



2017 Performance



For the **Long Haul**

DELIVERING **PROSPERITY**
VALUING **PEOPLE**
PROTECTING THE **PLANET**





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CEO Message

**CEO MESSAGE:
PUTTING
OUR VALUES
INTO ACTION**



PJO | **PATRICK J. OTTENSMEYER**
PRESIDENT & CHIEF EXECUTIVE OFFICER

Whether at home or on the road, each morning before I begin my workday I think about KCS's Vision and Values to reinforce the culture, beliefs and behaviors that define our company and create a foundation for our growth and success. In other words, our sustainability.

Our Values, noted below, give KCS a blueprint to help us fulfill our Vision, which is "to consistently be the fastest-growing, best-performing, most customer-focused transportation provider in North America."

We at KCS are proud to say that in 2017 we put our Values into action for the benefit of our company and the people who made our 130th year successful and prosperous.



Safety: First and foremost, we will demonstrate a commitment to safety, for ourselves and our fellow employees, customers, contractors, other guests on our property, and the communities we serve. At KCS, safety is an obligation, not an option.

In 2017, we formed a new Health, Safety and Environmental (HSE) group with the mandate to enhance our obligation to safety—including hazmat safety—among other endeavors. The new group consists of a team dedicated to the ongoing design, implementation and administration of KCS workplace safety and health.

For training employees and contractors on the front lines of our railroad operations, we enacted new KCS Safety Rules. These 35 general rules with additional department-specific rules have been designed to

optimize our safety training programs.

There's no greater rail public safety initiative at this moment than Positive Train Control (PTC), and KCS is on track to meet this year's PTC implementation deadline.



Customer Focus: We will recognize that we are in the business of serving customers and will strive to consistently meet or exceed their expectations and deliver on our commitments. We will do what we say we are going to do.

In our 2017 Customer Satisfaction Survey, 84% of our customers believe we are committed to "win-win" solutions. That commitment led to some major customer-centric strategic initiatives in 2017 to facilitate security and growth.

We opened our 24/7 KCSM Security Operations Center (KSOC) in Monterrey, Nuevo Leon. KSOC's state-of-the-art surveillance allows us to provide top-notch security for people, facilities and customer freight in Mexico. In 2017, the Asociación Latinoamericana de Seguridad (Latin American Security Association) recognized KSOC as a technologically innovative security project that protects people and property.

KCS is also committed to investing in projects that will facilitate our customers' growth while also reducing their costs. Our U.S. and Mexico projects will, among other benefits, expand exports, leverage economies in competitive markets, boost job creation, and minimize supply chain dependencies.

Continued



CEO Message

In addition, we are one of many companies leading the charge to advance trade and investment in an integrated North American economy. Our executive leadership have been actively engaged in Washington D.C. and Mexico City to advocate for our customers and the importance North American trade plays in each customer’s business.



Communication: We will support an environment of open and honest communication in which transparency of information and diversity of perspective are valued.

We are pleased that our 2017 Customer Satisfaction Survey found that 87% of our customers believe we communicate openly and honestly with them. That’s encouraging because we aim to communicate in an upfront, contact-us-anytime manner with our colleagues, our partners, our shareholders, and people who live in the communities we serve.

Every quarter following our public earnings call, our executive leadership holds a Town Hall meeting. Live and via simulcast, we share information with our U.S. and Mexico employees and address all employee questions. It’s a casual get-together, where open and honest communication, along with a bit of humor, is encouraged.

Public safety is top of mind for everyone at KCS. That’s why we interact with members of the communities where we operate

through programs promoting the prevention of rail-related injuries, collisions and deaths. Through Operation Lifesaver in the U.S. and Alto Total (Full Stop) and Cuidado con el Tren (Beware of the Train) in Mexico, we have numerous channels to communicate the importance of rail safety.



Teamwork: We will encourage and reward initiative and cross-functional teamwork. We will treat our fellow employees, and other business associates, with dignity and respect. Railroading is a team sport!

At KCS, “partnership” is a key word. Internally, various KCS teams partner on cross-functional initiatives. Externally, we appreciate our strategic partners. Our 2017 Customer Satisfaction Survey found that 90% of our customers consider KCS a partner committed to a long-term relationship.

Our Health, Safety, Security and Environmental (HSSE) Commitment only works if multi-KCS departments are committed to the HSSE principles. Our technology, operations and facilities departments, among others, are responsible for putting the principles into action for the good of KCS and our entire service area.

In 2017, KCS put the power of teamwork into action when natural disasters struck the U.S. and Mexico during Hurricane Harvey and three Mexican earthquakes.

To mitigate any damages, many teams within KCS did their part to protect our assets and serve our customers. We also worked with other rail carriers to reroute traffic to avoid the historic flooding in southeast Texas.

Facing the forces of Mother Nature also demonstrated our rail network’s resiliency. All the teams who played a part in our investments of upgrading our infrastructure before disaster struck helped KCS mitigate damages, showing our underlying strength as a North American freight transportation provider.



Initiative & Innovation: We will nurture an environment which encourages and rewards resourcefulness, innovation and creativity, and where all individuals’ contributions are encouraged and respected.

During the past year, we’ve added new members to our Board of Directors who are leaders in innovation and technology. We’ve also evaluated several strategic and innovative investments to enable our Vision by:

- Extending our geographic reach
- Enhancing our services
- Embracing technologies that help us meet our goals

Since international trade is a hallmark of KCS, a couple of strategic investments we’ve made have led to innovative customer logistics solutions.

Continued



CEO Message

KCS's seamless and secure cross-border transportation service between the U.S. and Mexico is a point of pride within our company. Still, we always look for ways to improve the process for our customers. In 2017, this led to the opening of our new Rail Unified Cargo Processing Center, the only one of its kind in North America. By combining U.S. and Mexican inspection sites into one location, the center helps reduce customs processing time and transportation costs, as well as promotes a more collaborative cross-border gateway.

Our next step in improving the cross border process involves collaboration (aka teamwork) between KCS and U.S. and Mexican Customs. Designed to be similar to the model that exists at the U.S./Canada border, approved international crews will facilitate our interchange operations in the border area to eliminate the need to change crews on the Laredo International Railway Bridge at the border. In addition to easing the border bottleneck, this will increase fluidity, improve security and facilitate trade growth—including the rapid growth of refined petroleum products moving from the U.S. Gulf Coast refineries into Mexican markets.

Looking ahead, blockchain is one emerging technology that can aid us

in providing a cross-border information-sharing solution as we continue to improve our process. We recently joined the Blockchain in Transport Alliance (BiTA) to help create, along with other transporters, the transparencies and efficiencies needed to better serve our customers and our partners.

Employing innovative technology is also key to our energy reduction efforts even as we grow our business. In 2017, we increased our total gross ton miles by 8.8%, but our diesel fuel increased by only 5.8%. It was heartening to see we decreased our total energy consumption per gross ton mile primarily as a result of energy management technology solutions.

We look forward to other technology innovations and initiatives to leverage current technology to provide industry-leading customer service as we achieve our Vision.



Diversity & Civility: We will embrace our cross-cultural heritage and promote a work environment that is inclusive of everyone. We will honor the rights of all individuals to be treated with respect and dignity.

Inclusiveness and diversity start with our Board of Directors. In 2017, two U.S. national groups recognized us for our diverse board representation of women and of people with Latin heritage.

Having a diverse Board gives us an advantage of being even more aware of issues facing our workforce. It was surprising when the New York Law Journal reported that in a 2017 survey, 77% of boards "had not discussed accusations of sexually inappropriate behavior and/or sexism in the workplace."¹ In contrast, not only have our Board members discussed these issues, they helped us strengthen our Non-Discrimination & Anti-Harassment Policy.

We are also advancing our workplace diversity by increasing the number of women in KCS leadership roles.

Looking Forward

KCS is taking steps to meet the goals of our clear and bold Vision by building on what we accomplished in 2017 while welcoming new initiatives and innovations.

In addition to what I've already mentioned, we plan to achieve even greater benefits and opportunities for our shareholders, customers, colleagues, communities, vendors and partners.

With our Values guiding us, we're setting ourselves up for success for The Long Haul!

Patrick J. Ottensmeyer
President & Chief Executive Officer

¹ New York Law Journal, "[Boards, Sexual Harassment, and Gender Diversity.](#)"



HSSE Commitment

HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT



We are committed to the:

- Safety of our employees
- Quality of our services
- Stewardship for the protection of our environment, our customers and the communities where we operate



We are dedicated to improving our compliance processes and business practices by:

- Working openly with our stakeholders
- Using quantifiable goals to drive sustained safety and environmental excellence
- Exercising continual process improvement in all our safety and security initiatives



These Health, Safety, Security and Environmental (HSSE) principles guide our daily decisions and actions:

Commitment to:

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



With these principles as the foundation of our management system, we can continue to be both a responsible corporate citizen and maintain compliance with the letter and spirit of our HSSE commitment.



REPORTING SUSTAINABILITY





Reporting Sustainability

ABOUT THIS REPORT

Reporting period: KCS's fiscal year—January 1, 2017, through December 31, 2017

Reporting content boundaries: This is our second annual sustainability report based on GRI standards.

Please note:

- “KCS” refers to U.S. and Mexico operations, including both countries' employees (KCS = Kansas City Southern)
- “KCSR” refers to U.S. operations and U.S. employees (KCSR = The Kansas City Southern Railway Company)
- “KCSM” refers to Mexico operations (KCSM = Kansas City Southern de Mexico, S.A. de C.V.)
- “KCSMS” refers to a company supplying contract services to KCSM (KCSMS = KCSM Servicios, S.A. de C.V.)
- “Employees” refers to all non-union employees in the U.S. and Mexico, unless otherwise specified

Reporting standards: This report has been prepared in accordance with the GRI Standards: Core option. GRI (Global Reporting Initiative) Standards guide us in reporting our impact regarding sustainability issues. Following GRI Standards, we have:



Implemented materiality processes: These include evaluating GRI's economic, environmental and social topic-specific standards and other industry-related sustainability issues. The process comprised formal and informal input from KCS stakeholders.



Expanded stakeholder engagement activities: This included conducting a biennial survey with key stakeholder groups that included our customers, employees, investors (shareholders) and suppliers.



Expanded responsibilities for sustainability reporting and activities enterprise-wide: By engaging all our departments, we:

- Made our reporting and planning approaches more comprehensive
- Heightened awareness among our leadership and employees

In 2016, we updated our materiality process to better align with the new GRI Standards. We also conducted the first of our ongoing stakeholder surveys for defining report content. The outcome of these initiatives resulted in addressing topics for 2017 reflective of our highest-ranked priority issues, indicators and report content.





Reporting Sustainability

STAKEHOLDER ENGAGEMENT

We take pride in engaging with our stakeholders all year long—through one-on-one customer visits, employee town halls, various stakeholders' conferences, customer satisfaction surveys, our annual shareholders' meeting and many more outreach methods.



Our stakeholders include:

- Investors
- Customers
- Employees
- Suppliers
- Media
- Governments/Regulators
- Trade Associations
- Unions
- First Responders
- Partners (shortlines, transloads, intermodal facilities)

See **Appendix: Stakeholder Engagement** on [page 85](#) for list of stakeholder groups we've engaged with on various subjects throughout 2017.

For our 2016 and 2017 sustainability reports, our Sustainability Steering Committee:

- Identified stakeholders across all business lines and operations
- Mapped stakeholders to better understand and classify each group based on their relationship with our operations
- Conducted a stakeholder survey with customers, investors, employees, and suppliers:
 - To assist us in our materiality process
 - To increase understanding of priority economic, environmental and social issues relevant to our business



More than 200 stakeholders participated in our first survey. Along with other stakeholder engagement methods, the survey's outcome helped us develop our report by identifying priority material topics.

Stakeholder Priority Material Topics for our 2017 report include:

- Economic | Financial Performance
- Employee Training and Education
- Anti-Corruption Practices
- Security Practices
- Environmental Compliance
- Occupational Health and Safety
- Non-Discrimination
- Waste
- Energy
- Water
- Emissions and Climate Change
- Biodiversity and Land Management

See **Stakeholder Priority Material Topics** starting on [page 86](#) for specific information on how we approach these topics in the management of our operations.





REGARDING KCS





Regarding KCS

KCS AND OUR HOLDINGS

Kansas City Southern (KCS) is a transportation holding company offering railroad investments and freight shipping operations. Our holdings include three principal operating companies in the United States, Mexico and Panama.

To serve the diverse and growing North American market, we leverage our cross-border rail network and our commitment to operational excellence. In 2017, this strategic advantage allowed us to exceed our customers' expectations and to provide a 24% share price return to our shareholders.¹



Our cross-border network provides our customers the advantage of connecting North America with the world's producers and end-consumers in these ways:



We operate approximately 6,700 route miles throughout 10 U.S. and 17 Mexican states.



Headquartered in the crossroads of a continent, our rail network provides superior access to Mexico's industrial heartland and connections with all other Class I railroads. This results in value to our customers, including:

- Enabling them to be one interchange away from all major North American commercial and industrial markets
- Empowering their businesses by being a transportation solutions partner at the heart of every supply chain
- Our unique rail freight network gives our customers the benefit of seamless, secure cross-border transportation between the U.S. and Mexico.
- Operating at Pacific Ocean and Gulf of Mexico ports, we promote the transport of customer goods across the globe.

¹ Share price performance of KSU as calculated from 12/30/16 through 12/29/17.





Regarding KCS

PRINCIPAL OPERATING COMPANIES



KCSR: The Kansas City Southern Railway Company

- Headquartered in Kansas City, MO
- Class I U.S. railroad operating approximately 3,400 route miles
- Provides service to approximately 30 transload facilities
- Serves 18 originating energy terminals in the U.S.
- Services five company-owned intermodal terminals
- Connects with approximately 50 short line and terminal switching railroads
- Serves central and south-central United States in Missouri, Illinois, Kansas, Arkansas, Oklahoma, Texas, Louisiana, Mississippi, Alabama and Tennessee
- Has haulage and/or marketing agreements with rail lines that extend into Iowa and Nebraska
- Provides access to Gulf of Mexico ports in four states, Mississippi River ports in four states and additional ports in two states along other navigable waterways
- Links the major commercial and industrial centers of the U.S., Mexico and Canada



KCSM: Kansas City Southern de México, S.A. de C.V.

- Headquartered in Mexico City, Mexico
- Operates approximately 3,300 route miles
- Provides service to approximately 75 transload facilities
- Serves 13 destination energy terminals with another six in development in Mexico
- Services three company-owned intermodal terminals and another 12 private but open-to-the-public intermodal terminals
- Serves northeastern, central, southeast-central and southwest-central Mexico
- Provides access to three Gulf of Mexico ports and one Pacific Ocean port
- Serves most of Mexico's principal industrial cities, covering 62% of Mexico's population and 65% of the country's GDP
- Operates a key commercial corridor of the Mexican railroad system and has, as its core route, the shortest, most direct rail passageway between Mexico City and Laredo, TX



PCRC: Panama Canal Railway Company (50% interest)¹

- Provides ocean-to-ocean freight and passenger service along the Panama Canal
- Provides service along approximately 47 miles north to south along the canal

Taking stock of KCS



- Is a member of the S&P 500
- Trades its stock on the NYSE as KSU
- Is incorporated in Delaware
- As of December 31, 2017, had:
 - \$11 billion market cap
 - Stock price appreciation of 24%
 - 2,141 stockholders of record
 - 105 million average diluted shares outstanding

¹Sustainability information related to the PCRC is not included in this report.



Regarding KCS

RAIL NETWORK CROSS-BORDER ADVANTAGE

We are the only U.S. company to wholly own Class I rail operations in the U.S. and Mexico. With operations in both countries, we can assist companies to efficiently navigate doing business in Mexico.

Our customers enjoy a highly competitive advantage with our secure, streamlined cross-border rail operations between the U.S. and Mexico. Keeping businesses on track to success when crossing the border, we help our customers take advantage of:

- Nearshoring opportunities
- Mexico Energy Reform
- Diversifying their supply chain



Because we transport freight across the border both northbound and southbound every day, all day, we provide our customers these robust, unparalleled capabilities:



New and innovative Rail Unified Cargo Processing Center,¹ enabling Mexico and U.S. customs officers to jointly complete their respective inspections of import/export U.S. and Mexican traffic—which helps reduce delays without compromising security

¹See **Cross-Border Rail Unified Cargo Processing Center** on page 14 for details on this facility, the only one of its type for cross-border rail inspection in North America.



Customs pre-clearance for faster, lower-cost cross-border transportation than trucks can offer



Secure movements through our extensive security measures, which include a state-of-the-art security facility (see page 41), surveillance equipment, guard points, trained agents and K-9 units along our rail network



State-of-the-art logistics via network operating centers located in both the U.S. and Mexico to keep our trains and customers' shipments moving seamlessly



Online tool called MyKCS that allows customers to manage their freight movements 24/7



Strategic partnerships with companies and facilities—such as other railroads, intermodal marketing companies (IMCs), transload centers and intermodal facilities—enabling seamless, end-to-end service



Diversified access to Asia and other markets via the Port of Lázaro Cárdenas on Mexico's Pacific coast—as well as further access to global markets via our Gulf of Mexico ports



Regarding KCS

CROSS-BORDER RAIL UNIFIED CARGO PROCESSING CENTER

In 2017, we partnered with key agencies and partners to launch an innovative approach to processing increased rail traffic. The Rail Unified Cargo Processing Center is the first and only one of its kind in the North American freight rail transportation industry.

The center helps both the U.S. and Mexico realize their security and transport facilitation priorities collaboratively at the Laredo International Railway Bridge. The largest international rail interchange in North America in terms of both freight volume and value, the bridge joins Laredo, TX, and Nuevo Laredo, Tamaulipas.

The center and its processing methods serve as a model for how communities, governmental authorities and private enterprises can work together to create outcomes that benefit all. It enables simultaneous and single analysis of trains entering the U.S./exiting Mexico through non-intrusive imaging by our government partners.

We constructed the center on the U.S. side of the Laredo International Railway Bridge. Among our partners were:

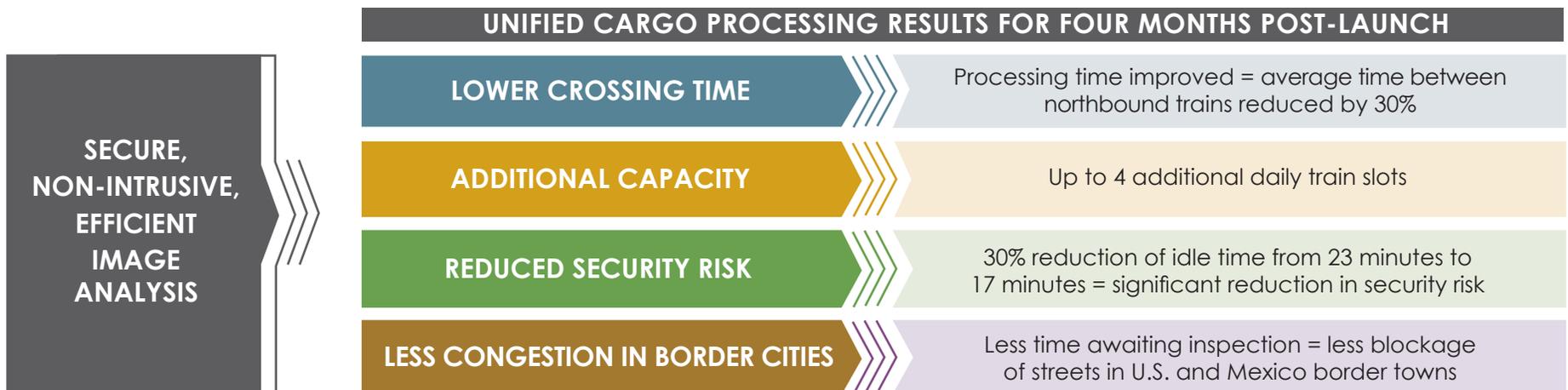
- United States Customs and Border Protection (CBP)
- México Customs Servicio de Administración Tributaria (SAT)
- Union Pacific

Laredo, TX, is now the only U.S. port of entry where U.S. and foreign customs agencies are co-located and collaborate to perform joint inspections for all modes of commercial traffic (air, road and rail).

Since the center opened, we've experienced these positive impacts:

- Reduction in overall customs processing time and reduction in delays for northbound trains through consolidation into a single process
- Increased capacity, without compromising security, at the Laredo International Railway Bridge
- Increased collaboration and efficiency in commodity inspections between U.S. and Mexico Customs
- Reduction of transportation costs

See more at: Rail Network Cross-Border Advantage on [page 13](#)
 Rail Resource Efficiency on [page 51](#)
 Partnerships and Investments on [page 52](#)





Regarding KCS

U.S.-MEXICO TRADE AND KCS

2017 was an eventful year in keeping the dialogue open regarding trade between the U.S. and Mexico and all of North America.

U.S. Chamber of Commerce

In January, the U.S. Chamber of Commerce announced that the U.S.-Mexico CEO Dialogue named KCS President and CEO Patrick J. Ottensmeyer as U.S. Chairman of its new Strategic Trade Initiatives (STI) Working Group. This working group is dedicated to advancing the U.S.-Mexico economic relationship, including addressing and resolving bilateral trade challenges.

In making the announcement, Myron Brilliant, Executive VP and Head of International Affairs for the U.S. Chamber of Commerce, said, "Pat is the right person to lead this effort at an important juncture in the U.S.'s relationship with Mexico, our neighbor and third largest trading partner.

"He is deeply committed to advancing trade and investment between the U.S. and Mexico, and he is a recognized leader in a railroad industry that connects our highly integrated North American economy."

In June, as STI Working Group Chairman, Ottensmeyer participated in the 8th Annual U.S.-Mexico CEO Dialogue.

NAFTA

With the inauguration of a new U.S. President whose campaign had featured opposition to the North American Free Trade Agreement (NAFTA), the U.S., Canada, and Mexico launched negotiations to modernize NAFTA.

As of Dec. 31, 2017, those negotiations were still underway with some progress, but much separated the U.S. and its NAFTA partners.

Before Congress

In July 2017, Ottensmeyer testified before the U.S. House of Representatives Ways and Means Trade Subcommittee hearing on "Modernization of the North American Free Trade Agreement." The hearing explored issues regarding the U.S. negotiations with Mexico and Canada to modernize NAFTA.

In his remarks, Ottensmeyer said, "NAFTA is critically important to the U.S. rail industry, including KCS. According to a study done by AAR (Association of American Railroads) in March of this year, at least 42 percent of rail carloads and intermodal units, and more than 35 percent of annual revenue, are derived from international trade."

He concluded by explaining the "very significant and growing opportunities to increase U.S. agricultural, energy, petrochemical and plastics exports to Mexico."

[Read his full testimony here.](#)

In the News

Two national publications featured two KCS Executive Team members discussing NAFTA.

The New York Times

In October 2017, Warren Erdman, EVP Administration and Corporate Affairs, joined other corporate members of the U.S. Chamber of Commerce on Capitol Hill, visiting with senators and their staffs about the importance of NAFTA to North America and the U.S. economy.

In an October 24, 2017, article in *The New York Times*, Erdman is quoted as saying, "While we support growth of the American economy through tax reform, we don't want at the same time to impose tariffs, which are essentially taxes on production."

The Wall Street Journal

A November 2017 opinion editorial penned by Ottensmeyer called "Yes, Nafta Is Good for My Children" appeared in *The Wall Street Journal*. The November 14 op-ed was in response to a thought-provoking question posed to Ottensmeyer during his 2017 meeting with the U.S. Trade Representative, Ambassador Robert Lighthizer.

In the editorial, Ottensmeyer noted, among other statistics, that "U.S. exports to Canada and Mexico support 14 million American jobs, including tens of thousands in every state, according to the U.S. Chamber of Commerce. Each day, more than \$3.3 billion is traded among the U.S., Canada and Mexico. That's \$1.2 trillion a year. In fact, about half of all Canadian and Mexican imports are made in the U.S."

He concluded by essentially saying "a modernized agreement" could lead to even more benefits for Americans.



Regarding KCS

KCS BOARD OF DIRECTORS

Our Board of Directors is responsible for overseeing the development and execution of our company strategy.

With an array of experiences, backgrounds and skill sets, our Board of Directors (BOD):

Directs the company in matters such as selecting, evaluating and compensating the executive leadership team

Assesses and monitors risks through our Enterprise Risk Management (ERM) process

Reviews and approves fundamental financial and business strategies and major corporate actions

Has oversight of the integrity of the company in business dealings

The KCS Board of Directors, which is our highest governing body, facilitates our sustainability in terms of growth, prosperity and overall success. In 2017, our 12 Directors served on five committees that were responsible for various sustainability topics.

KCS 2017: Board of Director Committees and Sustainability Responsibilities

Committee	Sustainability Topic	# of Board Members on Committee
Audit	Economic, Environmental	3
Compensation and Organization	Social	4
Executive	Economic, Social, Environmental	3
Finance	Economic	3
Nominating and Corporate Governance	Governance	4

KCS Recognized for BOD Diversity in 2017

“KCS embraces the tremendous value that comes from the diversity of our board and throughout the company, which is why we are so proud to be recognized by these two organizations,” said KCS President and CEO Patrick J. Ottensmeyer.

Latino Leaders: In its September/October edition, the magazine Latino Leaders recognized three members of our Board of Directors. The magazine highlighted Board Directors Lu M. Córdova, Antonio O. Garza, Jr. and David Garza-Santos among 100 Latino Directors in its special 2017 Corporate and Board Edition.

Game-Changing Women: In November, the Women’s Forum of New York—at its fourth biennial Breakfast of Corporate Champions—honored KCS for achieving 25 percent female representation on our board.

We were among 371 companies applauded as a corporate game-changer by advancing women in the boardroom. Lydia I. Beebe and Janet H. Kennedy joined Córdova on our Board in 2017.



Regarding KCS

KCS BOARD OF DIRECTORS

High Standards for BOD Eligibility

Under our guidelines, to be eligible for election to our Board, directors must be committed to representing the long-term interests of our stockholders and meet—at a minimum—these qualifications:



High personal and professional ethics, integrity and values



Independence, in accordance with the requirements of the NYSE, unless their lack of independence would not prevent two-thirds of the BOD from meeting such requirements



No current service on boards of companies that, in the judgment of the Nominating Committee, are in competition with or opposed to our best interests



Below the age of 75 years as of the date of the meeting at which his or her election would occur

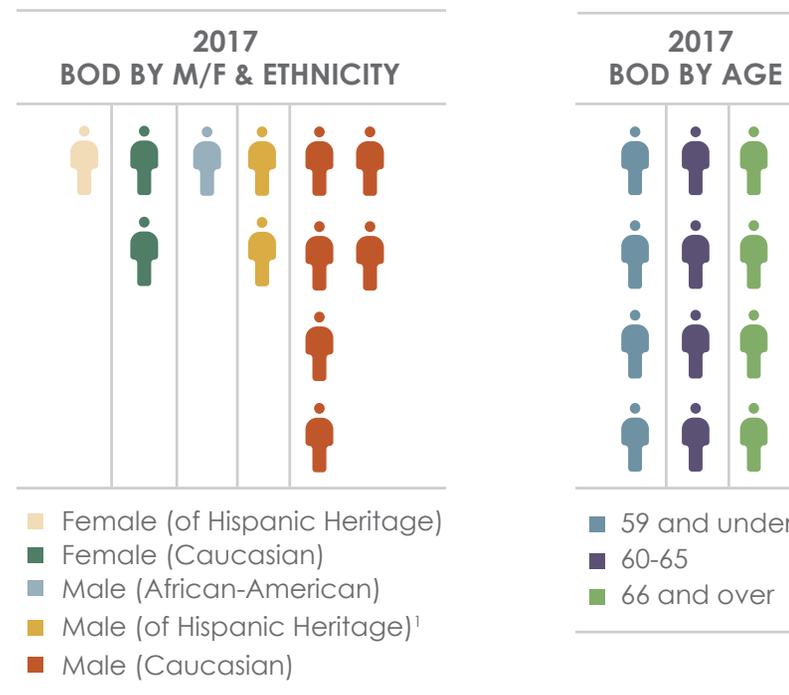


Is not a former KCS Chief Executive Officer

BOD by the Numbers

During the Board selection process, the BOD Nominating Committee strives to nominate directors who represent an appropriate mix of backgrounds and experiences to best enhance the functions of the Board.

The committee considers diversity in the broadest sense thus including factors such as age, sex, race, ethnicity and geographic location, as well as a variety of experiences and educational backgrounds.



¹Both Directors' business operations are based in Mexico.





Regarding KCS

PROFESSIONAL ENGAGEMENT

We stay active and up-to-date in our industry and commit to be participants in our stakeholders' interests. To do so, we collaborate with a variety of organizations that support:



Environmentally responsible, safe and secure operations within the freight rail transportation industry



Economic development in countries, states and communities along our rail network



Community activities and educational institutions

Our participation goes well beyond paying membership dues. We are active participants and sit on the organizations' boards and committees. The associations to which we belong include environmental, social, educational, economic, technology and safety organizations.



Environmental

SmartWaySM Transport—Innovative collaboration between the United States Environmental Protection Agency and the freight transportation sector. SmartWaySM is designed to:

- Improve energy efficiency and energy security
- Reduce greenhouse gases (GHG) and air pollutant emissions

In cooperation with the American Chemistry Council (ACC), we are partners of the following organizations. We also received honors from both groups in 2017 (see [pages 72 and 81](#)).

