KANSAS CITY SOUTHERN
Form 10-K
February 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 1-4717
KANSAS CITY SOUTHERN
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	44-0663509 (I.R.S. Employer Identification No.)
427 West 12th Street, Kansas City, Missouri (Address of principal executive offices)	64105 (Zip Code)

816.983.1303
(Registrant's telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Preferred Stock, Par Value $25 Per Share, 4%, Noncumulative	New York Stock Exchange
Common Stock, $.01 Per Share Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

The aggregate market value of common stock held by non-affiliates of the registrant was $7.51 billion at June 30, 2012. There were 110,154,639 shares of $.01 par common stock outstanding at January 28, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Kansas City Southern’s Definitive Proxy Statement for the 2013 Annual Meeting of Stockholders which will be filed no later than 120 days after December 31, 2012, is incorporated by reference in Parts III.

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2012 FORM 10-K ANNUAL REPORT
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Item 1. Business

COMPANY OVERVIEW

Kansas City Southern, a Delaware corporation, is a holding company with domestic and international rail operations in North America that are strategically focused on the growing north/south freight corridor connecting key commercial and industrial markets in the central United States with major industrial cities in Mexico. As used herein, "KCS" or the "Company" may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern. KCS and its subsidiaries had approximately 6,110 employees on December 31, 2012.

The Kansas City Southern Railway Company ("KCSR"), which was founded in 1887, is a U.S. Class I railroad. KCSR serves a ten-state region in the midwest and southeast regions of the United States and has the shortest north/south rail route between Kansas City, Missouri and several key ports along the Gulf of Mexico in Alabama, Louisiana, Mississippi, and Texas.

KCS controls and owns all of the stock of Kansas City Southern de México, S.A. de C.V. ("KCSM"). Through its 50-year concession from the Mexican government (the "Concession"), which could expire in 2047 unless extended, KCSM operates a key commercial corridor of the Mexican railroad system and has as its core route the most strategic portion of the shortest, most direct rail passageway between Mexico City and Laredo, Texas and serves most of Mexico's principal industrial cities and three of its major seaports. Laredo is a principal international gateway through which more than half of all rail and truck traffic between the United States and Mexico crosses the border. KCSM's rail lines provide exclusive rail access to the United States and Mexico border crossing at Nuevo Laredo, Tamaulipas, the largest rail freight interchange point between the United States and Mexico. Under the Concession, KCSM has the right to control and operate the southern half of the rail bridge at Laredo, Texas, which spans the Rio Grande River between the United States and Mexico. The Company also controls the northern half of this bridge through its ownership of Mexrail, Inc., ("Mexrail").

KCSM provides exclusive rail access to the Port of Lazaro Cardenas on the Pacific Ocean. The Mexican government is developing the port at Lazaro Cardenas principally to serve Mexican markets and as an alternative to the U.S. west coast ports. KCSM is the sole provider of rail service to this port, which provides an alternate route for Asian and South American traffic bound for North America.

The Company wholly owns Mexrail which, in turn, wholly owns The Texas Mexican Railway Company ("Tex-Mex"). Tex-Mex owns a 157-mile rail line extending from Laredo, Texas to the port city of Corpus Christi, Texas, which connects the operations of KCSR with KCSM. Through its ownership of Mexrail, the Company owns the northern half of the rail bridge at Laredo, Texas.

The KCS coordinated rail network (KCSR, KCSM and Tex-Mex) comprises approximately 6,300 route miles extending from the midwest and southeast portions of the United States south into Mexico and connects with all other Class I railroads, providing shippers with an effective alternative to other railroad routes and giving direct access to Mexico and the southeast and southwest United States through alternate interchange hubs.

Panama Canal Railway Company ("PCRC"), an unconsolidated joint venture company owned equally by KCS and Mi-Jack Products, Inc. ("Mi-Jack"), was awarded a concession from the Republic of Panama to reconstruct and operate the Panama Canal Railway, a 47-mile railroad located adjacent to the Panama Canal that provides international container shipping companies with a railway transportation option in lieu of the Panama Canal. The concession was awarded in 1998 for an initial term of 25 years with an automatic renewal for an additional 25 year term. The Panama Canal Railway is a north-south railroad traversing the Isthmus of Panama between the Atlantic and Pacific Oceans. PCRC's wholly-owned subsidiary, Panarail Tourism Company ("Panarail"), operates and promotes commuter and tourist passenger service over the Panama Canal Railway.

Other subsidiaries and affiliates of KCS include the following:

- Meridian Speedway, LLC ("MSLLC"), a seventy percent-owned consolidated affiliate that owns the former KCSR rail line between Meridian, Mississippi and Shreveport, Louisiana, which is the portion of the KCSR rail line between Dallas, Texas and Meridian known as the "Meridian Speedway." Norfolk Southern Corporation ("NS") through its wholly-owned subsidiary, The Alabama Great Southern Railroad Company, owns the remaining thirty percent of MSLLC.
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Pabtex, Inc., a wholly-owned and consolidated owner of a bulk materials handling facility with deep-water access to the Gulf of Mexico at Port Arthur, Texas that stores and transfers petroleum coke from rail cars to ships, primarily for export;

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- Trans-Serve, Inc. (doing business as Superior Tie and Timber), a wholly-owned and consolidated operator of a railroad wood-tie treatment facility;
- TransFin Insurance, Ltd., a wholly-owned and consolidated captive insurance company providing property, general liability and certain other insurance coverage to KCS and its subsidiaries and affiliates;
- KCSM Servicios, S.A. de C.V. ("KCSM Servicios"), a wholly-owned and consolidated provider of employee services to KCSM.
- Southern Capital Corporation, LLC ("Southern Capital"), a fifty percent-owned unconsolidated affiliate that leases locomotives and other equipment;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. ("FTVM"), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and
- PTC-220, LLC ("PTC-220"), a fourteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for the deployment of positive train control.

MARKETS SERVED

2012 Revenues
Business Mix

Chemical and petroleum. This sector includes products such as plastics, other petroleum refined products and miscellaneous chemicals. KCS transports these products to markets in the midwest, southeast and northeast United States and throughout Mexico through interchanges with other rail carriers. The products within the chemicals and plastics channels are used in the automotive, housing and packaging industries as well as in the production of other chemicals and plastic products. KCS hauls petroleum products across its network and as petroleum refineries have continued to increase their refining capacity, they have coordinated with KCS to develop additional long-term storage opportunities which complement a fluid freight railroad operation.

Industrial and consumer products. This sector includes metals and ores such as iron, steel, zinc and copper. The majority of metals, minerals and ores mined, and steel produced in Mexico are consumed within Mexico. The volume of Mexican steel exports fluctuates based on global market prices. Higher-end finished products such as steel coils are used by Mexican manufacturers in automobiles, household appliances, the oil and gas industry, and other consumer goods which are imported to the United States through Nuevo Laredo and through the seaports served by KCS's rail network. KCS also transports steel coils from U.S. based mini-mills in Mississippi and Alabama to Texas and Mexico for appliance and automotive applications.

This sector also serves paper mills directly and indirectly through its various short-line connections. KCS's rail lines run through the heart of the southeast United States timber-producing region. Additionally, KCS is uniquely positioned to serve many important paper mills in the southeast United States whose products are increasing in demand due to a general growth of consumer goods and industrial production in central Mexico.

Agriculture and minerals. The agriculture and minerals sector consists primarily of grain and food products. Shipper demand for agriculture products is affected by competition among sources of grain and grain products, as well as price fluctuations in international markets for key commodities. In the United States, KCS's rail lines receive and originate shipments of grain and grain products for delivery to feed mills serving the poultry industry. KCS currently serves feed mills along its rail lines throughout the midwest and southeast United States, and through its marketing agreements, KCS has access to sources of corn and other grain in the Midwest. United States export grain shipments and Mexico import grain shipments include primarily corn, wheat, and soybeans transported to Mexico via Laredo and to the Gulf of Mexico. Over the long term, export grain shipments to Mexico are expected to increase as a result of Mexico's reliance on grain imports and KCS's coordinated

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rail network is well positioned to meet these increases in demand. Food products consist mainly of soybean meal, grain meal, oils, canned goods, distillers dried grains, corn syrup and sugar. Other shipments consist of a variety of products including ores, minerals, clay and glass used across North America.

Energy. The energy business includes coal, frac sand, petroleum coke and crude oil. KCS hauls unit trains (trains transporting a single commodity from one source to one destination) of coal for nine electric generating plants in the central United States. The coal originates from the Powder River Basin in Wyoming and is interchanged to KCS at Kansas City, Missouri. Coal mined in the midwest United States is transported in non-unit trains to industrial consumers such as paper mills, steel mills, and cement companies. KCS transports petroleum coke from refineries in the United States to cement companies in Mexico as well as to vessels for international distribution through the Pabtex export terminal located in Port Arthur, Texas. Frac sand originating primarily in Wisconsin, Illinois or Iowa is delivered to transloads located in northeast Texas, northern Louisiana, and south Texas for distribution to gas and oil wells in the region. Crude oil originating in Canada, North Dakota, Colorado, and west Texas is delivered to U.S. Gulf Coast refineries and tank farms in Texas and Louisiana.

Intermodal. The intermodal freight business consists primarily of hauling freight containers or truck trailers on behalf of steamship lines, motor carriers, and intermodal marketing companies with rail carriers serving as long-distance haulers. KCS serves and supports the U.S. and Mexican markets, as well as cross border traffic between the U.S. and Mexico. In light of the importance of trade between Asia and North America, the Company believes the Port of Lazaro Cardenas continues to be a strategically beneficial location for ocean carriers, manufacturers and retailers. Equally important, the increase in foreign direct investment in Mexico has pushed the KCS Mexico/U.S. cross border corridor to emerge as an increasingly important tool for NAFTA freight flow. The Company also provides premium service to customers over its line from Dallas through the Meridian Speedway — a critical link in creating the most direct route between the southwest and southeast/northeast U.S.

Automotive. KCS provides rail transportation to every facet of the automotive industry supply chain, including automotive manufacturers, assembly plants and distribution centers throughout North America. Several U.S. automakers have moved assembly plants into central Mexico to take advantage of access to lower costs, which has driven a shift in production and distribution patterns from the U.S. to Mexico. In addition, KCS transports finished vehicles imported and exported to and from Asia through a distribution facility at the Port of Lazaro Cardenas. As the automotive industry shifts production and distribution patterns, KCS is poised to serve the automotive industry’s evolving transportation requirements.

GOVERNMENT REGULATION

The Company’s United States operations are subject to federal, state and local laws and regulations generally applicable to all businesses. Rail operations are also subject to the regulatory jurisdiction of the Surface Transportation Board (“STB”) of the U.S. Department of Transportation (“DOT”), the Federal Railroad Administration of the DOT, the Occupational Safety and Health Administration (“OSHA”), as well as other federal and state regulatory agencies. The STB has jurisdiction over disputes and complaints involving certain rates, routes and services, the sale or abandonment of rail lines, applications for line extensions and construction, and consolidation or merger with, or acquisition of control of, rail common carriers. DOT and OSHA each has jurisdiction under several federal statutes over a number of safety and health aspects of rail operations, including the transportation of hazardous materials. In 2008, the President of the United States signed the Rail Safety Improvement Act of 2008 into law, which, among other things, revises hours of service for train and certain other employees and mandates implementation of positive train control at certain locations by the end of 2015. Positive train control is a technology designed to help prevent train-to-train collisions, overspeed derailments, incursions into rail work zones, and entry into main line track if a switch is misaligned at certain locations, including main line track where toxic inhalation hazard or poison inhalation hazard movements occur or where passenger operations occur. In addition, the Rail Safety Improvement Act of 2008 addresses safety at rail crossings, increases the number of safety related employees of the Federal Railroad Administration, and increases fines that may be levied against railroads for safety violations. State agencies regulate some aspects of rail operations with respect to health and safety in areas not otherwise regulated by federal law.

KCS’s subsidiaries are subject to extensive federal, state and local environmental regulations. These laws cover discharges to water, air emissions, toxic substances, and the generation, handling, storage, transportation and disposal of waste and hazardous materials. These regulations have the effect of increasing the costs, risks and liabilities associated with rail operations. Environmental risks are also inherent in rail operations, which frequently involve transporting chemicals and other hazardous materials.

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Primary regulatory jurisdiction for the Company's Mexican operations is overseen by the Mexican Secretaría de Comunicaciones y Transportes ("Secretary of Communications and Transportation" or "SCT"). The SCT establishes regulations concerning railway safety and operations, and is responsible for resolving disputes between railways and between railways and customers. In addition, KCSM must register its maximum rates with the SCT and make regular reports to the SCT on investment and traffic volumes. See Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K "Description of the Business — The KCSM Concession."

The Mexican operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings and impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

Noncompliance with applicable legal provisions may result in the imposition of fines, temporary or permanent shutdown of operations or other injunctive relief, criminal prosecution or, with respect to KCSM, the termination of the Concession. KCS maintains environmental provisions which are believed by management to be appropriate with respect to known and existing environmental contamination of its properties which KCS may be responsible to remedy. In addition, KCS's subsidiaries are party to contracts and other legally binding obligations by which previous owners of certain facilities now owned by KCS are responsible to remedy contamination of such sites remaining from their previous ownership. There are currently no material legal or administrative proceedings pending against the Company with respect to any environmental matters and management does not believe that continued compliance with environmental laws will have any material adverse effect on the Company's consolidated financial statements. KCS cannot predict the effect, if any, that unidentified environmental matters or the adoption of additional or more stringent environmental laws and regulations would have on the Company's consolidated financial statements.

COMPETITION

The Company competes against other railroads, many of which are much larger and have significantly greater financial and other resources. The railroad industry is dominated by a few very large carriers. The larger western railroads (BNSF Railway Company and Union Pacific Railroad Company), in particular, are significant competitors of KCS because of their substantial resources and competitive routes.

In November 2005, Ferrocarril Mexicano, S.A. de C.V. ("Ferromex") acquired control of and merged with Ferrosur S.A. de C.V. ("Ferrosur"). In March 2011, the Comisión Federal de Competencia (Mexican Antitrust Commission or "COFECO") approved the merger between Ferromex and Ferrosur. These merged operations are much larger than KCSM, serving most of the major ports and cities in Mexico and together own fifty percent of FTVM, which serves industries located within Mexico City.

The ongoing impact of past and future rail consolidation is uncertain. However, KCS believes that its investments and strategic alliances continue to competitively position the Company to attract additional rail traffic throughout its rail network.

The Company is subject to competition from motor carriers, barge lines and other maritime shipping, which compete across certain routes in KCS's operating areas. In the past, truck carriers have generally eroded the railroad industry's share of total transportation revenues. Intermodal traffic and certain other traffic face highly price sensitive competition, particularly from motor carriers. However, rail carriers, including KCS, have placed an emphasis on competing in the intermodal marketplace and working with motor carriers to provide end-to-end transportation of products.

While deregulation of U.S. freight rates has enhanced the ability of railroads to compete with each other and with alternative modes of transportation, this increased competition has generally resulted in downward pressure on freight rates since deregulation. Competition with other railroads and other modes of transportation is generally based on the rates charged, the quality and reliability of the service provided and the quality of the carrier's equipment for certain commodities.

RAIL SECURITY

The Company and its rail subsidiaries have made ongoing, multi-disciplinary efforts since the terrorist attacks on the United States on September 11, 2001, to continue securing the Company's assets and personnel against the risk of terrorism and other security risks. Many of the specific measures the Company utilizes for these efforts are required to be kept confidential through arrangements with government agencies, such as the Department of Homeland Security ("DHS"), or through jointly-

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developed and implemented strategies and plans with connecting carriers. To protect the confidentiality and sensitivity of the efforts the Company has made to safeguard against terrorism and other security incidents, the following paragraphs will provide only a general overview of some of these efforts. KCSR and KCSM utilize a security plan based on an industry wide security plan developed by Association of American Railroads ("AAR") members which focuses on comprehensive risk assessments in five areas — hazardous materials; train operations; critical physical assets; military traffic; and information technology and communications. The security plan is kept confidential, with access to the plan tightly limited to members of management with direct security and anti-terrorism implementation responsibilities. KCSR and KCSM participate with other AAR members in periodic drills under the industry plan to test and refine its various provisions.

The Company's security activities range from periodically mailing each employee a security awareness brochure (which is also posted under the "Employees" tab on the Company's internet website, www.kcsouthern.com) to its ongoing implementation of security plans for rail facilities in areas labeled by the DHS as High Threat Urban Areas ("HTUAs"). The Company's other activities to bolster security against terrorism include, but are not limited to, the following:

- Conferring regularly with other railroads' security personnel and with industry experts on security issues;
- Routing shipments of certain chemicals, which might be toxic if inhaled, pursuant to federal regulations;
- Initiating a series of over 20 voluntary action items agreed to between AAR and DHS as enhancing security in the rail industry;
- Conducting constant and targeted security training as part of the scheduled training for operating employees and managers;
- Developing a multi-layered security model using high-speed digital imaging, system velocity, covert and overt security filters to mitigate the risk of illicit activity;
- Measuring key security metrics to ensure positive risk mitigation and product integrity trends;
- Implementation of a Tactical Intelligence Center by KCSM, training core members in new technology helping to prevent, detect, deter and respond to illicit activities; and
- Deployment of an array of non-intrusive technologies including, but not limited to, digital video surveillance and analytics as part of an intelligent video security solution, including a Closed Circuit Television platform with geo-fencing for intrusion detection, to allow for remote viewing access to monitor ports of entry, intermodal and rail yards.

In addition, the Company utilizes dedicated security personnel with extensive law enforcement backgrounds to oversee the ongoing and increasingly complex security efforts of the Company in both the United States and Mexico. Some members of this security force are also members of the Federal Bureau of Investigation's Joint Terrorism Task Force, providing added value to the Company in developing and implementing anti-terrorism and other security initiatives.

While the risk of theft and vandalism is higher in Mexico, KCSM remains among the safest methods of transportation for freight shipments in Mexico. KCSM's record in rail safety is due in large part to the implementation of a multi-layered, safety and security process throughout the KCSM network. In addition to having its own internal system, the process is connected to, and supported by a high level of federal, state and local law enforcement. A primary focus of this effort involves maintaining constant due diligence, active vigilance and train velocity, which reduces the likelihood for incidents to occur.

RAILWAY LABOR ACT

Labor relations in the U.S. railroad industry are subject to extensive governmental regulation under the Railway Labor Act ("RLA"). Under the RLA, national labor agreements are renegotiated on an industry-wide scale when they become open for modification, but their terms remain in effect until new agreements are reached or the RLA's procedures (which include mediation, cooling-off periods, and the possibility of presidential intervention) are exhausted. Contract negotiations with the various unions generally take place over an extended period of time and the Company rarely experiences work stoppages during negotiations. Wages, health and welfare benefits, work rules and other issues have traditionally been addressed during these negotiations.

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COLLECTIVE BARGAINING

Approximately 80% of KCSR employees are covered by collective bargaining agreements. KCSR participates in industry-wide bargaining as a member of the National Carriers' Conference Committee. Long-term settlement agreements were reached and ratified during 2011 and the first half of 2012 covering all of the participating unions. These agreements will be in effect through December 2015.

KCSM Servicios union employees are covered by one labor agreement, which was signed on June 23, 1997, between KCSM and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana ("Mexican Railroad Union"), for a term of fifty years, for the purpose of regulating the relationship between the parties. Approximately 80% of KCSM Servicios employees are covered by this labor agreement. The compensation terms under this labor agreement are subject to renegotiation on an annual basis and all other benefits are subject to negotiation every two years. As a result of the labor agreement signed on April 19, 2012, compensation terms for the period from July 1, 2012 through June 30, 2013, were finalized. Additionally, this labor agreement enabled KCS to complete an organizational restructuring whereby employees of KCSM became employees of KCSM Servicios. KCSM Servicios provides employee services to KCSM, and KCSM pays KCSM Servicios market-based rates for these services. The union labor negotiation with the Mexican Railroad Union has not historically resulted in any strike, boycott or other disruption in KCSM's business operations.

EXECUTIVE OFFICERS OF KCS AND SUBSIDIARIES

All executive officers are elected annually and serve at the discretion of the Board of Directors. All of the executive officers have employment agreements with KCS and/or its subsidiaries. The mailing address of the principal executive officers other than Mr. Zozaya is P.O. Box 219335, Kansas City, Missouri 64121. Mr. Zozaya's mailing address is Montes Urales No. 625, Col. Lomas de Chapultepec, C.P. 11000, Mexico D.F.

