



2016 Performance



For the Long Haul

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





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CEO Message

FOCUSING on a Sustainable Future

Turning a vision into reality is a defining principle of Kansas City Southern.



PJO

PATRICK J. OTTENSMEYER
PRESIDENT & CHIEF EXECUTIVE OFFICER

In the 19th century, our founder Arthur E. Stillwell wanted to build a railroad running north and south instead of east and west across the United States. His vision also included crossing that railroad into Mexico. By focusing on that vision, today we enjoy the cross-border advantage of a rail network seamlessly running down the center of the continental U.S. and into Mexico—serving Gulf of Mexico and Pacific Ocean ports along the way.

Our 21st-century strategic vision focuses on being the fastest-growing, best-performing, most customer-focused transportation provider in North America. It is my belief that a company serving the best interests of its customers, shareholders, employees and communities has the recipe to succeed.

We at KCS realize that while we have successfully executed the original vision of Arthur Stillwell, our practices must evolve to ensure sustainability of our company and our planet.

We are pleased to share with you the achievements accomplished in 2016—as we work diligently on adding to our “virtual trophy case” in 2017.

Sustainability Highlights in 2016

Delivered prosperity to our customers and investors:

- Invested \$584 million—25% of our revenues—on capital expenditures to commit to our continued growth and long-term safety
- Strengthened our partnerships by stepping up our investment in our Sasol/ Lake Charles, LA Development and opening a multi-commodity transload terminal in Dallas

Showed our commitment to valuing people and their safety:

- Celebrated our employee satisfaction. 86% of employees indicated they enjoy working for KCS
- Gave back to the communities we serve with charitable donations from employees and KCS totaling nearly \$1 million
- Engaged our communities with our popular Holiday Express and Tren Navideño, and even sponsored a soccer team in Mexico—Goal!!!!
- Installed more than one-third of our Positive Train Control (PTC) technology—keeping us on track to meet our 2018 deadline

Continued



CEO Message

- Increased our Operation Lifesaver/ Alto Total activities in the U.S. and Mexico by 60% to help educate the public about pedestrian and driver safety around trains
- Decreased our employee injury ratio by 18% in the U.S. and 4% in Mexico

Did our part in protecting the planet:

- Reduced our diesel consumption by more than 3 million gallons, thus reducing our greenhouse gas emissions by more than 32 thousand metric tons
- Created a Fuel Conservation Team to identify opportunities and trends to further reduce our fuel consumption
- Planned a state-of-the art storm water system in Shreveport, LA, that will open in December 2017
- Recycled or reused more than 67 million pounds of scrap metal, crossties and used oil

Looking Ahead to 2017 and Beyond

2017 will be a milestone year for us. As KCS celebrates our 130th anniversary and KCSM celebrates 20 years, we look forward to telling you more about:

- Electing four new Directors to our Board, who enhance the diversity of the Board, as well as strengthen the Board's ability to oversee the achievement of our long-term strategic objectives, including our continued growth
- Continuing to strengthen our operations to strategically support Mexico Energy Reform by:
 - Expanding our Sanchez Yard to improve fluidity at the U.S./Mexico border
 - Completing our unit train liquid fuels terminal in Terminal Centro de Mexico in San Luis Potosi
 - Planning to open a unit train liquid fuels terminal located in Salinas Victoria near Monterrey, Nuevo Leon.

- Installing Trip Optimizer on 110 Mexican locomotives to further increase our fuel efficiency and reduce greenhouse gases
- Restoring 172.3 acres of Louisiana bottomland hardwoods and coastal prairie habitat to mitigate construction project activities
- Completing our Mexico Disaster Recovery project that allows us to backup data housed in our Monterrey Data Center
- Opening our new KCSM Security Operations Center in Monterrey, Mexico

We are excited, as well, about meeting the goals we've set for the rest of this decade on the economic, social, environmental, safety and security fronts.

Just like constructing a railroad, forging a sustainable legacy requires focus, determination, strategy, hard work and mindfulness. I'm happy to report we have the right people, the right priorities and the right partners to keep us moving forward for the long haul.

Patrick J. Ottensmeyer
President & Chief Executive Officer



REGARDING KCS



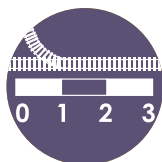


Regarding KCS

ABOUT KANSAS CITY SOUTHERN (KCS)

**Crossroads. Cross-Border.
Across the globe.**

Kansas City Southern (KCS) is a transportation holding company offering railroad investments and freight shipping operations in the United States, Mexico and Panama. 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 6,600 route miles throughout the U.S. and Mexico.



Headquartered in the crossroads of a continent, we own a rail network running through 10 U.S. and 17 Mexican states. This results in our network being one interchange away from all major North American commercial and industrial markets.

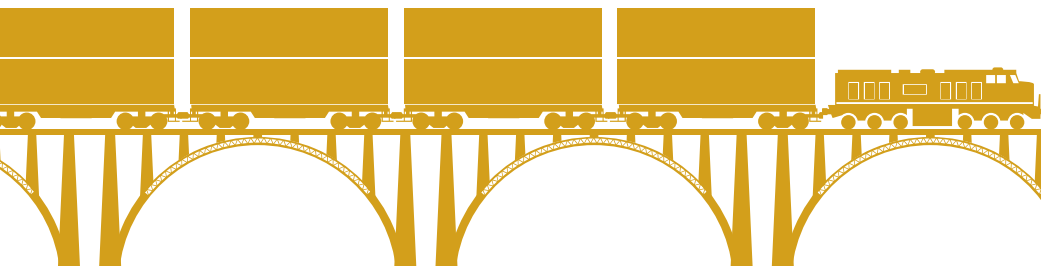


Our unique rail freight network gives our customers the benefit of seamless, secure cross-border transportation between the U.S. and Mexico.



Operating at Pacific Ocean and Gulf of Mexico ports, we promote the transport of customer goods across the globe.

WITH ALL OF OUR ADVANTAGES,
we put North American businesses on track to success.





Regarding KCS

KCS HOLDINGS

Our holdings include three principal operating companies in the U.S., Mexico and Panama.



KCSR: The Kansas City Southern Railway Company

- Headquartered in Kansas City, MO
- Designated Class 1 U.S. railroad with approximately 3,400 route miles
- Provides service to approximately 50 transload facilities
- 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, Minnesota 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
- Has approximately 3,200 route miles
- Provides service to approximately 80 transload facilities
- 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, Texas



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

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

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

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, 2016, had:
 - Total assets of \$8,817.5M
 - Total debt, including short-term borrowings, of \$2,478.2M
 - Total stockholders' equity of \$4,089.9M
 - Total equity of \$4,404.5M





Regarding KCS

VISION, VALUES AND CULTURE

KCS Vision

We strive to consistently be the fastest-growing, best-performing, most customer-focused transportation provider in North America.



KCS Values and Culture

Our culture is a set of values, beliefs and behaviors that define us and create a foundation for our growth and success. Our strong culture and core values will allow us to fulfill our vision and continue to endure in times of stress.

SAFETY:

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

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!

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.

INITIATIVE & INNOVATION:

We will nurture an environment that encourages and rewards resourcefulness, innovation and creativity, and where all individuals' contributions are encouraged and respected.

COMMUNICATION:

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

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.





Regarding KCS

RAIL NETWORK

Cross-Border Advantage

KCS FOCUS: To provide customers doing business in North America a highly competitive advantage with our secure, streamlined cross-border rail operations between the U.S. and Mexico

We are the only U.S. company to wholly own rail operations in the U.S. and Mexico. With operations in both countries, we can assist companies to efficiently navigate doing business in Mexico. In fact, we take pride in helping businesses keep on track to success when crossing the border.



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



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



Secure movements through our extensive security measures, which include 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 seamlessly moving



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

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 governance body, facilitates our sustainability in terms of growth, prosperity and overall success. In 2016, our 10 Directors served on five committees that were responsible for various sustainability topics.



KCS 2016: Board of Director Committees and Sustainability Responsibilities

Committee	Sustainability Topic	# of Board Members on Committee
Audit	Economic, Environmental	3
Compensation and Organization	Social	3
Executive	Economic, Social, Environmental	4
Finance	Economic	3
Nominating and Corporate Governance	Governance	7



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



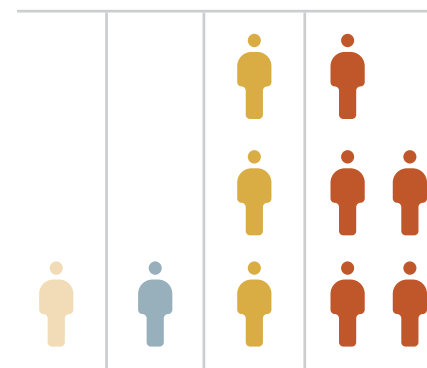
Is not a former KCS Chief Executive Officer

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.

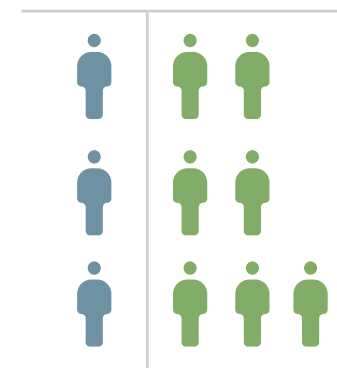
The committee considers diversity in the broadest sense, thus including factors such as age, sex, race, ethnicity and geographic location, as well as a variety of experiences and educational backgrounds.

2016 BOD BY M/F & ETHNICITY*



- Female (of Hispanic Heritage)
- Male (African-American)
- Male (of Hispanic Heritage)**
- Male (Caucasian)

2016 BOD BY AGE



- 51-60
- 61 and over

*In 2017, our Board's composition changed with the election of two additional women.

**All 3 board directors' business operations were based in Mexico.





Regarding KCS

Health, Safety, Security and Environmental (HSSE) Commitment

KCS FOCUS: To maintain health, safety, security and environment at the forefront of all we do.



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.





Regarding KCS

Environmental, Economic and Social Associations

KCS FOCUS: *To stay active and up-to-date in our industry and to commit to be participants in our stakeholders' interests*

We collaborate with a variety of organizations that support:



Environmentally responsible and safe operations within the rail industry



Economic development in 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, economic, social and safety organizations.



Environmental

Association of American Railroads (AAR)

KCSR is a member of the Association of American Railroads, which promotes that America's freight railroads operate the safest, most efficient, cost-effective and environmentally sound freight transportation system in the world.

▶ KCSR is an active member or participant in various AAR groups:

- Railinc Project Support Working Committee (RPSWC), an industry technology group working on asset health and other systems (KCS's COO chairs the committee.)
- See [page 61](#) for additional AAR participation.

▶ Responsible Care®*

KCSR has been a Responsible Care® partner company since 1999. Responsible Care is a global initiative aimed at:

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

▶ SmartWaySM Transport

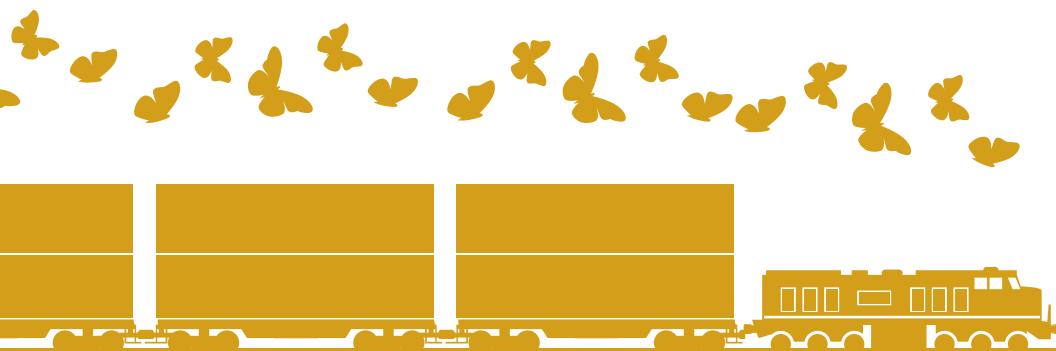
KCSR is a partner in SmartWaySM Transport, an innovative collaboration between the United States Environmental Protection Agency and the freight sector. SmartWaySM is designed to:

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

▶ TRANSCAER®*

TRANSCAER® is a community outreach program that focuses on assisting communities to prepare for and to respond to a possible hazardous materials transportation incident.

*Cooperative programs with the American Chemistry Council (ACC)





Regarding KCS



SOCIAL and EDUCATIONAL

Our executive leadership engages with organizations that have positive 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 Bloch School of Management and UMKC Foundation
- University of Indiana, Brigham Young University and Westminster College
- St. Luke's Hospital of Kansas City



ECONOMIC

KCSR and KCSM—or their executive teams—are active members of these national, state and local commerce and trade associations:

- The U.S. Chamber of Commerce
- Mexico Chamber of Commerce
- National Association of Rail Shippers (NARS)
- National Freight Transportation Association (NFTA)
- Intermodal Association of North America (IANA)
- State railroad associations in AR, IL, KS, LA, MO, MS, OK and TX
- Many other state and local business booster groups, chambers of commerce and civic organizations in the U.S. and Mexico that promote the local communities we serve



SAFETY and TECHNOLOGY

KCSR executives, directors and employees serve on:

- [Operation Lifesaver's](#):
 - National board
 - National advisory council
 - State board agencies
- Transportation Technology Center, Inc (TTCI), an AAR subsidiary dedicated to research, development, testing, consulting and training for railway-related technologies

KCSR Responsible Care® Exceptional Merit Designation



For its 2016 efforts, 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 (see [page 54](#)). That's aligned with ACC's ongoing initiatives to improve energy efficiency. KCSR has been an ACC Responsible Care® partner company since 1999. As such, the company commits to striving to continually improve environmental, health, safety and security performance for its business operations.

KCS TRANSCAER® Regional Achievement Award



For the third consecutive year, TRANSCAER® honored KCS with its Regional Achievement Award in 2016. The award recognized KCS's extraordinary achievement in support of the TRANSCAER® initiative (see [page 13](#)).

*KCSR received the designation in 2017.



Regarding KCS

SUPPLIER DIVERSITY

Program Initiative (SDPI)

KCS FOCUS: To seek high-quality, certified disadvantaged, minority-, women- and veteran-owned businesses to bring the added value of diversity to our purchasing process

To serve our customers best, we reach out to all sectors of the supplier community. With our comprehensive supplier outreach, we are able to:

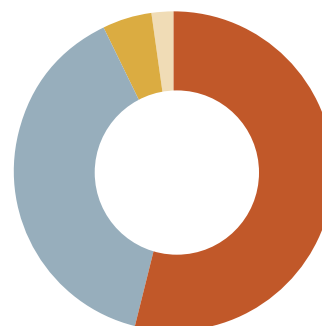
- Take advantage of expansion opportunities as we increase the scope of our business contacts
- Leverage supplier competition to encourage innovation of new products, services and solutions
- Increase opportunities for diverse suppliers to do business with us and us with them

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

We attend supplier-supported diversity events as part of our supplier outreach. In 2016, we attended three such events that attracted major suppliers.

