



FOR THE *Long Haul*

DELIVERING PROSPERITY
VALUING PEOPLE
PROTECTING THE PLANET



2018 PERFORMANCE



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CEO MESSAGE

GUIDED BY OUR PAST, KCS Strives Toward an Even More Sustainable Future

In one form or another,
Kansas City Southern (KCS)
has been in existence since 1887.

Our Mexican subsidiary,
Kansas City Southern de Mexico (KCSM),
through its predecessor companies,
dates back to 1884. Over our rich
history of 135 years, we have learned
a lot about endurance and survival,
or “sustainability” in today’s
corporate vernacular.



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

Our own history is a fertile field for future guidance, and the successes and failures of our predecessors provide invaluable lessons regarding long-term survival, sustainability, governance and corporate citizenship. Arguably, some of the more powerful lessons come from the struggles and failures of those who came before us, and we have had many hard times over those 135 years.

Today, terms such as sustainability, governance and corporate citizenship have different meanings than in the past, and the standards and expectations placed on large corporations have changed. As I write this letter, there is considerable debate over the actual “purpose” of a corporation. I expect those debates will continue and the standards and expectations against which corporations are held will undoubtedly change again in the future, probably many times.

Kansas City Southern is aware of the need to adjust to this changing landscape, but in the end, there is a lot to be said for running our company the best way we know how, or being the best we can be. We continuously challenge ourselves to be better at everything we do and improve the way in which we serve all of our most important constituencies, including customers, shareholders, employees and communities.

One of the tools I use to give guidance and direction to these constituencies, especially our employees, is to frequently remind them of the [KCS Vision, Values and Culture](#) statement. This is a set of guidelines, beliefs and behaviors that

define our company and create a solid foundation for our success in the future. I also believe the statement serves as a “call to action” of sorts, and I use it a lot in my communication, particularly with employees.

As physical entities, companies have no memory, nor do they have a conscience, but their people do. Kansas City Southern will be defined by both the cumulative actions performed by and the outcomes produced by our employees.

The report that follows details some of the more important initiatives we undertook and the accomplishments we achieved last year. While this is an extensive list of initiatives and accomplishments, and I am pleased by the progress we have made, it is by no measure exhaustive.

There are so many other things that KCS and our team of more than 7,000 dedicated employees in the U.S. and Mexico do every single day to contribute to the sustainability—or long-term success—of our company, as well as contribute to the interests of one or more of our important constituencies.

I would like to draw your attention to some of the more noteworthy results that our employees accomplished in 2018 and the early part of 2019:

We Began to Implement Precision Scheduled Railroading (PSR):

Among other things, PSR is an operating philosophy that establishes clear procedures for executing our operating plans and demands strict adherence to those procedures and plans. Our primary interest in implementing certain principles of PSR is to improve the consistency, reliability and resiliency of our rail network. In addition, we are confident that implementation of PSR will produce substantial benefits in the form of improved asset utilization, reduced congestion on our network, increased capacity for growth in our business, and greatly reduced fuel consumption and carbon emissions, just to name a few of the desired outcomes.

While PSR initiatives did not begin in a quantifiable way at KCS until the beginning of 2019, I would like to comment on some of the early accomplishments. As of June 30, 2019, here are some of the key results from PSR:

- 10% improvement in velocity, or the average speed at which our trains move across our network
- 6% increase in car miles/day, an important measure of productivity in our industry
- 8% reduction in dwell times, which is the time, on average, that freight cars sit idle in yards between movements
- 3% improvement in fuel efficiency, or the amount of fuel used to move the same amount of cargo

Continued



CEO MESSAGE (continued)

All of these elements have resulted in significant improvements in efficiency and productivity. Since the fourth quarter of 2018, we have reduced our active locomotive fleet by 12% and our system car fleet by 7%, while handling the same number of total carloads.

The improvement in our network performance along with our ongoing Strategic Capital Investment program will create additional capacity that will allow us to attract new business and deliver the safety, environmental and other benefits of rail to many new customers and commodities. We firmly believe that a vibrant and growing rail network that is able to increase market share in the movement of freight has many environmental and social benefits.

We Reduced Our Carbon Footprint:

- Fuel reduction technologies and operational initiatives led to decreases in our diesel fuel consumption per ton of freight moved, thereby reducing our Scope 1 emissions.
- A redesign of one of our data center facilities led to a significant reduction in the electricity bill for the facility even as the workforce at that facility almost doubled.
- The rollout of a new recycling program at our Kansas City headquarters helped lead to a 37% increase in our efforts to recycle and reduce waste.

These are just a few examples of the many things we do every day to improve the way we interact with the environment.

We Improved Our Employee Experience:

- Diversity as a KCS value is a point of pride. That's why we were happy that State Street Global Advisors added KCS to its gender diversity index. The index tracks companies with the highest levels of gender diversity in leadership and board positions within their sectors.
- We are pleased that 44% of our U.S. management new hires in 2018 were comprised of women and/or people of color.
- Our new Human Resources information system portal, PeopleStation, is set up to be a one-stop shop for employees. It facilitates setting goals, reviewing performances and learning required curricula. It also provides a means of rewarding employees for their behaviors that exemplify KCS's Vision, Values and Culture.
- Earlier in 2019, we conducted a survey in which we asked all of our management employees several questions about the culture and

values of our company. We were pleased that 75 percent of our management employees responded to this survey, and of those, 80 percent responded favorably to the statement "People at Kansas City Southern live the company values."

We Elevated Our Commitment to Safety:

- Safety is an important part of our culture at KCS. In our statement of core values, we note that "At KCS, Safety is an obligation, not an option." In the culture and values survey mentioned earlier, 94 percent of our management employees agreed that "Safety is a top priority here (at KCS)."
- Our U.S. subsidiary, The Kansas City Southern Railway Company (KCSR), reduced reportable injuries by 17 percent in 2018 vs. 2017.
- We achieved 100% implementation of Positive Train Control (PTC), a technology designed to stop a train in certain circumstances when human intervention fails.
- We put into action innovative systems that distribute security information in real-time to our agents in the field.

While we do find value in the lessons of our 135-year history, be assured that Kansas City Southern is also a forward-looking company. We are keenly aware of the rapidly changing competitive landscape in which we operate and we constantly ask ourselves what we must do to achieve success in the future. In addition to a changing competitive landscape, the standards and expectations against which large corporations are held—by shareholders, regulators and society at large—will undoubtedly change in the future.

I am confident that Kansas City Southern will be around to answer the challenges of the future for a long time to come. We have all the ingredients in place today to guide us into the future and to be the best we can be. By doing this, we will not only assure our own success and sustainability, but we will continue our legacy and purpose that, among other things, includes making a meaningful contribution to the economic growth and prosperity of the nations and communities we serve.

Patrick J. Ottensmeyer
President & Chief Executive Officer



REPORTING SUSTAINABILITY



ABOUT THIS REPORT

REPORTING PERIOD

Kansas City Southern (KCS) reports on an annual basis. This report covers KCS's most recent fiscal year: January 1, 2018, through December 31, 2018.



REPORTING CONTENT BOUNDARIES

This is our third annual sustainability report based on Global Reporting Initiative (GRI) standards.

Please note:

- **"KCS"** refers to Kansas City Southern's U.S. and Mexico operations, including both countries' employees (KCS = Kansas City Southern).
- **"KCSR"** refers to our subsidiary U.S. operations and U.S. employees (KCSR = The Kansas City Southern Railway Company).
- **"KCSM"** refers to our subsidiary Mexico operations (KCSM = Kansas City Southern de Mexico, S.A. de C.V.).
- **"KCSMS"** refers to our subsidiary company supplying contract services to KCSM (KCSMS = KCSM Servicios, S.A. de C.V.).
- **"Employees"** refers to all KCS non-union employees in the U.S. and Mexico, unless otherwise specified.¹
- **"Subsidiary Employees"** refers to all KCS union and non-union employees in the U.S. and Mexico, unless otherwise specified.¹
- KCS subsidiaries covered in this report are KCSR, KCSM and KCSMS. The Panama Canal Railway Company and other remaining subsidiaries listed in KCS's public [SEC filings](#) are not covered in this report.

