



# Kansas City Southern

## Second Quarter 2011 Earnings Presentation

July 21, 2011



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Mike Haverty



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## Today's Presenters

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Mike Haverty

Executive Chairman

Dave Starling

President & CEO

Pat Ottensmeyer

EVP Sales & Marketing

Mike Upchurch

EVP & CFO



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## Second Quarter Results

	Q2 2011	Q2 2010	Variance
Carloads/Units (in thousands)	499.8	468.4	7%
Revenue (in millions)	\$534.9	\$461.6	16%
Operating Ratio	71.7%	72.4%	0.7 points
Reported Diluted Earnings per Share	\$0.64	\$0.34	88%
Adjusted Diluted Earnings per Share *	\$0.71	\$0.55	29%



\* Excludes impact of debt retirement costs of \$0.07 and \$0.21 in Q2 2011 and Q2 2010 respectively. All reconciliations to GAAP can be found on the KCS website in the Investors section.

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Dave Starling



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## First Half 2011 Update

### 2011 Guidance

- Low-double digit revenue growth
- Mid-single digit volume growth
- Mid-single digit pricing
- Annual operating ratio improvement of 100-150 bp

### 2011 Update

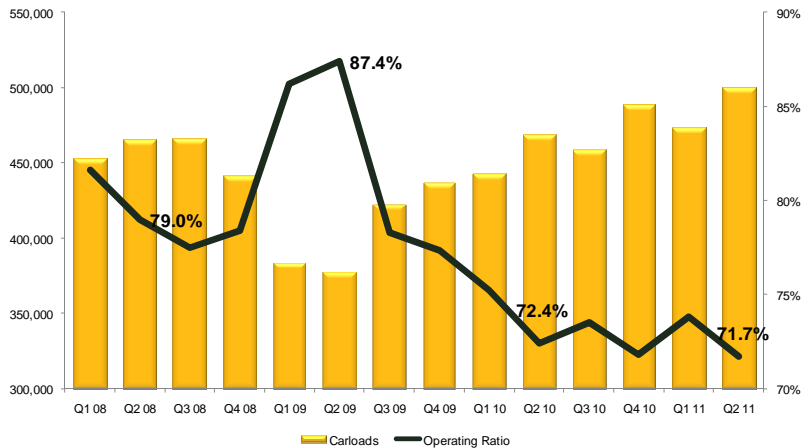
- First half revenue growth of 14%
- Full year 2011 revenue growth expected to be better than first half
- YTD Volumes up 7%
  - Late Q2 volumes impacted by flooding
- Same store pricing <sup>(D)</sup> up 5.5%
  - YTD revenue per unit up 7%
- Operating ratio improved 110 bp despite fuel surcharge headwinds <sup>(D)</sup> of \$8.6 mm



(D) See definitions in the appendix to this presentation.

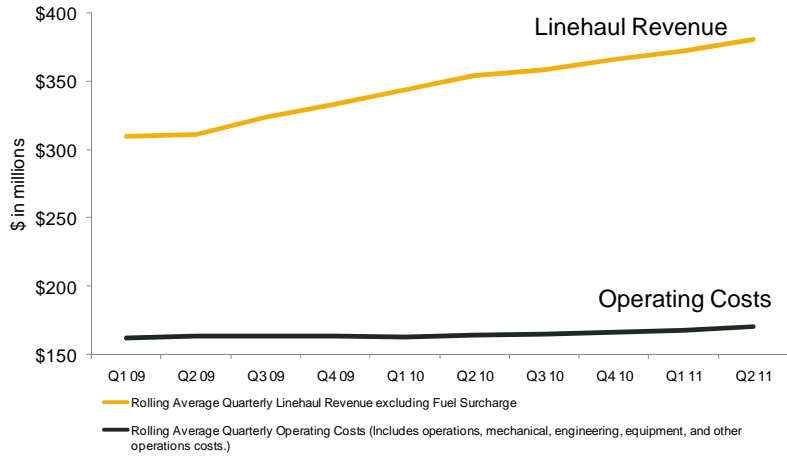
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## Second Quarter Operating Ratio Improvement



