognized gain on insurance recoveries of \$17.9 million, net of the self-insured retention and insurance receivable. The Company received the nonrefundable cash proceeds of \$25.5 million from the partial settlement in the fourth quarter of 2018. Final settlement of the insurance claim is dependent upon costs incurred with an ongoing bridge construction project expected to be completed in 2021 and will be immaterial to the consolidated financial statements.

Note 7. Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share adjusts basic earnings per common share for the effects of potentially dilutive common shares, if the effect is not anti-dilutive. Potentially dilutive common shares include the dilutive effects of shares issuable under the 2008 and 2017 Equity Incentive Plans and shares issuable upon the conversion of preferred stock to common stock.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

The following table reconciles the basic earnings per share computation to the diluted earnings per share computation (*in millions, except share and per share amounts*):

	2020	2019	2018
Net income available to common stockholders for purposes of computing basic and diluted earnings per share	\$ 616.8	\$ 538.7	\$ 627.2
Weighted-average number of shares outstanding (<i>in thousands</i>):			
Basic shares	93,826	99,316	101,852
Effect of dilution	489	431	418
Diluted shares	94,315	99,747	102,270
Earnings per share:			
Basic earnings per share	\$ 6.57	\$ 5.42	\$ 6.16
Diluted earnings per share	\$ 6.54	\$ 5.40	\$ 6.13
Potentially dilutive shares excluded from the calculation (<i>in thousands</i>):	2020	2019	2018
Stock options excluded as their inclusion would be anti-dilutive	75	121	117

Note 8. Property and Equipment (including Concession Assets)

The following tables list the major categories of property and equipment, including Concession assets, as well as the weighted-average composite depreciation rate for each category (*in millions*):

<u>As of December 31, 2020</u>	Cost	Accumulated Depreciation	Net Book Value	Depreciation Rates for 2020
Land	\$ 227.5	\$ —	\$ 227.5	N/A
Concession land rights	141.1	(30.8)	110.3	1.0 %
Rail and other track material	2,147.5	(389.8)	1,757.7	1.8-3.2%
Ties	1,753.5	(420.2)	1,333.3	1.4-5.0%
Grading	998.5	(190.0)	808.5	1.0 %
Bridges and tunnels	858.5	(171.3)	687.2	1.3 %
Ballast	867.4	(245.3)	622.1	2.2-4.7%
Other (a)	1,549.0	(477.6)	1,071.4	2.7 %
Total road property	8,174.4	(1,894.2)	6,280.2	2.6 %
Locomotives	1,713.6	(478.7)	1,234.9	4.8 %
Freight cars	970.4	(210.6)	759.8	2.2 %
Other equipment	80.6	(36.6)	44.0	4.5 %
Total equipment	2,764.6	(725.9)	2,038.7	3.9 %
Technology and other	372.6	(253.4)	119.2	18.7 %
Construction in progress	221.9	—	221.9	N/A
Total property and equipment (including Concession assets)	\$ 11,902.1	\$ (2,904.3)	\$ 8,997.8	N/A

(a) Other includes signals, buildings and other road assets.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

<u>As of December 31, 2019</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Depreciation Rates for 2019</u>
Land	\$ 224.9	\$ —	\$ 224.9	N/A
Concession land rights	141.1	(29.4)	111.7	1.0 %
Rail and other track material	2,122.9	(373.3)	1,749.6	1.8-3.2%
Ties	1,738.4	(405.7)	1,332.7	1.4-5.0%
Grading	991.5	(179.4)	812.1	1.1 %
Bridges and tunnels	823.8	(163.0)	660.8	1.2 %
Ballast	835.6	(236.4)	599.2	2.2-4.7%
Other (a)	1,449.9	(438.5)	1,011.4	3.0 %
Total road property	7,962.1	(1,796.3)	6,165.8	2.8 %
Locomotives	1,593.9	(429.7)	1,164.2	5.2 %
Freight cars	980.8	(196.6)	784.2	2.4 %
Other equipment	77.9	(30.4)	47.5	4.5 %
Total equipment	2,652.6	(656.7)	1,995.9	4.1 %
Technology and other	345.1	(207.3)	137.8	16.3 %
Construction in progress	170.2	—	170.2	N/A
Total property and equipment (including Concession assets)	\$ 11,496.0	\$ (2,689.7)	\$ 8,806.3	N/A

(a) Other includes signals, buildings and other road assets.

Concession assets, net of accumulated amortization of \$709.7 million and \$678.1 million, totaled \$2,383.5 million and \$2,335.5 million at December 31, 2020 and 2019, respectively.

Depreciation and amortization of property and equipment (including Concession assets) totaled \$357.9 million, \$350.7 million and \$346.7 million, for 2020, 2019, and 2018, respectively.

In the fourth quarter of 2020, \$13.6 million of expense was recognized related to costs previously capitalized for the development of internal-use software. The development of the software was cancelled prior to completion and had no further use. The expense was recognized in write-off of software development costs in the consolidated statements of income.

Note 9. Other Balance Sheet Captions

Other Current Assets. Other current assets included the following items at December 31 (*in millions*):

	<u>2020</u>	<u>2019</u>
Refundable Mexican value added tax	\$ —	\$ 60.2
Prepaid income taxes	15.8	0.3
Advances to affiliates	9.2	47.3
Prepaid expenses	23.3	21.0
Property held for sale	3.6	11.3
Other	11.4	14.9
Other current assets	\$ 63.3	\$ 155.0

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Accounts Payable and Accrued Liabilities. Accounts payable and accrued liabilities included the following items at December 31 (*in millions*):

	2020	2019
Accounts payable	\$ 174.6	\$ 157.1
Income and other taxes	27.3	34.4
Accrued wages and vacation	82.4	79.0
Short-term operating lease liability	24.6	45.4
Derailments, personal injury and other claim provisions	39.0	38.5
Dividends payable	40.2	38.7
Contract liabilities	29.9	30.5
Interest payable	26.2	23.1
Other	25.8	26.6
Accounts payable and accrued liabilities	<u>\$ 470.0</u>	<u>\$ 473.3</u>

Note 10. Fair Value Measurements

The Company's assets and liabilities recognized at fair value have been categorized based upon a fair value hierarchy as described in Note 2, Significant Accounting Policies. As of December 31, 2020, the Company's derivative financial instruments are measured at fair value on a recurring basis and consist of foreign currency forward and option contracts and treasury lock agreements, which are classified as Level 2 valuations. The Company determines the fair value of its derivative financial instrument positions based upon pricing models using inputs observed from actively quoted markets and also takes into consideration the contract terms as well as other inputs, including market currency exchange rates and in the case of option contracts, volatility, the risk-free interest rate and the time to expiration.

The Company's short-term financial instruments include cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings. The carrying value of the short-term financial instruments approximates their fair value.

The fair value of the Company's debt is estimated using quoted market prices when available. When quoted market prices are not available, fair value is estimated based on current market interest rates for debt with similar maturities and credit quality. The carrying value of the Company's debt was \$3,770.8 million and \$3,246.0 million at December 31, 2020 and 2019, respectively. If the Company's debt were measured at fair value, the fair value measurements of the individual debt instruments would have been classified as Level 2 in the fair value hierarchy.

The fair value of the Company's financial instruments is presented in the following table (*in millions*):

	December 31, 2020	December 31, 2019
	Level 2	Level 2
Assets		
Foreign currency derivative instruments	\$ —	\$ 2.5
Treasury lock agreements	35.6	—
Liabilities		
Debt instruments	4,368.6	3,535.7

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Note 11. Derivative Instruments

The Company enters into derivative transactions in certain situations based on management's assessment of current market conditions and perceived risks. Management intends to respond to evolving business and market conditions and in doing so, may enter into such transactions as deemed appropriate.

Credit Risk. As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. The Company manages this risk by limiting its counterparties to large financial institutions which meet the Company's credit rating standards and have an established banking relationship with the Company. As of December 31, 2020, the Company did not expect any losses as a result of default of its counterparties.

Interest Rate Derivative Instruments. During 2020, the Company executed six 30-year treasury lock agreements with an aggregate notional value of \$650.0 million and a weighted-average interest rate of 1.58%. The purpose of the treasury locks is to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the \$444.7 million principal amount of 3.00% senior notes due May 15, 2023 (the "3.00% Senior Notes") and the \$200.0 million principal amount of 3.85% senior notes due November 15, 2023 (the "3.85% Senior Notes"). The Company has designated the treasury locks as cash flow hedges and recorded unrealized gains and losses in accumulated other comprehensive income (loss). Upon settlement, the unrealized gain or loss in accumulated other comprehensive income (loss) will be amortized to interest expense over the life of the future underlying debt issuances.

In May 2017, the Company executed four treasury lock agreements with an aggregate notional value of \$275.0 million and a weighted-average interest rate of 2.85%. The purpose of the treasury locks was to hedge the U.S. Treasury benchmark interest rate associated with future interest payments related to the anticipated refinancing of the \$275.0 million, 2.35% senior notes due May 15, 2020 (the "2.35% Senior Notes"). The Company designated the treasury locks as cash flow hedges and recorded unrealized gains and losses in accumulated other comprehensive income (loss). During the fourth quarter of 2019, KCS issued \$425.0 million principal amount of 2.875% senior notes due November 15, 2029 (the "2.875% Senior Notes"), effectively completing the refinancing of the 2.35% Senior Notes, and settled the treasury lock agreements, resulting in cash paid of \$25.8 million. This amount was included in accumulated other comprehensive income (loss) and is being amortized to interest expense over the life of the new 2.875% Senior Notes, increasing the effective interest rate on the notes to 3.60%. The settlement and amortization associated with treasury lock agreements are classified as operating activities within the consolidated statements of cash flows.

Foreign Currency Derivative Instruments. The Company's Mexican subsidiaries have net U.S. dollar-denominated monetary liabilities which, for Mexican income tax purposes, are subject to periodic revaluation based on changes in the value of the Mexican peso against the U.S. dollar. This revaluation creates fluctuations in the Company's Mexican income tax expense and the amount of income taxes paid in Mexico. The Company hedges its exposure to this cash tax risk by entering into foreign currency forward contracts and foreign currency option contracts known as zero-cost collars.