KCSR 2016: Total Spend in Supplier Diversity Segment



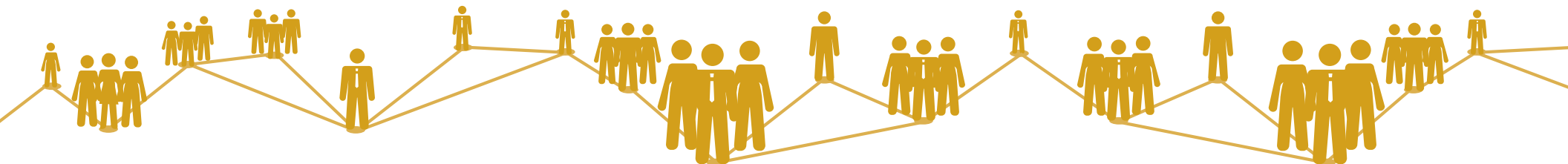
KCSR 2016: Business Enterprise

- 54% Minority-Owned Hispanic/Latino Business Enterprise
- 39% Woman-Owned Business Enterprise
- 5% Disadvantaged Business Enterprise
- 2% Minority-Owned Veteran/African-American/Native-American Business Enterprise



KCSR 2016: Spend in Woman-Owned Businesses in Supplier Diversity Segment

- 52% Woman-Owned Non-Minority Business Enterprise
- 48% Woman-Owned Minority Business Enterprise





REPORTING SUSTAINABILITY





Reporting Sustainability

ABOUT This Report

In our status update for 2016, we have followed a consistent reporting approach.

Reporting period: KCS's fiscal year—January 1, 2016, through December 31, 2016

Reporting content boundaries: This includes using:

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

Reporting standards: GRI (Global Reporting Initiative) standards for which 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 surveying key stakeholder groups including our customers, employees, investors (shareholders) and suppliers.



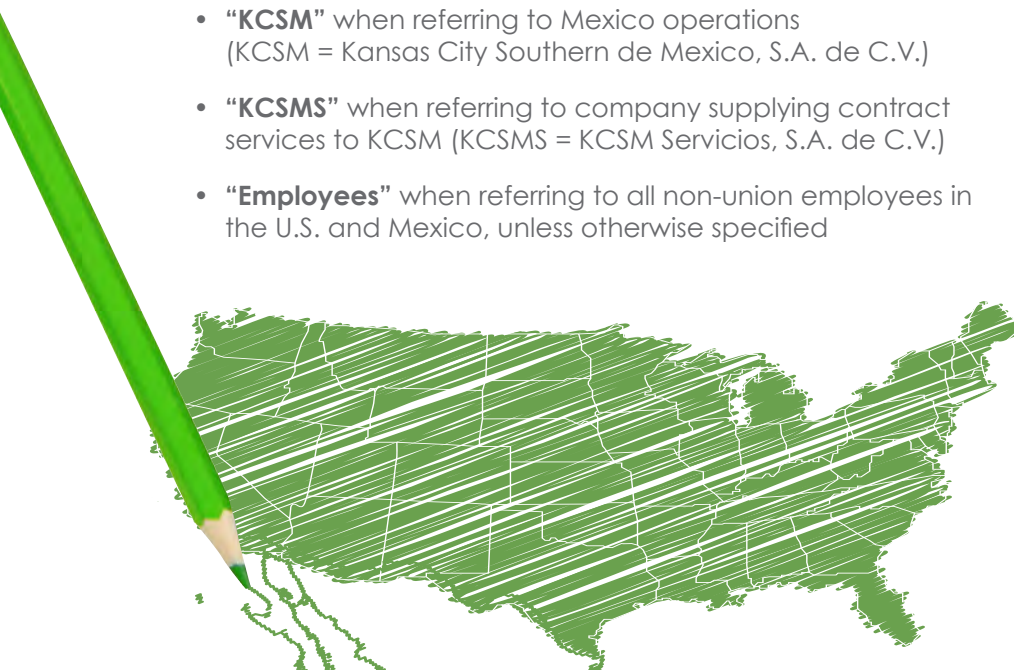
Organized a Sustainability Steering Committee: This consists of internal stakeholders from departments overseeing economic, social and environmental issues.

The outcome of these initiatives resulted in addressing topics reflective of our highest-ranked priority issues, establishing targets and producing a report in accordance with the GRI framework.

An internal team of senior management reviewed the results to identify, prioritize and approve the material topics considered most important to us and to our stakeholders. Based on this process, we then selected our material aspects, indicators and report content.

We are continuing as an organization to engage with our stakeholders—as well as further examining what additional sustainability aspects are important to them and to our business.

In the future, we will update the report content to include the results of these engagements and considerations as we continue on our sustainability journey.





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. (See [Appendix: Stakeholder Engagement](#) on [page 64](#).)

For this report, our Sustainability Steering Committee undertook a specific stakeholder engagement process to understand and identify topics material to our sustainability efforts. The committee:

- 1** Identified stakeholders across all business lines and operations
- 2** Mapped stakeholders to better understand and classify each group based on their relationship or investment with our operations
- 3** Conducted a first-ever stakeholder survey with select customers, investors, employees and suppliers to increase understanding of priority economic, environmental and social issues relevant to our business



more than **200** stakeholders

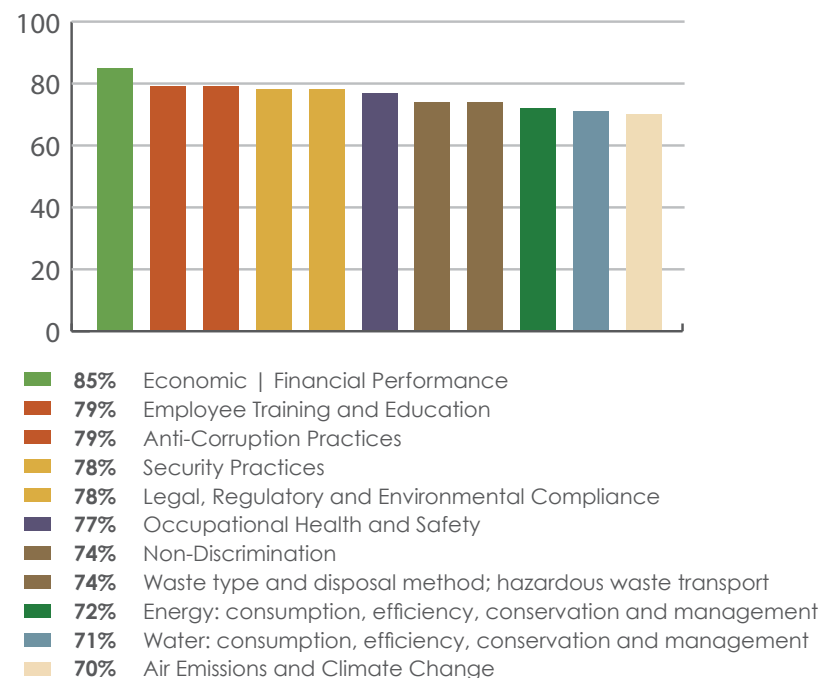
participated in the survey the outcome of which helped us develop our report by identifying priority material topics.

Our sustainability program will continue to evolve as we:

- Refine our understanding of how sustainability issues impact our business
- Identify further materiality issues through expanded stakeholder engagement activities

Stakeholder Survey Priority Material Topics

Respondents: Investors, Customers, Employees, Suppliers



NOTE: See Appendix: Stakeholder Material Topics on [page 65](#).



MANAGING RISK





Managing Risk

MANAGEMENT of Risk

KCS FOCUS: *To identify, manage and reduce risks, as well as to take advantage of opportunities that will help us meet our business objectives*

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

Enterprise Risk Management

Since we instituted a multidisciplinary Enterprise Risk Management (ERM) process in 2011, we've:

- » **Identified** events that potentially might affect our enterprise
- » **Reviewed** the risks, impacts and opportunities associated with those events
- » **Developed** 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 2016, 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

In 2016, we presented approximately 20 enterprise risk topics and our mitigation activities to the Audit Committee.

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:
 - Improving physical assets, such as our rail infrastructure and design
 - 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



Managing Risk

Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies

KCS FOCUS: *To make 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, we post our Anti-Corruption Policy on our employee intranet website in both English and Spanish.



In the U.S. and Mexico, we take compliance with anti-corruption laws very seriously.

Foreign Corrupt Practices Act (FCPA) Risk Assessment

An assessment is conducted every two years. Last completed in 2015, we:

- 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

The next bi-annual assessment will be in 2017.

Twice during 2016, we undertook a review of Mexico's vendors to identify any individuals or companies who:

- Are on international corruption watch lists
- Have a political association
- Are a state-owned entity

We used a third-party corruption-tracking tool to analyze the active vendor database.



Conflict of Interest and Compliance Questionnaire

In 2016, Human Resources integrated Anti-Corruption Policy points into its Conflict of Interest and Compliance Questionnaire. As of Dec. 31, 2016, 100% of KCSR and KCSMS non-union employees signified their compliance by completing and signing the questionnaire.





Managing Risk

Code of Business Conduct and Ethics

Our posted **Code of Business Conduct and Ethics** is enforced 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 Mexico, 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 45](#).





Managing Risk

24/7 Report Hotline

KCS FOCUS: *To give our stakeholders an anonymous, non-retaliatory way to voice their concerns*

If there's a problem, Speak Up! is a step in finding a solution.

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



Speak Up! in U.S.: 1-800-727-2615
Línea de Denuncias in Mexico: 01-800-436-0158

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

We maintain confidentiality throughout the process, where possible, and will not tolerate retaliation toward those who speak up.





ADVANCING SAFETY & SECURITY





Advancing Safety & Security

OUR NO. 1 PRIORITY: Safety and Security

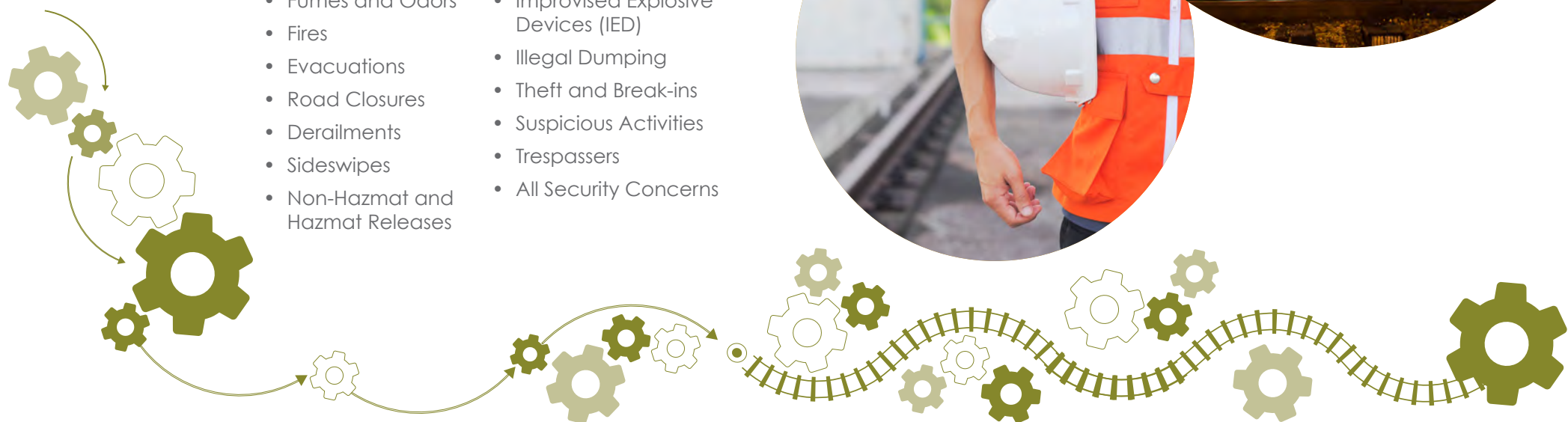
KCS FOCUS: *To operate our cross-border rail network safely, securely and reliably for the benefit of our employees, customers, shareholders and communities*

We continuously invest in enhancing the safety and security of our:

- Employees
- Infrastructure
- Rail network
- Computer network
- Equipment
- Facilities
- Communities where we operate

Our Critical Incident Desk is active 24/7 so anyone can report emergencies and security issues such as:

- Exposures
- Fumes and Odors
- Fires
- Evacuations
- Road Closures
- Derailments
- Sideswipes
- Non-Hazmat and Hazmat Releases
- Suspicious Packages
- Improvised Explosive Devices (IED)
- Illegal Dumping
- Theft and Break-ins
- Suspicious Activities
- Trespassers
- All Security Concerns





Advancing Safety & Security

PUBLIC SAFETY: Positive Train Control (PTC)

KCS FOCUS: *To implement Positive Train Control on schedule and on budget with the safety of all in mind*

PTC, an advanced technology system designed to automatically stop a train before certain incidents occur, 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

We are on track to complete the federally mandated PTC installation for lines that carry:

- Passenger and commuter carriers
- Certain volumes of poison- or toxic-by-inhalation hazard (PIH/TIH) cargoes

In 2016, KCSR made considerable strides in implementing PTC as efficiently as possible.

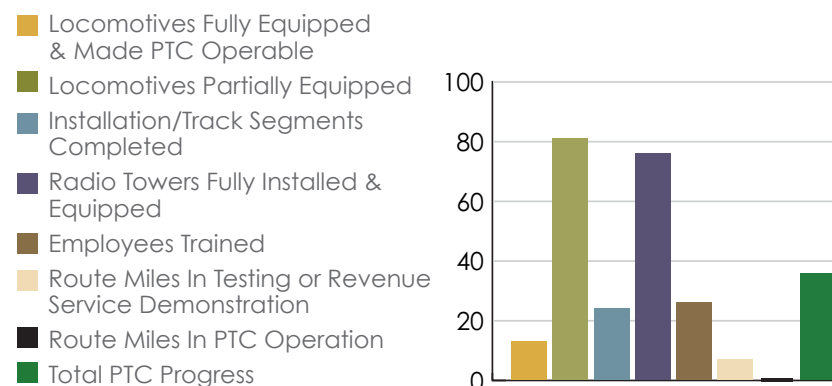
We are positioned to install PTC on required track segments and equipment by the deadline of December 31, 2018. Additionally, we will be working to achieve full interoperability with other railroads.

Read more about [PTC](#).

