



Kansas City Southern

Consolidated Investors' Report Fourth Quarter 2010



BUSINESS WITHOUT BORDERS.

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, 2009 filed by the Company with the SEC (File No. 1-04717). The Company will not update any forward-looking statements in this presentation to reflect future events or developments.

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Fourth Quarter Press Release

NEWS RELEASE



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BUSINESS WITHOUT BORDERS.

Date: January 27, 2011

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Kansas City Southern Reports Fourth Quarter Revenues Up 18%; Record Operating Ratio of 71.8%

Fourth Quarter 2010 Results

- Revenues of \$479 million, an increase of 18% over fourth quarter 2009 on a 12% increase in carloadings
- Operating income of \$135 million, an increase of 47% over fourth quarter 2009
- Operating ratio of 71.8%, a 5.5 point improvement from fourth quarter 2009
- Adjusted diluted earnings per share of \$0.62, excluding a \$0.12 loss for debt retirement costs in the quarter, an 82% increase over the prior year's results

Kansas City, MO. Kansas City Southern (KCS) (NYSE:KSU) reported fourth quarter 2010 revenues of \$479 million reflecting continued improvement in economic conditions in the markets served. Sequentially, revenues recovered from third quarter 2010 which were negatively impacted by service disruptions caused by Hurricane Alex.

Revenue growth was experienced across all commodity groups. Automotive revenues were up 41% over fourth quarter 2009 as a combination of strong pricing and new cross border vehicle routings benefitted the commodity group. Coal revenues increased 31% from a year ago on improved contract pricing which took effect at the beginning of 2010. Intermodal revenues were up 28% on a strong volume increase of 24%. Other period-over-period revenue improvements were 23% for Industrial & Consumer Products, 11% for Chemical & Petroleum, and 8% for Agriculture & Minerals.

Reported operating income for the fourth quarter was \$135 million representing a 47% increase from a year ago. The Company reported a fourth quarter 2010 operating ratio of 71.8% compared with 77.3% in fourth quarter of 2009. Operating expenses in the fourth quarter increased 9% from a year ago on a revenue increase of 18%.

The Company has produced positive free cash flow of \$174 million year to date, including \$48 million in the fourth quarter.

Reported net income available to common stockholders in the fourth quarter totaled \$52 million, or \$0.50 per diluted share, compared to \$32 million, or \$0.34 per diluted share in fourth quarter 2009. Excluding debt retirement costs related to refinancing activity in the fourth quarter 2010, adjusted diluted earnings per share was \$0.62, an 82% increase over the fourth quarter 2009.

For the full year 2010, revenues were \$1,815 million, up 23% over 2009 in spite of lost revenue from Hurricane Alex in the third quarter of 2010. Carloads for 2010 were up 15% over 2009 as the general economy improved and KCS continues to execute on its plan. Operating income increased 82% over the prior year and the Company's 2010 operating ratio was 73.2%, an 8.8 point improvement from 2009. Diluted earnings per share for full year 2010 were \$1.67 compared to \$0.60 for 2009. Excluding debt retirement costs, adjusted diluted earnings per share were \$2.11 and \$0.64 for 2010 and 2009, respectively.

"A solid fourth quarter capped off a year in which KCS's 2010 linehaul revenues exceeded 2008 levels," stated executive chairman Michael R. Haverty. "The speed with which we recovered was truly impressive and speaks to the resiliency and vitality of the markets KCS serves and to the quality of our management who has been instrumental in the Company attaining record levels of operating efficiency and profitability. We believe that KCS will continue to deliver attractive volume and revenue growth as well as sustaining a high level of operating performance in 2011."

David L. Starling, president and chief executive officer, stated, "KCS's fourth quarter operating ratio of 71.8% improved 5.5 points from a year ago and marked the lowest quarterly operating ratio in the Company's history. Our business strategy is targeted toward continuous improvement of our system operations and, given a stable economy, we expect KCS to improve its annual operating ratio in future years.

"Overall, we ended the year having made good progress in maximizing operational efficiency, improving our track and facilities infrastructure and strengthening our balance sheet and capital structure. KCS is well-positioned for continued improvement in these key areas again in 2011."