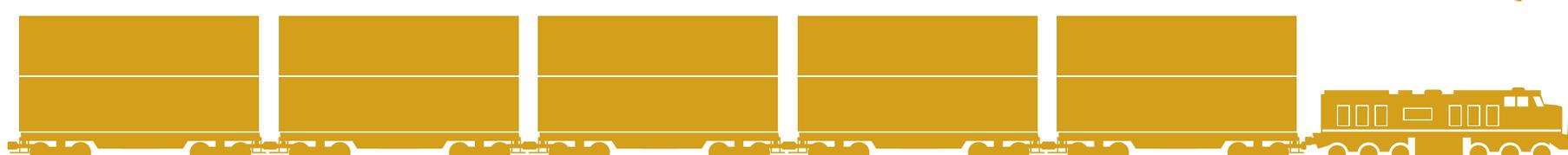


Responsible Care[®]—A global initiative aimed at:

- Driving continuous improvement in health, safety, security and environmental (HSSE) performance
- Encouraging open and transparent communication with stakeholders



TRANSCAER[®]—Community outreach program that focuses on assisting communities to prepare for and to respond to a possible hazardous materials transportation incident





Regarding KCS



SOCIAL and EDUCATIONAL

To serve our employees and communities, we are members of or active participants in various organizations at the international, national, state and local levels. These organizations include:

- WorldatWork—Global association focused on attracting, motivating, and retaining employees
- Employee Assistance Professionals Association
- Society for Human Resource Management (SHRM)
- Association for Talent & Development (ATD)
- Employee Benefits Institute (EBI)
- Star 12 Training (Part of SkillPath and National Seminars Training)
- Mid-American Gay & Lesbian Chamber of Commerce—Ambassador, Board Nominating Committee and Diversity & Inclusion Committee
- Mid-America Coalition on Health Care
- Heart of America Relocation Council (HARC)
- Total Rewards KC
- Asociación Mexicana en Dirección de Recursos Humanos (AMEDIRH / American Association in Human Resources Management)
- Ejecutivos de Relaciones Industriales AC (ERIAN / AC Industrial Relations Executives)
- Asociación Técnica en Compensaciones (ATECO / Association of Technical Compensation)
- Centro Mexicano para la Filantropía (CEMEFI / Mexican Center for Philanthropy)
- Workplace Wellness Council –Mexico



In addition, our executive leadership team engages with organizations that have positive direct or indirect impacts on both people and the communities in which we serve. Some organizations on which our executive leadership hold committee or board memberships include:

- Make-a-Wish Missouri—“We grant the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength and joy.”
- Boys and Girls Clubs of Greater Kansas City—To enable all young people, especially those who need us most, to reach their full potential as productive, caring, responsible citizens
- University of Missouri-Kansas City (UMKC) Trustees, UMKC Foundation, and UMKC Bloch School of Management Human Resources Advisory Board
- University of Indiana, Brigham Young University, Kansas State University and Westminster College
- W. P. Carey School of Business-Supply Chain Management at Arizona State University
- Denver Transportation Institute (DTI) Program at University of Denver
- Council of Supply Chain Management Professionals (CSCMP)
- St. Luke’s Hospital of Kansas City Physician Contract Review Committee
- The Greater Kansas City Community Foundation through individual employee and director donor advised funds



Regarding KCS



ECONOMIC: COMMERCE and TRADE

KCSR, KCSM or their executive teams are active members or board directors of national, state and local commerce and trade associations, which include:

- The U.S. Chamber of Commerce
- Mexico Chamber of Commerce
- American Chamber of Commerce Mexico
- U.S.-Mexico Chamber of Commerce
- Confederation of Industrial Chambers of Mexico
- International Chamber of Commerce
- Executive Council of Global Enterprises (CEEG)
- Association of American Railroads (AAR)
- Association of Mexican Railroads (AMF)
- National Freight Transportation Association (NFTA)
- National Association of Rail Shippers (NARS)
- Mexican Association of Shipping Agents (AIESEC)
- Intermodal Association of North America (IANA)
- Asociación Mexicana del Transporte Intermodal (AMTI)
- State railroad associations in AR, IL, KS, LA, MO, MS, OK and TX
- Missouri Hawthorn Foundation—Facilitating Missouri-based economic development efforts
- Kansas City Downtown Council
- Many other U.S. and Mexican organizations that promote the economic development of states and local communities along our rail network



SAFETY and TECHNOLOGY

KCS executives, directors and employees serve on:

- [Operation Lifesaver's](#):
 - National board
 - National advisory council
 - State board agencies
- [Alto Total](#) (Operation Lifesaver's Mexican counterpart) and [Cuidado con el Tren](#) (Beware of the Train) board of directors
- Federal Railroad Administration (FRA) Grade Crossing Task Force Committee
- National Committee on Uniform Traffic Control Devices (NCUTCD)
- These AAR subsidiaries and committees, among many other committees:
 - Transportation Technology Center, Inc. (TTCI)—Dedicated to research, development, testing, consulting and training for railway-related technologies
 - Railinc, providing IT service to North American railroads, and Railinc Project Support Working Committee (RPSWC)—Industry technology group working on asset health and other systems
 - Rail Information Security Committee (RISC)—Comprised of railroad IT leaders dedicated to being proactive regarding cyber security
 - Safety and Operations Management Committee (SOMC) Executive Committee
 - Grade Crossing & Trespasser Prevention Committee



Regarding KCS

SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI)

To serve our customers best, we reach out to all sectors of the supplier community. By seeking high-quality, certified disadvantaged, minority-, women- and veteran-owned suppliers, KCSR brings the added value of diversity to our purchasing process.

With our comprehensive supplier outreach, we are able to:

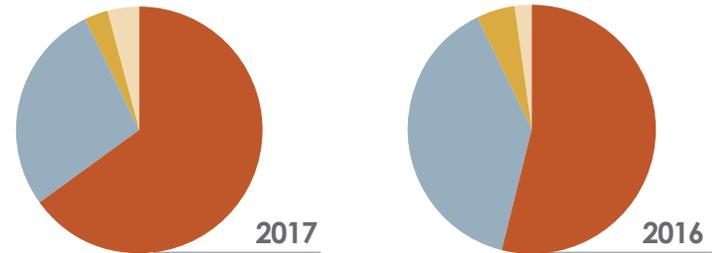
- Take advantage of expansion opportunities as we increase the scope of our business contacts
- Leverage supplier competition to encourage innovation of new products, services and solutions
- Increase opportunities for diverse suppliers to do business with us and us with them

As part of our Supplier Diversity Program Initiative, we seek out these enterprises to find the very best value when purchasing quality goods and services:

- Small businesses
- Disadvantaged businesses
- Minority-owned businesses
- Women-owned businesses
- Veteran-owned businesses

In 2017, we received and reviewed information from the Kansas City Procurement Round Table Supplier Diversity Sub-Committee. This allowed us to stay current on the vendor community.

KCSR: Total Spend in Supplier Diversity Segment



KCSR: % of Spend on Business Enterprises in Supplier Diversity Segment	2017	2016
Minority-Owned Hispanic/Latino Business Enterprises	65%	54%
Woman-Owned Business Enterprises	28%	39%
Disadvantaged Business Enterprises	3%	5%
Minority-Owned Veteran/African-American/ Native-American Business Enterprises	4%	2%



KCSR: % of Spend on Woman-Owned Business Enterprises in Supplier Diversity Segment	2017	2016
Woman-Owned Non-Minority Business Enterprises	67%	52%
Woman-Owned Minority Business Enterprises	33%	48%



MANAGING RISK





Managing Risk

MANAGEMENT OF RISK



When it comes to potential risks to the company, we take a proactive approach.

Enterprise Risk Management

Our multidisciplinary Enterprise Risk Management (ERM) process lets us:

- » **Identify** events that potentially might affect our enterprise
- » **Review** the risks, impacts and opportunities associated with those events
- » **Develop** mitigation activities that may reduce the probability or impact of risks and impediments in pursuing opportunities

Our Board of Directors' Audit Committee oversees the ERM process. In 2017, we followed the ERM procedure that called for:

- » **Employees and departments** to identify and rank our enterprise risks and mitigation activities, as well as provide updates to ongoing risks
- » **Our executive management team** to review and report the top enterprise risks semi-annually to the Board of Directors' Audit Committee
- » **The Audit Committee** to review areas of potential significant risk, including financial risk, and the company's action plans

Other Risk Management Initiatives

We consider risks and opportunities on two different levels—company-wide and asset-level:

- » At the company-wide level, examples might include improving fuel efficiency throughout KCS to reduce costs and minimize environmental impacts.
- » At the asset-level, an example consideration might include mitigating impacts from weather events by:
 - o Improving physical assets, such as our rail infrastructure and design
 - o Employing energy reduction initiatives to benefit our trains' fuel efficiency

All direct and indirect activities that influence policy are consistent with our overall climate change and environmental-related strategy. Processes include:

- » Risk assessments—which fundamentally guide and establish boundaries—that include assessments on governmental regulations. This may include certain climate-change governmental regulations such as restrictions, caps, taxes, or other controls on emissions of greenhouse gases.
- » Our Health, Safety, Security and Environmental (HSSE) Commitment that serves as a guiding framework for understanding and managing our direct and indirect environmental impacts, among other things
- » An environmental management system that provides an approach to planning, implementing and reviewing the environmental management process
- » Public disclosure of our environmental performance regarding fuel emissions through our annual sustainability report and our CDP report



Managing Risk

POLICIES: ANTI-CORRUPTION, CONFLICT OF INTEREST, ETHICS AND COMPLIANCE

Avoiding situations in which there is a conflict between business and private interests is an important condition of ethical conduct at KCS.

We are committed to making all company employees, customers and partners aware of our stringent anti-corruption, conflict of interest, insider trading and other ethics policies or codes.

Our Legal, Human Resources and other departments implement Board of Director-approved policies and codes that act as guidelines and deterrents, as well as outline discipline for violations.

Anti-Corruption Policy

The company will not tolerate violations of any United States, Mexican or other law related to corruption. Failure to comply with our Anti-Corruption Policy and governmental anti-corruption laws—including the U.S. Foreign Corrupt Practices Act (FCPA)—can result in:

- Discipline, up to, and including, dismissal
- Personal criminal liability including fines and prison

Reviewed and approved by our Board of Directors, our Anti-Corruption Policy is available to employees in both English and Spanish.

Foreign Corrupt Practices Act (FCPA) Risk Assessment

In 2017, a bi-annual Foreign Corrupt Practices Act (FCPA) Risk Assessment was completed.

Providing an inventory for our Internal Audit team and management for audits and Enterprise Risk Management, the assessment:

- Identified potential corruption touchpoints with non-U.S. federal, state and local officials
- Listed responsible employees and third-party intermediaries
- Rated inherent risk of material FCPA breach for each government interaction

Mexico Vendor Review

In 2017, we undertook a review of KCSM's vendors.

This review determined if there existed any significant undisclosed relationships with our employees in Mexico and state-owned entities.

We found zero significant undisclosed relationships.

Conflict of Interest and Compliance Questionnaire

As of Dec. 31, 2017, 100% of KCSR and KCSMS employees signified their compliance by completing and signing the Conflict of Interest and Compliance Questionnaire.





Managing Risk

Code of Business Conduct and Ethics

We enforce our posted Code of Business Conduct and Ethics for KCS and its U.S. subsidiaries. The Code's standards relate to these issues, among others:

- Honest business dealings
 - Conflicts of interest
 - Confidentiality
 - Transparency
 - Acceptance of entertainment and gifts
-
- Dealings with public officials
 - Political contributions and other situations

A violation of the Code's standards can result in discipline up to, and including, termination.

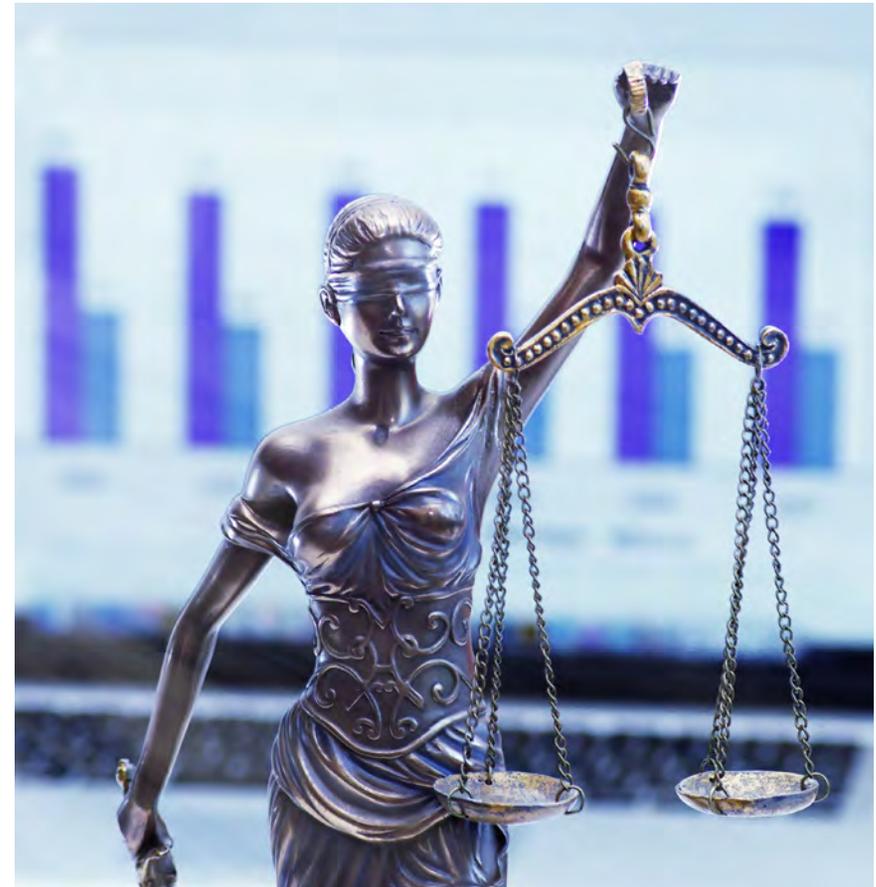
In México, Ética de Negocios y Cumplimiento con las Leyes is enforced.

In addition, we've issued a [supplier expectation policy](#) that extends the same high and ethical standards of our Business Conduct and Ethics to our vendors, contractors and suppliers.

Insider Trading Policy

Our Insider Trading Policy prohibits:

- Any KCS insider or any of our subsidiaries or affiliates from buying or selling KCS securities while aware of material, non-public information except pursuant to a Rule 10b5-1 Trading Plan
- Insiders disclosing information to any other person without express authorization to do so



NOTE: See information on our Equal Employment Opportunity, anti-Harassment and anti-Retaliation policies on [page 57](#).





Managing Risk

24/7 REPORT HOTLINE

Speak Up! in U.S.: 1-800-727-2615

Línea de Denuncias in Mexico: 01-800-436-0158

If there's a problem, calling our hotline is a step in finding a solution. The hotline gives our stakeholders an anonymous, non-retaliatory way to voice their concerns.

In the U.S. and Mexico, we strongly encourage our employees, customers, vendors and the public to raise their voices when they encounter misconduct, as well as unethical or unsafe behavior, among other things.

Staffed by an outside vendor, the hotline allows people to anonymously report on such topics as:

- Unlawful behavior and acts
- Financial irregularities
- Theft and fraud
- Security, safety and environmental concerns and violations
- Suspicious activity
- Violations of company policies
- Violations of antitrust, environmental or other governmental compliance regulations
- Employee relations matters



Allegations are logged, reviewed, investigated and addressed (if applicable) by representatives from our Human Resources, Legal, Internal Audit or Security departments.

Throughout the process, we maintain confidentiality, when possible, and will not tolerate retaliation toward those who speak up.



LIVING SUSTAINABILITY

Name: Wayne Godlewski
KCS role: VP, Information Technology

Prompt for more sustainable lifestyle:

He and his wife moved from a suburban home to downtown Kansas City:

- To improve their quality of life and reduce their carbon footprint
- To enjoy the great restaurants and entertainment venues growing in the city

Personal benefits:

- Less frustration, more efficiency: "I used to drive my truck 23 miles to work and 23 miles back home. Traffic is slow on Interstate 35 during rush hour. It was often a 45-minute ordeal each way. Now, I live 8 ½ blocks from KCS Headquarters. It takes me 12 minutes to walk to work, rain or shine."
- Positive reductions: Wayne spends less on gasoline, his car insurance rate went down, and he pollutes less.
- Positive increases: "The extra hour in my day goes into my role at KCS. I also walk 1.1 miles more per day. It has been awesome."

How awesome? *"In 2016, my wife and I signed a two-year lease as a trial. In 2018, we extended our lease two more years."*



Managing Risk

NATURAL DISASTER PROACTIVITY AND MITIGATION

In 2017, Hurricane Harvey and its subsequent flooding in Texas affected our rail network. However, with our mitigation efforts, the effects of that major disaster ultimately had minimal impact on our company.

As part of our commitment to our employees and communities, we made considerations for people impacted by 2017's Hurricane Harvey and the Central Mexico Earthquake.

Since our rail network in the U.S. and Mexico travels through hurricane, flood, tornado and earthquake zones:

- Before and during any natural disasters, we take proactive measures enterprise-wide.
- During and after a natural disaster hits, we go into full mitigation mode.

In addition to the measures below, we also have established Human Resources Recovery Procedures regarding disruptions of IT systems, vendors, our workforce and workplaces. Our Crisis Management Team deals with issues and concerns following activation and monitoring of procedures.

Economic

We maintain insurance programs, subject to limitations, that provide coverage in excess of a self-insured retention for losses resulting from:

- Damage to property
- Incremental expenses
- Business interruption
- Legal liability
- Other possible sources

Property insurance generally covers quantifiable costs in excess of self-insured retention. These costs include:

- Extra expenses that occur due to:
 - Additional crew costs
 - Rerouting charges
 - Additional car hire costs
 - Fuel inefficiency
- Loss of income/business as a result of being unable to serve some customers over a period of time

Hurricane Harvey

In August 2017, Hurricane Harvey made landfall on the Texas coast and caused flood damage to our track infrastructure, significantly disrupting our rail service. We were out of commission along parts of our Texas rail network for 14 days—though employment wasn't impacted during this time.

Customer impact: Where detours were available, we partnered with other railroads to accommodate customers as best we could. However, due to widespread nature of the damage in and around Houston and eastern Texas, not many detours were available.

Based on the impassibility of our rail line, we declared Force Majeure.

Economic Impact: We filed a claim in the fourth quarter of 2017 under our insurance program for property damage, incremental expenses and lost profits.

Assets and Business Continuity Impact: Our locomotive, car and other mechanical operations put their plans into effect to mitigate damages.

IT and Telecom Impact: We took proactive measures to reduce or eliminate the hurricane's impact on our rail operations by folding down antenna structures in the predicted path of the storm.

After the storm passed, we re-established all IT and telecom operations with no sustained storm damage.

Community Impact: The Greater Kansas City Community Foundation-KCS Fund and our employees donated \$100,000 to the American Red Cross via these efforts:

- Kansas City Southern Charitable Fund \$50,000 donation
- A KCS Charitable Fund \$25,000 donation that matched employee donations dollar for dollar up to \$25,000, for a total of \$50,000



Managing Risk

Employees

In the U.S., KCSR has evacuation protocols and practices which result in conducting drills in each location where we operate. These emergency protocols include vacating our buildings in case of earthquake, fire, flooding or other natural disasters that may put employees' and guests' lives at risk.

In addition, within those protocols, people perform different roles during an evacuation:

- Safeguarding that nobody is left behind
- Facilitating employee conduct, such as taking the correct evacuation route
- Administering first aid

In Mexico, KCSM has civil protection plans for buildings and rail terminals in the event of a natural disaster. For the terminals, the plan requires having employees trained to aid in:

- Firefighting
- Administering first aid
- Facilitating evacuation and rescue efforts

In addition:

- In the U.S., each rail yard has its own Local Emergency Preparedness Plan.
- In Mexico, the National Board of Civil Protection has been involved with our company in planning efforts regarding natural disasters.



Mexico Earthquakes

When Mexico was rocked by three earthquakes in September 2017, KCSM and KCSMS natural-disaster planning went into effect.

September 7: Mexico suffered the greatest earthquake in almost a century at 8.2 magnitude on the Richter scale, creating serious damage and affecting many people in the states of Morelos and Oaxaca.

September 19: A 7.1 magnitude earthquake struck central Mexico with an epicenter approximately 34 miles south-southwest of Puebla, which is about 76 miles southwest of Mexico City.

September 23: A 6.1 magnitude earthquake struck around Oaxaca, which also suffered in the September 7 earthquake.

We did not suffer any significant damage or loss of business due to the earthquakes. KCSM's actions, analysis and evaluation of risks associated with the earthquakes included:

- Evacuations at some facilities
- Physical inspections at facilities to assess their safety before employees could re-enter
- Assessments by various departments to verify any possible impact on our rail infrastructure, HSE operations, machinery, equipment, tools, IT and telecommunications operations, and other operations
- Imposition of speed restrictions over bridges due to possible risk of movements due to aftershocks.

Though the earthquakes didn't materially impact operations, they did impact the lives of some of our employees and people in our communities. Part of our relief efforts included:

- Sending KCSM trains to damaged zones, which served as "gathering centers" to collect food, water, medical supplies, clothing, diapers and other items to help earthquake victims
- Making donations totaling \$123,098 to help earthquake victims—employees contributed in-kind and cash donations, which KCSM matched
- Authorizing employees to take leaves of absence to address their personal needs after an earthquake



Managing Risk

Communities

We've established relationships with the American Red Cross and the Mexican Red Cross (Cruz Roja Mexicana).

In the U.S., we have:

- A Memorandum of Understanding (MOU) on how we and the American Red Cross can work together during a crisis
- Claims personnel on regional American Red Cross boards of directors to further forge strong working relationships

In addition, in the U.S. we are developing a crisis management plan to be managed by the Operations Department. The plan will address natural disaster occurrences. A subset of the plan is to include processes for responding to crisis events where railroad operations affect those communities along our rail network.

Our goal is to make resources available to:

- Address immediate needs, such as food, shelter and clothing for those displaced
- Ultimately make those affected whole where possible

KCSM has a hurricane emergency plan and PETRAM, the emergency plan for accidents involving hazmat. The emergency plan contains operation protocols to follow so that KCSM supports its employees and communities along its rail network in case of a hurricane.

Assets and Business Continuity

Collectively, our locomotive, car and other mechanical operations:

- Proactively provide regular updates about status of impending storms through daily conference calls
- Execute evacuation plans and close select facilities to keep employees away from danger when determined necessary
- Proactively move locomotives, freight cars, and other railroad assets to safe locations
- Provide temporary lodging for select employees
- Move people and resources to select locations to aid in recovery

IT and Telecom

Our telecommunications backbone network in the U.S. and Mexico has:

- Redundant architecture combining owned infrastructure with service providers to mitigate any operations impact caused by damaged infrastructure
- Power generators and mobile power plants in case of power outages by power suppliers in some areas
- Disaster recovery plans to move operations to alternate dispatch centers





ADVANCING SAFETY





Advancing Safety

OUR NO. 1 PRIORITY: SAFETY

As a transporter of a range of goods and materials—including hazardous materials—we strive to:

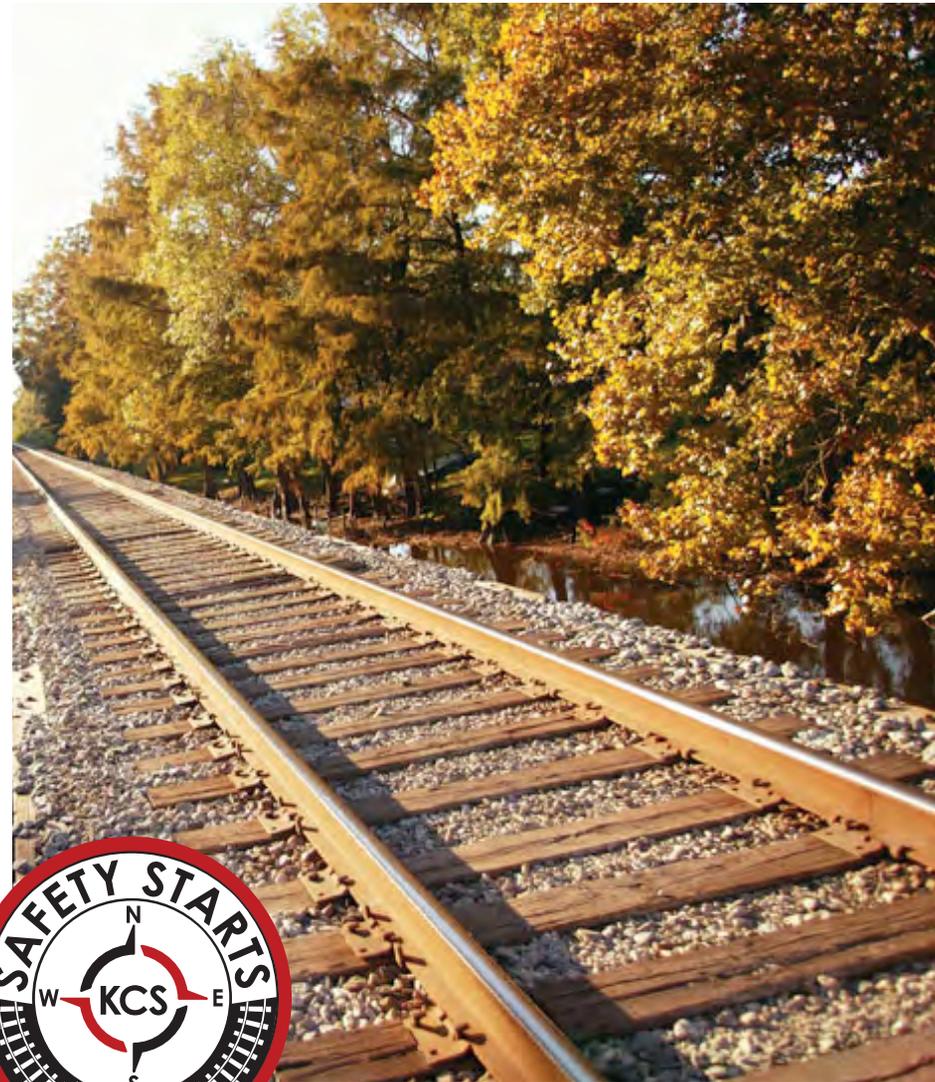
- Minimize potential risks to the communities where we operate and the people who live in them
- Maintain a safe, healthy working environment for our employees

We continuously invest in enhancing safety enterprise-wide through:

- Operating and safety rules, regulations and guidelines
- Public safety initiatives
- Employee training and education
- Technological initiatives, such as Positive Train Control
- Equipment and infrastructure maintenance or replacement
- Facility maintenance or enhancements
- Internal and third-party audits
- Compliance initiatives

Our KCSR Critical Incident Desk and KCSM Interrupción de Servicio desks are active 24/7 so anyone can report emergencies and safety issues such as:

- | | |
|-------------------|----------------------------------|
| • Exposures | • Derailments |
| • Fumes and Odors | • Collisions |
| • Fires | • Non-Hazmat and Hazmat Releases |
| • Evacuations | |
| • Road Closures | |





Advancing Safety

PUBLIC SAFETY: POSITIVE TRAIN CONTROL (PTC)

An advanced technology system, PTC is designed to automatically stop a train before certain incidents occur.

PTC aims to prevent:

- Train-to-train collisions
- Derailments caused by excessive train speed
- Train movements through misaligned track switches
- Unauthorized train entry into work zones

PTC will increase the safety of:

- Our railroad workers/crews
- Communities along our rail network

Our PTC training efforts increased significantly, as we trained personnel in these categories:

- Category I: Central Office Maintainer, On-board Maintainer, Signal Maintainer
- Category II: Dispatcher
- Category III: Crew (Engineer/Conductor)
- Category IV: Track & Wayside
- Category V: Supervisor

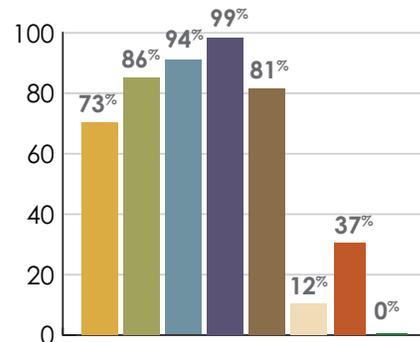
In 2017, KCSR continued to make strides in implementing PTC as efficiently as possible. By December 31, 2018, KCSR:

- Is positioned to install PTC on its required track segments and equipment
- Expects to file for the allowed two-year extension in order to address interoperability work between railroads

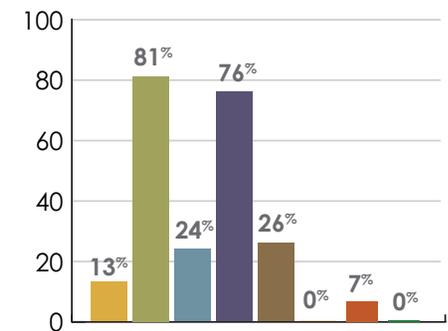
Read more about PTC and our PTC progress at our [Rail Resource Center](#).

PTC Measures

% Complete 2017



% Complete 2016



- Locomotives Fully Equipped & Made PTC Operable
- Locomotives Partially Equipped
- Installation/Track Segments Completed
- Radio Towers Fully Installed & Equipped
- Employees Trained
- Territories Where Revenue Service Demonstration Has Been Initiated

- Route Miles In Testing or Revenue Service Demonstration
- Route Miles In PTC Operation





Advancing Safety



**PUBLIC SAFETY:
GRADE CROSSING SAFETY**

To keep our trains running smoothly while promoting public safety, we employ initiatives specifically aimed at preventing grade crossing collisions.