The foreign currency forward contracts involve the Company's purchase of Mexican pesos and/or U.S. dollars at an agreed-upon weighted-average exchange rate to each U.S. dollar or Mexican Peso. The zero-cost collars involve the Company's purchase of a Mexican peso call option and a simultaneous sale of a Mexican peso put option, with equivalent U.S. dollar notional amounts for each option and no net cash premium paid by the Company.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Below is a summary of the Company's 2020, 2019 and 2018 foreign currency derivative contracts (*amounts in millions, except Ps./USD*):

Foreign currency forward contracts

	<u>Contracts to sell Ps./receive USD</u>			<u>Offsetting contracts to purchase Ps./pay USD</u>				
	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Cash received/ (paid) on settlement	
Contracts executed in 2020 and settled in 2020	\$ 75.0	Ps. 1,555.5	Ps. 20.7	\$ 78.0	Ps. 1,555.5	Ps. 20.0	\$ (2.9)	
	<u>Contracts to purchase Ps./pay USD</u>			<u>Offsetting contracts to sell Ps./receive USD</u>				
	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Notional amount	Notional amount	Weighted-average exchange rate (in Ps./USD)	Cash received/ (paid) on settlement	
Contracts executed in 2020 and settled in 2020	\$ 555.0	Ps. 11,254.3	Ps. 20.3	\$ 534.3	Ps. 11,254.3	Ps. 21.1	\$ (20.7)	
Contracts executed in 2019 and settled in 2020	\$ 105.0	Ps. 2,041.2	Ps. 19.4	\$ 108.6	Ps. 2,041.2	Ps. 18.8	\$ 3.6	
Contracts executed in 2019 and settled in 2019	\$ 400.0	Ps. 7,892.5	Ps. 19.7	\$ 410.7	Ps. 7,892.5	Ps. 19.2	\$ 10.7	
Contracts executed in 2018 and settled in 2019	\$ 20.0	Ps. 410.9	Ps. 20.5	\$ 20.9	Ps. 410.9	Ps. 19.6	\$ 0.9	

Foreign currency zero-cost collar contracts

	Notional amount	Cash received/ (paid) on settlement
Contracts executed in 2018 and settled in 2019	\$ 120.0	\$ 0.3
Contracts executed in 2018 and settled in 2018	\$ 220.0	\$ 3.9
Contracts executed in 2017 and settled in 2018	\$ 80.0	\$ 10.0

The Company has not designated any of the foreign currency derivative contracts as hedging instruments for accounting purposes. The Company measures the foreign currency derivative contracts at fair value each period and recognizes any change in fair value in foreign exchange gain (loss) within the consolidated statements of income. The cash flows associated with these instruments is classified as an operating activity within the consolidated statements of cash flows.

Offsetting. The Company's treasury lock agreements and foreign currency forward and zero-cost collar contracts are executed with counterparties in the U.S. and are governed by an International Swaps and Derivatives Association agreement that includes standard netting arrangements. Asset and liability positions from contracts with the same counterparty are net settled upon maturity/expiration and presented on a net basis in the consolidated balance sheets prior to settlement. There was no offsetting of derivative assets or liabilities in the consolidated balance sheets as of December 31, 2020 and 2019.

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Notes to Consolidated Financial Statements-(Continued)

The following table presents the fair value of derivative instruments included in the consolidated balance sheets at December 31 (*in millions*):

	Balance Sheet Location	Derivative Assets	
		2020	2019
Derivatives designated as hedging instruments:			
Treasury lock agreements	Other assets	\$ 35.6	\$ —
Total derivatives designated as hedging instruments		35.6	—
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Other current assets	—	2.5
Total derivatives not designated as hedging instruments		—	2.5
Total derivative assets		<u>\$ 35.6</u>	<u>\$ 2.5</u>

The following tables present the effects of derivative instruments on the consolidated statements of income and consolidated statements of comprehensive income for the years ended December 31 (*in millions*):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative			Location of Gain/(Loss) Reclassified from AOCI into Income	Amount of Gain/(Loss) Reclassified from AOCI into Income		
	2020	2019	2018		2020	2019	2018
Treasury lock agreements	\$ 35.6	\$ (23.8)	\$ 3.6	Interest expense	\$ (2.4)	\$ (0.2)	\$ —
Total	<u>\$ 35.6</u>	<u>\$ (23.8)</u>	<u>\$ 3.6</u>		<u>\$ (2.4)</u>	<u>\$ (0.2)</u>	<u>\$ —</u>

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative		
		2020	2019	2018
Foreign currency forward contracts	Foreign exchange gain (loss)	\$ (22.5)	\$ 14.1	\$ —
Foreign currency zero-cost collar contracts	Foreign exchange gain (loss)	—	—	6.3
Total		<u>\$ (22.5)</u>	<u>\$ 14.1</u>	<u>\$ 6.3</u>

See Note 10, Fair Value Measurements, for the determination of the fair values of derivatives.

Note 12. Short-Term Borrowings

Commercial Paper. The Company's commercial paper program generally serves as the primary means of short-term funding. As of December 31, 2020, and 2019, KCS had no commercial paper outstanding. For the years ended December 31, 2020, 2019 and 2018, commercial paper borrowings were outstanding for less than 90 days and the related activity is presented on a net basis in the consolidated statements of cash flows.

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Notes to Consolidated Financial Statements-(Continued)

Note 13. Long-Term Debt

Long-term debt at December 31 (*in millions*):

	2020			2019		
	Principal	Unamortized Discount and Debt Issuance Costs	Net	Principal	Unamortized Discount and Debt Issuance Costs	Net
Revolving credit facilities, variable interest rate, due 2024	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
KCS 3.00% senior notes, due 2023	439.1	1.7	437.4	439.1	2.5	436.6
KCS 3.85% senior notes, due 2023	199.2	0.8	198.4	199.2	1.1	198.1
KCS 3.125% senior notes, due 2026	250.0	2.0	248.0	250.0	2.4	247.6
KCS 2.875% senior notes, due 2029	425.0	3.8	421.2	425.0	4.2	420.8
KCS 4.30% senior notes, due 2043	448.7	8.5	440.2	448.7	8.8	439.9
KCS 4.95% senior notes, due 2045	499.2	6.9	492.3	499.2	7.2	492.0
KCS 4.70% senior notes, due 2048	500.0	5.8	494.2	500.0	6.0	494.0
KCS 3.50% senior notes, due 2050	550.0	10.8	539.2	—	—	—
KCS 4.20% senior notes, due 2069	425.0	6.9	418.1	425.0	7.0	418.0
KCSR 3.85% to 4.95% senior notes, due through 2045	2.7	—	2.7	2.7	—	2.7
KCSM 3.00% senior notes, due 2023	5.6	—	5.6	5.6	—	5.6
RRIF loans 2.96% to 4.29%, due serially through 2037	66.2	0.4	65.8	70.2	0.4	69.8
Financing agreements 9.311%, due serially through 2020	—	—	—	12.0	—	12.0
Finance lease obligations, due serially to 2025	7.5	—	7.5	8.7	—	8.7
Other debt obligations	0.2	—	0.2	0.2	—	0.2
Total	3,818.4	47.6	3,770.8	3,285.6	39.6	3,246.0
Less: Debt due within one year	6.4	—	6.4	18.0	—	18.0
Long-term debt	<u>\$3,812.0</u>	<u>\$ 47.6</u>	<u>\$3,764.4</u>	<u>\$3,267.6</u>	<u>\$ 39.6</u>	<u>\$3,228.0</u>

Revolving Credit Facility

KCS, with certain of its domestic subsidiaries named therein as guarantors, has a \$600.0 million senior unsecured revolving credit facility (the “Revolving Credit Facility”), with a \$25.0 million standby letter of credit facility which, if utilized, constitutes usage under the Revolving Credit Facility. The Revolving Credit Facility serves as a backstop for KCS’s commercial paper program (the “Commercial Paper Program”) which generally serves as the Company’s primary means of short-term funding.

Borrowings under the Revolving Credit Facility bear interest at floating rates. Depending on the Company’s credit rating, the margin that KCS would pay above the London Interbank Offered Rate (“LIBOR”) at any point is between 1.000% and 1.750%. As of December 31, 2020, the margin was 1.25% based on KCS’s current credit rating.

The Revolving Credit Facility is guaranteed by KCSR, together with certain domestic subsidiaries named therein as guarantors and matures on March 8, 2024. The Revolving Credit Facility agreement contains representations, warranties, covenants and events of default that are customary for credit agreements of this type. The occurrence of an event of default could result in the termination of the commitments and the acceleration of the repayment of any outstanding principal balance on the Revolving Credit Facility and the Commercial Paper Program.

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Notes to Consolidated Financial Statements-(Continued)

As of December 31, 2020 and 2019, KCS had no outstanding borrowings under the revolving credit facility.

Senior Notes

The Company's senior notes include certain covenants that are customary for these types of debt instruments issued by borrowers with similar credit ratings.

The KCS notes are KCS's general unsecured senior obligations and are unconditionally guaranteed, jointly and severally, on an unsecured senior basis by each current and future domestic subsidiary of KCS that from time to time guarantees the Revolving Credit Facility or any other debt of KCS or any of KCS's significant subsidiaries that is a guarantor (collectively, the "Note Guarantors").

KCSR's senior notes are unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by KCS and each current and future domestic subsidiary of KCS that guarantees the Revolving Credit Facility or certain other debt of KCS or a note guarantor. KCSR's senior notes and the note guarantees rank pari passu in right of payment with KCSR's, KCS's and the Note Guarantors' existing and future unsecured, unsubordinated obligations.

KCSM's senior notes are denominated in U.S. dollars; are unsecured, unsubordinated obligations; rank pari passu in right of payment with KCSM's existing and future unsecured, unsubordinated obligations and are senior in right of payment to KCSM's future subordinated indebtedness.

Senior notes are redeemable at the issuer's option, in whole or in part, at any time, by paying the greater of either 100% of the principal amount to be redeemed and a formula price based on interest rates prevailing at the time of redemption and time remaining to maturity, plus, in each case, accrued interest thereon to, but excluding the redemption date. In addition, KCSM senior notes are redeemable, in whole but not in part, at KCSM's option at any time at a redemption price of 100% of their principal amount, plus any accrued unpaid interest in the event of certain changes in the Mexican withholding tax rate.

On April 22, 2020, KCS issued \$550.0 million principal amount of senior unsecured notes due May 1, 2050 (the "3.50% Senior Notes"), which bear interest semiannually at a fixed annual rate of 3.50%. The 3.50% Senior Notes were issued at a discount to par value, resulting in a \$4.4 million discount and a yield to maturity of 3.543%. The net proceeds from the offering were used for general corporate purposes, including to repurchase shares of KCS's common stock.

RRIF Loan Agreements

The following loans were made under the Railroad Rehabilitation and Improvement Financing ("RRIF") Program administered by the Federal Railroad Administration ("FRA"):

KCSR RRIF Loan Agreement. On February 21, 2012, KCSR entered into an agreement with the FRA to borrow \$54.6 million to be used to reimburse KCSR for a portion of the purchase price of thirty new locomotives (the "Locomotives") acquired by KCSR in the fourth quarter of 2011. The loan bears interest at 2.96% annually and the principal balance amortizes quarterly with a final maturity of February 24, 2037. The obligations under the financing agreement are secured by a first priority security interest in the Locomotives and certain related rights. In addition, the Company has agreed to guarantee repayment of the amounts due under the financing agreement and certain related agreements. The occurrence of an event of default could result in the acceleration of the repayment of any outstanding principal balance of the loan.

Tex-Mex RRIF Loan Agreement. On June 28, 2005, Tex-Mex entered into an agreement with the FRA to borrow \$50.0 million to be used for infrastructure improvements in order to accommodate growing freight rail traffic related to the NAFTA corridor. The loan bears interest at 4.29% annually and the principal balance amortizes quarterly with a final maturity of July 13, 2030. The loan is guaranteed by Mexrail, which has issued a pledge agreement in favor of the lender equal to the gross revenues earned by Mexrail on per-car fees on traffic crossing the International Rail Bridge in Laredo, Texas. In addition, the Company has agreed to guarantee the scheduled principal payment installments due to the FRA from Tex-Mex under the loan agreement on a rolling five-year basis.

Locomotive Financing Agreements

During 2011, KCSM entered into financing agreements totaling \$91.0 million to purchase locomotives. The agreements matured and final payment was made during December 2020. Prior to repayment, the financing agreements were payable on a quarterly basis and contained annual interest rates of 9.311%.