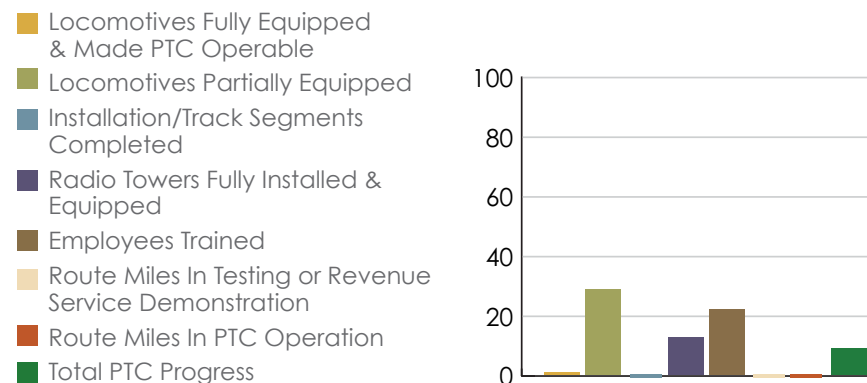


PTC Measures

% Complete 2016



% Complete 2015





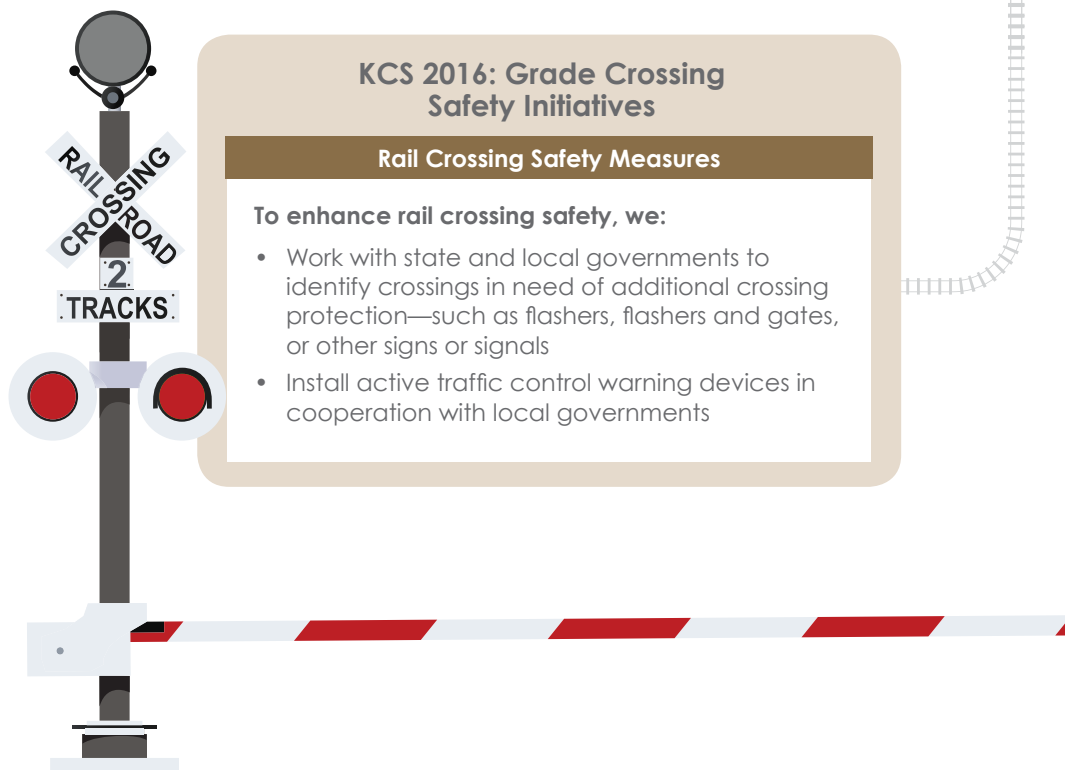
Advancing Safety & Security

PUBLIC SAFETY: Grade Crossing Safety

KCS FOCUS: *To continually reduce crossing incidents via the use of essential technology and strategic practices*

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

See [page 31](#) for additional technology that helps reduce grade crossing incidents, as well as improves our general rail infrastructure.



KCS 2016: Grade Crossing Safety Initiatives

Rail Crossing Safety Measures

To enhance rail crossing safety, 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 local governments

Vegetation Control Management Program

KCS uses 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 track equipment
- Fire hazards
- Communication and power interruptions

Program also:

- Is mandated 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 right-of-ways, in rail yards and on bridges

In 2016, KCSR controlled 31,614 acres, and KCSM controlled 24,769 acres.

RIMS (Rail Inventory Management System) and Internal Inspections

KCSR's public safety director reviewed U.S. track crossings onsite and uploaded information captured in the Federal Railroad Administration (FRA) web-based RIMS—which the FRA implemented in 2016. Once in RIMS, the track crossing information updates daily online.

In 2016, as part of a three-year plan to review 100% of KCSR's more than 4,800 grade crossings, one-third of the grade crossings underwent a review.

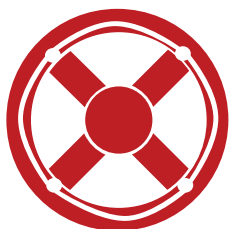


Advancing Safety & Security

PUBLIC SAFETY: Operation Lifesaver/Alto Total

KCS FOCUS: To educate the public to remain safe around trains with the support of Operation Lifesaver in the U.S. and Alto Total in Mexico

On both sides of the border, the non-profit organizations seek to empower the public with rail safety programs. Aimed to help end rail-related injuries, collisions and deaths, Operation Lifesaver and Alto Total make up a major part of KCS's public safety initiatives.



KCSR doubled the number of Operation Lifesaver events and courses along our U.S. rail network, reaching 23% more people through these activities vs. 2015.



KCSM increased its Alto Total activities by 78% along our rail network in Mexico, reaching 79% more attendees than in 2015.



With the help of KCS-authorized volunteers in both countries, we reached an audience of approximately 25% more students, drivers, first responders and others at our school, community, county and state events vs. those reached in 2015.

Cuidado con el Tren (Beware of the Train)

To complement Alto Total activities, KCSM also instituted an additional campaign with the ultimate goal of preventing rail crossing accidents. 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 2016, KCSM partnered with the Mexican Red Cross and Correos de Mexico (Mexico's postal service) to carry out these campaign activities:

- **Leafleting in Morelia, Michoacan:** Students of the Technological Institute of Morelia distributed more than 18,000 leaflets with safety messages at five major intersections.
- **Workshops for Children:** The Mexican Red Cross trained more than 10,000 children in four Mexican states to:
 - Recognize warning signs found near railroad track crossings
 - Encourage them to comply with safety and accident prevention
 - Invite them to become promoters of railway safety with the help of the character Po'yo, the cautious chicken
- **Focused marketing:** KCSM and the Association of Mexican Railroads (AMF), along with Correos de Mexico, 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 & Security

KCSR Operation Lifesaver

KCSR Activities	2016		2015	
	No. of Activities	Audience	No. of Activities	Audience
Presentations	856	25,044	539	16,667
Special Events and Courses	129	96,808	63	82,540
Total	985	121,852	602	99,207

KCSM Alto Total

KCSM Activities	2016		2015	
	No. of Activities	Audience	No. of Activities	Audience
Workshops	24	7,005	8	1,813
Presentations and Direct Outreach	17	36,000	15	22,168
Total	41	43,005	23	23,981



Throughout each year, we engage with local law enforcement and the general 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-ways 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 North American law enforcement officers to participate in specialized highway-rail grade crossing collision investigations while staying safe throughout the process.



Advancing Safety & Security

WORKPLACE SAFETY

KCS FOCUS: *To instill a culture of safety via training, education, initiatives, equipment and a strict adherence to safety rules*

In 2016, our strong emphasis on staying safe drove our safety performance. Our workplace injury rate dropped by 18% in the U.S. and by 4% in Mexico compared to 2015.

The reduction in our injury ratio was the result of a multi-component safety approach that empowered personnel to perform their duties safely and make sound business decisions.



KCS 2016: Workplace Safety Measures

Safety Through Awareness and Responsibility (STAR)	<ul style="list-style-type: none"> • Outlined 17 core safety rules • Included craft-specific rules for transportation, mechanical, engineering and clerical functions—including rules for contractors and those working on heights. • Updated or amended rules as new safety issues identified
Program of Operational Testing	<ul style="list-style-type: none"> • Provides vehicle for on-going validation, understanding and adherence to safety operating rules and procedures. • Allows us to identify, monitor and manage an existing or emerging safety risk • Conducts monthly testing designed to: <ul style="list-style-type: none"> ◦ Gauge employees' knowledge and compliance with our safety procedures ◦ Determine the need for remedial training, encouragement or guidance • Develops testing at territory level in response to identified: <ul style="list-style-type: none"> ◦ Risk trends ◦ Recent injuries or accidents ◦ Previously failed operational tests
General Code of Operating Rules (GCOR)	<p>Railroad industry's commonly accepted set of safe operating rules. Covers important issues such as:</p> <ul style="list-style-type: none"> • Employee responsibilities • Radio communication • Safe train movement • Other topics that directly and indirectly affect railroad safety
KCSR Transportation, Engineering and Mechanical (TEaM) Training Center	<ul style="list-style-type: none"> • Offers certification program in specially-equipped mobile training trailer, bringing more training directly to employees • Focuses on operating rules, safety and training
KCSM Six Training Centers Along Rail Network	<p>Provides safety behavior and safety operational practices training</p>
KCSR External Responsible Care Management System® (RCMS®) Audit	<p>Underwent third-party audit to verify that KCSR meets Responsible Care® standards, which include employee health and safety</p> <p>In 2016: Verified compliant by American Chemistry Council's RCMS®</p>



Advancing Safety & Security

RAIL SAFETY TECHNOLOGY

KCS FOCUS: *To optimize our technology so we continue to operate safely, securely and efficiently*

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:

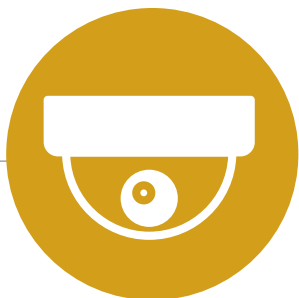
- Positive Train Control (PTC)—[See page 26.](#)
- Grade Crossing Safety Initiatives—[See page 27.](#)
- Public Safety Initiatives—[See page 28.](#)
- Other technologies — See below.

KCS 2016: Technology to Safeguard Operations

INWARD- AND OUTWARD-FACING LOCOMOTIVE CAMERAS

Provide additional monitoring for train crew to:

- Enhance compliance with FRA and our operating rules
- Help employees spot maintenance needs
- Improve overall safety



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

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

In 2016, the camera system capacity was upgraded including increasing storage capacity from 120MB to 400MB.

CENTRALIZED TRAFFIC CONTROL (CTC)

Consolidates train routing decisions to a centralized dispatching center

Allows:

- Dispatchers to monitor trains on rail network
- Control of rail traffic flow through signaling and communication to train crews

In 2016, increased the limits of CTC on the KCS rail network, as well as engineered and ordered material to install CTC on additional 84 route miles

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
- Wheels not meeting industry standards
- Rail defects

In 2016, added Broken Rail Detection Technology to 86 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

In 2016, installed four switch heaters to keep trains moving under ice and snow conditions





Advancing Safety & Security

SECURING Our Rail Network

KCS FOCUS: *To provide top-quality security measures to protect our company's and our customers' assets in the U.S. and Mexico*

Security is of the utmost importance as we transport goods on both sides of the border. Security personnel regularly communicate and collaborate. This leads to a reduction of trespassers, movements of narcotics and theft of customer goods.

U.S. and Mexico security agents:

- Maintain close ties 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

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.

KCS | Security Framework



78

Guards/Agents/Managers/Coordinators/Supervisors and additional security personnel as needed in low-velocity areas



554
Guard Points



124
Patrol Vehicles



6
K-9 Units



24x7
Security Desk

KCSR

To safeguard shipping in the U.S., KCSR police work very closely with local and state law enforcement, the AAR, U.S. Customs and the Department of Homeland Security.

KCSR police officers are sworn law enforcement personnel required to successfully complete their home states' mandated curriculum and requirements for police officers. The KCSR Chief of Police and the Department of Public Safety in each officer's home state keep the officers' records on file.

To maximize performance, the KCSR police department was equipped with these assets in 2016:

- » 8 trained special agents and 20 trained contract security guards
- » 2 K-9 units trained in narcotics and human detection
- » 11 patrol vehicles
- » Essential technology and equipment
- » 24/7 Critical Incident Desk Support

KCSM

In Mexico in 2016, KCSM employed a multi-layered safety and security process, including:

- » 50 security agents, managers, coordinators and supervisors to cover regions on rail network
- » Additional security personnel responding to and covering incidents in low-velocity areas
- » 4 K-9 units trained in narcotics and human detection
- » 554 guard points
- » 113 patrol vehicles
- » Adaptive security processes and technology in metropolitan areas in Mexico with restricted velocity
- » Essential state-of-the-art technology and equipment
- » 24/7 security desk to track data and trends and serve as a communications link



Advancing Safety & Security

Other security procedures in Mexico include:

- » Monitoring each KCSM train from origin to destination through multiple security filters, which allows us to keep track of cargo conditions
- » Passing trains through a Vehicle and Cargo Inspection System (VACIS) scanning system at the Laredo/Nuevo Laredo gateway and the Port of Lazaro Cardenas
- » Sending trains arriving at Saltillo and San Luis Potosi through a high-speed digital imaging system
- » Monitoring train cars throughout the route using the rail inspection portals
- » Documenting the condition of the freight and its seals upon delivery

Also in 2016, KCSM built a new security operations center in Monterrey, Mexico. It opened in 2017.

KCS 2016: Security Impacts

Customer Loss and Freight Claims

Physically walked and visually monitored trains for theft and vandalism prevention purposes, including routine patrols of military equipment shipments

Actively cultivated relationships with scrap dealers and similar resources to help spot stolen goods

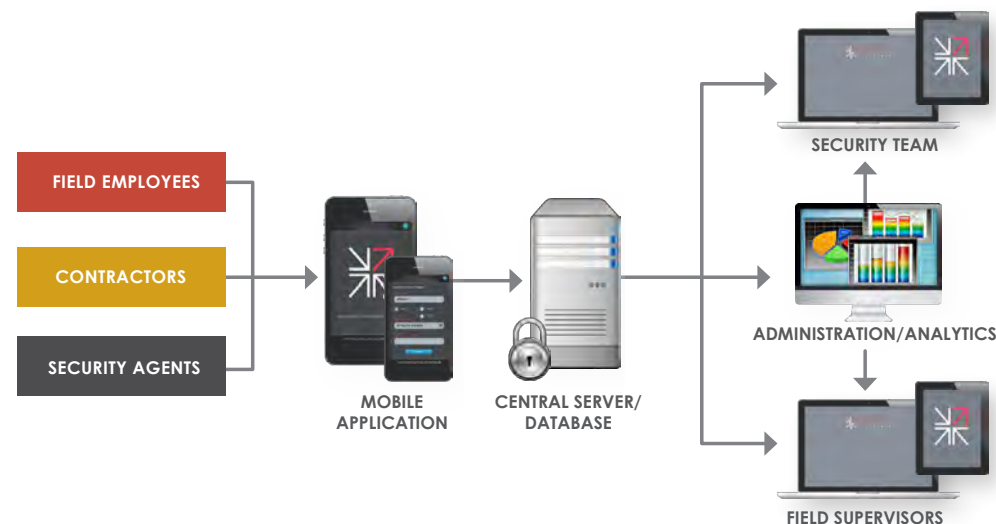
Devised locomotive horn theft prevention plans

Provided train escort as needed

In 2016, KCS claim-free delivery was 99.76%.

KCS 2016: Shipment Claim Rate

KCSR:	0.01%
KCSM:	0.33%
Combined:	0.24%



Mobile Security Application

KCSM's mobile security app enhances the safety and security of our trains in Mexico. With the app, our security team collects data, which allows supervisors to respond immediately in critical or important situations. By capturing historical data, we are able to evaluate and optimize field operation and track security threats and trends.

KCSR Cybersecurity

KCSR evaluates its cybersecurity using third-party vendors.

In 2016, TrustedSec provided this report noting the security of KCSR's computer network:

» "KCS utilizes an IDS/IPS system that repeatedly blocked enumeration attempts even when methods were used to avoid detection"

» "The majority of open services on the perimeter network were web-based, limiting the potential attack surface for an attacker."

» "Low number of directly exploitable issues on the internal network."

NOTE: In 2017, third-party vendors noted that KCSR has a "mature set of processes and infrastructure" and its "security infrastructure is solid and well thought out."



DELIVERING PROSPERITY





Delivering Prosperity

BUSINESS UNITS and Revenues

KCS FOCUS: *To safely and reliably ship our customers' freight*

We helped drive North America's economic prosperity in 2016 by shipping approximately 2.2 million customer carloads/units of goods to their destinations to:



Stock shelves and showrooms 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 1 and short-line railroads, as well as other transport industries
- Access worldwide 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.