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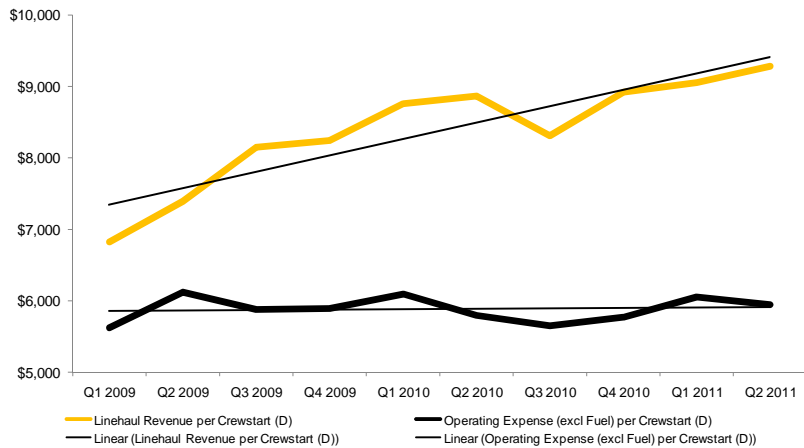
## Operating Leverage Continues Positive Trend



All reconciliations to GAAP can be found on the KCS website in the Investors section.

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## Expense per Crewstart Under Control

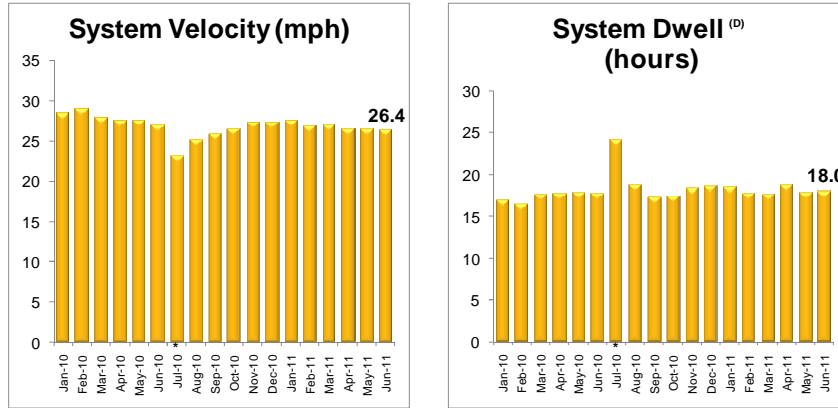


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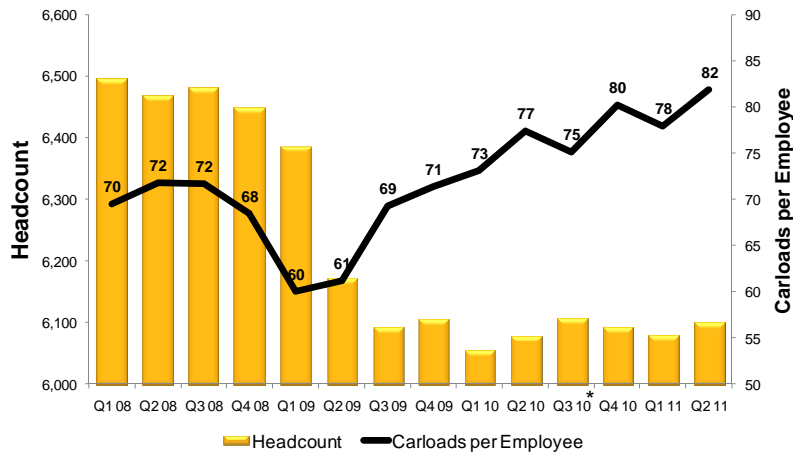
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## System Metrics Remain Consistent



\* July 2010 results not adjusted for Hurricane Alex.  
(D) See definitions in the appendix to this presentation.

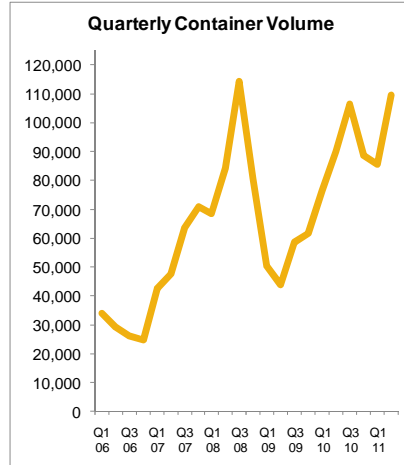
## Carloads per Employee Up 6% vs. Q2 2010



\* Q3 2010 carloads not adjusted for Hurricane Alex.