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Debt Covenants Compliance

The Company was in compliance with all of its debt covenants as of December 31, 2020.

Other Debt Provisions

Certain loan agreements and debt instruments entered into or guaranteed by the Company and its subsidiaries provide for default in the event of a specified change in control of the Company or particular subsidiaries of the Company.

Debt Maturities

Minimum annual payments for debt maturities are as follows (*in millions*):

<u>Years</u>	<u>Long-Term Debt</u>	<u>Net Present Value Finance Leases</u>	<u>Total</u>
2021	\$ 4.1	\$ 2.3	\$ 6.4
2022	4.3	2.5	6.8
2023	649.2	2.4	651.6
2024	4.7	0.3	5.0
2025	5.1	—	5.1
Thereafter	3,143.5	—	3,143.5
Total	<u>\$ 3,810.9</u>	<u>\$ 7.5</u>	<u>\$ 3,818.4</u>

Note 14. Income Taxes

Current income tax expense represents the amounts expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized.

Mexican Fuel Excise Tax Credit. Fuel purchases in Mexico are subject to an excise tax that is included in the price of fuel. Through April 29, 2019, the Company was eligible for a credit for the excise tax included in the price of fuel that is purchased and consumed in locomotives and certain work equipment in Mexico. For year 2018, the Mexican fuel excise tax credit ("IEPS credit") was utilized and realized through the offset of the total annual Mexico income tax liability and income tax withholding payment obligations of KCSM, with no carryforward to future periods and recognized as a benefit in operating expenses on the consolidated statements of income.

In December 2018, the Mexican government enacted changes in the tax law effective January 1, 2019 ("Mexico 2019 Tax Reform"), which, among other things, for 2019 eliminated the option to monetize the IEPS credit by offsetting income tax withholding payment obligations. As a result, the Company was allowed to offset the 2019 IEPS credit only against its Mexico corporate income tax liability on the 2019 annual income tax return. The elimination of the option to apply the IEPS credit to income tax withholding payment obligations required the Company to recognize the IEPS credit as a reduction of income tax expense rather than a reduction of operating expenses for 2019.

On April 29, 2019, the Servicio de Administración Tributaria (the "SAT"), the Mexican equivalent of the IRS, published the Miscellaneous Fiscal Resolution for 2019 ("2019 Resolution"), which eliminated the Company's eligibility for the IEPS credit effective beginning April 30, 2019. During the period of eligibility in 2019, the Company generated IEPS credits resulting in a \$12.8 million net tax benefit, which was recognized as a reduction to income tax expense within the consolidated statements of income for the year ended December 31, 2019.

Tax Cuts and Jobs Act. On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). The legislation significantly changed U.S. tax law by, among other things, lowering corporate income tax rates, implementing a modified territorial tax system and imposing a repatriation tax on deemed repatriated earnings

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Notes to Consolidated Financial Statements-(Continued)

of foreign subsidiaries. The Tax Reform Act permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a 21% rate, effective January 1, 2018.

Included in the Tax Reform Act were the global intangible low-taxed income (“GILTI”) provisions. The Company elected to account for GILTI tax in the period in which it is incurred. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. The Treasury Department issued final regulations in July 2020 that provide for a high-tax exception to the GILTI tax that were retroactive to tax years beginning after December 31, 2017. The Company recognized a \$14.5 million tax benefit in 2020 for the reversal of 2018 and 2019 GILTI tax expense recognized in prior years’ consolidated financial statements.

Tax Expense. Income tax expense consists of the following components (*in millions*):

	2020	2019	2018
<i>Current:</i>			
Federal	\$ (1.9)	\$ 22.3	\$ (10.5)
State and local	1.6	1.8	0.7
Foreign	155.0	170.4	175.6
Total current	<u>154.7</u>	<u>194.5</u>	<u>165.8</u>
<i>Deferred:</i>			
Federal	49.4	27.5	77.6
State and local	13.8	14.8	9.1
Foreign	(13.8)	10.8	5.0
Total deferred	<u>49.4</u>	<u>53.1</u>	<u>91.7</u>
Total income tax expense	<u>\$ 204.1</u>	<u>\$ 247.6</u>	<u>\$ 257.5</u>

Income before income taxes consists of the following (*in millions*):

	2020	2019	2018
<i>Income before income taxes:</i>			
U.S.	\$ 329.0	\$ 250.3	\$ 366.2
Foreign	494.2	538.1	520.7
Total income before income taxes	<u>\$ 823.2</u>	<u>\$ 788.4</u>	<u>\$ 886.9</u>

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 follow *(in millions)*:

	2020	2019
<i>Assets:</i>		
Reserves not currently deductible for tax	\$ 44.6	\$ 36.8
Tax credit and loss carryovers	25.4	21.5
Compensation and benefits	24.7	23.1
Lease liability	19.7	35.1
Other	12.6	22.4
Gross deferred tax assets before valuation allowance	127.0	138.9
Valuation allowance	(3.5)	(4.4)
Net deferred tax assets	123.5	134.5
<i>Liabilities:</i>		
Property	(1,233.8)	(1,181.3)
Investments	(54.9)	(52.4)
Other	(20.2)	(28.8)
Gross deferred tax liabilities	(1,308.9)	(1,262.5)
Net deferred tax liability	\$ (1,185.4)	\$ (1,128.0)

Tax Rates. Differences between the Company's effective income tax rate and the U.S. federal statutory income tax rate of 21% follow *(in millions)*:

	2020		2019		2018	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Income tax expense using the statutory rate in effect	\$ 172.9	21.0%	\$ 165.6	21.0%	\$ 186.2	21.0%
Tax effect of:						
Difference between U.S. and foreign tax rate	44.1	5.4%	47.6	6.0%	46.1	5.2%
GILTI tax, net	(14.5)	(1.8%)	2.7	0.3%	11.8	1.3%
Tax credits	(13.8)	(1.7%)	(16.8)	(2.1%)	(14.2)	(1.6%)
State and local income tax provision, net	12.5	1.5%	11.5	1.5%	7.5	0.8%
Withholding tax	9.9	1.2%	9.5	1.2%	11.2	1.3%
Foreign exchange (i)	(3.4)	(0.4%)	35.9	4.6%	21.8	2.5%
Mexican fuel excise tax credit, net (ii)	—	—	(12.8)	(1.6%)	—	—
Change in U.S. tax rate	—	—	—	—	(2.2)	(0.3%)
Deemed mandatory repatriation	—	—	—	—	(18.7)	(2.1%)
Other, net	(3.6)	(0.4%)	4.4	0.5%	8.0	0.9%
Income tax expense	\$ 204.1	24.8%	\$ 247.6	31.4%	\$ 257.5	29.0%

- (i) Mexican income taxes are paid in Mexican pesos, and as a result, the effective income tax rate reflects fluctuations in the value of the Mexican peso against the U.S. dollar. The foreign exchange impact on income taxes includes the gain or loss from the revaluation of the Company's net U.S. dollar-denominated monetary liabilities into Mexican pesos

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which is included in Mexican taxable income under Mexican tax law. As a result, a strengthening of the Mexican peso against the U.S. dollar for the reporting period will generally increase the Mexican cash tax obligation and the effective income tax rate, and a weakening of the Mexican peso against the U.S. dollar for the reporting period will generally decrease the Mexican cash tax obligation and the effective tax rate. To hedge its exposure to this cash tax risk, the Company enters into foreign currency derivative contracts, which are measured at fair value each period and any change in fair value is recognized in foreign exchange gain (loss) within the consolidated statements of income. Refer to Note 11, Derivative Instruments in the consolidated financial statements for further information.

- (ii) Not eligible for Mexican fuel excise tax credit subsequent to April 30, 2019. See previous discussion within footnote.

Difference Attributable to Foreign Investments. The Company asserts that all foreign earnings will be indefinitely reinvested to the extent of local needs and earnings that would be distributed in a taxable manner. The Company therefore intends to limit distributions to earnings previously taxed in the U.S., or earnings that would qualify for the 100 percent dividends received deduction provided for in the Tax Reform Act, and earnings that would not result in any significant foreign taxes. Therefore, the Company has not recognized a deferred tax liability on its investment in foreign subsidiaries.

Tax Carryovers. The Company has U.S. state net operating losses which are carried forward from 10 to 20 years and are analyzed each year to determine the likelihood of realization. The state loss carryovers arise from both combined and separate tax filings from as early as 1999 and may expire as early as December 31, 2021 and as late as December 31, 2040. The state loss carryover at December 31, 2020 was \$367.7 million resulting in a state deferred tax asset of \$22.0 million.

The Mexico federal loss carryovers at December 31, 2020, were \$9.3 million and, if not used, will begin to expire in 2026. A deferred tax asset was recognized in prior periods for the expected future tax benefit of these losses which will be carried forward to reduce only Mexican income tax payable in future years.

The valuation allowance for deferred tax assets as of December 31, 2020 and 2019, was \$3.5 million and \$4.4 million, respectively, primarily attributable to state net operating loss carryovers. The Company believes it is more likely than not that reversals of existing temporary differences that will produce future taxable income and the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of valuation allowances, related to loss carryovers.

Uncertain Tax Positions. The accounting guidance for uncertainty in income taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires the Company to recognize in the consolidated financial statements the benefit of a tax position only if the impact is more likely than not of being sustained on audit based on the technical merits of the position. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (*in millions*):

	2020	2019
Balance at January 1,	\$ 2.2	\$ 2.2
Additions for tax positions of prior years	—	—
Balance at December 31,	<u>\$ 2.2</u>	<u>\$ 2.2</u>

The unrecognized tax benefit would affect the effective income tax rate if recognized, and is reasonably possible to be resolved over the next twelve months as part of an Internal Revenue Service (“IRS”) examination.

Interest and penalties related to uncertain tax positions are included in income before taxes on the consolidated statements of income. Accrued interest and penalties on unrecognized tax benefits and interest and penalty expense was immaterial to the consolidated financial statements for all periods presented.

Tax Contingencies. Tax returns filed in the U.S. for periods after 2015 and in Mexico for periods after 2012 remain open to examination by the taxing authorities. During the second quarter of 2020, the IRS initiated an examination of the 2017 deemed mandatory repatriation tax included in the 2017 U.S. federal tax return. In 2018, the IRS initiated an examination of the 2016 U.S. federal tax return. During the fourth quarter of 2020, the SAT initiated an audit of the KCSM 2015 Mexico tax

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return. In 2019, the SAT initiated an audit of the KCSM 2013 and 2014 Mexico tax returns. The Company does not expect that these examinations will have a material impact on the consolidated financial statements. During the first quarter of 2017, the Company received audit assessments from the SAT for the KCSM 2009 and 2010 Mexico tax returns. In 2017, the Company commenced administrative actions with the SAT. During the first quarter of 2018, the audit assessments were nullified by the SAT. In the third quarter of 2018, the SAT issued new assessments and the Company filed administrative appeals with the SAT. The Company believes that it has strong legal arguments in its favor and it is more likely than not that it will prevail in any challenge of the assessments.