REPORTING STANDARDS

This report has been prepared in accordance with the GRI Standards: Core option. GRI (Global Reporting Initiative) Standards help us identify and report on:

- Our impacts regarding sustainability issues
- Sustainability topics material to our stakeholders

Following GRI Standards, we have:

- Engaged departments enterprise-wide in responsibility for sustainability reporting and activities. This has made our reporting and planning approaches more comprehensive.
- Implemented materiality processes, which included:
 - Evaluating GRI's economic, environmental and social topic-specific standards and other industry-related sustainability issues
 - Prioritizing issues with the greatest impact on economies, communities and environments in which we operate

Our evaluations included informal and formal input from KCS stakeholders, including a biennial formal materiality assessment. During the materiality process, we solicited input from internal and external stakeholders, including:

- Employees
- Customers
- Shareholders
- Partners
- Suppliers
- KCS leadership

¹ Employees refers to subsidiary employees in these sections of the report: CEO Message; KCS VISION, VALUES AND CULTURE; and HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT

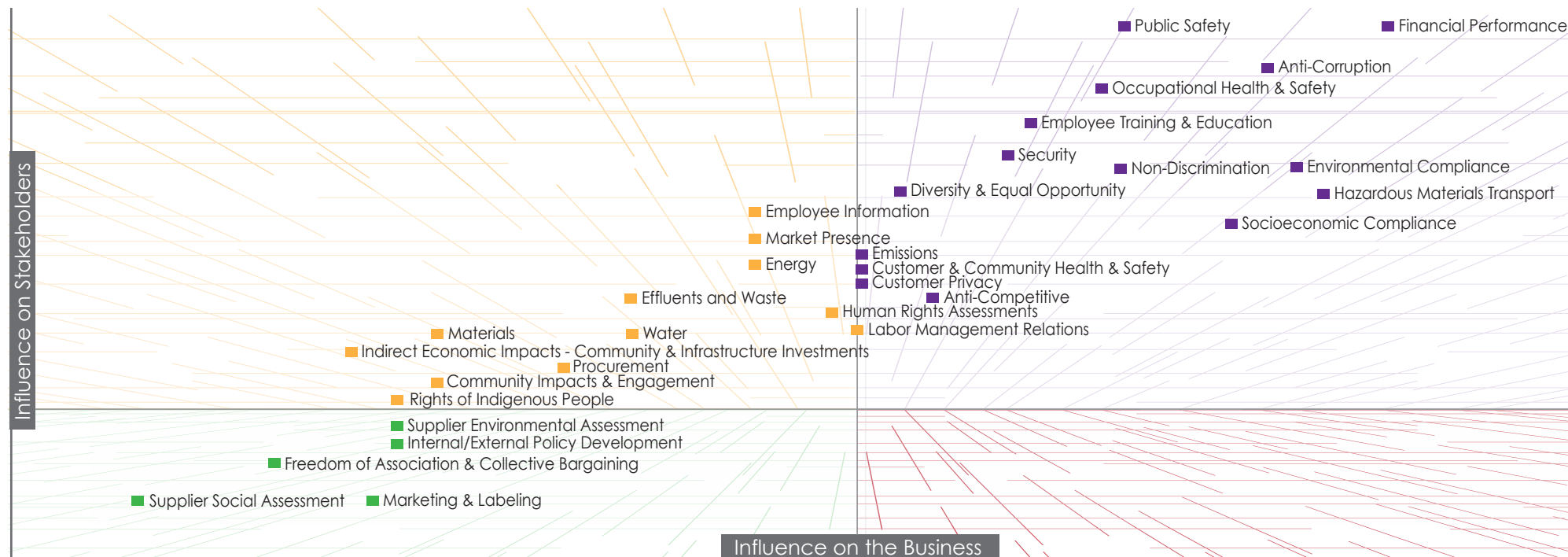
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ABOUT THIS REPORT (continued)

► More than 250 stakeholders participated in our 2018 survey. We plotted survey results on the matrix below, displaying the results' position relative to the degree of stakeholder interest and potential business impact.

Kansas City Southern Materiality Matrix | 2018 Sustainability Report



Our structured approach helped us develop this report by identifying material financial, environmental and social issues facing our business.

ECONOMIC

- Economic | Financial Performance
- Anti-Competitive Behavior (anti-trust, monopoly behaviors)
- Anti-Corruption Practices

ENVIRONMENTAL

- Environmental Compliance
- Emissions
- Effluents and Waste
- Energy
- Hazardous Materials Transport

SOCIAL

- Public Safety
- Occupational Health and Safety
- Non-Discrimination
- Subsidiary Employee Training and Education
- Security Practices

- Subsidiary Employee information: turnover, new hires, benefits
- Diversity & Equal Opportunity
- Socioeconomic Compliance

Continued



ABOUT THIS REPORT

(continued)

REPORTING PRINCIPLES

We defined this sustainability report's content by applying these GRI Reporting Principles:

- **Stakeholder inclusiveness** — As part of the materiality assessment, we solicited input from numerous internal and external stakeholders for their help in defining the content of this report.
- **Sustainability context** — We presented information on our performance in the broader environmental, social and economic context. This information is relevant to demands and limits placed on environmental and social resources at the sectoral, local, regional and international levels.
- **Materiality** — In our stakeholder engagement and materiality processes, we introduced a range of topics that could potentially merit inclusion in our sustainability report. We identified as priority topics those that:
 - Reflect our significant economic, environmental and social impacts; or
 - Substantively influence the assessments and decisions of stakeholders

- **Completeness** — We considered both the results of stakeholder engagement processes and broad-based expectations we may not have identified directly through stakeholder engagement processes. This resulted in identifying:
 - Significant impacts in the reporting period
 - Reasonable estimates of significant future impacts when those impacts are reasonably foreseeable and can become unavoidable or irreversible

REPORT CONTENT

The quality of information in this report was defined by applying the GRI Reporting Principles, including:

- **Accuracy** — We:
 - Provide measurements and methodologies used for data where applicable
 - Indicate which data have been estimated—and the underlying assumptions and techniques used for the estimation
 - Make qualitative statements that are consistent with other reported information

- **Balance** — We:
 - Identify both the challenges and the opportunities we faced during the year
 - Report on many of the same key performance indicators as previous years—regardless of whether performance has improved or declined
- **Clarity** — We:
 - Make available Information to stakeholders in an accessible and understandable manner
 - Provide specific information that can be found without unreasonable effort through tables of contents, maps, links or other aids
 - Make available our sustainability reports on our website with options to download and print information as required
- **Comparability** — We:
 - Have combined financial and non-financial reporting through our annual Sustainability Report for three consecutive years.
 - Report on much of the same financial and non-financial data as reported in our 2016 and 2017 reports and provide comparative figures

- **Reliability** — We provide measurements, methodologies, and reliable evidence to support assumptions or complex calculations where applicable.
- **Timeliness** — We report financial and non-financial data annually through annual reports, including sustainability, 10-K, proxy, quarterly earnings and KCS annual report.

REGARDING THE REPORT

- There have been no significant changes from previous reporting periods in the list of material topics and topic boundaries since we issued our last Sustainability Report in 2018, which covered calendar year 2017. That report, as well as our report covering calendar year 2016, is on our corporate website's [Sustainability page](#).
- The GRI content index for this report starts on [page 87](#).
- Our contact information for questions regarding this report is:

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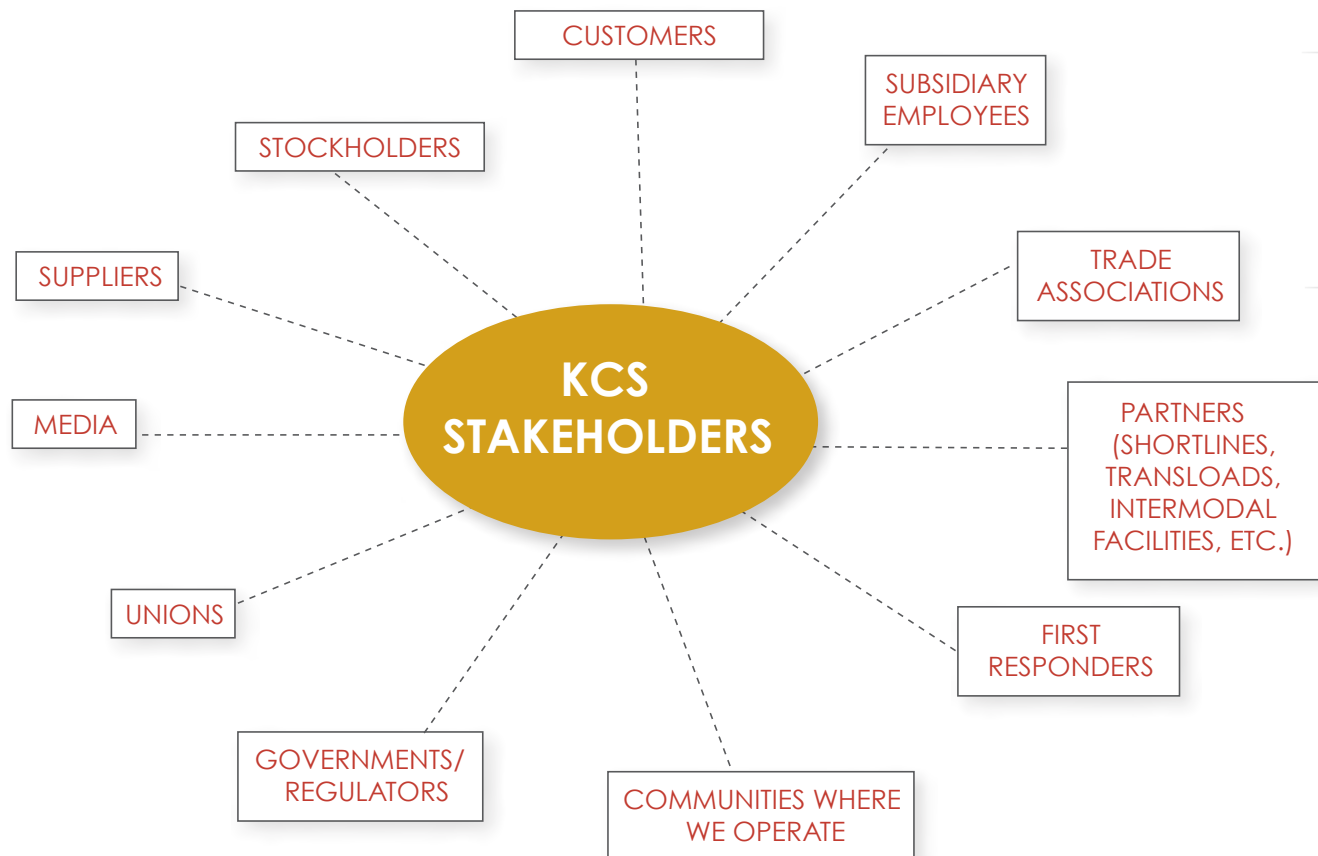


STAKEHOLDER ENGAGEMENT

Depending on the needs of the stakeholders, the frequency with which we engage with them ranges from daily to annually—through one-on-one customer visits, town halls, various conferences, customer satisfaction surveys, our annual shareholders' meeting and many more outreach methods.

Extensive Stakeholder Engagement

See [Appendix: Stakeholder Engagement](#) on page 68 for a comprehensive list of the ways we engaged with our stakeholders in 2018.



For our 2018 Sustainability Report, our Sustainability Steering Committee:

- Identified stakeholders across all business lines and operations
- Classified stakeholders based on their relationships with our operations
- Conducted our biennial KCS stakeholder survey

Professional Engagement

See [Appendix: Professional Engagement](#) on pages 69 and 70 for an extensive list of the ways our enterprise—subsidiary employees, executive leaders, various departments—participated in organizations related to topics relevant to our business and sustainability in 2018.





KCS VISION, VALUES AND CULTURE

KANSAS CITY SOUTHERN VISION

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

KCS VALUES AND CULTURE

The KCS culture is a set of values, beliefs and behaviors that defines us and creates a foundation for our growth and success. Our strong culture and core values will allow KCS to fulfill its Vision and continue to endure in times of stress.

- **Safety:** First and foremost, we will demonstrate a commitment to safety, for ourselves and our fellow employees, customers, contractors and any other guests on our property. At KCS, safety is an obligation, not an option.
- **Customer Focus:** We will recognize that we are in the business of serving customers and will strive to consistently meet or exceed their expectations and deliver on our commitments. We will do what we say we are going to do.
- **Communication:** We will support an environment of open and honest communication in which transparency of information and diversity of perspective are valued.
- **Teamwork:** We will encourage and reward initiative and cross-functional teamwork. We will treat our fellow employees, and other business associates, with dignity and respect. Railroading is a team sport!
- **Initiative & Innovation:** We will nurture an environment which encourages and rewards resourcefulness, innovation and creativity, and where all individuals' contributions are encouraged and respected.
- **Diversity & Civility:** We will embrace our cross-cultural heritage and promote a work environment that is inclusive of everyone. We will honor the rights of all individuals to be treated with respect and dignity.



KCS AND OUR HOLDINGS

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

To serve the diverse and growing North American market, we leverage our cross-border rail network and our commitment to operational excellence.

Our cross-border network provides our customers the advantage of connecting North American producers with end-consumers in these ways:

- We operate approximately 6,700 route miles throughout the U.S. and Mexico.
- Headquartered in the crossroads of a continent, our rail network:
 - Provides superior access to Mexico's industrial heartland and connections with all other North American Class I railroads
 - Supports our customers by offering a transportation solution that is one interchange away from all major North American commercial and industrial markets
- Our unique rail freight network gives our customers the benefit of seamless, secure cross-border transportation between the U.S. and Mexico.
- Operating at Pacific Ocean and Gulf of Mexico ports, we promote the transport of customer goods across the globe.

Continued



KCS AND OUR HOLDINGS

(continued)

PRINCIPAL OPERATING COMPANIES

Our KCS subsidiaries include the following three companies.



KCSR: The Kansas City Southern Railway Company

- Headquartered in Kansas City, MO
- Class I¹ U.S. railroad operating approximately 3,400 route miles
- Provides service to approximately 28 transload facilities in six states
- Serves 13 originating energy terminals in the U.S.: One in Louisiana and 12 in Texas
- Owns or contracts for direct rail access with seven intermodal terminals in Missouri, Mississippi, Louisiana and Texas
- Connects with approximately 52 short line and terminal switching railroads in the U.S.
- Serves central and southeastern United States in 10 states: Missouri, Illinois, Kansas, Arkansas, Oklahoma, Texas, Louisiana, Mississippi, Alabama and Tennessee
- Has haulage and/or marketing agreements with rail lines that extend into Iowa and Nebraska
- Serves 17 U.S. ports: nine Gulf of Mexico ports and eight ports on inland rivers and navigable waterways
- Links the major commercial and industrial centers of the U.S., Mexico and Canada

¹ As defined by the Surface Transportation Board, a Class I railroad has an "annual carrier operating revenues of \$250 million or more in 1991 dollars." That equated to \$460 million in 2018.



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

- Headquartered in Mexico City, Mexico
- Operates approximately 3,300 route miles
- Provides service to approximately 85 transload facilities in 13 Mexican states
- Serves 20 destination energy terminals in eight Mexican states
- Services three company-owned intermodal terminals and another 15 private but open-to-the-public intermodal terminals
- Serves northeastern, central, southeast-central and southwest-central Mexico in 16 states: Aguascalientes, Coahuila, Distrito Federal, Estado de Mexico, Guanajuato, Hidalgo, Jalisco, Michoacán, Nuevo León, Puebla, Querétaro, San Luis Potosí, Tamaulipas, Tlaxcala, Veracruz and Zacatecas
- Provides access to three Gulf of Mexico ports and one Pacific Ocean port
- Serves most of Mexico's principal industrial cities, covering 67.4% of Mexico's population and 70.7% of the country's GDP²



PCRC: Panama Canal Railway Company (50% interest)³

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

² ProMexico Mexico State Profiles; latest figures as of May 2019 are from 2017; GDP in millions of pesos.

³ Sustainability information related to the PCRC is not included in this report.

TAKING STOCK OF KCS

- Is a member of the S&P 500
- Trades its stock on the NYSE as KSU
- Is incorporated in Delaware

- As of December 31, 2018, had:
 - \$9.6 billion market cap
 - 2,063 stockholders of record
 - 102 million diluted shares outstanding



KCS BOARD OF DIRECTORS

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

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






- Select, evaluate and determine compensation for the CEO and senior management, and oversee CEO succession planning
- Provide counsel and oversight on the selection, evaluation and development of senior management
- Review, monitor and approve fundamental financial and business strategies and major corporate actions
- Assess major risks facing KCS and review options for dealing with such risks
- Ensure processes are in place for maintaining the integrity of KCS, including the integrity of the financial statements and relationships with customers, suppliers and other stakeholders

During most of 2018, KCS had 12 BOD members, 11 of whom were outside Directors¹ and one was a KCSR employee. The Directors served on five committees that were responsible for reviewing and overseeing matters related to various sustainability topics.

The Board recognizes the increasing importance of environmental and social issues to our stakeholders,

which include our stockholders. The issues include risks associated with climate change. The Board recently amended the charter of its Nominating & Corporate Governance Committee to specifically assign responsibility for the oversight and monitoring of such risks to that committee, demonstrating the importance of such issues to KCS and its future.

