



Kansas City Southern

Consolidated Investors' Report Third Quarter 2011



This document should be read in conjunction with the Company's 10-K, 10-Q and any 8-K statements filed with the Securities Exchange Commission.

This document includes statements concerning potential future events involving the Company which could materially differ from events that actually occur. The differences could be caused by a number of factors including those factors identified in the "Risk Factors" section of the Company's Form 10-K for the year ended December 31, 2010 filed by the Company with the SEC (File No. 1-04717). The Company will not update any forward looking statements in this presentation to reflect future events or developments.

Contents

Third Quarter Press Release	2
Income Information	5
Balance Sheet Information	6
Cash Flow Information	7
Revenue Statistics by Commodity - Quarterly	8
Revenue Statistics by Commodity - Year to Date	9
Productivity Statistics	10
Capital Expenditures	10
Debt Summary	11
Free Cash Flow	11
Credit Ratings and Statistics	12
Non-GAAP Financial Information (Regulation G)	13
Basic and Diluted Earnings Per Share Calculation	14

For additional information, please contact Investor Relations:

Ginger Adamiak, General Director Investor Relations
816-983-1501
gadamiak@kcsouthern.com

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

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

www.kcsouthern.com

Third Quarter Press Release

NEWS RELEASE



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

NYSE SYMBOL: KSU
WWW.KCSOUTHERN.COM

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

Phone: 816/983-1551

Kansas City Southern Reports Record Third Quarter 2011 Carloadings and Revenue; Operating Income Increases 57%

Third Quarter 2011 Results

- Record revenues of \$545 million, up 24% from prior year or 16%, adjusted for the 2010 hurricane impact
- Operating income of \$182 million, an increase of 57%, or 19% adjusted for hurricane-related impacts and a 2010 post-employment expense benefit
- Reported operating ratio of 66.6% or 71.3% adjusted for the hurricane-related impact
- Reported diluted earnings per share were \$0.91 for the third quarter 2011 up from \$0.48 in the third quarter 2010. Adjusted for hurricane-related impacts, a 2010 post-employment expense benefit, and debt retirement costs, diluted earnings per share were \$0.78 and \$0.59 respectively.

Kansas City, MO, October 21, 2011. Kansas City Southern (KCS) (NYSE:KSU) reported third quarter 2011 revenues of \$545 million, a 24% increase compared to the corresponding 2010 period. Adjusted for last year's estimated revenue loss due to Hurricane Alex, revenues increased 16%. Overall, carload volumes were 13% higher than last year or 7% higher adjusted for the hurricane.

On a reported basis, Automotive revenues were up 58% compared to a year ago. Intermodal revenues also showed strength increasing 38% over the same time period. Other revenue improvements were Industrial & Consumer Products, 32%; Chemical & Petroleum, 19%; Coal, 17%; and Agriculture & Minerals, 11%.

Operating expenses for the third quarter were \$363 million, 13% higher than the corresponding 2010 period, or 14% higher adjusted for hurricane-related impacts and a 2010 post-employment expense benefit. The increase was primarily due to higher volumes, fuel expense and compensation and benefits expense. The increase in fuel expense was primarily the result of higher average fuel prices in the third quarter of 2011 and reduced fuel consumption in the third quarter of 2010 resulting from the extended closure of the main KCSM rail corridor due to Hurricane Alex. The increase in compensation and benefits expense was primarily attributable to wage rate increases, higher volumes, and the decreased value of the Mexican peso compared to the U.S. dollar. Operating income for the third quarter of 2011 was \$182 million, which was 57% higher than 2010, or 19% adjusted for hurricane-related impacts and the 2010 post-employment expense benefit. KCS's third quarter 2011 operating ratio adjusted for the hurricane-related impact was 71.3%, or 66.6% on a reported basis.

KCS reported net income available to common stockholders in the third quarter 2011 of \$100 million, or \$0.91 per diluted share, compared to \$50 million, or \$0.48 per diluted share in third quarter 2010. Adjusted for the hurricane-related impacts, the 2010 post-employment expense benefit and debt retirement costs, adjusted diluted earnings per share were \$0.78 and \$0.59 respectively.

"Kansas City Southern reported solid third quarter 2011 results," stated David L. Starling, president and chief executive officer. "The company posted record carloadings and revenues and experienced strong year-over-year and sequential growth."