Michael R. Haverty — Executive Chairman of the Board — 68 — Served in this capacity since August 1, 2010. Mr. Haverty has been a director of KCS since May 1995 and has served as Chairman of the Board of KCS since January 1, 2001. From July 12, 2000 until July 31, 2010, Mr. Haverty served as Chief Executive Officer of KCS. Mr. Haverty served as President of KCS from July 2000 to June 2006. Mr. Haverty served as Executive Vice President of KCS from May 1995 until July 2000, and as President and Chief Executive Officer of KCSR from 1995 to 2005 and as a director of KCSR since 1995. He has served as Chairman of the Board of KCSR since 1999. Since April 1, 2005, Mr. Haverty has served as Chairman of the Board of KCSM. Mr. Haverty has served as a director of the PCRC since 1996 and as Co-Chairman of the Board of Directors of that company since 1999. Mr. Haverty has served as Co-Chairman of Panarail since 2000.

David L. Starling — President and Chief Executive Officer — 63 — Served in this capacity since August 1, 2010. Mr. Starling has been a director of KCS since May 6, 2010. He served as President and Chief Operating Officer of KCS from July 1, 2008 through August 1, 2010. Mr. Starling has also served as a Director, President and Chief Executive Officer of KCSR since July 1, 2008. He has also served as Vice Chairman of the Board of Directors of KCSM since September 2009. Mr. Starling has served as Vice Chairman of the Board of Directors of PCRC and Panarail since July 2008. Prior to joining KCS, Mr. Starling served as President and Director General of PCRC from 1999 through June 2008.

David R. Ebbrecht — Executive Vice President and Chief Operating Officer — 46 — Served in this capacity since August 2012. He served as Executive Vice President of Operations from March 2011 until August 2012. Mr. Ebbrecht served as Senior Vice President of Operations of KCSR from August 2009 until March 2011. He served as Vice President of Transportation of KCSR from March 2008 until August 2009. From January 2007 until March 2008, Mr. Ebbrecht served as Assistant Vice President in various departments for KCSR including logistics, business development and operations. He joined KCSR in January 2001. Prior to joining KCSR, Mr. Ebbrecht served in various leadership positions at CSX Corporation, Inc.

Warren K. Erdman — Executive Vice President — Administration and Corporate Affairs — 54 — Served in this capacity since April 2010. Mr. Erdman served as Executive Vice President — Corporate Affairs from October 2007 until April 2010. He served as Senior Vice President — Corporate Affairs of KCS and KCSR from January 2006 to September 2007. Mr. Erdman served as Vice President — Corporate Affairs of KCS from April 15, 1997 to December 31, 2005 and as Vice President — Corporate Affairs of KCSR from May 1997 to December 31, 2005. Prior to joining KCS, Mr. Erdman served as Chief of Staff to United States Senator Kit Bond of Missouri from 1987 to 1997.

Patrick J. Ottensmeyer — Executive Vice President Sales and Marketing — 55 — Served in this capacity since October 16, 2008. Mr. Ottensmeyer joined KCS in May 2006 as Executive Vice President and Chief Financial Officer. Prior to

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joining KCS, Mr. Ottensmeyer served as Chief Financial Officer of Intranasal Therapeutics, Inc. from 2001 to May 2006. From 2000 to 2001, he served as Corporate Vice President Finance and Treasurer for Dade-Behring Holdings, Inc. From 1993 to 1999, Mr. Ottensmeyer served as Vice President Finance and Treasurer at Burlington Northern Santa Fe Corporation and BNSF Railway and their predecessor companies.

Michael W. Upchurch — Executive Vice President and Chief Financial Officer — 52 — Served in this capacity since October 16, 2008. Mr. Upchurch joined KCS in March 2008 as Senior Vice President Purchasing and Financial Management. Prior to joining KCS, Mr. Upchurch served as Senior Vice President Finance of Red Development LLC, from December 2007 through February 2008. From September 2006 through December 2007, Mr. Upchurch worked as an independent consultant providing financial consulting services. From 1990 through September 2006, Mr. Upchurch served in various senior financial leadership positions at Sprint Nextel Corporation and its predecessor, Sprint Corporation, including Senior Vice President Financial Operations, Senior Vice President Finance Sprint Business Solutions and Senior Vice President Finance Long Distance Division.

José Guillermo Zozaya Delano — President and Executive Representative — KCSM — 60 — Served in this position since April 20, 2006. Mr. Zozaya has 35 years of experience in law and government relations, most recently as the legal and government relations director for ExxonMobil México, S.A. de C.V., where he spent nine years prior to joining KCSM.

John E. Derry — Senior Vice President Human Resources — 45 — Served in this capacity since July 2008. He served as Vice President of Human Resources from February 2008 until July 2008. Mr. Derry joined KCS from YRC Worldwide, Inc. where he served in various Human Resource functions from January 2004 to February 2008. From September 2006 to February 2008, Mr. Derry served as Vice President of Human Resources for Yellow Transportation. Prior to joining YRC Worldwide, Inc. Mr. Derry spent 17 years with General Mills Inc. in various operations, labor relations and human resource roles.

Michael J. Naatz — Senior Vice President and Chief Information Officer — 47 — Served in this capacity since May 7, 2012. Prior to joining KCS, Mr. Naatz served as President of USF Holland, a YRC Worldwide, Inc. (“YRCW”) company, from 2011 to May 2012. From 2010 to 2011, Mr. Naatz served as President and Chief Customer Officer - Customer Care Division at YRCW. From 2008 to 2010, he served as Executive Vice President and Chief Information & Service Officer at YRCW. From 2005 to 2007, he served as President-Enterprise Services Division at YRCW. From 1994 to 2005, he held various leadership positions with USF Corporation.

Mary K. Stadler — Senior Vice President and Chief Accounting Officer — 53 — Served in this capacity since March 2, 2009. From April 1990 through August 2008, Ms. Stadler served in various finance leadership positions at Sprint Nextel Corporation and its predecessor, Sprint Corporation, including Vice President — Finance Operations and most recently served as its Vice President — Assistant Controller.

William J. Wochner — Senior Vice President and Chief Legal Officer — 65 — Served in this capacity since February 2007. He served as Vice President and Interim General Counsel from December 2006 to January 2007. From September 2006 to December 2006, Mr. Wochner served as Vice President and Associate General Counsel. From March 2005 to September 2006, Mr. Wochner served as Vice President Sales and Marketing/Contracts for KCSR. From February 1993 to March 2005, Mr. Wochner served as Vice President and General Solicitor of KCSR.

There are no arrangements or understandings between the executive officers and any other person pursuant to which the executive officer was or is to be selected as an officer of KCS, except with respect to the executive officers who have entered into employment agreements designating the position(s) to be held by the executive officer.

None of the above officers is related to another, or to any of the directors of KCS, by family.

AVAILABLE INFORMATION

KCS’s website (www.kcsouthern.com) provides at no cost KCS’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after the electronic filing of these reports is made with the Securities and Exchange Commission. In addition, KCS’s corporate governance guidelines, ethics and legal compliance policy, and the charters of the Audit Committee, the Finance Committee, the Nominating and Corporate Governance Committee and the Compensation and Organization Committee of the Board of Directors are available on KCS’s website. These guidelines, policies and charters are available in print without charge to any stockholder requesting them. Written requests for these materials may be made to the Corporate Secretary, P.O. Box 219335,

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Kansas City, Missouri 64121-9335 (or if by express delivery to 427 West 12th Street, Kansas City, Missouri 64105). From time to time, KCS publicly designates material information by posting it on the website, kcsouthern.com/investors, in lieu of press releases.

See Item 8, Financial Statements and Supplementary Data — Note 1 “Description of the Business” and Note 17 “Geographic Information” for more information on the description and general development of the Company’s business and financial information about geographic areas.

Item 1A. Risk Factors

The price of KCS’s common stock may fluctuate significantly, which may make it difficult for investors to resell common stock when they choose to or at prices they find attractive.

The price of KCS’s common stock on the New York Stock Exchange (“NYSE”), listed under the ticker symbol “KSU”, constantly changes. The Company expects that the market price of its common stock will continue to fluctuate.

The Company’s stock price may fluctuate as a result of a variety of factors, many of which are beyond KCS’s control. These factors include, but are not limited to:

- quarterly variations in operating results;
- operating results that vary from the expectations of management, securities analysts, ratings agencies and investors;
- changes in expectations as to future financial performance, including financial estimates by management, securities analysts, ratings agencies and investors;
- developments generally affecting the railroad industry;
- announcements by KCS or its competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- the assertion or resolution of significant claims or proceedings involving KCS;
- KCS’s dividend policy and limitations on the payment of dividends;
- future sales of KCS’s equity or equity-linked securities;
- the issuance of common stock in payment of dividends on preferred stock or upon conversion of preferred stock or convertible debt; and
- general domestic and international economic conditions including the availability of short- and long-term financing.

In addition, from time to time the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of KCS’s common stock.

KCS’s ability to pay cash dividends on its common stock may be limited.

KCS has agreed in the past, and may agree in the future, to limitations on its ability to pay cash dividends on its common stock. In addition, to maintain its credit ratings, the Company may be limited in its ability to pay cash dividends on its common stock so that it can maintain an appropriate level of liquidity or debt.

Sales of substantial amounts of KCS's common stock in the public market could adversely affect the prevailing market price of the common stock.

As of December 31, 2012, there were 6,038,091 shares of common stock issued or reserved for issuance under the 1991 Amended and Restated Stock Option and Performance Award Plan, the 2008 Stock Option and Performance Award Plan and the 2009 Employee Stock Purchase Plan, and 1,909,898 shares of common stock held by executive officers and directors outside those plans. Sales of common stock by employees upon exercise of their options, sales by executive officers and directors subject to compliance with Rule 144 under the Securities Act, and sales of common stock that may be issued upon conversion of the outstanding preferred stock, or the perception that such sales could occur, may adversely affect the market price of KCS' common stock.

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KCS has provisions in its charter and bylaws that could deter, delay or prevent a third party from acquiring a controlling interest in KCS and that could deprive an investor of an opportunity to obtain a takeover premium for shares of KCS's common stock.

KCS has provisions in its charter and bylaws that may delay or prevent unsolicited takeover bids from third parties, including provisions providing for a classified board. The bylaws provide that a stockholder must give the Company advance written notice of its intent to nominate a director or raise a matter at an annual meeting. These provisions may deprive KCS's stockholders of an opportunity to sell their shares at a premium over prevailing market prices.

KCS competes against other railroads and other transportation providers.

The Company's domestic and international operations are subject to competition from other railroads, particularly Union Pacific Railroad Company ("UP") and BNSF Railway Company ("BNSF") in the United States and Ferromex and Ferrosur in Mexico, as well as from truck carriers, barge lines, and other maritime shippers. Many of KCS's rail competitors are much larger and have significantly greater financial and other resources than KCS, which may enable rail competitors to reduce rates and make KCS's freight services less competitive. KCS's ability to respond to competitive pressures by matching rate reductions and decreasing rates without adversely affecting gross margins and operating results will depend on, among other things, the ability to reduce operating costs. KCS's failure to respond to competitive pressures, and particularly rate competition, in a timely manner could have a material adverse effect on the Company's consolidated financial statements.

The railroad industry is dominated by a few large carriers. These larger railroads could attempt to use their size and pricing power to block other railroads' access to efficient gateways and routing options that are currently and have historically been available. In addition, if there is future consolidation in the railroad industry in the United States or Mexico, there can be no assurance that it will not have an adverse effect on the Company's consolidated financial statements.

Trucking, maritime, and barge competitors, while able to provide rate and service competition to the railroad industry, are able to use public rights-of-way, require substantially smaller capital investment and maintenance expenditures than railroads and allow for more frequent and flexible scheduling. Continuing competitive pressures, any reduction in margins due to competitive pressures, future improvements that increase the quality of alternative modes of transportation in the locations in which the Company operates, or legislation or regulations that provide motor carriers with additional advantages, such as increased size of vehicles and reduced weight restrictions, could result in downward pressure on freight rates, which in turn could have a material adverse effect on the Company's consolidated financial statements.

A central part of KCS's growth strategy is based upon the conversion of truck traffic to rail. There can be no assurance the Company will succeed in its efforts to convert traffic from truck to rail transport or that the customers already converted will be retained. If the railroad industry in general is unable to preserve its competitive advantages vis-à-vis the trucking industry, revenue growth could be adversely affected. Additionally, revenue growth could be affected by, among other factors, an expansion in the availability, or an improvement in the quality, of the trucking services offered by carriers resulting from regulatory and administrative interpretations and implementation of certain provisions of the North American Free Trade Agreement ("NAFTA"), and KCS's inability to grow its existing customer base and capture additional cargo transport market share because of competition from the shipping industry and other railroads.

KCSM's Mexican Concession is subject to revocation or termination in certain circumstances which would prevent KCSM from operating its railroad and would have a material adverse effect on the Company's consolidated financial statements.

KCSM operates under the Concession granted by the Mexican government in June 1997, which is renewable for an additional period of up to 50 years, subject to certain conditions. The Concession gives KCSM exclusive rights to provide freight transportation services over its rail lines for the first 30 years of the 50-year Concession, subject to certain trackage and haulage rights granted to other concessionaires. The SCT, which is principally responsible for regulating railroad services in Mexico, has broad powers to monitor KCSM's compliance with the Concession, and it can require KCSM to supply it with any technical, administrative and financial information it requests. Among other obligations, KCSM must comply with the investment commitments established in its business plan, which forms an integral part of the Concession, and must update the plan every five years. The SCT treats KCSM's business plans confidentially. The SCT also monitors KCSM's compliance with efficiency and safety standards established in the Concession. The SCT reviews, and may amend, these standards every five years.

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The Mexican Railroad Services Law and regulations provide the Mexican government certain rights in its relationship with KCSM under the Concession, including the right to take over the management of KCSM and its railroad in certain extraordinary cases, such as imminent danger to national security. In the past, the Mexican government has used such power with respect to other privatized industries, including the telecommunications industry, to ensure continued service during labor disputes. In addition, under Article 47 of the Mexican Railroad Services Law and its regulations, the SCT, in consultation with COFECO, reserves the right to set service rates if it determines that effective competition does not exist in the Mexican railroad industry. COFECO, however, has not published guidelines regarding the factors that constitute a lack of competition. It is therefore unclear under what particular circumstances COFECO would deem a lack of competition to exist. If the SCT intervenes and sets service rates, the rates it sets may be too low to allow KCSM to operate profitably.

Under the Concession, KCSM has the right to operate its rail lines, but it does not own the land, roadway or associated structures. If the Mexican government legally terminates the Concession, it would own, control, and manage such public domain assets used in the operation of KCSM’s rail lines. All other property not covered by the Concession, including all locomotives and railcars otherwise acquired, would remain KCSM’s property. In the event of early termination, or total or partial revocation of the Concession, the Mexican government would have the right to cause the Company to lease all service-related assets to it for a term of at least one year, automatically renewable for additional one-year terms up to five years. The amount of the rent would be determined by experts appointed by KCSM and the Mexican government. The Mexican government must exercise this right within four months after early termination or revocation of the Concession. In addition, the Mexican government would also have a right of first refusal with respect to certain transfers by KCSM of railroad equipment within 90 days after revocation of the Concession.

The Mexican government may also temporarily seize control of KCSM’s rail lines and its assets in the event of a natural disaster, war, significant public disturbance or imminent danger to the domestic peace or economy. In such a case, the SCT may restrict KCSM’s ability to exploit the Concession in such manner as the SCT deems necessary under the circumstances, but only for the duration of any of the foregoing events. Mexican law requires that the Mexican government pay compensation if it effects a statutory appropriation for reasons of the public interest. With respect to a temporary seizure due to any cause other than international war, the Mexican Railroad Services Law and regulations provide that the Mexican government will indemnify an affected concessionaire for an amount equal to damages caused and losses suffered. However, these payments may not be sufficient to compensate KCSM for its losses and may not be made timely.

The SCT may revoke the Concession if KCSM is sanctioned on three distinct occasions for unjustly interrupting the operation of its rail lines or for charging tariffs higher than the tariffs it has registered with the SCT. In addition, the SCT may revoke the Concession if, among other things, KCSM is sanctioned on five distinct occasions because KCSM restricts the ability of other Mexican rail operators to use its rail lines; KCSM fails to make payments for damages caused during the performance of services; KCSM fails to comply with any term or condition of the Mexican Railroad Services Law and regulations or the Concession; KCSM fails to make the capital investments required under its five-year business plan filed with the SCT; or KCSM fails to maintain an obligations compliance bond and insurance coverage as specified in the Mexican Railroad Services Law and regulations. In addition, the Concession would revoke automatically if KCSM changes its nationality or assigns or creates any lien on the Concession, or if there is a change in control of KCSM without the SCT’s approval. The SCT may also terminate the Concession as a result of KCSM’s surrender of its rights under the Concession, or for reasons of public interest or upon KCSM’s liquidation or bankruptcy. If the Concession is terminated or revoked by the SCT for any reason, KCSM would receive no compensation and its interest in its rail lines and all other fixtures covered by the Concession, as well as all improvements made by it, would revert to the Mexican government. Revocation or termination of the Concession would prevent KCSM from operating its railroad and would materially adversely affect the Mexican operations and the ability to make payments on KCSM’s debt as well as materially adversely affect the Company’s consolidated financial statements.

KCS’s business strategy, operations and growth rely significantly on agreements with other railroads and third parties.

Operation of KCS's rail network and its plans for growth and expansion rely significantly on agreements with other railroads and third parties, including joint ventures and other strategic alliances, as well as interchange, trackage rights, haulage rights and marketing agreements with other railroads and third parties that enable KCS to exchange traffic and utilize trackage the Company does not own. KCS's ability to provide comprehensive rail service to its customers depends in large part upon its ability to maintain these agreements with other railroads and third parties, and upon the performance of the obligations under the agreements by the other railroads and third parties. The termination of, or the failure to renew, these agreements could adversely affect KCS's consolidated financial statements. KCS is also dependent in part upon the financial strength and efficient performance of other railroads. There can be no assurance that KCS will not be materially adversely affected by operational or financial difficulties of other railroads.

KCSM's operations are subject to certain trackage rights, haulage rights and interline service agreements with another Mexican rail carrier, some of which are in dispute.

Through KCSM's Concession from the Mexican government, KCSM is required to grant short and long distance trackage rights to Ferromex. Applicable law stipulates that Ferromex similarly is required to grant to KCSM rights to use portions of their tracks. These trackage rights have been granted under the Concession. The rates to be charged for use of the Trackage Rights after January 1, 2009, were agreed to by KCSM and Ferromex pursuant to the Trackage Rights Agreement, dated February 9, 2010. The Trackage Rights Agreement did not establish rates that may be charged for the right to use the trackage rights for the periods beginning in 1998 through December 31, 2008.

If KCSM cannot reach an agreement with Ferromex for rates applicable for services provided prior to January 1, 2009, which are not subject to the Trackage Rights Agreement, the SCT is entitled to set the rates in accordance with Mexican law and regulations, which rates may not adequately compensate KCSM. KCSM is currently involved in legal proceedings with the SCT and discussions with Ferromex regarding the amounts payable to each other for trackage rights, interline services and haulage rights for periods prior to January 1, 2009. Certain of these disputes continue under litigation. Any resolution of such procedures adverse to KCSM could have a material adverse effect on its consolidated financial statements in a particular quarter or fiscal year.

KCS's flexibility to operate its business could be impacted by provisions in its debt obligations.

KCS's debt instruments contain covenants which restrict or prohibit certain actions ("negative covenants"), including, but not limited to, KCS's ability to incur debt, create or suffer to exist liens, engage in mergers and consolidations and sell certain assets. The KCSM revolving credit facility contains additional negative covenants, including but not limited to, KCSM's ability to freely deploy proceeds in excess of pre-defined thresholds from insurance settlements or asset sales, make certain investments, engage in transactions with stockholders and affiliates, or engage in sale-leaseback transactions. The first of the aforementioned additional negative covenants terminates upon conversion of KCSM's revolving credit facility from secured to unsecured upon KCSM's attainment of investment grade credit ratings from at least two of the three primary rating agencies. KCS's debt instruments also contain covenants requiring KCS to, among other things, maintain specified financial ratios ("affirmative covenants"). Failure to comply with these negative and affirmative covenants could result in an event of default that, if not cured or waived, could restrict the Company's access to liquidity and have a material adverse effect on the Company's business or prospects. If the Company does not have enough cash to service its debt or fund other liquidity needs, KCS may be required to take actions such as requesting a waiver from lenders, reducing or delaying capital expenditures, selling assets, restructuring or refinancing all or part of the existing debt, or seeking additional equity capital. KCS cannot assure that any of these remedies can be effected on commercially reasonable terms or at all.

A downturn in the debt capital markets or a downgrade of the Company's credit ratings may increase the cost of borrowing and make financing difficult to obtain.