Delivering Prosperity

Here is a glimpse into our business units:



Agriculture & Minerals
\$461.0M Revenue
21% of Freight Revenue
251.4K Carloads

Includes: Grain (primarily corn, wheat, soybeans, milo), food products (such as corn syrup, sugar, DDGs, meals, oils); aggregates (such as limestone, gravel, granite, rock); and mineral commodities (including borates, bentonites, clay, glass)

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
\$189.9M Revenue
8% of Freight Revenue
133.3K Carloads

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

We serve:

- 90% of auto assembly plants in Mexico
- Auto parts manufacturing plants in U.S.
- 4 KCS-owned automotive distribution facilities and 3 major Mexican ports on the Pacific and Gulf of Mexico
- Other companies in the automotive industry supply chain



Chemical & Petroleum
\$475.4M Revenue
21% of Freight Revenue
258.5K Carloads

Includes: Petroleum and petroleum-refined products (gasoline, liquefied petroleum gas, industrial oil), natural gas liquids, chemicals (organic, inorganic, commodity, 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
\$202.7M Revenue
9% of Freight Revenue
253.9K 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
\$554.0M Revenue
25% of Freight Revenue
317.0K Carloads

Includes: Timber, pulp and scrap paper, metals (such as slab, steel coils, scrap metal), cement, appliances, plastics, heavy machinery, farm implements, construction equipment, 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
\$357.6M Revenue
16% of Freight Revenue
952.8K Units

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

We haul freight containers in partnership with:

- Ocean carriers
- Surface transportation companies
- Intermodal marketing companies



Delivering Prosperity

CAPITAL Expenditures

KCS FOCUS: *To strategically invest in both the U.S. and Mexico in economic drivers to help complement our commitment to financial stability, growth and safety & security*

Investing \$584 million—25% of our consolidated revenues—on capital expenditures in 2016 signaled our commitment to long-term safety and continued growth. We consider every dollar spent to maintain, upgrade and acquire long-term assets an investment in our sustainable future.

In 2016, our capital expenditure priorities included:

Growth: These investments allowed us to handle new or incremental volumes and prepare for future volume opportunities. They included new track sidings, yard expansions and new customer rail facilities.

One major growth project in 2016 was the continued construction of the Sasol/Lake Charles Development (Sasol) in Mossville, LA. [See page 38](#) for more information.

Maintenance: We invested these capex dollars primarily to advance the safety and efficiency of our operations. These functions include maintaining:



Our fleet of 1,044 locomotives and 20,612 freight cars by troubleshooting needs and following scheduled maintenance requirements

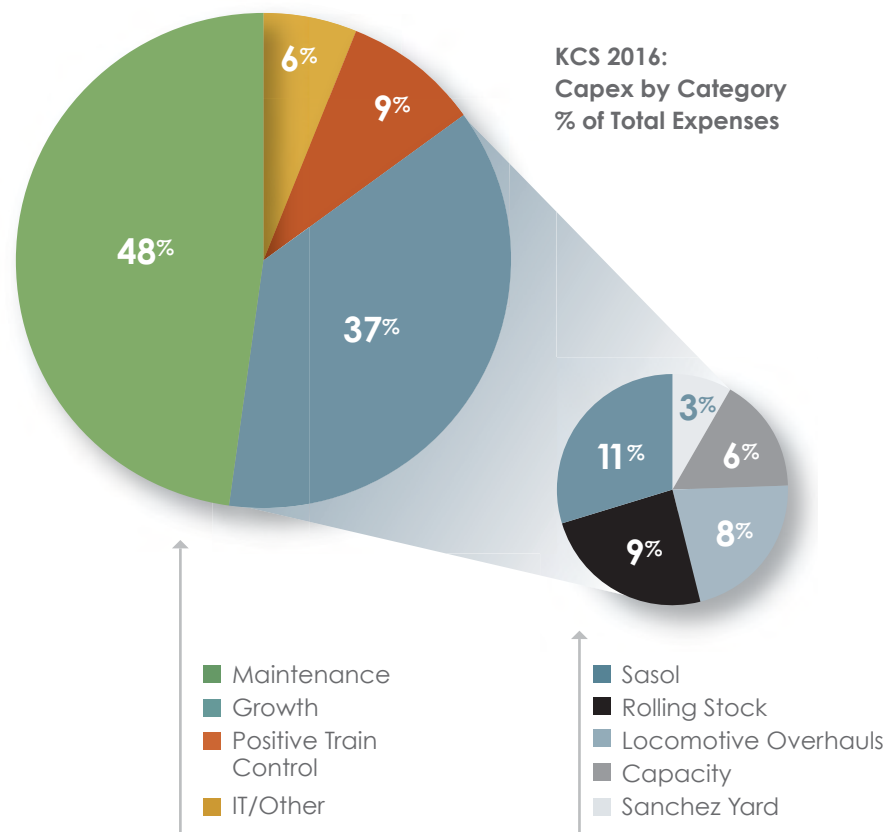


KCS-owned track by replacing rail and ties and ensuring maintenance of our overall railway system

Positive Train Control (PTC): The capex investments are related to PTC installation of information, signal and locomotive technology on trains and tracks. [See page 26](#) for more information.

IT/Other: Investments included computer hardware, software, communications equipment, wayside equipment and locomotive onboard equipment. We view IT investments as critical in keeping up with industry technologies and associated efficiencies for our business.

Trip Optimizer accounted for our largest IT/Other expense in 2016. [See page 54](#) for more information.





Delivering Prosperity

PARTNERSHIP

Development and Investments

KCS FOCUS: To meet the specific needs of our customers by developing transportation solutions that serve as an end-to-end strategic link between producers and consumers

Through collaborative partnerships, we invest in our customer needs—and our customers invest on our rail network.

These partnerships have the added benefit of:



Serving the local economies along our rail network

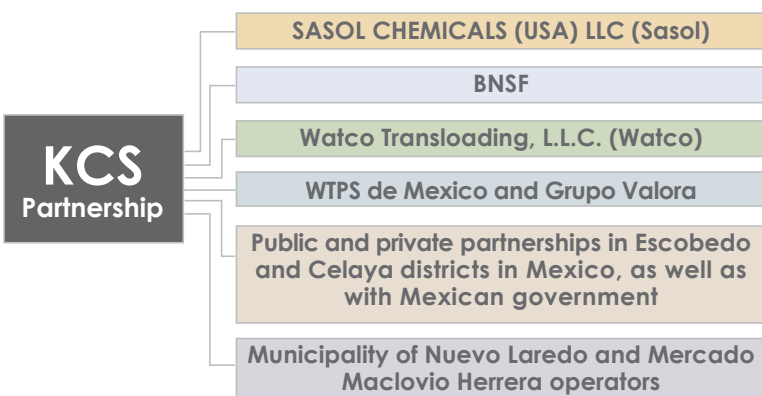


Providing broader supply chain solutions



Preparing for Mexico Energy Reform growth

KCS 2016: Partnerships and Investments



Partnership	Customer/KCS Benefit
Sasol/Lake Charles Development project, for which KCSR is constructing: <ul style="list-style-type: none"> Dedicated storage in-transit (SIT) rail yard to support Sasol's new ethane cracker and derivatives project New and expanded rail yard to serve other petrochemical customers in the Gulf Coast area 	<ul style="list-style-type: none"> Enables Sasol to leverage the economies of rail transportation in a competitive market Better positions KCSR to serve the growing petrochemical industry and other customers, in addition to Sasol, in the Lake Charles area
KCS/BNSF Intermodal: Joint service agreement offering intermodal transportation connecting major markets on the BNSF network with important consumer and industrial regions on the KCSM network	<ul style="list-style-type: none"> Provides enhanced supply chain logistics to customers, complementing existing joint services with other railroads, to broaden customer access Enables KCS to compete more effectively and productively in U.S. markets
Watco Transloading: Opening of multi-commodity transload terminal at KCSR's former Zacha intermodal terminal in Dallas, Texas, with Watco named as facility operator	<ul style="list-style-type: none"> Provides customers with new supply chain solution via KCS's Transload Center (TLC) network Allows KCS to service more customers
Terminal Centro de Mexico: Conceived plans for joint venture to open state-of-the-art fluids terminal in San Luis Potosi to support the opening of the Mexican Energy Market	<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
Celaya Bypass: Started construction of remaining 40% of rail bypass in Celaya, Guanajuato, Mexico	<ul style="list-style-type: none"> Improves quality of service to customers served by rail north and south of Celaya Increases train speed through the bypass to move freight faster and reduce vandalism Reduces rail crossings and train accidents Relieves traffic congestion through downtown Celaya to improve quality of life for residents
Nuevo Laredo/Mercado Maclovio Herrera: Negotiated relocation of Mercado Maclovio Herrera (noted Nuevo Laredo flea market) to complete double track from our Sanchez Yard and the International Bridge between Nuevo Laredo, Tamaulipas, and Laredo, Texas	<p>Improves flow of trains and speeds up our service to all cross-border customers</p>



Delivering Prosperity

SUPPLIERS

Supporting Operations

KCS FOCUS: To strengthen our operations by partnering with ethical suppliers who provide high-quality goods and services for the ultimate benefit of our customers

As a global company, we operate across highly diverse markets best served by a wide variety of suppliers.

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

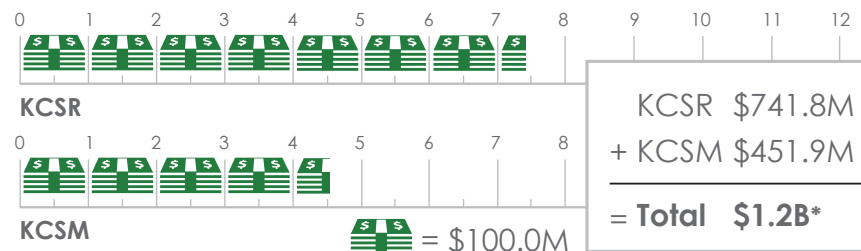
- Apply the company's core competencies in strategic sourcing, material management and contract management
- Expect suppliers to commit to conducting business in accordance with the highest ethical standards and in compliance with all laws and regulations. [See our Supplier Expectations.](#)
- Welcome 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 15.](#)
- Achieve the best value for the company by partnering with suppliers across North America.

In 2016, we had approximately 1,775 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 and responsible sourcing of materials and services
- Environmental and labor standards

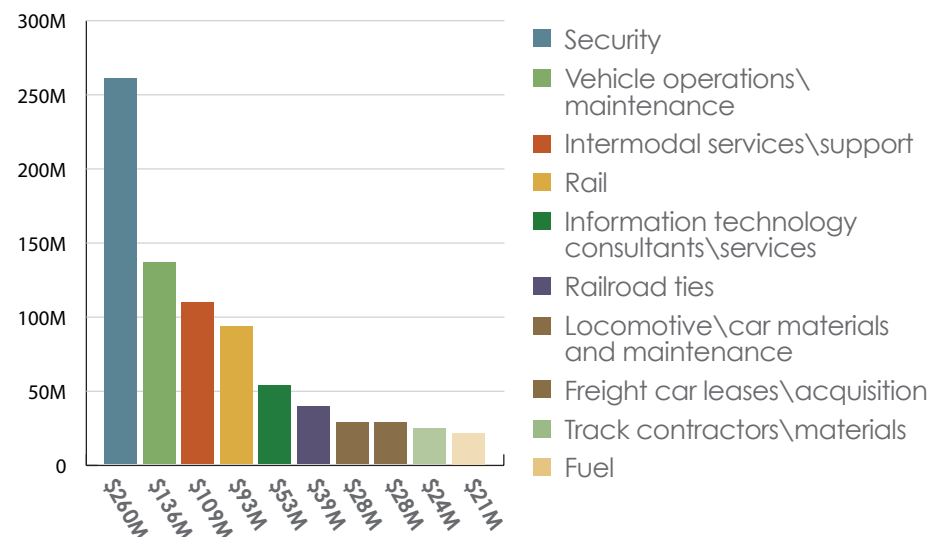
We sourced approximately \$1.2 billion on goods and services in 2016*.

KCS 2016: Supplier Spend



In 2016, our top 10 types of goods and services purchased accounted for 66% of the company's total spend.

KCS 2016: Top 10 Types of Goods and Services Purchased



*Represents acquisitions for sourced capital and operating expenses



VALUING PEOPLE





Valuing People

EMPLOYEES Our Greatest Assets

KCS FOCUS: To hire and retain the best and the brightest

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.

With an average North American employee turnover rate expected to climb to 23%², our low attrition rate of less than 8% in 2016 provided a professional consistency to our operations that's key to our accomplishments. Also 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 so we meet their expectations
- Develop employees' talents to advance at KCS and meet the company's growing needs
- Offer benefits and lifestyle opportunities to enhance employees' well-being
- Provide employees with tools they need to have a fulfilling, successful career

¹<https://www.forbes.com/sites/kevinkruse/2014/01/07/employee-engagement-the-wonder-drug-for-customer-satisfaction/> and http://meetingmetrics.com/research_papers/whitepaper_cs_es_relationships.pdf

²<http://work.chron.com/average-employee-turnover-large-organizations-29521.html>

³We provide equal opportunity in employment to employees and applicants. In the U.S., we adhere to the U.S. Equal Employment Opportunity Policy. In Mexico, the company maintains the Modelo Equidad de Genero (MEG) – Standard for Gender Equality certification. Read about our employment policies on [page 45](#).

KCS Employees by the Numbers

In 2016, KCS and its subsidiaries had approximately 6,820 employees—57% of whom were based in Mexico.

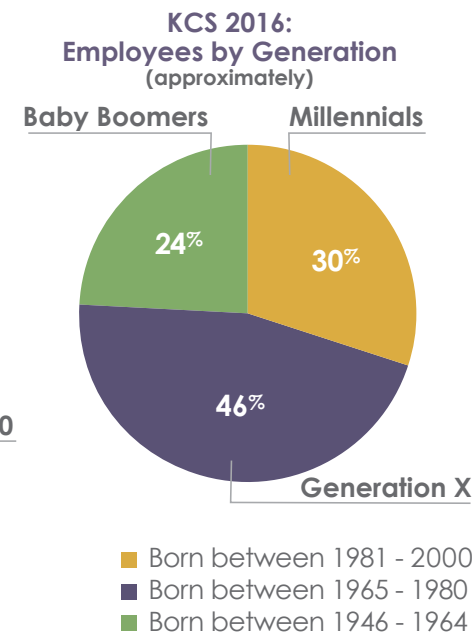
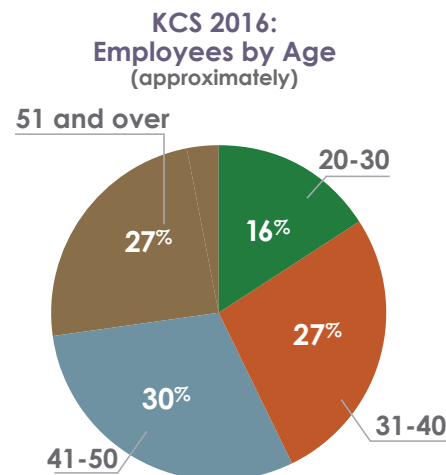
KCS 2016:
Subsidiary Employees by Country

Country	Non-Union	Union	Total
U.S.	777	2,187	2,964
Mexico	805	3,054	3,859
Total	1,582	5,241	6,823

KCS 2016:
Subsidiary Employees by M/F³

M/F	Non-Union	Union	Total
Female	297	46	343
Male	1,285	5,195	6,480
Total	1,582	5,241	6,823

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





Valuing People

ACTIVE Employee Engagement

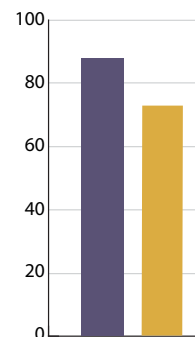
KCS FOCUS: *To keep a pulse on our employees' satisfaction with their jobs and the company*

To gauge our employee satisfaction, we went straight to the source.