KCS 2018: BOARD OF DIRECTOR COMMITTEES AND SUSTAINABILITY RESPONSIBILITIES

COMMITTEE	SUSTAINABILITY TOPIC(S)	NO. OF BOARD MEMBERS ON COMMITTEE
Audit	Economic, Environmental	
Compensation & Organization	Social	
Executive	Economic, Social, Environmental	
Finance & Strategic Investment	Economic	
Nominating and Corporate Governance	Environmental, Social, Governance (ESG)	

¹ One Director resigned in October 2018, as disclosed in our [May 2019 Proxy Statement](#) on page 64.

Continued



KCS BOARD OF DIRECTORS

(continued)

HIGH STANDARDS FOR BOD ELIGIBILITY

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

- High personal and professional ethics, integrity and values
- Independence, in accordance with the requirements of the NYSE, unless their lack of independence would not prevent two-thirds of the BOD from meeting such requirements
- No current service on boards of companies that, in the judgment of the Nominating & Corporate Governance Committee, are in competition with or opposed to our best interests
- Below the age of 75 years as of the date of the meeting at which his or her election would occur
- Is not a former KCS Chief Executive Officer

Though we strive to avoid naming to the board anyone with a conflict of interest with KCS, we disclose to our stakeholders any conflicts of interest our board members might have in our annual proxy statement regarding:

- Cross-board membership
- Cross-shareholding with suppliers and other stakeholders
- Existence of controlling shareholders
- Related party disclosures

¹ One Director resigned in October 2018, as disclosed in our [May 2019 Proxy Statement](#) on page 64.

² For purposes of this report, vulnerable groups contain persons with some specific physical, social, political or economic condition or characteristic that places the group at a higher risk of suffering a burden.

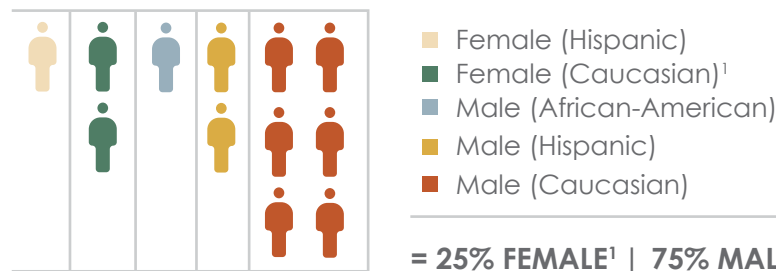
³ Includes CEOs of divisions of publicly held companies

BOARD OF DIRECTORS BY THE NUMBERS

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

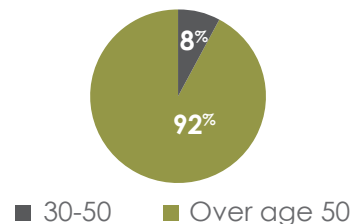
The committee considers diversity in the broadest sense thus including factors such as age, sex, race, ethnicity and geographic location, as well as a variety of experiences and educational backgrounds.

2018 BOD BY M/F & ETHNICITY

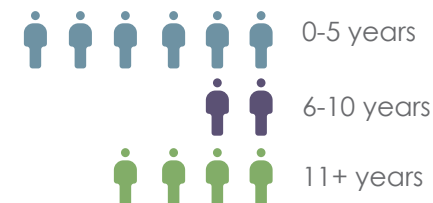


50% of Directors are members of minority or vulnerable groups.²

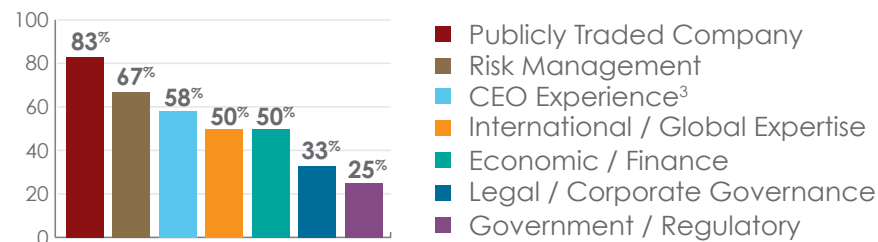
2018 % BOD BY AGE



2018 BOD BY TENURE



2018 % BOD BY SKILLS AND QUALIFICATIONS





SUPPLIER DIVERSITY PROGRAM INITIATIVE

- ▶ To serve our customers best, we reach out to all sectors of the supplier community. By seeking high-quality suppliers in under-represented groups, KCSR brings the added value of diversity to our purchasing process.

With our comprehensive supplier outreach, we are able to:

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

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

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

In 2018, we attended the Greater Kansas City Chamber of Commerce Small & Diverse Business Procurement Event and the Metropolitan Community College Veterans Event.

Attending these events:

- Provides an opportunity to network with local suppliers
- Signals to the local business community our interest in collaborating with small and diverse suppliers if they have goods or services that meet our needs

KCSR: % OF BUSINESS SEGMENT SPEND WITHIN SUPPLIER DIVERSITY SEGMENT

Enterprise	2018	2017	2016
Minority-Owned Hispanic/Latino Business Enterprises	51%	65%	54%
Woman-Owned Business Enterprises	21%	28%	39%
Disadvantaged Business Enterprises	2%	3%	5%
Minority-Owned Veteran / Asian-American / African-American / Native-American Business Enterprises ¹	26%	4% ²	2% ³

¹ In 2018, KCS signed a major contract with an Asian-American company.

² For 2017, the 4% included Minority-Owned Asian-American Business Enterprises, although we did not note that in the 2017 Sustainability Report.

³ The 2016 percentage does not include Minority-Owned Asian-American Business Enterprises.

KCSR: % OF SPEND ON WOMAN-OWNED SUPPLIER DIVERSITY SEGMENT

Enterprise	2018	2017	2016
Woman-Owned Non-Minority Business Enterprises	68%	67%	52%
Woman-Owned Minority Business Enterprises	32%	33%	48%

Management Approach Disclosures

Read our disclosures on [Diversity and Equal Employment Opportunities](#) in the **Appendix: Stakeholder Priority Material Topics**, page 80.



HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT

► We affirm, to all our stakeholders, including our employees, customers, shareholders, and the public, our commitment to safe, healthy, and secure operations. We also affirm that we will comply with legal requirements and adhere to the highest practicable standards for the protection of our environment.

We will continuously and measurably improve our practices based on consultation with our workers and their representatives, and in light of advances in technology and new breakthroughs in security, safety, health and environmental science. We will strengthen our business by making the consideration of potential safety, health, environmental and security issues an integral part of all our business activities.

To that end, the following principles will guide us.

- We believe that injuries and occupational illnesses, as well as most railroad accidents and environmental incidents, are preventable, and we are committed to a goal of zero for these that we can prevent using any reasonable efforts.
- We will eliminate hazards and reduce occupational health and safety risks in our workplace.
- We will educate and empower our employees to work safely, to maintain secure operations and to embrace our commitment to the environment.
- We will operate and maintain our facilities and equipment so they are safe, secure and considerate of environmental impact.
- We will be prepared to respond to railroad emergencies and will provide educational opportunities to assist our local communities to improve their emergency preparedness.
- We will make efforts to prevent, minimize, reuse and recycle waste. When waste is generated, it will be handled and disposed of safely and responsibly.

- We will be responsible stewards of our environment by demonstrating resource efficiency and conservation of natural resources.
- We will use technological advancements and continuously improved operating procedures to drive reductions in our emissions intensity ratio.
- We will responsibly remediate environmental conditions that require our attention.
- We will work with our customers and suppliers to minimize environmental impacts and improve efficiencies along the supply chain.
- We will continuously analyze and work to improve our operations using the Plan-Do-Check-Act methodology as a means to manage the inherent risks of our operations and to protect human life and the environment.
- We will measure and regularly report to the public our progress in meeting this Commitment.

We support this affirmation and will put in place appropriate policies, procedures, and directives and will make available the resources to comply with both the letter and the spirit of this Commitment.



Patrick J. Offensmeyer

President & Chief Executive Officer

José Zozaya

KCSM President, General Manager & Executive Representative

Jeffrey M. Songer

Executive Vice President & Chief Operating Officer

Kayden B. Howard

Vice President Health, Safety & Environmental



MANAGING RISK

MANAGEMENT OF RISK

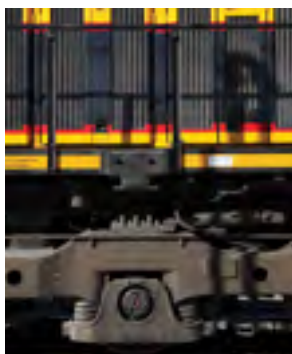
► When it comes to managing potential risks to the company, we take a proactive approach.