Events in the financial markets may have an adverse impact on the debt capital markets and, as a result, credit may become more expensive and difficult to obtain. Lenders may impose more stringent restrictions on the terms of credit and there may be a general reduction in the amount of credit available in the markets in which KCS conducts business. Also, the Company and its securities are rated by Standard & Poor's Rating Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). These ratings impact the Company's cost of funds and its access to the debt capital markets. The negative impact of tightening credit markets, adverse changes in the debt capital markets generally and/or a downgrade of the Company's credit ratings may have a material adverse effect on KCS's consolidated financial statements resulting from, but not limited to, an inability to finance capital expansion on favorable terms, if at all, reduced liquidity as a result of limited alternatives to refinance short-term debt, increased financing costs and/or financial terms with increasingly restrictive covenants.

KCS's business is capital intensive.

The Company's business is capital intensive and requires substantial ongoing expenditures for, among other things, additions and improvements to roadway, structures and technology, acquisitions, and maintenance and repair of equipment and

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the rail system. KCS's failure to make necessary capital expenditures to maintain its operations could impair its ability to serve existing customers, accommodate increases in traffic volumes or result in increased derailments.

KCSM's Concession from the Mexican government requires KCSM to make investments and undertake capital projects. If KCSM fails to make such capital investments, KCSM's business plan commitments with the Mexican government may be at risk, requiring KCSM to seek waivers of its business plan. There is no assurance that such waivers, if requested, would be granted by the SCT. KCSM may defer capital expenditures under its business plan with the permission of the SCT. However, the SCT might not grant this permission, and any failure by KCSM to comply with the capital investment commitments in its business plan could result in sanctions imposed by the SCT, and could result in revocation of the Concession if sanctions are imposed on five distinct occasions. The Company cannot assure that the Mexican government would grant any such permission or waiver. If such permission or waiver is not obtained in any instance and KCSM is sanctioned, its Concession might be at risk of revocation, which would materially adversely affect KCS's consolidated financial statements. See "KCSM's Mexican Concession is subject to revocation or termination in certain circumstances".

KCS has funded, and expects to continue to fund capital expenditures with operating cash flows, debt and equipment leases. KCS may not be able to generate sufficient cash flows from its operations or obtain sufficient funds from external sources to fund capital expenditure requirements. Even if financing is available, it may not be obtainable on acceptable terms and within the limitations contained in the indentures and other agreements relating to KCS's existing debt.

KCS is dependent on certain key suppliers of core rail equipment.

KCS relies on a limited number of suppliers of core rail equipment (including locomotives, rolling stock equipment, rail and ties). The capital intensive nature and complexity of such equipment creates high barriers of entry for any potential new suppliers. If any of KCS's suppliers discontinue production or experience capacity or supply shortages, this could result in increased costs or difficulty in obtaining rail equipment and materials, which could have a material adverse effect on KCS's consolidated financial statements.

KCS depends on the stability, availability and security of its information technology systems to operate its business.

KCS relies on information technology in all aspects of its business. A significant disruption or failure of its information technology systems, including its computer hardware, software and communications equipment, could result in service interruptions, safety failures, security failures, regulatory compliance failures or other operational difficulties.

The security risks associated with information technology systems have increased in recent years because of the increased sophistication and activities of perpetrators of cyber attacks. A failure in or breach of KCS's information technology security systems, or those of its third party service providers, as a result of cyber attacks or unauthorized access to its network could disrupt KCS's business, result in the disclosure or misuse of confidential or proprietary information, increase its costs and/or cause losses. KCS also confronts the risk that a terrorist or other third parties may seek to use its property, including KCS's information technology systems, to inflict major harm.

KCS continually takes steps to make appropriate enhancements to its information technology systems; however, KCS's systems may be vulnerable to disruption, failure or unauthorized access which could have a material adverse effect on KCS's consolidated financial statements.

KCS's business may be adversely affected by changes in general economic, weather or other conditions.

KCS's operations may be adversely affected by changes in the economic conditions of the industries and geographic areas that produce and consume the freight that KCS transports. The relative strength or weakness of the United States and Mexican economies affects the businesses served by KCS. Prolonged negative changes in domestic and global economic conditions or disruptions of either or both of the financial and credit markets, including the availability of short and long-term debt financing, may affect KCS, as well as the producers and consumers of the commodities that KCS transports and may have a material adverse effect on KCS's consolidated financial statements.

The transportation industry is highly cyclical, generally tracking the cycles of the world economy. Although transportation markets are affected by general economic conditions, there are numerous specific factors within each particular market that may influence operating results. Some of KCS's customers do business in industries that are highly cyclical, including the oil and gas, automotive, housing and agriculture industries. Any downturn in these industries could have a

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material adverse effect on operating results. Also, some of the products transported have had a historical pattern of price cyclicality which has typically been influenced by the general economic environment and by industry capacity and demand. KCS cannot assure that prices and demand for these products will not decline in the future, adversely affecting those industries and, in turn, the Company’s consolidated financial statements.

Traffic congestion experienced in the U.S. or Mexican railroad system may result in overall traffic congestion which would impact the ability to move traffic to and from Mexico and adversely affect KCS’s operations. This system congestion may also result in certain equipment shortages. Any similar congestion experienced by railroads in Mexico could have an adverse effect on the Company’s consolidated financial statements. In addition, the growth of cross border traffic in recent years has contributed to congestion on the international bridge at the Nuevo Laredo-Laredo border gateway, which is expected to continue in the near future. This may adversely affect KCS’s consolidated financial statements.

The Company’s operations may also be affected by natural disasters or adverse weather conditions. The Company operates in and along the Gulf of Mexico, and its facilities may be adversely affected by hurricanes, floods and other extreme weather conditions that could also adversely affect KCS’s shipping, agricultural, chemical and other customers. Significant reductions in the volume of rail shipments due to economic, weather, or other conditions could have a material adverse effect on KCS’s consolidated financial statements.

KCS’s business may be affected by market and regulatory responses to climate change.

KCS’s operations may be adversely affected by restrictions, caps, taxes, or other controls on emissions of greenhouse gases, including diesel exhaust. Restrictions on emissions could also affect KCS’s customers that use commodities that KCS transports to produce energy, use significant amounts of energy in producing or delivering the commodities KCS transports, or manufacture or produce goods that consume significant amounts of energy or burn fossil fuels, including coal-fired power plants, chemical producers, farmers and food producers, and automakers and other manufacturers. Significant cost increases, government regulation, or changes of consumer preferences for goods or services relating to alternative sources of energy or emissions reductions could materially affect the markets for the commodities KCS transports, which in turn could have a material adverse effect on KCS’s consolidated financial statements. Government incentives encouraging the use of alternative sources of energy could also affect certain customers and their respective markets for certain commodities KCS transports in an unpredictable manner that could alter traffic patterns, including, for example, the impacts of ethanol incentives on farming and ethanol producers. Any of these factors, individually or in conjunction with one or more of the other factors, or other unforeseen impacts of climate change could have a material adverse effect on KCS’s consolidated financial statements.

KCS is exposed to the credit risk of its customers and counterparties and their failure to meet their financial obligations could adversely affect KCS’s consolidated financial statements.

KCS’s business is subject to credit risk including the risk that a customer or counterparty will fail to meet its obligations when due. Customers and counterparties that owe the Company money may default on their obligations to the Company due to bankruptcy, lack of liquidity, operational failure or other reasons. Although the Company has procedures for reviewing its credit exposures to specific customers and counterparties to address present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Some of the Company’s risk management methods depend upon the evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by the Company. That information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. In addition, concerns about, or a default by, one customer or counterparty could lead to significant liquidity problems, losses or defaults by other customers or counterparties, which in turn could adversely affect the Company. The Company may be materially and adversely affected in the event of a significant default by its customers and counterparties.

KCS’s business is subject to legislation enacted by Congress and state legislatures, and is subject to regulation by international, federal, state and local regulatory agencies, including environmental, health, safety laws, and regulations and tax that could require KCS to incur material costs or liabilities.

KCS is subject to legislation enacted by Congress and by state legislatures, and is subject to regulation by international, federal, state and local regulatory agencies with respect to railroad operations including the U.S. Department of Transportation, Surface Transportation Board, Federal Railroad Administration, Environmental

Protection Agency, Department of Homeland Security and others in the United States, the SCT in Mexico, as well as a variety of health, safety, labor, environmental, and other matters. Government regulation of the railroad industry is a significant determinant of the competitiveness and profitability of railroads.

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Additional or new economic regulation by Congress or by the Surface Transportation Board in current or future proceedings could change the regulatory framework within which the Company operates which could materially change the Company's business and have an adverse effect on the Company's consolidated financial statements.
As part of the Rail Safety Improvement Act of 2008 in the United States, Class I railroad carriers and passenger and commuter rail operators must implement positive train control (a technology designed to help prevent train-to-train collisions, overspeed derailments, incursions into rail work zones, and entry into main line track if a switch is misaligned) at certain locations (including main line track where toxic inhalation hazard or poison inhalation hazard movements occur or where passenger operations occur) by the end of 2015, which will add to operating costs, increase the number of employees the Company employs and require KCS to make significant investments in new safety technology.
KCS’s inadvertent failure or inability to comply with applicable laws and regulations could have a material adverse effect on the Company’s consolidated financial statements and operations, including limitations on operating activities until compliance with applicable requirements is achieved. These government agencies may change the legislative or regulatory framework within which the Company operates without providing any recourse for any adverse effects on the Company’s business that occur as a result of such change. Additionally, some of the regulations require KCS to obtain and maintain various licenses, permits and other authorizations. Any failure to maintain these licenses, permits, and other authorizations could adversely affect KCS’s business.
From time to time, certain KCS facilities have not been in compliance with environmental, health and safety laws and regulations and there can be no assurance that KCS will always be in compliance with such laws and regulations in the future. Environmental liability under federal and state law in the United States can also extend to previously owned or operated properties, leased properties and properties owned by third parties, as well as to properties currently owned and used by the Company. Environmental liabilities may also arise from claims asserted by adjacent landowners or other third parties. Given the nature of its business, the Company incurs, and expects to continue to incur, environmental compliance costs, including, in particular, costs necessary to maintain compliance with requirements governing chemical and hazardous material shipping operations, refueling operations and repair facilities. KCS presently has environmental investigation and remediation obligations at certain sites, and will likely incur such obligations at additional sites in the future. Liabilities accrued for environmental costs represent the Company’s best estimate of the probable future obligation for the remediation and settlement of these sites. Although the recorded liability is the best estimate of all probable costs, clean-up costs may exceed such estimates, due to various factors such as evolving environmental laws and regulations, changes in technology, the extent of other parties’ participation, developments in environmental surveys and studies, and the extent of corrective action that may ultimately be required. New laws and regulations, stricter enforcement of existing requirements, accidental spills, releases or violations or the discovery of previously unknown contamination could require KCS to incur costs or subject KCS to liabilities that could have a material adverse effect on KCS’s consolidated financial statements.
The Company’s Mexican operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment, including standards for, among other things, water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. Under applicable Mexican law and regulations, administrative and criminal proceedings may be brought and economic sanctions imposed against companies that violate environmental laws, and non-complying facilities may be temporarily or permanently closed. KCSM is also subject to the laws of various jurisdictions and international conferences with respect to the discharge of materials into the environment and to environmental laws and regulations issued by the governments of each of the Mexican states in which KCSM’s facilities are located. The terms of KCSM’s Concession from the Mexican government also impose environmental compliance obligations on KCSM. The Company cannot predict the effect, if any, that unidentified environmental matters or the adoption of additional or more stringent environmental laws and regulations would have on KCS’s consolidated financial statements. Failure to comply with any environmental laws or regulations may result in the termination of KCSM’s Concession or in fines or penalties that may affect profitability.
KCS is subject to income taxes as well as non-income based taxes, in both the United States and Mexico. Changes in tax rates, enactment of new tax laws, and revisions of tax regulations could have a material adverse effect on the

Company's consolidated financial statements. Additionally, the final determination of tax audits, claims or litigation could differ from what is reflected in KCS's financial statements.

KCS, as a common carrier by rail, is required by United States and Mexican laws to transport hazardous materials, which could expose KCS to significant costs and claims.

Under United States federal statutes and applicable Mexican laws, KCS’s common carrier responsibility requires it to transport hazardous materials. Any rail accident or other incident or accident on KCS’s network, facilities, or at the facilities of KCS’s customers involving the release of hazardous materials, including toxic inhalation hazard (or TIH) materials, could involve significant costs and claims for personal injury, property damage, and environmental penalties and remediation in excess of the Company’s insurance coverage for these risks, which could have a material adverse effect on KCS’s consolidated financial statements.

KCS’s business is vulnerable to rising fuel costs and disruptions in fuel supplies. Any significant increase in the cost of fuel that is not adequately covered by fuel surcharges, or severe disruption of fuel supplies, would have a material adverse effect on KCS’s consolidated financial statements.

KCS incurs substantial fuel costs in its railroad operations and these costs represent a significant portion of its transportation expenses. Significant price increases for fuel may have a material adverse effect on operating results. If KCS is unable to recapture its costs of fuel from its customers, operating results could be materially adversely affected. In addition, a severe disruption of fuel supplies resulting from supply shortages, political unrest, a disruption of oil imports, weather events, war, or otherwise, and the resulting impact on fuel prices could materially adversely affect KCS’s consolidated financial statements.

KCS currently meets, and expects to continue to meet, fuel requirements for its Mexican operations almost exclusively through purchases at market prices from PEMEX Refinación (“PEMEX”), the national oil company of Mexico, a government-owned entity exclusively responsible for the distribution and sale of diesel fuel in Mexico. KCSM is party to a fuel supply contract with PEMEX of indefinite duration based on market prices. Either party may terminate the contract upon 30 days written notice to the other at any time. If the fuel contract is terminated and KCSM is unable to acquire diesel fuel from alternate sources on acceptable terms, the Mexican operations could be materially adversely affected.

Market fluctuations could adversely impact KCS's operating results as it hedges certain transactions.

From time to time, KCS may use various financial instruments to reduce its exposure to various market risks, including interest rates, foreign currency, and fuel and commodity prices. While these financial instruments reduce the Company's exposure to changes in market risks, the use of such instruments may ultimately limit the Company's ability to benefit from favorable changes in underlying rates or prices due to amounts fixed at the time of entering into the hedge agreement.

The loss of key personnel could negatively affect business.

KCS’s success substantially depends on its ability to attract and retain key members of the senior management team and the principals of its foreign subsidiaries. Recruiting, motivating, and retaining qualified management personnel, particularly those with expertise in the railroad industry, are vital to operations and success. There is substantial competition for qualified management personnel and there can be no assurance that KCS will always be able to attract or retain qualified personnel. Employment agreements with senior management are terminable at any time by either party. If KCS loses one or more of these key executives or principals, its ability to successfully implement its business plans and the value of its common stock could be materially adversely affected.

A majority of KCS’s employees belong to labor unions. Strikes or work stoppages could adversely affect operations.

The Company is a party to collective bargaining agreements with various labor unions in the United States and Mexico. As of December 31, 2012, approximately 80% of KCSR and KCSM Servicios employees were covered by labor contracts subject to collective bargaining. The Company may be subject to, among other things, strikes, work stoppages or work slowdowns as a result of disputes under these collective bargaining agreements and labor contracts or KCS’s potential inability to negotiate acceptable contracts with these unions. In the United States, because such agreements are generally negotiated on an industry-wide basis, determination of the terms and conditions of labor agreements have been and could continue to be beyond KCS’s control. KCS may, therefore, be subject to terms and conditions in industry-wide labor agreements that could have a material adverse effect on its consolidated financial statements. If the unionized workers in the United States or Mexico were to engage in a strike, work stoppage or other slowdown; if other employees were to become unionized or if the terms and conditions in future labor agreements were renegotiated, KCS could experience a significant disruption of its operations and

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higher ongoing labor costs. Although the U.S. Railway Labor Act imposes restrictions on the right of United States railway workers to strike, there is no law in Mexico imposing similar restrictions on the right of railway workers in that country to strike.

KCS faces possible catastrophic loss and liability, and its insurance may not be sufficient to cover its damages or damages to others.

The operation of any railroad carries with it an inherent risk of catastrophe, mechanical failure, collision, and property loss. In the course of KCS's operations, spills or other environmental mishaps, cargo loss or damage, business interruption due to political developments, as well as labor disputes, strikes and adverse weather conditions, could result in a loss of revenues or increased liabilities and costs. Collisions, environmental mishaps, or other accidents can cause serious bodily injury, death and extensive property damage, particularly when such accidents occur in heavily populated areas. Additionally, KCS's operations may be affected from time to time by natural disasters such as earthquakes, volcanoes, floods, hurricanes or other storms. The occurrence of a major natural disaster could have a material adverse effect on KCS's consolidated financial statements. The Company maintains insurance that is consistent with industry practice against the accident-related risks involved in the conduct of its business, property damage and business interruption due to natural disasters. However, this insurance is subject to a number of limitations on coverage, depending on the nature of the risk insured against. This insurance may not be sufficient to cover KCS's damages or damages to others, and this insurance may not continue to be available at commercially reasonable rates. In addition, KCS is subject to the risk that one or more of its insurers may become insolvent and would be unable to pay a claim that may be made in the future. Even with insurance, if any catastrophic interruption of service occurs, KCS may not be able to restore service without a significant interruption to operations which could have an adverse effect on KCS's consolidated financial statements.

KCS's business may be affected by future acts of terrorism, war or other acts of violence or crime.

Terrorist attacks, such as an attack on the Company's chemical transportation activities, any government response thereto and war or risk of war may adversely affect KCS's consolidated financial statements. These acts may also impact the Company's ability to raise capital or its future business opportunities. KCS's rail lines and facilities could be direct targets or indirect casualties of acts of terror, which could cause significant business interruption and damage to KCS's property. In recent years, there have been reported incidents of train-related robberies in Mexico, including incidents involving KCSM's trains and infrastructure. Other acts of violence or crime could also adversely affect the Company's business.

As a result, acts of terrorism or war or acts of crime or violence could result in increased costs and liabilities and decreased revenues for KCS. In addition, insurance premiums charged for some or all of the applicable coverage currently maintained by KCS could increase dramatically or certain coverage may not be adequate to cover losses or may not be available in the future.

KCS's ownership of KCSM and operations in Mexico subject it to economic and political risks.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and on KCSM's operations in particular. KCS cannot predict the impact that the political landscape, including multiparty rule, will have on the Mexican economy. Furthermore, KCS's consolidated financial statements and prospects may be affected by currency fluctuations, inflation, interest rates, regulation, taxation and other political, social and economic developments in or affecting Mexico.

The Mexican economy in the past has suffered balance of payment deficits and shortages in foreign exchange reserves. Although Mexico has imposed foreign exchange controls in the past, there are currently no exchange controls in Mexico. Pursuant to the provisions of NAFTA, if Mexico experiences serious balance of payment difficulties or the threat of such difficulties in the future, Mexico would have the right to impose foreign exchange controls on investments made in Mexico, including those made by United States and Canadian investors. Any restrictive exchange control policy could adversely affect KCS's ability to obtain U.S. dollars or to convert Mexican pesos ("pesos" or "Ps.") into dollars for purposes of making interest and principal payments due on indebtedness, to the extent KCS may have to effect those conversions, and could adversely affect the Company's investment in KCSM.

This could have a material adverse effect on KCS's consolidated financial statements.

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Presidential and federal congress elections in Mexico were held resulting in a change in administration in December 2012. KCSM cannot predict whether changes in Mexican government policy will result from the change in administration; however, changes in laws, public policies and government programs could be enacted, which could have an adverse effect on the Company's consolidated financial statements.

Mexican national politicians are currently focused on certain regional, political and social tensions, and reforms regarding fiscal policies, gas, electricity, social security, and oil have not been and may not be approved. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on KCS's consolidated financial statements.

Downturns in the United States economy or in trade between the United States and Asia or Mexico and fluctuations in the peso-dollar exchange rates would likely have adverse effects on KCS's consolidated financial statements.

The level and timing of KCS's Mexican business activity is heavily dependent upon the level of United States-Mexican trade and the effects of NAFTA on such trade. The Mexican operations depend on the United States and Mexican markets for the products KCSM transports, the relative position of Mexico and the United States in these markets at any given time, and tariffs or other barriers to trade. Downturns in the United States or Mexican economies or in trade between the United States and Mexico would likely have adverse effects on KCS's consolidated financial statements and the Company's ability to meet debt service obligations. In addition, KCS has invested significant amounts in developing its intermodal operations, including the Port of Lazaro Cardenas, in part to provide Asian importers with an alternative to the west coast ports of the United States, and the level of intermodal traffic depends, to an extent, on the volume of Asian shipments routed through Lazaro Cardenas. Reduction in trading volumes, which may be caused by factors beyond KCS's control, including increased government regulations in light of recent concerns regarding the safety and quality of Asian-manufactured products, may adversely affect KCS's consolidated financial statements.