See [page 37](#) for additional technology that helps reduce grade crossing incidents, as well as improves our general rail infrastructure.

KCS 2017: Grade Crossing Safety Initiatives

Rail Crossing Safety Measures

We:

- Work with state and local governments to identify crossings in need of additional crossing protection—such as flashers, flashers and gates, or other signs or signals
- Install active traffic control warning devices in cooperation with state and local governments

RIMS (Rail Inventory Management System) and Inspections

In 2017, as part of a three-year plan for on-site review of 100% of KCSR's more than 4,800 grade crossings, one-third of the grade crossings underwent a review. We've currently reviewed two-thirds of KCSR's grade crossings and uploaded information captured into the Federal Railroad Administration (FRA) web-based RIMS.

Vegetation Control Management Program

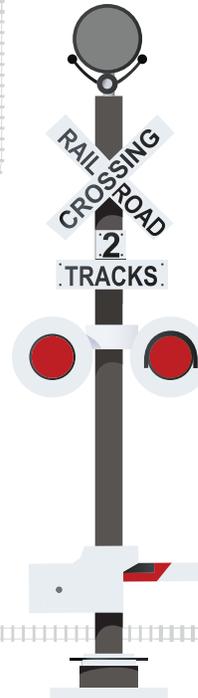
We use control technologies and herbicides in accordance with federal and state requirements to control invasive plant life to prevent:

- Water build-up on tracks
- Concealment of signs, signals, switches, trains and other on-track equipment
- Fire hazards
- Communication and power interruptions

The program:

- Is mandated in the U.S. by the Federal Railroad Administration (FRA), along with various state statutes
- Promotes growth of desired plant life that minimizes need for long-term vegetation management
- Is undertaken for safety purposes at other locations: along rights-of-way, in rail yards and on bridges

In 2017, we applied vegetation control measures on approximately 29,274 acres in the U.S. and 29,237 acres in Mexico.





Advancing Safety

**PUBLIC SAFETY:
OPERATION LIFESAVER/ALTO TOTAL**

On both sides of the border, non-profit organizations seek to educate the public to remain safe around trains with rail safety programs. Aimed to help end rail-related injuries, collisions and deaths, Operation Lifesaver in the U.S. and Alto Total in Mexico are the backbone of our public safety initiatives.



KCSR expanded its outreach by increasing the number of Operation Lifesaver events and courses along our U.S. rail network by 18% in 2017 vs. 2016.



KCSM increased its Alto Total activities by 25% along our rail network in Mexico, reaching 32% more attendees than in 2016.



With the help of KCS-authorized volunteers in both countries, we reached approximately 14% more students, drivers, first responders and others at our school, community, county and state events vs. those reached in 2016.

Throughout each year, we engage with local law enforcement and the public with our Operation Lifesaver/Alto Total programs.

KCS Operation Lifesaver/Alto Total Activities

Officer on a Train

Local law enforcement officers:

- Ride locomotives for real-time perspectives of motorist and pedestrian activity as trains move through their communities
- Station themselves along railroad rights-of-way to watch for crossing and trespasser violations and to issue citations

See Tracks? Think Train campaign

Bilingual television, radio, print and billboard advertisements help get drivers and pedestrians to think twice before taking dangerous risks around railroad tracks.

Public safety videos, tips, lesson plans and other educational materials

Educational resources and public awareness collateral materials to help alert children, teen-agers and adults to the urgent need to be aware of rail activity in their communities.

Grade Crossing Collision Investigation (GCCl) courses

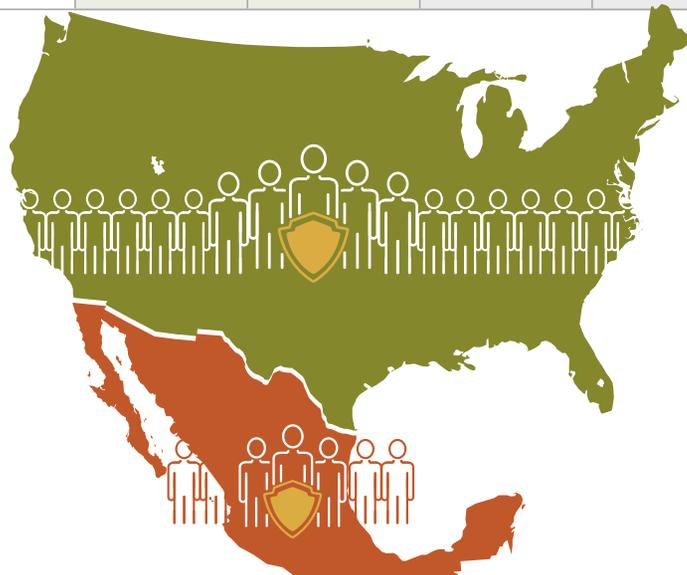
Designed to strengthen and improve public safety, multi-level courses prepare law enforcement officers to participate in specialized highway-rail grade crossing collision investigations while staying safe throughout the process.



Advancing Safety

**KCSR
Operation
Lifesaver**

KCSR Activities	2017		2016	
	No. of Activities	Audience	No. of Activities	Audience
Presentations	1,019	34,532	856	25,044
Special Events and Courses	130	94,809	120	96,808
Total	1,149	129,341	976	121,852



**KCSM
Alto Total**

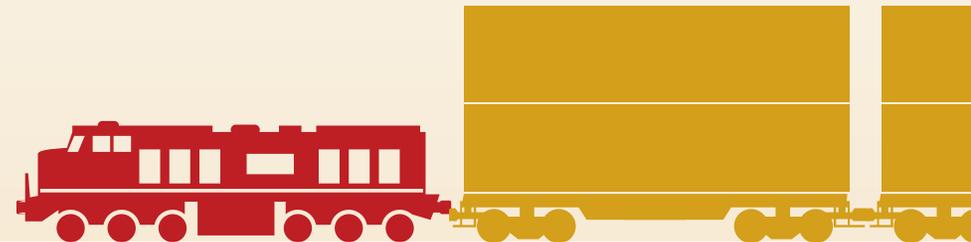
KCSM Activities	2017		2016	
	No. of Activities	Audience	No. of Activities	Audience
Workshops	30	20,000	24	7,005
Presentations and Direct Outreach	23	43,000	17	36,000
Total	53	63,000	41	43,005

Cuidado con el Tren (Beware of the Train)

As a complement to Alto Total activities, KCSM continued to partner with other organizations for the Cuidado con el Tren campaign. Cuidado con el Tren creates awareness among the people, companies and public transport concessionaires who converge and/or are located in areas close to the railway infrastructure.

In 2017, KCSM and its partners carried out these campaign activities:

- **Alto Total Leafleting in partnership with the Mexican Red Cross:**
 - Technological Institute of Morelia students distributed more than 20,000 leaflets with Alto Total safety messages.
 - Volunteers in Monterrey distributed more than 6,000 leaflets.
- **Workshops for Children in partnership with the Association of Mexican Railroads (AMF):**
 - More than 3,500 children in four Mexican states received training to:
 - Recognize warning signs found near railroad track crossings
 - Encourage them to comply with safety rules and accident prevention practices
 - Invite them to become promoters of railway safety with the help of the character Po'yo, the cautious chicken
- **Focused marketing in partnership with the AMF and Correos de Mexico:**
 - Volunteers distributed 50,000 postcards to homes in three municipalities adjacent to KCSM tracks
 - The postcards contained information on the importance of the railroad in our daily lives, as well as messages on prevention and awareness.





Advancing Safety

WORKPLACE SAFETY

We aim to instill a culture of safety via training, education, initiatives, equipment and a strict adherence to safety rules.

KCS 2017: Workplace Safety Measures

<p>KCS Safety Rules (Replaced Safety Through Awareness and Responsibility program in 2017)</p>	<ul style="list-style-type: none"> • 35 general safety rules that apply to employees and contractors whose job responsibilities include non-office work tasks • Additional safety rules specific to transportation, mechanical and engineering • Intended to complement other rules, standards, laws and regulations to which we expect our employees to adhere
<p>Program of Operational Testing</p>	<ul style="list-style-type: none"> • Provides processes for on-going validation, understanding and adherence to safety operating rules and procedures • Allows us to identify, monitor and manage potential safety risks • Conducts testing designed to: <ul style="list-style-type: none"> ◦ Gauge employees' knowledge and compliance with our safety procedures ◦ Determine the need for remedial training, or guidance • Develops testing plans that address a particular location's: <ul style="list-style-type: none"> ◦ Risk trends ◦ Recent injuries or accidents ◦ Previously failed operational tests
<p>General Code of Operating Rules (GCOR)</p>	<p>Freight rail transportation industry's commonly accepted set of safe operating rules. Covers important issues such as:</p> <ul style="list-style-type: none"> • Radio communication • Signals and their use • Safe train movement • Switching safely and efficiently • Other topics that directly and indirectly affect railroad safety
<p>KCSR Transportation, Engineering and Mechanical (TEaM) Training Center</p>	<ul style="list-style-type: none"> • Offers certification programs in specially-equipped mobile training trailer, bringing more training directly to employees • Focuses on operating rules and safety rules
<p>KCSM Six Training Centers Along Rail Network</p>	<p>Instill safety behavior with safety operational practices training</p>
<p>KCSR External Responsible Care Management System® (RCMS®) Audit</p>	<p>As a partner company of the American Chemistry Council's RCMS®, KCSR is independently audited by a third party every three years. The next verification audit is due in 2019.</p>

KCSR reports workplace injuries and fatalities to the Federal Railroad Administration (FRA).

KCSR 2017: Workplace Reportable Injuries and Fatalities

Injuries	Fatalities
62	0





Advancing Safety

RAIL SAFETY TECHNOLOGY

Fuel may keep our trains running, but technology fuels every aspect of our rail operations.

Major technological initiatives helping to promote the safety and security of our operations include:

- Positive Train Control (PTC)—[See page 32.](#)
- Grade Crossing Safety Initiatives—[See page 33.](#)
- Other technologies — See below.

KCS 2017: Technology to Safeguard Operations

INWARD- AND OUTWARD-FACING LOCOMOTIVE CAMERAS

Provide additional monitoring to:

- Enhance compliance with Federal Railroad Administration (FRA) regulations and our operating rules
- Help employees spot maintenance needs
- Improve overall safety and security

Recordings used for analysis, investigation, regulatory compliance and other purposes related to workplace safety concerns, such as:

KCS 2017: Percentages of Road Locomotives with Inward/Outward-Facing Cameras

	Inward	Outward
KCSR	99%	100%
KCSM	91%	92%

- Crime and fraudulent behavior
- Damage and injury
- Rule and policy violations
- Equipment failure
- Right-of-way conditions

In 2017, 97% of our road locomotive cameras received an upgrade to 512GB hard drives¹

¹ **RESTATEMENT:** Hard drive capacity was stated incorrectly in 2016. Storage capacity should have been GB instead of MB to read, "In 2016, the camera system capacity was upgraded including increasing storage capacity from 120GB to 400GB."



CENTRALIZED TRAFFIC CONTROL (CTC) / CONTROL CENTRALIZADO DE TRÁFICO (CCT) / CONTROL DE MANDATOS DE VIA (CMV)

Consolidates train routing decisions to a centralized dispatching center which allows:

- Dispatchers to electronically monitor train locations on rail network
- Dispatcher control of rail traffic movement via wayside signal communication to train crews

CTC/CCT/CMV Installation: KCS Route Miles

	Total Route Miles Installed	% Route Miles Installed
U.S.	1,493.7	79% ²
Mexico	1,017.1	41%

In 2017, we increased the limits of CTC on our rail network by installing an additional:

- 71 route miles on Rosenberg Subdivision in the U.S.
- 27 route miles on Celaya District in Mexico

² This does not include the 314.4 route miles between Meridian, MS, and Shreveport, LA, that are owned by Meridian Speedway, LLC, a majority-owned KCS subsidiary, with the minority interest owned by a subsidiary of Norfolk Southern Corporation.



Advancing Safety

RAIL SAFETY TECHNOLOGY

DETECTION DEVICES

Work to prevent accidents and other issues

These devices can detect:

- High and wide loads
- High water
- Wheel-bearing temperatures
- Dragging equipment
- Broken rails
- Rail defects
- Flat wheels
- Truck hunting
- Rail car defects

Broken Rail Detection Technology runs along approximately 346 KCSR route miles and 495 miles KCSM route miles.

GEOMETRY CARS

Measure industry-standard track geometry parameters to maintain track to standards, locate issues and organize repairs

Use lasers and cameras to measure more than 300 points on rail surface for full rail profile assessment to help classify rail by size and wear so we can:

- Plan long-range rail replacement and other track maintenance
- Evaluate rail-grinding effectiveness
- Locate areas of accelerated wear
- Locate wide gauges that affect safe movement of trains
- Identify clusters of weak ties or defective fasteners

SWITCH HEATERS

Keep switch points free of snow and ice that could potentially prevent switch from operating properly

Total number of switch heater locations: 95

TELECOMMUNICATIONS

Telecommunications are highly critical for railroad operations by:

- Providing communications between locomotives and dispatch center
- Supporting signaling communications used by Train Management and Dispatch System to manage and control train operations

In 2017:

- KCSR telecommunications installed an additional 16 safety climb systems on antenna structures. These systems provide a safe attachment for fall protection systems on our antenna structures.
- KCSM telecommunications team began initiative to install Line-of-Life on telecommunications towers, installing 14. Line-of-Life offers fall protection when climbing towers, enabling a rope grab automatically to engage the lifeline steel cable and locks in the event of a fall.
- We provided Working at Heights training to KCSM telecommunications technicians who climb telecom towers.





KEEPING KCS SECURE





Keeping KCS Secure

SECURITY IN THE U.S. AND MEXICO

Security is of the utmost importance to our company. We provide top-quality physical and IT security measures to protect our:

- Customers' freight assets and our employees' safety along our U.S. and Mexico rail network
- Customers', partners' and employees' sensitive data and information
- Multiple daily border crossings
- U.S. and Mexico communities' safety and economic well-being
- Facilities and rail infrastructure
- Availability of IT systems to move freight efficiently and to corporate high standards



Internal and external security personnel regularly communicate and collaborate. This leads to minimizing the threat of trespassers, vandalism, movements of narcotics, theft of customer goods, fraud, cybersecurity breaches and terrorism. We are also set up for disaster and recovery planning and response.

For both our rail network and our IT network security needs, we've:

- Established solutions, policies and procedures to reduce the risk of attacks
- Established predetermined plans, procedures and resources to resolve threats in the event of a security breach
- Identified procedures to address the effects of a security threat and to see that loss of trust or business is minimal and short-term
- Employed highly qualified third-parties to regularly test security defenses



We measure security performance regularly through ongoing:

- Due diligence and analytics
- Reporting, analysis and investigation
- Regulatory compliance
- Workplace safety observations
- Training and application of company rules and programs



In 2017, security programs and initiatives included:

- High-tech surveillance equipment and cameras
- Inward- and outward cameras on trains
- Updating and upgrading X-ray technologies
- Monitoring and reporting processes
- Employee and customer training
- Mobile app technology
- Data leakage detection systems to prevent theft of sensitive information



Our Critical Incident Desk in the U.S. and Interrupción de Servicio in Mexico are active 24/7 so anyone can report security issues such as:

- Suspicious packages
- Improvised explosive devices (IED)
- Illegal dumping
- Theft and break-ins
- Suspicious activities
- Trespassers
- Phishing attempts
- All security concerns



Keeping KCS Secure

SECURING OUR RAIL NETWORK

In 2017, we stepped up our efforts to proactively combat threats along our 6,700-mile rail network in the U.S. and Mexico.

We have continued to develop and implement multidisciplinary approaches to secure our and our customers' assets from criminal enterprises that target transportation networks. We've also employed a variety of strategies to help mitigate the risk terrorist attacks could pose to our personnel and assets

KCS SECURITY FRAMEWORK

We employ a multi-level security framework along our rail network that is adaptable to any situation and guides our security program.

Due to the varying needs and complexities of the security status within each country, KCSR and KCSM have specific security models customized for maximized impact and efficiency.

OUR U.S. AND MEXICO SECURITY ASSETS INCLUDE:

- Special Agents/Managers/Coordinators
- Security Guard Locations in Mexico
- Contract Security Guards in U.S.
- Patrol Vehicles
- K-9 Units
- 24x7 Critical Incident Desk Support in U.S.
- New as of 2017: Security Operations Center in Mexico

U.S. AND MEXICO SECURITY AGENTS:

- Maintain a liaison relationship with Mexican and U.S. security authorities and intelligence agencies
- Are aware of each country's security laws and regulations
- Are certified and validated in the Customs Trade Partnership Against Terrorism (C-TPAT) in both countries

KCSM Security Operations Center (KSOC) Opens, Receiving Acclaim

In 2017, Asociación Latinoamericana de Seguridad (ALAS / Latin American Security Association) Management Summit recognized KCSM with a third place-award for its new Security Operations Center in Monterrey. ALAS represents security industry manufacturers, distributors, integrators, service providers and end-users in all of Latin America and the Caribbean.

The aim of the ALAS award is to promote security projects that foster creativity and technological innovation. KCSM competed for the award in the category of private projects designed to protect people and property.

A 24/7 central command and control facility located in Monterrey, Nuevo Leon, Mexico, KSOC allows KCSM to carry out:

- Security operations management and monitoring pertaining to the security of people, freight and facilities
- Emergency preparedness and emergency management

At KSOC:

- Videowall and multiple monitoring stations allow extensive video coverage for rapid response resolution and risk mitigation.
- Security operations are coordinated with other KCSM locations.
- Incident workflows are expedited, leading to quicker response times.





Keeping KCS Secure

U.S. SECURITY

In 2017, KCSR's Homeland Security and Police departments merged. This allows for a coordinated approach to safeguard shipments across our U.S. rail network by working with:

- Local and state law enforcement departments
- Association of American Railroads (AAR)
- U.S. government departments and agencies: FBI, Homeland Security, Transportation, and Customs and Border Protection
- U.S. military: Northern Command, Transportation Command, and Surface Deployment and Distribution Command

To keep our railroad secure, KCSR's security personnel stay informed, strategic, pro-active and vigilant.

Theft and Vandalism: KCSR's Chief of Police takes part in regular meetings of the Association of Railroad Chiefs of Police. At the meetings, members share the best tactics, techniques and procedures on how to stop or deter vandalism—which, in turn, the KCSR police force puts into practice.

Criminal and Terrorist Threats: KCSR security personnel regularly attend classified and unclassified intelligence briefings and threat assessments. In addition, they continuously monitor the AAR Common Operating Environment for real-time security incidents throughout the U.S. and Canada railroad system.

This allows KCSR to:



Identify and evaluate terrorism and criminal trends, patterns and indicators of concern



Provide timely awareness briefs to front-line personnel regarding reported incidents



Proactively apply necessary and appropriate security measures

Security Personnel

KCSR special agents completed their state-mandated curricula and requirements for 2017. KCSR's Chief of Police and the Department of Public Safety in each agent's home state keep the officers' records on file.

CUSTOMER LOSS AND FREIGHT CLAIMS

To prevent freight losses, KCS security:

- Physically walks and visually monitors trains for theft and vandalism prevention purposes, including routine patrols of military equipment shipments
- Actively cultivates relationships with scrap dealers and similar resources to help spot stolen goods
- Provides train escort as needed
- Put into practice other theft prevention plans

We also work with customers to educate them on cargo security/securement products, processes and methods. In 2017, we held our sixth annual Damage Prevention and Freight Claims Seminar in Queretaro, Mexico. Attending were 110 participants representing 40 customer companies.

Regarding 2017's claim-free delivery, customers have six months in Mexico and nine months in the U.S. to file claims. Thus, it will be 3rd Quarter or 4th Quarter 2018 before we have accurate payout totals to calculate an accurate 2017 claims-free delivery percentage. However, we have completed totals for 2016.

KCS 2016: Shipment Claim Rate		
KCSR	KCSM	Combined
0.01%	0.33%	0.24%



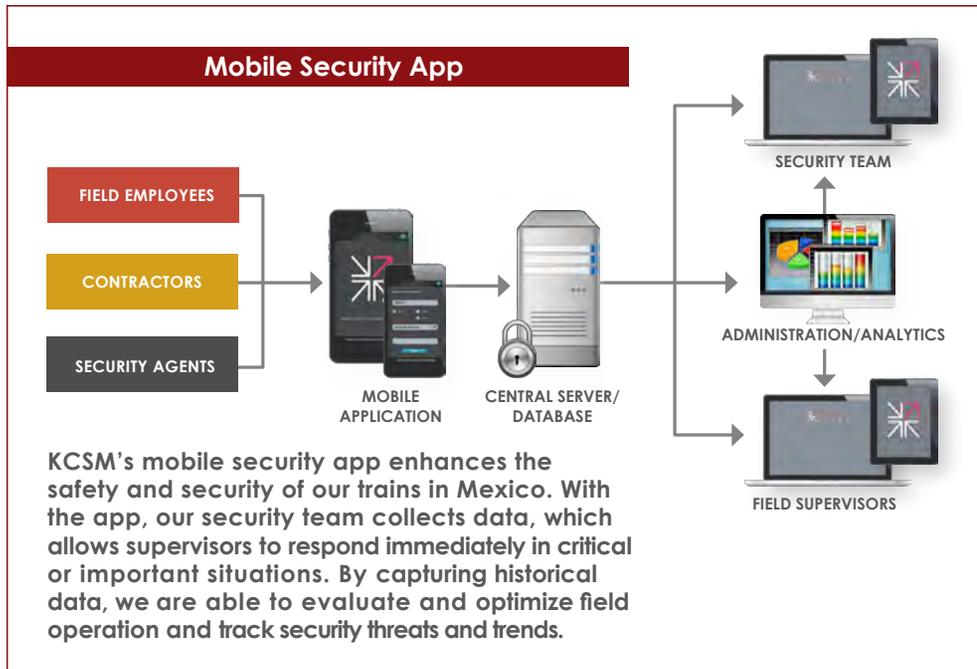
Keeping KCS Secure

SECURITY IN MEXICO

KCSM is ever vigilant in seeing that our customers' freight transport is secure. In 2017, KCSM initiated or implemented a number of new security projects, including:

- Opening its new KCSM Security Operations Center (KSOC / [see page 41](#)).
- Increasing video surveillance in rail yards and parking areas
- Modernizing equipment

To proactively secure shipping in Mexico, a multi-layered security model uses high-speed digital imaging, system velocity, and covert and overt security filters to mitigate the risk of illicit activity.



Theft and Vandalism: KCSM has developed an intelligent security model that combines people, processes and technology with constant due diligence using data analytics provided by:

- GARS (Gravick Advanced Reporting System, which provides real-time data on activity along KCSM's rail network and creates situational reports)
- An automated seal application program that monitors tamper-evident and tamper-resistant seals used to secure cargo entrusted to KCSM all along our rail network

Criminal and Terrorist Threats: We follow the AAR Terrorism Risk Analysis and Security Management Plan. Considered to be the gold standard for all comparable industry plans¹, it:

- Incorporates federal government and international best practices
- Continually adapts to varying threat streams

Security Procedures

Among our stringent security procedures:

- All cross-border trains hauling northbound and southbound cargo pass through overt and covert security filters.
- We use covert security filters for internal auditing procedures of asset management.
- All freight has a bilateral reception and delivery for complete accountability of cargo and specific cargo seals.
- All freight is monitored for conditions and quality assurance via:



High-speed digital imagers



Management control systems



GPS technologies

¹ <https://www.iit-corp.com/north-american-railroad-system-security-plan/>



Keeping KCS Secure

SECURITY THROUGH TECHNOLOGY

The railroad business goes beyond tracks, yards and locomotives. Behind the scenes, technology drives our business. That's why we are equally vigilant about the security of our virtual assets as we are about our physical assets.

To secure the information and operations technology of our company, employees, customers, partners and vendors, we employ a variety of measures.



Cybersecurity programs and initiatives include:

- Firewall security for perimeter protection
- Intrusion detection/prevention analysis
- Vulnerability management and patching processes
- Software updates for operating systems and applications
- Backup copies of data and information
- Controlled physical access to computers and networks
- Wi-Fi security
- Requirement for each individual user to have his/her own account
- Limited employee access to data and information
- Password complexity and aging
- Third-party penetration testing
- Centralized logging and alerting systems for real-time suspicious event notifications
- Two-factor authentication
- Traffic behavioral analysis
- Website filtering
- Spam/phishing gateway protection
- Mock phishing campaigns

- Employee education and training, which in 2017 included:
 - Data Protection and Destruction
 - Anti-Phishing
 - Safe Social Networks
 - Social Engineering
 - Personally Identifiable Information
 - Mobile App Security
 - Mobile Device Security
 - Password Security
 - Safer Web Browsing
 - Physical Security
 - Security Beyond the Office



To protect our business operations, we utilize a number of defense layers, including:

- Anti-virus applications
- Application whitelisting
- User-based traffic analysis
- Email gateway security
- Threat intelligence feeds
- Centralized mobile device management
- Security incident and event management
- Data leakage prevention systems to block removal or theft of sensitive information
- Segmentation for:
 - Internet-facing systems
 - Enterprise Resource Planning (ERP) system
 - Train management and dispatch systems
 - Positive Train Control (PTC) systems



Keeping KCS Secure

CYBERSECURITY

We annually evaluate our cybersecurity using third-party vendors. In 2017, they found our systems to have strong security controls in place. Among their evaluation comments:



“KCSR’s security posture is comparable to other companies of similar size and complexity.”



“Established security program”



“Mature set of processes and infrastructure”



“User education is established”



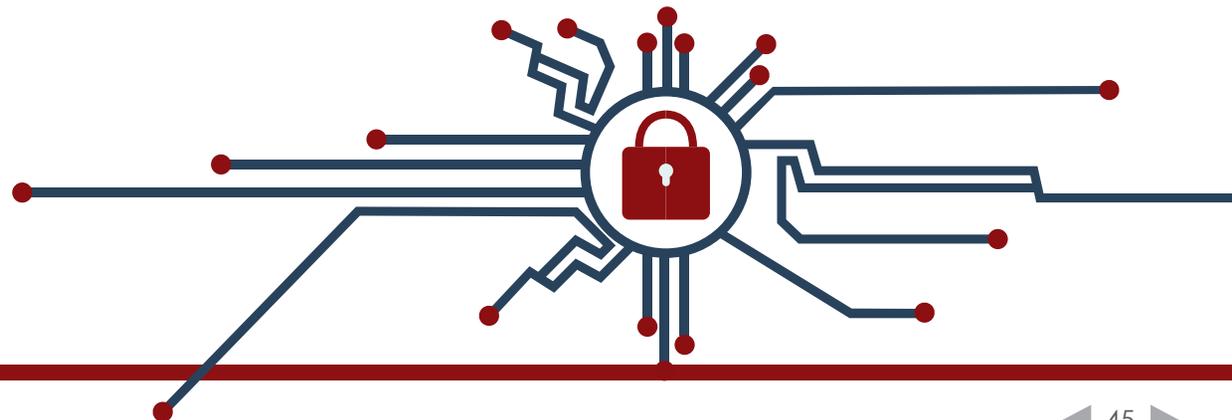
“Security infrastructure is solid and well thought out”

To further secure our rail network and our customers’ information, in 2017, we:

- Employed six global threat intelligence services to alert us to indicators of compromise to worldwide attacks
- Added a defense layer to monitor and alert us on atypical network traffic behavior
- Initiated a third-party to test our customer application and remediated critical findings
- Approved a future effort to encrypt customer login information and increase password complexity

To increase employee awareness of the importance of cybersecurity, in 2017, we:

- Mandated security awareness and training modules
- Alerted employees to specific security events via newsletters and direct emails
- Segmented employee personally identifiable information (PII) off from normal operations
- Encrypted transfers of employee data
- Protected employee Internet activity via URL filtering and domain name checking
- Deployed multiple mock phishing campaigns to keep employees alert to the possibility of targeted phishing attacks





Keeping KCS Secure

2017 PROJECTS

Mexico Disaster Recovery Project: We completed a project to migrate 62 business systems running in our Monterrey, Mexico, data center to a redundant data centers, allowing us to recover those systems in the event of a disaster.

Building Access: We modernized our building access control systems for our:



Kansas City headquarters and data center locations



KCSM main offices, including Monterrey and Mexico City buildings

The update allows us:



Redundant systems in case of loss of infrastructure in one location



Ability to schedule access for special events and enhanced reporting

Video Security: For U.S. operations, we installed 42 additional cameras at KCSR facilities to provide improved safety and security to personnel and assets.

For Mexico operations, we installed 463 additional cameras in the main KCSM yards and buildings. KCSM monitors the cameras locally in each yard and at the Security Operations Center in Monterrey.



For more information, see:

- **RAIL SAFETY TECHNOLOGY** on [page 37](#).
- **SECURING OUR RAIL NETWORK** on [page 41](#).



Name: Larry Haskell
KCS role: AVP, IT Application Development and Business Intelligence

Prompt for more sustainable lifestyle:

“My wife and I downsized our large suburban home when our last child left for college.”