GAAP RECONCILIATIONS
(\$ in millions, except per share amounts)

Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share	Three Months Ended December 31,	
	2010	2009
Diluted earnings per share	\$ 0.50	\$ 0.34
Adjustment for debt retirement costs	0.12	-
Adjusted diluted earnings per share (a)	<u>\$ 0.62</u>	<u>\$ 0.34</u>

Reconciliation of Diluted Earnings per Share to Adjusted Diluted Earnings per Share	Years Ended December 31,	
	2010	2009
Diluted earnings per share	\$ 1.67	\$ 0.60
Adjustment for debt retirement costs	0.44	0.04
Adjusted diluted earnings per share (a)	<u>\$ 2.11</u>	<u>\$ 0.64</u>

**Reconciliation of Free Cash Flow to Net
Increases (Decreases) in Cash and
Cash Equivalents:**

	<u>Three Months Ended December 31, 2010</u>	<u>Year Ended December 31, 2010</u>
Net cash provided by operating activities	\$ 136.4	\$ 496.3
Net cash used for investing activities	(85.8)	(311.5)
Preferred stock dividends paid	(2.8)	(11.0)
Free cash flow - see (b) below	47.8	173.8
Proceeds from issuance of long-term debt	180.0	480.7
Repayment of long-term debt	(177.7)	(839.7)
Other financing activities	(33.5)	153.1
GAAP net increases (decreases) in cash and cash equivalents	<u>\$ 16.6</u>	<u>\$ (32.1)</u>

(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 excluding items that do not relate to the ongoing operations of the Company.

(b) 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.

CHANGE IN ACCOUNTING PRINCIPLE

Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs.

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 Mexico, 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 press release may include statements concerning potential future events involving KCS and its subsidiaries, which could materially differ from the events that actually occur. The differences could be caused by a number of factors including those factors identified in the "Risk Factors" and the "Cautionary Information" sections of KCS's Form 10-K for the most recently ended fiscal year, filed by KCS with the Securities and Exchange Commission (SEC) (Commission file no. 1-04717). KCS will not update any forward-looking statements in this press release to reflect future events or developments.

Income Information

(in millions, except share and per share amounts)
(Unaudited)

	Three Months Ended December 31,		Years Ended December 31,	
	2010	2009*	2010	2009*
Revenues	\$ 478.6	\$ 406.8	\$ 1,814.8	\$ 1,480.2
Operating expenses:				
Compensation and benefits	97.6	88.3	369.3	328.7
Purchased services	48.2	44.4	189.1	173.7
Fuel	71.9	56.2	263.6	189.4
Equipment costs	39.9	42.0	157.4	164.1
Depreciation and amortization	46.1	42.7	184.9	181.6
Materials and other	39.8	41.0	164.0	175.9
Total operating expenses	343.5	314.6	1,328.3	1,213.4
Operating income	135.1	92.2	486.5	266.8
Equity in net earnings of unconsolidated affiliates	3.5	2.8	19.7	7.7
Interest expense	(35.6)	(45.3)	(158.1)	(173.7)
Debt retirement costs	(19.0)	-	(68.3)	(5.9)
Foreign exchange gain	1.5	2.7	4.7	2.1
Other income, net	0.8	0.5	4.7	5.2
Income before income taxes and noncontrolling interest	86.3	52.9	289.2	102.2
Income tax expense	30.7	17.7	109.2	34.1
Net income	55.6	35.2	180.0	68.1
Noncontrolling interest	1.0	0.2	(0.2)	1.0
Net income attributable to Kansas City Southern and subsidiaries	54.6	35.0	180.2	67.1
Preferred stock dividends	2.8	2.7	11.0	11.0
Net income available to common stockholders	\$ 51.8	\$ 32.3	\$ 169.2	\$ 56.1
Earnings per share:				
Basic earnings per share	\$ 0.51	\$ 0.34	\$ 1.69	\$ 0.60
Diluted earnings per share	\$ 0.50	\$ 0.34	\$ 1.67	\$ 0.60
Average shares outstanding (<i>in thousands</i>):				
Basic	102,175	95,387	100,054	93,145
Potentially dilutive common shares	7,463	527	7,480	504
Diluted	109,638	95,914	107,534	93,649

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Balance Sheet Information

(in millions)