Also, fluctuations in the peso-dollar exchange rates could lead to shifts in the types and volumes of Mexican imports and exports. Although a decrease in the level of exports of some of the commodities that KCSM transports to the United States may be offset by a subsequent increase in imports of other commodities KCSM hauls into Mexico and vice versa, any offsetting increase might not occur on a timely basis, if at all. Future developments in United States-Mexican trade beyond the Company's control may result in a reduction of freight volumes or in an unfavorable shift in the mix of products and commodities KCSM carries.

Severe devaluation or depreciation of the peso may result in disruption of the international foreign exchange markets and may limit the ability to transfer pesos or to convert pesos into U.S. dollars for the purpose of making timely payments of interest and principal on the non-peso denominated indebtedness. Although the Mexican government currently does not restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer foreign currencies out of Mexico, the Mexican government could, as in the past, institute restrictive exchange rate policies that could limit the ability to transfer or convert pesos into U.S. dollars or other currencies for the purpose of making timely payments of the U.S. dollar-denominated debt and contractual commitments. Devaluation or depreciation of the peso against the U.S. dollar may also adversely affect U.S. dollar prices for KCS's securities.

Fluctuations in the peso-dollar exchange rates also have an effect on KCS's consolidated financial statements. A devaluation of the peso would cause reported peso-denominated revenues and expenses to decrease, and would increase reported foreign exchange loss due to the Company's net monetary assets that are peso-denominated. Exchange rate variations also affect the calculation of taxes under Mexican income tax law, and an appreciation of the peso would cause an increase in the Company's reported income tax provision and effective income tax rate.

Mexico may experience high levels of inflation in the future which could adversely affect KCS's consolidated financial statements.

Mexico has a history of high levels of inflation and may experience high inflation in the future. During most of the 1980s and during the mid and late 1990s, Mexico experienced periods of high levels of inflation. The annual rates of inflation for the last three years, as measured by changes in the National Consumer Price Index, as provided by Banco de México, were 3.6% in 2012, 3.8% in 2011 and 4.4% in 2010. A substantial increase in the Mexican inflation rate would have the effect of increasing some of KCSM's costs, which could adversely affect its consolidated financial statements. High levels of inflation may also affect the balance of trade between Mexico and the United States, and other countries, which could adversely affect KCSM’s consolidated financial statements.

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KCS may be subject to various claims and litigation that could have a material adverse effect on KCS's consolidated financial statements.

The Company may be exposed to the potential of various claims and litigation related to labor and employment, personal injury, commercial disputes, freight loss and other property damage, and other matters that arise in the normal course of business. Any material changes to litigation trends or a catastrophic rail accident or series of accidents involving any or all of property damage, personal injury, and environmental liability could have a material adverse effect on KCS's consolidated financial statements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Track Configuration

KCSR operates over a railroad system consisting of approximately 3,100 route miles in ten states extending from the midwest and southeast portions of the United States south to the Mexican border, and approximately 475 miles of trackage rights that permit KCSR to operate its trains with its crews over other railroads' tracks.

Under its Concession from the Mexican government, KCSM has the right to operate approximately 3,200 route miles, but does not own the land, roadway, or associated structures, and additionally has approximately 700 miles of trackage rights. The Concession requires KCSM to make investments as described in a business plan filed every five years with the Mexican government. See Item 1A, "Risk Factors — KCSM's Mexican Concession is subject to revocation or termination in certain circumstances which would prevent KCSM from operating its railroad and would have a material adverse effect on the Company's consolidated financial statements."

Equipment Configuration

As of December 31, 2012 and 2011, KCS leased and owned the following units of equipment:

	2012		2011	
	Leased	Owned	Leased	Owned
Locomotives	295	615	295	628
Rolling stock:				
Box cars	5,564	918	5,714	1,031
Hoppers	4,436	1,179	4,644	872
Gondolas	3,194	940	3,114	1,229
Auto racks	1,824	100	1,869	—
Tank cars	663	15	661	15
Flat cars (intermodal and other)	561	242	605	501
Total	16,242	3,394	16,607	3,648

Average Age (in Years) of Leased and Owned Locomotives:	2012	2011
Road locomotives	13.0	13.7
All locomotives	19.7	20.0

Property and Facilities

KCS operates numerous facilities, including terminals for intermodal and other freight, rail yards for train-building, switching, storage-in-transit (the temporary storage of customer goods in rail cars prior to shipment) and other activities; offices to administer and manage operations; dispatch centers to direct traffic on the rail network; crew quarters to house train crews along the rail line; and shops and other facilities for fueling, maintenance, and repair of locomotives and maintenance of freight cars and other equipment.

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Capital Expenditures

The Company’s cash capital expenditures for the three years ended December 31, 2012, 2011, and 2010, and planned 2013 capital expenditures are included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Expenditures”. See also Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Capitalization, Depreciation and Amortization of Property and Equipment (including Concession Assets)” regarding the Company’s policies and guidelines related to capital expenditures.

Item 3. Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. For more information on legal proceedings, see Item 1A, “Risk Factors — KCS may be subject to various claims and litigation that could have a material adverse effect on KCS’s consolidated financial statements,” Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Provision for Personal Injury Claims,” and — “Other Matters — Litigation,” and Item 8, “Financial Statements ar Supplementary Data — Note 14 Commitments and Contingencies”.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for KCS's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market Information
The Company's common stock is traded on the New York Stock Exchange under the ticker symbol "KSU". The following table presents for the quarters indicated the dividends declared and the high and low sales price of the Company's common and preferred stock.

	Fourth	Third	Second	First
2012				
Dividends per share:				
Common stock	$0.195	$0.195	$0.195	$0.195
$25 par preferred stock	0.250	0.250	0.250	0.250
Stock price ranges:				
$25 par preferred:				
— High	$26.50	$27.00	$26.00	$29.33
— Low	25.15	25.00	24.81	22.80
Common:				
— High	$84.16	$83.95	$79.50	$74.98
— Low	72.80	65.86	61.36	64.07
2011				
Dividends per share:				
$25 par preferred stock	$0.250	$0.250	$0.250	$0.250
$1 par series D preferred stock	—	—	—	12.810
Stock price ranges:				
$25 par preferred:				
— High	$27.17	$24.74	$24.31	$23.85
— Low	22.61	22.90	22.85	21.87
Common:				
— High	$70.48	$62.78	$59.50	$56.98
— Low	47.12	45.63	50.27	47.14

Dividend Policy
Common Stock. Under the terms of a previous credit agreement completed in 2006, KCS was prohibited from paying cash dividends on its common stock. During 2011, KCS entered into an amended and restated credit agreement (the "2011 KCSR Credit Agreement") which allowed KCS to pay cash dividends on its common stock, as well as other payments, in an amount up to and including the "Available Basket Amount" as defined in the agreement. In March 2012, KCS began declaring a quarterly cash dividend on its common stock. In November 2012, KCSR entered into an amended and restated credit agreement which removed the Available Basket Amount restriction on the Company's ability to pay cash dividends on its common stock. Any declaration and payment of dividends to holders of the Company's common stock are at the discretion of the Board of Directors, which depends on many factors, including the Company's financial condition, earnings, capital requirements and other factors that the Board of Directors deems relevant. Subject to these qualifications, the Company expects to continue to pay dividends on an ongoing basis.
Holders
There were 2,987 record holders of KCS common stock on January 28, 2013; however, the number of actual holders of KCS common stock is greater due to the practice of brokerage firms registering many shares for clients in the brokerage firm's name.

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Securities Authorized for Issuance Under Equity Compensation Plans

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information about securities authorized for issuance under KCS's equity compensation plans.

The Company maintains a 401(k) profit sharing plan, which is designed to meet the requirements of qualification under Section 401(a) of the Internal Revenue Code. Participants have the ability to direct the investment of their plan accounts among various investment alternatives, one of which is a KCS common stock fund. KCS registered 660,000 shares of common stock for issuance under the plan pursuant to a Form S-8 Registration Statement filed in December 2000. Since that time the third party record keeper for the plan has changed several times. Because certain of the record keepers cannot provide detailed records of the actual shares sold under the plan, KCS is unable to determine whether more than 660,000 shares have been purchased since the Form S-8 was originally filed. However, even if this share limit were exceeded, the Company does not believe the excess amount to be material. The Company filed a new Form S-8 on February 13, 2012 to register additional shares for use under the plan.

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Performance Graph

The following graph shows the changes in value over the five years ended December 31, 2012, of an assumed investment of $100 in: (i) KCS's common stock; (ii) the stocks that comprise the Dow Jones U.S. Industrial Transportation Index(1); and (iii) the stocks that comprise the S&P 500 Index(2). The table following the graph shows the value of those investments on December 31 for each of the years indicated. The values for the assumed investments depicted on the graph and in the table have been calculated assuming that any cash dividends are reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
Among Kansas City Southern, the S&P 500 Index
and the Dow Jones U.S. Industrial Transportation Index

	2007	2008	2009	2010	2011	2012
Kansas City Southern	100.00	55.49	96.97	139.41	198.11	245.74
S&P 500	100.00	63.00	79.67	91.67	93.61	108.59
Dow Jones U.S. Industrial Transportation	100.00	80.43	98.93	131.35	136.47	145.83

(1) The Dow Jones U.S. Industrial Transportation Index is a registered trademark of Dow Jones & Co., Inc., an independent company.

(2) The S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc. The S&P 500 Index reflects the weighted average market value for 500 companies whose shares are traded on the New York Stock Exchange, American Stock Exchange and the Nasdaq Stock Market.

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Item 6. Selected Financial Data

The selected financial data below (in millions, except per share amounts) should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included under Item 7 of this Form 10-K as well as the consolidated financial statements and the related notes.

	2012	2011	2010	2009	2008
Earnings From Continuing Operations					
Revenues	$2,238.6	$2,098.3	$1,814.8	$1,480.2	$1,852.1
Operating expenses (i) (ii)	1,522.7	1,486.7	1,328.3	1,213.4	1,464.7
Operating income	$715.9	$611.6	$486.5	$266.8	$387.4
Net income	$379.4	$331.9	$180.0	$68.1	$182.1
Earnings per common share:					
Basic	$3.44	$3.04	$1.69	$0.60	$1.99
Diluted	3.43	3.00	1.67	0.60	1.84
Financial Position					
Total assets	$6,395.9	$6,145.1	$5,627.9	$5,415.5	$5,394.7
Total debt obligations, including current portion	1,607.8	1,639.1	1,639.7	1,980.0	2,086.1
Total stockholders' equity	3,096.6	2,764.5	2,431.1	2,043.0	1,896.6
Total equity	3,400.7	3,058.7	2,713.7	2,325.8	2,170.3
Other Data Per Common Share					
Cash dividends declared per common share	$0.780	$—	$—	$—	$—

(i) During 2012, the Company recognized a pre-tax gain of $43.0 million within operating expenses for the elimination of a deferred statutory profit sharing liability, net as a result of the organizational restructuring during the period.

(ii) During 2011, the Company recognized a pre-tax gain of $25.6 million within operating expenses for insurance recoveries related to 2010 hurricane damage.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of Kansas City Southern's results of operations, certain changes in its financial position, liquidity, capital structure and business developments for the periods covered by the consolidated financial statements included under Item 8 of this Form 10-K. This discussion should be read in conjunction with the included consolidated financial statements, the related notes, and other information included in this report. Certain prior year amounts have been reclassified to conform to the current year presentation.

CAUTIONARY INFORMATION

The discussions set forth in this Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, management may make forward-looking statements orally or in other writings, including, but not limited to, in press releases, quarterly earnings calls, executive presentations, in the annual report to stockholders and in other filings with the Securities and Exchange Commission. Readers can identify these forward-looking statements by the use of such verbs as "expects," "anticipates," "believes" or similar verbs or conjugations of such verbs. These statements involve a number of risks and uncertainties. Actual results could materially differ from those anticipated by such forward-looking statements. Such differences could be caused by a number of factors or combination of factors including, but not limited to, the factors identified below and those discussed under Item 1A of this Form 10-K, "Risk Factors." Readers are strongly encouraged to consider these factors and the following factors when evaluating any forward-looking statements concerning the Company:

- fluctuations in the market price for the Company's common stock;
- KCS's dividend policy and limitations on its ability to pay dividends on its common stock;
- KCS's potential need for and ability to obtain additional financing;
- KCS's ability to successfully implement its business strategy, including the strategy to convert customers from using trucking services to rail transportation services;
- the impact of competition, including competition from other rail carriers, trucking companies and maritime shippers in the United States and Mexico;
- United States, Mexican and global economic, political and social conditions;
- the effects of the North American Free Trade Agreement, or NAFTA, on the level of trade among the United States, Mexico and Canada;
- uncertainties regarding the litigation KCS faces and any future claims and litigation;
- the effects of employee training, stability of the existing information technology systems, technological improvements and capital expenditures on labor productivity, operating efficiencies and service reliability;
- the adverse impact of any termination or revocation of KCSM's Concession by the Mexican government;
- legal or regulatory developments in the United States, Mexico or Canada;
- KCS's ability to generate sufficient cash, including its ability to collect on its customer receivables, to pay principal and interest on its debt, meet its obligations and fund its other liquidity needs;
- the effects of adverse general economic conditions affecting customer demand and the industries and geographic areas that produce and consume the commodities KCS carries;
- material adverse changes in economic and industry conditions, including the availability of short and long-term financing, both within the United States and Mexico and globally;
- natural events such as severe weather, fire, floods, hurricanes, earthquakes or other disruptions to the Company's operating systems, structures and equipment or the ability of customers to produce or deliver their products;
- market and regulatory responses to climate change;
- disruption in fuel supplies, changes in fuel prices and the Company's ability to assess fuel surcharges;
- KCS's ability to attract and retain qualified management personnel;
- changes in labor costs and labor difficulties, including work stoppages affecting either operations or customers' abilities to deliver goods for shipment;

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- credit risk of customers and counterparties and their failure to meet their financial obligations;
- the outcome of claims and litigation, including those related to environmental contamination, personal injuries, and occupational illnesses arising from hearing loss, repetitive motion and exposure to asbestos and diesel fumes;
- acts of terrorism, violence or crime or risk of such activities;
- war or risk of war;
- political and economic conditions in Mexico and the level of trade between the United States and Mexico; and
- legislative, regulatory, or legal developments involving taxation, including enactment of new foreign, federal or state income or other tax rates, revisions of controlling authority, and the outcome of tax claims and litigation.

Forward-looking statements reflect the information only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statements to reflect future events, developments, or other information. If KCS does update one or more forward-looking statements, no inference should be drawn that additional updates will be made regarding that statement or any other forward-looking statements.

CORPORATE OVERVIEW

Kansas City Southern, a Delaware corporation, is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. In the U.S., the Company serves the central and south central U.S. Its international holdings serve northeastern and central Mexico and the port cities of Lazaro Cardenas, Tampico and Veracruz, and a fifty percent interest in Panama Canal Railway Company provides ocean-to-ocean freight and passenger service along the Panama Canal. KCS's North American rail holdings and strategic alliances are primary components of a NAFTA railway system, linking the commercial and industrial centers of the U.S., Canada and Mexico. Its principal subsidiaries and affiliates include the following:

- The Kansas City Southern Railway Company ("KCSR"), a wholly-owned subsidiary;
- Kansas City Southern de México, S.A. de C.V. ("KCSM"), a wholly-owned subsidiary;
- Mexrail, Inc. ("Mexrail"), a wholly-owned consolidated subsidiary; which, in turn, wholly owns The Texas Mexican Railway Company ("Tex-Mex");
- Meridian Speedway, LLC ("MSLLC"), a seventy percent-owned consolidated affiliate;
- KCSM Servicios, S.A. de C.V. ("KCSM Servicios"), a wholly-owned subsidiary;
- Panama Canal Railway Company ("PCRC"), a fifty percent-owned unconsolidated affiliate, that provides international container shipping companies with a railway transportation option in lieu of the Panama Canal and the operations of PCRC's wholly-owned subsidiary, Panarail Tourism Company ("Panarail");
- Southern Capital Corporation, LLC ("Southern Capital"), a fifty percent-owned unconsolidated affiliate that owns and leases locomotives and other equipment;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. ("FTVM"), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and
- PTC-220, LLC ("PTC-220"), a fourteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for the deployment of positive train control.

EXECUTIVE SUMMARY

2012 Financial Overview

In 2012, the Company recognized record-high volumes and revenues. Record-breaking revenues of $2.2 billion were driven by strong growth in automotive and intermodal traffic. As revenues grew in most of the business units during the year, the Company's continued focus on operating expense control resulted in operating expenses as a percentage of revenues of 68.0%.

Revenues in 2012 increased 7% over 2011, driven primarily by positive pricing impacts, increased carloads/unit volumes and fuel surcharge, partially offset by the effect of fluctuations in the value of the Mexican peso against the U.S. dollar for revenues denominated in Mexican pesos. Operating expenses increased 2% compared to the same period in 2011 due primarily to higher diesel fuel prices and volumes. In addition, in 2011, the Company recognized a $25.6 million pre-tax gain on

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insurance recoveries within operating expenses as a result of the settlement of an insurance claim related to the 2010 hurricane damage. These increases were partially offset by a $43.0 million net reduction to operating expense due to the elimination of a deferred statutory profit sharing liability as a result of the organizational restructuring in the second quarter of 2012 and the effect of fluctuations in the value of the Mexican peso against the U.S. dollar for operating expenses denominated in Mexican pesos.

KCSM’s revenues and operating expenses are affected by fluctuations in the value of the Mexican peso against the U.S. dollar. Based on the volume of revenue and expense transactions denominated in Mexican pesos, revenue and expense fluctuations generally offset, with insignificant net impacts to operating income.

The Company reported 2012 earnings of $3.43 per diluted share on consolidated net income attributable to Kansas City Southern and subsidiaries of $377.3 million for the year ended December 31, 2012, compared to annual earnings of $3.00 per diluted share on consolidated net income attributable to Kansas City Southern and subsidiaries of $330.3 million for 2011.

During 2012, the Company’s Board of Directors declared quarterly cash dividends of $0.195 per share on its common stock.

During the past three years, KCS has consistently focused on opportunities to refinance or repay outstanding debt and strengthen its financial position. These efforts reduced interest expense for the year ended December 31, 2012 by $28.7 million compared to the prior year. Additionally during 2012, the Company further strengthened its financial position and flexibility by amending its KCSR and KCSM revolver facilities which extended the maturity dates, eliminated or modified a number of restrictive covenants in its facilities in order to achieve consistency between its facilities and firms with investment grade ratings, and allows for the facilities to convert from secured to unsecured obligations upon attainment of investment grade credit ratings. In the fourth quarter of 2012, the KCSR credit facility converted from a secured to an unsecured obligation.

RESULTS OF OPERATIONS

Year Ended December 31, 2012, compared with the Year Ended December 31, 2011

The following summarizes KCS’s consolidated income statement components (in millions):

	2012	2011	Change Dollars
Revenues	$2,238.6	$2,098.3	$140.3
Operating expenses	1,522.7	1,486.7	36.0
Operating income	715.9	611.6	104.3
Equity in net earnings of unconsolidated affiliates	19.3	18.2	1.1
Interest expense	(100.4)	(129.1)	28.7
Debt retirement costs	(20.1)	(38.7)	18.6
Foreign exchange gain (loss)	2.7	(9.2)	11.9
Other income (expense), net	(1.0)	2.2	(3.2)
Income before income taxes	616.4	455.0	161.4
Income tax expense	237.0	123.1	113.9
Net income	379.4	331.9	47.5
Less: Net income attributable to noncontrolling interest	2.1	1.6	0.5
Net income attributable to Kansas City Southern and subsidiaries	$377.3	$330.3	$47.0

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Revenues

The following summarizes revenues (in millions), carload/unit statistics (in thousands) and revenue per carload/unit:

	Revenues			Carloads and Units			Revenue per Carload/Unit		
	2012	2011	% Change	2012	2011	% Change	2012	2011	% Change
Chemical and petroleum	$410.3	$396.3	4 %	246.8	252.1	(2 %)	$1,662	$1,572	6 %
Industrial and consumer products	551.1	503.6	9 %	336.1	326.6	3 %	1,640	1,542	6 %
Agriculture and minerals	400.5	415.6	(4 %)	218.9	238.6	(8 %)	1,830	1,742	5 %
Energy (i)	312.8	317.4	(1 %)	292.4	312.0	(6 %)	1,070	1,017	5 %
Intermodal	306.5	251.8	22 %	914.2	798.8	14 %	335	315	6 %
Automotive	174.4	139.2	25 %	103.7	85.6	21 %	1,682	1,626	3 %
Carload revenues, carloads and units	2,155.6	2,023.9	7 %	2,112.1	2,013.7	5 %	$1,021	$1,005	2 %
Other revenue	83.0	74.4	12 %						
Total revenues (ii)	$2,238.6	$2,098.3	7 %						

(ii) Included in revenues:		
Fuel surcharge	$282.1	$244.6

(i) Effective January 1, 2012, the Company established the Energy commodity group, which includes the previous Coal commodity group and certain amounts previously included within the Agriculture and minerals and Chemical and petroleum commodity groups. Prior period amounts have been reclassified to conform to the current year presentation.