Our multidisciplinary Enterprise Risk Management (ERM) process facilitates:

- Identifying events that potentially might affect our enterprise
- Reviewing the risks, impacts and opportunities associated with those events
- Developing mitigation activities that may reduce the probability or impact of risks and impediments to pursuing opportunities

Our Board of Directors' Audit Committee oversees the ERM process, facilitated by KCS's Internal Audit department. The Board has delegated to the Audit Committee the primary responsibility for reviewing and monitoring the risks. We follow an ERM procedure that calls for:

- Subsidiary employees and departments to identify and assess our enterprise risks and develop mitigation activities to reduce the exposure
- Our executive management team to review top enterprise risks reported semi-annually to the KCS Board of Directors' Audit Committee
- The Audit Committee to semi-annually review areas of potential significant risk and steps taken by KCS to monitor and mitigate the risks



OTHER RISK MANAGEMENT INITIATIVES

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

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

In 2018, KCS began revising and improving our formal Business Continuity Plan.



REDUCING KCS RISKS

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

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

Our Legal, Human Resources and other departments implement Board of Director-approved policies and codes, which outline discipline for violations of such policies and codes, including termination of employment.

ANTI-CORRUPTION POLICY

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

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

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

Our Anti-Corruption Policy includes, among other items, improper behavior relating to the U.S. Foreign Corrupt Practices Act (FCPA).

Management Approach Disclosures

Read our disclosures on [Anti-Corruption Practices](#), [Anti-Competitive Behavior](#) and [Socioeconomic Compliance](#) in the [Appendix: Stakeholder Priority Material Topics](#), pages 73 and 74.

CODE OF BUSINESS CONDUCT AND ETHICS

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

- Honest business dealings, including avoidance of anti-competitive behavior
- Avoiding conflicts of interest
- Confidentiality
- Transparency
- Acceptance of entertainment and gifts
- Dealings with public officials
- Political contributions and other situations
- Insider trading (also covered in separate policy; see below)

A violation of the Code's standards can result in discipline up to and including termination. In Mexico, we enforce Ética de Negocios y Cumplimiento con las Leyes (Business Ethics and Compliance with Laws).

In addition, our supplier expectation policy extends the same high and ethical standards of our Business Conduct and Ethics to our vendors, contractors and suppliers in the U.S. and Mexico.



INSIDER TRADING POLICY

Our Insider Trading Policy expressly prohibits:

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

Continued



REDUCING KCS RISKS

(continued)

ACTIONS UPHOLDING ACCOUNTABILITY

- We hold our company, our subsidiary employees and anyone doing business with KCS accountable to our Anti-Corruption Policy and our Code of Business Conduct and Ethics.

Our accountability measures—in addition to our Enterprise Risk Management (ERM) process—are the following, among others:

Conflict of Interest and Compliance Questionnaire

We distribute this questionnaire annually to employees. By completing and signing the questionnaire, employees signify their compliance with our Policy and Code.

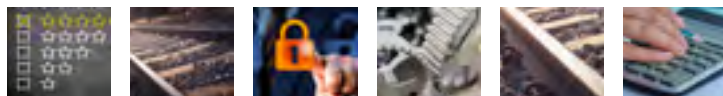
Foreign Corrupt Practices Act (FCPA) Risk Assessment

We complete an annual Foreign Corrupt Practices Act (FCPA) Risk Assessment that provides an inventory for Internal Audit and management to evaluate. The assessment:

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

Mexico Vendor Review

We also undertake an annual review of KCSM's vendors. The review utilizes a third-party service to screen whether our Mexican vendors may be politically exposed, state owned, under sanctions, or on watch lists.



Training

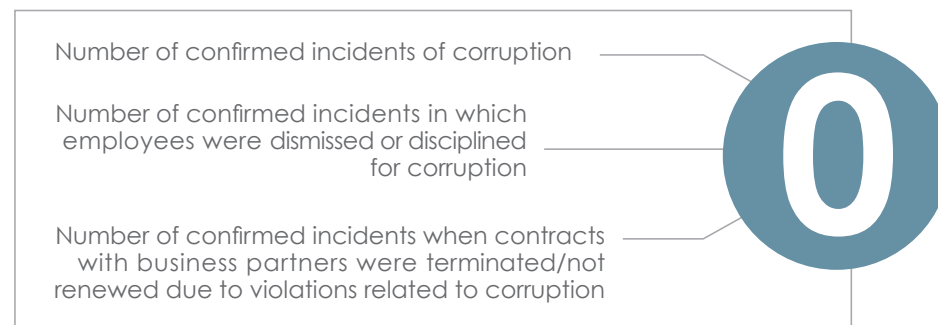
Our Executive Leadership and all employees receive anti-corruption training, particularly on the Foreign Corrupt Practices Act (FCPA).

2018 Results

During our 2018 reporting year:

- 100% of KCSR and KCSMS employees completed and signed the Conflict of Interest and Compliance Questionnaire.
- KCS was not a participant in any legal actions pending or completed regarding anti-competitive behavior or violations of anti-trust and monopoly legislation.
- There were no significant risks identified as a result of the Mexico Vendor Review.
- KCS did not incur any significant fines or non-monetary sanctions for non-compliance with laws and/or regulations in the socioeconomic area.
- All new hires in the U.S. and Mexico were required to acknowledge their receipt and understanding of our Anti-Corruption Policy.

KCS 2018: ANTI-CORRUPTION STATUS¹



¹ Includes corruption related to the Foreign Corrupt Practices Act (FCPA)



CLIMATE CHANGE:

FINANCIAL IMPLICATIONS, RISKS AND OPPORTUNITIES

- Risks and opportunities posed by climate change have the potential to generate substantive changes in KCS operations, revenues and expenditures.

We manage climate-related opportunities by:

- Investing in fuel-efficient locomotives and technology aiding fuel efficiency
- Improving operational practices
- Undertaking projects to improve energy efficiency
- Communicating our efforts and the benefits of rail transport to our communities, stockholders, customers and subsidiary employees through our annual sustainability and CDP climate change reports

We identify and assess climate-related risks based on their potential to cause disruptions to the business or operations from extreme-weather events and changes to weather patterns that may pose:

- Threats to our company, customers and supply chain
- Physical risks to infrastructure, facilities and assets

KCS has plans to safeguard business continuity in the event of disruptions from extreme-weather events and changes to weather patterns.

We subscribe to these groups' economic charters, principles or other initiatives regarding climate change to manage our climate change risks and to develop opportunities:

- Association of American Railroads (AAR)
- Greenhouse Gas (GHG) Protocol
- CDP (formerly the Carbon Disclosure Project)
- Global Reporting Initiative (GRI)
- SmartWaySM
- Responsible Care[®]
- TRANSCAER[®]
- National Association of the Chemical Industry (ANIQ)

Continued



CLIMATE CHANGE: FINANCIAL IMPLICATIONS, RISKS AND OPPORTUNITIES

(continued)

Through our risk management process, we have identified the following climate-related risks and opportunities that have potential to influence operations, revenues or expenditures:

- **Current Regulations:** We monitor closely both national and international regulations as they relate to restrictions, caps, taxes or other controls on emissions of greenhouse gases.
- **Emerging Regulations:** We monitor developments in the regulatory area of carbon emissions controls. As with the development of previous emissions regulations, the U.S. railroad industry, which includes KCS, participates in the rulemaking process by contributing:
 - Information and practical knowledge
 - Testing services
 - Critical reviews of proposed rules
- **Technology:** We employ various technologies to:
 - Reduce fuel consumption
 - Regularly monitor our infrastructure to reduce and/or eliminate rail-related defects resulting from extreme-weather or climate-related events
- **Legal:** We continue to monitor evolving legal developments associated with climate change, including:
 - Regulatory frameworks
 - Proposed federal legislation
 - Relevant environmental, energy, and natural resources laws

- **Market:** We employ highly-focused market research and sales efforts to provide environmentally sound rail and intermodal options for time-sensitive shipments.
- **Reputation:** We promote rail transportation of goods as a means of reducing the environmental impact of surface freight transportation.

- **Upstream and Downstream:** We evaluate risks that could potentially have a direct impact to company operations and profitability and an indirect impact through our upstream or downstream activities.