Personal efforts and benefits:

- Lives in 1,000 square-foot loft in a downtown Kansas City reclaimed garment manufacturing building from the 1890s with sweeping views of, among other things, the Missouri River. The loft provides these sustainable benefits:
 - Smaller living space is perfect size to prevent buying excess “stuff”: “We live with only what we really love and use, with no extra storage unit.”
 - Modest electric use resulting from loft’s seven-foot high windows, neighbors on both sides for insulation, and no extra floor space
 - Reduction in greenhouse gasses since building is four blocks from work, so Larry walks to work “rain, snow, cold or shine.”
- Downsized from three cars to one which Larry or his wife drives once or twice a week for errands and entertainment. Otherwise, the couple:
 - Walks to downtown’s Power & Light District for happy hour, viewing ballgames on the district’s communal KC Live! big screen, or just hanging out and people watching
 - Rides Kansas City’s streetcar often for trips from their loft to the Union Station/ Crown Center area to enjoy the area’s restaurants and other amenities
 - Bikes to:
 - Buy locally sourced, fresh, organic produce and spices at the River Market farmer’s market
 - Do errands such as haircuts
 - Get some additional exercise
 - Enjoy the Missouri River riverfront and other natural locations

Payoff: *“Our carbon footprint is small and our life is richer for it.”*



DELIVERING PROSPERITY





Delivering Prosperity

BUSINESS UNITS AND REVENUES

We help drive North America's economic prosperity by shipping our customers' freight safely and reliably.

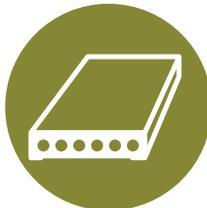
In 2017, we shipped approximately 2.3 million customer carloads/units of goods to their destinations to:



Stock car showrooms and store shelves for consumers



Provide materials for manufacturing



Build homes, offices and highways



Service the U.S. military



Feed livestock



Power homes, businesses and vehicles

The freight we carry can reach major markets throughout North America, South America, Asia and other continents with our:



U.S. and Mexico cross-border rail network



Partnerships with other Class I and short-line railroads, as well as other transport industries



Global access via 13 ports on the Gulf of Mexico and Pacific Ocean

Our market, operational and security expertise in shipping provides our customers the competitive advantage afforded to those who entrust their domestic and cross-border shipping to us.

To meet our customers' needs, we haul small to oversized. Lightweight to heavy. Finished or unfinished. Perishable or nonperishable. Liquid or solid. Raw or refined.

In 2017, total freight revenue rose 11% over 2016.

	2017	2016
Agriculture & Minerals	\$477.4M	\$461.0M
Automotive	\$230.8M	\$189.9M
Chemical & Petroleum	\$539.9M	\$475.4M
Energy	\$283.8M	\$202.7M
Industrial & Consumer Products	\$588.3M	\$554.0M
Intermodal	\$363.8M	\$357.6M



Delivering Prosperity

BUSINESS UNITS AND REVENUES | Here is a glimpse into our 2017 business units.



Agriculture & Minerals
\$477.4M Revenue
19% of Freight Revenue
244.3K Carloads

Includes: Grain (primarily corn, wheat, soybeans, milo), food products (such as corn syrup, meals, oils, frozen food, produce, distiller's dried grains), clay, glass, minerals and ore (such as iron, steel, zinc, copper)

We serve:

- Major feed mills in the U.S. and Mexico
- Major food industrial production and consumption markets in the U.S. and Mexico
- Limestone and rock quarries to aid road and construction projects



Automotive
\$230.8M Revenue
9% of Freight Revenue
155.5K Carloads

Includes: New vehicles (cars, trucks, etc.) and auto parts to assemble new vehicles

We serve:

- 70% of auto assembly plants in Mexico
- Auto parts manufacturing plants in U.S.
- 4 KCS-owned automotive distribution facilities
- 3 major Mexican ports on the Pacific and Gulf of Mexico
- Other companies in the automotive industry supply chain



Chemical & Petroleum
\$539.9M Revenue
22% of Freight Revenue
273.5K Carloads

Includes: Plastics, liquefied petroleum gas (LPG), petroleum-refined products (gasoline, diesel and industrial oil, natural gas liquids) and chemicals (organic, inorganic, commodity and specialty)

We serve the U.S. and Mexico to:

- Move raw materials and finished products out of refineries and plants
- Move hazardous materials safely
- Support Mexico as it grows its energy markets



Energy
\$283.8M Revenue
11% of Freight Revenue
291.7K Carloads

Includes: Coal, frac sand, petroleum coke and crude oil

We deliver:

- Energy shipments throughout North America with the help of our partners
- Quarried products to aid the oil and gas drilling industry



Industrial & Consumer Products
\$588.3M Revenue
24% of Freight Revenue
329.9K Carloads

Includes: Timber, pulp and scrap paper, metals (such as slab, steel coils, scrap metal), cement, appliances, plastics, heavy machinery, farm implements, construction equipment and military equipment

We are an integral part of the supply chain by shipping both raw materials and finished goods to serve major:

- Consumer packaging and housing industries
- Paper mills and manufacturing facilities
- U.S. and Mexican steel mills and manufacturing corridors, including the auto industry steel supply
- Industries requiring small and large machinery
- U.S. military locations
- Retailers stocking their shelves



Intermodal
\$363.8M Revenue
15% of Freight Revenue
975.1K Units

Includes: Plastics, appliances, auto parts, machinery, metals, forest products and by-products, and miscellaneous consumer goods

We haul freight containers in partnership with:

- Ocean carriers
- Surface transportation companies
- Intermodal marketing companies



Delivering Prosperity

CAPITAL EXPENDITURES

In 2017, we invested \$559.5 million on capital expenditures. This accounted for nearly 22% of our approximately \$2.6 billion of consolidated revenues.

The capital investments signaled our continuing commitment to long-term safety, security and growth. We consider every dollar spent to maintain, upgrade and acquire long-term assets an:

- Economic driver in the U.S. and Mexico economies
- Investment in our sustainable future

In 2017, our capital expenditure priorities included:



Roadway Capital: We invested these capex dollars primarily to advance the safety and efficiency of our operations. These investments included the installation of approximately 174 track miles of rail and 699,000 ties in 2017.



Capacity: These investments allow us to handle new or incremental volumes and prepare for future volume opportunities. Our 2017 investments included new track sidings, yard expansions and new customer rail facilities.

One major 2017 project was the completion of the Sasol/Lake Charles Development (Sasol) in Mossville, LA. See [page 53](#) for more information.



Locomotive and Freight Cars: Our investments in rolling stock include new equipment purchases and major overhauls.

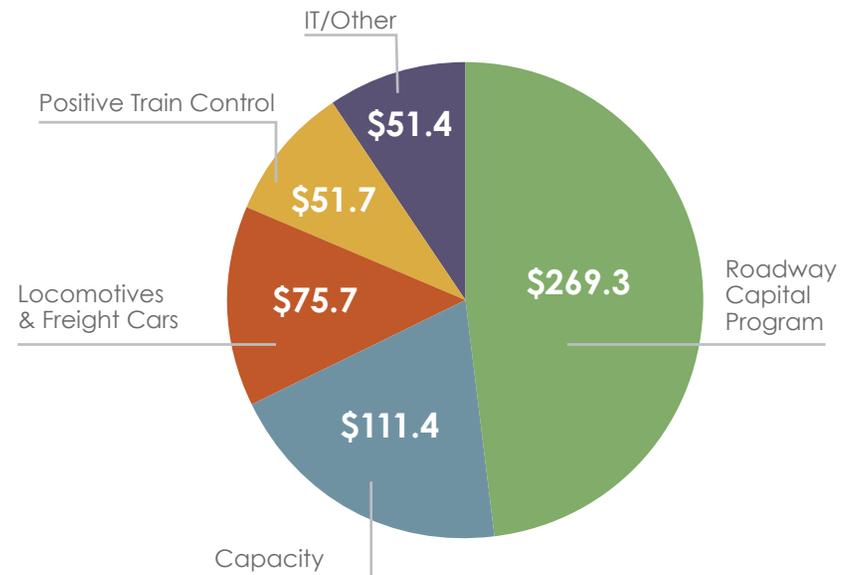


Positive Train Control (PTC): Our capex PTC investments are for installation of information, signal and locomotive technology on trains and tracks. See [page 32](#) for more information.



IT/Other: Investments include computer hardware, software, communications equipment, wayside equipment and locomotive onboard equipment. They also include other investments that support our day-to-day operations.

KCS 2017: Capex by Category (In Millions)





Delivering Prosperity

RAIL RESOURCE EFFICIENCY

Through programs, initiatives and technologies, we proactively mitigate operational impacts and increase operational efficiency. This results in positive impacts enterprise-wide.

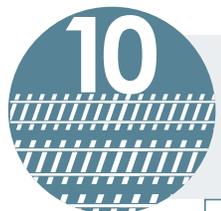
Cross-Border Customs and Traffic Improvements



Rail Unified Cargo Processing Center

In 2017, we launched an innovative approach to processing increased rail traffic. The first of its kind in the North American freight rail transportation industry, the center allows for the simultaneous and single analysis of trains entering the U.S./exiting Mexico through non-intrusive imaging.

See Cross-Border Rail Unified Cargo Processing Center on [page 14](#) for details and results.



Sanchez Rail Yard Improvements

In 2017, we constructed and opened 10 new classification tracks within the Sanchez, Mexico, rail yard.

Results: We:

- Increased our ability to switch traffic and consolidate traffic at the border for trains that terminate or originate in central and southern Mexico
- Reduced congestion in rail yards in urban zone areas
- Increased overall rail network and border fluidity
- Improved overall traffic flow crossing the U.S.-Mexico border in both directions
- Reduced congestion and public traffic impacts in Nuevo Laredo, TM, and Laredo, TX

U.S.-Mexico International Crews

At this time, all cross-border trains come to a complete stop in the middle of the Laredo International Railway Bridge at the U.S.-Mexico International Border as rail crews change. On all southbound trains, our U.S. crew must disembark at the Mexican border and our Mexican crew must board the locomotive—with the reverse being true on all northbound trains. This is different from processes at the U.S.-Canada border where trains move non-stop across the border for fluidity and efficiency purposes.

The U.S.-Mexico process results in the border becoming a bottleneck for rail traffic flow.

In 2017, we partnered with U.S. and Mexico Customs, among other partners, to plan the deployment of a pool of international crews—designed to replicate the model that exists at the U.S.-Canada border. The plan calls for approved international crews to take trains from rail yards in Mexico to rail yards in the U.S. and back without stopping at the border's Laredo International Railway Bridge.

Expected Results: Scheduled to launch in 2018, this initiative is set to:

- Improve operational border fluidity
- Increase border capacity
- Improve security through non-stop movement of trains
- Reduce public crossing blockages in Laredo and Nuevo Laredo urban zones

Efficient Railcar Pools

Through “pooled” railcar sharing, our industry aims to reduce empty network miles and to improve equipment flow to enable:

- Fastest possible customer transit
- More efficient asset utilization
- Lower fuel burn

By applying our core competencies in strategic sourcing, material management and contract management, we participate in Industry railcar sharing pools. Our participation includes:

- National Box Car Pool
- Intermodal Container Pool
- Automotive Car Pool

Results: The pools maximize fleet efficiency by reducing empty miles and empty car switching, resulting in:

- Faster cycle times for customers
- Increased asset utilization for pool participants



Delivering Prosperity

PARTNERSHIPS AND INVESTMENTS

When it comes to our customers, our goals are laser-focused to:



Meet the current needs of our customers



Position ourselves to serve our customers' growing needs

As such, we're consistent and relentless in our investments and our strategic partnerships, which have the benefit of:



Serving the local economies along our rail network



Providing broader and alternate supply chain solutions



Preparing for growth from Mexico Energy Reform



Handling new or incremental volumes



Preparing for future volume opportunities

We also serve to facilitate partnerships by providing our transportation services for customers benefiting from various initiatives.

MEXICO ENERGY REFORM AND KCS

All eyes are on Mexican Energy Reform and investment occurring on both sides of the border as a result.

Mexican Energy Reform:

- Ended state-owned energy monopolies
- Opened the energy market to private investors
- Allows fuel prices to be based on supply and demand, not more restrictive variables

As a result:

- Some of our expanding partnerships and investments are the result of Mexico Energy Reform.
- U.S. companies are gearing up to supply Mexico consumption demands.
- Origin cities such as Beaumont, Houston, Brownsville and Corpus Christi in the U.S.
- and Tampico/Altamira, Veracruz and Lazaro Cardenas in Mexico are preparing to serve the destinations of Monterrey, San Luis Potosi, Queretaro, Irapuato, San Jose Iturbide, Tula, Mexico City and Toluca in Mexico.
- Created cross-border and intra-Mexico opportunities.

Cross-border opportunities include:

- Importation of refined products (gasoline, diesel and biofuels) to Central Mexico
- Importation of liquefied petroleum gas (LPG) into Mexico, where about 8 out of 10 homes use LPG
- Movement of steel pipe for oil fields and natural gas transmission
- Crude swaps between the U.S. and Mexico
- Importation of frac sand to Mexican shale basins

Intra-Mexico opportunities include: • Refined products • Shale oil • Steel pipe

There are also opportunities for Mexico to enhance its economic stability by growing the country's entire manufacturing base through cost-competitive energy sourcing and production. This has the potential to benefit the quality of life and well-being of our employees in Mexico.

Rail remains the single most viable solution for serving the growing Mexican Energy Market, and we're positioned to take the lead. For our customers, our communities and consumers, there are benefits of transporting liquid energy by rail through our KCSM network:

- Requires less intensive capital investment vs. installing pipelines
- Offers alternative to unbalanced, at-or-near capacity pipelines at risk of theft
- Keeps the quality of the product intact to aid in preventing environmental disasters
- Maintains the integrity of Mexico's land and biodiversity

As Mexico Energy Reform gears up, we're poised to fill the gaps and to serve the densely populated central region of Mexico. In 2017, there were 19 refined products terminals on our rail network, of which 13 were in operation and six under construction.



Delivering Prosperity

KCS 2017: STRATEGIC INITIATIVES

Initiative and 2017 Progress	Customer/KCS Benefits	Initiative and 2017 Progress	Customer/KCS Benefits
<p>Terminal Centro de Mexico:</p> <ul style="list-style-type: none"> Formed joint venture with Watco Companies Terminal & Port Services and WTC Industrial (Grupo Valoran) to open state-of-the-art fluids terminal in San Luis Potosi to support opening of Mexican Energy Market Terminal opened and to remain investment priority for the coming years 	<ul style="list-style-type: none"> Expands export of U.S. petroleum products to Mexico, aligning Mexican Energy Reform goals with U.S. refining companies' interests to enter new markets Boosts job creation in both the U.S. and Mexico 	<p>Lázaro Cárdenas APM Terminal:</p> <ul style="list-style-type: none"> Latin America's most technologically advanced container terminal APM completed 1.2M TEU capacity, with plans to eventually expand to 4.0M TEU capacity We completed support yard expansion to serve anticipated port growth State-of-the-art high-capacity terminal at Port of Lázaro Cárdenas, logical alternative to U.S. west coast ports 	<ul style="list-style-type: none"> Provides alternate port to diversify and minimize supply chain dependencies and risks Allows for growth with large-capacity terminal Grows KCSM business as the only rail carrier serving Port of Lázaro Cárdenas
<p>Sasol/Lake Charles Development Project:</p> <ul style="list-style-type: none"> Partnered with Sasol Chemicals USA LLC (Sasol) Completed Mossville Yard Expansion Project to serve our petrochemical customers in Gulf Coast area; doubles capacity and includes classification yard that holds approximately 1,800 cars Previously completed 1,400 storage in-transit (SIT) rail yard dedicated to support Sasol's new ethane cracker and derivatives project 	<ul style="list-style-type: none"> Better positions KCSR to serve the growing petrochemical industry and other customers, in addition to Sasol, in Lake Charles area Triples Sasol's chemical production capacity by 1.5 million tons of ethylene per year Enables Sasol to leverage the economies of rail transportation in competitive market 	<p>Mid-American International Gateway:</p> <ul style="list-style-type: none"> Kicked off multimillion economic development project of 1,400-acre rail-served trans-modal logistics park site in Jerseyville, IL Partnership between Stonemont Financial Group and Jerseyville, IL, Economic Development Council 	<ul style="list-style-type: none"> Provides rail gateway for customers that are manufacturers in Mexico and U.S. Midwest Gateway expected to provide cross-border customers savings in rates via longer contracts and transit times via less congestion
<p>Gulf Yard Project, Port Arthur, TX:</p> <ul style="list-style-type: none"> Commissioned project to support Valero Energy Corp.'s new butane rail loading facility Entails adding new tracks and rehabbing a branch line 	<ul style="list-style-type: none"> Leverages rail economics in competitive LPG markets Increases capacity 	<p>Sidings Construction:</p> <ul style="list-style-type: none"> Tracks residing next to main lines so trains can move to sidings to allow other trains to pass (like a shoulder of a road) Ojo Seco: siding completed Bienvenidas (near Placedo, TX): siding completed Quirio (Caltzontzin District): siding completed La Costura (Acámbaro City, Guanajuato): construction started Cienfuegos (Ziracuaretiro, Michoacán): construction planned 	<ul style="list-style-type: none"> Increases rail traffic fluidity Speeds up our services to all cross-border customers Reduces locomotive idling and stoppage for decreased emissions and security concerns
<p>Asphalt Project at Zacha Terminal: Designed to expand Hunt Refining's asphalt business</p>	<ul style="list-style-type: none"> Facilitates and expands footprint of asphalt distribution from U.S. to Mexico 	<p>Sanchez Yard Expansion:</p> <ul style="list-style-type: none"> Supports northbound and southbound traffic flow and growth Completed phase 1 with: <ul style="list-style-type: none"> 10+ tracks Car repair shop Locomotive shop 	<ul style="list-style-type: none"> Increases rail traffic fluidity Provides quicker turnaround times for repairs Increases capacity
<p>Rail Unified Cargo Processing Center:</p> <ul style="list-style-type: none"> Opened in Laredo, TX, the center allows for simultaneous and single analysis of trains entering the U.S./exiting Mexico through non-intrusive imaging by both countries' customs agencies Step one in our overall process improvement for Laredo cross-border gateway For more information, including additional benefits, see Cross-Border Rail Unified Cargo Processing Center on page 14. 	<p>Strengthens relationships with key trading partners</p> <p>Reduces:</p> <ul style="list-style-type: none"> Time in customs procedures/processing time Transportation costs Idling time to decrease security risks <p>Increases:</p> <ul style="list-style-type: none"> Efficiency in inspection of commodities Capacity for additional daily train slots 	<p>San Luis Potosi (SLP) Master Plan:</p> <ul style="list-style-type: none"> Serving current and future industries in fast-growing SLP industrial area <p>Launched phase 1:</p> <ul style="list-style-type: none"> Double-track extension of approximately 130km from SLP to Jesus Maria 	<ul style="list-style-type: none"> Allows through trains to pass SLP industrial areas uninterrupted like an express vs. local service Frees up capacity and increase fluidity for this hyper-growth industrial market area



Delivering Prosperity

SUPPLIERS SUPPORTING OPERATIONS

As a global company, we operate across highly diverse markets best served by a wide variety of suppliers. To continually strengthen our operations, we aim to partner with ethical suppliers who provide high-quality goods and services for the ultimate benefit of our customers.

To contract with and manage suppliers for our rail network and customers, we:

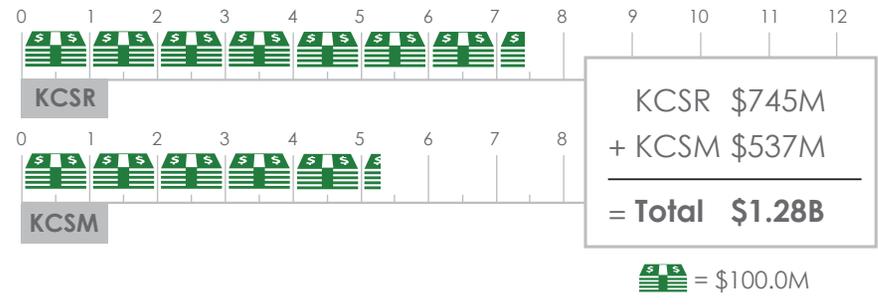
- Apply the company’s core competencies in strategic sourcing, material management and contract management
- Expect suppliers to commit to conducting business in accordance with the highest ethical standards and in compliance with all laws and regulations. [See our Supplier Expectations.](#)
- Welcome disadvantaged business enterprise, minority-, women- and veteran-owned businesses for the opportunity to participate as potential suppliers of products and services. Read about our **Supplier Diversity Program Initiative (SDPI)** on [page 21](#).
- Achieve the best value for the company by partnering with suppliers across North America.

In 2017, we had approximately 1,700 suppliers throughout U.S. and Mexico operations. We procured the vast majority of goods and services through a centralized, competitive supplier selection process that incorporated:

- Cost considerations
- Quality of products and services
- Environmental and labor standards

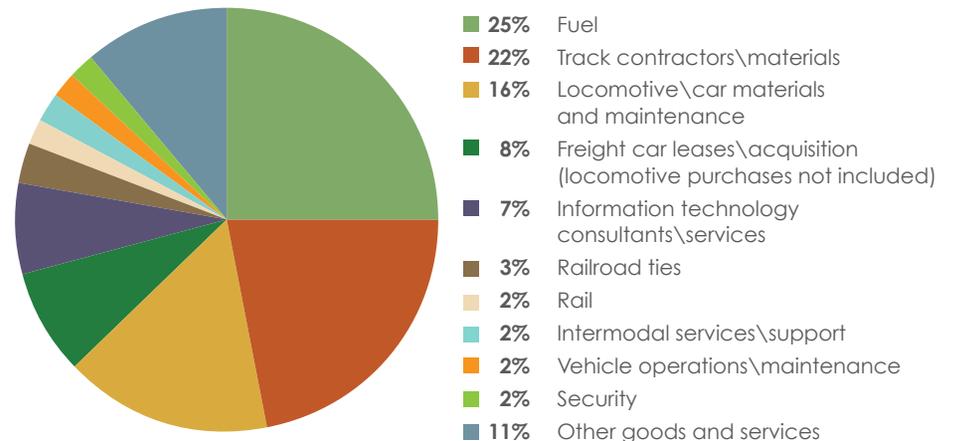
We sourced approximately \$1.28 billion on goods and services in 2017.¹

KCS 2017: Supplier Spend



In 2017, our top 10 types of goods and services purchased accounted for 89% of our supplier spend.

KCS 2017: Types of Goods and Services Purchased
(% of \$1.28B estimated)



¹ Represents acquisitions for sourced capital and operating expenses



VALUING PEOPLE





Valuing People

EMPLOYEES: OUR GREATEST ASSETS

Research shows a high correlation between employee satisfaction and customer satisfaction.¹ We believe our employees contribute to our success by feeling valued for their talent, passion and engagement, as well as having a customer-centric approach.

That is why our corporate vision—which focuses on both employees and customers—sets us up to succeed.

Our stable workforce provides a professional consistency to our operations that's key to our accomplishments. Our attrition rate dropped to 6.60% in 2017, compared to 7.88% in 2016. Also in 2017, our average tenure of employees was 11.8 years.

Another key is providing an environment where our employees enjoy a safe, welcoming, inclusive and challenging workplace. Since that's core to our DNA, we strive for a culture where we:



Actively engage employees through a variety of measures, including Town Hall meetings, webcasts, a robust intranet site, a weekly newsletter and various activities



Provide employees with tools they need to have a fulfilling, successful career



Develop employees' talents to advance at KCS and meet the company's growing needs



Offer benefits and lifestyle opportunities to enhance employees' well-being

KCS Employees by the Numbers

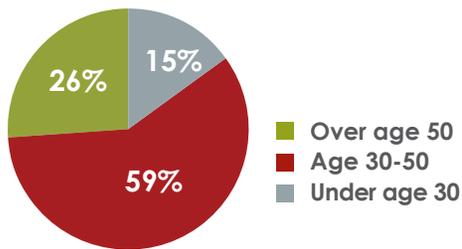
As of December 31, 2017, KCS and its subsidiaries had 7,132 employees—a 5% increase over 2016. Approximately 58% of our employees were based in Mexico in 2017.

KCS 2017: Subsidiary Employees

Non-Union	2017	2017 % of Workforce
Female	307	19%
Male	1,341	81%
Total	1,648	

Union	2017	2017 % of Workforce
Female	48	1%
Male	5,436	99%
Total	5,484	

KCS 2017: Employees by Age (approximate)



A multi-generational workforce allows for a blend of fresh ideas and proven strategies.

KCS 2017: KCSR Employee Diversity Population (self identified)

American Indian or Alaskan Native	32
Asian	34
Black or African American	659
Native Hawaiian or Other Pacific Islander	1
Two or More Races	23
White	2179
Grand Total	2,928

Individuals not self-identified are not included in the table.

New Hires and Turnovers

Our culture of valuing people keeps our turnover rates low compared to U.S. national rates. While U.S. national employee turnover rates linger around 18%², our cumulative turnover rate in 2017 was 6.6% among our total workforce.

In 2017, to replace people who left KCS as well as to increase our overall workforce, we welcomed 691 new employees to our company.

KCS 2017: Subsidiary Employee New Hires & Turnovers (percentages approximate)

Subsidiary Employees	U.S. Non-Union Women & People of Color	Mexico Non-Union Women
New Hires	40% ³	26% ⁴
Turnover	30% ⁵	18% ⁶

KCS 2017: New Hires by Age and Country

	Over age 50	Age 30-50	Under age 30	Total
U.S.	22	157	94	273
Mexico	17	205	196	418

¹<https://www.forbes.com/sites/kevinkruse/2014/01/07/employee-engagement-the-wonder-drug-for-customer-satisfaction/#21bfbeb66cd46>

²<http://www.humanresourcestoday.com/2017/retention-and-turnover/?open-article-id=7639762&article-title=worried-about-your-employee-turnover-see-how-it-stacks-up&blog-domain=reflektive.com&blog-title=reflektive> | ³Of 96 total U.S. non-union new hires, 22 were female and 16 were people of color.

⁴Of 68 total Mexico non-union new hires, 18 were female. | ⁵Of 56 total U.S. non-union terminations, 13 were female and 4 were people of color. | ⁶Of 62 total Mexico non-union terminations, 11 of them were female.



Valuing People

EQUAL AND PROTECTED ENVIRONMENT

Safe. Equipped. Empowered. These are the cornerstones of what we believe is essential in the work environment.

We strive to create a corporate culture that enables and empowers employees to:



Come each day to a workplace where they feel safe and appreciated



Collaborate with the knowledge their supervisors and colleagues value diverse perspectives



Express themselves about any issue of concern



Have a sense of pride and accomplishment in their contributions to KCS's overall vision

Equal Employment Opportunity Policies

Equal opportunities lead to bigger pools of candidates for our open positions, enabling us to hire the best-qualified workers.

To remain competitive when hiring and retaining, it's our policy in the U.S. and Mexico to provide equal opportunity in employment to all employees and applicants at KCS subsidiaries.

In the U.S.: The Equal Employment Opportunity Policy applies to all terms, conditions and privileges of KCSR employment, from hiring through retirement.

KCSR does not discriminate in employment on the basis of race, color, religion, sex, age, national origin, disability, protected veteran status or genetic information. Additionally, KCSR prohibits discrimination on the basis of sexual orientation and/or gender identity.

In Mexico: KCSMS promotes a culture of gender equality through actions that generate diversity and equal employment opportunities.

In 2017, for the second consecutive year, KCSMS received ESR (Enterprise Socially Responsible) certification.

The National Institute of Women-issued Modelo Equidad de Genero (MEG) did not issue guidelines for certification in 2017, as it had in past years. However, KCSMS continued to follow the previous MEG guidelines on equal employment opportunities regarding race, gender, age, religion and sexual preference.

Anti-Harassment Policy

Every employee has a responsibility to:

- Report good faith concerns involving violations of our policies or rules, as well as suspected violations of the law
- Cooperate truthfully and fully in any investigation regarding a report of workplace misconduct without fear of reprisal

KCS strictly prohibits retaliation against an employee who, in good faith, does any of the following regarding conduct they reasonably believe to be in violation of our policies and/or rules, or in violation of applicable laws:

- Raises a concern
- Provides information
- Assists in an investigation or proceeding



Valuing People

“RESPECT AND DIGNITY” AT KCS

In our Values and Culture statement, we are emphatic on the values, beliefs and behavior of our company regarding diversity and civility:

“We will embrace our cross-cultural heritage and promote a work environment that is inclusive of everyone. We will honor the rights of all individuals to be treated with respect and dignity.”

In 2017:

» **The KCS Board of Directors, in its oversight role, extensively discussed bullying and sexual harassment, including:**

- Discussing company policies
- Receiving reports of violations
- Discussing company responses to complaints

This is in contrast to 77% of boards who “had not discussed accusations of sexually inappropriate behavior and/or sexism in the workplace” according to a 2017 survey.¹

» **We revised our Non-Discrimination & Anti-Harassment Policy to strengthen our policy on providing “a work environment free from all forms of discrimination and harassment.”**

This policy covers a wide array of prohibited conduct, including sexual harassment, bullying and gender discrimination.

Non-Discrimination & Anti-Harassment Policy

The policy spells out our goal, which is to recognize “the importance of providing all employees a work environment free of discrimination and/or harassment in any term or condition of employment on the basis of race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, age, disability, marital status, pregnancy status, citizenship status, genetic information, military or veteran status, or any status protected by law.”

We also prohibit conduct inconsistent with the policy, even though it may not violate the law.

Examples of prohibited conduct: The policy lists examples of prohibited conduct, but warns that prohibited conduct is not confined to what is specifically listed.

It notes that if an employee is in doubt, he/she should err on the side of caution.