Freight revenues include both revenue for transportation services and fuel surcharges. For the year ended December 31, 2012, revenues increased $140.3 million compared to the prior year, primarily due to positive pricing impacts, increased carloads/unit volumes and fuel surcharge, partially offset by the effect of fluctuations in the value of the Mexican peso against the U.S. dollar for revenues denominated in Mexican pesos. Revenue per carload/unit increased by 2% for the year ended December 31, 2012, compared to the prior year, reflecting commodity mix.

KCS's fuel surcharge is a mechanism to adjust revenue based upon changing fuel prices. Fuel surcharges are calculated differently depending on the type of commodity transported. For most commodities, fuel surcharge is calculated using a fuel price from a prior time period that can be up to 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge may differ.

The following discussion provides an analysis of revenues by commodity group:

Revenues by commodity group for 2012

Chemical and petroleum. Revenues increased $14.0 million for the year ended December 31, 2012, compared to 2011, primarily due to increases in pricing and fuel surcharge, partially offset by decreases in volume and fluctuations in the value of the Mexican peso against the U.S. dollar. Revenues increased due to positive pricing impacts for plastics, gases and chemicals used to manufacture glass and other industrial products. Petroleum volumes decreased primarily due to a customer's lost business.

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Revenues by commodity group for 2012

Industrial and consumer products. Revenues increased $47.5 million for the year ended December 31, 2012, compared to 2011, primarily due to increases in pricing, volume and fuel surcharge. Metals and scrap revenues grew primarily due to increases in pricing and high demand for slab and steel coil driven by strength in the automotive and oil and gas industries. Paper product revenue increased primarily due to improved pricing.

Agriculture and minerals. Revenues decreased $15.1 million for the year ended December 31, 2012, compared to 2011, primarily due to decreases in volume and fluctuations in the value of the Mexican peso against the U.S. dollar, partially offset by increases in pricing and fuel surcharge. Food products volumes decreased due to lost cross border corn syrup business and lower dried distillers grain volume. In addition, ores and minerals volumes decreased primarily due to a customer's lost business and grain volumes decreased primarily as a result of the severe drought conditions experienced in the United States.

Energy. Revenues decreased $4.6 million for the year ended December 31, 2012, compared to 2011, primarily due to a decrease in volume and fluctuations in the value of the Mexican peso against the U.S. dollar, partially offset by increases in pricing and fuel surcharge. Utility coal revenues decreased due to a reduction in demand as a result of utility maintenance outages, historic low natural gas prices and a warmer than average winter. Frac sand volumes and pricing increased as a result of new business and a strong demand due to higher crude oil prices. Crude oil volume increased as a result of higher demand for domestic crude oil delivered by rail.

Intermodal. Revenues increased $54.7 million for the year ended December 31, 2012, compared to 2011, primarily due to increases in volume due to strong cross border auto parts business, conversion of truck traffic to rail and Trans-Pacific imports via the Port of Lazaro Cardenas.

Automotive. Revenues increased $35.2 million for the year ended December 31, 2012, compared to 2011, primarily due to increases in volume and pricing, partially offset by fluctuations in the value of the Mexican peso against the U.S. dollar. The increase was driven by strong year over year growth in North American automobile sales for Original Equipment Manufacturers, increased import/export volume through the Port of Lazaro Cardenas and increased length of haul through new cross border vehicle routings.

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Operating Expenses

Operating expenses, as shown below (in millions), increased $36.0 million for the year ended December 31, 2012, when compared to the same period in 2011, primarily due to the gain on insurance recoveries recognized in 2011 related to the 2010 hurricane damage, higher diesel fuel prices and carload/unit volumes. These increases were partially offset by the elimination of the deferred Mexican statutory profit sharing liability as a result of the organizational restructuring in 2012. In addition, increases in operating expenses for the year ended December 31, 2012, compared to the same period in 2011, were partially offset by the fluctuations in the value of the Mexican peso against the U.S. dollar for operating expenses denominated in Mexican pesos.

	2012	2011	Change Dollars	Percent
Compensation and benefits	$430.5	$423.8	$6.7	2%
Purchased services	219.8	204.8	15.0	7%
Fuel	359.6	346.5	13.1	4%
Equipment costs	167.1	172.0	(4.9)	(3%)
Depreciation and amortization	198.8	186.2	12.6	7%
Materials and other	189.9	179.0	10.9	6%
Elimination of deferred statutory profit sharing liability, net	(43.0)	—	(43.0)	100%
Gain on insurance recoveries related to hurricane damage	—	(25.6)	25.6	(100%)
Total operating expenses	$1,522.7	$1,486.7	$36.0	2%

Compensation and benefits. Compensation and benefits increased $6.7 million for the year ended December 31, 2012, compared to 2011, primarily due to increased incentive compensation expense, annual salary and benefit rate increases and increased carload/unit volumes. These increases were partially offset by reduced Mexican statutory profit sharing expense as a result of the organizational restructuring in the second quarter of 2012, and the fluctuations in the value of the Mexican peso against the U.S. dollar.

Purchased services. Purchased services increased $15.0 million for the year ended December 31, 2012, compared to 2011, due to higher joint facility income recognized in the second half of 2011 as a result of non-recurring usage of certain trackage rights and increases in volume-sensitive costs, primarily joint facility expenses and security services.

Fuel. Fuel expense increased $13.1 million for the year ended December 31, 2012, compared to 2011, primarily due to higher diesel fuel prices and higher consumption. These increases were partially offset by the fluctuations in the value of the Mexican peso against the U.S. dollar and improved fuel efficiency. The net average fuel price per gallon increased by approximately 4% in 2012 as compared to 2011.

Equipment costs. Equipment costs decreased $4.9 million for the year ended December 31, 2012, compared to 2011, primarily due to lower locomotive lease expense due to the acquisition of 75 locomotives during the third quarter of 2011, which were previously leased by the Company under an operating lease agreement. This decrease was partially offset by an increase in the use of other railroads' freight cars due to increased traffic volumes.

Depreciation and amortization. Depreciation and amortization increased $12.6 million for the year ended December 31, 2012, compared to 2011, primarily due to a larger asset base.

Materials and other. Materials and other increased $10.9 million for the year ended December 31, 2012, compared to 2011, primarily due to the recognition of a larger reduction in the personal injury liability during the year ended December 31, 2011, as compared to the same period in 2012, and increases in concession duty expense, employee expenses, bulk-handling facility expense and property tax expense. These increases were partially offset by lower casualty expense. KCSM paid concession duty expense of 0.5% of gross revenues for the first 15 years of the Concession period, and on June 24, 2012, KCSM began paying 1.25% of gross revenues, which is effective for the remaining years of the Concession.

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Elimination of deferred statutory profit sharing liability, net. As a result of the organizational restructuring in the second quarter of 2012, KCSM's obligation to pay Mexican statutory profit sharing terminated as of May 1, 2012, and accordingly, KCSM recognized a $43.0 million net reduction to operating expense. This reduction includes the elimination of $47.8 million of the deferred Mexican statutory profit sharing liability, net of $4.8 million of transaction costs.
Gain on insurance recoveries related to hurricane damage. In the third quarter of 2011, the Company settled its insurance claims related to the 2010 hurricane damage and recognized a $25.6 million gain on insurance recoveries which primarily represented the recovery of lost profits and the replacement value of property in excess of its carrying value, net of the self-insured retentions.

Non-Operating Expenses
Equity in net earnings of unconsolidated affiliates. Equity in net earnings from unconsolidated affiliates increased $1.1 million for the year ended December 31, 2012, compared to 2011. Significant components of this change were as follows:

- Equity in earnings of Southern Capital increased by $0.6 million for the year ended December 31, 2012, compared to 2011, primarily due to increased gain on sale of assets.
- Equity in earnings of FTVM increased by $0.4 million for the year ended December 31, 2012, compared to 2011, primarily due to an increase in volumes.

Interest expense. Interest expense decreased $28.7 million for the year ended December 31, 2012, compared to 2011, primarily due to lower average interest rates as a result of the Company's refinancing activities and the redemption of the 13.0% senior unsecured notes due December 15, 2013 (the "13.0% Senior Notes") on December 15, 2011.
Debt retirement costs. Debt retirement costs were $20.1 million and $38.7 million for the years ended December 31, 2012 and 2011, respectively. During the fourth quarter of 2012, KCSR and KCSM entered into amended and restated credit agreements and recognized $2.1 million in debt issuance costs related to the amended credit agreements. On June 1, 2012, the Company redeemed the remaining $100.3 million principal amount of the outstanding 8.0% Senior Notes due June 1, 2015 (the "8.0% Senior Notes"), issued by KCSR, and recognized debt retirement costs of $5.1 million related to the call premium and the write-off of unamortized debt issuance costs. On February 24, 2012, KCSR purchased $174.7 million principal amount of the 8.0% Senior Notes, and recognized debt retirement costs of $12.9 million related to the tender premium and the write-off of unamortized debt issuance costs. On December 15, 2011, the Company redeemed all of the outstanding $123.5 million aggregate principal amount of the 13.0% Senior Notes and recognized $24.5 million in debt retirement costs related to the call premium and the write-off of unamortized debt issuance costs. On July 12, 2011, KCSR entered into an amended and restated credit agreement and wrote off $3.9 million in unamortized debt issuance costs related to the previous credit agreement. During 2011, KCSM purchased and redeemed the remaining $32.4 million principal amount of its 7$^{5}/_{8}$% senior unsecured notes due December 1, 2013 (the "7$^{5}/_{8}$% Senior Notes") and all of the outstanding $165.0 million aggregate principal amount of its 7$^{3}/_{8}$% senior unsecured notes due June 1, 2014 (the "7$^{3}/_{8}$% Senior Notes"). KCSM recognized associated debt retirement cost of $10.3 million related to the call and tender premiums and the write-off of unamortized debt issuance costs.
Foreign exchange. Fluctuations in the value of the Mexican peso against the U.S. dollar for the years ended December 31, 2012 and 2011 resulted in a foreign exchange gain of $2.7 million and a foreign exchange loss of $9.2 million, respectively.
Other income (expense), net. Other income (expense), net, decreased $3.2 million for the year ended December 31, 2012 compared to the same period in 2011, primarily due to lower miscellaneous income.
Income tax expense. Income tax expense increased $113.9 million for the year ended December 31, 2012, compared to 2011, due to higher pre-tax income and a higher effective tax rate primarily due to foreign exchange rate fluctuations. The increase in the effective tax rate was partially offset by the reduction of a deferred tax asset valuation allowance in 2012 related to state net operating losses. The effective income tax rate was 38.4% and 27.1% for the years ended December 31, 2012 and 2011, respectively.

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Year Ended December 31, 2011, compared with the Year Ended December 31, 2010
The following summarizes KCS's consolidated income statement components (in millions):

	2011	2010	Change Dollars
Revenues	$2,098.3	$1,814.8	$283.5
Operating expenses	1,486.7	1,328.3	158.4
Operating income	611.6	486.5	125.1
Equity in net earnings of unconsolidated affiliates	18.2	19.7	(1.5)
Interest expense	(129.1)	(158.1)	29.0
Debt retirement costs	(38.7)	(68.3)	29.6
Foreign exchange gain (loss)	(9.2)	4.7	(13.9)
Other income, net	2.2	4.7	(2.5)
Income before income taxes	455.0	289.2	165.8
Income tax expense	123.1	109.2	13.9
Net income	331.9	180.0	151.9
Less: Net income (loss) attributable to noncontrolling interest	1.6	(0.2)	1.8
Net income attributable to Kansas City Southern and subsidiaries	$330.3	$180.2	$150.1

Revenues
The following summarizes revenues (in millions), carload/unit statistics (in thousands) and revenue per carload/unit:

	Revenues			Carloads and Units			Revenue per Carload/Unit		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Chemical and petroleum	$396.3	$362.2	9%	252.1	248.5	1%	$1,572	$1,458	8%
Industrial and consumer products	503.6	426.7	18%	326.6	309.9	5%	1,542	1,377	12%
Agriculture and minerals	415.6	405.5	2%	238.6	251.4	(5%)	1,742	1,613	8%
Energy (i)	317.4	263.2	21%	312.0	300.1	4%	1,017	877	16%
Intermodal	251.8	194.2	30%	798.8	678.4	18%	315	286	10%
Automotive	139.2	97.7	42%	85.6	71.1	20%	1,626	1,374	18%
Carload revenues, carloads and units	2,023.9	1,749.5	16%	2,013.7	1,859.4	8%	$1,005	$941	7%
Other revenue	74.4	65.3	14%						
Total revenues (ii)	$2,098.3	$1,814.8	16%						
(ii) Included in revenues:									
Fuel surcharge	$244.6	$156.1							

(i) Effective January 1, 2012, the Company established the Energy commodity group, which includes the previous Coal commodity group and certain amounts previously included within the Agriculture and minerals and Chemical and petroleum commodity groups. Prior period amounts have been reclassified to conform to the current year presentation.

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Freight revenues include both revenue for transportation services and fuel surcharges. For the year ended December 31, 2011, revenues increased $283.5 million compared to the prior year, primarily due to positive pricing impacts, increase in carload/unit volumes and increased fuel surcharge. The effect of fluctuations in the value of the Mexican peso against the U.S. dollar was not significant.

KCS's fuel surcharge is a mechanism to adjust revenue based upon changing fuel prices. Fuel surcharges are calculated differently depending on the type of commodity transported. For most commodities, fuel surcharge is calculated using a fuel price from a prior time period that can be as much as 60 days earlier. In a period of volatile fuel prices or changing customer business mix, changes in fuel expense and fuel surcharge may significantly differ.

The following discussion provides an analysis of revenues by commodity group:

Revenues by commodity
group for 2011

Chemical and petroleum. Revenues increased $34.1 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in pricing, fuel surcharges, and volume. In the first three quarters of the year, petroleum revenues increased due to a Mexican government initiated oil export program that began in 2010 and effectively increased length of haul. Additionally, petroleum revenues increased due to higher volumes of crude oil refined in the Gulf due to increased demand from domestic oil sources. During this time period, revenues increased in plastics and chemicals used to manufacture glass and paint as a result of continuing growth in the automotive industry. However, volumes in the fourth quarter of 2011 were impacted due to temporary customer outages and inventory destocking.

Industrial and consumer products. Revenues increased $76.9 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in pricing, volume and fuel surcharge. Metals and scrap business growth was primarily due to increased demand for slab and steel coil driven by continuing growth in the automotive industry and appliance manufacturing, as well as increases in demand for pipe. Paper product revenue increased primarily due to increased rail market share as truck capacity tightened. Additionally, the general economic recovery has increased demand for paper-based packaging.

Agriculture and minerals. Revenues increased $10.1 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in pricing and fuel surcharge. These increases were partially offset by a decrease in grain volume and average length of haul in the first quarter of 2011 as traffic patterns shifted due to a decline in cross border traffic into Mexico as availability of crops from a strong Mexico harvest was sufficient to meet the local demand.

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Revenues by commodity group for 2011

Energy. Revenues increased $54.2 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in pricing, fuel surcharge and volume. Revenues to existing electric generation customers increased due to re-pricing of coal contracts in the second half of 2010.

Intermodal. Revenues increased $57.6 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in volume. Growth was driven by increased domestic and cross border business, conversion of truck traffic to rail and South American/trans-Pacific container volume.

Automotive. Revenues increased $41.5 million for the year ended December 31, 2011, compared to 2010, primarily due to increases in volume and pricing. The volume increase was driven by strong year over year growth in North American automobile sales for Original Equipment Manufacturers, new cross border vehicle routings, increased import/export volume through the Port of Lazaro Cardenas and the shipment of new automobile models.

Operating Expenses

Operating expenses, as shown below (in millions), increased $158.4 million for the year ended December 31, 2011, when compared to the same period in 2010, primarily due to higher volumes, increases in fuel prices and compensation and benefit rates. These increases were partially offset by the gain on insurance recoveries related to the 2010 hurricane damage recognized in 2011. The effect of fluctuations in the value of the Mexican peso against the U.S. dollar was not significant.

	2011	2010	Change Dollars	Change Percent
Compensation and benefits	$423.8	$369.3	$54.5	15 %
Purchased services	204.8	189.1	15.7	8 %
Fuel	346.5	263.6	82.9	31 %
Equipment costs	172.0	162.4	9.6	6 %
Depreciation and amortization	186.2	184.9	1.3	1 %
Materials and other	179.0	159.0	20.0	13 %
Gain on insurance recoveries related to hurricane damage	(25.6)	—	(25.6)	100 %
Total operating expenses	$1,486.7	$1,328.3	$158.4	12 %

Compensation and benefits. Compensation and benefits increased $54.5 million for the year ended December 31, 2011, compared to 2010, primarily due to annual salary and benefit rate increases and increased carload/unit volumes. In addition, in the third quarter of 2010, the Company recorded a decrease of $6.2 million in its postemployment benefit obligations as a result of the completion of negotiations with the Mexican labor union.

Purchased services. Purchased services increased $15.7 million for the year ended December 31, 2011, compared to 2010, due to increases in volume-sensitive costs, primarily locomotive maintenance expense, freight car repairs, truck and terminal services, security and an increase in track structure maintenance expense. These increases were partially offset by higher net joint facility income in the second half of 2011 as a result of non-recurring usage of certain trackage rights.

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Fuel. Fuel expense increased $82.9 million for the year ended December 31, 2011, compared to 2010, primarily due to higher diesel fuel prices as the net average fuel price per gallon increased by approximately 22%, and higher consumption due to an increase in carload/unit volumes.
Equipment costs. Equipment costs increased $9.6 million for the year ended December 31, 2011, compared to 2010 primarily due to the increase in the use of other railroads' freight cars due to increased traffic volumes. These increases were partially offset by lower locomotive lease expense primarily due to the acquisition of 75 locomotives during the third quarter of 2011, which were previously leased by the Company under an operating lease agreement.
Depreciation and amortization. Depreciation and amortization increased $1.3 million for the year ended December 31, 2011, compared to 2010, primarily due to a larger asset base offset by changes in depreciation rates on certain locomotives and road assets based on reassessment of the adequacy of the accumulated depreciation provisions, asset usage and replacement patterns, which were effective October 1, 2010.
Materials and other. Materials and other increased $20.0 million for the year ended December 31, 2011, compared to 2010, primarily due to higher materials and supplies expense and casualty expense.
Gain on insurance recoveries related to hurricane damage. In the third quarter of 2011, the Company settled its insurance claims related to the 2010 hurricane damage and recognized a $25.6 million gain on insurance recoveries which primarily represents the recovery of lost profits and the replacement value of property in excess of its carrying value, net of the self-insured retentions.

Non-Operating Expenses
Equity in net earnings of unconsolidated affiliates. Equity in earnings from unconsolidated affiliates decreased $1.5 million for the year ended December 31, 2011, compared to 2010. Significant components of this change were as follows:

- Equity in earnings of PCRC increased by $2.7 million for the year ended December 31, 2011, compared to 2010, primarily due to an increase in container volume attributable to the improvement in the economy.
- Equity in earnings of Southern Capital decreased by $3.5 million for the year ended December 31, 2011, compared to 2010, primarily due to recognizing a gain on sale of railcars and other equipment in 2010.
- KCSM's equity in earnings of FTVM decreased by $0.4 million for the year ended December 31, 2011, compared to 2010, primarily due to higher operating expenses.

Interest expense. Interest expense decreased $29.0 million for the year ended December 31, 2011, compared to 2010, primarily due to lower average interest rates and average debt balances. For the years ended December 31, 2011 and 2010, the average debt balances were $1,656.7 million and $1,787.5 million, respectively.
Debt retirement costs. Debt retirement costs were $38.7 million and $68.3 million for the years ended December 31, 2011 and 2010, respectively. On December 15, 2011, the Company redeemed all of the outstanding $123.5 million aggregate principal amount of the 13.0% Senior Notes and recognized $24.5 million in debt retirement costs related to the call premium and the write-off of unamortized debt issuance costs. On July 12, 2011, KCSR entered into an amended and restated credit agreement and wrote off $3.9 million in unamortized debt issuance costs related to the previous credit agreement. During 2011, KCSM purchased and redeemed the remaining $32.4 million principal amount of its $7^5/_8$% Senior Notes and all of the outstanding $165.0 million aggregate principal amount of its $7^3/_8$% Senior Notes. KCSM recognized associated debt retirement cost of $10.3 million related to the call and tender premiums and the write-off of unamortized debt issuance costs. On December 20, 2010, KCSM purchased $142.6 million principal amount of the $7^5/_8$% Senior Notes and $31.9 million principal amount of the $12^1/_2$% senior unsecured notes due April 1, 2016 (the "$12^1/_2$% Senior Notes") and recognized debt retirement costs of $19.0 million related to the tender premiums and the write-off of unamortized debt issuance costs and original issue discount. On September 30, 2010, KCSM redeemed the remaining $63.7 million principal amount of the $9^3/_8$% senior unsecured notes due May 1, 2012 (the "$9^3/_8$% Senior Notes") and recognized debt retirement costs of $1.9 million related to the call premium and the write-off of unamortized debt issuance costs. On June 4, 2010 the Company redeemed $66.5 million principal amount of the 13.0% Senior Notes issued by KCSR, $70.0 million principal amount of the $12^1/_2$% Senior Notes issued by KCSM and $100.0 million principal amount of the $9^3/_8$% Senior Notes issued by KCSM, and paid $19.7 million of call premiums and other expenses related to the redemptions. In addition, the Company

wrote-off $12.8 million of unamortized debt issuance costs and original issue discounts associated with the redemption of the notes. In the first quarter of 2010, KCSM

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purchased $296.3 million of the $9^3/_8$% Senior Notes. The Company recorded debt retirement costs of $14.9 million related to the tender premium and the write-off of unamortized debt issuance costs.