KCSM has not historically assessed value added tax (“VAT”) on international import transportation services provided to its customers based on a written ruling that KCSM obtained from the SAT in 2008 stating that such services were not subject to VAT (the “2008 Ruling”). Notwithstanding the 2008 Ruling, in December 2013, the SAT unofficially informed KCSM of an intended implementation of new criteria effective as of January 1, 2014, pursuant to which VAT would be assessed on all international import transportation services on the portion of the services provided within Mexico. Additionally, in November 2013, the SAT filed an action to nullify the 2008 Ruling, potentially exposing the application of the new criteria to open tax years. In February 2014, KCSM filed an action opposing the SAT’s nullification action. In December 2016, KCSM was notified of a resolution issued by the Mexican tax court confirming the 2008 Ruling. The SAT appealed this resolution. In October 2017, the circuit court resolved to not render a decision on the case but rather to send the SAT’s appeal to the Supreme Court. In February 2018, the Supreme Court decided not to hear the case and remanded the SAT’s appeal back to the circuit court for a decision. In July 2018, the circuit court ordered the tax court to consider certain arguments made by the SAT in the original court proceeding that were not addressed in the tax court’s December 2016 resolution. In October 2018, the tax court issued a decision confirming the 2008 Ruling. The SAT appealed this decision. In September 2020, the Appeals Court dismissed the appeal filed by the SAT and confirmed the ruling issued by the tax court. The decision of the Appeals Court is final.

Refundable Mexican Value Added Tax. KCSM is not required to charge its customers VAT on international import or export transportation services, resulting in KCSM paying more VAT on its expenses than it collects from customers. These excess VAT payments are refundable under Mexican law. Prior to 2019, Mexican companies could offset its monthly refundable VAT balance with other tax obligations. In January 2019, Mexico tax reform eliminated the ability to offset other tax obligations with refundable VAT. From January 2019, KCSM has generated a refundable VAT balance of \$103.1 million as of December 31, 2020, and filed refund claims with the SAT that are still under review. KCSM has a legal opinion supporting its right under Mexican law to recover the refundable VAT balance from the Mexican government and believes the VAT to be fully collectible. As of December 31, 2019, the KCSM refundable VAT balance was \$60.2 million and was classified as a short-term asset. In the third quarter of 2020, the refundable VAT balance was reclassified from a short-term to long-term asset as result of the prolonged refund claim process.

Note 15. Stockholders’ Equity

Information regarding the Company’s capital stock at December 31 follows:

	Shares Authorized		Shares Issued	
	2020	2019	2020	2019
\$25 par, 4% noncumulative, preferred stock	840,000	840,000	649,736	649,736
\$1 par, preferred stock	2,000,000	2,000,000	—	—
\$0.01 par, common stock	400,000,000	400,000,000	123,352,185	123,352,185

Shares outstanding at December 31:

	2020	2019
\$25 par, 4% noncumulative, preferred stock	215,199	222,625
\$0.01 par, common stock	91,047,107	96,115,669

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Share Repurchases. In November 2020, the Company announced a new common share repurchase program authorizing the Company to purchase up to \$3.0 billion of its outstanding shares of common stock through December 31, 2023 (the “2020 Program”). Share repurchases may be made in the open market, through privately negotiated transactions, or through Accelerated Share Repurchase (“ASR”) transactions. The 2020 Program replaced KCS’s \$2.0 billion common share repurchase program announced on November 12, 2019 (the “2019 Program”), and eliminated the \$588.3 million of remaining authorization under the 2019 Program.

Under an ASR agreement, the Company pays a specified amount to a financial institution and receives an initial delivery of shares. The final number and total cost of shares repurchased is then based on the volume-weighted average price of the Company’s common stock during the term of the agreements. The transactions are accounted for as equity transactions with any excess of repurchase price over par value allocated between additional paid-in capital and retained earnings. At the time the shares are received, there is an immediate reduction in the weighted-average number of shares outstanding for purposes of the basic and diluted earnings per share computation.

During 2019 and 2020, the Company entered into ASR agreements under the 2019 Program. The terms of the agreements, structured as outlined above, were as follows:

Third Party Institution	Agreement Date	Settlement Date	Total Amount of Agreement (in millions)	Initial Shares Delivered	Fair Market Value of Initial Shares (in millions)	Additional Shares Delivered	Fair Market Value of Additional Shares (in millions)	Total Shares Delivered	Weighted-Average Price Per Share
ASR Agreement #1	November 2019	March 2020	\$ 275.0	1,511,380	\$ 233.75	224,244	\$ 41.25	1,735,624	\$ 158.44
ASR Agreement #2	November 2019	March 2020	\$ 275.0	1,511,380	\$ 233.75	221,692	\$ 41.25	1,733,072	\$ 158.68
Total			<u>\$ 550.0</u>	<u>3,022,760</u>	<u>\$ 467.5</u>	<u>445,936</u>	<u>\$ 82.5</u>	<u>3,468,696</u>	\$ 154.66
ASR Agreement #3	October 2020	January 2021	\$ 250.0	1,187,084	\$ 212.50	116,314	\$ 37.50	1,303,398	\$ 191.81
ASR Agreement #4	October 2020	January 2021	\$ 250.0	1,187,084	\$ 212.50	117,088	\$ 37.50	1,304,172	\$ 191.69
Total			<u>\$ 500.0</u>	<u>2,374,168</u>	<u>\$ 425.0</u>	<u>233,402</u>	<u>\$ 75.0</u>	<u>2,607,570</u>	\$ 191.75

As of December 31, 2020, the remaining \$75.0 million was recognized as a forward contract indexed to the Company’s own common stock and included in capital surplus within additional paid-in capital in the accompanying consolidated balance sheets.

During 2020, KCS repurchased 143,343 shares of common stock for \$27.0 million under the 2020 Program, and 5,207,633 shares of common stock for \$869.2 million under the 2019 Program. In total under the 2019 Program, including shares received in January 2021 to settle the October 2020 ASR agreements, the Company has repurchased 8,463,795 shares of common stock for \$1,411.7 million at an average price of \$166.80 per share.

During 2020, the Company repurchased 7,426 shares of its \$25 par preferred stock for \$0.2 million at an average price of \$29.58 per share.

Treasury Stock. Shares of common stock in treasury and related activity follow:

	2020	2019	2018
Balance at beginning of year	27,236,516	22,455,507	20,315,380
Shares repurchased	5,350,976	5,076,530	2,272,213
Shares issued to fund stock option exercises	(133,951)	(109,560)	(24,024)
Employee stock purchase plan shares issued	(51,658)	(72,707)	(62,866)
Nonvested shares issued	(111,003)	(124,031)	(51,191)
Nonvested shares forfeited	14,198	10,777	5,995
Balance at end of year	<u>32,305,078</u>	<u>27,236,516</u>	<u>22,455,507</u>

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Cash Dividends on Common Stock. The following table presents the amount of cash dividends declared per common share by the Company's Board of Directors:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash dividends declared per common share	\$ 1.64	\$ 1.48	\$ 1.44

Note 16. Share-Based Compensation

On May 4, 2017, the Company's stockholders approved the Kansas City Southern 2017 Equity Incentive Plan (the "2017 Plan"). Upon approval, the Company ceased issuing awards under the Kansas City Southern 2008 Stock Option and Performance Award Plan (the "2008 Plan"). The Board of Directors and its Compensation and Organization Committee had previously adopted the 2017 Plan, subject to stockholder approval, on January 26, 2017, and February 17, 2017, respectively. The 2017 Plan provides for the granting of up to 3,750,000 shares of the Company's common stock to eligible persons as defined in the 2017 Plan. Outstanding equity awards granted under the 2008 Plan and the 2017 Plan (the "Plans") are to be governed by the terms and conditions of each individual plan and the related award agreements.

Stock Options. The exercise price for options granted under the Plans equals the closing market price of the Company's stock on the date of grant. Options generally have a 3-year vesting period and are exercisable over the 10-year contractual term, except that options outstanding become immediately exercisable upon certain defined circumstances constituting a change in control of the Company. The grant date fair value is recorded to expense on a straight-line basis over the vesting period.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Expected dividend yield	1.04 %	1.33 %	1.36 %
Expected volatility	26.07 %	26.38 %	27.09 %
Risk-free interest rate	1.27 %	2.64 %	2.80 %
Expected term (years)	5.7	5.7	6.0
Weighted-average grant date fair value of stock options granted	\$ 37.79	\$ 27.70	\$ 28.52

The expected dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant. The expected volatility is based on the historical volatility of the Company's stock price over a term equal to the estimated life of the options. The risk-free interest rate is determined based on U.S. Treasury rates for instruments with terms approximating the expected term of the options granted, which represents the period of time the awards are expected to be outstanding and is based on the historical experience of similar awards.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

A summary of stock option activity is as follows:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term In years	Aggregate Intrinsic Value In millions
Options outstanding at December 31, 2019	596,514	\$ 92.73		
Granted	115,205	154.38		
Exercised	(133,951)	73.58		
Forfeited or expired	(5,820)	109.84		
Options outstanding at December 31, 2020	<u>571,948</u>	<u>\$ 109.46</u>	<u>6.6</u>	<u>\$ 54.1</u>
Exercisable at December 31, 2020	<u>389,987</u>	<u>\$ 97.81</u>	<u>5.6</u>	<u>\$ 41.5</u>

The aggregate intrinsic value in the table above, which is the amount by which the market value of the underlying stock exceeded the exercise price of outstanding options, represents the amount optionees would have realized if all in-the-money options had been exercised on the last business day of the period indicated.

Compensation cost of \$4.0 million, \$3.6 million, and \$2.5 million was recognized for stock option awards for the years ended December 31, 2020, 2019, and 2018, respectively. The total income tax benefit recognized in the consolidated statements of income was \$1.0 million, \$0.9 million, and \$0.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Additional information regarding stock option exercises appears in the table below (*in millions*):

	2020	2019	2018
Aggregate grant-date fair value of stock options vested	\$ 3.7	\$ 3.0	\$ 1.9
Intrinsic value of stock options exercised	13.9	7.2	1.0
Cash received from option exercises	9.9	7.0	1.8
Tax benefit from options exercised during the annual period	3.5	1.8	0.2

As of December 31, 2020, \$1.9 million of unrecognized compensation cost relating to nonvested stock options is expected to be recognized over a weighted-average period of eleven months. At December 31, 2020, there were 2,959,191 shares available for future grants under the 2017 Plan.

Nonvested Stock. The Plans provide for the granting of nonvested stock awards to officers and other designated employees. The grant date fair value is based on the closing market price on the date of the grant. These awards are subject to forfeiture if employment terminates during the vesting period, which is generally 3 years or 5 years of vesting for employees. Awards granted to the Company's directors vest immediately on date of grant. The grant date fair value of nonvested shares is recorded to compensation expense on a straight-line basis over the vesting period.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

A summary of nonvested stock activity is as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value
			In millions
Nonvested stock at December 31, 2019	220,195	\$ 101.40	
Granted	85,199	147.82	
Vested	(97,165)	104.86	
Forfeited	(14,198)	110.94	
Nonvested stock at December 31, 2020	<u>194,031</u>	<u>\$ 119.35</u>	<u>\$ 39.6</u>

The fair value (at vest date) of shares vested during the years ended December 31, 2020, 2019, and 2018 was \$15.3 million, \$15.2 million, and \$10.4 million, respectively.

The weighted-average grant date fair value of nonvested stock granted during 2020, 2019, and 2018 was \$147.82, \$114.69 and \$106.52, respectively. Compensation cost for nonvested stock was \$10.5 million, \$10.7 million, and \$10.8 million for the years ended December 31, 2020, 2019, and 2018, respectively. The total income tax benefit recognized in the consolidated statements of income was \$2.6 million for each of the three years ended December 31, 2020, 2019, and 2018.