Among the behaviors the policy prohibits:

- Epithets, slurs, negative stereotyping, threats, intimidation
- Displaying, disseminating, posting, viewing, possessing, wearing, or bringing to the workplace content with nudity or other sexual suggestion or an offensive connotation
- Disparaging, abusive and/or sexual words, phrases, e-mails, or materials
- Threatening, intimidating or hostile acts
- Sexual innuendo, advances, suggestive comments, insults, threats, jokes, suggestive or insulting noises, leering, whistling, or obscene gestures
- Written or graphic material or objects that are sexually-oriented, obscene or criticize or show hostility or aversion toward an individual or group
- Propositions or pressure to engage in sexual acts
- Conduct in violation of the policy that occurs during non-working hours
- Unwelcome touching, pinching, cornering, or massaging or brushing the body
- Inappropriate comments concerning an individual’s appearance
- Insulting communications or postings

Reporting and Complaint Process: This includes reporting conduct violating our policy at:

- 24/7 Report Hotline: • [English](#) • [Spanish](#) • [Ethicspoint.com](#)

Employees can report anonymously since a third-party vendor runs the system. Our **Anti-Retaliation Policy** also protects our employees.

Consequences: Any employee who violates the policy is subject to appropriate disciplinary action, up to and including dismissal.

Harassment Training

In 2017, we offered these training courses, among others, to reinforce and encourage our core value of treating everyone with respect and dignity,

- Workplace Harassment Prevention for Employees
- Sexual Harassment Prevention for Employees
- Bullying and Violence in the Workplace

¹<https://www.law.com/newyorklawjournal/sites/newyorklawjournal/2018/01/24/boards-sexual-harassment-and-gender-diversity/?sreturn=20180629201619>



Valuing People

EMPLOYEE COMPENSATION AND BENEFITS

In our efforts to attract and retain employees, we offer:

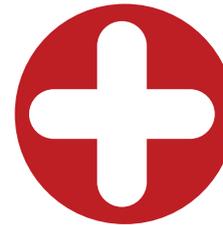
- A challenging and welcoming work environment
- Competitive compensation and high-quality benefits

In 2017, for the second consecutive year, our compensation and benefits expense increased. The expense increased 7% for the year ending December 31, 2017, compared to 2016.¹

In addition, in response to congressional passage of The Tax Cuts and Jobs Act of 2017, we shared some of the benefits with non-executive, non-union employees in the form of a one-time \$1,000 bonus.

As part of the overall compensation program, our subsidiary employees and their dependents are eligible for an array of non-monetary, competitive benefits. Due to differences in the healthcare industries in the U.S. and Mexico, priority benefits vary.

¹Kansas City Southern 2017 Annual Report



IN ADDITION

KCSR provides for leaves of absence for military service, bereavement and jury duty. KCSR also adheres to the federal Family and Medical Leave Act (FMLA) to provide leave for, among other things, a family member's serious health condition and the birth or adoption of a child.

KCS Subsidiary Non-Union Employee Benefits In the U.S., KCSR provides a high-quality benefits package for all non-union employees, which typically includes:

- | | |
|---|---|
| <ul style="list-style-type: none"> • Comprehensive health insurance • Dental insurance • Vision coverage | <ul style="list-style-type: none"> • Long-term disability pay • Salary continuation program |
| <ul style="list-style-type: none"> • Flexible spending accounts • Health savings plan | <ul style="list-style-type: none"> • 401(k) plan including company matching contributions |
| <ul style="list-style-type: none"> • Accidental death and dismemberment insurance • Life insurance • Vacation days | <ul style="list-style-type: none"> • Employee stock purchase plan • Annual incentive plan |

In Mexico, KCSMS offers a competitive benefits package for non-union employees including:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Major medical expense coverage | <ul style="list-style-type: none"> • Long-term disability • Salary continuation program |
| <ul style="list-style-type: none"> • Christmas bonus • Food allowance | <ul style="list-style-type: none"> • Bereavement and extraordinary event leave • Maternity leave for women and men |
| <ul style="list-style-type: none"> • Accidental death coverage • Life insurance • Vacation days • Vacation premium | <ul style="list-style-type: none"> • Savings fund • Mexico Social Security employee fee • Annual incentive plan |



Valuing People

EMPLOYEE TRAINING AND EDUCATION

We strive to maintain a strong, nimble and customer-focused culture—one that is focused on performance accountability and execution.

To strengthen our culture, we continuously develop our employee training and education programs around four main competencies.

Training and Education Competencies

- Emerging leaders and executive development to assist in successful career advancement
- Functional skill development for growth in day-to-day tasks and responsibilities
- Degree completion and educational assistance to help in completion of degrees and professional development
- Management and individual contributor development to keep performance goals on track

KCS 2017: Training and Education Competencies

By offering approximately 70 different training initiatives, we engage our employees so they may achieve those competencies. Our training courses and programs—both online and instructor-led—cover such topics as:



Leadership

- Teamwork and Collaboration
- Innovation and Upgrading Skills
- Change Management and Leadership Skills
- Communications and Public Speaking
- Generational Differences
- Coaching Through Conflict



Professional Development

- Business and Financial
- New Hire Onboarding
- Gender Equality



Technology

- Technology and Systems Improvement
- Desktop Applications, including Microsoft Office

Training Opportunity	Description
Variety of Skills: Skillsoft E-Learning	Self-service development resources available for our non-union employees to build skills as needed. Courses are also eligible for college credit.
Leadership Skills Development: Leadership for Change Management Program	Workshop-based program designed for vice presidents, assistant vice presidents, managers and coordinators of all areas that supports leadership skills, problem analysis and decision making, efficient meetings management, delegation and process improvement
Leadership Skills Development: Leading by Example: Preparing New Leaders & Building a Leadership Culture	Workshops aligned with, and supportive of, KCS Vision and Leadership Competencies for front-line/new managers up to vice presidents
Foreign Language Skills Development and Improvement: Language Learning Software	Web-based dynamic immersion tool to let our employees learn both Spanish and English
Professional Development: University Partnerships	Employees earn college credit toward a degree; <ul style="list-style-type: none"> • KCSR partners with Baker University • KCSMS partners with Universidad de Monterrey and Universidad del Valle de México.
Professional Development: Education Reimbursement Program	Financial assistance for employees interested in furthering their formal education



Compliance & Safety

- Security Through Technology [page 44](#).
- Hazmat and Rail Security
- Positive Train Control (PTC) more information | [page 32](#).
- Wellness, Health, Safety and Life Balance
- Engineer and Conductor Certification and Recertification
- Operating Rules
- Specialized Training for Transportation, Engineering and Mechanical departments

Training Hours

With more training programs to equip our employees to develop new skills and succeed in their careers, our 2017 average training hours increased by 55% over 2016.

KCS Subsidiary Employees Average Training Hours (Estimated)

2017	65
2016	42



Valuing People

EMPLOYEE HEALTH AND WELLNESS

We believe an employee who is physically, mentally, socially, emotionally and financially healthy is a happier, more productive individual.

To aid our employees in enjoying lifestyles best for them, we offer employee health and wellness programs, events, incentives and other opportunities, including:



“On Track to a Healthier You”—This KCSR wellness program with voluntary incentivized challenges gives employees the opportunity to stay on track with their weight management, healthy eating and physical activity goals.



KCSR’s On-Track Ambassadors—These volunteers assist in planning and carrying out educational campaigns and activities that support the company’s wellness initiatives.



KCSR Health and Wellness Committee—By planning and implementing educational campaigns and activities, this group supports the company’s wellness initiatives. The activities focus on one or more of the “Six Degrees of Wellness”:

- Physical
- Nutritional
- Social
- Emotional
- Financial
- Intellectual



KCSMS Health and Wellness Honor

For the sixth consecutive year, the Consejo Empresarial de Salud y Bienestar (Entrepreneurial Health and Wellness Council), with support from FUNSALUD and Health Ministries, recognized KCSMS as an Organización Responsablemente Saludable PLATA (ORS®). The ORS® award recognized KCSMS’s effort in the field of health promotion and for providing favorable environments for well-being in the workplace.

In 2017, we promoted these activities to benefit our employees’ health and wellness:

Free or Low-Cost Voluntary Health Benefits/Presentations/Events	
KCSR	Wellness and Benefits Fair: <ul style="list-style-type: none"> • Information about company benefits and community services, such as dietary, fitness and women’s health needs • Blood pressure and cholesterol checks, well-being assessments, biometric health screening
	Flu shots Smoking cessation program Wellness/nursing room
	Wellness lunch seminars presented by New Directions Behavioral Health and St. Luke’s Health System
KCSMS	Health Fair with comprehensive health check
	Mexico Institute of Social Security (El Instituto Mexicano de Seguridad Social) PrevenIMSS program where employees received: <ul style="list-style-type: none"> • Flu, H1N1 and tetanus shots • Blood sugar testing • Measured weight, height and blood pressure—and offered risk assessment
	Health-related talks on topics such as breast cancer, hypertension, colitis, diabetes and other health issues
Miscellaneous Health and Wellness Programs	
KCSR	Healthy tips posted in high-employee-traffic locations on topics such as mental health, women’s health, men’s health, health screenings and general health
	Financial planning tools: Retirewise, RR retirement benefits and 401 (k) Fidelity workshops
KCSMS	Financial and benefit talks: financial management, retirement pensions, health insurance and life insurance
	Nutrition Program
	New in 2017: Taller Risoterapia (Laughter Yoga Workshop)
Physical Activities/Incentives	
KCSR	New: National Walk@Lunch Day®
	3v3 KCS Basketball Madness Tournament for all employees and family members age 18 and over
	Discounts through national gym network
KCSMS	Running Club: KCSM sponsors employees to participate in up to ten 5K events annually
	Via Libre 5K (1,500 employees and their families participated in Monterrey, Mexico)
	New in 2017: Ritmos Latinos, a dance exercise program



Valuing People

EMPLOYEE HEALTH AND WELLNESS



KCSR Employee Assistance Program (EAP)

Providing confidential services for everyday challenges, the Employee Assistance Program (EAP) is for employees and recently separated employees plus their households.

EAP's goal is to help families maintain or restore balance and achieve their goals through access to information and short-term counseling. EAP provides assistance with issues such as:

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

Community Honors — In 2017, the Kansas City Downtown Council and City of Kansas City, MO, recognized KCS for its commitment to downtown Kansas City and the betterment of the community as a whole.

In addition, the Downtown Council also recognized Warren Erdman, KCS Executive Vice President of Administration and Corporate Affairs, for his leadership in helping the organization establish its policy advocacy efforts to support a vibrant and growing downtown.

Our company's U.S. headquarters have been in downtown Kansas City for 130 years.



LIVING SUSTAINABILITY

Name: Kaitlin Vaughn
KCS role: Payroll Disbursements Analyst

Prompt for more sustainable lifestyle:

"As a millennial, I know the future of the earth is in our hands."

Personal efforts:

- Bought Prius as first purchase ever of brand-new vehicle
- Recycles everything possible both at home and at work
- Uses reusable products like her own water bottle and reusable grocery bags
- Strives to purchase locally grown and organic products
- Conserves power through use of LED bulbs and by turning off lights when not in a room
- Powers major appliances with gas vs. electricity
- Prioritizes purchasing used furniture: "My personal style is midcentury modern, and when I can find an antique or pre-owned item that I love, I am very excited about it!"

Professional efforts:

Moved to paperless options by:

- Initiating and implementing plan to attach W-4, direct deposit and W-9 forms online in internal system vs. printing forms for employees and vendors
- Not printing anything that isn't absolutely necessary



Valuing People

UNION EMPLOYEE HEALTH AND WELL-BEING

With 77% of our workforce belonging to a union in 2017, our investment in union members' well-being is crucial to our operations and to our company. That's why we negotiate in good faith collective bargaining agreements, amendments and contracts.

All of our labor agreements in the U.S.—and, to a certain extent, in Mexico—cover health and safety to varying degrees, including providing:

- Personal protective equipment (PPE)
- Safe working conditions
- Safety talks and training
- Feedback/complaint mechanisms



U.S. Unions

In 2017, KCSR had 20 active collective bargaining agreements with 12 different unions. As part of the National Railway Labor Conference, KCSR was negotiating amendments to these collective bargaining agreements as of December 31, 2017.

Negotiations included discussions focused primarily on wages, health care benefits and various rules/ conditions on work conditions, including scope of jobs, hours and vacations.

Since the unions participate in the management of their health care plan, they have a vote in any changes to the plan. This results in our working with them on an annual basis to review the plan and its benefits regarding:

- The plan spending funds appropriately
- Plan costs being correctly allocated under the collective bargaining agreement



U.S. Union Benefits

KCSR union members receive benefits negotiated as a function of the collective bargaining process and are craft-specific, such as: health and welfare plans; supplemental sickness coverage (where applicable); dental, hearing, vision,

accidental death and dismemberment insurance; and other similar provisions.

Additionally, union members have access to the [Your Track to Health portal](#).

The portal contains sections on Living Healthy and Planning for Retirement.



Mexican Union

Mexico has only one railroad union with 12 union sections. Within each section, there are programs in place for the benefit, health, welfare, etc., for the union employees.

In 2017, KCSMS had weekly meetings with union members to review operations and labor needs. This allowed KCSMS to handle any issues on a "real-time" basis—without the need for a specific conference or committees.

In addition, annual meetings take place to address collective bargaining agreement revisions. In 2017, negotiated benefits included:

- Salary increases
- Funeral expenses coverage
- Family protection equal to 11 months of salary
- Graduated lenses



Valuing People

GIVING BACK / PAYING IT FORWARD

Generosity. Generosidad. Whether expressed in English or Spanish, being generous is a hallmark of the culture at KCS.

To support the communities we serve in the U.S. and Mexico, we give back to them in a number of ways.

The Kansas City Southern Charitable Fund: Administered by the Greater Kansas City Community Foundation, the Fund supports tax-exempt 501(c)(3) charitable organizations and events benefiting communities and the citizens in our service areas.

The KCS Charitable Fund supports organizations and events that engage KCSR directors, officers and employees for the benefit of communities that KCS serves. Their engagement may be as a volunteer or with a financial contribution.

KCS Matching Gifts Program: The KCS Charitable Fund matches donations from eligible KCS directors, officers or employees ("Participants") who support charitable organizations for which they have a passion.

KCS 2017: Giving Back

Program	KCS Participants	KCS Charitable Fund	2017 Contributions
KCS Discretionary Contributions	N/A	\$347,121	\$347,121
KCS Matching Gifts Program	\$330,541	\$408,607	\$739,148
Total	\$330,541	\$755,728	1,086,269

In 2017, KCS Participants, KCSR employees and the KCS Charitable Fund donated \$1,145,383 to charities, including the United Way. (See top right for United Way donation total.) This is an increase of approximately 23% from 2016 donations.¹

¹**RESTATEMENT:** In 2016, we stated our donations to be \$862,644, but this did not include the United Way. In 2016, KCS Participants and the KCS Charitable Fund donated \$929,160 to charities, including the United Way.



KCS 2017: United Way Donations

KCSR Employees	\$37,583
KCS Charitable Fund +	\$21,531
Total Donation	\$59,114

United Way: This national organization fights for the health, education, and financial stability of every person in every community.

In 2017, KCS raised approximately \$59,000 for the United Way with donations from KCSR employees in 11 states and a 50% matching donation from the Kansas City Southern Charitable Fund.



Blood Drives: KCSR heeded the Kansas City-based Community Blood Center's call for scheduling life-saving blood drives. KCSR scheduled four blood drives at our corporate headquarters during the year. The company has scheduled Community Blood Center blood drives since 2010.



Hurricane Harvey Relief: For information on the KCS Charitable Fund donation, employee donations and the Fund's matching gift to the American Red Cross, see [page 27](#).



Holiday Express: For information on KCSR's 17th annual festive train event, see [page 66](#).



Valuing People

2017: SUPPORTING MEXICO COMMUNITIES

Destellos de Luz: This Monterrey-based charity provides medical treatment and life-experience training for low-income children with vision challenges. Partnering with Rotary International, we made a joint donation of \$800,000 pesos to help Destellos de Luz obtain medical equipment, training and operating expenses.

KCSM also partnered with the Monterrey Metropolitan Rotary Club to host a golf outing for more than 100 golfers also to benefit Destellos de Luz. Several of the sponsors were KCSM vendors or transload partners.



Nuevo León Fire Department: KCSM:

Donated two semi-used maintenance of way vehicles



Secured funding through the Rotary Foundation to remodel the vehicles as rapid-action response vehicles

Del Amor Nace la Vista (Sight Comes by Love) Program: With a KCSM donation of \$50,000 pesos, more than 100 senior citizens who live in the state of Michoacán received cataract surgery.

Coordinated by the Cinopolis Foundation, the surgeries took place during one day in August 2017 at the Civil Hospital of Morelia. KCSMS employees also volunteered their time to help people post-surgery. Del Amor Nace la Vista helps the most vulnerable people suffering from cataract blindness, thus generating a culture of prevention towards blindness.

➤ **Fundación Teletón (Telethon Foundation):** KCSM supported this foundation with its objective to assist children, youth and families with cancer, autism and other disabilities.

➤ **Ciudad de los Niños (City of Children):** KCSM collaborated with this not-for-profit community school currently ranked as one of the top 20 schools in Mexico. The school provides education, food, transportation and medical assistance to nearly 1,400 children and youth from underprivileged families.

➤ **KCSM Soccer Sponsorships:** In 2017, KCSM sponsored women's and men's soccer teams and a youth soccer event. For information on KCSM's sponsorships, see [page 67](#).

➤ **September Mexico Earthquake Relief:** For information on the KCSM donation to the Mexican Red Cross and other efforts, see [page 28](#).

➤ **Tren Navideño:** For information on KCSM's eighth annual holiday train event, see [page 67](#).





Valuing People

COMMUNITY ENGAGEMENT

We are continually working to strengthen the bonds with the communities we serve in both the U.S. and Mexico. All year long, we engage with the communities along our rail network and organizations that support them.

Via sponsorship, service and volunteerism, we take part in:

- Community advisory councils, including development councils
- Community outreach boards, including safety boards
- Community events, such as run/ walks, and safety-related events and courses

Our most popular community outreach programs take place annually during the holiday season—the Holiday Express in the U.S. and Tren Navideño in Mexico. These fun and festive programs, free and open to the public, serve specific purposes.

KCS Invests in Community Youth with \$1 Million Donation

Joining other sponsors, KCS contributed \$1 million in support of construction of the Kansas City Major League Baseball Urban Youth Academy near the legendary 18th and Vine District in Kansas City, MO. When complete, the Academy facility will be home to youth leadership development and indoor/outdoor baseball and softball training.

The Academy, the eighth Urban Youth Academy in the U.S., plans to serve youth ages 6-18 with free:

- Year-round baseball and softball instruction and play, including hosting tournaments, coaching clinics and skills camps
- Access to tutoring programs, college prep classes, college and career fairs
- Financial literacy and internship programs
- Drug resistance and gang-prevention programs
- Healthy lifestyle classes



2017 KCS Holiday Express

At each stop, visitors boarded the Holiday Express train for some merriment. KCSR volunteers were on hand as children visited Santa and his elves. Led by our Southern Belle business train, the Holiday Express train features train cars adorned with lights, the smiling tank car “Rudy,” a gingerbread box car, an elves workshop, and a flatcar carrying Santa’s sleigh, reindeer and a miniature village.

In 2017, the 17th annual Holiday Express:

- Stopped in 22 communities in six U.S. states along KCSR’s rail network in 26 days
- Welcomed more than 80,400 visitors
- Distributed \$172,500 in gift cards to The Salvation Army at designated Holiday Express stops. The gift cards—purchased through donations by employees, KCSR vendors and The Kansas City Southern Charitable Fund— were designated for:
 - Purchases of warm clothing and other necessities for children in need in communities along the route at designated Holiday Express stops.
 - Families in Hurricane Harvey-affected stops, including Victoria, El Campo, Kendleton and Beaumont, TX
- Conducted outreach to emergency responders
- Distributed public safety information courtesy of Operation Lifesaver volunteers

See more on the [Holiday Express](#)



Valuing People



See more on the [Tren Navideño](#).

KCSM Tren Navideño

Working in the brightly decorated and twinkling lights of the Tren Navideño, volunteers gave away edible treats (including the traditional Acambaro bread), t-shirts and other gifts to visiting children. Tren Navideño is comprised of rail cars decorated with ornaments and a Nativity scene, as well as a caboose that commemorates the Mexican Revolution.

In 2017, the 8th annual Tren Navideño:

- Stopped in 12 communities in eight Mexican states along KCSM's rail network
- Hosted more than 47,000 holiday guests who enjoyed a:
 - Model railroad inside the train
 - Family-friendly movie on an open-air screen
 - Visit with "Super," the Club Monarcas mascot
- Distributed public safety information courtesy of Alto Total volunteers

Through KCSM's Operación Pelota campaign and volunteer program, KCSMS employees raised over \$25,000 pesos to provide children who visit the train with treats and a gift during and after the movie.

KCSM Launches Student Outreach Program

KCSM's new and ongoing program—KCSM and University Project—gives college students a valuable opportunity to learn from and interact with KCSMS professional and trained personnel who:

- Share their business expertise and experience
- Offer their encouragement to the students who'll soon join the business world

In 2017, KCSMS executives gave talks related to logistics, marketing, transport and corporate social responsibility to students at three universities in the states of Michoacán, Guanajuato and Tamaulipas. Approximately 3,500 students participated and discussed the topics with the executives.



KCSM Extends Its Soccer Sponsorships

Goal!!!! To promote community goodwill and to play a role in Mexico's favorite sport, KCSM sponsors soccer teams and a youth event in Morelia, Michoacán.

Club Monarcas Femenil: KCSM extended its sponsorship to the women's soccer league, with its members sporting the KCSM logo, Club Monarcas Femenil plays its matches at Monarcas Stadium.

Club Monarcas: For the eighth year, KCSM was the official team sponsor for the men's soccer club. Club Monarcas is part of the Mexican Football Federation (FMF).

Monarcas-KCSM Soccer Super Cup: This annual event brings young players from across Mexico to showcase their talents on the field. Some players receive an even greater opportunity by being selected for the Monarcas' training program.

More than 90 teams—from Baja California, Estado de México, Sonora and the State of Michoacán—enrolled in the 2017 event. With its commitment to promote soccer among young people, KCSM has sponsored the event for three years.



PROTECTING THE PLANET





Protecting the Planet

SURFACE TRANSPORT AND THE ENVIRONMENT

Energy efficiency and greenhouse gas (GHG) reductions fit into our vision to be the “fastest-growing, best-performing, most customer-focused transportation provider in North America.”

The very nature of train transport allows us to minimize our impact on the environment versus shipping by truck. In 2017, we moved one ton of freight 383 miles on only one gallon of fuel on average in the U.S. and Mexico.

By taking additional energy-efficiency and GHG-reduction measures, we’re moving in the right direction to further reduce our carbon footprint.

In 2017, by choosing KCS Intermodal Rail over highway truck transportation, our customers helped prevent the release of approximately 338,000 tons of GHG emissions into the atmosphere.

Ups and downs of fuel consumption: While other Class I railroads have pockets of challenging grades on small segments of their rail networks, we have challenging grades throughout KCSM’s network in Mexico. For example, more than 20% of the KCSM network has grades in excess of 1%, including segments from Lázaro Cárdenas to Morelia and from Nuevo Laredo to Monterrey.

These grades are the single greatest factor in our fuel efficiency challenges, resulting in greater emission output as experienced by KCS as a whole.

Looking specifically at intermodal transportation shows an estimated 72% avoidance of GHG emissions by choosing KCS rail over trucks.

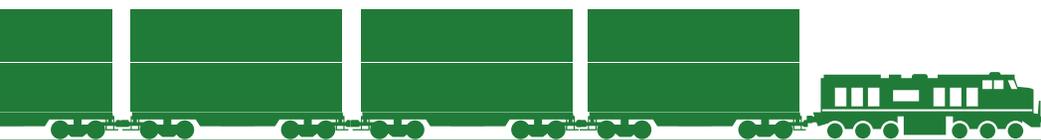
KCS 2017: Intermodal Rail vs. Truck¹ (Estimated)

	RTM/ Gallon	Revenue Ton Miles	Est. Gallons Used	Est. Metric Tons CO2e
Highway Transportation	106	4,892,394,992	46,154,670	468,855
KCS Rail Transportation	383	4,892,394,992	12,773,877	130,821
Net Difference		0	33,380,793	338,034

¹Assumptions: Avg. truck load 16.35 tons / Fuel consumption 6.5 mpg.



1 TON of freight x 383 MILES = 1 gallon of fuel via rail — VS — 1 TON of freight x 106 MILES = 1 gallon of fuel via truck





Protecting the Planet

KCS Carbon Calculator

We provide our customers a carbon calculator to estimate the greenhouse gas emissions savings potential associated with shipping by rail vs. truck.



Try out the [Carbon Calculator](#)¹

Renewable and Efficient Energy Initiatives

Through design and solar energy, we've found ways to reduce our non-renewable energy needs.

In 2017, KCSR had these initiatives:

- Utilized solar as an alternative power source at 90 signal locations. Of these, 43 are Positive Train Control (PTC) Wayside Interface Unit (WIU) locations.
 - Deployed 14 self-sustaining Wi-Fi pods in three of our intermodal facilities in the U.S. and Mexico. These pods:
 - Use mounted solar panels for all electrical needs
 - Are mobile, eliminating the need to do heavy construction to install fixed structures and trenches for network and electricity
 - Completed a design to reduce our current data center footprint from approximately 3,500 sq. ft. to 800 sq. ft. The new design will take advantage of more efficient cooling and lighting, which will significantly reduce power consumption. The data center renovation is scheduled for 2018.
- Also in 2017, KCSM installed 328 solar panels in 83 different sites as part of its Sanchez Yard Automation initiative.

KCS Environmental Measures

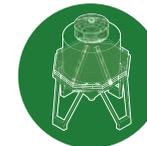
To maximize our environmental protection efforts and meet federal, state and local requirements in both the U.S. and Mexico, we:

- Have up-to-date training programs in effect for hazmat and other rail emergencies
- Monitor our environmental performance and compliance with federal and state requirements (See Environmental Compliance on [page 92.](#))
- Seek ways to reduce our demand on resources
- Perform environmental studies and obtain permits prior to constructing new track and other construction projects
- Strive to minimize the effects our construction and maintenance operations have on wetlands and other sensitive areas

In addition, our KCSR Critical Incident Desk and KCSM Interrupción de Servicio are active 24/7 so anyone can report accidental spills and leaks of:



Oil



Chemicals and other substances, including hazardous materials



Diesel fuel



Any other rail car releases (hazmat and non-hazmat)

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



Protecting the Planet

ENERGY EFFICIENCY, REDUCTION, CONSUMPTION AND EMISSIONS

Though rail transportation is the most energy-efficient way to haul freight over land, to keep our trains running still requires fuel.

That's why we continually find ways to be more energy efficient in an effort to further reduce our carbon footprint.

In 2017, our Fuel Conservation Team in the U.S. and Mexico supported fuel conservation and fuel efficiency initiatives by:

- Continually developing strategies to improve fuel efficiency
- Confirming KCS compliance in accordance with fuel conservation initiatives by managing field testing, rollouts and audits
- Managing vendor and program compliance
- Forecasting fuel consumption
- Providing monthly goals and reports to various KCS departments with recommendations
- Analyzing fuel burn and efficiency data to identify opportunities and trends



Energy Reduction

In 2017, as our business grew, our gross ton miles grew, requiring us to use more fuel. However, with fuel reduction initiatives—such as Trip Optimizer, Idle Reduction and Distributed Power—we increased our fuel consumption reduction target from 3.1 million gallons in 2016 to 7.1 million gallons in 2017.

We exceeded our target by avoiding the unproductive consumption of more than 8.4 million diesel gallons for our rail operations.

Reduction of Fuel Consumption¹ (Estimated)

Reduction in Megajoules		Reduction in Diesel Gallons	
2017	2016	2017	2016
1,228,510,331	466,348,900	8,471,321	3,182,929

¹Based on internal goals.

NOTE: Conversion factors used: <http://www.onlineconversion.com/energy.htm> and <http://www.kylesconverter.com> (natural gas conversion to joules)

We accomplished this in a number of ways:

- Identifying idling locomotives and sending electronic notifications to field managers to investigate and respond accordingly
- Inspecting and maintaining locomotives according to manufacturer recommendations to maintain gaseous and particulate emissions at/below the certified EPA Tier level
- Deploying energy management technology solutions on our higher-horsepower “road” locomotive fleet
- Overhauling locomotives periodically to achieve new Tier level certification and lower emissions
- Overhauling outdated, less fuel-efficient locomotives with current technology (We have one of the youngest fleets among Class I railroads.)
- Continuing to implement our primary fuel reduction initiatives ([see page 72](#)).