In 2016, we conducted an Employee Satisfaction Survey by reaching out to all union and non-union employees in the U.S. and Mexico.

With a higher than average response rate of 71%*, the survey and our employee comments told us that they prize five key things about working for KCS:

- **Financial Stability**
 - "(KCS) is a reputable, established company with growth and strength."
- **Relationship with Co-workers**
 - "I have always been treated fairly and with respect by Kansas City Southern. It is a great job with good benefits and good people to work with."
- **Job Security**
 - "For over 40 years KCS has provided very well for my family & I am proud to have worked for them all this time."
- **The Work Itself**
 - "Excellent work environment. I take pride in the company and my colleagues."
- **Contribution to Overall Business Goals**
 - "Solid company, big enough to get involved with interesting projects yet small enough to make an impact and get involved with all levels of the company."



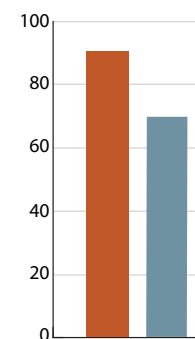
KCS 2016: Employee Job Satisfaction

Employee job satisfaction

- KCS subsidiary employees
- National Data

National Comparative Data based on surveys of:

- 10,000 U.S. employees
- 22 major industries including rail/transportation



KCS 2016: Employee Satisfaction with Employer

Employer satisfaction

- KCS subsidiary employees
- National Data

National Comparative Data based on surveys of:

- 10,000 U.S. employees
- 22 major industries including rail/transportation

From the 2016 employee survey, these were the top five areas of employee satisfaction noted.

KCS 2016: Top 5 Employee-rated KCS Strengths

Top 5 Areas of Employee Satisfaction with KCS	KCS Subsidiary Employees	National Employees in All Sectors: Comparison	Other Rail Transportation Employees: Comparison
Financial Stability	90%	70%	66%
Relationship with Co-workers	89%	78%	63%
Job Security	88%	72%	74%
The Work Itself	87%	73%	69%
Contribution Your Work Has on Overall Business Goals	87%	74%	68%

* <https://www.surveygizmo.com/survey-blog/survey-response-rates/>



Valuing People

EMPLOYEE Compensation and Benefits

KCS FOCUS: *To attract and retain employees by offering a challenging and welcoming work environment, as well as competitive compensation and high-quality benefits*

KCS compensation and benefits expense increased \$20.2 million for the year ending December 31, 2016, compared to 2015, due to higher incentive compensation of approximately \$34.0 million and annual wage increases of approximately \$14.0 million. Incentive compensation increased due to higher achievement of short- and long-term incentive performance targets in 2016, as compared to 2015.*

As part of the overall compensation program, KCS 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.

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.

*These increases were partially offset by the weakening of the Mexican peso of approximately \$19.0 million compared to 2015, and lower U.S. labor costs of approximately \$15.0 million due to reduced volumes and increased productivity.

KCS Subsidiary Employee Benefits

In the U.S., KCSR provides a high-quality benefits package for all non-union employees, which typically includes:



- Comprehensive health insurance
- Dental insurance
- Vision coverage



- Flexible spending accounts
- Life insurance



- Accidental death and dismemberment insurance
- Sick days



- Long-term disability pay
- Salary continuation program



- 401(k) plan including company matching contributions
- Employee stock purchase plan
- Annual incentive plan



In Mexico, KCSMS offers a competitive benefits package including a Christmas bonus, vacation days, sick days, vacation premium, food allowance, savings fund, major medical expense coverage, life insurance and an annual incentive plan.



Valuing People

EMPLOYEE Training and Education

KCS FOCUS: To equip employees with skills to challenge, develop and succeed in their careers

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 developed our employee training and education programs around four main competencies.

KCS 2016: Training and Education Competencies

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

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



Professional Development

- Business and Financial
- New Hire Onboarding
- Gender Equality



Technology

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



Compliance & Safety

- IT/Information Security Compliance
- Hazmat and Rail Security
- Positive Train Control (PTC)
- Wellness, Health, Safety and Life Balance



Operations

- Engineer and Conductor Certification
- Operating Rules
- Specialized Training for Transportation, Engineering and Mechanical departments

Training Opportunity	Description
Variety of Skills: Skillsoft E-Learning	Self-service development resources available for KCS non-union employees to build skills as needed. Courses are also eligible for college credit.
Leadership Skills Development: Managing People	Workshop-based program designed for KCSMS employees at all levels
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; KCSR partnership with Baker University and KCSMS partnership 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

KCS Subsidiary employees undertook an average of 42 hours training in 2016.



Valuing People

EQUAL AND PROTECTED Environment

KCS FOCUS: To provide equal opportunity to both applicants and employees in a welcoming workplace 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 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.

KCSMS maintains the National Institute of Women-issued Modelo Equidad de Genero (MEG) certification—issued to KCSMS since 2010.

MEG certification recognizes KCSMS's equal employment opportunities regarding race, gender, age, religion or sexual preference. The opportunities range from attracting talent to fair compensation.

Anti-Harassment Policy

The Anti-Harassment Policy promotes a work environment free from unlawful discrimination and harassment.

This policy prohibits discriminatory or harassing behavior, including:

- Epithets, slurs, threats, intimidation and hostile acts
- Disparaging, abusive and/or sexual words, jokes, gestures, e-mails or materials

Anti-Retaliation 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

EMPLOYEE Health and Wellness

KCS FOCUS: *To give employees the tools to live a healthy life—both in and out of the workplace*

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”—a KCSR wellness program with voluntary incentivized challenges for employees to stay on track with their weight management, healthy eating and physical activity goals. In 2016, KCSR rewarded 26% of eligible employees for meeting their goals.



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



KCSR Health and Wellness Committee plans and implements educational campaigns and activities that support the company's wellness initiatives. The activities focus on one or more of the “Six Degrees of Wellness”:

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

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

KCS HEALTH AND WELLNESS RECOGNITION



KCSR in 2016: The Greater Kansas City Chamber of Commerce's Healthy KC Workplace Wellness Program recognized KCSR as Silver Level Healthy Certified for the second consecutive year. The certification is based on four pillars of health: nutrition, physical activity, tobacco cessation and work/life integration.



KCSMS in 2016: For the fifth consecutive year, the Consejo Empresarial de Salud y Bienestar (Entrepreneurial Health and Wellness Council), with support from FUNSALUD and Health Ministries, recognized KCSMS with an Organización Responsablemente Saludable PLATA (ORS®) award for fostering a healthy work environment with a health and wellness program for KCSMS employees.



Valuing People

In 2016, we promoted these activities:

Free or Low-Cost Voluntary Health Benefits/Presentations/Events		2016
KCSR	Wellness and Benefits Fair: • 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	Approx. 300 union and non-union employees and more than 40 vendors attended
	Smoking cessation programs	7 took part
	Flu shots	326 shots given
	Wellness/nursing room	
	Wellness Lunch seminars presented by Saint Luke's Health System and New Directions Behavioral Health	3 seminars at headquarters
KCSMS	Health Fair with comprehensive health check	Approx. 119 non-union employees attended
	Mexico Institute of Social Security (El Instituto Mexicano de Seguridad Social) PrevenIMSS program where employees received: • Flu, HINI and tetanus shots • Blood sugar testing • Measured weight, height and blood pressure—and offered risk assessment	Approx. 22 union and non-union employees attended
	Health-related talks on topics such as breast cancer, hypertension, colitis, diabetes and other health issues	Approx. 30 non-union employees attended

Miscellaneous Health and Wellness Programs		2016
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	Posted approx. 50 posters
	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	Approx. 25 employees per talk
	Mindfulness Program: therapeutic technique to achieve better concentration and reduce stress	Approx. 100 employees took part

Physical Activities/Incentives		2016
KCSR	Discounts through a national gym network	
KCSMS	5K - Via Libre	1,000 employees and family members took part
	Running Club: KCSM sponsors employees to participate in up to ten 5K events annually.	52 employees took part





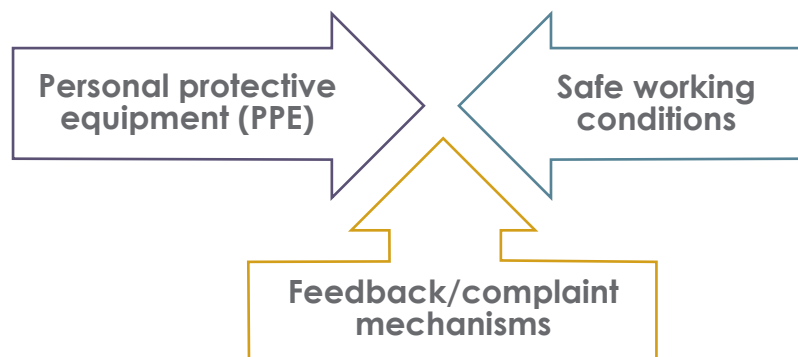
Valuing People

UNION HEALTH and Well-Being

KCS FOCUS: To negotiate in good faith collective bargaining agreements, amendments and contracts

With 78% of our workforce belonging to a union in 2016, our investment in union members' well-being is crucial to our operations and to our company.

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:



Mexican Union

Mexico has only one railroad union. In 2016, KCSMS had weekly meetings with union members. This allowed KCSMS to handle any issues on a “real-time” basis—without the need for a specific conference or committees.

As can be expected, dealing with unions in the U.S. is much different than doing so in Mexico.

U.S. Unions

In 2016, KCSR had 20 active collective bargaining agreements with 13 different unions. As part of the National Railway Labor Conference, KCSR is currently negotiating amendments to these collective bargaining agreements, with discussions focused primarily on wages, health care benefits and various rules/conditions on work conditions, including scope of jobs, hours and vacations.

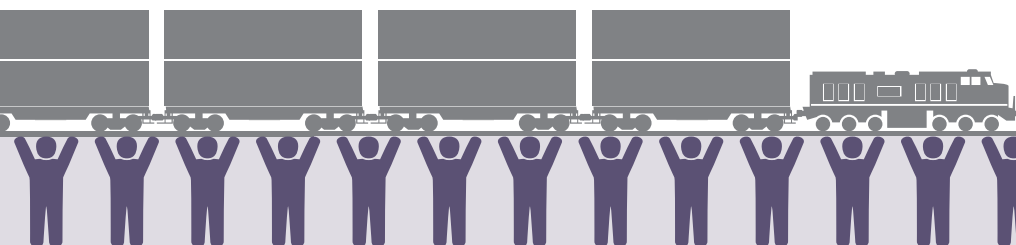
Since the unions participate in the management of their health care plan, they have a vote in any changes to the plan. This results in our working with them on an annual basis to review the plan and its benefits regarding:

- 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 at <https://www.yourtracktohealth.com/>. The portal contains sections on Living Healthy and Planning for Retirement.





Valuing People

GIVING BACK Paying It Forward

KCS FOCUS: *To support communities in the U.S. and Mexico along our rail network and organizations that serve those communities*

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

Various ways we give back to the communities we serve include:

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.

In 2016, the KCS Charitable Fund supported organizations and events that personally engage KCSR employees, officers and directors. Their engagement may be as a volunteer or with a financial contribution.

KCS Matching Gifts Program: The KCS Charitable Fund matches donations from any eligible KCS director, officer or employee who supports organizations for which they have a passion.

In 2016, The KCS Charitable Fund contributed more than \$300,000 in matching funds. In total KCSR employees and the KCS Charitable Fund donated nearly \$862,644 to charities, one of which is the United Way outlined below. This is an increase of 55% from the 2015 donation of \$555,222.

KCS 2016: Giving Back			
Program	KCSR Employees	KCS Charitable Fund	2016 Contributions
Non-Matched Charitable Programs	n/a	\$301,400	\$301,400
KCS Matching Gifts Program	\$232,408	\$328,836	\$561,244
Total	\$232,408	\$630,236	\$862,644

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

In 2016, KCS raised more than \$66,000 for the United Way with donations from KCSR employees in 11 states and a 50% matching donation from the Kansas City Southern Charitable Fund.



KCS 2016: United Way Donations

KCSR Employees	\$42,233
KCS Charitable Fund +	\$24,283
Total Donation	\$66,516





Valuing People



Holiday Express: For information on KCSR's 16th annual festive train event, see [page 51](#).



Tren Navideño: For information on KCSM's 7th annual holiday train event, see [page 51](#).

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.

In 2016, Mexico employees donated \$35,696 pesos.

Equipment Upgrades and Donation: In 2016, the KCS Charitable Fund and KCSMS each contributed \$2,000, which was seed money needed to trigger additional contributions by the Rotary Clubs in both Kansas City and Monterrey and Rotary International. The net donations totaled \$60,000, which allowed for two vehicles donated by KCSM to Monterrey firefighters to be fully equipped for operational use.



KCSM Soccer Sponsorship

Morelia, Michoacán—KCSM's goal of fostering engagement with a community along its rail network involves kicking a ball toward goals.

In 2016, for the second consecutive year, KCSM was the official sponsor of the Monarcas Morelia soccer team and its annual Monarcas Super Cup.

The team, based in the Mexican state of Michoacán, is part of the Mexican Football Federation (FMF). During home games, the team proudly wears red, yellow and black—the city's official colors and coincidentally KCSM's colors.

Monarcas Super Cup is an annual event that 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.

In 2016, more than 85 teams from Sonora, Baja California, Estado de México, Michoacán, Sinaloa, Salinas and Santa Ana in Mexico registered for the event. KCSM President Jose Zozaya attended the awards ceremony where 1,500 young players received trophies, medals and diplomas signed by Mr. Leonardo Medina, Club Monarcas' Basic Forces Director.



Valuing People



COMMUNITY Engagement

KCS FOCUS: *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 blood drives, run/walks, and safety-related events and courses

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

16th Annual KCSR 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 2016, the Holiday Express:

- Stopped in 22 communities in seven U.S. states along KCSR's rail network
- Welcomed more than 75,000 visitors
- Distributed \$153,290 in gift cards to The Salvation Army at stops. The gift cards were designated for the purchase of warm clothing and other necessities for kids in need in communities along the route.
- Conducted outreach to emergency responders
- Presented Operation Lifesaver information to visitors

See more on the [Holiday Express](#).

7th Annual 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 2016, the Tren Navideño:

- Stopped in 11 Mexican communities along KCSM's rail network
- Hosted more than 27,000 holiday guests who enjoyed a photo gallery and model railroad inside the train, as well as a family-friendly movie on an open-air screen
- Presented Alto Total safety information to visitors

See more on the [Tren Navideño](#).