As of December 31, 2020, \$11.9 million of unrecognized compensation costs related to nonvested stock is expected to be recognized over a weighted-average period of 1.2 years.

Performance Based Awards. The Company granted performance based nonvested stock awards during 2020 (the “2020 Awards”), 2019 (the “2019 Awards”) and 2018 (the “2018 Awards”). The awards granted provide a target number of shares that generally vest at the end of a 3-year requisite service period following the grant date. In addition to the service condition, the number of nonvested shares to be received depends on the attainment of defined Company-wide performance goals based on operating ratio (“OR”) and return on invested capital (“ROIC”) over a 3-year performance period. The awards are also subject to a revenue growth multiplier based on a 3-year performance period calculated as defined in the related award agreement that can range from 80% to 125% of the award earned based on the OR and ROIC achieved. The number of nonvested shares ultimately earned will range between zero to 200% of the target award.

A summary of performance based nonvested stock activity at target is as follows:

	Target Number of Shares *	Weighted-Average Grant Date Fair Value
Nonvested stock, at December 31, 2019	148,185	\$ 100.76
Granted	49,068	157.75
Vested	(51,299)	87.10
Forfeited	(5,394)	117.94
Nonvested stock, at December 31, 2020	<u>140,560</u>	<u>\$ 124.98</u>

* For the 2020 Awards and the 2019 Awards, participants in the aggregate can earn up to a maximum of 88,122 and 92,582 shares, respectively. For the 2018 Awards, the performance shares earned were 71,074.

The weighted-average grant date fair value of performance based nonvested stock granted during 2020, 2019 and 2018 was \$157.75, \$110.13 and \$105.83, respectively. The Company expenses the grant date fair value of the awards which are probable of being earned over the performance periods. Compensation cost on performance based awards was \$8.6 million, \$8.2 million and \$5.8 million for the years ended December 31, 2020, 2019 and 2018, respectively. Total income tax benefit

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

recognized in the consolidated statements of income for performance based awards was \$2.1 million, \$2.0 million and \$1.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020, \$5.3 million of unrecognized compensation cost related to performance based awards is expected to be recognized over a weighted-average period of eleven months. The fair value (at vest date) of shares vested for the years ended December 31, 2020, 2019 and 2018 was \$7.8 million, \$5.7 million, and \$3.5 million, respectively.

Employee Stock Purchase Plan. The employee stock purchase plan (“ESPP”) provides substantially all U.S. full-time employees of the Company, certain subsidiaries and certain other affiliated entities, with the right to subscribe to an aggregate of 4.0 million shares of common stock of the Company. Under the ESPP, eligible employees may contribute, through payroll deductions, up to 10% of their regular base compensation during six-month purchase periods at a purchase price equal to 85% of the closing market price on either the exercise date or the offering date, whichever is lower.

At the end of each purchase period, the accumulated deductions are applied toward the purchase of the Company’s common stock. Both the discount in grant price and the share option purchase price are valued to derive the award’s fair value. The awards vest and the expense is recognized ratably over the offering period.

The following table summarizes activity related to the various ESPP offerings:

	Exercise Date			Received from Employees(i) In millions
	Date Issued	Purchase Price	Shares Issued	
July 2020 offering	January 5, 2021	\$ 122.91	23,292	\$ 2.9
January 2020 offering	July 2, 2020	126.90	23,709	3.0
July 2019 offering	January 3, 2020	104.83	27,949	2.9
January 2019 offering	July 2, 2019	81.83	36,735	3.0
July 2018 offering	January 3, 2019	81.13	35,972	2.9
January 2018 offering	July 2, 2018	90.07	32,271	2.9

(i) Represents amounts received from employees through payroll deductions for share purchases under applicable offering.

The fair value of the ESPP stock purchase rights is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used for each of the respective periods were as follows:

	Years Ended December 31,		
	2020	2019	2018
Expected dividend yield	1.07 %	1.36 %	1.22 %
Expected volatility	30.55 %	17.43 %	13.29 %
Risk-free interest rate	1.01 %	2.31 %	1.73 %
Expected term (years)	0.5	0.5	0.5
Weighted-average grant date fair value	\$ 35.14	\$ 21.56	\$ 18.66

Compensation expense of \$1.7 million, \$1.4 million, and \$1.3 million was recognized for ESPP option awards for the years ended December 31, 2020, 2019, and 2018, respectively. At December 31, 2020, there were 3.4 million remaining shares available for future ESPP offerings under the plan.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Note 17. Commitments and Contingencies

Concession Duty. Under KCSM's 50-year Concession, which could expire in 2047 unless extended, KCSM pays annual concession duty expense of 1.25% of gross revenues. For the year ended December 31, 2020, the concession duty expense, which is recorded within materials and other in operating expenses, was \$17.4 million, compared to \$18.9 million and \$17.8 million for the same periods in 2019 and 2018, respectively.

Litigation. Occasionally, the Company is a party to various legal proceedings, regulatory examinations, investigations, administrative actions, and other legal matters, arising for the most part in the ordinary course of business, incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job-related injuries and by third parties for injuries related to railroad operations. KCS aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. The outcome of litigation and other legal matters is always uncertain. KCS believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously, and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, KCS evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party to and records a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of KCS's defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from the current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to KCS's consolidated results of operations, liquidity or financial condition.

Environmental Liabilities. The Company's U.S. operations are subject to extensive federal, state and local environmental laws and regulations. The major U.S. environmental laws to which the Company is subject include, among others, the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA," also known as the Superfund law), the Toxic Substances Control Act, the Clean Water Act, and the Hazardous Materials Transportation Act. CERCLA can impose joint and several liabilities for cleanup and investigation costs, without regard to fault or legality of the original conduct, on current and predecessor owners and operators of a site, as well as those who generate, or arrange for the disposal of, hazardous substances. The Company does not believe that compliance with the requirements imposed by the environmental legislation will impair its competitive capability or result in any material additional capital expenditures, operating or maintenance costs. The Company is, however, subject to environmental remediation costs as described in the following paragraphs.

The Company's Mexico operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings, impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

The risk of incurring environmental liability is inherent in the railroad industry. As part of serving the petroleum and chemicals industry, the Company transports hazardous materials and has a professional team available to respond to and handle environmental issues that might occur in the transport of such materials.

The Company performs ongoing reviews and evaluations of the various environmental programs and issues within the Company's operations, and, as necessary, takes actions intended to limit the Company's exposure to potential liability. Although these costs cannot be predicted with certainty, management believes that the ultimate outcome of identified matters will not have a material adverse effect on the Company's consolidated financial statements.

Personal Injury. The Company's personal injury liability is based on semi-annual actuarial studies performed on an undiscounted basis by an independent third party actuarial firm and reviewed by management. This liability is based on personal injury claims filed and an estimate of claims incurred but not yet reported. Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Adjustments to the liability are reflected within operating expenses in the period in which changes to estimates are known. Personal injury claims in excess of self-insurance levels are insured up to certain coverage amounts, depending on the type of claim and year of

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

occurrence. The personal injury liability as of December 31, 2020, is based on an updated actuarial study of personal injury claims through October 31, 2020, and review of the last two months' experience. For the years ended December 31, 2020 and 2019, the Company recognized increases of \$9.4 million and \$0.2 million, respectively, in personal injury liability, due to changes in estimates as a result of the Company's claims development and settlement experience.

The personal injury liability activity was as follows (*in millions*):

	2020	2019
Balance at beginning of year	\$ 20.9	\$ 19.6
Accruals	6.3	6.3
Changes in estimate	9.4	0.2
Payments	(5.3)	(5.2)
Balance at end of year	<u>\$ 31.3</u>	<u>\$ 20.9</u>

Tax Contingencies. Information regarding tax contingencies is included in Note 14, Income Taxes — Tax Contingencies.

Contractual Agreements. In the normal course of business, the Company enters into various contractual agreements related to commercial arrangements and the use of other railroads' or governmental entities' infrastructure needed for the operations of the business. The Company is involved or may become involved in certain disputes involving transportation rates, product loss or damage, charges, and interpretations related to these agreements. While the outcome of these matters cannot be predicted with certainty, the Company believes that, when resolved, these disputes will not have a material effect on its consolidated financial statements.

Credit Risk. The Company continually monitors risks related to economic changes and certain customer receivables concentrations. Significant changes in customer concentration or payment terms, deterioration of customer creditworthiness, bankruptcy, insolvency or liquidation of a customer, or weakening in economic trends could have a significant impact on the collectability of the Company's receivables and its operating results. If the financial condition of the Company's customers were to deteriorate and result in an impairment of their ability to make payments, additional allowances may be required. The Company has recorded provisions for uncollectability based on its best estimate as of December 31, 2020.

Panama Canal Railway Company ("PCRC") Guarantees and Indemnities. At December 31, 2020, the Company had issued and outstanding \$5.6 million under a standby letter of credit to fulfill its obligation to fund fifty percent of the debt service reserve and liquidity reserve established by PCRC in connection with the issuance of the 7.0% Senior Secured Notes due November 1, 2026 (the "PCRC Notes"). Additionally, KCS has pledged its shares of PCRC as security for the PCRC Notes.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Note 18. Quarterly Financial Data (Unaudited)

	Fourth	Third	Second	First
	(In millions, except per share amounts)			
2020				
Revenues	\$ 693.4	\$ 659.6	\$ 547.9	\$ 731.7
Operating income (i)(ii)	262.3	271.5	180.4	288.8
Net income (iii)	166.3	190.2	110.3	152.3
Net income attributable to Kansas City Southern and subsidiaries	165.7	189.8	109.7	151.8
<i>Per share data:</i>				
Basic earnings per common share	\$ 1.81	\$ 2.02	\$ 1.16	\$ 1.59
Diluted earnings per common share	1.80	2.01	1.16	1.58
2019				
Revenues	\$ 729.5	\$ 747.7	\$ 714.0	\$ 674.8
Operating income (iv)	236.0	282.0	208.0	160.3
Net income (v)	127.9	180.6	129.1	103.2
Net income attributable to Kansas City Southern and subsidiaries	127.2	180.2	128.7	102.8
<i>Per share data:</i>				
Basic earnings per common share	\$ 1.31	\$ 1.81	\$ 1.29	\$ 1.02
Diluted earnings per common share	1.30	1.81	1.28	1.02

- (i) During the first, second and third quarters of 2020, the Company recognized pre-tax restructuring charges of \$6.0 million, \$10.5 million and \$0.5 million, respectively, within operating expenses related to the Company's VSP program and the purchase of impaired, leased locomotives.
- (ii) During the fourth quarter of 2020, the Company recognized \$13.6 million of pre-tax expense within operating expenses related to the write-off of software development costs.
- (iii) During the first, second and third quarters of 2020, the Company recognized tax expense of \$2.2 million and \$2.0 million, and a benefit of \$4.2 million, respectively, for GILTI tax expense recognized in the first and second quarters of 2020, and subsequently reversed in the third quarter of 2020 when GILTI regulations were finalized. Additionally, during the third quarter of 2020, the Company recognized a \$14.5 million tax benefit for the reversal of 2018 and 2019 GILTI tax expense recognized in prior years' consolidated financial statements.
- (iv) During the first, second, third and fourth quarters of 2019, the Company recognized pre-tax restructuring charges of \$67.5 million, \$51.0 million, \$12.0 million and \$38.3 million, respectively, within operating expenses related to the implementation of PSR initiatives.
- (v) During the first, second, third, and fourth quarters of 2019, the Company recognized, net, a tax benefit of \$6.8 million, expense of \$1.9 million, and benefits of \$3.7 million, and \$4.2 million, respectively, related to the Mexican fuel excise tax credit generated through April 29, 2019. Prior to 2019, the Company recognized a pre-tax benefit within operating expenses related to a credit that was available for the excise tax included in the price of fuel that was purchased and consumed in locomotives and certain work equipment in Mexico. Effective January 1, 2019, the Company began recognizing the benefit as a reduction of income tax expense due to changes in Mexican tax law; and beginning April 30, 2019, railroads in Mexico are no longer eligible for the tax credit due to changes in Mexican tax regulations.