Protecting the Planet

KCS 2017: Primary Fuel Reduction Initiatives

Initiative	Description	Results	2017 ¹
TRIP OPTIMIZER	<ul style="list-style-type: none"> Intelligent, fuel-saving technology for locomotives, it calculates the most efficient operation by considering such factors as train length, weight, grade, track conditions, weather and locomotive performance. Through a complex network of onboard computers, GPS systems and advanced algorithms that make adjustments during the rail journey, each trip's profile is updated continuously 	Greater fuel efficiency with fuel savings' range of 5-14% (depending on train weight, configuration, terrain, etc.) with corresponding emissions reductions	<ul style="list-style-type: none"> Installed Trip Optimizer in 124 more locomotives bringing the current total to 244 installed Added new geographic corridors in U.S. and Mexico to software detailing our track profile dimensions that determine where Trip Optimizer can be used—includes the heavily traversed cross-border corridor Saved approx. 1.1M diesel gallons
EXCESSIVE IDLE REDUCTION	Active overhaul program to install Auto Engine Stop/Start (AESS)—supplemented until overhaul policy complete by Manual Stop/Start policy that calls for shutting down engines after 30 minutes of unanticipated idling	Greater fuel efficiency with corresponding emissions reductions	<ul style="list-style-type: none"> Installed additional 16 AESS systems bringing the current total to 828 installed Saved approx. 5.9M diesel gallons
DISTRIBUTED POWER	System by which dedicated radio-frequency-controlled locomotive power is placed throughout a train to distribute the ability to brake evenly and share the engine load	<ul style="list-style-type: none"> Greater fuel efficiency with corresponding emissions reductions—even with increased carloads Safer trains with: <ul style="list-style-type: none"> Improved train control Reduced track wear and coupling issues Decreased derailments in areas of ascending grade and significant curves 	Saved approx. 1.0M diesel gallons
HORSEPOWER PER TRAILING TON (HPT) GUIDELINES	HPT Compliance monitoring requires that we only use the HP required to haul freight	Greater fuel efficiency with corresponding emissions reductions	Saved approx. 450K diesel gallons

In 2017, additional programs and initiatives aimed at reducing energy consumption included:

- Using solar battery chargers to operate signals along our rail system (see Renewable and Efficient Energy Initiatives on [page 70](#).)
- Scheduling LED lighting retrofits to occur during 2018
- Planning and testing a POC (proof of concept) remote access management system to be installed and implemented in 2018 at 878 Positive Train Control (PTC) waysides to:
 - Increase PTC system availability to support efficient business functionality
 - Reduce Telecom technician dispatches to avoid/reduce drive-time gasoline consumption—remote monitoring vs. physical inspections



KCSR Responsible Care® Exceptional Merit Designation

In 2017, KCSR became the first American Chemistry Council (ACC) Responsible Care® partner to receive an Exceptional Merit designation. The ACC honored KCSR for implementing our energy management technology Trip Optimizer, which benefits our entire enterprise. With Trip Optimizer, we operate our trains smarter and more efficiently. That's aligned with ACC's ongoing initiatives to improve energy efficiency.



KCSR has been an ACC Responsible Care® partner company since 1999 ([see page 18](#)). As such, the company commits to striving to continually improve environmental, health, safety and security performance for its business operations.

¹Based on internal reduction goals and targets. Excessive idle duration measured in Wi-Tronix system and theoretical idle fuel consumption rate of 3.25 gallons per hour used to calculate fuel savings. Trip Optimizer savings are estimated between 3% and 14% depending on territory and train type. Distributed power estimated at 2% fuel savings for DP-equipped trains, which are used in hauling 45% of total gross ton miles. HPT fuel savings are estimated based on the difference between the baseline and actual fuel used depending on territory, train type and compliance.



Protecting the Planet

ENERGY CONSUMPTION

As our business grew in 2017, we increased our total gross ton miles by 8.8% while only increasing our total gallons of diesel fuel by 5.8%—thereby decreasing our total energy consumption per gross ton mile.

Energy Consumption (Estimated)

	2017	2016
Diesel	20,818,022,991 megajoules ¹ (142,083,149 gallons)	19,681,157,315 megajoules ¹ (134,324,033 gallons)
Gasoline	157,143,085 megajoules (1,236,285 gallons)	91,708,967 megajoules ² (721,498 gallons)
Natural Gas	16,753,101 megajoules (15,312,320 cubic feet)	19,837,900 megajoules (18,802,681 cubic feet)
Electricity	250,219,570 megajoules (69,505,436 kwh)	261,246,538 megajoules (72,568,483 kwh)
Total Direct Consumption	21,242,138,747 megajoules	20,053,951,182 megajoules
Energy intensity ratio	187,294 joules/gtm	202,107 joules/gtm ³
KCS-specific Metric Calculating Ratio gtm=gross ton miles of railroad transportation	113,415,502,000 gtm	104,221,567,000 gtm

NOTE: Conversion factors used: <http://www.onlineconversion.com/energy.htm> and <http://www.kylesconverter.com> (natural gas conversion to joules)

¹**RESTATEMENT:** In 2016, we incorrectly calculated megajoule calculations for non-renewable diesel and gasoline fuel consumption, resulting in reported figures that were one order of magnitude low. This resulted in the diesel megajoules to be one order of magnitude low. | ²**RESTATEMENT:** In 2016, we incorrectly calculated megajoule calculations for non-renewable diesel and gasoline fuel consumption, resulting in reported figures that were one order of magnitude low. This resulted in the gasoline megajoules to be one order of magnitude low. | ³**RESTATEMENT:** In 2016, we incorrectly calculated megajoule calculations for non-renewable diesel and gasoline fuel consumption, resulting in reported figures that were one order of magnitude low. This resulted in the energy intensity ratio (joules/gross ton mile) to be one order of magnitude low. | ⁴**RESTATEMENT:** In 2016, we misidentified our natural gas emissions from fixed facilities as Scope 2 emissions and have now included them as Scope 1 emissions. | ^{5,8,9}Emissions calculated: CO₂, CH₄, N₂O / Scope 1 Source: GHG Protocol Mobile Source Calculation Tool | ⁶Scope 2 2016 estimates were based on fewer data points resulting in greater uncertainty; 2017 figures were based on a significantly larger amount of actual data resulting in improved accuracy and lower uncertainty. | ⁷**RESTATEMENT:** The emissions factors used to calculate these values are provided in EPA report Emissions Factors for Locomotives, EPA 420-F-09-025. Factors are listed for line haul locomotives and switch locomotives. Line haul locomotives operate at high throttle settings for a significant percentage of time, thus have different emissions characteristics that switch locomotives that operate at low throttle settings and tend to spend much of the time idling while in use. The emissions are calculated from the total amount of fuel consumed, which is reported to the Surface Transportation Board in the annual R-1 report. In 2016, when we calculated the emissions, we calculated both the line haul and switch locomotive emissions on the total amount of fuel used. Instead, the calculations line haul emissions should have been made using just the line haul fuel amount and the switcher emissions should have used just the total amount of fuel used by the switchers.

Greenhouse Gases (GHG): Emissions and Intensity

Regarding GHG emissions, we:

- Conduct annual emissions testing as part of our maintenance practices throughout the useful life of a locomotive to determine our compliance with EPA standards
- Do business with locomotive and parts suppliers who hold EPA certificates of conformity for emissions
- Implement various fuel conservation efforts. [See page 72.](#)

In 2017, our efforts paid off as our emissions intensity decreased.

KCS Emissions⁴ (Estimated)

	2017	2016
Scope 1 (Direct Emissions)⁵	1,458,919 tons CO ₂ e	1,374,392 tons CO ₂ e
Scope 2 (Purchased Energy)⁶	13,895 tons CO ₂ e	31,811 tons CO ₂ e
Scope 1 & 2 (Total Emissions)	1,472,814 tons CO ₂ e	1,406,203 tons CO ₂ e
GHG Emissions Intensity Ratio gtm=gross ton miles of railroad transportation	12.99 grams CO ₂ e/gtm	13.49 grams CO ₂ e/gtm
KCS-specific Metric Calculating Ratio	113,415,502,000 gtm	104,221,567,000 gtm
NOX Emissions	16,813 metric tons	16,928 metric tons ⁷
SOX Emissions	13.3 metric tons	12.5 metric tons
CO Emissions	3,761 metric tons	3,547 metric tons
Hydrocarbons	706 metric tons	744 metric tons ⁸
Particulate Matter	409 metric tons	413 metric tons ⁹



Protecting the Planet

WATER USAGE AND MANAGEMENT

Water, one of our world's most precious resources, is a natural element we endeavor to conserve.

In the U.S. and Mexico, we use water for our operations, maintenance or domestic use primarily:



For human consumption and sanitation



To wash railroad equipment, such as locomotives and special railcars

Our water management, protection and conservation initiatives include:

- Ongoing installation of sensor-activated auto-shutoff water faucets at facilities (Kansas City headquarters completed in 2017)
- Installation of waterless urinals and lower-water toilets at new construction and renovated sites, as well as when devices need replacement
- Spill prevention controls and countermeasure plans at facilities, including treatment facilities to prevent water contamination
- Treatment of captured wastewater to comply with government regulations and wastewater discharge permits

These initiatives serve to:

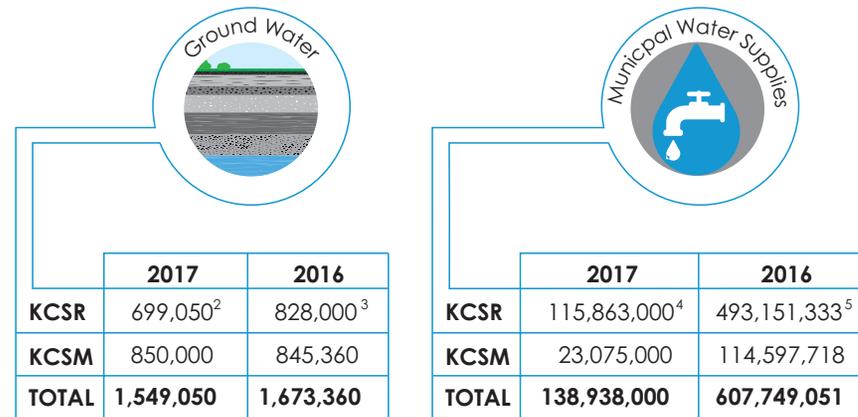
- Optimize water use through reuse and efficiency
- Mitigate environmental and social water impacts
- Minimize costs associated with purchased water



In 2017, our ground water usage decreased and we significantly reduced our municipal water usage.



KCS: Water Usage (In Gallons)¹ (Estimated)



¹The 2016 estimates were made using the total cost of water paid by KCSR and the total amount of use reported by KCSM at sample facilities. The KCSR amount was based on the average cost of water reported by the American Water Works Association (AWWA). In 2017, we obtained detailed usage and cost reports for three metropolitan areas and learned that the average cost of water was far greater than that reported by AWWA, due in part to the inclusion of wastewater treatment and storm water management, as well as various fees and taxes. Using that data and the overall cost for water paid by the company, more accurate estimates were possible for 2017. It is expected that further research will improve the accuracy of the estimates in 2018 and beyond.

²Estimate based one well at Laredo, TX, est. 456,250 gallons; one well at Kendleton, TX, est. 206,300 gallons; and one well at Reserve, LA, est. 36,500 gallons

³Estimate based on ground water used from Robstown, TX, well (414,000 actual gallons) doubled to account for a well in Laredo, TX, that's unmonitored.

⁴Extrapolated from measured amounts for Kansas City, MO; Shreveport, LA; and Dallas, TX

⁵Estimated water consumption based on 2016 total cost of \$739,727 divided by \$1.50 average U.S. cost per 1,000 gallons. (www.fcwa.org). Includes 8.1 million gallons estimated use in KCS headquarters in Kansas City. About 75 water utilities provided water to KCS facilities with more than 300 separate accounts; currently there is no KCS accounting specifically for water use amounts. Estimated water consumption for KCSM based on measurements of water use at 10 KCSM facilities plus 50% uncertainty factor for five other facilities that have no available data.



Protecting the Planet

RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT

To protect communities along our rail network from wastewater contaminants, we:

- Invest in state-of-the-art treatment systems
- Operate, maintain and continually monitor our wastewater treatment systems
- Employ best management practices and technology to prevent wastewater and storm water contamination
- Minimize wastewater quantities and contamination through engineering evaluations of systems and processes that contact water
- Conduct routine inspections to:
 - Confirm that equipment and systems are working as designed to prevent exceeding capacity
 - Verify water quality in discharge areas—with compliance agencies holding us accountable for the results
- Safeguard stream and wetland habitats
- Obtain necessary permits
- Direct capital investment to prevent pollution at fueling facilities, including use of fuel spill prevention technology, as well as track mats

We also reuse treated wastewater when feasible. KCSM uses non-potable water in Mexico for irrigation at the Monterrey and Queretaro facilities and adjacent land. KCSR installed a holding tank at our Kendleton, TX, yard as a first step in using treated wastewater for landscaping.

Wastewater

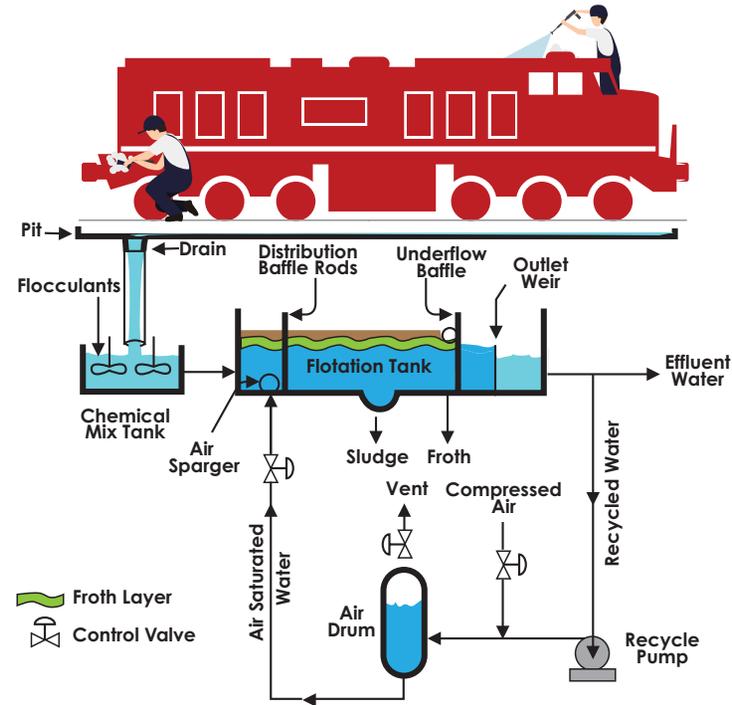
In 2017, we discharged an estimated 45.7 million gallons of wastewater to 24 locations, all in compliance with U.S. and Mexico regulations.

KCSR treated the wastewater at 11 locations before discharging it to surface waters and publicly owned treatment works (POTWs).

Before discharging wastewater, KCSM did one of these:

- Treated the wastewater before discharging it
- Sent it to a municipal wastewater treatment facility
- Stored it for later treatment and removal

Dissolved Air Flotation Wastewater Treatment



Our primary treatment method was an American Petroleum Institute (API) oil-water separator. At three of the locations, KCSR further treated the wastewater using the enhanced oil-water separator called Dissolved Air Flotation (DAF).

In 2017, KCSR installed a DAF separator at a fourth location, which is expected to be online in 2018.



Protecting the Planet

In 2017:

- KCSR's treated water discharges showed no material negative effect on any of the receiving water bodies and related habitats—even in sensitive areas.
- KCSR took continued measures to segregate wastewater and contact storm water streams, which resulted in:
 - Reducing volumes requiring treatment
 - Improving effluent quality
- KCSR installed toilet dump stations at two rail yards.
- KCSM had no discharge of wastewater on soil, water bodies or wetland habitats

Wastewater Discharge (in gallons) (Estimated)



Storm Water

In 2017, KCSR responsibly discharged storm water to surface water or POTWs at 27 locations requiring permits. We employ best management practices in accordance with U.S. EPA requirements at locations to:

-  Prevent storm water from becoming contaminated with oil and grease prior to discharge
-  Conduct ongoing storm water inspections at all locations
-  Monitor and report on water during storm events

Also in 2017, KCSR completed its enhanced storm water system in Shreveport, LA, to prevent overflows from the KCS surge tank. This has significantly reduced the amount of storm water going into our wastewater treatment plant.



KCSR Industrial Wastewater Pretreatment Award

KCSR received again in 2017 the Industrial Wastewater Committee Pretreatment Silver Award from the Missouri Water Environment Association. The award was for KCSR's wastewater pretreatment at its Kansas City Knoche Yard.



Protecting the Planet

RECYCLING, REUSING, REPURPOSING AND REDUCTION



From batteries to oil to wood ties, we recycle or reuse materials in ways to keep them out of landfills.

In 2017, KCSR efforts involved initiatives that account for more than 43,200 tons of rail materials and other items being recycled, reused or used in energy recovery.



Non-rail recycling efforts

We contract to recycle certain items we use in our facilities and throughout our operations.



Office electronic and technology equipment—

We use certified electronics contractors to collect workstations, monitors, printers and other desktop accessories. The contractors then refurbish and sell the items, or they recycle them.



Mobile phones and accessories—KCSR works with the e-waste disposal charity Cells for Cells, whose proceeds from the recovery of precious metals benefit families affected by cancer.

KCSR donates an estimated 80-120 used/damaged mobile phones and accessories to Cells for Cells annually.



Paper, cardboard, plastic, aluminum and steel—

We contract with a regional recycling company to recycle items.

Also In 2017, we made plans for a new recycling program at our Kansas City headquarters beginning in 2018.

KCSR Waste Management Initiatives (amounts in pounds) (Estimated)

MATERIAL/ITEMS	2017 RECYCLED	2016 RECYCLED	2017 REUSED	2016 REUSED	2017 ENERGY RECOVERY	2016 ENERGY RECOVERY	2017 TOTAL	2016 TOTAL
Scrap Metal ¹	27,792,741	22,258,314					27,792,741	22,258,314
Metal Tie Plates ²			6,180,852	2,698,000			6,180,852	2,698,000
Wood Ties			4,418,460	11,693,055			4,418,460	11,693,055
Concrete Ties				4,576,000				4,576,000
Scrap Ties					45,637,000	23,714,347	45,637,000	23,714,347
Used Oil	1,809,307	2,063,820					1,809,307	2,063,820
Signal Batteries	31,168	Didn't report					31,168	
Lead-acid Batteries (shipped to GNB Industrial Power)	544,763	Didn't report					544,763	
Fluorescent Tubes ³	530	Didn't report					530	
Total	30,178,509	24,322,134	10,599,312	18,967,055	45,637,000	23,714,347	86,414,821	67,003,536

¹Scrap metal includes scrap rail, tie plates, spikes, spike cleavers, switches, frogs, guard rail and other track materials.

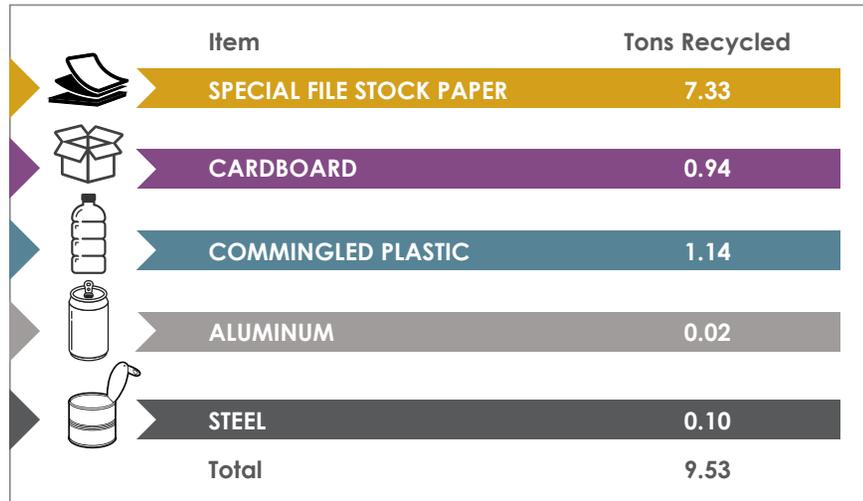
²For metal plates, wood, concrete and scrap ties: Includes best available averages for conversions to weight for tie plates and ties in different conditions.

³On newer fixtures with electronic ballasts, we replace fluorescent lights with LED bulbs. On older fixtures, we replace the entire fixture or the ballast.



Protecting the Planet

KCSR 2017: Items Recycled at Kansas City Headquarters



Waste Management Disposal

In 2017, KCSR continued our strides to dispose of non-hazardous and hazardous waste in an environmentally sound way.

KCSR 2017: Waste Management Disposal Methods (Estimated)

DISPOSAL METHOD	TOTAL WEIGHT (IN POUNDS)	% OF WASTE
Non-Hazardous Waste Recycled, Reused, Used in Energy Recovery	88,214,560	82%
Non-Hazardous Waste Incinerated	2,636	Negligible
Hazardous Waste Recycled	851,865	< 1%
Hazardous Waste Incinerated	123,460	Negligible
Non-Hazardous Waste in Landfill ¹	17,228,236	16%
Hazardous Waste in Landfill	25,137	Negligible
Non-Hazardous Waste in Water Treatment	685,525	< 1%
Total Waste	107,131,419	100%

Rail and non-rail reduction efforts

In addition to efforts noted above, in 2017 we reduced our eco-impact by:

- Extending the life of railroad ties by using a tie-treatment process that can prevent fungus growth and rot leading to track degradation
- Using rechargeable batteries
- Installing LED lighting in facilities and rail yards to cut down on replacement of bulbs and lighting strips, which included:
 - Completed LED conversion: Kansas City headquarters
 - Scheduled retrofits for yards and other facilities along our rail network, including:
 - Hughes Springs, TX, Yard: upgrade complete
 - Latanier, LA, Yard: upgrade 95% complete
 - Shreveport, LA, Yard: upgrade complete with exception of some non-LED flood lights
 - Watts, OK, Yard: new poles and fixtures installed
 - Pittsburg, KS, Car Repair facility: new poles and fixtures installed
 - Kansas City, MO, Mechanical Shop Storage: new fixture installation of track lights, replacement of HPS exterior lights
 - Kansas City, MO, Intermodal Check-In Office: conversion from fluorescent tubes to LED lighting complete
 - Kansas City, MO, Car Repair Shop: conversion from fluorescent tubes to LED lighting complete
- Repairing and reconditioning parts—which accounted for 18% of KCS's inventory in 2017

¹Not all municipal solid waste has been accounted for at this time.



Protecting the Planet

SAFE HAZARDOUS WASTE TRANSPORT

Safely transporting hazardous waste is a major responsibility, as well as our obligation to the communities we serve.

In 2017, KCS transported 100% of its hazardous waste without incident.

KCS delivered the waste products for reuse, recycling or disposal to treatment, storage and disposal facilities with no environmental impact issues post-remediation.

Transporting Hazardous Waste (in metric tons)¹ (Estimated)

Hazardous Waste Transported		
	2017	2016
KCSR ²	110,114 ³	95,189 ⁴
KCSM ⁵	193,245	136,072
Total of KCSR and KCSM	303,359	231,261



Hazardous Waste Shipments Exported (in metric tons) (Estimated)

Hazardous Waste Exported				
	Shipments		Percentage transported internationally	
	2017	2016	2017	2016
KCSR	74,516	74,060	65%	78%
KCSM	Zero	Zero	0%	0%



¹Based on respective country's definition of hazardous waste; Mexico regulates used batteries as hazardous waste and accepts used batteries from KCSR and other railroads.

²For 2016, assumption of each carload containing average of 88 metric tons based on random sampling of 2016 U.S. EPA manifests. For 2017, a random sampling of manifests led to a small increase in the average weight for the 2017 estimate.

³Includes 35,598 metric tons transported in U.S. to U.S. treatment facilities, with the remainder transported to Mexican treatment facilities

Recognizing Customers for Safe Hazmat Shipping

KCSR and our customers doing business in the U.S. share a steadfast dedication to the safe movement of every shipment every day. We honor this commitment for the protection of:

- Our environment
- The safety and health of our employees and the residents of the communities where KCSR operates

KCSR's Hazmat Shipper Safety Appreciation Award recognizes customers for their business and commitment to these shared values.

In 2017, we recognized 25 companies as "Safe Shippers" for originating more than 500 bulk hazmat shipments annually without incident.



⁴Includes 21,129 metric tons of waste generated in U.S. and transported to U.S. treatment facilities, with the remainder transported to Mexican treatment facilities

⁵Includes waste generated in Mexico and treated or disposed of in Mexico, as well as waste imported into Mexico by other U.S. railroads to be treated or recycled



Protecting the Planet

HAZARDOUS MATERIALS MANAGEMENT AND SAFETY TRAINING

To meet our preparedness goals, KCSR has:

- **Worked diligently with these groups to improve the transport of hazardous materials:**
 - Association of American Railroads (AAR), including the organization's:
 - Bureau of Explosives (BOE)
 - Strategic Research Program
 - Security and Emergency Response Training Center
 - North American Tank Car Committee
 - Safety and Operations Management Committee
 - Pipeline and Hazardous Materials Safety Administration (PHMSA)
 - Federal Railroad Administration (FRA)
 - State regulators and local first responders
 - Our customers, peers and other groups working to improve hazmat safety
- **Established programs and training that facilitate safe and efficient emergency response, minimizing impact to those who live in areas where we operate. To that end, we are involved in:**
 - Community outreach under the Transportation Community Awareness Emergency Response (TRANSCAER®) program where we:
 - Coordinate free, voluntary drills for public emergency responders
 - Provide instruction on the safe transportation of hazardous materials and emergency procedures



Hazmat Training

KCSR's Environmental & Hazmat Department is involved in voluntary outreach efforts that focus on assisting communities to prepare for and respond to possible hazmat transportation incidents. These efforts:

- Promote safe transportation and handling of hazardous materials
- Educate and assist communities near our routes about rail transportation of hazardous materials
- Aid community emergency response planning for possible hazardous material transportation incidents



Specifically, KCSR:

- Supports professional development
- Hosts trainings and demonstrations
- Attends Local Emergency Planning Committee (LEPC) meetings
- Provides hazmat traffic reports
- Provides AskRail™ apps

The AskRail™ app gives first responders access to data about types of materials railcars are carrying. The data is immediate and accurate so first responders have the information they need in the event of a rail emergency.

We contract with personnel who support efforts regarding hazmat incidents and work with local emergency response departments.

Among the training programs are emergency response drills. These typically include specially equipped railcars designed for hands-on training. These cars help simulate a variety of scenarios and demonstrate proper incident response. Instruction topics include:



How to assess rail accidents from safe distances



Emergency locomotive shutdown



Emergency response contacts



Railcar damage assessment



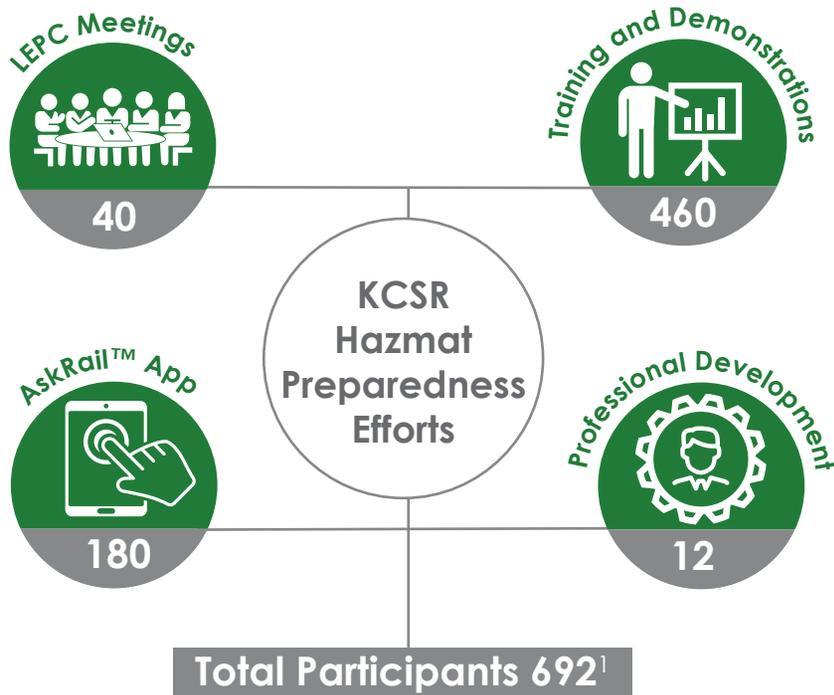
Acquiring train consist and hazmat information



Spill mitigation techniques



Protecting the Planet



In 2017, KCSR estimates it reached out to nearly 664 local community first responders for hazmat training. Approximately 53% of the first responders participated in the training.

● Effort ● 2017 Individuals Participating

¹Two large training events scheduled for fall 2017 were canceled due to Hurricane Harvey and its aftermath.

In 2017, KCSM enhanced its training capabilities by preparing written training materials, establishing relationships with training centers for first responders, and developing training props. KCSM's efforts also included:

- Initiating a series of training events for local first responders in five key locations
- Working with customers to improve the safe handling of hazardous materials during loading and unloading operations
- Educating employees on hazmat safety

In 2017, KCSM trained 64 first responders representing 20 fire departments in communities where KCSM operates.

- In addition, KCSM made plans in 2017 to open its hazmat emergency training center in coordination with the Transportation Technology Center, Inc. The training center will provide scholarships for firefighters and civil protection personnel along KCSM's rail network, is scheduled to open the third quarter of 2018
- KCSM also has developed PETRAM (Plan de Emergencias en el Transporte Ferroviario de Materiales y Residuos Peligrosos), the emergency plan in case of an accident involving hazmat. This plan contains operation protocols to follow so that KCSM appropriately responds to safeguard its employees and communities along its rail network should there be a hazmat disaster.



KCS TRANSCAER® Regional Achievement Award

For the fourth consecutive year, TRANSCAER® honored KCS with its Regional Achievement Award in 2017. The award recognized KCS's extraordinary achievement in support of the TRANSCAER® initiative ([see page 18](#)).



Protecting the Planet

BIODIVERSITY AND LAND MANAGEMENT

Our rail network runs through, or is adjacent to, a range of natural habitats and areas rich in biodiversity, including Sites of Special Scientific Interest (SSSIs).

The construction and maintenance of our rail network and infrastructure can potentially result in the loss and degradation of natural habitats. For that reason, as established in our HSSE principles (see page 6) and as a responsible corporate citizen, we are committed to stewardship for the protection of our:



Environment



Customers



Communities where we operate



This stewardship entails:

- Protecting and managing land sustainably
- Reducing and mitigating our performance risks
- Minimizing impacts to biodiversity in areas of operation
- Preserving and restoring natural habitats and unique ecosystems along our routes
- Complying with all federal, state and local regulations in the U.S. and Mexico
- Create a network that's more resilient to current and future regulations and pressures



To be a good steward, we have a number of programs and initiatives designed to address biodiversity and land management, including:

- Impact assessments on economic, social and environmental effects
- Preservation and restoration
- Vegetation management
- Construction and maintenance
- Machinery maintenance
- Site remediation
- Employee education and training
- Environmental supervision and compliance





Protecting the Planet

2017 PROJECTS

We saw the completion of biodiversity and land management projects in the U.S. and Mexico and the start of additional projects in Mexico.