PROTECTING THE PLANET





Protecting the Planet

ACTIVE AND PROACTIVE Stewardship

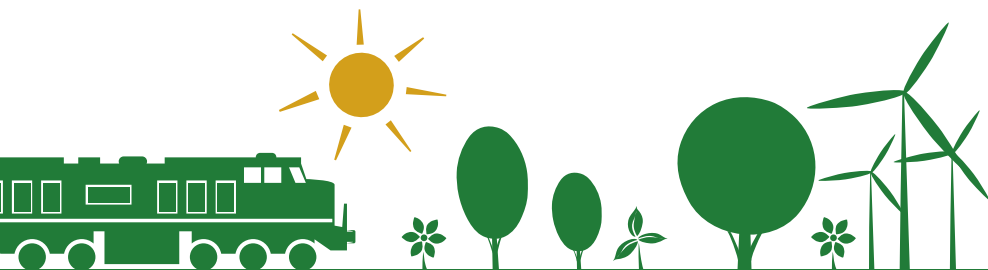
KCS FOCUS: To be environmentally conscious, compliant and proactive in reducing our environmental impact

The very nature of train transport allows us to minimize our impact on the environment versus shipping by truck. In 2016, railroads moved one ton of freight 483 miles on only one gallon of fuel on average. Hauling freight by rail instead of by trucks reduces greenhouse gas emissions by an average of 75%*. We realize, though, that for a truly sustainable future, we must keep striving to further reduce our environmental footprint.

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
- Seek ways to reduce our demand on resources
- Perform environmental studies and obtain permits prior to constructing new track and other engineering projects
- Strive to minimize the effects our construction and maintenance operations have on wetlands and other sensitive areas

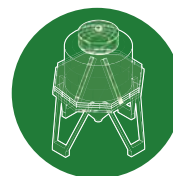
*<https://www.aar.org/todays-railroads/sustainability>



In addition, our KCS Critical Incident Desk is active 24/7 so anyone can report accidental spills and leaks of:



Oil



Diesel fuel



Chemicals and other substances, including hazardous materials



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

KCS Carbon Calculator

Our carbon calculator estimates the greenhouse gas emissions savings potential associated with shipping by rail vs. truck.



VS



Try out the [Carbon Calculator](#)

NOTE: The KCS CO₂ Calculator is intended 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 and Reduction Initiatives

KCS FOCUS: *To reduce fuel emissions through innovative technology and strategic action*

Though train transport 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 2016, we created a Fuel Conservation Team with members in the U.S. and Mexico. The team's goals are to support fuel conservation and fuel efficiency initiatives by:

- Developing strategies to improve fuel efficiency
- Confirming KCS compliance 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

*Baseline year 2016 established for reporting purposes. However, we had already established reduction goals internally in 2015 for 2016, which is why we are able to report on fuel conservation targets and performance outcomes. The 2016 baseline will help strengthen our fuel savings and reduction program goals. It will also provide a comprehensive understanding of energy consumption in other aspects of operations and allow us to establish additional targets in future reporting years.

Also in 2016, KCS reduced fuel consumption by more than 3 million diesel gallons for our rail operations*. The reduction was a result of three primary energy reduction initiatives.

KCS 2016: Energy Reduction Initiatives	
Initiative	
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
Results	<ul style="list-style-type: none"> • Smoother train operations • Greater fuel efficiency with fuel savings' range of 5-14% (depending on train weight, configuration, terrain, etc.) with corresponding emissions reductions
2016	Installed Trip Optimizers on 120 GE Evo Fleet locomotives
Initiative	
Excessive Idle Reduction	Active overhaul program to install Auto Engine Stop/Start—supplemented until overhaul policy complete by Manual Stop/Start policy that calls for shutting down engines after 30 minutes of unanticipated idling
Results	Greater fuel efficiency with corresponding emissions reductions
2016	Installed Auto Engine Stop/Start on engines bringing current total to 812 installed
Initiative	
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
Results	<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
2016	Maintained system on all trains





Protecting the Planet



KCS 2016*: Reduction of Fuel Consumption**

Energy Efficiency Initiatives for Fuel Reduction	Reduction in Megajoules	Reduction in Diesel Gallons
Excessive Idle Reduction	331,772,000	2,264,435
Trip Optimizer	40,146,500	274,000
Distributed Power	94,444,400	644,584
Total Fuel Reduction	466,362,900	3,183,019

See Appendix on [page 68](#) for more energy data.

*Baseline year 2016 established for reporting purposes. However, we had already established reduction goals internally in 2015 for 2016, which is why we are able to report on fuel conservation targets and performance outcomes. The 2016 baseline will help strengthen our fuel savings and reduction program goals. It will also provide a comprehensive understanding of energy consumption in other aspects of operations and allow us to establish additional targets in future reporting years.

**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 compared to T.O. installation of an internal 2015 baseline. Distributed power estimated at 2% fuel savings for DP-equipped trains, which are used in hauling 45% of total gross ton miles.

Greenhouse Gas (GHG) Emissions

KCS 2016: Scope 1 and 2 Direct GHG Emissions

Emissions	Metric Tons of CO ₂ e
Scope 1 GHG fuel emissions	1,374,392
Scope 1 Biogenic CO ₂ emissions	0
Scope 2 gross location-based energy emissions	31,809
Total Scope 1 and Scope 2 GHG Emissions	1,406,201

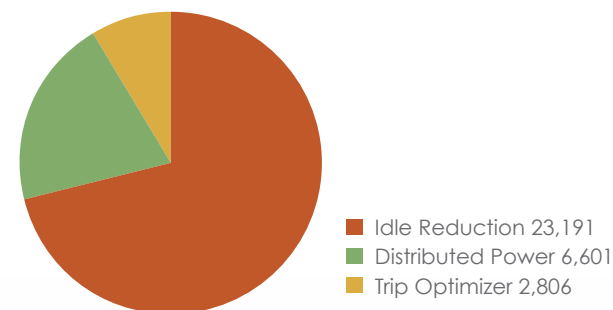
See Appendix on [page 68](#) for more emissions data and calculation notes.

KCS 2016: GHG Emissions

GHG Emissions	1,374,392 metric tons
GHG emissions reduced as direct result of reduction initiatives*	32,598 metric tons
Gases calculated	CO ₂ , CH ₄ , N ₂ O
Scopes calculated	Scope 1: Direct GHG emissions

KCS 2016: Reduction Initiatives for Scope 1 GHG Emissions

Metric Tons Reduced in 2016 (estimated)*



*Baseline year 2016 established for reporting purposes. However, we had already established reduction goals internally in 2015 for 2016, which is why we are able to report on fuel conservation targets and performance outcomes. The 2016 baseline will help strengthen our fuel savings and reduction program goals. It will also provide a comprehensive understanding of energy consumption in other aspects of operations and allow us to establish additional targets in future reporting years.



Protecting the Planet



WATER USAGE

KCS FOCUS: *To use the minimal amount of water needed to maintain optimum operations*

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 primarily:



For human consumption and sanitation

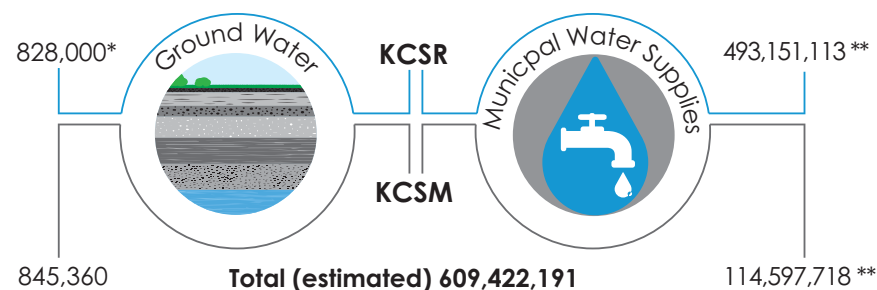


To wash railroad equipment, such as locomotives and special railcars

Our water conservation initiatives include:

- Installation of sensor-activated auto-shutoff water faucets at certain locations, including our Kansas City headquarters
- Installation of waterless urinals and lower-water toilets at new construction or renovation sites

KCS 2016: Water Usage (In Gallons) (Estimated)



*Estimate 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.

** Estimated water consumption for KCSR 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 5 other facilities that have no available data.





Protecting the Planet

RESPONSIBLE WASTEWATER and Storm Water Management

KCS FOCUS: To be 100% compliance with federal and state wastewater and storm water discharge requirements throughout our rail network

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

- 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 significant 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 plans to install a system to use water for landscaping rail yards.

Wastewater

In 2016, following U.S. and Mexican regulatory guidelines, we discharged an estimated 47.3 million gallons of wastewater to 24 locations.

KCSR treated the wastewater at 11 locations before discharging it to surface waters and publicly owned treatment works (POTWs). KCSM either treated the wastewater before discharging it; sent it to a municipal wastewater treatment facility; or stored it for later treatment and removal.

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). KCSR plans to purchase and utilize a DAF separator at a fourth location in 2017.

At all KCSR locations, our treated water discharges showed no significant negative effect on any of the receiving water bodies and related habitats—even in sensitive areas. These areas include five bodies of water in Mississippi, whose state EPA imposed maximum discharge limits.

Also in 2016, KCSR's locomotive toilet dump system helped keep our permitted outfalls clean and compliant before tapping into a city's sanitary line.

At KCSM, no discharge of wastewater on soil, water bodies or wetland habitats took place in 2016.

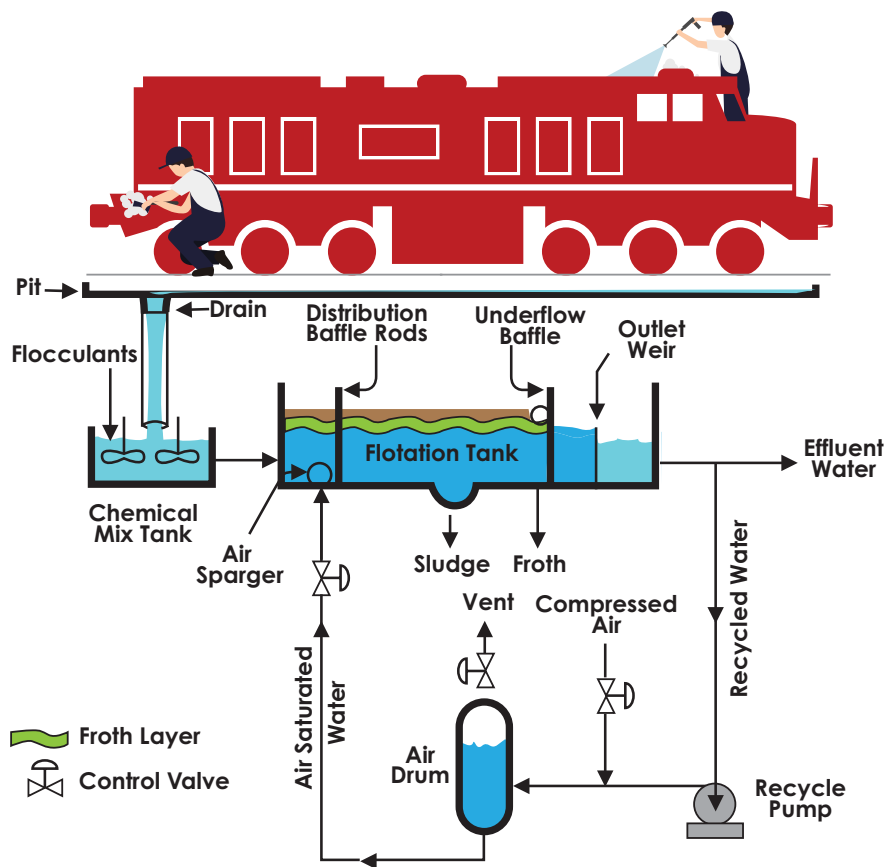
KCS 2016: Wastewater Discharge

(Estimated)

	Wastewater Treated before Discharge (in gallons)	Wastewater Treated after Discharge (in gallons)	Wastewater Stored in Closed-Capacity Septic Tank (in gallons)	Total Wastewater Discharge (in gallons)
KCSR	40.0M	0	0	40.0M
KCSM	5.2M	1.9M	0.2M	7.3M






Protecting the Planet



Storm Water

In 2016, KCSR responsibly discharged storm water to surface water or POTWs at 25 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 2016, KCSR started planning an enhanced storm water system in Shreveport, LA, to prevent overflows from the KCS surge tank. KCSR plans for the Shreveport storm water system to be fully operational in 2017.



Protecting the Planet

RECYCLING, REUSING, Repurposing and Reduction

KCS FOCUS: To reduce our environmental impact with responsible, eco-friendly waste management and reduction strategies that benefit the bottom line and our planet

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

In 2016, our efforts involved initiatives that account for 33,502 tons of rail materials and other items being recycled, reused or used in energy recovery.

KCSR 2016: Waste Management Initiatives

Material/Items	Recycled ●	Reused ●	Energy Recovery ●	Total ●
Scrap Metal*	22,258,314			
Metal Tie Plates**		2,698,000		
Wood Ties**		11,693,055		
Concrete Ties**		4,576,000		
Scrap Ties**			23,714,347	
Used Oil	2,063,820			
Total	24,322,134	18,967,055	23,714,347	67,003,536

● In Pounds

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

**Includes best available averages for conversions to weight for tie plates and ties in different conditions.

Non-rail recycling efforts—We contract to recycle certain items.



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.



Paper, cardboard and plastic—We contract with a regional recycling company to recycle items.



In 2016, we recycled these items at our Kansas City headquarters:

- 9.73 tons of special file stock (paper)
- 1.29 tons of cardboard
- 1.36 tons of commingled plastic

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.

Rail and non-rail reduction efforts

In addition to efforts noted above, we made strides in 2016 to reduce 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



Protecting the Planet

SAFE HAZARDOUS Waste Transport

KCS FOCUS: To maintain our longstanding record of 0% environmental impact and 100% regulatory compliance in the transport of hazardous waste by employing the highest safety standards

Transporting hazardous waste is more than a major responsibility—it is our obligation to the communities we serve to do what we can to keep them safe.

In 2016, safely traveling through multiple states and through two countries, KCS transported more than one quarter of a million metric tons of hazardous waste. KCS delivered the waste products for reuse, recycling or disposal to treatment, storage or disposal facilities with no environmental impact issues post-remediation.



KCS 2016: Transporting Hazardous Waste

	Hazardous Waste ¹ Transported in U.S. and Mexico (in metric tons)
KCSR ²	95,189 ³
KCSM	9,577
Other railroads' imports into Mexico that KCSM transported	126,495
Total of KCSR and KCSM	231,261



KCS 2016: Exported Hazardous Waste

	Hazardous waste exported (in metric tons)	Percentage of hazardous waste shipped internationally
KCSR ²	74,060	77.8%
KCSM ⁴	0	0%



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

² KCSR only: Assumption of each carload containing average of 87 metric tons based on random sampling of U.S. EPA manifests.

³ Includes 21,129 metric tons transported to U.S. treatment facilities, with the remainder transported to Mexican treatment facilities.

⁴ Waste imported into Mexico treated or recycled in Mexico.