“These achievements are all the more impressive given the operating challenges caused by prolonged flooding in the Midwest, particularly along the Missouri River. The flooding resulted in the closure of a primary rail line into Kansas City from mid-June through Labor Day, which significantly disrupted grain and coal traffic. Given the difficult conditions, our operations and marketing teams did an outstanding job of maintaining service to our customers and keeping the negative impacts to a minimum.

“During the quarter, KCS continued to strengthen its financial position by amending and restating credit facilities at both KCSR and KCSM. The facilities improve liquidity and financial flexibility as well as extend the maturity dates. Also during the third quarter, KCS settled all Hurricane Alex insurance claims.

“While there persists an understandable level of anxiety in the financial markets over the state of the economy, KCS has experienced consistent growth. With the weather challenges behind us, we remain confident that our mid-single digit volume and mid-teen revenue growth guidance for 2011 is attainable.”

GAAP RECONCILIATIONS

(\$ in millions, except per share amounts)

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

	Three Months Ended September 30,	
	2011	2010
Diluted earnings per share	\$ 0.91	\$ 0.48
Adjustment for debt retirement costs	0.02	0.01
Adjustment for gain on insurance recoveries	(0.15)	—
Adjustment for estimated impact from Hurricane Alex	—	0.14
Adjustment for post-employment expense benefit	—	(0.04)
Adjusted diluted earnings per share - see (a) below	<u>\$ 0.78</u>	<u>\$ 0.59</u>

Reconciliation of Revenues to Adjusted Revenues

	Three Months Ended September 30,	
	2011	2010
Revenues as reported	\$ 544.5	\$ 438.3
Adjustment for estimated impact from Hurricane Alex	—	33.0
Adjusted revenues - see (a) below	<u>\$ 544.5</u>	<u>\$ 471.3</u>

Reconciliation of Operating Expenses to Adjusted Operating Expenses

	Three Months Ended September 30,	
	2011	2010
Operating expenses as reported	\$ 362.7	\$ 322.3
Adjustment for estimated impact from Hurricane Alex	—	11.0
Adjustment for gain on insurance recoveries	25.6	—
Adjustment for post-employment expense benefit	—	6.2
Adjusted operating expenses - see (a) below	<u>\$ 388.3</u>	<u>\$ 339.5</u>

Operating income as reported	\$ 181.8	\$ 116.0
Adjusted operating income	\$ 156.2	\$ 131.8
Operating ratio (b) as reported	66.6%	73.5%
Adjusted operating ratio - see (a) below	71.3%	72.0%

(a) The Company believes adjusted diluted earnings per share, revenues, operating expenses and operating ratio are meaningful as it allows investors to evaluate the Company's performance for different periods on a more comparable basis by excluding items that do not relate to the ongoing operations of the Company.

(b) Operating ratio is operating expense as a percentage of revenues.

Headquartered in Kansas City, MO, Kansas City Southern is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include Kansas City Southern de México, S.A. de C.V., serving northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. Kansas City Southern's North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada.

This news release contains "forward-looking statements" within the meaning of the securities laws concerning potential future events involving KCS and its subsidiaries, which could materially differ from the events that actually occur. The words "projects," "estimates," "forecasts," "believes," "intends," "expects," "anticipates," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are based upon information currently available to management and management's perception thereof as of the date of this news release. Differences that actually occur could be caused by a number of external factors over which management has little or no control, including: competition and consolidation within the transportation industry; the business environment in industries that produce and consume rail freight; revocation of the rail concession of KCS's subsidiary, Kansas City Southern de México, S.A. de C.V.; the termination, or failure to renew, agreements with customers, other railroads and third parties; interest rates; access to capital; disruptions to the KCS's technology infrastructure, including its computer systems; natural events such as severe weather, hurricanes and floods; market and regulatory responses to climate change; credit risk of customers and counterparties and their failure to meet their financial obligation; legislative and regulatory developments and disputes; rail accidents or other incidents or accidents along the KCS's rail network, facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards; fluctuation in prices or availability of key materials, in particular diesel fuel; changes in securities and capital markets; loss of key personnel; labor difficulties, including strikes and work stoppages; insufficiency of insurance to cover lost revenue, profits or other damages; acts of terrorism or risk of terrorist activities; war or risk of war; and other factors affecting the operation of the business; domestic and international economic conditions; political and economic conditions in Mexico and the level of trade between the United States and Mexico; the outcome of claims and litigation involving KCS or its subsidiaries. More detailed information about these factors may be found in filings by KCS with the Securities and Exchange Commission, including the KCS's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-4717) and subsequent Quarterly Reports on Form 10-Q. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. KCS is not obligated to update any forward-looking statements in this news release to reflect future events or developments.