# Panama Canal Railway Company\*

	Q2 2011	Q2 2010
Volumes	109,698	89,965
Total Revenues (in millions)	\$15.2	\$12.3
Operating Ratio	46.9%	47.5%



\* PCRC is a 50% equity investment.

Pat Ottensmeyer



## Second Quarter Revenue Increased 16%

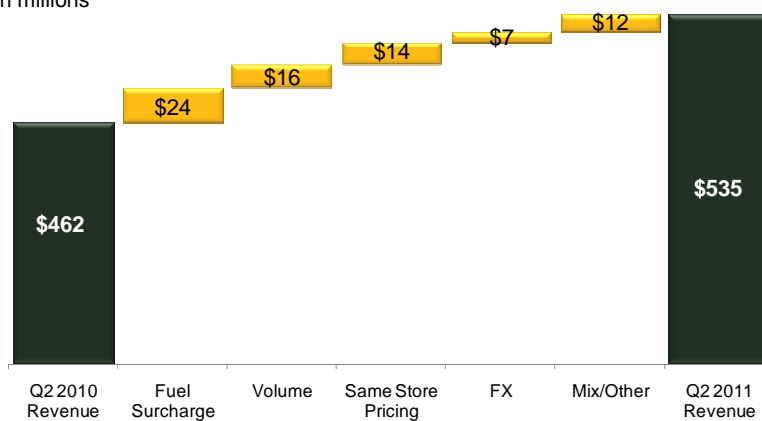
	Q2 2011	Q2 2010	Variance
Total Revenues (in millions)	\$534.9	\$461.6	16%
Carloads (in thousands)	499.8	468.4	7%
Average Revenue per Unit	\$1,036	\$952	9%



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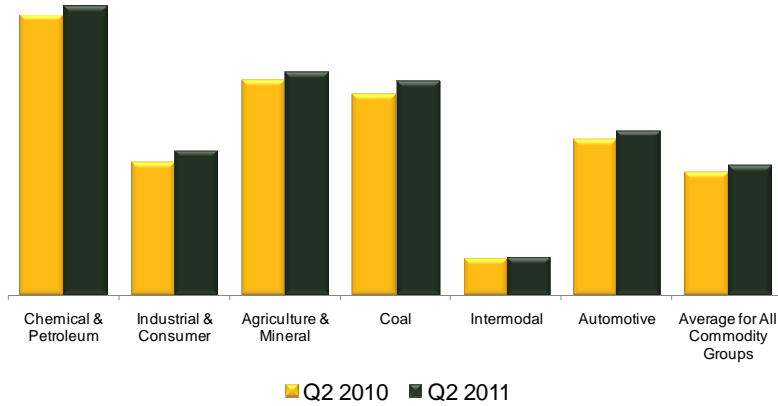
## Multiple Contributors to Revenue Growth

\$ in millions



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## Same Store Pricing Up 5.4%



Linehaul rate excludes fuel surcharge and foreign exchange

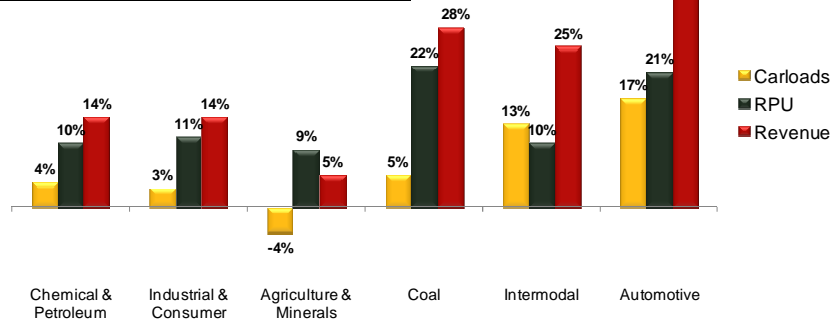


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## Second Quarter Commodity Group Results