Kansas City Southern and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)

Note 19. Geographic Information

The Company strategically manages its rail operations as one reportable business segment over a single coordinated rail network that extends from the midwest and southeast portions of the United States south into Mexico and connects with other Class I railroads. Financial information reported at this level, such as revenues, operating income and cash flows from operations, is used by corporate management, including the Company's chief operating decision-maker, in evaluating overall financial and operational performance, market strategies, as well as the decisions to allocate capital resources. The Company's chief operating decision-maker is the chief executive officer.

The following tables provide information by geographic area (*in millions*):

	Years ended December 31,		
	2020	2019	2018
Revenues			
U.S.	\$ 1,388.5	\$ 1,493.5	\$ 1,424.8
Mexico	1,244.1	1,372.5	1,289.2
Total revenues	<u>\$ 2,632.6</u>	<u>\$ 2,866.0</u>	<u>\$ 2,714.0</u>

	December 31,	
	2020	2019
Property and equipment (including Concession assets), net		
U.S.	\$ 5,594.6	\$ 5,435.9
Mexico	3,403.2	3,370.4
Total property and equipment (including Concession assets), net	<u>\$ 8,997.8</u>	<u>\$ 8,806.3</u>

Note 20. Subsequent Events

Foreign Currency Hedging

During January 2021, the Company entered into several foreign currency forward contracts with an aggregate notional amount of \$100.0 million and maturity dates in January and February 2021. These contracts obligate the Company to purchase a total of Ps.1,993.5 million at a weighted-average exchange rate of Ps.19.9 to each U.S. dollar. During January 2021, the Company entered into offsetting contracts with an aggregate notional amount of \$58.9 million, which matured during January 2021 and obligated the Company to sell a total of Ps.1,195.3 million at a weighted-average exchange rate of Ps.20.3 to each U.S. dollar, resulting in cash paid of \$1.1 million. As of the date of this filing, there were \$40.0 million aggregate notional amount of contracts outstanding, which obligate the Company to purchase a total of Ps.798.2 million at a weighted average exchange rate of Ps.20.0 to each U.S. dollar.

The Company has not designated these foreign currency derivative instruments as hedging instruments for accounting purposes. The Company will measure the foreign currency derivative instruments at fair value each period and will recognize any change in fair value in foreign exchange gain (loss) within the consolidated statements of income.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not Applicable.

Item 9A. *Controls and Procedures*

(a) Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2020. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, the design and operation of the Company’s disclosure controls and procedures were effective to accomplish their objectives at a reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

(c) Internal Control over Financial Reporting

The report of management on the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) is included as “Management’s Report on Internal Control over Financial Reporting” in Item 8, Financial Statements and Supplementary Data.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the Company’s financial statements contained herein, also audited the Company’s internal control over financial reporting as of December 31, 2020. The audit report is included in Item 8, Financial Statements and Supplementary Data.

Item 9B. *Other Information*

None.

Part III

The Company has incorporated by reference certain responses to the Items of this Part III pursuant to Rule 12b-23 under the Exchange Act and General Instruction G(3) to Form 10-K. The Company's definitive proxy statement for the 2020 annual meeting of stockholders ("Proxy Statement"), will be filed no later than 120 days after December 31, 2020.

Item 10. *Directors, Executive Officers and Corporate Governance*

(a) Directors of the Company

The sections of the Proxy Statement entitled "Proposal 1 — Election of Directors" and "The Board of Directors" are incorporated by reference herein.

(b) Executive Officers of the Company

See "Executive Officers of KCS and Subsidiaries" in Part I, Item 1 of this annual report incorporated by reference herein for information about the executive officers of the Company.

(c) Changes to Shareholder Nominating Procedures

None.

(d) Audit Committee and Audit Committee Financial Experts

The section of the Proxy Statement entitled "Board Committees — Audit Committee" is incorporated by reference herein.

(e) Compliance with Section 16(a) of the Exchange Act

The response to Item 405 of Regulation S-K under "Delinquent Section 16(a) Reports" in the Proxy Statement is incorporated by reference herein.

(f) Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics ("Code of Ethics") that applies to directors, officers (including, among others, the principal executive officer, principal financial officer and principal accounting officer) and employees. The Company has posted its Code of Ethics on its website (www.kcsouthern.com) and will post on its website any amendments to, or waivers from, a provision of its Code of Ethics that apply to the Company's principal executive officer, principal financial officer or principal accounting officer as required by applicable SEC and NYSE rules and regulations.

Item 11. *Executive Compensation*

The sections of the Proxy Statement entitled "Compensation Discussion and Analysis", "Compensation Committee Report", "Executive Compensation", "Board Committees - Compensation Committee Interlocks and Insider Participation", and "Director Compensation" are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The section of the Proxy Statement entitled “Beneficial Ownership” is incorporated by reference herein.

Equity Compensation Plan Information

The following table provides information as of December 31, 2020, about the common stock that may be issued upon the exercise of options, warrants and rights, as well as shares remaining available for future issuance under the Company’s existing equity compensation plans.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (i)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans-Excluding Securities Reflected in the First Column (ii)
Equity compensation plans:			
Approved by security holders	744,634	\$ 112.90	6,326,987
Not approved by security holders	—	—	—
Total	744,634	\$ 112.90	6,326,987

- (i) Includes 571,948 outstanding options, 140,560 outstanding performance shares (at target), 8,834 outstanding deferred shares and dividend equivalents, and 23,292 ESPP shares purchased on December 31, 2020.
- (ii) Includes 3,367,796 shares available for issuance under the 2009 Employee Stock Purchase Plan and 2,959,191 shares available for issuance under the 2017 Plan in the form of nonvested shares, bonus shares, performance units or performance shares or issued upon the exercise of options (including incentive stock options) or stock appreciation rights awarded under the 2017 Plan.

The Company has no knowledge of any arrangement the operation of which may at a subsequent date result in a change of control of the Company.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The sections of the Proxy Statement entitled “Certain Transactions” and “Corporate Governance - Director Independence” are incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

The section of the Proxy Statement entitled “Independent Registered Public Accounting Firm” is incorporated by reference herein.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of Documents filed as part of this Report

(1) Financial Statements

The consolidated financial statements and related notes, together with the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, appear in Item 8, Financial Statements and Supplementary Data.

(2) Financial Statement Schedules

None.

(3) List of Exhibits

(a) Exhibits

The Company has attached or incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act.

<u>Exhibit</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Kansas City Southern, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 7, 2012 (File No. 1-4717), is incorporated herein by reference as Exhibit 3.1.
3.1.1	Amendments to the Kansas City Southern Amended and Restated Certificate of Incorporation, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 5, 2014 (File No. 1-4717), is incorporated herein by reference as Exhibit 3.1.1.
3.1.2	Amendment to the Kansas City Southern Amended and Restated Certificate of Incorporation, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 23, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 3.1.2.
3.2	Kansas City Southern Bylaws, amended and restated as of May 23, 2019, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 23, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 3.2.
4.1	As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed with this Annual Report on Form 10-K certain instruments defining the rights of holders of long-term debt of the Company and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.
4.2	2043 Notes Indenture, dated April 29, 2013, among KCSR, the Guarantors and U.S. Bank National Association, as trustee and paying agent, filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 29, 2013 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.2.
4.2.1	First Supplemental Indenture, dated November 23, 2015, among KCSR, the Guarantors and the U.S. Bank National Association, as trustee and paying agent, filed as exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 24, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.2.1.
4.2.2	Form of Special Global Note representing KCSR's 4.30% Senior Notes due 2043, filed as Exhibit 4.2.4 to the Company's Registration Statement on Form S-4 filed on April 21, 2014 (File No. 333-195413), is incorporated herein by reference as Exhibit 4.2.2.
4.3	2023 KCSM Notes Indenture, dated May 3, 2013, filed as exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 8, 2013 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.3.
4.3.1	First Supplemental Indenture, dated November 23, 2015, filed as exhibit 4.6 to the Company's Current Report on Form 8-K filed on November 24, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.3.1.
4.3.2	Special Global Note representing the 3.0% Senior Notes due 2023, filed as Exhibit 4.5.3 to the Registration Statement on Form S-4 for KCSM, filed on August 26, 2013 (File No. 333-190820), is incorporated herein by reference as Exhibit 4.3.2.

<u>Exhibit</u>	<u>Description</u>
4.4	2023 Notes Indenture, dated October 29, 2013, among KCSR, the Guarantors and U.S. Bank National Association, as trustee and paying agent, filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 30, 2013 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.4.
4.4.1	First Supplemental Indenture, dated November 23, 2015, among KCSR, the Guarantors and U.S. Bank National Association, as trustee and paying agent, filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 24, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.4.1.
4.4.2	Form of Special Global Note representing KCSR's 3.85% Senior Notes due 2023, filed as Exhibit 4.4.4 to the Company's Registration Statement on Form S-4 filed on April 21, 2014 (File No. 333-195413), is incorporated herein by reference as Exhibit 4.4.2.
4.5	2045 Notes Indenture, dated July 27, 2015, among KCSR, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 28, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.5.
4.5.1	First Supplemental Indenture, dated July 27, 2015, among KCSR, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 28, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.5.1.
4.5.2	Second Supplemental Indenture, dated November 23, 2015, among KCSR, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.3 to the Company's Current Report on Form 8-K filed on November 24, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.5.2.
4.5.3	Form of Note representing 4.950% Senior Notes due 2045 (included in Exhibit 4.2), filed as exhibit 4.3 to the Company's Current Report on Form 8-K filed on July 28, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.5.3.
4.6	Base Indenture, dated December 9, 2015, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 15, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.
4.6.1	Third Supplemental Indenture, dated December 9, 2015, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.4 to the Company's Current Report on Form 8-K filed on December 15, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.1.
4.6.2	Fourth Supplemental Indenture, dated December 9, 2015, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.5 to the Company's Current Report on Form 8-K filed on December 15, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.2.
4.6.3	Fifth Supplemental Indenture, dated December 9, 2015, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.6 to the Company's Current Report on Form 8-K filed on December 15, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.3.
4.6.4	Sixth Supplemental Indenture, dated December 9, 2015, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.7 to the Company's Current Report on Form 8-K filed on December 15, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.4.
4.6.5	Seventh Supplemental Indenture, dated May 16, 2016, among the Company, the Note Guarantors and U.S. Bank National Association, as trustee, filed as exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 17, 2016 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.5.
4.6.6	Form of Note representing 3.125% Senior Notes due 2026 (included in Exhibit 4.2), filed as exhibit 4.3 to the Company's Current Report on Form 8-K filed on May 17, 2016 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.6.
4.6.7	Eighth Supplemental Indenture, dated May 3, 2018, among the Company, the Note Guarantors and U.S. Bank National Association, as trustee, filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on May 4, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.7.
4.6.8	Form of Note representing 4.700% Senior Notes due 2048 (included in Exhibit 4.2), filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on May 4, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.8.