Income Information

(in millions, except share and per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues	\$ 544.5	\$ 438.3	\$ 1,568.0	\$ 1,336.2
Operating expenses:				
Compensation and benefits	109.3	87.3	314.1	271.7
Purchased services	50.6	48.0	153.5	140.9
Fuel	86.5	61.8	258.0	191.7
Equipment costs	41.4	37.5	125.5	117.5
Depreciation and amortization	47.9	46.1	139.1	138.8
Gain on insurance recoveries related to hurricane damage	(25.6)	—	(25.6)	—
Materials and other	52.6	41.6	142.2	124.2
Total operating expenses	362.7	322.3	1,106.8	984.8
Operating income	181.8	116.0	461.2	351.4
Equity in net earnings of unconsolidated affiliates	4.7	5.2	13.6	16.2
Interest expense	(32.2)	(36.2)	(97.7)	(122.5)
Debt retirement costs	(3.9)	(1.9)	(14.2)	(49.3)
Foreign exchange gain (loss)	(7.2)	2.0	(6.9)	3.2
Other income, net	0.6	2.4	2.3	3.9
Income before income taxes	143.8	87.5	358.3	202.9
Income tax expense	43.7	34.7	122.4	78.5
Net income	100.1	52.8	235.9	124.4
Less: Net income (loss) attributable to noncontrolling interest	0.3	(0.1)	1.3	(1.2)
Net income attributable to Kansas City Southern and subsidiaries	99.8	52.9	234.6	125.6
Preferred stock dividends	—	2.7	1.5	8.2
Net income available to common stockholders	\$ 99.8	\$ 50.2	\$ 233.1	\$ 117.4
Earnings per share:				
Basic earnings per share	\$ 0.91	\$ 0.49	\$ 2.16	\$ 1.18
Diluted earnings per share	\$ 0.91	\$ 0.48	\$ 2.13	\$ 1.17
Average shares outstanding (<i>in thousands</i>):				
Basic	109,515	102,082	107,752	99,337
Potentially dilutive common shares	347	7,428	2,052	7,485
Diluted	109,862	109,510	109,804	106,822

Balance Sheet Information

(in millions)

(Unaudited)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 217.1	\$ 85.4
Accounts receivable, net	186.9	160.0
Materials and supplies	116.0	101.4
Deferred income taxes	132.1	138.2
Other current assets	71.6	91.2
Total current assets	723.7	576.2
Investments	55.2	46.4
Restricted funds	15.4	22.0
Property and equipment (including concession assets), net	5,159.5	4,902.4
Other assets	112.2	93.9
Total assets	\$ 6,066.0	\$ 5,640.9
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	\$ 36.3	\$ 18.1
Accounts payable and accrued liabilities	400.6	403.0
Total current liabilities	436.9	421.1
Long-term debt	1,676.2	1,621.6
Deferred income taxes	768.4	654.5
Other noncurrent liabilities and deferred credits	229.6	230.0
Total liabilities	3,111.1	2,927.2
Commitments and contingencies	—	—
Stockholders' equity	7.2	7.3
Paid-in capital	884.0	877.2
Retained earnings	1,779.7	1,548.0
Accumulated other comprehensive loss	(1.9)	(1.4)
Total stockholders' equity	2,669.0	2,431.1
Noncontrolling interest	285.9	282.6
Total equity	2,954.9	2,713.7
Total liabilities and equity	\$ 6,066.0	\$ 5,640.9