(Unaudited)

	December 31, 2010	December 31, 2009*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85.4	\$ 117.5
Accounts receivable, net	160.0	139.4
Restricted funds	22.0	35.8
Materials and supplies	101.4	106.4
Deferred income taxes	138.2	151.7
Other current assets	91.2	63.0
Total current assets	598.2	613.8
Investments	46.4	46.8
Property and equipment (including concession assets), net	4,902.4	4,722.4
Other assets	93.9	71.3
Total assets	<u>\$ 5,640.9</u>	<u>\$ 5,454.3</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	\$ 18.1	\$ 68.1
Accounts payable and accrued liabilities	413.1	342.7
Total current liabilities	431.2	410.8
Long-term debt	1,621.6	1,911.9
Deferred income taxes	654.5	558.6
Other noncurrent liabilities and deferred credits	219.9	247.2
Total liabilities	2,927.2	3,128.5
Commitments and contingencies	-	-
Stockholders' equity	7.3	7.2
Paid-in capital	877.2	661.4
Retained earnings	1,548.0	1,378.8
Accumulated other comprehensive loss	(1.4)	(4.4)
Total stockholders' equity	2,431.1	2,043.0
Noncontrolling interest	282.6	282.8
Total equity	2,713.7	2,325.8
Total liabilities and equity	<u>\$ 5,640.9</u>	<u>\$ 5,454.3</u>

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Cash Flow Information

(in millions)

(Unaudited)

	Years Ended December 31,	
	2010	2009*
Operating activities:		
Net income	\$ 180.0	\$ 68.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	184.9	181.6
Deferred income taxes	106.2	30.9
Equity in undistributed earnings of unconsolidated affiliates	(19.7)	(7.7)
Share-based compensation	8.8	9.9
Excess tax benefit from share-based compensation	(1.2)	(1.5)
Other deferred compensation	5.1	3.2
Distributions from unconsolidated affiliates	19.5	7.3
Cash payments related to hurricane damage	(27.8)	-
Insurance proceeds related to hurricane damage	8.2	-
Gain on sale of assets	(1.7)	(3.8)
Debt retirement costs	68.3	5.9
Changes in working capital items:		
Accounts receivable	(20.2)	23.3
Materials and supplies	6.3	(12.3)
Other current assets	(4.8)	8.6
Accounts payable and accrued liabilities	18.5	(19.9)
Other, net	(34.1)	(3.1)
Net cash provided by operating activities	496.3	290.5
Investing activities:		
Capital expenditures	(287.3)	(346.8)
Acquisition of an intermodal facility, net of cash acquired	(25.0)	-
Property investments in MSLLC	(25.2)	(22.0)
Insurance proceeds related to hurricane damage	1.8	-
Proceeds from disposal of property	8.3	13.9
Other, net	15.9	10.9
Net cash used for investing activities	(311.5)	(344.0)
Financing activities:		
Proceeds from issuance of long-term debt	480.7	202.1
Repayment of long-term debt	(839.7)	(319.1)
Proceeds from common stock issuance	214.9	73.9
Debt costs	(65.1)	(9.3)
Proceeds from employee stock plans	2.1	3.0
Excess tax benefit from share-based compensation	1.2	1.5
Preferred stock dividends paid	(11.0)	(11.0)
Net cash used for financing activities	(216.9)	(58.9)
Cash and cash equivalents:		
Net decrease during each year	(32.1)	(112.4)
At beginning of year	117.5	229.9
At end of year	\$ 85.4	\$ 117.5

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Revenue Statistics by Commodity – Quarterly