- **Infrastructure, Equipment and Services:** We invest in necessary goods and services to:
 - Maintain our rail network's good operating condition
 - Minimize damage and business disruptions from severe weather events

These investments include:

A supply of critical track and signal equipment ready for use in the event of a service disruption

Weather prediction services to forewarn of possible weather-related disruptions

Insurance to help mitigate financial losses due to storms, flooding and other extreme-weather or climate-related events





24/7 REPORT HOTLINES

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

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

► If there's a problem within our company or along our rail network, calling one of our hotlines can be the first step in providing a solution. Each hotline gives our stakeholders a way to voice their concerns with the option to do so anonymously, without fear of retaliation.

In the U.S. and Mexico, we strongly encourage our subsidiary employees, customers, vendors and the public to speak up when they encounter misconduct, unethical actions or unsafe behavior, among other things.

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

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

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

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

U.S.: 1-800-727-2615 | Mexico: 01-800-436-0158





ADVANCING SAFETY



OUR NO. 1 PRIORITY: SAFETY

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

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

We continuously invest enterprise-wide in enhancing safety through:

- Our “Safety Starts Here” campaign promoting safety through the use of videos and other communication channels
- Operating and safety rules, regulations and guidelines
- Safety town hall meetings
- Multiple public safety initiatives, including Operation Lifesaver, Alto Total, “Officer on a Train” events, and collaborative grade-crossing safety projects
- Local safety committees in communities where we operate
- Subsidiary employee training, education and safety awards
- Technological initiatives, including Positive Train Control and GE’s Trip Optimizer™ System
- Equipment and infrastructure maintenance or replacement
- Facility maintenance or enhancements
- Internal and third-party audits
- Compliance initiatives
- Emergency responder engagement
- Hotlines to report unsafe activities (see below)

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

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





PUBLIC SAFETY:

POSITIVE TRAIN CONTROL (PTC)

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

PTC aims to prevent:

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

PTC will increase the safety of:

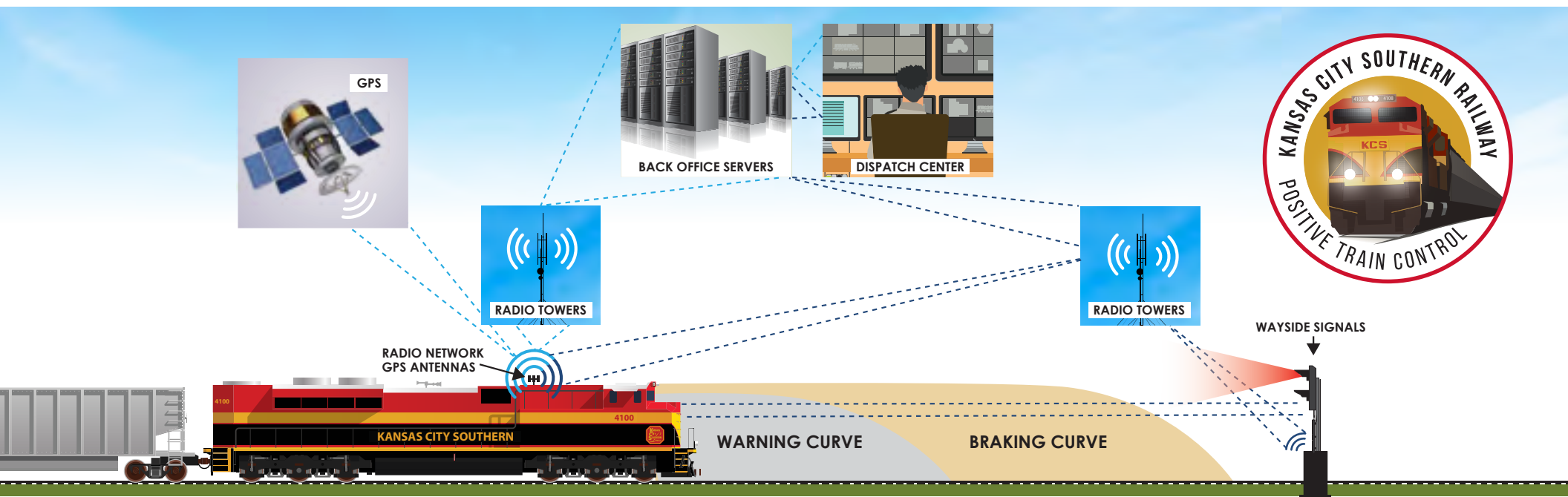
- Our railroad workers/crews
- Communities along our rail network

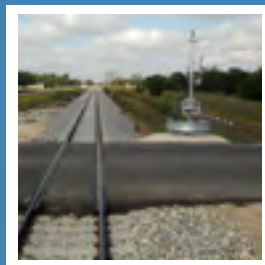
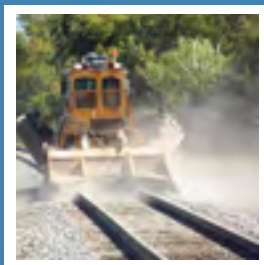
In October 2018, KCSR completed the implementation of PTC on our network and required assets. We are working with our tenant and host railroads to complete interoperability by the end of 2020. PTC interoperability will allow non-KCS assets to operate over our rail network and vice versa.

In 2018, we achieved these PTC goals:

- Become fully operational with 100% of our required route miles
- Fully equipped 100% of our locomotives needed to operate PTC
- Installed 100% of wayside interface units, communication towers, switch position monitors and base stations
- Completed 100% of our track PTC segment implementation
- Trained 100% of the required employees on PTC

In addition, KCSR received a two-year extension from the Federal Read more about our PTC progress at [FRA.dot.gov](https://www.fra.dot.gov).





PUBLIC SAFETY: GRADE CROSSING SAFETY

► To support public safety in communities where we operate, we employ initiatives specifically aimed at preventing grade crossing collisions.

See [page 29](#) for additional technology that helps reduce grade crossing incidents, as well as improves our general rail infrastructure.

Rail Crossing Safety Measures

We work in cooperation with state and local governments along our rail network to:

- Identify crossings in need of additional crossing protection
- Install active traffic control warning devices

In 2018, we:

- Installed 15 crossing surfaces and 22 sets of flashers and gates
- Permanently closed 10 grade crossings

RIMS (Rail Inventory Management System) and Inspections

In 2018, we concluded our three-year plan for on-site reviews of 100% of KCSR's more than 4,800 grade crossings. As of December 31, 2018, we uploaded information captured regarding our grade crossings into the Federal Railroad Administration (FRA) web-based RIMS.

Vegetation Control Management Program

We use control technologies and herbicides in accordance with federal and state requirements at crossings, rights-of-way, industry track, sidings, rail yards, bridges and other areas under KCS's jurisdiction. We do this to control invasive plant life in order to prevent:

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

In 2018, we applied vegetation control measures on approximately 25,780 acres in the U.S. and 29,238 acres in Mexico.



PUBLIC SAFETY:

OPERATION LIFESAVER / ALTO TOTAL

Throughout each year, we engage with local law enforcement and the public with Operation Lifesaver/ Alto Total programs designed to educate the public to remain safe around trains. Aimed to help end rail-related injuries, collisions and deaths, the non-profit Operation Lifesaver in the U.S. and Alto Total in Mexico are the backbone of our public safety initiatives.

PROGRAMS INCLUDE:

Officer on a Train

Local law enforcement officers:

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

See Tracks? Think Train campaign

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

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

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

Grade Crossing Collision Investigation (GCCl) courses

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

KCSR OPERATION LIFESAVER

	Activities	No. of Activities	Audience
2018	Presentations	977	32,193
	Special Events & Courses	60	91,406
	2018 Total	1,037	123,599
2017	Presentations	1,019	34,532
	Special Events & Courses	130	94,809
	2017 Total	1,149	129,341
2016	Presentations	856	25,044
	Special Events & Courses	120	96,808
	2016 Total	976	121,852

KCSM ALTO TOTAL

	Activities	No. of Activities	Audience (approx.)
2018	Workshops	50	21,250
	Presentations and Direct Outreach	25	43,250
	2018 Total	75	64,500
2017	Workshops	30	20,000
	Presentations and Direct Outreach	23	43,000
	2017 Total	53	63,000
2016	Workshops	24	7,005
	Presentations and Direct Outreach	17	36,000
	2016 Total	41	43,005

CUIDADO CON EL TREN (BEWARE OF THE TRAIN)

Complementing its Alto Total activities, KCSM continued to partner with other organizations for the Cuidado con el Tren campaign. Cuidado con el Tren creates awareness among the people, companies and public transport concessionaires who are located in areas close to the railway infrastructure along KCSM's rail network.