Cash Flow Information

(in millions)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2011	2010
Operating activities:		
Net income	\$ 235.9	\$ 124.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	139.1	138.8
Deferred income taxes	120.2	77.0
Equity in net earnings of unconsolidated affiliates	(13.6)	(16.2)
Share-based compensation	6.4	6.1
Excess tax benefit from share-based compensation	—	(15.7)
Deferred compensation	18.5	5.9
Distributions from unconsolidated affiliates	9.1	15.5
Gain on insurance recoveries related to hurricane damage	(25.6)	—
Cash payments related to hurricane damage	(1.9)	—
Insurance proceeds related to hurricane damage	36.6	—
Gain on sale of assets	(0.5)	(1.6)
Debt retirement costs	14.2	49.3
Changes in working capital items:		
Accounts receivable	(37.4)	(34.1)
Materials and supplies	(11.8)	0.8
Other current assets	(0.1)	7.7
Accounts payable and accrued liabilities	12.3	54.5
Other, net	(36.3)	(52.5)
Net cash provided by operating activities	465.1	359.9
Investing activities:		
Capital expenditures	(284.0)	(200.3)
Acquisition of an intermodal facility, net of cash acquired	—	(25.0)
Property investments in MSLLC	(29.0)	(18.2)
Insurance proceeds related to hurricane damage	12.4	—
Proceeds from disposal of property	6.8	6.2
Other, net	1.6	11.6
Net cash used for investing activities	(292.2)	(225.7)
Financing activities:		
Proceeds from issuance of long-term debt	500.0	300.7
Repayment of long-term debt	(521.9)	(662.0)
Proceeds from common stock issuance	—	214.9
Debt costs	(18.2)	(44.8)
Proceeds from employee stock plans	1.8	0.8
Excess tax benefit from share-based compensation	—	15.7
Preferred stock dividends paid	(2.9)	(8.2)
Net cash used for financing activities	(41.2)	(182.9)
Cash and cash equivalents:		
Net increase (decrease) during each period	131.7	(48.7)
At beginning of year	85.4	117.5
At end of period	\$ 217.1	\$ 68.8

Revenue Statistics by Commodity - Quarterly

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Three Months Ended September 30,		Three Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Chemical & Petroleum						
Agri Chemicals	\$ 4.9	\$ 5.2	3.5	3.3	\$ 1,400	\$ 1,576
Other Chemicals	45.2	37.2	26.1	25.2	1,732	1,476
Petroleum	27.6	24.5	19.1	17.3	1,445	1,416
Plastics	26.0	19.9	16.6	15.0	1,566	1,327
Total	<u>103.7</u>	<u>86.8</u>	<u>65.3</u>	<u>60.8</u>	<u>1,588</u>	<u>1,428</u>
Industrial & Consumer Products						
Forest Products	62.5	50.2	33.3	32.2	1,877	1,559
Metals & Scrap	54.2	37.6	32.5	24.8	1,668	1,516
Other	20.1	16.1	21.0	18.0	957	894
Total	<u>136.8</u>	<u>103.9</u>	<u>86.8</u>	<u>75.0</u>	<u>1,576</u>	<u>1,385</u>
Agriculture & Minerals						
Grain	48.2	49.9	29.4	31.2	1,639	1,599
Food Products	38.5	30.1	17.3	16.4	2,225	1,835
Ores & Minerals	14.8	12.2	11.9	11.7	1,244	1,043
Stone, Clay & Glass	6.6	5.0	3.6	2.9	1,833	1,724
Total	<u>108.1</u>	<u>97.2</u>	<u>62.2</u>	<u>62.2</u>	<u>1,738</u>	<u>1,563</u>
Coal						
Unit Coal	64.6	55.7	63.1	64.1	1,024	869
Other Coal	9.8	7.9	11.2	10.1	875	782
Total	<u>74.4</u>	<u>63.6</u>	<u>74.3</u>	<u>74.2</u>	<u>1,001</u>	<u>857</u>
Intermodal	<u>65.7</u>	<u>47.7</u>	<u>208.0</u>	<u>170.3</u>	<u>316</u>	<u>280</u>
Automotive	<u>36.7</u>	<u>23.3</u>	<u>21.4</u>	<u>16.5</u>	<u>1,715</u>	<u>1,412</u>
Total for Commodity Groups	<u>525.4</u>	<u>422.5</u>	<u>518.0</u>	<u>459.0</u>	<u>\$ 1,014</u>	<u>\$ 920</u>
Other Revenue	<u>19.1</u>	<u>15.8</u>				
Total	<u>\$ 544.5</u>	<u>\$ 438.3</u>				