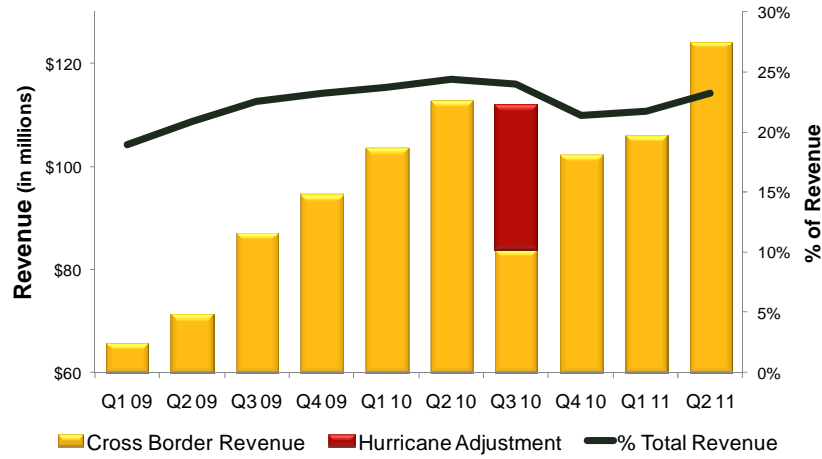
Q2 2011 vs. Q2 2010

	Q2 2011	Q2 2010	Variance
<b>Total Revenues</b> (in millions)	\$534.9	\$461.6	16%
<b>Carloads</b> (in thousands)	499.8	468.4	7%
<b>Average RPU</b>	\$1,036	\$952	9%



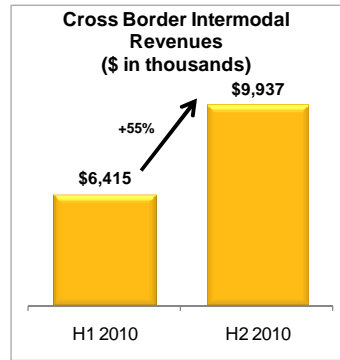
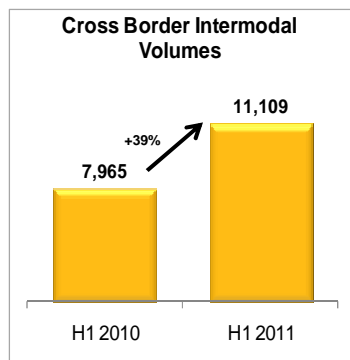
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## Cross Border Revenue Growth Accelerates



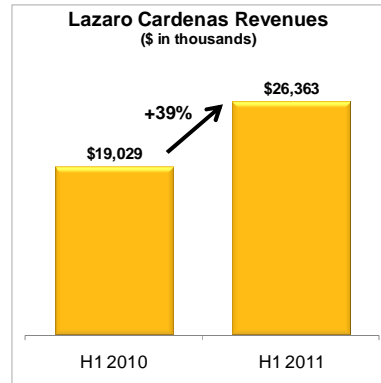
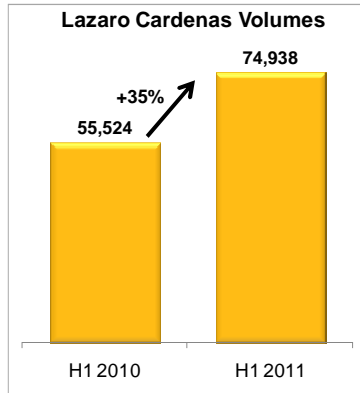
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## Cross Border Intermodal Growth



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## Lazaro Cardenas Growth



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## Market Outlook – Linehaul Revenue

	Q3 2011	FY 2011
Chemical & Petroleum	++	++
Industrial & Consumer	++	++
Agriculture & Minerals	++	+
Coal	++	++
Intermodal	++	++
Automotive	++	++



+ Single digit revenue growth expected during period ++ Double digit revenue growth expected during period

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## Market Developments

- Economic outlook continues to be positive in both U.S. and Mexico
  - Key indices continue to signal growth in U.S. carloads
  - Mexico's GDP still expected to grow 4-5% in 2011
- Pricing in line with prior guidance
- Cross border revenue increased 17% sequentially and as a percent of total revenue was 23%
  - Cross border Agriculture & Mineral up 26% sequentially, driven by grain shipments; a reversal of late '10 / early '11 trends
- Long term new business opportunities continue to grow
  - Mexico "near sourcing" phenomenon
  - Port Arthur Crude Terminal
  - Lazaro Cardenas port expansion
  - Cross border intermodal
- Customer satisfaction survey completed in second quarter
  - Established a benchmark
  - Results were very positive