In the U.S. KCSR concluded our restoration project involving 172.3 acres in Louisiana to mitigate construction of our Mossville Yard expansion—part of our Sasol/Lake Charles Development Project.

The mitigation plan, in accordance with U.S. Army Corps of Engineers regulations, included:

- Plantings of more than 72,522 site-suitable bottomland hardwoods seedlings to re-establish 134.8 acres of bottomland hardwoods
- Re-establishment of 37.5 acres of coastal prairie habitat historically located within the region
- Protection of the site with a conservation servitude
- Establishment of a long-term steward to monitor success of mitigation project in perpetuity



In Mexico, Secretaría del Medio Ambiente y Recursos Naturales (SEMARNAT / Secretariat of Environment and Natural Resources) evaluates and authorizes construction projects that have a mandate to take into account environmental impacts.

All the projects in Mexico have a level of commitment to habitat biodiversity and to the conservation of natural resources. For projects in areas where forest vegetation exists, KCSM must study land use change management. SEMARNAT generally requests these conservation programs:

- Soil conservation
- Water conservation
- Reforestation
- Wildlife rescue
- Flora and fauna rescue



KCSM's Sanchez Yard Expansion has six conservation areas designated for either flora and fauna rescue or reforestation.

In 2017, KCSM completed conservation efforts on approximately 89 acres in four areas. The company is in the process of conserving an additional 24 acres in two areas. KCSM is also responsible for maintaining the conservation areas by irrigating them, pruning trees, and replacing dead trees or plants.



KCSM also had three construction projects, all of new sidings (tracks next to main lines that enable trains to pull off to allow other trains to pass), for which KCSM initiated or implemented conservation efforts:

- **Quirio:** Located in the municipality of Charo near the city of Morelia, the project is in a medium level biodiversity area. Conservation efforts completed in 2017.
- **La Costura:** Located in Acámbaro City in the state of Guanajuato, the project is in a medium level biodiversity zone. Construction and conservation efforts started in 2017.
- **Cienfuegos:** Located in the municipality of Ziracuaretiro, Michoacán, near the city of Uruapan, it is in an area of high biodiversity and close to protected natural areas. Planned in 2017, execution will take place in 2018.





APPENDIX





Appendix

Stakeholder Engagement

In 2017, we engaged with our stakeholders in many ways. We cover some of these engagement activities in detail throughout the report.

Customer Engagement

- Community advisory councils
- Economic and charitable relationships
- Employee-led fundraising
- KC SmartPort via KC Area Development Council
- NARS (National Association of Rail Shippers)
- Operation Lifesaver (US) /Alto Total (Mexico)
- Participation in statewide Operation Lifesaver (OL) board agencies and national OL board
- Safety campaigns
- See Tracks? Think Train! Campaign, result of partnership with Association of American Railroads
- The Transportation Community Awareness and Emergency Response (TRANSCAER®) program
- Programs to report suspicious or illegal activity

Customer and Partner Engagement

- Relationship calls and visits
- Visits onsite to KCS
- Meetings
- Special events: Business train trips, golf events
- Customer advisory councils: MPEC (Multi Level Pooling Executive Committee)
- Customer satisfaction surveys
- Online communications
- E-business tools
- Daily tactical communication and relationships via customer solutions center

- Service Status Updates and other communication channels
- Symposiums focused on key topics, including 2017's symposiums on Mexico Energy Reform, Plastics and Security
- Conferences, events and trade shows, including our Strategic Partners Conference where we host transloads, short lines and other key partners to provide updates and strengthen relationships

Emergency Responder Engagement

- Assistance to communities to prepare for and respond to possible hazardous materials transportation incidents
- Transportation Community Awareness and Emergency Response (TRANSCAER®) trainings and drills to prepare for rail emergencies
- Sponsorship of access to AskRail®, mobile app to help during first minutes of rail emergencies
- Local Emergency Preparedness Committee (LEPC) meetings
- Providing commodity flow information to local officials to inform them what is transported through their communities to better prepare for emergencies

Employee Engagement

- Company-wide communications
- Employee training
- Ethics helplines
- Global webcasts

- Internal committees: On-Track Ambassadors, Health and Wellness Committee, local safety committees serving KCS states
- Intranet sites
- One-on-one discussions between managers and direct reports
- Team meetings
- Town Hall meetings
- Weekly employee newsletters

Media Engagement

- Press releases and images
- Media interviews
- Media photo opportunities
- Events and conferences
- Advertorials
- Social media

Government/Regulators Engagement

- Annual reviews and planning for federal, state and local regulatory issues and trends
- Discussions on state government/regulatory trends
- Engagement with state and local officials on issues important to the company and U.S. freight rail transportation industry throughout the year
- Ongoing engagement with federal, state and local officials in the areas we serve
- Participation in numerous associations and other organizations that promote the U.S. freight rail transportation industry, economic development and community interests
- Participation in state government associations and committees

- State legislative and regulatory advocacy

Investor (Shareholder) Engagement

- Annual reports, proxies and SEC filings
- Annual shareholders meeting
- Corporate website investors page
- Industry and investor conferences
- Quarterly earnings reports and conference calls
- Shareholder meetings with management and investor relations

Supplier Engagement

- Onsite visits
- Requests for information (RFIs)
- Requests for proposals (RFPs)
- Online engagement
- Strategic meetings
- Supplier relationships

Union Engagement

- KCSM weekly meetings with union to review and negotiate operation conditions/changes
- KCSMS negotiation of amendments to collective bargaining agreements with the one Mexican union
- KCSR periodic conferences with U.S. unions to review claims and discuss amendments to collective bargaining agreements



Appendix

Stakeholder Priority Material Topics

Occupational Health and Safety (OH&S)

Description	See OUR NO. 1 PRIORITY: SAFETY on page 31 and WORKPLACE SAFETY on page 36 . It's the nature of railroads that our operations are associated with potential health and safety risks. Risks can include exposure to hazards: chemical, biological and physical. We strive to mitigate those risks.
Management Approach, Policies, Commitments, Programs, & Initiatives	See: <ul style="list-style-type: none"> • CEO Message on page 3. • HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 6. • OUR NO. 1 PRIORITY: SAFETY on page 31. • WORKPLACE SAFETY on page 36. • UNION EMPLOYEE HEALTH AND WELL-BEING on page 63
Purpose	To: <ul style="list-style-type: none"> • Foster a safe and healthy work environment • Protect internal and external stakeholders such as employees (union and non-union), contractors, guests and the residents of the communities we serve from health and safety hazards resulting from our operations
Evaluation Mechanisms	<ul style="list-style-type: none"> • Through an operational testing program, internal experts identify, monitor and manage existing or emerging safety risks. • We conduct tests continuously, measuring employees' knowledge and compliance with our safety procedures. • We report work-related injuries and illnesses to the Federal Railroad Administration (FRA) where required. • Other evaluation methods include audits, inspections, investigations and rules classes in which testing is conducted.

Occupational Health and Safety (OH&S)

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Results & Adjustments of Evaluations	Results: See WORKPLACE SAFETY on page 36 . Adjustments: We determine the need for remedial training based on operational testing program results, incident findings, audits, etc. We develop testing system-wide in response to identified risk trends, recent injuries or accidents, and operational test results.
Impacts	We directly impact workplace health and safety through established business activities that maintain safe business operations. This includes: <ul style="list-style-type: none"> • Adhering to compliance • Delivering appropriate safety training and education to employees and enforcing work rules related to, among other things, health and safety. • Requiring contractors to comply with our health and safety standards • Eliminating or minimizing exposure to health and safety risks and hazards
Goals and Targets	Goals for OH&S include achieving: <ul style="list-style-type: none"> • A decrease in injury rates • Consistently better health and safety rates than the overall industry average • Recognition as the best in class and industry for our comprehensive approach to safety
Responsibilities & Resources	Health and safety is a responsibility of every employee. The Human Resources and Health, Safety and Environmental departments oversee their respective responsibilities for: <ul style="list-style-type: none"> • Record keeping • Delivering health and safety training • Maintaining compliance • Responding to reported concerns or identified risks





Appendix

Stakeholder Priority Material Topics (cont.)

Security Practices

Description, Purpose, Management Approach and Evaluation Mechanisms	See: <ul style="list-style-type: none"> • SECURITY IN THE U.S. AND MEXICO on page 40. • SECURING OUR RAIL NETWORK on page 41. • SECURITY THROUGH TECHNOLOGY on page 44.
Results & Adjustments of Evaluations	Results: See SECURING OUR RAIL NETWORK on page 41 and SECURITY THROUGH TECHNOLOGY on page 44 . Adjustments: Program improvements and development are ongoing and situation-specific. Our actions mitigate risk and are scalable to operations, predictable in outcome, efficient and effective.
Impacts	See SECURITY IN THE U.S. AND MEXICO on page 40 . Also, any security threat potentially might: <ul style="list-style-type: none"> • Lead to financial and physical damage, as well as to prevention and remediation costs • Indirectly influence the economy by affecting the amount of income spent on security measures • Reduce competitiveness and investments • Impact property values • Impact our reputation, resulting in reduction of customer confidence
Policies, Commitments, Programs, & Initiatives	KCS is committed to continually improving and developing its security program, and ensuring that actions are scalable to operations, predictable in outcome, efficient, effective, and mitigate risk. Trained personnel and advanced security technologies comprise our rail and IT security efforts. Ongoing efforts are in place to employ more security technology to reduce the burden and risk on personnel. For more information, see SECURING OUR RAIL NETWORK on page 41 and SECURITY THROUGH TECHNOLOGY on page 44 .
Goals and Targets	Goals include: <ul style="list-style-type: none"> • Monitoring goods while maintaining train velocity and arrival/ departure schedules • Detecting, deterring and reducing security threats • Applying latest threat intelligence techniques to safeguard our information and assets from cyber attacks
Responsibilities & Resources	Security is a responsibility of every one of our employees. Various Operations Departments, the IT Department, and KCSR Police and KCSM Security Departments oversee company-wide security programs and initiatives. Additionally, we contract with private security companies to reinforce our efforts.

Anti-Corruption

Description & Purpose	See POLICIES: ANTI-CORRUPTION, CONFLICT OF INTEREST, ETHICS AND COMPLIANCE on page 24 .
Management Approach	Our Legal, Human Resources and other departments implement Board of Director-approved policies and codes that act as guidelines and deterrents, as well as outline discipline for violations. For more information, see POLICIES: ANTI-CORRUPTION, CONFLICT OF INTEREST, ETHICS AND COMPLIANCE on page 24 .
Evaluation Mechanisms	Incidents of corruption can be reported and tracked through a number of channels, including reporting: <ul style="list-style-type: none"> • To management • To compliance officers in multiple departments • To Legal, Human Resources or Purchasing departments • Through our 24/7 Report Hotline
Results & Adjustments of Evaluations	Results: See POLICIES: ANTI-CORRUPTION, CONFLICT OF INTEREST, ETHICS AND COMPLIANCE on page 24 . Adjustments: We systematically compile, review and forward incidents to appropriate departments. Each department then: <ol style="list-style-type: none"> 1. Examines the report and the results 2. Identifies appropriate measures to take on a case-by-case basis
Impacts	If incidents of corruption are ever identified, it would be detrimental to the business and individuals throughout our U.S. and Mexico operations. Thus, our capacity to control corruption allows us to: <ul style="list-style-type: none"> • Use our human and financial resources more efficiently • Attract more investment • Continue to grow
Policies, Commitments, Programs, Initiatives, Goals and Targets	See POLICIES: ANTI-CORRUPTION, CONFLICT OF INTEREST, ETHICS AND COMPLIANCE on page 24 .
Responsibilities & Resources	Responsibilities: Effective management of anti-corruption is a shared responsibility across our entire organization. Our Legal, Human Resources and other departments are directly responsible for implementing policies and codes. Resources: see 24/7 REPORT HOTLINE on page 26 .



Appendix

Stakeholder Priority Material Topics (cont.)

Economic/Financial Performance

Description	As a publicly traded company, driving shareholder return requires: <ul style="list-style-type: none"> • Understanding and reacting to challenging economic conditions • Innovative rail freight transportation solutions • Mindful management of our resources Strong economic performance depends on how well we: <ul style="list-style-type: none"> • Adapt to industry shifts • Understand customer preferences and current market trends • Address demand for more sustainable business practices
Purpose	See the KCS Vision in our CEO MESSAGE on page 3 .
Management Approach	Through strategic planning, we strive to: <ul style="list-style-type: none"> • Create industry-leading shareholder returns • Operate in a safe and reliable environment • Build a strong and nimble, customer-oriented culture focused on performance, accountability and execution • Promote strong governance, social responsibility, regulatory compliance and risk management Our strategic intent is to: <ul style="list-style-type: none"> • Capitalize on the strategic location of our cross-border rail network and the diverse and growing North American markets, while maintaining a commitment to operational excellence • Embrace new and emerging technologies and a strong cost discipline within a safe and reliable environment • Provide service that consistently exceeds our customers' expectations, challenging careers to our employees and industry-leading returns to our shareholders
Evaluation Mechanisms	Our financial performance is monitored and evaluated routinely via daily financial reporting, weekly pacing, monthly performance reviews and quarterly forecast updates.
Results & Adjustments of Evaluations	Results: See our 2017 Annual Report and quarterly reports . Adjustments: We adjust financial goals quarterly, or as needed, based on current market and economic conditions.
Impacts	Our economic performance impacts are directly attributable to shareholder returns, the income generated in communities, including employee wages, supplier and contractor payments, taxes paid, and community investments. Indirect impacts attributable to us may include jobs created by suppliers or increases in productivity that result from our operations.

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Policies, Commitments, Programs, & Initiatives	See: <ul style="list-style-type: none"> • Our CEO MESSAGE on page 3. • BUSINESS UNITS AND REVENUES on pages 48 and 49 • CAPITAL EXPENDITURES on page 50 We designed our strategic planning efforts to generate actions and decisions that shape and guide successful financial performance outcomes. Our strategic planning comprises comprehensive ongoing activities and processes to systematically coordinate and align resources and actions with the company's vision and strategy. Strategic planning initiatives focus on: <ul style="list-style-type: none"> • Analyzing current internal/external environments • Formulating and documenting high level strategies into the plan • Executing the strategy plan through additional operational planning and action items • Evaluating performance, culture, communications, data reporting, and other strategic management issues • Refining as necessary after evaluations
Goals and Targets	We set financial goals annually as part of our long-range planning process.
Responsibilities & Resources	Effective management of economic performance is a shared responsibility across our entire organization. All employees and departments directly contribute to our economic performance, including: <ul style="list-style-type: none"> • Operations and Operations Support • Information Technology (IT) • Purchasing • Sales and Marketing • Human Resources • Accounting and Finance



Appendix

Stakeholder Priority Material Topics (cont.)

Diversity and Equal Employment Opportunities

Description	Our presence in the U.S and Mexico makes the integration of varying cultures and the global exchange of knowledge essential to the success of our business. For more information, see KCSR's SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI) on page 21 and EQUAL AND PROTECTED ENVIRONMENT on page 57 .
Management Approach and Purpose	Employees and Applicants: All departments and team members are required to acknowledge and adhere to our policy of providing equal employment opportunities to all. Our diversity and equal opportunity initiatives strive to: <ul style="list-style-type: none"> • Develop employees • Create opportunities for career advancement • Foster respectful work environments For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 57 . Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI) on page 21 .
Evaluation Mechanisms, Results & Adjustments of Evaluations	Employees and Applicants: Assessment and evaluation of diversity and equal opportunity is an integral part of our management system, which includes: <ul style="list-style-type: none"> • Employee satisfaction survey results that identify concerns and determine needs for new or revised policies • Formal reports and documentation of complaints whether informal or formal, verbal or written • Reports and documentation of specific acts found to be in violation of our Non-Discrimination & Anti-Harassment Policy • Reports and documentation of disciplinary action, including termination, if/when an investigation concludes a violation of policy has occurred For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 57 . Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI) on page 21 . Adjustments: We monitor and review our programs and outcomes annually. We then identify adjustments to schedules, policies, programs and procedures. We make the adjustments on an as-needed basis.
Impacts	Our diversity and equal opportunity programs have direct impacts through job creation that supports individuals, as well as contributing to the economic well-being of their families and their communities. These programs increase adaptability and morale, promote different perspectives, and improve community relations and customer satisfaction.

Diversity and Equal Employment Opportunities

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Policies, Commitments, Programs, & Initiatives	Our diversity and equal opportunity initiatives include: <ul style="list-style-type: none"> • Recruitment strategies that identify a diverse pool of qualified candidates • Identifying as an "equal opportunity employer" on all job postings to encourage diverse applicants to submit resumes • Trainings on workplace diversity and how to recognize and report behaviors inconsistent with company diversity policies For more information, see SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI) on page 21 and EQUAL AND PROTECTED ENVIRONMENT on page 57 .
Goals and Targets	Employees and Applicants: We demonstrate the application of good faith efforts to increase the pool of qualified minority, female, veteran and disabled candidates when recruiting for open positions. For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 57 . Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE (SDPI) on page 21 .
Responsibilities & Resources	Our Human Resources Department maintains responsibility for record keeping, training, recruiting and requirements mandated by law. Our employees and suppliers are responsible for reporting instances of improper or potentially improper business practices, including harassment and discrimination, by calling the Speak Up! line in the U.S. or Linea de Denuncias in Mexico. For more information, see 24/7 REPORT HOTLINE on page 26 . Suppliers may also submit questions or concerns to supplierexpectations@kcsouthern.com .



Appendix

Stakeholder Priority Material Topics (cont.)

Employee Training and Education

Description	<p>Keeping pace with the evolving freight rail transportation industry requires developing and maintaining a high-quality workforce with necessary skills and expertise to:</p> <ul style="list-style-type: none"> • Operate the business safely and ethically • Meet customer needs • Explore opportunities created by emerging technologies
Management Approach	<p>See: WORKPLACE SAFETY on page 36. SECURITY THROUGH TECHNOLOGY on page 44. EMPLOYEE TRAINING AND EDUCATION on page 60. UNION EMPLOYEE HEALTH AND WELL-BEING on page 63.</p>
Purpose	<p>To:</p> <ul style="list-style-type: none"> • Promote safe, secure and ethical work practices • Strengthen employee skill sets • Improve employee performance • Develop leaders • Increase employee satisfaction
Evaluation Mechanisms	<p>We:</p> <ul style="list-style-type: none"> • Measure the quality of training and education programs regularly • Record training hours for each employee on a regular basis • Encourage line managers to evaluate the needs of direct reports annually
Results & Adjustments of Evaluations	<p>Results: See EMPLOYEE TRAINING AND EDUCATION on page 60. Adjustments: After evaluating our training and education, we make adjustments based on results of the reporting year. These adjustments might include</p> <ul style="list-style-type: none"> • New programs or initiatives • Further development or expansion of existing programs
Impacts	<p>Our training and education programs directly impact employees and our operations by:</p> <ul style="list-style-type: none"> • Helping employees define and identify their career goals to encourage their long-term success and career satisfaction • Increasing employee loyalty and retention • Advancing employees' skill sets to provide expert levels of service, which builds a positive reputation with customers and leads to company growth • Increasing the safety and security of our company

Employee Training and Education

Description	<p>Keeping pace with the evolving freight rail transportation industry requires developing and maintaining a high-quality workforce with necessary skills and expertise to:</p> <ul style="list-style-type: none"> • Operate the business safely and ethically • Meet customer needs • Explore opportunities created by emerging technologies
Policies, Commitments, Programs, Initiatives, Goals and Targets	<p>See EMPLOYEE TRAINING AND EDUCATION on page 60.</p>
Responsibilities & Resources	<p>Training and education responsibilities fall under the Human Resources Department. Line managers also assume responsibility for seeing that direct reports receive adequate departmental training necessary to perform specific tasks or carry out certain job functions.</p>



Appendix

Stakeholder Priority Material Topics (cont.)

Local Communities

Description	<p>With operations spanning 6,700 miles throughout the U.S. and Mexico, we are more than just a business partner. We're also a member of the countries, states, counties, parishes, cities, towns and communities we serve.</p> <p>As some of these communities seek to become stronger and more resilient, we have a responsibility to:</p> <ul style="list-style-type: none"> • Invest time and effort in bringing people together • Build long-term relationships that create long-lasting, sustainable outcomes that support the communities' goals
Purpose	We aim to build ongoing, long-lasting relationships to benefit the communities we serve.
Management Approach, Results, Evaluation Mechanisms & Adjustments of Evaluations	<p>Our community engagement is a planned process with the specific purpose of working with stakeholder, community or citizen groups within a defined geographic location, community of interest, or a community of affiliation.</p> <p>We employ a range of tools and strategies to:</p> <ul style="list-style-type: none"> • Promote and advance safety • Enhance trust • Strengthen bonds <p>For more about our Management Approach, Results and Evaluation Mechanisms, see:</p> <p>We employ a range of tools and strategies to:</p> <ul style="list-style-type: none"> • PUBLIC SAFETY: POSITIVE TRAIN CONTROL (PTC) on page 32 • PUBLIC SAFETY: GRADE CROSSING SAFETY on page 33 • PUBLIC SAFETY: OPERATION LIFESAVER/ALTO TOTAL on page 34 • GIVING BACK/PAYING IT FORWARD on pages 64 and 65 • COMMUNITY ENGAGEMENT on pages 66 and 67 • APPENDIX: STAKEHOLDER ENGAGEMENT on page 85 <p>Adjustments: We will continue to sustain and grow our safety efforts and charitable funding to support environmental, social, and economic health and wellness in the areas we serve.</p>
Impacts	<p>Our diversity and equal opportunity programs have direct impacts through job creation that supports individuals, as well as contributing to the economic well-being of their families and their communities.</p> <p>These programs increase adaptability and morale, promote different perspectives, and improve community relations and customer satisfaction.</p>

Local Communities

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Policies, Commitments, Programs, & Initiatives	<p>See:</p> <ul style="list-style-type: none"> • PUBLIC SAFETY: POSITIVE TRAIN CONTROL (PTC) on page 32 • PUBLIC SAFETY: GRADE CROSSING SAFETY on page 33 • PUBLIC SAFETY: OPERATION LIFESAVER/ALTO TOTAL on page 34 • GIVING BACK/PAYING IT FORWARD on pages 64 and 65 • COMMUNITY ENGAGEMENT on pages 66 and 67 • APPENDIX: STAKEHOLDER ENGAGEMENT on page 85
Goals and Targets	We have internal goals and targets that we don't publicize.
Responsibilities & Resources	Our Executive, Administration & Corporate Affairs, Human Resources and Operations teams all share responsibilities for employee volunteerism, charitable giving and other community engagement programs.



Appendix

Stakeholder Priority Material Topics (cont.)

Environmental Compliance

Description	Our operations are subject to comprehensive local, state and federal environmental laws and regulations. Maintaining compliance: <ul style="list-style-type: none"> • Reduces our risks of environmental contamination and resulting liabilities • Protects human and environmental health
Management Approach	In 2015, we established Environment 2020, a comprehensive approach for managing and maintaining environmental compliance throughout our operations. Environmental regulatory compliance initiatives include regular inspections of environmental management facilities, employee training, analysis of waste and water sampling results, and ongoing record keeping. Also, see HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 6 .
Purpose	The purpose of Environment 2020 is to achieve environmental compliance while: <ul style="list-style-type: none"> • Fostering a system of environmental innovation • Serving as a provider of technical and business solutions • Being a respected partner in the communities where we operate
Evaluation Mechanisms	Environmental compliance is evaluated through a variety of programs and efforts that monitor: <ul style="list-style-type: none"> • Comprehensive data collection of all regulated and permitted facilities and environmental management operations • Regular analysis of compliance performance trends and exceptions • Regular updating of: <ul style="list-style-type: none"> ◦ Facility response plans ◦ Spill prevention control and countermeasures (SPCC) • See more at Policies, Commitments, Programs, & Initiatives below Our Environmental and Hazmat Department utilizes a database to track compliance with permit obligations and compliance-related tasks.
Results & Adjustments of Evaluations	Results: In 2017, our operations were environmentally compliant. Adjustments: Adjustments to our compliance programs vary and are determined on a case-by-case basis.
Impacts	Achieving environmental compliance has a positive impact on our business operations. We are aware that non-compliance could impact soil quality and biodiversity, air quality, or water resources along our right-of-way or in areas of operations. We are also aware that unmanaged spills, waste generation or environmental non-compliance could impact our business relationships.

Environmental Compliance

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Policies, Commitments, Programs, & Initiatives	We are dedicated to improving our compliance processes and business practices by working openly with our stakeholders and using quantifiable goals to drive sustained safety and environmental excellence. Programs and initiatives aimed at achieving 100% compliance in the areas of: <ul style="list-style-type: none"> • Wastewater and Storm Water • Solid and Hazardous Waste • Air Emissions • Hazardous Materials Storage • Petroleum Product Storage • Soil and Groundwater Contamination Remediation Also see: <ul style="list-style-type: none"> • HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 6. • PROTECTING OUR PLANET chapter on page 68.
Goals and Targets	Our Environmental & Hazmat Department establishes annual project and performance goals that support achievement of environmental compliance. Achieving 100% regulatory compliance is always the overarching goal.
Responsibilities & Resources	The Environmental & Hazmat Department, Engineering, Mechanical, Facilities and Maintenance of Way Departments all share responsibility for maintaining compliance with local, state and federal regulations. The KCS Environmental & Hazmat Department is responsible for management and oversight of environmental compliance.



Appendix

Stakeholder Priority Material Topics (cont.)

Energy and Emissions

<p>Description</p>	<p>We recognize our responsibility to minimize greenhouse gas emissions. We are a transportation company that relies almost entirely on fossil fuels, so reduction of fuel use and improvement of operating efficiency are key to minimizing our climate change impacts and lowering the cost of doing business.</p> <p>Our energy consumption is based almost entirely on non-renewable sources of energy, including:</p> <ul style="list-style-type: none"> • Diesel fuel to operate our locomotives and supporting equipment and gasoline for vehicles (primary source of emissions) • Purchased electricity and natural gas used to heat and cool buildings and facilities <p>More than 98% of our greenhouse gas (GHG) emissions is a direct result of the combustion of diesel fuel in our locomotives.</p> <p>Our use of non-renewable fuels exposes us to price volatilities, supply and production uncertainties, and increasing regulatory interventions related to climate change.</p>
<p>Management Approach</p>	<p>Company-wide, we continue to focus on reducing both direct and indirect energy consumption and emissions as well as increasing efficiencies through:</p> <ul style="list-style-type: none"> • Monitoring and reporting programs • Conservation and control programs • Reduction and efficiency initiatives • Application of new technologies <p>Emissions management across company operations is intended to decrease air emissions, mitigate climate change impacts, and maintain compliance with U.S. EPA locomotive emissions regulations. For more information, see ENERGY EFFICIENCY, REDUCTIONS, CONSUMPTION AND EMISSIONS on page 71.</p>
<p>Evaluation Mechanisms</p>	<p>Our Fuel Conservation Department performs fuel conservation monitoring for our three primary energy reduction initiatives: Trip Optimizer, Excessive Idle Reduction and Distributed Power. See ENERGY EFFICIENCY, REDUCTIONS, CONSUMPTION AND EMISSIONS on page 71.</p> <p>In 2016, KCS established baselines and identified relevant key performance indicators for evaluating:</p> <ul style="list-style-type: none"> • Energy efficiency in our operations and in our buildings • GHG emissions
<p>Policies, Commitments, Programs, & Initiatives</p>	<p>See ENVIRONMENTAL COMPLIANCE on page 92 and ENERGY EFFICIENCY, REDUCTIONS, CONSUMPTION AND EMISSIONS on page 71.</p> <p>For our buildings and facilities, we are implementing an energy monitoring, reporting, and control program to further monitor and review energy consumption. Authorized for implementation in 2017, we'll roll out the program in 2018.</p>

Energy and Emissions

<p>Description</p>	<p>We recognize our responsibility to minimize greenhouse gas emissions. We are a transportation company that relies almost entirely on fossil fuels, so reduction of fuel use and improvement of operating efficiency are key to minimizing our climate change impacts and lowering the cost of doing business.</p> <p>Our energy consumption is based almost entirely on non-renewable sources of energy, including:</p> <ul style="list-style-type: none"> • Diesel fuel to operate our locomotives and supporting equipment and gasoline for vehicles (primary source of emissions) • Purchased electricity and natural gas used to heat and cool buildings and facilities <p>More than 98% of our greenhouse gas (GHG) emissions is a direct result of the combustion of diesel fuel in our locomotives.</p> <p>Our use of non-renewable fuels exposes us to price volatilities, supply and production uncertainties, and increasing regulatory interventions related to climate change.</p>
<p>Results & Adjustments of Evaluations</p>	<p>Results: See ENERGY EFFICIENCY, REDUCTIONS, CONSUMPTION AND EMISSIONS on page 71.</p> <p>We regularly communicate fuel conservation performance through electronic reports to field staff who identify opportunities for improvement throughout all locomotive terminals. Communicating the results has increased the effectiveness of energy conservation and emissions reduction programs over time.</p> <p>Adjustments: These will be contingent upon the 2017 performance data to be evaluated and compared to the 2016 baseline year. We'll report any adjustments in our 2018 report.</p> <p>Also to be reported in 2018 are the adjusted results of applying Smart HPT (horsepower per trailing ton), an improved version of Trip Optimizer, to locomotives in 2017. This is expected to further advance Trip Optimizer's fuel conservation effectiveness by 2.5%.</p>
<p>Impacts</p>	<ul style="list-style-type: none"> • We directly and indirectly contribute to energy and emissions impacts through energy we purchase and use throughout our buildings and for our trains. • Providing rail freight transportation services generates direct energy impacts through burning diesel fuel and gasoline to run locomotives and motor vehicles. This, in turn, generates GHG and priority pollutant air emissions regulated by the U.S. EPA. However, our transportation services compare favorably to other types of transportation regarding GHG emissions—see SURFACE TRANSPORT AND THE ENVIRONMENT on page 69. • Direct and indirect energy and emissions impacts may also occur as services increase based on market needs as well as customer and partner demand.