Revenue Statistics by Commodity - Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue per Carload/Unit	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Chemical & Petroleum						
Agri Chemicals	\$ 16.5	\$ 17.4	11.0	11.1	\$ 1,500	\$ 1,568
Other Chemicals	131.4	114.2	78.2	75.5	1,680	1,513
Petroleum	86.0	75.6	57.4	55.0	1,498	1,375
Plastics	73.6	62.6	48.7	45.9	1,511	1,364
Total	307.5	269.8	195.3	187.5	1,575	1,439
Industrial & Consumer Products						
Forest Products	174.0	148.4	96.8	95.8	1,798	1,549
Metals & Scrap	149.1	115.0	90.4	76.7	1,649	1,499
Other	57.2	49.5	62.3	54.2	918	913
Total	380.3	312.9	249.5	226.7	1,524	1,380
Agriculture & Minerals						
Grain	158.1	164.9	95.0	102.5	1,664	1,609
Food Products	113.6	98.7	53.0	52.5	2,143	1,880
Ores & Minerals	43.9	39.7	37.0	36.1	1,186	1,100
Stone, Clay & Glass	19.1	15.8	10.3	9.8	1,854	1,612
Total	334.7	319.1	195.3	200.9	1,714	1,588
Coal						
Unit Coal	178.6	152.6	179.1	180.6	997	845
Other Coal	28.4	23.3	32.2	30.7	882	759
Total	207.0	175.9	211.3	211.3	980	832
Intermodal	181.9	139.9	578.5	492.4	314	284
Automotive	102.2	69.3	62.0	51.8	1,648	1,338
Total for Commodity Groups	1,513.6	1,286.9	1,491.9	1,370.6	\$ 1,015	\$ 939
Other Revenue	54.4	49.3				
Total	\$ 1,568.0	\$ 1,336.2				

Productivity Statistics

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Gross Ton Miles (GTM) in millions (a)	21,932	20,081	65,006	61,704
Revenue Ton Miles (RTM) in millions	11,598	10,806	34,373	33,379
Average Employees - Total	6,112	6,107	6,098	6,081
Average Employees - Union	4,723	4,700	4,702	4,682
GTM's per Average Employee (in millions)	3.59	3.29	10.66	10.15
Operating Ratio	66.6%	73.5%	70.6%	73.7%

(a) - Excludes Locomotive Gross Ton Miles

Capital Expenditures

(in millions)

	Nine Months Ended September 30,	
	2011	2010
Roadway capital program	\$ 189.4	\$ 152.8
Locomotive acquisitions	103.8	—
Capacity	12.5	2.1
Equipment	4.4	8.0
Information technology	6.7	9.4
Other	41.0	24.9
Total capital expenditures (accrual basis)	<u>357.8</u>	<u>197.2</u>
Locomotives financed under operating lease buyout	(91.0)	—
Change in capital accruals	17.2	3.1
Total cash capital expenditures	<u>\$ 284.0</u>	<u>\$ 200.3</u>
Track Renewal		
Track miles of rail installed	<u>92.1</u>	<u>61.9</u>
Cross ties installed (thousands)	<u>532</u>	<u>548</u>

Debt Summary

(in millions)

	Expiration Date	Interest Rate	September 30, 2011	December 31, 2010
KCS Revolver	7/15/2016	Floating	\$ —	\$ —
KCSM Revolver	9/30/2016	Floating	—	—
KCS Term Loan	1/15/2017	Floating	300.0	307.4
Total Bank Facilities			<u>300.0</u>	<u>307.4</u>
KCSM Senior Notes	12/1/2013	7.625%	—	32.4
KCS Senior Notes	12/15/2013	13.000%	115.8	113.7
KCSM Senior Notes	6/1/2014	7.375%	—	165.0
KCS Senior Notes	6/1/2015	8.000%	275.0	275.0
KCSM Senior Notes	4/1/2016	12.500%	94.1	93.6
KCSM Senior Notes	2/1/2018	8.000%	296.3	296.0
KCSM Senior Notes	12/15/2020	6.625%	185.0	185.0
KCSM Senior Notes	6/15/2021	6.125%	200.0	—
Total Unsecured Senior Notes			<u>1,166.2</u>	<u>1,160.7</u>
KCSM GE Loan Agreement	12/15/2020	9.311%	89.6	—
KCSM Loan and Security Agreement	2/28/2023	5.737%	52.9	60.6
KCSM Loan Agreement	9/29/2023	6.195%	41.7	44.4
Tex Mex RRIF Loan	7/13/2030	4.290%	42.9	43.9
Capital Leases	Various	Various	14.3	16.8
Other	Various	Various	4.9	5.9
Total Debt			<u>\$ 1,712.5</u>	<u>\$ 1,639.7</u>