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Mike Upchurch



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## Condensed Income Statement Data

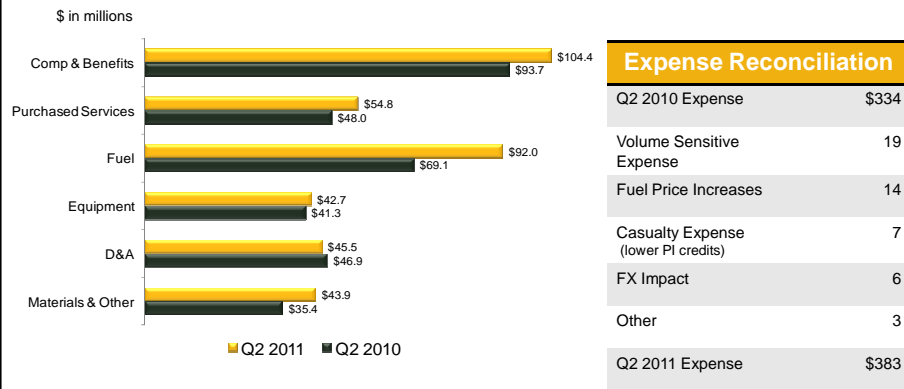
(\$ in millions, except EPS Diluted)	Q2 2011	Q2 2010
Revenues	\$534.9	\$461.6
Operating Expenses	<u>383.3</u>	<u>334.4</u>
Operating Income	151.6	127.2
Equity Earnings	5.3	4.6
Interest Expense	(32.4)	(41.9)
Debt Retirement Costs & Other	<u>(9.9)</u>	<u>(32.9)</u>
Pre-tax Income	114.6	57.0
Income Tax Expense	<u>(42.9)</u>	<u>(19.6)</u>
Net Income	\$71.7	\$37.4
Reported EPS Diluted	\$0.64	\$0.34
Adjusted EPS Diluted	\$0.71*	\$0.55*
Average Diluted Share Count (in thousands)	109,810	100,366**



\* Excludes impact of debt retirement costs of \$0.07 and \$0.21 in Q2 2011 and Q2 2010 respectively. All reconciliations to GAAP are available on the KCS website in the Investors section.  
 \*\* The average diluted share count calculation excludes the impact on the conversion of convertible preferred stock as it would be anti-dilutive.

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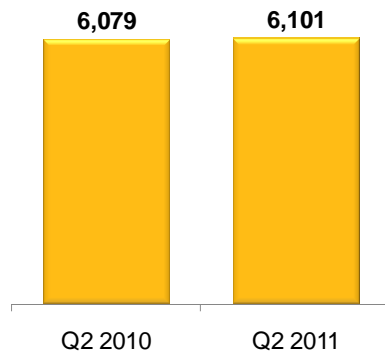
## Operating Expenses



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## Headcount Essentially Flat on 7% Increase in Volumes

### Quarterly Average Employee Headcount



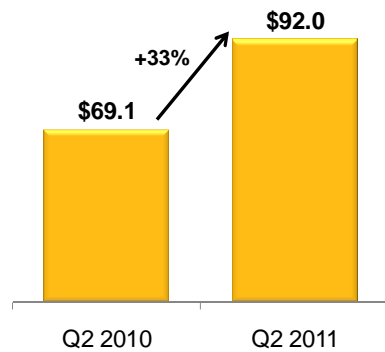
Compensation & Benefits	\$ in millions
Q2 2010 Expense	\$94
Inflation	4
Volume Sensitive Expense	3
Foreign Exchange	2
Other	1
Q2 2011 Expense	\$104



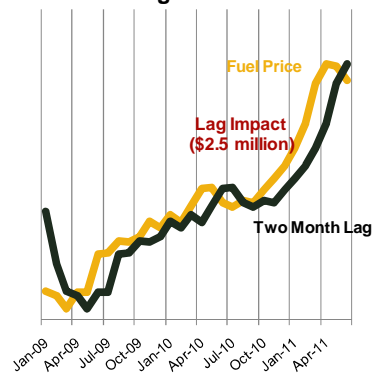
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## Fuel Expense Increased 33%