Foreign exchange. Fluctuations in the value of the Mexican peso against the U.S. dollar for the years ended December 31, 2011 and 2010 resulted in a foreign exchange loss of $9.2 million and a foreign exchange gain of $4.7 million, respectively.

Other income, net. Other income, net, decreased $2.5 million for the year ended December 31, 2011 compared to the same period in 2010, primarily due to lower gains on sale of land and miscellaneous income.

Income tax expense. Income tax expense increased $13.9 million for the year ended December 31, 2011, compared to 2010, due to higher pre-tax income partially offset by a lower effective income tax rate. The effective income tax rate was 27.1% and 37.8% for the years ended December 31, 2011 and 2010, respectively. The decrease in the effective tax rate was due to foreign exchange rate fluctuations, partially offset by the recognition of a tax benefit in 2010 for the reduction of a deferred tax asset valuation allowance in Mexico.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In recent years, KCS has improved its financial strength and flexibility by decreasing leverage, extending debt maturities, increasing liquidity and reducing interest expense and preferred stock dividends. In 2012, KCS completed an amendment to its KCSR and KCSM credit facilities which extended the maturity dates, eliminated or modified a number of restrictive covenants in its facilities in order to achieve consistency between its facilities and firms with investment grade ratings, and allows for the facilities to convert from secured to unsecured obligations upon attainment of investment grade credit ratings.

Though KCS's cash flows from operations are sufficient to fund operations, capital expenditures, debt service and dividends, the Company may, from time to time, use external sources of cash (principally bank debt, public and private debt, and leases) to refinance existing indebtedness and to fund new investments and equipment additions. On December 31, 2012, total available liquidity (the unrestricted cash balance plus revolving credit facility availability) was $467.3 million, compared to available liquidity at December 31, 2011 of $422.4 million. As of December 31, 2012, the total cash and cash equivalents held outside of the U.S. in foreign subsidiaries was $38.7 million. This cash is available to fund company operations without incurring additional income taxes.

During 2012, the Company's Board of Directors declared quarterly cash dividends of $0.195 per share on its common stock. On January 28, 2013, the Company's Board of Directors declared a cash dividend of $0.215 per share payable on April 3, 2013, to common stockholders of record as of March 11, 2013. Subject to the discretion of the Board of Directors, capital availability and a determination that cash dividends continue to be in the best interest of its stockholders, the Company intends to pay a quarterly dividend on an ongoing basis.

The Company believes, based on current expectations, that cash and other liquid assets, operating cash flows, access to debt and equity capital markets, and other available financing resources will be sufficient to fund anticipated operating expenses, capital expenditures, debt service costs, dividends and other commitments in the foreseeable future.

KCS's primary sources of liquidity are cash flows generated from operations, borrowings under its revolving credit facilities and access to debt and equity capital markets. Although KCS has had adequate access to the capital markets, the financial terms under which funding has been obtained contain restrictive covenants which limit or preclude certain actions, including among others, creating or suffering to exist additional liens, selling certain assets, and engaging in mergers and consolidations transactions. The KCSM revolving credit facility contains additional negative covenants, including but not limited to, KCSM's ability to freely deploy proceeds in excess of pre-defined thresholds from insurance settlements or asset sales, make certain investments, engage in transactions with stockholders and affiliates, or engage in sale-leaseback transactions. The first of the aforementioned negative covenants terminates upon conversion of KCSM's revolving credit facility from secured to unsecured upon KCSM's attainment of investment grade credit ratings from at least two of the three primary rating agencies. Though these covenants may restrict or prohibit certain activities, the covenants contain a number of qualifications, thresholds and exceptions that provide the Company with what management believes is a sufficient degree of flexibility to conduct its operations. The Company was in compliance with all of its debt covenants as of December 31, 2012.

KCS's operating results and financing alternatives can be unexpectedly impacted by various factors, some of which are outside of its control. For example, if KCS were to experience a reduction in revenues or a substantial increase in operating costs or other liabilities, its earnings could be significantly reduced, increasing the risk of non-compliance with debt covenants. Additionally, the Company is subject to external factors impacting debt and equity capital markets and its ability to obtain financing under reasonable terms is subject to market conditions. Volatility in capital markets and the tightening of market liquidity could impact KCS's access to capital. Further, KCS's cost of debt can be impacted by independent rating agencies which assign debt ratings based on certain factors including credit measurements such as interest coverage and leverage ratios, liquidity and competitive position.

Three credit rating agencies provide their views of the Company's outlook and ratings. In the third quarter of 2012, Fitch Ratings ("Fitch") initiated coverage of KCS and KCSR and assigned an investment grade rating to the KCSR Credit Agreement. Fitch also assigned an investment grade Issuer Default Rating ("IDR") to KCS and KCSR. In addition, Fitch upgraded KCSM's IDR and senior unsecured debt rating to investment grade. Standard & Poor's Rating Services ("S&P") rates the unsecured KCSR Credit Agreement and secured KCSM Agreement as investment grade but the remaining debt, preferred stock and corporate credit of KCS, KCSR and KCSM as non-investment grade. In the fourth quarter of 2012, Moody's Investor Service ("Moody's") upgraded KCSR's senior unsecured debt to investment grade, assigned an investment grade rating to the unsecured KCSR Credit Agreement, and upgraded the rating on the secured KCSM Agreement to investment grade. Moody's rates the remaining debt and corporate credit of KCSM as non-investment grade. Ratings and outlooks change from time to time and can be found on the websites of S&P, Moody's and Fitch.

Cash Flow Information and Contractual Obligations

Summary cash flow data follows (in millions):

	2012	2011	2010
Cash flows provided by (used for):			
Operating activities	$673.2	$638.0	$496.3
Investing activities	(551.9)	(510.4)	(311.5)
Financing activities	(121.1)	(140.6)	(216.9)
Net increase (decrease) in cash and cash equivalents	0.2	(13.0)	(32.1)
Cash and cash equivalents beginning of year	72.4	85.4	117.5
Cash and cash equivalents end of year	$72.6	$72.4	$85.4

During 2012, cash and cash equivalents increased $0.2 million as increased cash flows from operating activities were used to fund investing activities, to refinance and reduce outstanding debt and to pay dividends on common stock. During 2011, cash and cash equivalents decreased $13.0 million, as increased cash flows from operating activities were used to fund investing activities and to refinance and reduce outstanding debt.

Operating Cash Flows. Net operating cash flows for 2012 increased $35.2 million to $673.2 million. The increase in operating cash flows was primarily a result of increased net income. The increase was partially offset by insurance proceeds of $40.2 million related to hurricane damage received during 2011. Net operating cash flows for 2011 increased $141.7 million to $638.0 million. The increase in operating cash flows was primarily a result of increased net income from positive pricing impacts, higher carload/unit volumes and the receipt of insurance proceeds related to the 2010 hurricane damage. These increases were partially offset by changes in working capital items, resulting mainly from the timing of certain payments and receipts.

Investing Cash Flows. Net investing cash outflows were $551.9 million and $510.4 million during 2012 and 2011, respectively. This $41.5 million increase was primarily due to an increase in capital expenditures and insurance proceeds related to the 2010 hurricane damage received during 2011. Insurance proceeds recognized in investing cash flows were related to proceeds from property damage. All other insurance proceeds related to hurricane damage were recognized in operating cash flows. Net investing cash outflows for 2011 increased $198.9 million as compared to 2010, primarily due to an increase in capital expenditures, partially offset by the insurance proceeds relating to the 2010 hurricane damage and the acquisition of an intermodal facility in 2010.

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Financing Cash Flows. Financing cash inflows were generated from the issuance of long-term debt, proceeds from common stock offerings and proceeds from the issuance of common stock under employee stock plans. Financing cash outflows were used for the repayment of debt, the payment of dividends and the payment of debt costs. Financing cash flows for 2012, 2011, and 2010 are discussed in more detail below:

- Net financing cash outflows for 2012 were $121.1 million. During 2012, the Company paid dividends of $86.1 million, repaid $375.9 million of outstanding debt and paid $22.1 million in debt costs. During the same period, the Company received net proceeds of $329.6 million from additional term loan advances and financing completed in 2012 for locomotives purchased in the fourth quarter of 2011.
- Net financing cash outflows for 2011 were $140.6 million. During 2011, the Company repaid $653.3 million of outstanding debt and paid $36.6 million in debt costs. During the same period, the Company received net proceeds of $550.0 million from the issuance of the KCSM 6 $^{1}/_{8}$% Senior Notes, refinancing of the KCSR Term Loan Facility and borrowings under the KCSR revolving credit facility.
- Net financing cash outflows for 2010 were $216.9 million. During 2010, the Company repaid $839.7 million of outstanding debt and paid $65.1 million in debt costs. During the same period, the Company received net proceeds of $214.9 million from a common stock offering and $480.7 million from the issuance of the KCSM 8.0% and 6 $^{5}/_{8}$% Senior Notes.

Contractual Obligations. The following table outlines the material obligations and commitments as of December 31, 2012 (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 years
Long-term debt (including interest and capital lease obligations)	$2,150.7	$150.0	$343.5	$457.4	$1,199.8
Operating leases	715.7	118.3	198.3	139.9	259.2
Obligations due to uncertainty in income taxes	3.6	—	—	1.7	1.9
Capital expenditure obligations (i)	643.3	111.5	248.7	283.1	—
Other contractual obligations (ii)	616.3	178.3	177.4	116.3	144.3
Total	$4,129.6	$558.1	$967.9	$998.4	$1,605.2

(i) Capital expenditure obligations include minimum capital expenditures under the KCSM Concession agreement and other regulatory requirements.

(ii) Other contractual obligations include purchase commitments and certain maintenance agreements.

In the normal course of business, the Company enters into long-term contractual commitments for future goods and services needed for the operations of the business. Such commitments are not in excess of expected requirements and are not reasonably likely to result in performance penalties or payments that would have a material adverse effect on the Company's liquidity. Such commitments are not included in the above table.

The Company is party to eighteen utilization leases covering 2,446 railcars where car hire revenue as defined in the lease agreements is shared between the lessor and the Company. The leases expire at various times through 2024. Amounts that may be due to lessors under these utilization leases vary from month to month based on car hire rental with the minimum monthly cost to the Company being zero. Accordingly, the utilization leases have been excluded from contractual obligations above.

The SCT requires KCSM to submit a five year capital expenditures plan every five years. The next five year plan was submitted in 2012 for the years 2013 — 2017. KCSM expects to continue capital spending at current levels in future years and will continue to have capital expenditure obligations past 2017, which are not included in the table above.

Off-Balance Sheet Arrangements

On November 2, 2007, PCRC completed an offering of $100.0 million of 7.0% senior secured notes due November 1, 2026 (the "Notes"). The Notes are senior obligations of PCRC, secured by certain assets of PCRC. KCS has pledged its shares

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of PCRC as security for the Notes. The Notes are otherwise non-recourse to KCS. The Company has agreed, along with Mi-Jack Products, Inc. ("Mi-Jack"), the other 50% owner of PCRC, to each fund one-half of any debt service reserve or liquidity reserve (reserves which are required to be established by PCRC in connection with the issuance of the Notes). As of December 31, 2012, the Company's portion of these reserves was $5.3 million. The Company has issued a standby letter of credit in the amount of $5.3 million. The Company also has issued two irrevocable standby letters of credit totaling approximately $0.4 million to fulfill the Company's fifty percent guarantee of additional equipment loans at PCRC.

Capital Expenditures

KCS has funded, and expects to continue to fund capital expenditures with operating cash flows, debt and equity financing and equipment leases.

The following table summarizes capital expenditures by type for the years ended December 31, 2012, 2011, and 2010 respectively (in millions):

	2012	2011	2010
Roadway capital program	$293.7	$273.8	$224.9
Locomotive acquisitions (ii)	71.1	173.7	—
Equipment (i)	67.6	15.7	12.8
Capacity	51.4	25.7	10.1
Information technology	8.6	14.3	12.0
Other	30.3	87.5	60.0
Total capital expenditures (accrual basis)	522.7	590.7	319.8
Locomotives financed under operating lease buyout (ii)	—	(91.1)	—
Change in capital accruals	17.3	(4.6)	(32.5)
Total cash capital expenditures	$540.0	$495.0	$287.3

(i) In 2012, KCSR paid $19.6 million to purchase 315 jumbo covered hoppers that were previously leased under an operating lease.

(ii) In 2011, KCSM entered into five loan agreements with General Electric Capital Corporation ("GE") to finance approximately 88% of the purchase price of seventy-five locomotives. These locomotives were previously leased by KCSM under an operating lease.

Generally, the Company's capital program consists of capital replacement. For 2013, internally generated cash flows are expected to fund cash capital expenditures which are currently estimated to be between $500.0 million and $525.0 million.

Property Statistics

The following table summarizes certain property statistics as of December 31:

	2012 (i)	2011 (i)	2010
Track miles of rail installed	133	125	81
Cross ties installed	996,789	777,930	762,228

(i) The increase in the track miles of rail and cross ties installed in 2012 and 2011 primarily reflects the increase in maintenance and capacity expansion activities.

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Debt and Capital Structure

The following table summarizes the components of the capital structure (in millions):

	2012	2011
Debt due within one year	$60.2	$36.3
Long-term debt	1,547.6	1,602.8
Total debt	1,607.8	1,639.1
Total equity	3,400.7	3,058.7
Total debt plus total equity	$5,008.5	$4,697.8

KCSR Debt

Revolving Credit Facility and Term Loans. On July 12, 2011, KCS together with KCSR and certain subsidiaries named therein as guarantors (the "Subsidiary Guarantors"), entered into an amended and restated credit agreement (the "2011 KCSR Credit Agreement") with various lenders. The 2011 KCSR Credit Agreement provided KCSR with (i) a five-and-one-half year $300.0 million term loan credit facility (the "Term Loan Facility") and (ii) a five-year $200.0 million revolving credit facility consisting of a revolving facility up to $200.0 million (the "Revolving Facility"), a letter of credit facility of $25.0 million (the "Letter of Credit Facility") and a swing line facility of up to $15.0 million (the "Swing Line Facility"). The Letter of Credit Facility and the Swing Line Facility each constitute usage under the Revolving Facility.

On February 24, 2012, KCS, KCSR and certain other subsidiaries of the Company that guaranty the 2011 KCSR Credit Agreement entered into Amendment No. 1 and Additional Term Advance Agreement ("Amendment No. 1"), which provided for additional Term A advances to KCSR in an aggregate principal amount of $275.0 million (the "Term Loan A-2") on substantially the same terms as those applicable to the existing Term Loan Facility under the 2011 KCSR Credit Agreement. KCSR borrowed $175.0 million of the Term Loan A-2 on February 24, 2012 and borrowed the remaining $100.0 million of Term Loan A-2 on June 1, 2012. The proceeds of the $275.0 million of borrowings under the Term Loan A-2 and available cash were used to redeem all of KCSR's 8.0% senior unsecured notes due June 1, 2015 (the "8.0% Senior Notes").

On November 21, 2012, KCS, KCSR and certain other subsidiaries of the Company that guaranty the 2011 KCSR Credit Agreement entered into a second amended and restated credit agreement (the "2012 KCSR Credit Agreement"), which eliminated or modified a number of restrictive covenants in KCSR's facilities in order to achieve consistency between KCSR and firms with investment grade credit ratings. The amendment also included a "fall-away collateral" provision whereby KCSR's facilities would convert from secured to unsecured obligations if investment grade senior unsecured debt ratings were assigned by at least two of the three primary rating agencies. On November 21, 2012, subsequent to the closing of the 2012 KCSR Credit Agreement, KCSR's senior unsecured debt rating was upgraded to investment grade by Moody's Investor Service ("Moody's"). This action, combined with investment grade ratings previously assigned to KCSR by Fitch Ratings ("Fitch"), triggered the "fall-away collateral" provision and KCSR facilities became unsecured obligations. In the event that KCSR's senior unsecured debt ratings subsequently fall below investment grade at all three primary rating agencies, collateral would be re-pledged and the facilities would revert to secured obligations. The amendment also incorporates a change in the pricing grid for the Term Loan Facility and the Revolving Facility in the event that KCSR achieves a senior unsecured debt rating of BBB/Baa2 or higher by at least two of the three primary rating agencies. In that event, the floating interest rates paid by KCSR on the Term Loan Facility and the Revolving Facility would thereafter be determined by KCSR's senior unsecured credit rating rather than by KCSR's leverage ratio as is the case currently. Depending on KCSR's credit rating during the life of the 2012 KCSR Credit Agreement, the margin KCSR would pay above the London Interbank Offered Rate ("LIBOR") at any point would be equal to or lower than the currently-applicable margin of 1.50%. This provision does not affect the interest rate on the Term Loan A-2, which remains fixed at the LIBOR plus a margin of 1.25% regardless of KCSR's leverage ratio or credit rating. In addition to the amendment, KCSR extended the maturities of its Revolving Facility from July 15, 2016, to November 15, 2017, and the Term Loan Facility and Term Loan A-2 from January 15, 2017 to May 15, 2018. KCSR is required to make quarterly principal payments on the term loan facilities.

KCS and KCSR gave certain representations and warranties that are customary for credit agreements of this type. The 2012 KCSR Credit Agreement also contains affirmative and negative covenants that are customary for credit agreements of this type, including financial maintenance covenants related to a leverage ratio and an interest coverage ratio as defined in the 2012

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KCSR Credit Agreement. Similarly, events of default under the 2012 KCSR Credit Agreement are customary for transactions of this type and include, without limitation, non-payment of obligations; breach of any representation or warranty; non-performance of covenants and obligations; default on other indebtedness; certain judgments rendered; a change in control shall occur; bankruptcy or insolvency of KCS, KCSR, any restricted subsidiary or any Subsidiary Guarantor; and an impairment of security (if any). The occurrence of an event of default could result in the acceleration of the repayment of any outstanding principal balance of the term loan facilities and the Revolving Facility.

During the first quarter of 2012, the Company repaid the December 31, 2011 outstanding balance of $50.0 million on KCSR's revolving credit facility. As of December 31, 2012, KCSR had $194.7 million available under the Revolving Facility, with no outstanding borrowings and a $5.3 million standby letter of credit issued and outstanding.

8.0% Senior Notes. On May 30, 2008, KCSR issued $275.0 million principal amount of 8.0% Senior Notes due June 1, 2015, which bore interest semiannually at a fixed annual rate of 8.0%. The 8.0% Senior Notes were redeemable in whole or in part prior to June 1, 2012 by paying the greater of either 101% of the principal amount or the principal amount plus a "make whole" premium and in whole or in part on and after June 1, 2012, at the following redemption prices (expressed as a percentage of principal amount) plus any accrued and unpaid interest: 2012 —104%, 2013 — 102% and 2014 — 100%.

On January 25, 2012, pursuant to an offer to purchase and related solicitation of consents, KCSR commenced a cash tender offer for all of its $275.0 million outstanding aggregate principal amount of 8.0% Senior Notes, and a consent solicitation to amend the related indenture (the "Proposed Amendments") to eliminate substantially all of the restrictive covenants contained therein. In conjunction with receiving the requisite consents, on February 13, 2012, the Company entered into the First Supplemental Indenture to effect the Proposed Amendments, which became operative on February 24, 2012.

On February 24, 2012, KCSR purchased $174.7 million principal amount of the tendered 8.0% Senior Notes in accordance with the terms and conditions of the tender offer set forth in the offer to purchase using the proceeds received under Amendment No. 1 to the 2011 KCSR Credit Agreement, and available cash. On June 1, 2012, KCSR redeemed the remaining $100.3 million principal amount of the 8.0% Senior Notes using additional proceeds received under Amendment No. 1 to the 2011 KCSR Credit Agreement and cash on hand, at a redemption price of 104% of the principal amount.