In 2018, KCSM and its partners carried out these rail safety campaign activities:

- Distributed approximately 10,000 Alto Total and Cuidado con el Tren flyers
- Conducted Alto Total and Association of Mexican Railroads (AMF) workshops for approximately 7,500 children
- Visited schools to present 50 Mexican Red Cross workshops
- Held discussions with truck drivers through the Secretariat of Communications and Transportation (SCT)
- Reached approximately 20,000 people through interactive modules in three Mexico museums
- Mailed targeted advertising messages to approximately 50,000 people through the Correos de Mexico (Mexican Post Office)
- Distributed approximately 50,000 postcards to homes—in partnership with the AMF and Correos de Mexico



RAIL SAFETY TECHNOLOGY

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

Major technological initiatives helping to promote the safety and security of our operations include Positive Train Control (PTC), Grade Crossing Safety Initiatives, and our centralized dispatching systems that consolidate train routing decisions:

- KCSR: Centralized Traffic Control (CTC)
- KCSM: Control Centralizado de Tráfico (CCT) / Control de Mandatos de Vía (CMV)

Also helping to keep KCS's rail network running safely are the technologies noted at right.

KCS TECHNOLOGY TO SAFEGUARD OPERATIONS

TECHNOLOGY	PURPOSE	2018 STATUS
Inward/Outward-Facing Locomotive Cameras	Provide additional monitoring to: <ul style="list-style-type: none"> • Assist Federal Railroad Administration (FRA) and KCS operating rules compliance • Spot maintenance needs • Improve overall safety and security 	Percent of road locomotives with cameras upgraded to 512GB hard drives: <ul style="list-style-type: none"> • KCSM: 100% • KCSR: 100%
U.S. Centralized Traffic Control (CTC) & Track Warrant Control (TWC)	Dispatching systems to monitor and control train movements along KCSR's rail network	Methods of operation: <ul style="list-style-type: none"> • CTC on 1,509 route miles • TWC on 1,037 route miles
Mexico Control Centralizado de Tráfico (CCT) & Control de Mandatos de Vía (CMV)	Dispatching systems to monitor and control train movements along KCSM's rail network	Methods of operation: <ul style="list-style-type: none"> • CCT on 1,017 route miles • CMV on 1,480 route miles
Telecommunications	Provide critical services for railroad operations, including: <ul style="list-style-type: none"> • Facilitation of communications between locomotives and dispatch centers • Support of signaling communications used by train management and dispatch system to manage and control train operations 	Provide additional monitoring to: <ul style="list-style-type: none"> • Assist Federal Railroad Administration (FRA) and KCS operating rules compliance • Spot maintenance needs • Improve overall safety and security
Detection Devices	Help prevent accidents and other issues by detecting: <ul style="list-style-type: none"> • High and wide loads • High water • Wheel-bearing temperatures • Dragging equipment • Broken rails • Flat Wheels • Truck Hunting • Rail and rail car defects 	Broken Rail Detection Technology runs along approximately 346 KCSR route miles and 592 KCSM route miles.



Name: Bud Pickett

KCS role: Locomotive Engineer promoted to Road Foreman of Engines, based in Shreveport, LA

Prompt for more sustainable lifestyle: At first, it was the potential money savings. Then came the realization that nothing lasts forever. If we as a society do not wake up and realize this, our children or grandchildren will be the ones who will not have the environment we have now.

Family effort: My wife Jennifer and I are teaching our boys, ages 11 and 13, to incorporate recycling, saving water, reducing the need for electricity, etc. Their school also recycles, and so does KCS. Recycling is part of our everyday lives.

Home, sweet sustainable home: When we built our home in 2007, we researched ways to save money. We installed a "Fireplace Xtordinair" in our living room and had it vented for heating several rooms. We also learned of Louisiana and federal rebates encouraging solar energy use. The rebates allowed us to save 80% of the initial cost of purchasing solar energy systems. Solar energy powers our all-electric 4,000-square-foot home, including our two 50-gallon hot water heaters. (Photo at left: Bud's son Benjamin washes the solar panels as part of his chores.)

We designed the house so that during the day, every room is filled with natural light from the Louisiana sun shining through double-paned windows. Also, in the past few years, we changed out all light bulbs to efficient LED lights and installed motion sensors in rooms where lights were sometimes left on. Living in the country, we don't have curbside recycling, but we have actively started a recycling program—especially now that our trash collection location has the capabilities to accept sorted trash for recycling.

2019 plans: We're attempting to take it to the next level in our recycling efforts. Our goal is to recycle everything, making sure nothing is wasted or sent to a landfill.

We're also planting a garden this year, and our neighbor is teaching us about composting.

Rewards: We have seen substantial savings in our electric bill for starters. Several months during the year, we are only billed the minimum amount of \$5. On average, our bill went from \$260 a month to \$20 a month.

The solar energy system has already paid for itself through the savings alone. The excess energy produced simply goes into the power grid.

One small step for starting a sustainable lifestyle: Turn off the lights if you don't need them, especially during the day, and let the sun shine in!



OCCUPATIONAL HEALTH & SAFETY

- We instill a culture valuing occupational health and safety at KCS via training, education, initiatives, equipment and a strict adherence to safety rules.

Management Approach Disclosures

Read our disclosures on [Health and Safety](#) in the **Appendix: Stakeholder Priority Material Topics**, page 75.

Our KCS Safety Rules complement our workplace safety measures noted below.

KCS WORKPLACE SAFETY MEASURES

Operational Testing Program	<ul style="list-style-type: none"> Provides processes for ongoing validation, understanding and adherence to operating rules and procedures Allows us to identify, monitor and manage potential safety risks Conducts testing designed to: <ul style="list-style-type: none"> Gauge employees' knowledge and compliance with our rules and procedures Determine the need for remedial training, or guidance Develops testing plans that address a particular location's: <ul style="list-style-type: none"> Risk trends Previously failed operational tests Recent injuries or accidents
General Code of Operating Rules (GCOR)	<p>Freight rail transportation industry's commonly accepted set of safe operating rules that cover important issues such as:</p> <ul style="list-style-type: none"> Radio communication Signals and their use Safe train movement Switching safely and efficiently Other topics that directly and indirectly affect railroad safety
KCSR Transportation, Engineering and Mechanical (TEaM) Training Center / KCSM Technical Training Center	<ul style="list-style-type: none"> Offer certification and training programs for all operations groups at the training centers and at other locations as business needs require Provide sessions that focus on operating rules, safety rules and procedures required for specific tasks <ul style="list-style-type: none"> In 2018, 2,998 U.S. employees attended 1 or more sessions In 2018, 1,548 Mexico employees attended 1 or more sessions
KCSR External Responsible Care Management System® (RCMS®) Audit	<p>We are a partner company of the American Chemistry Council's RCMS®</p>

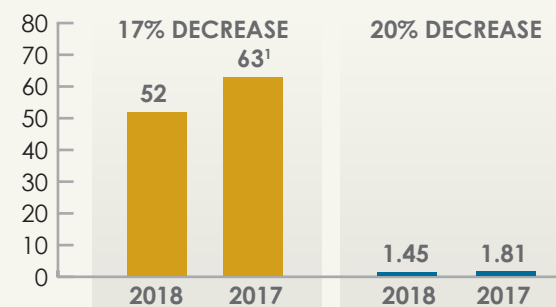
INJURY RATES

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

KCSR: U.S. REPORTABLE INJURIES

- Reportable Injury Count
- Reportable Injury Frequency Rate

¹ **RESTATEMENT:** We reported in our 2017 Sustainability Report that there were 62 reportable injuries.



OH&S ACCOUNTABILITY

KCSR Health, Safety, Security & Environmental Management System (KCSR HSSE MS) is our occupational health and safety and environmental management system.

The KCSR HSSE MS:

- Is written and maintained in compliance with the American Chemistry Council's Responsible Care Management System® 2013 Technical Specification
- Applies to the KCSR rail network

- Has an extensive scope that includes the governance of HSSE-related activities associated with KCSR subsidiary employees at all levels of the organization and KCSR contractors
- Allows for input from joint management-worker health and safety committees

The KCSR HSSE MS uses a risk-based hazard analysis to evaluate and prioritize identified potential hazards. The system monitors things related to:

- Community awareness and emergency response
- Distribution
- Pollution prevention
- Security
- KCSR workforce health and safety
- Process and product safety

To evaluate and continually improve our KCSR HSSE MS, we utilize a variety of methods, including monitoring:

- Incident and injury data
- Information gathered by various technologies
- Operational testing results



KEEPING KCS SECURE

SECURING OUR RAIL NETWORK

- Security is of the utmost importance to our company. We provide top-quality physical and IT security measures to protect our:
- Customers' freight assets and our subsidiary employees' safety along our U.S. and Mexico rail network
 - Customers', partners' and subsidiary employees' sensitive data and information
 - Multiple daily border crossings
 - U.S. and Mexico communities' safety and economic well-being
 - Facilities and rail infrastructure
 - Availability of IT systems to move freight efficiently and to meet KCS's high standards

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

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

- Established solutions, policies and procedures to reduce the risk of attacks
- Established predetermined plans, procedures and resources to resolve threats in the event of a security breach
- Identified procedures to address the effects of a security threat to maintain our customers' trust and support their continuity of operations
- Employed highly qualified third-parties to regularly test security defenses
- Continued to develop and implement multidisciplinary approaches to secure our and our customers' assets from criminal enterprises that target transportation networks
- Employed a variety of strategies to help mitigate the risk terrorist attacks could pose to our personnel and assets

Management Approach Disclosures

Read our disclosures on [Security Practices](#) in the **Appendix: Stakeholder Priority Material Topics**, page 76.