Protecting the Planet

HAZARDOUS MATERIALS Management and Safety Training

KCS FOCUS: To be 100% prepared for every hazmat situation

To meet our goal of total preparedness, 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), dedicated to helping carriers, shippers and container manufacturers continually improve hazardous materials transportation safety
 - Strategic Research Program, focused on developing and evaluating technological improvements to rail vehicle and track safety
 - Security and Emergency Response Training Center, dedicated to advanced hands-on training for emergency responders
 - North American Tank Car Committee, composed of rail car owners and manufacturers, shippers of hazmat, rail customers, U.S. Department of Transportation, Transport Canada and National Transportation Safety Board (NTSB). The committee works together to develop technical standards for how rail cars, including tank cars used to move hazmat, are designed, constructed and maintained
 - Safety and Operations Management Committee
 - Pipeline and Hazardous Materials Safety Administration (PHMSA)
 - Federal Railroad Association (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 operations, minimizing impact to those who live in areas where we operate. To that end, we are involved in:**
 - Community outreach with Transportation Community Awareness Emergency Response (TRANSCAER®), a cooperative program with the American Chemistry Council (ACC) designed to address community hazmat safety concerns through planning and cooperation
 - National outreach by coordinating free, voluntary drills for public emergency responders, providing instruction on the safe transportation of hazardous materials and emergency procedures



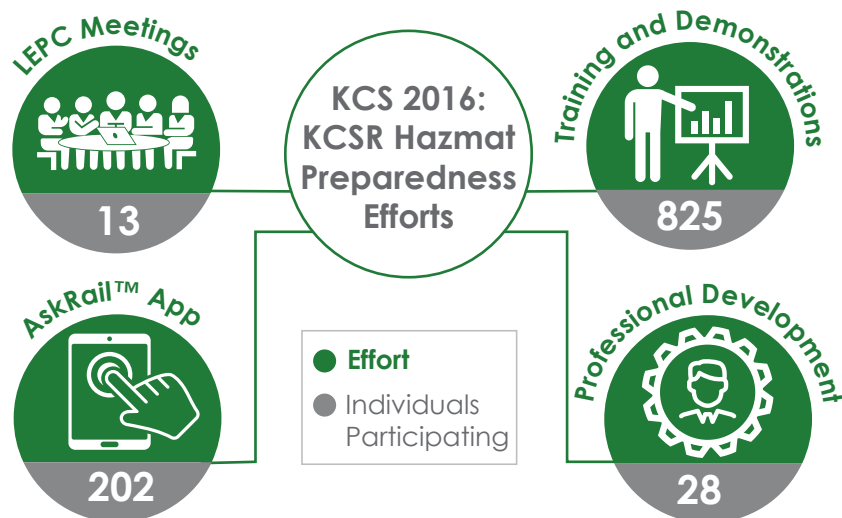
Recognizing Customers for Safe Hazmat Shipping

Our customers play a critical role in eliminating the occurrence of non-accident hazmat releases. KCSR's Hazmat Shipper Safety Appreciation Award in the U.S. recognizes customers for their resolve in properly securing hazardous material containers for rail transportation.

In 2016, KCSR recognized 21 customers with the Hazmat Shipper Safety Appreciation Award for originating more than 500 bulk hazmat shipments on KCSR without an incident.



Protecting the Planet



In 2016, KCSR estimates it reached out to nearly 2,100 local community first responders for hazmat training. Approximately 40% of the first responders were able to participate in the training.



Specifically, KCSR supports professional development, hosts trainings and demonstrations, attends Local Emergency Planning Committee (LEPC) meetings, provides hazmat traffic reports and facilitates the rollout of the AskRail™ app.

The AskRail™ app provides first responders access to data about types of hazardous 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.

Additionally, KCSR provides commodity flow reports to communities where we operate. This entails informing first responders exactly what hazardous commodities we're shipping through their communities. In Mexico, KCSM contracts 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



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



APPENDIX





Appendix

Stakeholder Engagement

For 2016, our stakeholder outreach took many forms.

Investor (Shareholder) Engagement

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

Customer Engagement

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

Employee Engagement

- Internal committees: On-Track Ambassadors, Health and Wellness Committee, local safety committees serving KCS states
- Town Hall meetings
- Ethics helplines
- Employee training
- Employee satisfaction surveys
- Intranet sites
- Weekly employee newsletters
- Departmental presentations

- Company-wide communications
- Global webcasts
- Team meetings
- One-on-one discussions between managers and direct reports

Supplier Engagement

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

Community Engagement

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

Media Engagement

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

Government/Regulators Engagement

- Ongoing engagement with federal, state and local officials in the areas we serve
- Annual reviews and planning for federal, state and local regulatory issues and trends
- Engagement with state and local officials on issues important to the company and U.S. rail industry throughout the year.
- Participation in numerous associations and other organizations that promote the U.S. rail industry, economic development and community interests
- Participation in the U.S. rail industry in representing its interests before the U.S. Congress, executive branch agencies, and other federal and state officials
- Education for management and unions in each state
- Discussions on state government/regulatory trends
- State legislative and regulatory advocacy
- Participation in state government associations and committees

Union Engagement

- KCSR negotiation of amendments to collective bargaining agreements with our unions (13 total in U.S.)
- KCSM weekly meetings with union to gather input from employees about working conditions

Emergency Responder Engagement

- Programs and trainings that facilitate safe and efficient operations, minimizing impact to those who live in areas where we operate
- Community outreach programs, including Transportation Community Awareness Emergency Response (TRANSCAER®)
- Voluntary coordination of drills for emergency responders, providing instruction on the safe transportation of hazardous materials and emergency procedures
- Work with emergency responders to conduct drills and exercises in states of operation



Stakeholder Priority Material Topics

Disclosure	Management Approach	Evaluation Mechanisms
Economic / Financial Performance	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	We use a number of mechanisms to measure our economic success, including: <ul style="list-style-type: none">• Shareholder return analyses• Actual vs. plan and forecast variance analyses• Customer satisfaction surveys• Employee satisfaction surveys• Benchmarking analysis for all of the above against peer groups
Employee Training and Education	We continuously develop training and education programs covering four main competencies. For more information, see Employee Training and Education on page 44 .	We measure the quality of training and education programs regularly. We record training hours for each employee on a regular basis.
Anti-Corruption	We have a stated policy that we will not tolerate violations of any United States or foreign law, including those aimed at preventing the corruption of government officials, private persons or private entities. For more information, see Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies on page 21 .	Our 24/7 Report Hotline allows people to anonymously report on incidents of corruption. An outside vendor staffs the hotline in both the U.S. and Mexico. Speak Up! (English language): 1-800-727-2615 Linea de Denuncias (Spanish language): 01-800-436-0158
Security Practices	We employ a multi-level security framework along our rail network that is adaptable to any situation and guides our security program. For more information, see Securing Our Rail Network on page 32 . Our comprehensive cybersecurity plan focuses on three key areas covering prevention, resolution and restitution.	For both our rail network and our cybersecurity needs, we've: <ul style="list-style-type: none">• 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 predetermined procedures to address the effects of a security threat and ensure loss of trust or business is minimal and short-term
Environmental Compliance	In 2015, we established Environment 2020, a comprehensive approach for managing and maintaining environmental compliance throughout our operations.	We manage waste management and environmental compliance through a variety of programs and efforts that address: <ul style="list-style-type: none">• Waste minimization• Wastewater and storm water compliance• Accidental oil-related release response plans• Spill prevention control and countermeasures (SPCC)
Occupational Health and Safety	We follow specific guidelines and strictly adhere to the General Code of Operating Rules (GCOR). These rules drive safety performance by addressing a range of safety considerations, including employee responsibilities, signaling equipment, accidents and other topics that may affect worker safety. For more information, see Union Health and Safety on page 48 and Workplace Safety on page 30 .	Through an operational testing program, internal experts identify, monitor and manage existing or emerging safety risks. We conduct tests monthly and measure employees' knowledge and compliance with our safety procedures. We also maintain compliance with the Occupational Safety and Health Act of 1970 by recording work-related injuries and illnesses, and then reporting them to OSHA and the FRA.
Non-Discrimination	We require all departments and team members to acknowledge and adhere to our policy of providing equal employment opportunities to all employees and applicants. For more information on our equal employment opportunity and anti-harassment policies, see our Equal and Protected Environment page 45 . Our Supplier Diversity Program Initiative (SDPI) is designed to attract high-quality, certified, disadvantaged business enterprises, as well as minority, women, and veteran-owned businesses. For more information, see our Supplier Diversity Program Initiative page 15 .	We give all complaints---whether informal or formal, verbal or written--- serious, impartial and timely consideration. If a matter is not resolved informally, we conduct a prompt investigation. If the investigation concludes a violation of policy has occurred, a manager or supervisor initiates action and takes steps to stop the discriminatory conduct or harassment. Depending on the seriousness of the violation, the violator may be subject to disciplinary action or termination.
Waste: type and disposal method; hazardous waste transport	We employ the highest safety standards: For more information, see Safe Hazardous Waste Transport on page 60 .	Our Environmental and Hazmat Department utilizes a database to track compliance with permit obligations and compliance-related tasks, analytical data from water samples and waste. We also track and monitor air and soil quality through various reporting channels. In 2016, KCS established baselines and identified relevant key performance indicators for evaluating hazardous waste.
Energy: consumption, efficiency, conservation and management	We manage liquid fuels used for transportation under purchase contracts with fuel vendors. We record fuel deliveries and each fuel disbursement activity. After compiling data, we maintain reports in the company's Locomotive Management System (LMS). For more information, see Energy Efficiency and Reduction Initiatives on page 54 .	Our Fuel Conservation Department performs fuel conservation monitoring for our energy reduction initiatives: Trip Optimizer, excessive idling and distributed power. In 2016, KCS established baselines and identified relevant key performance indicators for evaluating energy efficiency.
Water: consumption, efficiency, conservation and management	We take care in reducing water consumption across our network. We also manage and protect water resources through spill prevention controls and countermeasure plans at facilities and treatment facilities. Additionally, we treat captured wastewater to comply with government regulations and wastewater discharge permits. For more information, see Water Usage on page 56 and Responsible Wastewater and Storm Water Management on page 57 .	The Accounting Department conducts regular audits to check for irregularities in consumption patterns. Internal and external engineering services are utilized so that wastewater and storm water efforts meet environmental regulations. In 2016, KCS established baselines and identified relevant key performance indicators for evaluating energy efficiency.
Air Emissions and Climate Change	We manage emissions from fuel combustion in our locomotives in two fundamental ways, including increasing fuel conservation and ongoing maintenance and inspection of our locomotives. For more information, see Energy Efficiency and Reduction Initiatives on page 54 .	We and suppliers who hold EPA certificates of conformity for emissions conduct annual emissions testing to ensure that maintenance practices throughout the useful life of a locomotive are effective in maintaining compliance with EPA standards. In 2016, KCS established baselines and identified relevant key performance indicators for evaluating greenhouse gas emissions.



Appendix

Delivering Prosperity

KCS 2016: Results of Operations w/2015 Comparison

	2016 (\$ in millions)	2015 (\$ in millions)	Change (\$ in millions)	% Change
Revenues*	\$2,334.2	\$2,418.8	\$(84.6)	(3%)
Operating expenses**	1,515.7	1,615.0	(99.3)	(6%)
Operating income	818.5	803.8	14.7	2%
Equity in net earnings of affiliates	14.6	18.3	(3.7)	(20%)
Interest expense	(97.7)	(81.9)	(15.8)	19%
Debt retirement and exchange costs & other	(0.7)	(11.0)	10.3	(94%)
Foreign exchange loss	(72.0)	(56.6)	(15.4)	27%
Pre-tax Income	662.7	672.6	(9.9)	(1%)
Income tax expense	182.8	187.3	(4.5)	(2%)
Net income	\$479.9	\$485.3	\$(5.4)	(1%)

Results shown for years ending December 31, 2016 and 2015

KCS 2016: Diluted Earnings Per Share w/2015 Comparison

	2016	2015
Reported	\$4.43	\$4.40
Adjustments for:		
Lease Termination Costs	—	0.06
Debt Retirement and Exchange Costs	—	0.04
Foreign Exchange Loss	0.47	0.36
Foreign Exchange Component of Income Taxes	(0.42)	(0.37)
Adjusted***	\$4.48	\$4.49

*Revenues include revenue for transportation services and fuel surcharges. For the year ended December 31, 2016, revenues and carload/unit volumes decreased 3% and 2%, respectively, compared to the prior year. Revenue decreased by \$66.0 million or approximately 3%, compared to the prior year, due to the weakening of the Mexican peso against the U.S. dollar for revenue transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.18.7 for 2016 compared to Ps.15.8 for 2015.

Revenue per carload/unit decreased by 2% for the year end December 31, 2016, compared to the prior year, due to the weakening of the Mexican peso against the U.S. dollar and lower fuel surcharge, partially offset by positive pricing impacts.

** Operating expenses decreased \$99.3 million for the year ended December 31, 2016, compared to 2015, due to the Mexican fuel excise tax credit, the weakening of the Mexican peso against the U.S. dollar (average exchange rate of Mexican pesos per U.S. dollar was Ps.18.7 for 2016 compared to Ps.15.8 for 2015), lower fuel prices and purchased services, and lease termination costs recognized in 2015. These decreases were partially offset by increased incentive compensation and depreciation expenses.

See the [KCS 2016 Annual Report](#) for additional information and context.

***KCS believes adjusted diluted earnings per share is meaningful as it allows investors to evaluate our performance for different periods on a more comparable basis by excluding the impact of changes in foreign currency exchange rates. The income tax expense impacts related to these adjustments are calculated at the applicable statutory tax rate.





Appendix

KCS 2016: Revenues and Carloads/Units by Commodity w/2015 Comparison

	Revenues* (\$ in millions)			Carloads and Units (in thousands)			Revenue per Carload/Unit		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Chemical and Petroleum	\$475.4	\$474.2	–	258.5	259.7	–	\$1,839	\$1,826	1%
Industrial and Consumer Products	554.0	570.4	(3%)	317.0	320.5	(1%)	1,748	1,780	(2%)
Agriculture and Minerals	461.0	429.3	7%	251.4	238.8	5%	1,834	1,798	2%
Energy	202.7	252.3	(20%)	253.9	280.8	(10%)	798	899	(11%)
Intermodal	357.6	381.5	(6%)	952.8	990.3	(4%)	375	385	(3%)
Automotive	189.9	218.7	(13%)	133.3	126.5	5%	1,425	1,729	(18%)
Total for Commodity Groups	2,240.6	2,326.4	(4%)	2,166.9	2,216.6	(2%)	\$1,034	\$1,050	(2%)
Other revenue	93.6	92.4	1%						
Total revenues*	\$2,334.2	\$2,418.8	(3%)						
Fuel surcharge	\$103.8	\$230.1							

Results shown for years ending December 31, 2016 and 2015

KCS 2016: Operating Expenses**

	2016 (\$ in millions)	2015 (\$ in millions)	Change (\$ in millions)	% Change
Compensation and benefits	\$462.4	\$442.2	\$20.2	5%
Purchased services	208.5	223.0	(14.5)	(7%)
Fuel	253.8	306.9	(53.1)	(17%)
Mexican fuel excise tax credit	(62.8)	–	(62.8)	100%
Equipment costs	120.0	119.4	0.6	1%
Depreciation and amortization	305.0	284.6	20.4	7%
Materials and other	228.8	229.3	(0.5)	–
Lease termination costs	–	9.6	(9.6)	(100%)
Total operating expenses	\$1,515.7	\$1,615.0	\$(99.3)	(6%)

Results shown for years ending December 31, 2016 and 2015

KCS 2016: Revenues and Carloads/Units by Commodity w/2015 Comparison

*Revenues include revenue for transportation services and fuel surcharges. For the year ended December 31, 2016, revenues and carload/unit volumes decreased 3% and 2%, respectively, compared to the prior year. Revenue decreased by \$66.0 million or approximately 3%, compared to the prior year, due to the weakening of the Mexican peso against the U.S. dollar for revenue transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.18.7 for 2016 compared to Ps.15.8 for 2015.