13.0% Senior Notes. On December 18, 2008, KCSR issued $190.0 million principal amount of 13.0% senior unsecured notes due December 15, 2013, (the "13.0% Senior Notes") which bore interest semiannually at a fixed annual rate of 13.0%. The 13.0% Senior Notes were issued at a discount to par value, resulting in a $22.0 million discount and a yield to maturity of 16.5%. On June 4, 2010, the Company redeemed $66.5 million principal amount of the 13.0% Senior Notes pursuant to a provision which allowed KCSR to redeem up to 35% of the 13.0% Senior Notes at any time prior to December 15, 2010 at par value plus coupon from the proceeds of any sale of capital stock in KCSM or KCS. This followed KCS's offering of 5.8 million shares for net proceeds of $214.9 million in May 2010. On December 15, 2011, the Company used available cash to redeem all of the outstanding $123.5 million aggregate principal amount of the 13.0% Senior Notes at a redemption price of 113% of the principal amount.

KCSR RRIF Loan Agreement. On February 21, 2012, KCSR, as borrower, entered into a financing agreement with the United States of America represented by the Secretary of Transportation acting through the Administrator of the Federal Railroad Administration ("FRA").

The financing agreement provides KCSR with a 25-year, $54.6 million loan under the Railroad Rehabilitation and Improvement Financing Program (the "KCSR RRIF Loan"). The proceeds of the KCSR RRIF Loan were used to reimburse KCSR for 80% of the purchase price of thirty new locomotives (the "Locomotives") acquired by KCSR in the fourth quarter of 2011. The outstanding principal balance bears interest at 2.96% per annum. KCSR is required to make quarterly principal and interest payments on the KCSR RRIF Loan commencing March 15, 2012, except for the first payment that was comprised solely of interest accrued from the date the funds were advanced to KCSR, which was February 24, 2012.

The obligations under the financing agreement are secured by a first priority security interest in the Locomotives and certain related rights. In addition, the Company has agreed to guarantee repayment of the amounts due under the

financing agreement and certain related agreements.
The financing agreement contains representations, warranties, covenants and events of default that are similar to those contained in other KCSR debt agreements. The occurrence of an event of default could result in the acceleration of the repayment of any outstanding principal balance of the KCSR RRIF Loan.

Tex-Mex Debt

RRIF Loan Agreement. On June 28, 2005, Tex-Mex entered into an agreement with the FRA to borrow $50.0 million to be used for infrastructure improvements in order to accommodate growing freight rail traffic related to the NAFTA corridor. The note bears interest at 4.29% annually and the principal balance amortizes quarterly with a final maturity of July 13, 2030. The loan was made under the Railroad Rehabilitation and Improvement Financing Program administered by the FRA. The loan is guaranteed by Mexrail, which has issued a Pledge Agreement in favor of the lender equal to the gross revenues earned by Mexrail on per-car fees on traffic crossing the International Rail Bridge in Laredo, Texas. In addition, the Company has agreed to guarantee the scheduled principal payment installments due to the FRA from Tex-Mex under the loan agreement on a rolling five-year basis.

KCSM Debt

Revolving Credit Facility. On August 30, 2010, KCSM entered into a secured credit agreement (the “2010 KCSM Credit Agreement”) with various lenders and other institutions which provided KCSM with a three-year $100.0 million revolving credit facility consisting of (i) a revolving facility in an amount up to $100.0 million (the “2010 Revolving Facility”) and, (ii) a letter of credit and a swing line facility in an amount up to $10.0 million each.

On September 30, 2011, KCSM entered into an amended and restated credit agreement (the “2011 KCSM Credit Agreement”) with various financial institutions. The 2011 KCSM Credit Agreement increased the revolving credit facility to $200.0 million and extended the maturity to September 30, 2016. The 2011 KCSM Credit Agreement included (i) a revolving credit facility up to $200.0 million (the “KCSM Revolving Facility”), (ii) a letter of credit facility up to $15.0 million (the “KCSM Letter of Credit Facility”), and (iii) a swing line facility up to $15.0 million (the “KCSM Swing Line Facility”). The KCSM Letter of Credit Facility and the KCSM Swing Line Facility each constitute usage under the KCSM Revolving Facility.

On November 29, 2012, KCSM entered into an amended and restated credit agreement (the “2012 KCSM Credit Agreement”) with various financial institutions, which amended and restated the 2011 KCSM Credit Agreement and eliminated or modified a number of restrictive covenants in KCSM’s facility in order to achieve consistency between KCSM and firms with investment grade credit ratings. The amendment also included a “fall-away collateral” provision whereby KCSM’s facility would convert from secured to unsecured obligations if investment grade senior unsecured debt ratings were assigned by at least two of the three primary rating agencies. In the event that KCSM’s senior unsecured debt ratings were subsequently to fall below investment grade at all three primary rating agencies, collateral would be re-pledged and the facility would revert to a secured obligation. The amendment also incorporates a change in the pricing grid in the event that KCSM achieves a senior unsecured debt rating of BBB/Baa2 or higher by at least two of the three primary rating agencies. In that event, the floating interest rates paid by KCSM on the 2012 KCSM Credit Agreement would thereafter be determined by KCSM’s senior unsecured credit rating rather than by KCSM’s leverage ratio as is the case currently. Depending on KCSM’s credit rating during the life of the 2012 KCSM Credit Agreement, the margin KCSM would pay above the LIBOR at any point would be equal to or lower than the currently-applicable margin of 1.75%. In addition to the amendment, KCSM extended the maturity of the KCSM Revolving Facility to November 15, 2017.

The 2012 KCSM Credit Agreement is currently secured by the accounts receivable and certain locomotives of KCSM and certain of its subsidiaries. In addition, KCSM and certain of its subsidiaries agreed to subordinate payment of certain intercompany debt, certain KCSM subsidiaries guaranteed repayment of the amounts due under the 2012 KCSM Credit Agreement (up to the amount permitted by KCSM’s outstanding indentures) and certain equity interests as defined in the 2012 KCSM Credit Agreement were pledged to secure obligations under the 2012 KCSM Credit Agreement.

The 2012 KCSM Credit Agreement contains certain representations and warranties that are customary for credit agreements of this type. The 2012 KCSM Credit Agreement also contains affirmative and negative covenants that are customary for credit agreements of this type, including financial maintenance covenants related to a leverage ratio and an interest coverage ratio as defined in the 2012 KCSM Credit Agreement. Similarly, events of default under the 2012 KCSM Credit Agreement include, but are not limited to, certain payment defaults; breach of any representation or warranty; non-performance of covenants and obligations; default on other indebtedness; certain judgments rendered; restrictions or requirements limiting the availability or the transfer of foreign exchange; a change in control;

bankruptcy or insolvency of KCSM and certain subsidiaries and obligors; an impairment of security; the failure of subordination; certain actions by a governmental authority; failure to obtain certain consents; and termination of the concession title. The occurrence of an event of default could result in the acceleration of the repayment of any outstanding principal balance of the KCSM Revolving Facility.

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As of December 31, 2012 and 2011, KCSM had no outstanding amount under the KCSM Revolving Facility.
$12^{1}/_{2}\%$ Senior Notes. On March 30, 2009, KCSM issued \$200.0 million principal amount of $12^{1}/_{2}\%$ senior unsecured notes due April 1, 2016 (the "$12^{1}/_{2}\%$ Senior Notes"), which bear interest semiannually at a fixed annual rate of $12^{1}/_{2}\%$. The $12^{1}/_{2}\%$ Senior Notes were issued at a discount to par value, resulting in an \$11.0 million discount and a yield to maturity of $13^{3}/_{4}\%$. KCSM used a portion of the net proceeds from the offering to repay all amounts outstanding under a credit agreement KCSM entered into on June 14, 2007. The $12^{1}/_{2}\%$ Senior Notes are redeemable at KCSM's option in whole or in part on and after April 1, 2013, at the following redemption prices (expressed as percentages of principal amount) plus any accrued and unpaid interest: 2013 — 106.250%, 2014 — 103.125% and 2015 — 100.000%. In addition, the notes are redeemable, in whole but not in part, at KCSM's option at their principal amount, plus any accrued and unpaid interest, in the event of certain changes in the Mexican withholding tax rate.
On June 4, 2010, the Company redeemed \$70.0 million principal amount of the $12^{1}/_{2}\%$ Senior Notes pursuant to a provision which allowed KCSM to redeem up to 35% of the $12\ ^{1}/_{2}\%$ Senior Notes any time prior to April 1, 2012 at par value plus coupon from the proceeds of any sale of capital stock in KCSM or KCS. This followed KCS's offering of 5.8 million shares of common stock for net proceeds of \$214.9 million in May 2010. On November 2, 2010, pursuant to an offer to purchase, KCSM commenced a cash tender offer for its $12^{1}/_{2}\%$ Senior Notes. On December 20, 2010, KCSM purchased \$31.9 million principal amount of the tendered $12^{1}/_{2}\%$ Senior Notes in accordance with the terms and conditions of the tender offer set forth in the offer to purchase using the proceeds received from the issuance of \$185.0 million principal amount of KCSM $6^{5}/_{8}\%$ senior unsecured notes due December 15, 2020 (the "$6^{5}/_{8}\%$ Senior Notes").
KCSM 8.0% Senior Notes. On January 22, 2010, KCSM issued \$300.0 million principal amount of 8.0% senior unsecured notes due February 1, 2018 (the "KCSM 8.0% Senior Notes"), which bear interest semiannually at a fixed annual rate of 8.0%. The KCSM 8.0% Senior Notes were issued at a discount to par value, resulting in a \$4.3 million discount and a yield to maturity of $8^{1}/_{4}\%$. KCSM used the net proceeds from the issuance of the KCSM 8.0% Senior Notes and available cash to purchase \$290.0 million principal amount of the $9^{3}/_{8}\%$ senior unsecured notes due May 1, 2012 tendered under an offer to purchase and pay all fees and expenses incurred in connection with the KCSM 8.0% Senior Notes offering and the tender offer. The KCSM 8.0% Senior Notes are redeemable at KCSM's option, in whole or in part, on and after February 1, 2014, at the following redemption prices (expressed as percentages of principal amount) plus any accrued and unpaid interest: 2014 — 104.000%, 2015 — 102.000%, 2016 and thereafter — 100.000%. In addition, KCSM may redeem up to 35% of the KCSM 8.0% Senior Notes any time prior to February 1, 2013 at par value plus coupon from the proceeds of the sale of capital stock in KCSM or KCS. In addition, the notes are redeemable, in whole but not in part, at KCSM's option at their principal amount, plus any accrued and unpaid interest, in the event of certain changes in the Mexican withholding tax rate.
$6^{5}/_{8}\%$ Senior Notes. On December 20, 2010, KCSM issued the $6^{5}/_{8}\%$ Senior Notes due December 15, 2020, which bear interest semiannually at a fixed annual rate of $6^{5}/_{8}\%$. KCSM used the net proceeds from the issuance of the $6^{5}/_{8}\%$ Senior Notes and available cash to purchase \$142.6 million principal amount of the $7^{5}/_{8}\%$ senior unsecured notes due December 1, 2013 (the "$7^{5}/_{8}\%$ Senior Notes") and \$31.9 million principal amount of the $12^{1}/_{2}\%$ Senior Notes tendered under an offer to purchase and pay all fees and expenses incurred in connection with the $6^{5}/_{8}\%$ Senior Notes offering and the tender offers. The $6^{5}/_{8}\%$ Senior Notes are redeemable at KCSM's option, in whole or in part prior to December 15, 2015, by paying the greater of either 101% of the principal amount or the principal amount plus a "make whole" premium and in whole or in part on or after December 15, 2015, at the following redemption prices (expressed as percentages of principal amount) plus any accrued and unpaid interest: 2015 — 103.313%, 2016 — 102.208%, 2017 —101.104%, 2018 and thereafter — 100.000%. In addition, KCSM may redeem up to 35% of the $6^{5}/_{8}\%$ Senior Notes at a redemption price equal to 106.625% any time prior to December 15, 2013 at par value plus coupon from the proceeds of the sale of capital stock in KCSM or KCS. In addition, the notes are redeemable, in whole but not in part, at KCSM's option at their principal amount, plus any accrued and unpaid interest, in the event of certain changes in the Mexican withholding tax rate.
$6^{1}/_{8}\%$ Senior Notes. On May 20, 2011, KCSM issued \$200.0 million principal amount of $6^{1}/_{8}\%$ senior unsecured notes due June 15, 2021 (the "$6^{1}/_{8}\%$ Senior Notes") at par, which bear interest semiannually at a fixed annual rate of $6^{1}/_{8}\%$. KCSM used the proceeds from the issuance of the $6^{1}/_{8}\%$ Senior Notes and available cash to purchase and

redeem the outstanding $165.0 million principal amount of $7^{3}/_{8}\%$ senior unsecured notes due June 1, 2014 and the remaining $32.4 million principal amount of the $7^{5}/_{8}\%$ Senior Notes, and pay all fees and expenses incurred in connection with the $6^{1}/_{8}\%$ Senior Notes offering and the tender offers. The $6^{1}/_{8}\%$ Senior Notes are redeemable at KCSM’s option, in whole or in part prior to June 15, 2016, by paying the greater of either 101% of the principal amount or the principal amount plus a “make whole” premium and in whole or in part on or after June 15, 2016, at the following redemption prices (expressed as percentages of principal amount) if

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redeemed during the 12-month period commencing on June 15 of the following years, plus any accrued and unpaid interest to the date of redemption: 2016 — 103.063%, 2017 — 102.042%, 2018 — 101.021%, 2019 and thereafter — 100.000%. In addition, KCSM may redeem up to 35% of the $6^1/_8$% Senior Notes at a redemption price equal to 106.125% any time prior to June 15, 2014 from the proceeds of the sale of KCSM's capital stock or the capital stock of KCS. In addition, the notes are redeemable, in whole but not in part, at KCSM's option at their principal amount, plus any accrued and unpaid interest in the event of certain changes in the Mexican withholding tax rate.

All of KCSM's senior notes described above are denominated in dollars, are unsecured, unsubordinated obligations, rank pari passu in right of payment with KCSM's existing and future unsecured, unsubordinated obligations, and are senior in right of payment to KCSM's future subordinated indebtedness. In addition, KCSM's senior notes include certain covenants which are customary for these types of debt instruments issued by borrowers with similar credit ratings and restrict or prohibit certain actions. Certain of these covenants no longer apply if KCSM's senior notes are assigned an investment grade rating by both Moody's Investors Service and Standard & Poor's Rating Services.

KCSM Locomotive Financing

5.737% Financing Agreement. On February 26, 2008, KCSM entered into a financing agreement with Export Development Canada ("EDC") for an aggregate principal amount of $72.8 million. KCSM used the proceeds to finance 85.0% of the purchase price of forty new SD70ACe locomotives purchased by KCSM in late 2007 and early 2008. KCSM granted EDC a security interest in the locomotives to secure the loan. The financing agreement requires KCSM to make thirty equal semi-annual principal payments of approximately $2.4 million plus interest at an annual rate of 5.737%, with the final payment due and payable on February 28, 2023.

6.195% Financing Agreement. On September 24, 2008, KCSM entered into a financing agreement with DVB Bank AG ("DVB") for an aggregate principal amount of $52.2 million. KCSM used the proceeds to finance approximately 80% of the purchase price of twenty-nine ES44AC locomotives purchased by KCSM in June 2008. KCSM granted DVB a security interest in the locomotives to secure the loan. The financing agreement requires KCSM to make sixty equal quarterly principal payments plus interest at an annual rate of 6.195%, with the final payment due and payable on September 29, 2023.

9.310% Loan Agreements. On September 1, 2011, KCSM, as borrower, entered into five Loan Agreements (each a "Loan Agreement", and collectively, the "Loan Agreements") with General Electric Capital Corporation, as lender ("GE"), each with a principal amount of approximately $18.2 million. KCSM used the loan proceeds to finance approximately 88% of the purchase price of seventy-five GE AC4400 CW locomotives (the "Locomotives") purchased by KCSM from GE on September 1, 2011. The Locomotives were previously leased by KCSM from GE pursuant to a Lease Agreement dated April 30, 1998. The Lease Agreement, which had been accounted for as an operating lease, was terminated with the purchase of the Locomotives by KCSM. To secure the loans from GE, KCSM transferred legal ownership of the Locomotives to five irrevocable trusts established by KCSM to which GE is the primary beneficiary and KCSM has a right of reversion upon satisfaction of the obligations of the Loan Agreements.

Each Loan Agreement requires KCSM to make thirty-eight quarterly principal payments plus interest at an annual rate of 9.31%, which approximates the implicit interest rate in the Lease Agreement. KCSM generated certain tax benefits as a result of purchasing the locomotives. The first payments were due and payable on September 15, 2011, and the final payments are due and payable on December 15, 2020.

KCSM's locomotive financing agreements contain representations, warranties and covenants typical of such equipment loan agreements. Events of default in the financing agreements include, but are not limited to, certain payment defaults, certain bankruptcy and liquidation proceedings and the failure to perform any covenants or agreements contained in the financing agreements. Any event of default could trigger acceleration of KCSM's payment obligations under the terms of the financing agreements.

Debt Covenants Compliance

The Company was in compliance with all of its debt covenants as of December 31, 2012.

Other Debt Provisions

Change in Control Provisions. Certain loan agreements and debt instruments entered into or guaranteed by the Company and its subsidiaries provide for default in the event of a specified change in control of the Company or particular subsidiaries of the Company.

Shelf Registration Statements and Public Securities Offerings

KCS has one current shelf registration statement on file with the SEC (the "Universal Shelf" — Registration No. 333-178086). The Universal Shelf was filed on November 21, 2011 in accordance with the securities offering reform rules of the SEC that allow "well-known seasoned issuers" to register an unspecified amount of different types of securities on an immediately effective Form S-3 registration statement. The Universal Shelf will expire on November 21, 2014.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

KCS's accounting and financial reporting policies are in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management believes that the following accounting policies and estimates are critical to an understanding of KCS's historical and future performance. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of KCS's Board of Directors and the Audit Committee has reviewed the selection, application and disclosure of the Company's critical accounting policies and estimates.

Capitalization, Depreciation and Amortization of Property and Equipment (including Concession Assets)

Due to the highly capital intensive nature of the railroad industry, capitalization and depreciation of property and equipment are substantial components of the Company's consolidated financial statements. Net property and equipment, including concession assets, comprised approximately 89% of the Company's total assets as of December 31, 2012, and related depreciation and amortization comprised approximately 13% of total operating expenses for the year ended December 31, 2012.

The Company's annual capital expenditures are primarily for capital replacement programs which are generally constructed by employees. KCS capitalizes costs for self-constructed additions and improvements to property including direct labor and material, indirect overhead costs, and interest during long-term construction projects. Direct costs are charged to capital projects based on the work performed and the material used. Indirect overhead costs are allocated to capital projects as a standard percentage, which is evaluated annually, and applied to direct labor and material costs. Asset removal activities are performed in conjunction with replacement activities; therefore, removal costs are estimated based on a standard percentage of direct labor and indirect overhead costs related to capital replacement projects. For purchased assets, all costs necessary to make the asset ready for its intended use are capitalized. Expenditures that significantly increase asset values, productive capacity, efficiency, safety or extend useful lives are capitalized. Repair and maintenance costs are expensed as incurred.

Property and equipment are carried at cost and are depreciated primarily on the group method of depreciation, which the Company believes closely approximates a straight line basis over the estimated useful lives of the assets measured in years. Technology assets and leasehold improvements are depreciated using the straight line method over the lesser of the estimated useful lives of the assets or the lease term. Costs incurred by the Company to acquire the concession rights and related assets, as well as subsequent improvements to the concession assets, are capitalized and amortized using the group method of depreciation over the lesser of the current expected Concession term, including probable renewal of an additional 50-year term, or the estimated useful lives of the assets and rights. The Company's ongoing evaluation of the useful lives of concession assets and rights considers the aggregation of the following facts and circumstances:

- The Company's executive management is dedicated to ensuring compliance with the various provisions of the Concession and to maintaining positive relationships with the SCT and other Mexican federal, state, and municipal governmental authorities;

- During the time since the Concession was granted, the relationships between KCSM and the various Mexican governmental authorities have matured and the guidelines for operating under the Concession have become more defined with experience;

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- There are no known supportable sanctions or compliance issues that would cause the SCT to revoke the Concession or prevent KCSM from renewing the Concession; and
- KCSM operations are an integral part of the KCS operations strategy, and related investment analyses and operational decisions assume that the Company's cross border rail business operates into perpetuity, and do not assume that Mexico operations terminate at the end of the current Concession term.

Based on the above factors, as of December 31, 2012, the Company continues to believe that it is probable that the Concession will be renewed for an additional 50-year term beyond the current term.