Free Cash Flow*

(in millions)

	Nine Months Ended September 30,	
	2011	2010
Net cash provided by operating activities	\$ 465.1	\$ 359.9
Cash used for capital expenditures	(284.0)	(200.3)
Other investing activities, net	(8.2)	(25.4)
Preferred stock dividends paid	(2.9)	(8.2)
Free cash flow after dividends paid	<u>\$ 170.0</u>	<u>\$ 126.0</u>

* All reconciliations to GAAP can be found on page 13.

Credit Ratings and Statistics

Credit ratings are subject to change at any point in time. These ratings were applicable as of September 30, 2011.

	<u>S&P</u>	<u>Moody's</u>
KCS		
Outlook	Positive	Stable
Senior Secured	BBB-	Baa3
Senior Unsecured	BB	Ba3
Corporate	BB	Ba2
KCSM		
Outlook	Positive	Stable
Senior Secured	BB+	Ba1
Senior Unsecured	BB	Ba2
Corporate	BB	Ba2
	<u>September 30,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
Debt/Capitalization Ratio (Total Debt/Total Debt + Equity)	36.7%	37.7%

Non-GAAP Financial Information (Regulation G)

(in millions)

KCS reports its financial results in accordance with generally accepted accounting principles ("GAAP"). However, management believes that certain non-GAAP financial measures used to review and in certain cases manage the Company's business that fall within the meaning of Regulation G (Disclosure of non-GAAP financial measures) may provide its users of the financial information with additional meaningful comparison when reviewing the Company's results.

In press releases and analyst presentations, KCS has provided financial information adjusted for certain items, which are non-GAAP financial measures. KCS management uses non-GAAP information in its planning and forecasting processes and to further analyze its own financial trends and operational performance, as well as making financial comparisons to prior periods presented on a similar basis. The Company also uses some of these measures internally as part of its incentive compensation plans for management employees. Management believes investors and users of the Company's financial information should consider all of the above factors when evaluating KCS's results.

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

	Nine Months Ended	
	September 30,	
Reconciliation of Free Cash Flow to Net Increases (Decreases) in Cash and Cash Equivalents:	2011	2010
Net cash provided by operating activities	\$ 465.1	\$ 359.9
Net cash used for investing activities	(292.2)	(225.7)
Preferred stock dividends paid	(2.9)	(8.2)
Free cash flow - see (a) below	170.0	126.0
Proceeds from issuance of long-term debt	500.0	300.7
Repayment of long-term debt	(521.9)	(662.0)
Proceeds from common stock issuance	—	214.9
Other financing activities	(16.4)	(28.3)
GAAP net increases (decreases) in cash and cash equivalents	<u>\$ 131.7</u>	<u>\$ (48.7)</u>

(a) The Company believes this measure provides the amount of liquidity generated by operations that can be used for the combination or any one of the following: debt reduction, capital investment, and other investments.

Basic and Diluted Earnings Per Share Calculation

(in millions, except per share amounts; shares in thousands)

		Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Net income available for common stockholders for BASIC:	A	\$ 99.8	\$ 233.1
Net income identified below as DILUTIVE:	I (If Dilutive)	—	1.3
Net income available for diluted stockholders for DILUTIVE:	C	\$ 99.8	\$ 234.4
Weighted average shares outstanding	B	109,515	107,752
Impact on Diluted shares of stock options		347	388
Incremental Shares - Preferred Stock 5.125%	H (If Dilutive)	—	1,664
Total Diluted Shares	D	109,862	109,804
EPS - Basic - Net Income	A/B	\$ 0.9113	\$ 2.1633
EPS - Diluted - Net Income	C/D	\$ 0.9084	\$ 2.1347

DILUTIVE TEST

DECEMBER 5, 2005 TRANSACTION

Preferred Shares 5.125%			
Weighted average number of shares	Shares	H	1,664
	Earnings	I	\$ 1.3
			Shares
		B + H = J	109,416
EPS > Basic EPS = Not Dilutive or EPS < Basic EPS = Dilutive		(A + I) / J	\$ 2.1423
			DILUTIVE