Revenue per carload/unit decreased by 2% for the year ended December 31, 2016, compared to the prior year, due to the weakening of the Mexican peso against the U.S. dollar and lower fuel surcharge, partially offset by positive pricing impacts.

Fuel surcharge revenue decreased \$126.3 million for the year ended December 31, 2016, compared to the prior year, due in part to the adjustment of certain line haul rates while reducing or eliminating fuel surcharges on those rates. In addition, fuel surcharge revenue decreased due to lower U.S. fuel prices and the impact of fuel prices falling below fuel price thresholds for certain of KCS's tariffs and contracts during 2016.

KCS 2016: Operating Expenses

**Operating expenses decreased \$99.3 million for the year ended December 31, 2016, compared to 2015, due to the Mexican fuel excise tax credit, the weakening of the Mexican peso against the U.S. dollar (average exchange rate of Mexican pesos per U.S. dollar was Ps.18.7 for 2016 compared to Ps.15.8 for 2015), lower fuel prices and purchased services, and lease termination costs recognized in 2015. These decreases were partially offset by increased incentive compensation and depreciation expenses. See the [KCS 2016 Annual Report](#) for additional information and context.



Appendix

Greenhouse Gas Emissions and Energy Efficiency (Consumption)

KCS 2016: GHG Emissions Intensity

KCS GHG emissions intensity ratio	13.59 grams CO ₂ e/gtm
KCS-specific metric calculating ratio	gtm=gross ton miles of railroad transportation (103,479,476,390 KCSR + KCSM 2016)
GHG emissions in intensity ratio	Scope 1 and 2 GHG emissions*

*See [page 55](#)

KCS 2016: Significant Emissions

Emissions from Locomotive Diesel Fuel	Metric Tons (estimated)
Nitrogen oxides (NOX)	43,829
Sulfur oxides (SOX) as SO ₂	12.5
Persistent organic pollutants (POP)	0
Volatile organic compounds (VOC)	0
Hazardous air pollutants (HAP)	0
Particulate matter (PM)	1,014
Hydrocarbons	2,278
Carbon monoxide (CO)	3,547

KCS 2016: Energy Consumption within KCS

Sources	Diesel megajoules (estimated)	Gasoline megajoules (estimated)	Electricity and Natural Gas Energy megajoules	Total megajoules (estimated)
Non-renewable sources	1,968,120,000 (134,324,033 gallons)	9,506,460 (721,498 gallons)		1,977,626,460
Electricity			261,247,000 (72,568,483 kilowatt hours)	261,247,000
Natural Gas			19,837,900 (18,802,681 cubic feet)	19,837,900
Total				2,258,711,360

KCS 2016: Energy intensity within KCS

Energy intensity ratio	21,827 joules/gtm
KCS-specific metric for calculating ratio	gtm=gross ton miles of railroad transportation (103,479,476,390 KCSR + KCSM 2016)
Types of energy included	Liquid fuel, electricity and natural gas for heating

For Reference:

Base year is 2016.

Scopes defined by the Greenhouse Gas Protocol: <http://www.ghgprotocol.org/>
GHG Calculation Tool used to calculate actual Mexico and estimated U.S. emissions. Selected Midwest for KCSR estimate.

KCS 2016: Energy Consumption within KCS: Electricity purchased through grid.

KCS 2016: Scope 1 and 2 Direct GHG Emissions and GHG Emissions ([page 55](#)), plus Significant Emissions:

- U.S. EPA Diesel emissions factors for line haul and switching for 2016: EPA-420-F-09-025
- KCSM fuel use data not recorded as line haul and switching. Ratios of KCSR fuel use data in these categories applied to KCSM total fuel consumption and combined emissions estimates developed. Error estimate <5%.

KCS 2016: Energy Consumption within KCS: Fuel supplied in Mexico is both ultra-low sulfur diesel and low-sulfur diesel and percentages of each are not available—so total might be up to 20% higher (S02=0.00207 lb/gallon for ULSD).

Fuel in gallons purchased for KCSR and KCSM, electricity estimated from annual cost at 10.12 cents per Kwhr for KCSR and measured for KCSM. Natural gas estimate based on average US cost of \$7.50 per 1000 cubic feet. No natural gas used in Mexico. Conversion factors used: <http://www.onlineconversion.com/energy.htm> and <http://www.kylesconverter.com> (natural gas conversion to joules).



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102-1: Name of Organization	Kansas City Southern	
102-2: Activities, brands, products, and services	Business Units and Revenues	35 - 36
102-3: Location of headquarters	KCS Holdings	7
102-4: Location of operations	About Kansas City Southern (KCS) KCS Holdings	6 7
102-5: Ownership and legal form	About Kansas City Southern (KCS) KCS Holdings	6 7
102-6: Markets served	About Kansas City Southern (KCS) KCS Holdings	6 7
102-7: Scale of the organization	About Kansas City Southern (KCS) KCS Holdings Business Units and Revenues Employees—Our Greatest Assets Appendix: Delivering Prosperity	6 7 35 - 36 41 - 66 - 67
102-8: Information on employees and other workers	Employees—Our Greatest Assets	41
102-9: Supply chain	Business Units and Revenues Suppliers Supporting Operations	35 - 36 39
102-10: Significant changes to the organization and its supply chain	In 2016, we brought KCSM car maintenance services in-house	
102-11: Precautionary Principle or approach	We follow a precautionary approach in the management of all identified risks. See Management of Risk.	20
102-12: External initiative	Health, Safety, Security and Environmental (HSSE) Commitment Hazardous Materials Management and Safety Training	12 61 - 62
102-13: Membership of association	Environmental, Economic and Social Associations	13 - 14
102-14: Statement from senior decision-maker	CEO Message	3
102-15: Key impacts, risks, and opportunities	Rail Network Cross-Border Advantage Stakeholder Engagement Management of Risk Partnership Development and Investments	9 18 20 38
102-16: Values, principles, standards, and norms of behavior	Vision, Values and Culture Health, Safety, Security and Environmental (HSSE) Commitment Supplier Diversity Program Initiative (SDPI) Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies Equal and Protected Environment	8 12 15 21 - 22 - 45
102-17: Mechanisms for advice and concerns about ethics	Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies 24/7 Report Hotline Equal and Protected Environment	21 - 22 23 45
102-18: Governance structure	KCS Board of Directors Management of Risk	10 20
102-19: Delegating authority	KCS Board of Directors	10
102-20: Executive-level responsibility for economic, environmental, and social topic	Our Sustainability Steering Committee (SSC) is comprised of 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.	



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GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
102-21: Consulting stakeholders on economic, environmental, and social topic	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	KCS Board of Directors	10 - 11
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	10 - 11
102-25: Conflicts of interest	Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies	21 - 22
102-26: Role of highest governance body in setting purpose, values, and strategy	KCS Board of Directors	10 - 11
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 impact	Management of Risk	20
102-30: Effectiveness of risk management processes	Management of Risk	20
102-31: Review of economic, environmental, and social topics	Management of Risk	20
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 has the authority to set 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.	



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GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
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	20 23
102-35: Remuneration policies	See our 2017 Proxy Statement starting on page 37.	
102-36: Process for determining remuneration	For assistance in fulfilling its responsibilities, the Compensation Committee retained Willis Towers Watson as its compensation consultant to review and independently assess various aspects of our compensation programs, including the compensation of individuals serving as executives of KCSM, and to advise the Compensation Committee in making its executive compensation decisions for 2015 and 2016. The Compensation Consultant is engaged by and reports directly to the Compensation Committee.	
102-37: Stakeholders' involvement in remuneration	In 2016, our stockholders approved a resolution for the 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. Our Board recommended a vote to approve the resolution. Also see pages 21-22 of our 2017 Proxy Statement.	
102-38: Annual total compensation ratio	KCS CEO and KCSM President compensation in 2016 and 2015: See page 55 of our 2017 Proxy Statement. CEO pay ratio is scheduled to be disclosed in the 2018 proxy.	
102-39: Percentage increase in annual total compensation	KCS CEO and KCSM President compensation in 2016 and 2015: See page 55 of our 2017 Proxy Statement. KCS compensation and benefits expense increased in 2016: See Employee Compensation and Benefits CEO pay ratio is scheduled to be disclosed in the 2018 proxy.	43
102-40: List of stakeholder groups	Appendix: Stakeholder Engagement	64
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 Health and Well-Being.	41 48
102-42: Identifying and selecting stakeholders	Reporting Sustainability chapter.	16
102-43: Approach to stakeholder engagement	Reporting Sustainability chapter.	16
102-44: Key topics and concerns raised	Stakeholder Engagement	18



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GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
102-45: Entities included in the consolidated financial statements	In addition to Kansas City Southern (KCS), our subsidiaries include The Kansas City Southern Railway Company; Kansas City Southern de México, S.A. de C.V.; KCSM Servicios, S.A. de C.V.; Panama Canal Railway Company (50% interest; not covered in report); and other subsidiaries. KCS public filings account for these subsidiaries and holdings.	
102-46: Defining report content and topic boundaries	Reporting Sustainability chapter.	16
102-47: List of material topics	Stakeholder Engagement GRI Content Index	18 74
102-48: Restatements of information	N/A	
102-49: Changes in reporting	About This Report	17
102-50: Reporting period	About This Report	17
102-51: Date of most recent report	Reported 2015 calendar year; report released in 2016	
102-52: Reporting cycle	Kansas City Southern reports on an annual basis.	
102-53: Contact point for questions regarding the report	Kansas City Southern Corporate Headquarters sustainability@kcsouthern.com 427 W. 12th St. 816-983-1372 Kansas City MO 64105 www.KCSouthern.com	
102-54: Claims of reporting in accordance with the GRI Standards	About This Report	17
102-55: GRI content index	GRI Content Index	70 - 76
102-56: External assurance	For the 2016 sustainability report, we did not commission a third party verifier. However, the consolidated financial information contained herein, originated from the 2016 Annual Report, which was externally audited by KPMG LLP. An attestation report on our internal control over financial reporting as of December 31, 2016, can be found in our 2016 Annual Report. Additionally, the financial and non-financial information in this sustainability report, has been reviewed for inconsistencies. Senior management is responsible for the preparation of information contained within this report, which conforms to the sustainability reporting guidelines of the Global Reporting Initiative. Responsibilities included establishing and maintaining internal controls relevant to the preparation and fair presentation of information and verifying that information is free from errors and misstatements.	



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GRI DISCLOSURE	ECONOMIC DISCLOSURES	PAGE REPORTED
103-2 103-3: Management Approach and Evaluation Mechanisms—Economic/Financial Performance and Anti-Corruption Practicess	Appendix: Stakeholder Priority Material Topics	65
201-1: Direct economic value generated and distributed	Delivering Prosperity chapter Appendix: Delivering Prosperity	34 66 - 67
201-2: Financial implications and other risks and opportunities due to climate change	Management of Risk	20
203-1: Infrastructure investments and services supported	Partnership Development and Investments	38
205-1: Operations assessed for risks related to corruption	Management of Risk Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies	20 21 - 22
205-2: Communication and training about anti-corruption policies and procedures	Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies 24/7 Report Line	21 - 22 23
205-3: Confirmed incidents of corruption and actions taken	Anti-Corruption, Conflict of Interest, Ethics and Compliance Policies	21 - 22
GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
103-2 103-3: Management Approach and Evaluation Mechanisms—Economic/Financial Performance and Anti-Corruption Practicess	Appendix: Stakeholder Priority Material Topics	65
301-2: Recycled input materials used	Recycling, Reusing and Reduction	59
301-3: Reclaimed products and their packaging materials	Recycling, Reusing and Reduction	59
302-1: Energy consumption within the organization	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
302-3: Energy intensity	Appendix: Greenhouse Gas Emissions and Energy Efficiency	68
302-4: Reduction of energy consumption	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
302-5: Reductions in energy requirements of products and services	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
303-1: Water withdrawal by source	Water Usage	56
303-2: Water sources significantly affected by withdrawal of water	None	
303-3: Water recycled and reused	Responsible Wastewater and Storm Water Management	57
305-1: Direct (Scope 1) GHG emissions	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68



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GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
305-2: Energy indirect (Scope 2) GHG emissions	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
305-4: GHG emissions intensity	Appendix: Greenhouse Gas Emissions and Energy Efficiency	68
305-5: Reduction of GHG emissions	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
305-6: Emissions of ozone-depleting substances (ODS)	None. KCS doesn't use any ODS.	
305-7: Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Energy Efficiency and Reduction Initiatives Appendix: Greenhouse Gas Emissions and Energy Efficiency	54 - 55 68
306-1: Water discharge by quality and destination	Responsible Wastewater and Storm Water Management	57
306-2: Waste by type and disposal method	Responsible Wastewater and Storm Water Management	57
306-3: Significant spills	KCS's corporate goal is 100% EPA regulatory compliance. In 2016, KCS's Environmental and Hazmat Department immediately cleaned up and/or remediated in-situation 43 significant spills reported. Confined to KCS 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	60
306-5: Water bodies affected by water discharges and/or runoff	Responsible Wastewater and Storm Water Management	57
307-1: Non-compliance with environmental laws and regulations	KCS's corporate goal is 100% EPA regulatory compliance. In 2016, KCS's Environmental and Hazmat Department tracked all EPA Notices of Violations. We received four violation notices for which KCS took corrective action within the EPA timeframe. Thus, the EPA issued no fines or non-monetary sanctions. Nor did any violation involve dispute resolution mechanisms.	
GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
103-2 103-3: Management Approach and Evaluation Mechanisms—Economic/Financial Performance and Anti-Corruption Practicess	Appendix: Stakeholder Priority Material Topics	65
401-1: New employee hires and employee turnover	In 2016, we hired 399 new employees. Our attrition rate is 7.88%.	
401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee Compensation and Benefits	43
401-3: Parental leave	Employee Compensation and Benefits	43



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GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
403-1: Workers representation in formal joint management–worker health and safety committees	Union Health and Well-Being	48
403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Workplace Safety	30
403-4: Health and safety topics covered in formal agreements with trade unions	Union Health and Well-Being	48
404-1: Average hours of training per year per employee	Employee Training and Education	44
404-2: Programs for upgrading employee skills and transition assistance programs	Employee Training and Education	44
404-3: Percentage of employees receiving regular performance and career development reviews	Employee Training and Education	44
405-1: Diversity of governance bodies and employees	KCS Board of Directors Employees—Our Greatest Assets Total number of employees at year end 2016 who self-identified as veterans totaled 333 employees.	10 - 11 41
410-1: Security personnel trained in human rights policies or procedures	In 2016, 100% of security personnel in both the U.S. and Mexico were trained in our human rights policies and procedures or else in their contractor services' human rights policies and procedures.	
412-2: Employee training on human rights policies or procedures	Employee Training and Education	44
413-1: Operations with local community engagement, impact assessments, and development programs	Public Safety: Operation Lifesaver/Alto Total Giving Back Community Engagement Appendix: Stakeholder Engagement	28 - 29 49 - 50 51 64
414-1: New suppliers that were screened using social criteria	Supplier Diversity Program Initiative (SDPI)	15
415-1: Political contributions	We have limited annual political action that focuses on responsible corporate citizenship in the states and communities where it operates. 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 operates.	



SAFE HARBOR

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; availability of qualified personnel; labor difficulties, including strikes and work stoppages; insufficiency of insurance to cover lost revenue, profits or other damages; acts of terrorism or risk of terrorist activities; war or risk of war; 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, 2016 (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

<https://www.aar.org/todays-railroads/sustainability>