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue Per Carload/Unit	
	Three Months Ended		Three Months Ended		Three Months Ended	
	December 31,		December 31,		December 31,	
	2010	2009	2010	2009	2010	2009
Chemical & Petroleum						
Agri Chemicals	\$ 6.1	\$ 5.8	3.8	4.0	\$ 1,605	\$ 1,450
Other Chemicals	38.0	35.9	25.1	23.8	1,514	1,508
Petroleum	27.3	22.5	17.8	18.0	1,534	1,250
Plastics	22.0	19.9	15.2	13.6	1,447	1,463
Total	93.4	84.1	61.9	59.4	1,509	1,416
Industrial & Consumer Products						
Forest Products	54.2	44.7	33.3	30.6	1,628	1,461
Metals & Scrap	43.3	31.6	29.4	20.6	1,473	1,534
Other	16.3	16.4	20.5	18.3	795	896
Total	113.8	92.7	83.2	69.5	1,368	1,334
Agriculture & Minerals						
Grain	54.7	55.2	34.1	34.1	1,604	1,619
Food Products	36.0	31.0	18.5	16.6	1,946	1,867
Ores & Minerals	13.9	10.9	11.6	10.1	1,198	1,079
Stone, Clay & Glass	5.4	5.1	3.0	3.3	1,800	1,545
Total	110.0	102.2	67.2	64.1	1,637	1,594
Coal						
Unit Coal	55.2	41.6	60.9	65.4	906	636
Other Coal	7.5	6.3	10.3	9.2	728	685
Total	62.7	47.9	71.2	74.6	881	642
Intermodal	54.3	42.3	186.0	149.7	292	283
Automotive	28.4	20.2	19.3	19.2	1,472	1,052
Total for Commodity Groups	462.6	389.4	488.8	436.5	\$ 946	\$ 892
Other Revenue	16.0	17.4				
Total	\$ 478.6	\$ 406.8				

Revenue Statistics by Commodity – Year to Date

	Revenues <i>(in millions)</i>		Carloads and Units <i>(in thousands)</i>		Revenue Per Carload/Unit	
	Years Ended December 31,		Years Ended December 31,		Years Ended December 31,	
	2010	2009	2010	2009	2010	2009
Chemical & Petroleum						
Agri Chemicals	\$ 23.5	\$ 22.1	14.9	16.9	\$ 1,577	\$ 1,308
Other Chemicals	152.2	140.1	100.6	93.7	1,513	1,495
Petroleum	102.9	83.2	72.8	67.9	1,413	1,225
Plastics	84.6	78.0	61.1	59.8	1,385	1,304
Total	<u>363.2</u>	<u>323.4</u>	<u>249.4</u>	<u>238.3</u>	<u>1,456</u>	<u>1,357</u>
Industrial & Consumer Products						
Forest Products	202.6	168.7	129.1	118.5	1,569	1,424
Metals & Scrap	158.3	102.1	106.1	71.8	1,492	1,422
Other	65.8	73.6	74.7	76.7	881	960
Total	<u>426.7</u>	<u>344.4</u>	<u>309.9</u>	<u>267.0</u>	<u>1,377</u>	<u>1,290</u>
Agriculture & Minerals						
Grain	219.6	195.1	136.6	129.9	1,608	1,502
Food Products	134.7	103.5	71.0	58.8	1,897	1,760
Ores & Minerals	53.6	41.3	47.7	43.7	1,124	945
Stone, Clay & Glass	21.2	20.1	12.8	13.9	1,656	1,446
Total	<u>429.1</u>	<u>360.0</u>	<u>268.1</u>	<u>246.3</u>	<u>1,601</u>	<u>1,462</u>
Coal						
Unit Coal	207.8	160.2	241.5	262.3	860	611
Other Coal	30.8	27.0	41.0	38.9	751	694
Total	<u>238.6</u>	<u>187.2</u>	<u>282.5</u>	<u>301.2</u>	<u>845</u>	<u>622</u>
Intermodal	<u>194.2</u>	<u>143.4</u>	<u>678.4</u>	<u>516.4</u>	<u>286</u>	<u>278</u>
Automotive	<u>97.7</u>	<u>52.9</u>	<u>71.1</u>	<u>51.7</u>	<u>1,374</u>	<u>1,023</u>
Total for Commodity Groups	<u>1,749.5</u>	<u>1,411.3</u>	<u>1,859.4</u>	<u>1,620.9</u>	<u>\$ 941</u>	<u>\$ 871</u>
Other Revenue	<u>65.3</u>	<u>68.9</u>				
Total	<u>\$ 1,814.8</u>	<u>\$ 1,480.2</u>				