### Fuel Expense \$ in millions



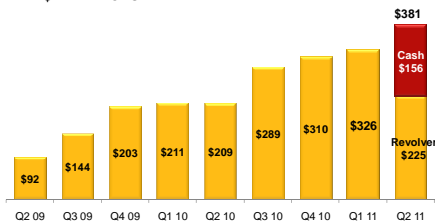
### Highway Diesel Fuel Pricing



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## Liquidity Continues to Improve

\$ in millions



- YTD free cash flow\* of \$92 million increased 32%
- In July, established new KCSR credit facility
  - Increased revolver by \$75 million to \$200 million
  - Refinanced \$300 million term loan to 2017
    - Provides flexibility for dividends and buyback of stock/debt



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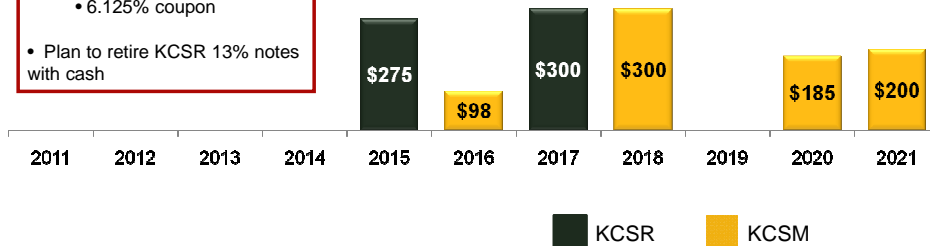
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## Significant Progress Extending & Smoothing Maturities

\$ in millions

- At 12/31/09, 2012 & 2013 maturities were \$1.1 billion
- In May, KCSM notes refinanced
  - \$200 mm due 2021
  - 6.125% coupon
- Plan to retire KCSR 13% notes with cash

### Pro forma Maturities at 12/31/2011



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## Hurricane Claim Update

- Effective July 7, 2011, settled insurance claim for lost profits, property damages, and related incremental expenses resulting from Hurricane Alex for \$66 million, before the related self-insured retention of \$10.0 million
  - Received \$40 million of proceeds as of June 30, 2011
  - Expect to receive remaining \$16 million of proceeds in Q3 2011
- Settlement will result in a \$19.8 million pre-tax gain
  - Recovery of lost profits + gain on property replacement - self-insured retention
  - Report as a separate line item within operating expenses
- General liability claim for \$7.6 million related to third party damages is still outstanding
  - Received \$3 million in proceeds in July 2011 – expect additional proceeds in Q3
  - Record related gain upon final settlement (expected in Q3 2011)
- Continue to estimate that the cumulative earnings per share impact of Hurricane Alex will be a loss of approximately \$0.05, consistent with guidance provided since our Q3 2010 earnings conference call



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## Appendix

- **Same store pricing** is defined as revenue generated from same customer, same origin, same destination, same commodity, same equipment.
- **Fuel Surcharge Headwind/Tailwind** is defined as the impact on fuel surcharge revenue created by the timing difference between current ("spot") fuel prices and those passed onto customers in the fuel surcharge program (national average price from 2 months prior). In a rising fuel price environment a "headwind" situation is created as spot prices are greater than the rate charged to customers (two-month prior national average). In a declining fuel price environment a "tailwind" is created as spot prices are less than the rate charged to customers (two-month prior national average).
- **Crewstart** is defined as the event where a team of employees begin a work shift on a train. A single train trip can involve multiple crewstarts, based on trip length.
- **System dwell** is defined as the average time a car resides at the specified terminal location.

### Intermodal Cross Border Volume & Revenue History

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10*	Q4 10	Q1 11	Q2 11
Volumes	654	1,892	2,273	2,908	3,099	4,867	3,552	5,079	5,274	5,835
Revenue (in thousands)	\$746	\$1,929	\$2,268	\$2,703	\$2,541	\$3,874	\$3,067	\$3,826	\$4,600	\$5,337



\* Q3 2010 results not adjusted for Hurricane Alex.

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