<u>Exhibit</u>	<u>Description</u>
4.6.9	Ninth Supplemental Indenture, dated November 18, 2019, among the Company, the Note Guarantors and U.S. Bank National Association, as trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on November 18, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.9.
4.6.10	Form of Note representing 2.875% Senior Notes due 2029 (included in Exhibit 4.1), filed as Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on November 18, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.10.
4.6.11	Tenth Supplemental Indenture, dated November 18, 2019, among the Company, the Note Guarantors and U.S. Bank National Association, as trustee, filed as Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on November 18, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.11.
4.6.12	Form of Note representing 4.200% Senior Notes due 2069 (included in Exhibit 4.2), filed as Exhibit 4.4 to the Company's Current Report on Form 8-K, filed on November 18, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.12.
4.6.13	Eleventh Supplemental Indenture, dated April 22, 2020, among KCS, the Note Guarantors and U.S. Bank National Association, as trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 22, 2020 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.13.
4.6.14	Form of Note representing 3.500% Senior Notes due 2050 (included in Exhibit 4.1), filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 22, 2020 (File No. 1-4717), is incorporated herein by reference as Exhibit 4.6.14.
4.7	Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 is attached to this Form 10-K as exhibit 4.7.
10.1	Form of Officer Indemnification Agreement, attached as Exhibit 10.1 to the Company's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.1.
10.2	Form of Director Indemnification Agreement, attached as Exhibit 10.2 to the Company's Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.2.
10.3*	Directors Deferred Fee Plan, adopted August 20, 1982, as amended and restated effective May 2, 2007, filed as Exhibit 10.3 to the Company's Form 10-K for the year ended December 31, 2010, filed on February 9, 2011 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.3.
10.4*	Kansas City Southern Executive Plan (Amended and Restated January 23, 2018), filed as Exhibit 10.5 to the Company's Form 10-K for the year ended December 31, 2018, filed on January 25, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.4.
10.5*	Kansas City Southern Executive Deferred Compensation Plan, dated August 31, 2018, filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2018, filed on October 19, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.5.
10.6*	Kansas City Southern Annual Incentive Plan, as amended and restated November 9, 2018, filed as Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 2018, filed on January 25, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.6.
10.7	English translation of concession title granted by the Secretaría de Comunicaciones y Transportes ("SCT") in favor of Ferrocarril del Noreste, S.A. de C.V. ("FNE"), dated December 2, 1996, filed as Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2011, filed on February 8, 2012 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.7.
10.7.1	English translation of amendment, dated February 12, 2001, filed as Exhibit 10.10.1 to the Company's Form 10-K for the year ended December 31, 2011, filed on February 8, 2012 (File No. 1-4717), of concession title granted by SCT in favor of KCSM, formerly known as FNE, December 2, 1996, is incorporated herein by reference as Exhibit 10.7.1.
10.7.2	English translation of amendment no. 2, dated November 22, 2006, filed as Exhibit 10.10.2 to the Company's Form 10-K for the year ended December 31, 2011, filed on February 8, 2012 (File No. 1-4717), of concession title granted by SCT in favor of KCSM, formerly known as FNE, December 2, 1996, as amended February 12, 2001, is incorporated herein by reference as Exhibit 10.7.2.

<u>Exhibit</u>	<u>Description</u>
10.7.3	English translation of amendment no. 3, dated December 31, 2013, of concession title granted by SCT in favor of KCSM, formerly known as FNE, December 2, 1996, as amended February 12, 2001 and November 22, 2006, filed as Exhibit 10.8.3 to the Company's Form 10-K for the year ended December 31, 2016, filed on January 27, 2017 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.7.3.
10.7.4	English translation of amendment no. 4, dated December 20, 2017, of concession title granted by SCT in favor of KCSM, formerly known as FNE, December 2, 1996, as amended February 12, 2001, November 22, 2006 and December 31, 2013, filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended March 31, 2019, filed on April 17, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.7.4.
10.7.5	English translation of amendment no. 5, dated April 27, 2018, of concession title granted by SCT in favor of KCSM, formerly known as FNE, December 2, 1996, as amended February 12, 2001, November 22, 2006, December 31, 2013 and December 20, 2017, filed as Exhibit 10.4 to the Company's Form 10-Q for the quarter ended March 31, 2019, filed on April 17, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.7.5.
10.8	Transaction Agreement, dated December 1, 2005, among the Company, KCSR, Norfolk Southern Corporation and The Alabama Great Southern Railroad Company (the "Transaction Agreement"), filed as Exhibit 10.46 to the Company's Form 10-K for the year ended December 31, 2005, filed on April 7, 2006 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.
10.8.1	Amendment No. 1 to the Transaction Agreement, dated January 17, 2006, filed as Exhibit 10.47 to the Company's Form 10-K for the year ended December 31, 2005, filed on April 7, 2006 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.1.
10.8.2	Amendment No. 2 to the Transaction Agreement, dated May 1, 2006, filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2006, filed on May 9, 2006 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.2.
10.8.3	Limited Liability Company Agreement of Meridian Speedway, LLC, dated May 1, 2006, between the Alabama Great Southern Railroad Company and the Company, filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended March 31, 2006, filed on May 9, 2006 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.3.
10.8.4	Amendment No. 1 and Waiver to Limited Liability Company Agreement, dated August 12, 2011, among Meridian Speedway, LLC, the Company, KCS Holdings, Inc. and The Alabama Great Southern Railroad Company, filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2011, filed on October 21, 2011 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.4.
10.8.5	Amendment No. 2 to Limited Liability Company Agreement, dated December 9, 2013, among the Company, KCS Holdings, Inc. and The Alabama Great Southern Railroad Company, filed as Exhibit 10.11.5 to the Company's Form 10-K for the year ended December 31, 2016, filed on January 27, 2017 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.8.5.
10.9*	Kansas City Southern 2008 Stock Option and Performance Award Plan (Amended and Restated February 18, 2015) (the "2008 Plan"), filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on February 23, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.
10.9.1*	Form of Restricted Shares Award Agreement (Standard Form) under the 2008 Plan, filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 23, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.1.
10.9.2*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (United States Employees) under the Kansas City Southern 2008 Stock Option and Performance Award Plan for the 2012 Long-Term Incentive Program, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 27, 2012 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.2.
10.9.3*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (United States Employees) under the Kansas City Southern 2008 Stock Option and Performance Award Plan for the 2013 Long-Term Incentive Program, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 27, 2013 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.3.
10.9.4*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (United States Employees) under the 2008 Plan for the 2014 Long-Term Incentive Program, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 26, 2014 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.4.

<u>Exhibit</u>	<u>Description</u>
10.9.5*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (Non-United States Employees) under the 2008 Plan for the 2014 Long-Term Incentive Program, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 26, 2014 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.5.
10.9.6*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (Employees) under the 2008 Plan for the 2015 Long-Term Incentive Program, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 23, 2015 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.6.
10.9.7*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement (Employees) under the 2008 Plan for the 2016 Long-Term Incentive Program, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2016 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.7.
10.9.8*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement under the 2008 Plan for the 2017 Long-Term Incentive Program, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 24, 2017 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.9.8.
10.10	Trackage Rights Agreement, dated February 9, 2010, between KCSM and Ferromex, filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2010, filed on April 27, 2010 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.10.††
10.11	Form of Loan Agreement between Locomotives Structured Holdings LLC (as successor by assignment from General Electric Capital Corporation) and KCSM, dated September 1, 2011, filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2011, filed on October 21, 2011 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.11.
10.12	Financing Agreement dated as of February 21, 2012, between The Kansas City Southern Railway Company and the United States of America represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 22, 2012 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.12.
10.13	Financing Agreement between The Texas-Mexican Railway Company and the Federal Railroad Administration, dated June 28, 2005, filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed on August 15, 2005 (File No. 1-04717), are incorporated herein by reference as Exhibit 10.13.
10.13.1	Pledge Agreement between Mexrail, Inc. and the Federal Railroad Administration, and Guaranty of Mexrail, Inc. in favor of the Federal Railroad Administration, filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on August 15, 2005 (File No. 1-04717), are incorporated herein by reference as Exhibit 10.13.1.
10.14	Credit Agreement, dated March 8, 2019, among the Company, the guarantors party thereto, the various financial institutions and other persons from time to time parties thereto as lenders, Bank of America, N.A., as administrative agent, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association and Wells Fargo Bank, National Association, as co-syndication agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunning managers, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 11, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.14.
10.15*	Form of Executive Arbitration Agreement with the Company's executive officers, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on July 21, 2017 (File No. 1-04717), is incorporated herein by reference as Exhibit 10.15.
10.16*	Form of Severance Agreement (CEO Version, which the Company has entered into with Patrick J. Ottensmeyer), filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 21, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.16.
10.17*	Form of Severance Agreement (Officer Version, which the Company has entered into with each of Michael W.Upchurch, Jeffrey M. Songer, Brian D. Hancock, and Michael J. Naatz), filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 21, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.17.
10.18*	Kansas City Southern 2017 Equity Incentive Plan, effective May 4, 2017 (the "2017 Plan"), filed as exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 9, 2017 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.

<u>Exhibit</u>	<u>Description</u>
10.18.1*	Form of Restricted Shares Award Agreement (Standard Form) under the 2017 Plan, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 12, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.1.
10.18.2*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement under the 2017 Plan for the 2018 Long-Term Incentive Program, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 12, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.2.
10.18.3*	Form of Non-Qualified Stock Option, Restricted Share and Performance Share Award Agreement under the 2017 Plan for the 2019 Long-Term Incentive Program, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 11, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.3.
10.18.4*	Form of Non-Management Director Deferred Stock Award Agreement under the 2017 Plan, filed as Exhibit 10.27.2 to the Company's Form 10-K for the year ended December 31, 2017, filed on January 26, 2018 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.4.
10.18.5*	Form of Restricted Shares Award Agreement (for use with the Executive Plan) under the 2017 Plan, filed as Exhibit 10.26.5 to the Company's Form 10-K for the year ended December 31, 2018, filed on January 25, 2019 (File No. 1-4717), is incorporated herein by reference as Exhibit 10.18.5.
21.1	Subsidiaries of the Company
22.1	List of Issuers and Guarantor Subsidiaries, filed as Exhibit 22.1 to the Company's Form 10-Q for the quarter ended March 31, 2020, filed on April 17, 2020 (File No. 1-4717), is incorporated herein by reference as Exhibit 22.1.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, is attached to this Form 10-K as Exhibit 23.1.
24.1	Power of Attorney (contained in the signature page herein).
31.1	Certification of Patrick J. Ottensmeyer, Chief Executive Officer of the Company, is attached to this Form 10-K as Exhibit 31.1.
31.2	Certification of Michael W. Upchurch, Chief Financial Officer of the Company, is attached to this Form 10-K as Exhibit 31.2.
32.1	Certification of Patrick J. Ottensmeyer, Chief Executive Officer of the Company, furnished pursuant to 18 U.S.C. Section 1350, is attached to this Form 10-K as Exhibit 32.1, furnished herewith.
32.2	Certification of Michael W. Upchurch, Chief Financial Officer of the Company, furnished pursuant to 18 U.S.C. Section 1350, is attached to this Form 10-K as Exhibit 32.2, furnished herewith.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, formatted in Inline XBRL (included within the Exhibit 101 attachments).