Productivity Statistics

	Three Months Ended December 31,		Years Ended December 31,	
	2010	2009	2010	2009
Gross Ton Miles (GTM) in millions (a)	21,653	20,536	83,357	76,048
Revenue Ton Miles (RTM) in millions	11,190	11,273	44,569	41,743
Average Employees - Total	6,093	6,106	6,075	6,188
Average Employees - Union	4,715	4,743	4,709	4,798
GTM's per Average Employee (in millions)	3.55	3.36	13.72	12.29
Operating Ratio	71.8%	77.3%*	73.2%	82.0%*

(a) - Adjusted to exclude Locomotive Gross Ton Miles

Capital Expenditures

(in millions)

	Years Ended December 31,	
	2010	2009*
Roadway capital programs	\$ 224.9	\$ 152.1
Equipment	12.8	11.2
Information technology	12.0	6.5
Capacity	10.1	76.8
Other	60.0	33.9
Total capital expenditures (accrual basis)	319.8	280.5
Change in capital accruals	(32.5)	66.3
Total cash capital expenditures	<u>\$ 287.3</u>	<u>\$ 346.8</u>

Track Renewal

Track miles of rail installed	<u>81</u>	<u>120</u>
Cross ties installed (thousands)	<u>762</u>	<u>807</u>

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Debt Summary

(in millions)

	Expiration Date	Interest Rate	December 31, 2010	December 31, 2009
KCS Revolver	4/28/2013	Floating	\$ -	\$ 40.0
KCS Term Loan	4/28/2013	Floating	307.4	310.6
KCSM Revolver	8/30/2013	Floating	-	-
Total Bank Facilities			<u>307.4</u>	<u>350.6</u>
KCSM Senior Notes	5/1/2012	9.375%	-	460.0
KCSM Senior Notes	12/1/2013	7.625%	32.4	175.0
KCS Senior Notes	12/15/2013	13.000%	113.7	171.2
KCSM Senior Notes	6/1/2014	7.375%	165.0	165.0
KCS Senior Notes	6/1/2015	8.000%	275.0	275.0
KCSM Senior Notes	4/1/2016	12.500%	93.6	189.7
KCSM Senior Notes	2/1/2018	8.000%	296.0	-
KCSM Senior Notes	12/15/2020	6.625%	185.0	-
Total Unsecured Senior Notes			<u>1,160.7</u>	<u>1,435.9</u>
KCSM Loan and Security Agreement	2/28/2023	5.737%	60.6	65.5
KCSM Loan Agreement	9/29/2023	6.195%	44.4	47.8
Tex Mex RRIF Loan	7/13/2030	4.290%	43.9	45.3
Capital Leases	Various	Various	16.8	16.0
Other	Various	Various	5.9	18.9
Total Debt			<u>\$ 1,639.7</u>	<u>\$ 1,980.0</u>

Free Cash Flow (Deficit) **

(in millions)

	Years Ended December 31,	
	2010	2009*
Net cash provided by operating activities	\$ 496.3	\$ 290.5
Cash used for capital expenditures	(287.3)	(346.8)
Other investing activities, net	(24.2)	2.8
Preferred stock dividends paid	(11.0)	(11.0)
Free cash flow (deficit) after dividends paid	<u>\$ 173.8</u>	<u>\$ (64.5)</u>

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

** All reconciliations to GAAP can be found on page 14.

Credit Ratings and Statistics

Credit ratings are subject to change at any point in time. These ratings were applicable as of January 17, 2011.

	<u>S&P</u>	<u>Moody's</u>
KCS		
Outlook	Stable	Positive
Senior Secured	BB+	Ba1
Senior Unsecured	BB-	B1
Corporate	BB-	Ba3
KCSM		
Outlook	Stable	Positive
Senior Secured	BB	Ba3
Senior Unsecured	BB-	B1
Corporate	BB-	B1

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Debt/Capitalization Ratio (Total Debt/Total Debt + Equity)	37.7%	46.0%*

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Change in Accounting Policy (Unaudited)

During the first quarter of 2010, the Company elected to change its accounting policy for rail grinding costs from a capitalization method to a direct expense method. Previously, the Company capitalized rail grinding costs as an improvement to the rail. The Company believes it is preferable to expense these costs as incurred to eliminate the subjectivity in determining the period of benefit associated with rail grinding over which to depreciate the associated capitalized costs. The Company has reflected this change as a change in accounting principle from an accepted accounting principle to a preferable accounting principle in accordance with Accounting Standards Codification 250 "Accounting for Changes and Error Corrections". Comparative financial statements for all periods have been adjusted to apply the change in accounting principle retrospectively.