The group method of depreciation applies a composite rate to classes of similar assets rather than to individual assets. Composite depreciation rates are based upon the Company's estimates of the expected average useful lives of assets as well as expected net salvage value at the end of their useful lives. In developing these estimates, the Company utilizes periodic depreciation studies performed by an independent engineering firm. Depreciation rate studies are performed at least every three years for equipment and at least every six years for road property (rail, ties, ballast, etc.). The depreciation studies take into account factors such as:

- Statistical analysis of historical patterns of use and retirements of each asset class;
- Evaluation of any expected changes in current operations and the outlook for the continued use of the assets;
- Evaluation of technological advances and changes to maintenance practices; and
- Historical and expected salvage to be received upon retirement.

The depreciation studies may also indicate that the recorded amount of accumulated depreciation is deficient or in excess of the amount indicated by the study. Any such deficiency or excess is amortized as a component of depreciation expense over the remaining useful lives of the affected asset class, as determined by the study. The Company also monitors these factors in non-study years to determine if adjustments should be made to depreciation rates. Any changes in depreciation rates are implemented prospectively. The Company completed a depreciation study on its U.S. based assets during 2012 and the depreciation impacts of the study results were immaterial to 2012 consolidated financial results.

During the year ended December 31, 2011, KCS engaged an independent engineering firm to assist management in performing a depreciation study on KCSM's road property and equipment. The depreciation impacts of the study results were immaterial to 2011 consolidated financial results.

Effective as of October 1, 2010, the Company changed depreciation rates on certain locomotive and road assets based on reassessment of the adequacy of the accumulated depreciation provisions, asset usage and replacement patterns. The full year net depreciation expense reduction in 2011 and 2012 resulting from these changes was $4.2 million.

Also under the group method of depreciation, the cost of railroad property and equipment (net of salvage or sales proceeds) retired or replaced in the normal course of business is charged to accumulated depreciation with no gain or loss recognized. Actual historical costs are retired when available, such as with equipment costs. The use of estimates in recording the retirement of certain roadway assets is necessary as it is impractical to track individual, homogeneous network-type assets. For these types of assets, historical costs are estimated by (1) deflating current costs using inflation indices published by the U.S. Bureau of Labor Statistics and (2) the estimated useful life of the assets as determined by the depreciation studies. The indices applied to the replacement value are selected because they closely correlate with the major costs of the items comprising the roadway assets. Because of the number of estimates inherent in the depreciation and retirement processes and because it is impossible to precisely estimate each of these variables until a group of assets is completely retired, the Company continually monitors the estimated useful lives of its assets and the accumulated depreciation associated with each asset group to ensure the depreciation rates are appropriate. Gains or losses on dispositions of land or non-group property and abnormal retirements of railroad property are recognized through income. A retirement of railroad property would be considered abnormal if the cause of the retirement is unusual in nature and its actual life is significantly shorter than what would be expected for that group based on the depreciation studies. An abnormal retirement could cause the Company to re-evaluate the estimated useful life of the impacted asset class. There were no significant gains or losses from abnormal retirements of property or equipment for any of the three years ended December 31, 2012.

Estimation of the average useful lives of assets and net salvage values require significant management judgment. Estimated average useful lives may vary over time due to changes in physical use, technology, asset strategies and other factors that could have an impact on the retirement experience of the asset classes. Accordingly, changes in the assets' estimated useful

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lives could significantly impact future periods' depreciation expense. Depreciation and amortization expense for the year ended December 31, 2012 was $198.8 million. If the weighted average useful lives of assets were changed by one year, annual depreciation and amortization expense would change approximately $6.9 million.

Long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value would be reduced to the estimated fair value. Future cash flow estimates for an impairment review would be based on the lowest level of identifiable cash flows, which are the Company's U.S. and Mexican operations. During the year ended December 31, 2012, management did not identify any indicators of impairment.

Provision for Personal Injury Claims

Due to the nature of railroad operations, personal injury claims related to work-related injuries and third party liabilities resulting from crossing collisions and derailments are a substantial expense to KCS. Claims are estimated and recorded for known reported occurrences as well as for incurred but not reported ("IBNR") occurrences. Consistent with general practices within the railroad industry, the estimated liability is actuarially determined on an undiscounted basis. The actuarial analysis is performed semi-annually by an independent third party actuarial firm and reviewed by management. In estimating the liability, the actuarial study calculates an estimate using historical experience and estimates of claim costs as well as numerous assumptions regarding factors relevant to the derivation of an estimate of future claim costs.

Personal injury claims are subject to a significant degree of uncertainty, especially estimates related to incurred but not reported personal injuries for which a party has yet to assert a claim. In deriving an estimate of the provision for personal injury claims, management must make assumptions related to substantially uncertain matters (injury severity, claimant age and legal jurisdiction). Changes in the assumptions used for actuarial studies could have a material effect on the estimate of the provision for personal injury claims. The most sensitive assumptions for personal injury accruals are the expected average cost per claim and the projected frequency rates for the number of claims that will ultimately result in payment. Management believes that the accounting estimate related to the liability for personal injuries claims is critical to KCS's results of operations. See also Note 14 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Income Taxes

Deferred income taxes represent a substantial net liability of the Company. For financial reporting purposes, management determines the current tax liability, as well as deferred tax assets and liabilities, in accordance with the liability method of accounting for income taxes. The provision for income taxes is the sum of income taxes both currently payable and deferred into the future. Currently payable income taxes represent the liability related to the Company's U.S., state and foreign income tax returns for the current year and anticipated tax payments resulting from income tax audits, while the net deferred tax expense or benefit represents the change in the balance of net deferred tax assets or liabilities as reported on the balance sheet. The changes in deferred tax assets and liabilities are determined based upon the estimated timing of reversal of differences between the carrying amount of assets and liabilities for financial reporting purposes and the basis of assets and liabilities for tax purposes as measured using the currently enacted tax rates that will be in effect at the time these differences are expected to reverse. Additionally, management estimates whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets.

The tax provision for Mexico has additional complexities such as the impacts of exchange rate variations and inflation, both of which can have a significant impact on the effective income tax rate. Finally, the Company pays the greater of Mexican income tax or the Entrepreneurial Tax of Unique Rate (referred to by its Spanish acronym, IETU or Flat Tax) annually. The general principles and complexities of income tax accounting related to Mexico apply to the calculation of the statutorily required Mexico employee profit sharing expense, and the related current and deferred liabilities. The employee profit sharing expense is recorded within compensation and benefits in the consolidated statements of income.

Management believes that the assumptions and estimates related to the provision for income taxes are critical to the Company's results of operations. For the year ended December 31, 2012, income tax expense totaled $237.0 million.

For every 1% change in the 2012 effective rate, income tax expense would have changed by approximately $6.2 million. For income taxes paid in Mexico, which are paid in Mexican pesos, the revaluation of U.S. denominated amounts (primarily debt) into Mexican pesos is taxed currently under Mexican tax law. If the exchange rate used at the end of 2012 had decreased from

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Ps.13.0 per U.S. dollar to Ps.12.0 per U.S. dollar, the effective income tax rate would have increased from 38.4% to 43.1% and income tax expense would have increased by approximately $28.6 million. If the Mexican inflation rate used at the end of 2012 had increased from 4% to 5%, the effective income tax rate would have increased from 38.4% to 38.7%, and income tax expense would have increased by approximately $1.6 million.

OTHER MATTERS

Litigation. The Company is a party to various legal proceedings and administrative actions, all of which are of an ordinary, routine nature and incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job related injuries and by third parties for injuries related to railroad operations. KCS aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. Although it is not possible to predict the outcome of any legal proceeding, in the opinion of the Company's management, other than those proceedings described in Note 14 to the Consolidated Financial Statements in Item 8 of this Form 10-K, such proceedings and actions should not, individually, or in the aggregate, have a material adverse effect on the Company's consolidated financial statements.

Inflation. U.S. generally accepted accounting principles require the use of historical cost, which does not reflect the effects of inflation on the replacement cost of property. Due to the capital intensive nature of KCS's business, the replacement cost of these assets would be significantly higher than the amounts reported under the historical cost basis.

Recent Accounting Pronouncements. Refer to Note 2 to the Consolidated Financial Statements in Item 8 of this Form 10-K for information relative to recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

KCS utilizes various financial instruments that have certain inherent market risks. These instruments have not been entered into for trading purposes. The following information, together with information included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 to the Consolidated Financial Statements in Item 8 of this Form 10-K, describe the key aspects of certain financial instruments that have market risk to KCS.

Interest Rate Sensitivity. Floating-rate indebtedness totaled $543.8 million and $346.3 million at December 31, 2012 and 2011, respectively. The Company's revolving credit facilities and term loan facilities contain variable rate debt that accrues interest based on target interest indexes (London Interbank Offered Rate — "LIBOR" or an alternative base rate) plus an applicable spread. The Company has an aggregate notional amount of $304.5 million of interest rate hedges at December 31, 2012, which effectively convert interest payments from variable rates to fixed rates. Considering the balance of $239.3 million of variable rate debt at December 31, 2012, KCS is sensitive to fluctuations in interest rates. For example, a hypothetical 100 basis points increase in each of the respective target interest indexes would result in additional interest expense of $2.4 million on an annualized basis for the floating-rate instruments issued by the Company as of December 31, 2012.

The Company determines fair values of its derivative financial instruments based upon pricing models using inputs from actively quoted markets. Pricing models take into consideration the contract terms as well as other inputs, including forward interest rate curves. Considering the outstanding derivative instruments fair value liability of $0.9 million at December 31, 2012, the Company is sensitive to fluctuations in forward interest rate curves. For example, a hypothetical 100 basis points increase in the one-month LIBOR forward interest rate curve would result in a fair value asset of the derivative financial instruments of approximately $2.0 million as of December 31, 2012.

Based upon the borrowing rates available to KCS and its subsidiaries for indebtedness with similar terms and average maturities, the fair value of debt was approximately $1,719.9 million and $1,741.3 million at December 31, 2012 and 2011, respectively, compared with a carrying value of $1,607.8 million and $1,639.1 million at December 31, 2012 and 2011, respectively.

Commodity Price Sensitivity. KCS periodically participates in diesel fuel purchase commitment and swap transactions. At December 31, 2012 and 2011, KCS did not have any outstanding fuel swap agreements. The Company also holds fuel inventories for use in operations. These inventories are not material to KCS's overall financial position. Fuel costs are expected to reflect market conditions in 2013; however, fuel costs are unpredictable and subject to a variety of factors outside the Company's control. Assuming annual consumption of 125 million gallons, a 10 cent change in the price per gallon of fuel

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would cause a $12.5 million change in operating expenses. KCS is able to mitigate the impact of increased fuel costs through fuel surcharge revenues from customers.

Foreign Exchange Sensitivity. While KCS's foreign subsidiaries use the U.S. dollar as their functional currency, however, a portion of the foreign subsidiaries' revenues and expenses are denominated in Mexican pesos. Based on the volume of revenue and expense transactions denominated in Mexican pesos, revenue and expense fluctuations generally offset, with insignificant net impacts to operating income.

The Company has exposure to fluctuations in the value of the Mexican peso against the U.S. dollar due to its net monetary assets that are denominated in Mexican pesos. If the exchange rate used at December 31, 2012, increased from Ps. 13.0 per U.S. dollar to Ps. 14.0 per U.S. dollar on net peso denominated monetary assets of Ps.933.0 million, it would have result in an additional foreign exchange loss of approximately $5.1 million, and a decrease in the exchange rate from Ps. 13.0 per U.S. dollar to Ps. 12.0 per U.S. dollar would have result in an additional foreign exchange gain of approximately $6.0 million.

For income taxes paid in Mexico, which are paid in Mexican pesos, the effect of the revaluation of U.S. denominated amounts (primarily debt) into Mexican pesos is taxed currently under Mexican tax law. If the exchange rate used at the end of 2012 increased from Ps. 13.0 per U.S. dollar to Ps. 14.0 per U.S. dollar, income tax expense for the year ended December 31, 2012 would have decreased by approximately $24.3 million. If the exchange rate used at the end of 2012 decreased to Ps.12.0 per U.S. dollar, income tax expense for the year ended December 31, 2012, would have increased by approximately $28.6 million.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Financial Statement Schedules:

All schedules are omitted because they are not applicable, are insignificant, or the required information is shown in the consolidated financial statements or notes thereto.

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Management’s Report on Internal Control over Financial Reporting

The management of Kansas City Southern is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). KCS’s internal control over financial reporting was designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2012, based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (commonly referred to as the COSO framework). Based on its evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2012, based on the criteria outlined in the COSO framework.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2012, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report, which immediately follows this report.

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Kansas City Southern:

We have audited Kansas City Southern's (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Kansas City Southern maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kansas City Southern and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 4, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Kansas City, Missouri
February 4, 2013

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
Kansas City Southern:

We have audited the accompanying consolidated balance sheets of Kansas City Southern and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas City Southern and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, effective January 1, 2012, the Company elected to present comprehensive income and its components in two separate, consecutive statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kansas City Southern's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 4, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Kansas City, Missouri
February 4, 2013

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Kansas City Southern and Subsidiaries
Consolidated Statements of Income
Years Ended December 31,

	2012	2011	2010
	(In millions, except share and per share amounts)		
Revenues	$2,238.6	$2,098.3	$1,814.8
Operating expenses:			
Compensation and benefits	430.5	423.8	369.3
Purchased services	219.8	204.8	189.1
Fuel	359.6	346.5	263.6
Equipment costs	167.1	172.0	162.4
Depreciation and amortization	198.8	186.2	184.9
Materials and other	189.9	179.0	159.0
Elimination of deferred statutory profit sharing liability, net	(43.0)	—	—
Gain on insurance recoveries related to hurricane damage	—	(25.6)	—
Total operating expenses	1,522.7	1,486.7	1,328.3
Operating income	715.9	611.6	486.5
Equity in net earnings of unconsolidated affiliates	19.3	18.2	19.7
Interest expense	(100.4)	(129.1)	(158.1)
Debt retirement costs	(20.1)	(38.7)	(68.3)
Foreign exchange gain (loss)	2.7	(9.2)	4.7
Other income (expense), net	(1.0)	2.2	4.7
Income before income taxes	616.4	455.0	289.2
Income tax expense	237.0	123.1	109.2
Net income	379.4	331.9	180.0
Less: Net income (loss) attributable to noncontrolling interest	2.1	1.6	(0.2)
Net income attributable to Kansas City Southern and subsidiaries	377.3	330.3	180.2
Preferred stock dividends	0.2	1.6	11.0
Net income available to common stockholders	$377.1	$328.7	$169.2
Earnings per share:			
Basic earnings per share	$3.44	$3.04	$1.69
Diluted earnings per share	$3.43	$3.00	$1.67
Average shares outstanding (in thousands):			
Basic	109,712	108,208	100,054
Potentially dilutive common shares	368	1,622	7,480
Diluted	110,080	109,830	107,534
Cash dividends declared per common share	$0.780	$—	$—

See accompanying notes to consolidated financial statements.

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Kansas City Southern and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31,

	2012	2011	2010
	(In millions)		
Net income	$379.4	$331.9	$180.0
Other comprehensive income (loss):			
Unrealized loss on cash flow hedges arising during the period, net of tax of $(0.6) million and $(0.3) million	(1.0)	—	(0.4)
Reclassification adjustment from cash flow hedges included in net income, net of tax of $0.3 million, $0.2 million and $1.9 million	0.4	0.2	3.2
Amortization of prior service credit, net of tax of $(0.1) million	(0.1)	(0.2)	(0.2)
Foreign currency translation adjustments, net of tax of $0.4 million, $(0.5) million, and $0.2 million	0.5	(0.8)	0.4
Other comprehensive income (loss)	(0.2)	(0.8)	3.0
Comprehensive income	379.2	331.1	183.0
Less: comprehensive income (loss) attributable to noncontrolling interest	2.1	1.6	(0.2)
Comprehensive income attributable to Kansas City Southern and subsidiaries	$377.1	$329.5	$183.2

See accompanying notes to consolidated financial statements.

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Kansas City Southern and Subsidiaries
Consolidated Balance Sheets
December 31,

	2012	2011
	(In millions, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$72.6	$72.4
Accounts receivable, net	183.6	166.0
Materials and supplies	125.6	109.6
Deferred income taxes	92.1	225.0
Other current assets	48.4	69.5
Total current assets	522.3	642.5
Investments	51.5	50.4
Restricted funds	14.2	21.7
Property and equipment (including concession assets), net	5,684.8	5,321.6
Other assets	123.1	108.9
Total assets	$6,395.9	$6,145.1
LIABILITIES AND EQUITY		
Current liabilities:		
Debt due within one year	$60.2	$36.3
Accounts payable and accrued liabilities	364.6	401.1
Total current liabilities	424.8	437.4
Long-term debt	1,547.6	1,602.8
Deferred income taxes	894.2	861.4
Other noncurrent liabilities and deferred credits	128.6	184.8
Total liabilities	2,995.2	3,086.4
Commitments and contingencies	—	—
Stockholders’ equity:		
$25 par, 4% noncumulative, preferred stock, 840,000 shares authorized, 649,736 shares issued, 242,170 shares outstanding	6.1	6.1
$.01 par, common stock, 400,000,000 shares authorized, 123,352,185 shares issued; 110,131,353 and 109,910,857 shares outstanding at December 31, 2012 and 2011, respectively	1.1	1.1
Paid-in capital	925.3	884.2
Retained earnings	2,166.5	1,875.3
Accumulated other comprehensive loss	(2.4)	(2.2)
Total stockholders’ equity	3,096.6	2,764.5
Noncontrolling interest	304.1	294.2
Total equity	3,400.7	3,058.7
Total liabilities and equity	$6,395.9	$6,145.1

See accompanying notes to consolidated financial statements.

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Kansas City Southern and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31,

	2012	2011	2010
	(In millions)		
Operating activities:			
Net income	$379.4	$331.9	$180.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	198.8	186.2	184.9
Deferred income taxes	197.3	120.7	106.2
Equity in net earnings of unconsolidated affiliates	(19.3)	(18.2)	(19.7)
Share-based compensation	10.7	8.5	8.8
Excess tax benefit from share-based compensation	(31.5)	(0.2)	(1.2)
Deferred compensation	7.3	19.5	1.6
Elimination of deferred statutory profit sharing liability	(47.8)	—	—
Distributions from unconsolidated affiliates	19.8	18.1	19.5
Gain on insurance recoveries related to hurricane damage	—	(25.6)	—
Cash payments related to hurricane damage	—	(3.3)	(27.8)
Insurance proceeds related to hurricane damage	—	40.2	8.2
Debt retirement costs	20.1	38.7	68.3
Changes in working capital items:			
Accounts receivable	(21.5)	(1.5)	(20.2)
Materials and supplies	(9.3)	(7.2)	6.3
Other current assets	(15.1)	(26.8)	(4.8)
Accounts payable and accrued liabilities	(3.0)	(7.5)	22.0
Other, net	(12.7)	(35.5)	(35.8)
Net cash provided by operating activities	673.2	638.0	496.3
Investing activities:			
Capital expenditures	(540.0)	(495.0)	(287.3)
Acquisition of an intermodal facility, net of cash acquired	—	—	(25.0)
Property investments in MSLLC	(35.2)	(33.3)	(25.2)
Contributions from noncontrolling interest	7.8	10.0	—
Insurance proceeds related to hurricane damage	—	12.4	1.8
Proceeds from disposal of property	14.7	10.0	8.3
Other, net	0.8	(14.5)	15.9
Net cash used for investing activities	(551.9)	(510.4)	(311.5)
Financing activities:			
Proceeds from issuance of long-term debt	329.6	550.0	480.7
Repayment of long-term debt	(375.9)	(653.3)	(839.7)
Proceeds from common stock issuance	—	—	214.9
Debt costs	(22.1)	(36.6)	(65.1)
Proceeds from employee stock plans	1.9	2.1	2.1
Excess tax benefit from share-based compensation	31.5	0.2	1.2
Dividends paid	(86.1)	(3.0)	(11.0)
Net cash used for financing activities	(121.1)	(140.6)	(216.9)
Cash and cash equivalents:			
Net increase (decrease) during each period	0.2	(13.0)	(32.1)
At beginning of year	72.4	85.4	117.5

At end of year	$72.6	$72.4	$85.4
Supplemental cash flow information			
Non-cash investing and financing activities:			
Capital expenditures accrued but not yet paid at end of year	$44.4	$61.7	$57.1
Capital lease obligations incurred	13.8	0.7	3.7
Non-cash asset acquisitions	13.2	116.1	7.3
Cash payments:			
Interest paid, net of amounts capitalized	$97.9	$125.0	$153.0
Income tax payments, net of refunds	1.9	0.9	1.6

See accompanying notes to consolidated financial statements.

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Kansas City Southern and Subsidiaries
Consolidated Statements of Changes in Equity

	$25 Par Preferred Stock	$1 Par Cumulative Preferred Stock Series D 5.125%	$.01 Par Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
	(In millions)							
Balance at December 31, 2009	$6.1	$0.2	$0.9	$661.4	$1,378.8	$(4.4)	$282.8	$2,325.8