* Management contract or compensatory plan or arrangement.

†† Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, which were subsequently approved.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kansas City Southern

By: /s/ PATRICK J. OTTENSMEYER

Patrick J. Ottensmeyer
President, Chief Executive Officer and Director

January 29, 2021

POWER OF ATTORNEY

Know all people by these presents, that each person whose signature appears below constitutes and appoints Patrick J. Ottensmeyer and Michael W. Upchurch, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby confirming all that said attorneys-in-fact and agents or either of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on January 29, 2021.

<u>Signature</u>	<u>Title</u>
<u>/s/ PATRICK J. OTTENSMEYER</u> Patrick J. Ottensmeyer	President, Chief Executive Officer and Director (Principal Executive Officer).
<u>/s/ MICHAEL W. UPCHURCH</u> Michael W. Upchurch	Executive Vice President and Chief Financial Officer (Principal Financial Officer).
<u>/s/ SUZANNE M. GRAFTON</u> Suzanne M. Grafton	Vice President and Chief Accounting Officer (Principal Accounting Officer).
<u>/s/ ROBERT J. DRUTEN</u> Robert J. Druten	Chairman of the Board and Director.
<u>/s/ LYDIA I. BEEBE</u> Lydia I. Beebe	Director.
<u>/s/ LU M. CORDOVA</u> Lu M. Córdova	Director.

<u>Signature</u>	<u>Title</u>
/S/ ANTONIO O. GARZA, JR. _____ Antonio O. Garza, Jr.	Director.
/S/ DAVID GARZA-SANTOS _____ David Garza-Santos	Director.
/S/ JANET H. KENNEDY _____ Janet H. Kennedy	Director.
/s/ MITCHELL J. KREBS _____ Mitchell J. Krebs	Director.
/s/ HENRY J. MAIER _____ Henry J. Maier	Director.
/S/ THOMAS A. MCDONNELL _____ Thomas A. McDonnell	Director.

(\$ in millions, except per share amounts)

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

	Year ended December 31, 2020
As reported	\$ 6.54
Adjustments for:	
Write-off of software development costs	0.11
Restructuring charges	0.13
Foreign exchange loss	0.22
Foreign exchange component of income taxes	(0.04)
Adjusted - see (a) below	\$ 6.96

- (a) The Company believes adjusted diluted earnings per share is meaningful as it allows investors to evaluate the Company's performance for different periods on a more comparable basis by adjusting for the impact of changes in foreign currency exchange rates, and items that are not directly related to the ongoing operations of the Company. The income tax expense impacts related to these adjustments are calculated at the applicable statutory tax rate.

Reconciliation of Operating Ratio to Adjusted Operating Ratio

	Year ended December 31, 2020
Operating ratio as reported	61.9 %
Adjustment for write-off of software development costs	(0.5) %
Adjustment for restructuring charges	(0.7) %
Adjusted operating ratio - see (b) below	60.7 %

- (b) The most directly comparable financial measure to adjusted operating ratio calculated and presented in accordance with U.S. GAAP is reported operating expenses divided by reported revenues. The Company believes adjusted operating ratio is meaningful as it allows investors to evaluate the Company's performance for different periods on a more comparable basis by adjusting for items that are not directly related to the ongoing operations of the Company.

Free Cash Flow

	Year ended December 31, 2020
Net cash provided by operating activities	\$ 1,080.0
Net cash used for investing activities	(526.0)
Free cash flow - see (c) below	554.0
Net cash used for financing activities	(510.3)
Effect of exchange rate changes on cash	(4.3)
GAAP net increase in cash and cash equivalents	\$ 39.4

- (c) The most directly comparable financial measure to free cash flow calculated and presented in accordance with U.S. GAAP is net cash provided by operating activities less net cash used for investing activities. The Company believes free cash flow is a useful measure of liquidity as it demonstrates the Company's ability to generate cash for debt obligations, dividend payments, share repurchases, and other strategic opportunities.

DIRECTORS AND OFFICERS

KANSAS CITY SOUTHERN DIRECTORS

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Principal, LIBB Advisors LLC
Retired Senior Of Counsel
Wilson Sonsini Goodrich & Rosati PC
San Francisco, California

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Governor's Advisor on Efficiencies
and Digital Transformation
State of Colorado
Denver, Colorado

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Chairman of the Board, Kansas City Southern
Retired Executive Vice President
& Chief Financial Officer
Hallmark Cards, Inc.
Kansas City, Missouri

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Former U.S. Ambassador to Mexico
Counsel, White & Case, LLP
Mexico City, D.F.

David Garza-Santos (3)
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MADISA
Santa Catarina, N.L. Mexico

Janet H. Kennedy (5)
Vice President, North American Regions
Google Cloud
Chicago, Illinois

Mitchell J. Krebs (2, 5)
President & Chief Executive Officer
Coeur Mining Inc.
Chicago, Illinois

Henry J. Maier (3, 5)
President & Chief Executive Officer
FedEx Ground
Moon Township, Pennsylvania

Thomas A. McDonnell (2, 4, 5)
Retired President & Chief Executive Officer
Ewing Marion Kauffman Foundation
Kansas City, Missouri

Patrick J. Ottensmeyer (1)
President & Chief Executive Officer
Kansas City Southern
Kansas City, Missouri

Committees of the Board:
(1) Executive
(2) Audit
(3) Compensation and Organization
(4) Nominating and Corporate Governance
(5) Finance and Strategic Investment

KANSAS CITY SOUTHERN OFFICERS

Patrick J. Ottensmeyer
President & Chief Executive Officer

Warren K. Erdman
Executive Vice President
Administration & Corporate Affairs

Sameh Fahmy
Executive Vice President
Precision Scheduled Railroading

Brian D. Hancock
Executive Vice President
& Chief Innovation Officer

Michael J. Naatz
Executive Vice President
& Chief Marketing Officer

Jeffrey M. Songer
Executive Vice President
& Chief Operating Officer

Michael W. Upchurch
Executive Vice President
& Chief Financial Officer

Lora S. Cheatum
Senior Vice President &
Chief Human Resources Officer

Adam J. Godderz
Senior Vice President -
Chief Legal Officer
& Corporate Secretary

Suzanne M. Grafton
Vice President
& Chief Accounting Officer

Daniel L. Hynek
Vice President
International Taxes


Ashley A. Thorne
Vice President
Investor Relations

Michael A. Walczak
Vice President
Network Planning
& Treasurer

Julie D. Powell
Assistant Secretary
& Assistant Treasurer

Rafael Andrade
Assistant Treasurer

Kansas City Southern companies provide equal employment and advancement opportunities to qualified employees without regard to race, color, religion, gender, national origin, age, disability, or other categories protected by law. Kansas City Southern's U.S. companies are also affirmative action employers.

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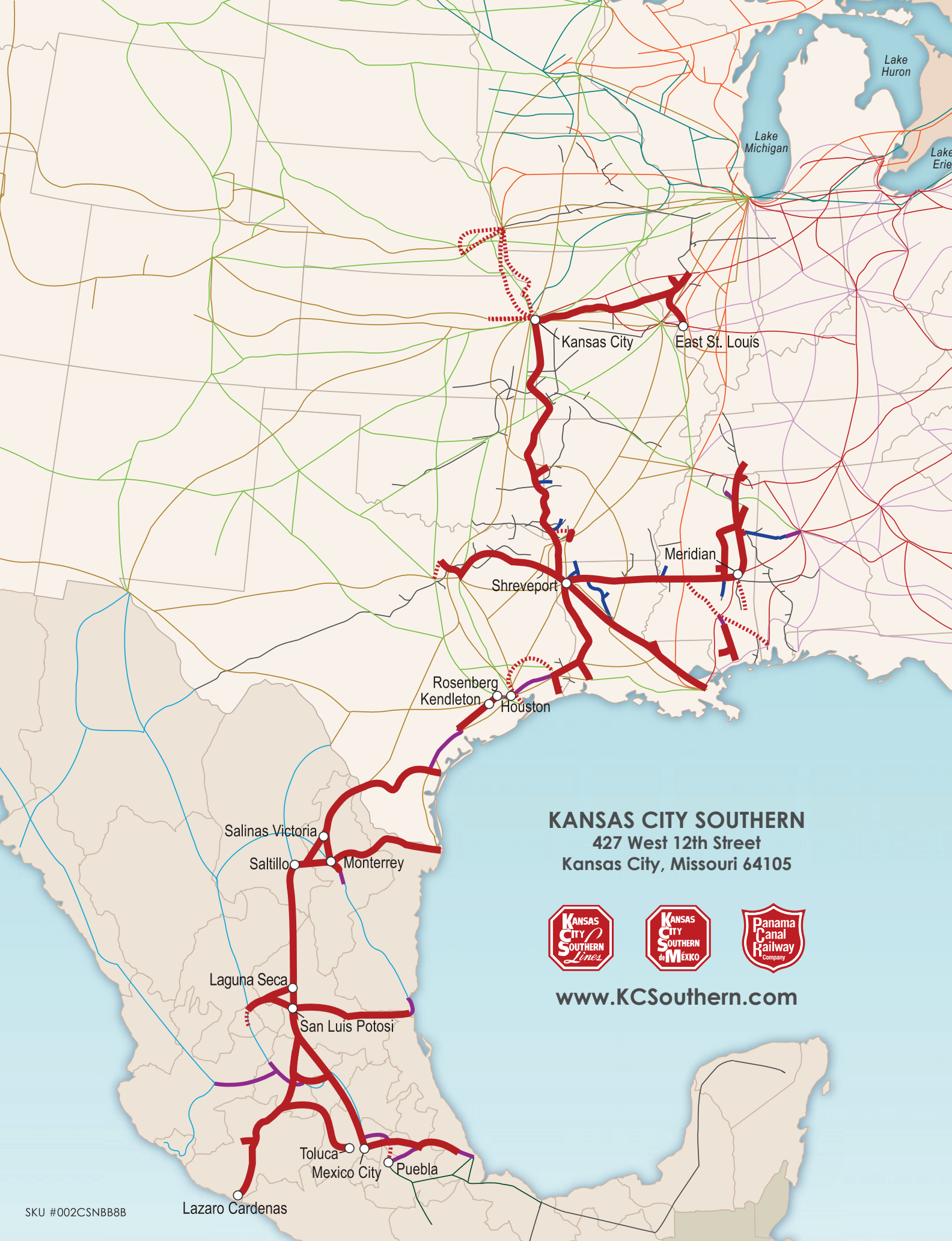
Securities Listed
New York Stock Exchange
Common Stock
4% Preferred Stock
Symbol KSU

Transfer Agent and Registrar
Computershare
P.O. Box 505000
Louisville, Kentucky 40233-5000

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, Missouri 64106

Annual Meeting of Stockholders
The 2021 Annual Stockholders Meeting will be held as a virtual-only meeting.
Date: May 20, 2021
Time: 9:00 A.M. Central Daylight Time
Virtual Stockholder Meeting:
www.meetingcenter.io/295243793

Corporate Offices
427 West 12th Street
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(816) 983-1303



KANSAS CITY SOUTHERN
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