The following line items in the income statement were affected by the change in accounting principle (*in millions, except per share amounts*):

	Three Months Ended December 31, 2009		
	As previously reported	As adjusted	Change
Depreciation and amortization	\$ 43.0	\$ 42.7	\$ (0.3)
Income before income taxes and noncontrolling interest	52.6	52.9	0.3
Net income	34.9	35.2	0.3
Diluted earnings per share	\$ 0.33	\$ 0.34	\$ 0.01

	Year Ended December 31, 2009		
	As previously reported	As adjusted	Change
Compensation and benefits	\$ 328.8	\$ 328.7	\$ (0.1)
Purchased services	171.3	173.7	2.4
Depreciation and amortization	182.5	181.6	(0.9)
Income before income taxes and noncontrolling interest	103.6	102.2	(1.4)
Income tax expense	34.6	34.1	(0.5)
Net income	69.0	68.1	(0.9)
Diluted earnings per share	\$ 0.61	\$ 0.60	\$ (0.01)

The following line items in the balance sheet were affected by the change in accounting principle (*in millions*):

	December 31, 2009		
	As previously reported	As adjusted	Change
Property and equipment (including concession assets), net	\$ 4,747.2	\$ 4,722.4	\$ (24.8)
Deferred income taxes	567.1	558.6	(8.5)
Other noncurrent liabilities and deferred credits	247.7	247.2	(0.5)
Retained earnings	1,394.6	1,378.8	(15.8)
Total equity	2,341.6	2,325.8	(15.8)

The following line items in the cash flow statement were affected by the change in accounting principle (*in millions*):

	Year Ended December 31, 2009		
	As previously reported	As adjusted	Change
Net cash provided by operating activities	\$ 292.9	\$ 290.5	\$ (2.4)
Net cash used for investing activities	(346.4)	(344.0)	2.4

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.

Reconciliation of Free Cash Flow (Deficit) to Net Decreases in Cash and Cash Equivalents:	Years Ended	
	December 31,	
	2010	2009*
Net cash provided by operating activities	\$ 496.3	\$ 290.5
Net cash used for investing activities	(311.5)	(344.0)
Preferred stock dividends paid	(11.0)	(11.0)
Free cash flow (deficit) - see (a) below	173.8	(64.5)
Proceeds from issuance of long-term debt	480.7	202.1
Repayment of long-term debt	(839.7)	(319.1)
Other financing activities	153.1	69.1
GAAP net decreases in cash and cash equivalents	\$ (32.1)	\$ (112.4)

(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.

* Certain prior year amounts have been adjusted for the retrospective change in accounting principle for rail grinding costs. See page 13 for effects of the adjustments.

Basic and Diluted Earnings Per Share Calculation

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

		Three Months Ended December 31, 2010	Year Ended December 31, 2010
Net income available for common stockholders for BASIC:	A	\$ 51.8	\$ 169.2
Net income identified below as DILUTIVE:	I (If Dilutive)	2.7	10.8
Net income available for diluted stockholders for DILUTIVE:	C	\$ 54.5	\$ 180.0
Weighted average shares outstanding	B	102,175	100,054
Impact on Diluted shares of stock options per FAS 123R		463	480
Incremental Shares - Preferred Stock 5.125%	H (If Dilutive)	7,000	7,000
Total Diluted Shares	D	109,638	107,534
EPS - Basic - Net Income	A/B	\$ 0.5070	\$ 1.6911
EPS - Diluted - Net Income	C/D	\$ 0.4971	\$ 1.6739

DILUTIVE TEST

DECEMBER 5, 2005 TRANSACTION

Preferred Shares 5.125%					
Weighted average number of shares	Shares	H	7,000		7,000
	Earnings	I	\$ 2.7	\$	10.8
			Shares		Shares
		B + H = J	109,175		107,054
EPS > Basic EPS = Not Dilutive or EPS < Basic EPS = Dilutive		(A + I) / J	\$ 0.4992	\$	1.6814
			DILUTIVE		DILUTIVE