Appendix

Stakeholder Priority Material Topics (cont.)

Energy and Emissions

<p>Description</p>	<p>We recognize our responsibility to minimize greenhouse gas emissions. We are a transportation company that relies almost entirely on fossil fuels, so reduction of fuel use and improvement of operating efficiency are key to minimizing our climate change impacts and lowering the cost of doing business.</p> <p>Our energy consumption is based almost entirely on non-renewable sources of energy, including:</p> <ul style="list-style-type: none"> • Diesel fuel to operate our locomotives and supporting equipment and gasoline for vehicles (primary source of emissions) • Purchased electricity and natural gas used to heat and cool buildings and facilities <p>More than 98% of our greenhouse gas (GHG) emissions is a direct result of the combustion of diesel fuel in our locomotives.</p> <p>Our use of non-renewable fuels exposes us to price volatilities, supply and production uncertainties, and increasing regulatory interventions related to climate change.</p>
<p>Goals and Targets</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • Integrate energy management into regular facility assessments through tracking programs • Improve efficiency of purchased energy, from 2016 baseline, by implementing more accurate energy usage measurements, energy use reduction projects, equipment upgrades, process improvements, and fuel efficiency • Reduce overall energy consumption, from 2016 baseline, through employee awareness campaign and implementation of a formal monitoring, reporting and control program • Achieve a reduction (indirect and direct) of GHG emissions, from 2016 baseline, through better measurement and management of purchased energy, process improvement projects, partnerships, and implementation of a formal monitoring, reporting, and control program. • KCS is Implementing an emissions monitoring, reporting, and control program to increase the regularity of monitoring and reviewing emissions throughout our buildings and facilities. The program was authorized for implementation in 2017 and will be rolled out in 2018.
<p>Responsibilities & Resources</p>	<p>Energy and emissions management is a shared responsibility of the Environmental & Hazmat, Fuel Conservation, Purchasing, Facilities and Mechanical Departments. These departments and team:</p> <ul style="list-style-type: none"> • Oversee fuel acquisition and conservation initiatives • Conduct building maintenance and improvement efforts to reduce energy consumption • Negotiate contracts for purchased electricity and natural gas • Maintain locomotives • Monitor and manage excessive idling • Maintain emissions maintenance records <p>We appoint specialized contractors to overhaul locomotives to higher Tier levels (lower emissions levels).</p>

Biodiversity and Land Management

<p>Description, Purpose, Management Approach and Evaluation Mechanisms</p>	<p>See BIODIVERSITY AND LAND MANAGEMENT on page 82.</p>
<p>Results & Adjustments of Evaluations</p>	<p>Results: See BIODIVERSITY AND LAND MANAGEMENT on page 82.</p> <p>Adjustments: Once we complete an Impact assessment, we consult with affected stakeholders as necessary. We present a summary and presentation of findings from the impact assessment to key decision makers. Following each presentation, affected departments coordinate efforts to eliminate or mitigate impacts.</p>
<p>Impacts</p>	<p>Rail transport activities directly and indirectly impact environmental systems. While the impacts vary and depend on the nature of the project or activity, impacts we take into consideration are:</p> <ul style="list-style-type: none"> • Deforestation • Reduced wetland areas • Changes or growth reduction of certain plants • Reduced or endangered animal species and reduction of their ranges
<p>Policies, Commitments, Programs, & Initiatives</p>	<p>See BIODIVERSITY AND LAND MANAGEMENT on page 82.</p>
<p>Goals and Targets</p>	<p>To:</p> <ul style="list-style-type: none"> • Stop biodiversity loss and degradation of natural habitats • Provide net gains and/or restore degraded habitats when feasible
<p>Responsibilities & Resources</p>	<p>These departments all share responsibility for managing biodiversity and land use:</p> <ul style="list-style-type: none"> • Health, Safety and Environmental • Real Estate and Industrial Development • Engineering • Mechanical • Facilities • Maintenance of Way



Appendix

Stakeholder Priority Material Topics (cont.)

Water Consumption, Efficiency, Conservation and Management

Description	<p>Water is essential to the operation of our railroad. It is necessary for human consumption and sanitation, and is required for cleaning and maintaining railroad equipment. We must also manage water flow during normal and storm events to prevent contamination and erosion of the ground under tracks and facilities.</p> <p>Water quality and scarcity present potential threats to our business and growth, particularly in water-stressed regions of our network, which could expose us to water shortages, decreased water quality, and price volatility.</p> <p>For more information, see WATER USAGE AND MANAGEMENT on page 74.</p>
Management Approach	<p>We continually implement water conservation measures throughout our system of facilities and operations.</p> <p>For more information, see WATER USAGE AND MANAGEMENT on page 74 and RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT on page 75.</p>
Evaluation Mechanisms	<ul style="list-style-type: none"> • We periodically monitor water utility accounts to identify irregularities in water consumption patterns. • We use internal and external engineering management services for wastewater and storm water collection and treatment to meet environmental protection requirements. • In 2016, we established a preliminary baseline estimate and identified relevant key performance indicators for ongoing evaluation of water usage.
Results & Adjustments of Evaluations	<p>Results: See WATER USAGE AND MANAGEMENT on page 74.</p> <p>Adjustments: These will be contingent upon evaluation of the 2017 performance data and comparison to the 2016 baseline estimate. We'll report adjustments in our 2018 report.</p>
Purpose and Impacts	<p>See WATER USAGE AND MANAGEMENT on page 74.</p>
Policies, Commitments, Programs, & Initiatives	<p>See ENVIRONMENTAL COMPLIANCE on page 92.</p> <p>To increase regularity of monitoring and reviewing water consumption, we are implementing a water use monitoring, reporting, and control program. Authorized for development in 2017, we'll roll out the program in 2018.</p>
Goals and Targets	<ul style="list-style-type: none"> • Integrate water conservation management into regular facility assessments • Improve water efficiency by implementing water efficiency improvements, technologies and water conservation retrofits • Reduce water consumption in company-owned and leased buildings and facilities through employee
Responsibilities & Resources	<p>The Facilities Department assumes primary responsibility for water management. Our Accounting Department assumes responsibility for monitoring accounts for water consumption patterns and irregularities in utility bills.</p>



Appendix

Stakeholder Priority Material Topics (cont.)

Waste: Effluents, Solid Waste and Hazardous Waste

Description	Freight rail operations and maintenance require the use of raw materials and resources, which result in solid and liquid waste generation. Additionally, our operations require hazardous waste management and transportation. We employ the highest safety standards in the management and transportation of waste and hazardous waste. Our safe and responsible management of waste materials: <ul style="list-style-type: none"> • Reduces disposal and liability costs • Improves worker health and safety
Management Approach	Our waste management approach helps to enable efficient use of resources. The approach also assists us in reusing, recycling or disposing of materials responsibly while meeting regulatory standards. We manage liquid effluents, solid waste and hazardous waste in an environmentally compliant manner through a variety of programs and efforts that address: <ul style="list-style-type: none"> • Waste minimization • Wastewater and storm water collection, treatment, and discharge compliance • Accidental oil-related release response plans based on spill prevention control and countermeasures (SPCC)
Evaluation Mechanisms	Our Environmental and Hazmat Department utilizes a database to track: <ul style="list-style-type: none"> • Compliance with permit obligations and compliance-related tasks • Analytical data from water samples and waste • Routine inspections We also monitor and track air and soil quality impacts through various reporting channels.
Results & Adjustments of Evaluations	Hazardous Waste Results: See SAFE HAZARDOUS WASTE TRANSPORT on page 79 . Non-hazardous Waste Results: See RECYCLING, REUSING, REPURPOSING AND REDUCTION on page 77 . Effluents & Waste Results: See RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT on page 75 . Adjustments: These will be contingent upon our evaluation of the 2017 performance data. We'll report adjustments in our 2018 report.
Impacts	Liquid and solid waste generation is directly attributed to daily business operations and results from these activities, among others: <ul style="list-style-type: none"> • Generating office waste • Maintaining and cleaning facilities, equipment, locomotives • Maintaining our rail infrastructure • Responding to derailments and non-accident releases Hazardous waste might potentially be generated from accidental spills during transport.

Waste: Effluents, Solid Waste and Hazardous Waste

Description	Freight rail operations and maintenance require the use of raw materials and resources, which result in solid and liquid waste generation. Additionally, our operations require hazardous waste management and transportation. We employ the highest safety standards in the management and transportation of waste and hazardous waste. Our safe and responsible management of waste materials: <ul style="list-style-type: none"> • Reduces disposal and liability costs • Improves worker health and safety
Purpose	<ul style="list-style-type: none"> • To achieve 100% compliance with local, state and federal regulations • Minimize impacts from our operations in a responsible manner
Policies, Commitments, Programs, & Initiatives	See ENVIRONMENTAL COMPLIANCE on page 92 . For information on our buildings and facilities initiative, see ENERGY AND EMISSIONS on page 93 .
Goals and Targets	With the guidance and leadership of the Environmental & Hazmat Department, we establish annual project and performance goals that align with achieving our corporate goals, including: <ul style="list-style-type: none"> • Reducing waste and effluents • Achieving 100% regulatory compliance • Integrating waste management into regular facility assessments We also plan to reduce waste sent to landfills through an employee awareness campaign and implementation of a formal monitoring, reporting and control program.
Responsibilities & Resources	The Environmental & Hazmat Department, Engineering, Mechanical, Facilities and Maintenance of Way departments all share responsibility for managing effluents and waste.



Appendix

Delivering Prosperity

KCS 2017: Results of Operations w/2016 Comparison

	2017 (\$ in millions)	2016 (\$ in millions)	Change (\$ in millions)	% Change
Revenues ¹	\$2,582.9	\$2,334.2	\$248.7	11%
Operating expenses ²	1,661.3	1,515.7	145.6	10%
Operating income	921.6	818.5	103.1	13%
Equity in net earnings of affiliates	11.5	14.6	(3.1)	(21%)
Interest expense	(100.2)	(97.7)	(2.5)	3%
Foreign exchange gain (loss)	41.7	(72.0)	113.7	(158%)
Other expense, net	(0.3)	(0.7)	0.4	(57%)
Income before income taxes	874.3	662.7	211.6	32%
Income tax expense (benefit)	(89.6)	182.8	(272.4)	(149%)
Net income	\$ 963.9	\$ 479.9	\$484.0	101%

¹Revenues include revenue for transportation services and fuel surcharges. Notwithstanding the impacts of Hurricane Harvey, revenues and carload/unit volumes increased 11% and 5%, respectively, for the year ended December 31, 2017, compared to the prior year. Revenue per carload/unit increased by 6% due to mix, increased average length of haul, positive pricing impacts, and higher fuel surcharge. Energy revenues increased \$81.1 million, primarily due to an increase in utility coal volumes due to higher natural gas prices and lower coal inventory levels. In addition, frac sand volumes increased due to strong demand as a result of higher crude oil prices. Chemical and petroleum revenues increased \$64.5 million, primarily due to increased refined product and liquefied petroleum gas shipments to Mexico. The increase in revenue per carload/unit was partially offset by the weakening of the Mexican peso against the U.S. dollar of approximately \$8.0 million, compared to the prior year, for revenue transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.18.9 for 2017 compared to Ps.18.7 for 2016.

² Operating expenses increased \$145.6 million for the year ended December 31, 2017, compared to 2016, primarily due to higher fuel prices and consumption, and compensation and benefits. The weakening of the Mexican peso against the U.S. dollar resulted in an expense reduction of approximately \$5.0 million for expense transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.18.9 for 2017 compared to Ps.18.7 for 2016.

KCS 2017: Diluted Earnings Per Share w/2016 Comparison

	2017	2016
Reported	\$9.16	\$4.43
Adjustments for:		
Foreign exchange (gain) loss	(0.28)	0.47
Foreign exchange component of income taxes	0.30	(0.42)
Changes in tax law	(3.93)	—
Adjusted³	\$5.25	\$4.48

³The 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 the impact of changes in foreign currency exchange rates, and the impacts of the changes in tax law due to the enactment of the Tax Cuts and Jobs Act of 2017. The income tax expense impacts related to these adjustments are calculated at the applicable statutory tax rate.



Appendix

Delivering Prosperity (cont.)

KCS 2017: Revenues and Carloads/Units by Commodity w/2016 Comparison

	Revenues ¹ (\$ in millions)			Carloads and Units (in thousands)			Revenue per Carload/Unit		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
Chemical and petroleum	\$539.9	\$475.4	14%	273.5	258.5	6%	\$1,974	\$1,839	7%
Industrial and consumer products	588.3	554.0	6%	329.9	317.0	4%	1,783	1,748	2%
Agriculture and minerals	477.4	461.0	4%	244.3	251.4	(3%)	1,954	1,834	7%
Energy	283.8	202.7	40%	291.7	253.9	15%	973	798	22%
Intermodal	363.8	357.6	2%	975.1	952.8	2%	373	375	(1%)
Automotive	230.8	189.9	22%	155.5	133.3	17%	1,484	1,425	4%
Carload revenues, carloads and units	2,484.0	2,240.6	11%	2,270.0	2,166.9	5%	\$1,094	\$1,034	6%
Other revenue	98.9	93.6	6%						
Total revenues (i)	\$2,582.9	\$2,334.2	11%						
(i) Included in revenues:									
Fuel surcharge	\$169.5	\$103.8							

KCS 2017: Operating Expenses² w/2016 Comparison

	2017 (In millions)	2016 (In millions)	Change (In millions)	% Change
Compensation and benefits	\$493.8	\$462.4	\$31.4	7%
Purchased services	193.7	208.5	(14.8)	(7%)
Fuel	316.1	253.8	62.3	25%
Mexican fuel excise tax credit	(44.1)	(62.8)	18.7	(30%)
Equipment costs	129.2	120.0	9.2	8%
Depreciation and amortization	320.9	305.0	15.9	5%
Materials and other	251.7	228.8	22.9	10%
Total operating expenses	\$1,661.3	\$1,515.7	\$145.6	10%

¹Revenues include revenue for transportation services and fuel surcharges. Notwithstanding the impacts of Hurricane Harvey, revenues and carload/unit volumes increased 11% and 5%, respectively, for the year ended December 31, 2017, compared to the prior year. Revenue per carload/unit increased by 6% due to mix, increased average length of haul, positive pricing impacts, and higher fuel surcharge. Energy revenues increased \$81.1 million, primarily due to an increase in utility coal volumes due to higher natural gas prices and lower coal inventory levels. In addition, frac sand volumes increased due to strong demand as a result of higher crude oil prices. Chemical and petroleum revenues increased \$64.5 million, primarily due to increased refined product and liquefied petroleum gas shipments to Mexico. The increase in revenue per carload/unit was partially offset by the weakening of the Mexican peso against the U.S. dollar of approximately \$8.0 million, compared to the prior year, for revenue transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.18.9 for 2017 compared to Ps.18.7 for 2016.

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102-20: Executive-level responsibility for economic, environmental, and social topic	Initiated in 2016, our Sustainability Steering Committee (SSC) comprises senior management personnel who share responsibilities, including developing sustainability strategy and targets. The SSC reports to our Executive Leadership team, who in turn reports to our Board of Directors. Our Executive Leadership Team includes our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Executive Vice President of Sales & Marketing, Executive Vice President of Administration & Corporate Affairs, Senior Vice President of Human Resources and Senior Vice President of Operations Support.	
102-21: Consulting stakeholders on economic, environmental, and social topics	Consultation and dialogue with stakeholders are a line responsibility in which we conduct consultations in all parts of the organization. Consultations and concerns raised by stakeholders are presented to the CEO and Board of Directors as appropriate. Also, the CEO often participates in meetings with stakeholders.	
102-22: Composition of the highest governance body and its committees	KCS Board of Directors	16 & 17
102-23: Chair of the highest governance body	Robert J. Druten serves as Chairman of the Board for Kansas City Southern. He also serves on the Executive, Compensation and Organization committees. A KCS Director since 2004, he served as Executive Vice President and Chief Financial Officer of Hallmark Cards, Inc. from 1994 to August 2006. The board chair is filled by an Independent Director.	
102-24: Nominating and selecting the highest governance body	KCS Board of Directors	16 & 17
102-25: Conflicts of interest	Policies: Anti-Corruption, Conflict of Interest, Ethics and Compliance	24 & 25
102-26: Role of highest governance body in setting purpose, values, and strategy	KCS Board of Directors	16 & 17
102-27: Collective knowledge of highest governance body	Various executives and departmental heads provide annual presentations to the Board on topics covering economic, social and environmental topics.	
102-28: Evaluating the highest governance body's performance	The Board and each of its standing committees will perform an annual self-evaluation. The Directors will be requested to provide their assessments of the effectiveness of the Board and of the committees on which they serve. The assessments should include the Board or committee's contribution as a whole, and specific areas in which the Board, management and each committee believe their respective contributions could be improved. The individual assessments will be organized and summarized by outside legal counsel experienced in corporate governance for discussion with the Board and the committees.	
102-29: Identifying and managing economic, environmental, and social impacts	Management of Risk	23
102-30: Effectiveness of risk management processes	Management of Risk	23
102-31: Review of economic, environmental, and social topics	Management of Risk	23



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GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
102-32: Highest governance body's role in sustainability reporting	Material topics are based on stakeholder concerns and expectations through their assessment of the impacts of our operations. Senior leadership sets improvement targets for each defined material topic and focus area to include in our sustainability report. A draft sustainability report is submitted to members of the Executive Leadership team for review, feedback and final approval. They have the option of submitting the report draft to the Board of Directors before publication.	
102-33: Communicating critical concern	As a publicly traded company, any stakeholder or interested person may communicate with the independent Directors by sending communication in writing to the office of the corporate secretary.	
102-34: Nature and total number of critical concerns	Management of Risk 24/7 Report Hotline	23 26
102-35: Remuneration policies	See our 2018 Proxy Statement starting on page 34.	
102-36: Process for determining remuneration	For assistance in fulfilling its responsibilities, the Compensation Committee retained Meridian Compensation Partners as its compensation consultant to: <ul style="list-style-type: none"> • Review and independently assess various aspects of our compensation programs, including the compensation of individuals serving as executives of KCSM • Advise the Compensation Committee in making its executive compensation decisions for 2017 The Compensation Consultant is engaged by and reports directly to the Compensation Committee	
102-37: Stakeholders' involvement in remuneration	We have a so-called Say-On-Pay policy on executive compensation. This allows stockholders, on an advisory basis, to cast votes to approve the compensation of executive officers named during KCS's annual meeting of stockholders.	
102-38: Annual total compensation ratio	See pages 50 and 66-68 of our 2018 Proxy Statement .	
102-39: Percentage increase in annual total compensation ratio	See pages 50 and 66-68 of our 2018 Proxy Statement .	
102-40: List of stakeholder groups	Appendix: Stakeholder Engagement	85
102-41: Collective bargaining agreements	KCSR union 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, 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. KCSMS union employees are covered by one labor agreement. Also see Employees—Our Greatest Asset Union Employee Health and Well-Being	
102-42: Identifying and selecting stakeholders	Reporting Sustainability chapter.	7
102-43: Approach to stakeholder engagement	Reporting Sustainability chapter.	7
102-44: Key topics and concerns raised	Stakeholder Engagement	9



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GRI DISCLOSURE	ECONOMIC DISCLOSURES	PAGE REPORTED
103-1: Evaluation of the material topic and its boundary 103-2: The management approach and its components 103-3: Evaluation of the management approach	Stakeholder Priority Material Topics: Anti-Corruption Economic/Financial Performance	87 88
201-1: Direct economic value generated and distributed	Delivering Prosperity chapter Appendix: Delivering Prosperity	47 97 & 98
201-2: Financial implications and other risks and opportunities due to climate change	Management of Risk	23
201-3: Defined benefit plan obligations and other retirement plans	See our retirement plans and other benefits here .	
203-1: Infrastructure investments and services supported	Partnership and Investments	52 & 53
205-1: Operations assessed for risks related to corruption	Management of Risk Policies: Anti-Corruption, Conflict of Interest, Ethics and Compliance	23 24 & 25
205-2: Communication and training about anti-corruption policies and procedures	Policies: Anti-Corruption, Conflict of Interest, Ethics and Compliance 24/7 Report Hotline	24 & 25 26
205-3: Confirmed incidents of corruption and actions taken	Policies: Anti-Corruption, Conflict of Interest, Ethics and Compliance	24

GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
103-1: Evaluation of the material topic and its Boundary 103-2: The management approach and its components 103-3: Evaluation of the management approach	Stakeholder Priority Material Topics: Environmental Compliance Energy and Emissions Biodiversity and Land Management Water Consumption, Efficiency, Conservation and Management Waste: Effluents, Solid Waste and Hazardous Waste	92 93 94 95 96
301-2: Recycled input materials used	Recycling, Reusing, Repurposing and Reduction	77
301-3: Reclaimed products and their packaging materials	Recycling, Reusing, Repurposing and Reduction	77
302-1: Energy consumption within the organization	Energy Efficiency, Reduction, Consumption and Emissions	71
302-3: Energy intensity	Energy Efficiency, Reduction, Consumption and Emissions	71
302-4: Reduction of energy consumption	Energy Efficiency, Reduction, Consumption and Emissions	71



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GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
302-5: Reductions in energy requirements of products and services	Energy Efficiency, Reduction, Consumption and Emissions	71
303-1: Water withdrawal by source	Energy Efficiency, Reduction, Consumption and Emissions	71
303-2: Water sources significantly affected by withdrawal of water	None in 2017	
303-3: Water recycled and reused	Responsible Wastewater and Storm Water Management	75
304-1: Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity and Land Management	82
304-2: Significant impacts of activities, products, and services on biodiversity	Biodiversity and Land Management	82
304-3: Habitats protected or restored	Biodiversity and Land Management	82
305-1: Direct (Scope 1) GHG emissions	Energy Efficiency, Reduction, Consumption and Emissions	71
305-2: Energy indirect (Scope 2) GHG emissions	Energy Efficiency, Reduction, Consumption and Emissions	71
305-4: GHG emissions intensity	Energy Efficiency, Reduction, Consumption and Emissions	71
305-5: Reduction of GHG emissions	Energy Efficiency, Reduction, Consumption and Emissions	71
305-6: Emissions of ozone-depleting substances (ODS)	KCS doesn't use any ODS.	
305-7: Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Energy Efficiency, Reduction, Consumption and Emissions	71
306-1: Water discharge by quality and destination	Responsible Wastewater and Storm Water Management	75
306-2: Waste by type and disposal method	Responsible Wastewater and Storm Water Management	75
306-3: Significant spills	Our corporate goal is 100% EPA regulatory compliance. In 2017, our Environmental and Hazmat Department immediately cleaned up and/or remediated in-situ 46 significant spills. Confined to our right of way or yard boundaries, the spills did not migrate beyond these boundaries. The spills resulted in no fines and no non-compliance notifications. None of the spills resulted in an impact to human health or the environment.	
306-4: Transport of hazardous waste	Safe Hazardous Waste Transport	79
306-5: Water bodies affected by water discharges and/or runoff	Safe Hazardous Waste Transport	79
307-1: Non-compliance with environmental laws and regulations	Our corporate goal is 100% regulatory compliance. In 2017, our Environmental and Hazmat Department tracked all notices of violations issued from federal, state or local environmental agencies. We received four violation notices for which we took corrective action within the agency timeframes. Thus, the agencies issued no fines or non-monetary sanctions. Nor did any violation involve dispute resolution mechanisms.	



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GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
<p>103-1: Evaluation of the material topic and its Boundary</p> <p>103-2: The management approach and its components</p> <p>103-3: Evaluation of the management approach</p>	<p>Stakeholder Priority Material Topics: Occupational Health and Safety (OH&S) Security Practices Diversity and Equal Employment Opportunities Employee Training and Education Local Communities</p>	<p>86 87 89 90 91</p>
<p>401-1: New employee hires and employee turnover</p>	<p>Employees: Our Greatest Assets</p>	<p>56</p>
<p>401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees</p>	<p>Employee Compensation and Benefits</p>	<p>59</p>
<p>401-3: Parental leave</p>	<p>Employee Compensation and Benefits</p>	<p>59</p>
<p>403-1: Workers representation in formal joint management-worker health and safety committees</p>	<p>Union Employee Health and Well-Being</p>	<p>63</p>
<p>403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</p>	<p>Workplace Safety</p>	<p>36</p>
<p>403-3: Workers with high incidence or high risk of diseases related to their occupation</p>	<p>Workplace Safety</p>	<p>36</p>
<p>403-4: Health and safety topics covered in formal agreements with trade unions</p>	<p>Union Employee Health and Well-Being</p>	<p>63</p>
<p>404-1: Average hours of training per year per employee</p>	<p>Employee Training and Education</p>	<p>60</p>
<p>404-2: Programs for upgrading employee skills and transition assistance programs</p>	<p>Employee Training and Education</p>	<p>60</p>
<p>404-3: Percentage of employees receiving regular performance and career development reviews</p>	<p>In 2017, 100% of our employees were eligible to receive regular performance reviews. In 2017, 97% of employees completed the process, with the other 3% completing the process in 1st quarter 2018.</p>	
<p>405-1: Diversity of governance bodies and employees</p>	<p>KCS Board of Directors Employees: Our Greatest Assets Employees at year end 2017 who self-identified as veterans totaled 316.</p>	<p>16 & 17 56</p>
<p>410-1: Security personnel trained in human rights policies or procedures</p>	<p>In the U.S. in 2017: KCSR police personnel and contract security maintained training in human rights policies and procedures. In Mexico in 2017: All personnel were trained to respect human rights, with all potential issues managed by the Instituto Nacional de Migración (INM).</p>	



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GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
411-1: Incidents of violations involving rights of indigenous peoples	None in 2017 in U.S. involving Native Americans.	
412-2: Employee training on human rights policies or procedures	Employee Training and Education	60
413-1: Operations with local community engagement, impact assessments and development programs	Public Safety: Operation Lifesaver/Alto Total Giving Back/Paying It Forward Community Engagement Appendix: Stakeholder Engagement	34 64 & 65 66 & 67 85
414-1: New suppliers that were screened using social criteria	Supplier Diversity Program Initiative (SDPI)	21
415-1: Political contributions	We have limited annual political action that focuses on responsible corporate citizenship in the states and communities where we operate. In jurisdictions where the use of corporate funds is allowed by law, we contribute limited corporate funds primarily through our KCS Rail Political Action Committee (KCS Rail PAC), but also through three local political action committees related to local community service organizations where we have membership and to party committees. On occasion, we make direct contributions to local issue campaigns primarily for proposals to change existing laws; enact new laws or other policy initiatives that can impact our business and affect our employees, customers and the communities where we operate.	
416-1: Assessment of the health and safety impacts of product and service categories	Stakeholder Priority Material Topics: Occupational Health and Safety (OH&S)	86
416-2: Incidents of non-compliance concerning the health and safety impacts of products and services	None in 2017	
418-1: Substantiated complaints concerning breaches of customer privacy and losses of customer data	None in 2017	
419-1: Non-compliance with laws and regulations in the social and economic area	KCSR has not incurred any significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.	



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This document contains “forward-looking statements” within the meaning of the securities laws concerning potential future events involving KCS and its subsidiaries, which could materially differ from the events that actually occur. Words such as “projects,” “estimates,” “forecasts,” “believes,” “intends,” “expects,” “anticipates,” and similar expressions are intended to identify many of these forward-looking statements. Such forward-looking statements are based upon information currently available to management and management’s perception thereof as of the date of this report. Differences that actually occur could be caused by a number of external factors over which management has little or no control, including: competition and consolidation within the transportation industry; the business environment in industries that produce and use items shipped by rail; loss of the rail concession of KCS’ subsidiary, Kansas City Southern de México, S.A. de C.V.; the termination of, or failure to renew, agreements with customers, other railroads and third parties; access to capital; disruptions to KCS’ technology infrastructure, including its computer systems; natural events such as severe weather, hurricanes and floods; market and regulatory responses to climate change; legislative and regulatory developments and disputes; rail accidents or other incidents or accidents on KCS’ rail network or at KCS’ facilities or customer facilities involving the release of hazardous materials, including toxic inhalation hazards; fluctuation in prices or availability of key materials, in particular diesel fuel;

dependency on certain key suppliers of core rail equipment; changes in securities and capital markets; unavailability of qualified personnel; labor difficulties, including strikes and work stoppages; acts of terrorism or risk of terrorist activities; war or risk of war; domestic and international economic, political and social conditions; the level of trade between the United States and Asia or Mexico; fluctuations in the peso-dollar exchange rate; increased demand and traffic congestion; the outcome of claims and litigation involving KCS or its subsidiaries; and other factors affecting the operation of the business. More detailed information about factors that could affect future events may be found in filings by KCS with the Securities and Exchange Commission, including KCS’ Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 1-4717) and subsequent reports. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. KCS is not obligated to update any forward-looking statements to reflect future events or developments.

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