We measure security performance regularly through ongoing:

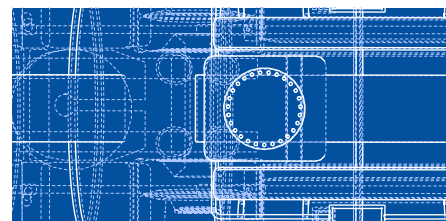
- Due diligence and analytics
- Reporting, analysis and investigation
- Regulatory compliance
- Workplace safety observations
- Training and application of company rules and programs

We were 99.7% compliant with Transportation Security Administration (TSA) Regulations regarding attendance and chain of custody transfers for Rail Security Sensitive Materials in 2018. We also received high accolades during a TSA security audit.

In 2018, security programs and initiatives included:

- High-tech surveillance equipment and cameras
- Inward- and outward-facing cameras on trains
- Monitoring and reporting processes
- Subsidiary employee and customer training
- Mobile app technology
- Data leakage detection systems to prevent theft of sensitive information
- Maintaining a constant flow of information shared with federal, state and local law enforcement agencies

Continued





SECURING OUR RAIL NETWORK

(continued)

Additionally in 2018, we began taking part in monthly meetings hosted by the Kansas City Regional Fusion Center, one of many such U.S. centers. Working in collaboration with the U.S. Department of Homeland Security and the National Network of State and Major Urban Area Fusion Centers, each center is an information-sharing hub that works in partnership with the public, private sector, local, state and federal agencies to collect, evaluate, analyze, and disseminate information and provide actionable intelligence.

At the K.C. Fusion Center meetings, law enforcement agencies:

- Discuss current security and criminal issues
- Share best practices in an effort to find solutions to common problems

Continued on next page

Name: Laurie Massengill
KCS role: Senior Product Manager,
 based in Kansas City, MO



Prompt for more sustainable lifestyle: For my husband and me, it was the ease of recycling options, as well as caring about the planet and the impact of our daily footprint.

Traveling also exposed us to some best practices, especially when we discovered that some places either charge you for plastic bags or don't have them. Now we always carry shopping bags.

Reducing our carbon footprint: We've made a mindful effort to do these things:

- **Buy local and/or organic food:** We've done this for the last 13-14 years. I'm allergic to everything and notice a difference in how I feel when my food doesn't contain chemicals and additives. We also try to buy local to help keep the regional economy strong.
- **Buy fair-trade products:** We try to buy fair trade coffee and shop at stores selling goods produced utilizing fair trade principles, such as Ten Thousand Villages.
- **Recycle items:** We began recycling 15 years ago and sort our recycling right away, making it easy to take out trash and recycling at the same time. We also recycle old electronics and batteries at Best Buy; properly dispose of hazardous waste like paint or cleaning chemicals; and utilize services like 1-800-Got-Junk that donates/recycles items.
- **Resell and donate items instead of trashing them:** Recently, when we sold our house, we used my.freecycle.org to sell some furniture and donated the rest.
- **Use energy-efficient lights and appliances:** All our lights are LED. Our Nest thermostat monitors and sends alerts on our energy consumption. We use a slow cooker or combined pressure cooker/slow cooker instead of the stove and microwave most of the time. Plus, we ditched our coffeemaker for a pour-over carafe, which uses less energy and actually—and happily—makes our coffee quicker.
- **Use reusable eating and drinking items:** We really try not to use disposable items. If we use plastic disposable items, we wash them so they can be re-used.
- **Save water:** We turn off the tap when brushing our teeth. Also, we cut back on pre-rinsing our dishes—they don't need to be spotless before going into the dishwasher.
- **Go paperless:** We've gone paperless for all our bills and accounts. I can't remember the last time I wrote a paper check.

2019 efforts: To help us eat sustainably and reduce stress in our lives, we selected a meal planning service sourcing locally grown/organic food and using eco-friendly packaging.

Because we're not convinced that recycling is enough, we've also committed to be more mindful of our plastic usage and other ways to reduce our overall footprint.

Rewards: Even though some things are more expensive—like buying organic or local food—we save money overall. We're also more mindful about what is really important in life, such as experiences with our loved ones instead of another new toy or trinket.

Small steps for starting a sustainable lifestyle: Pick one earth-friendly practice that's easy for you and your family to follow—it may be recycling or using reusable water bottles.

Also, consider the ultimate cost of the items you buy. If an item will end up in the trash or landfill, find an alternative that could be reused or recycled. Otherwise, think twice about whether you really need it. By not overbuying, you'll save money and reduce your environmental impact.



SECURING OUR RAIL NETWORK

(continued)

RAIL SECURITY FRAMEWORK

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



U.S. AND MEXICO



SECURITY ASSETS:

- Special Agents/Managers/Coordinators
- Security Guard Locations in Mexico
- Contract Security Guards
- Patrol Vehicles
- K-9 Units
- 24x7 Critical Incident Desk and Interrupción de Servicio Support
- Security Operations Center in Mexico

SECURITY AGENTS:

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

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

REPORTING SECURITY-RISK INCIDENTS

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

- Suspicious packages
- Improvised explosive devices (IED)
- Illegal dumping
- Theft and break-ins
- Suspicious activities
- Trespassers
- Phishing and other cybersecurity threat attempts
- Any other security concern

CUSTOMER FREIGHT CLAIMS

To prevent freight losses, KCS security:

- Physically walks and visually monitors trains for theft and vandalism prevention purposes, including routine patrols of military equipment shipments
- Actively cultivates relationships with scrap dealers and similar resources to help spot stolen goods
- Provides train escorts as needed
- Puts into practice other theft prevention plans
- Works with customers to educate them on cargo security/securement products, processes and methods

Additionally, in 2018 our Damage Prevention and Freight Claims Department completed:

- 86 ramp, yard and Intermodal audits across the KCS network in the U.S. and Mexico
- 82 customer audits reinforcing that Association of American Railroads (AAR) loading guidelines/procedures and railcar handling guidelines are being followed per AAR practices, procedures and guidelines

For our last year of completed claims reported, 2017, our claim-free delivery rate was 99.86%, an improvement of 0.1% over the prior year.

2017	2016
KCSR	
0.01%	0.01%
KCSM	
0.23%	0.33%
COMBINED	
0.14%	0.24%

KCS SHIPMENT CLAIMS RATE¹

¹KCS's last full-year claims rate is for 2017 because customers can file claims related to 2018 events into 2019. Claims for events that occurred in 2018 will be reported in the 2019 Sustainability Report.



U.S. SECURITY

- To keep KCSR secure, a team of police, homeland security agents and other special services agents stay informed, strategic, pro-active and vigilant to safeguard shipments across our U.S. rail network.

Coordinated Cooperation: KCSR works with:

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

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

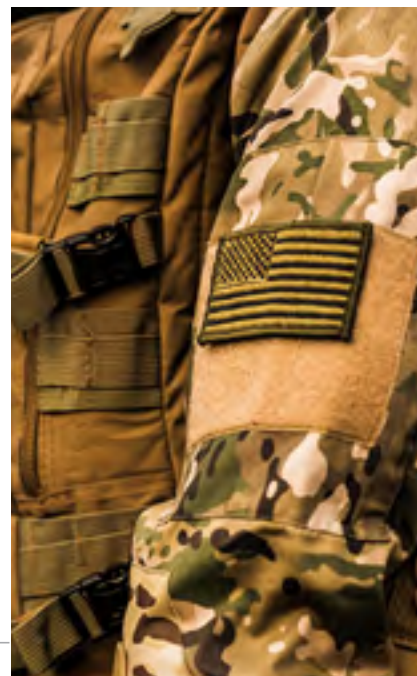
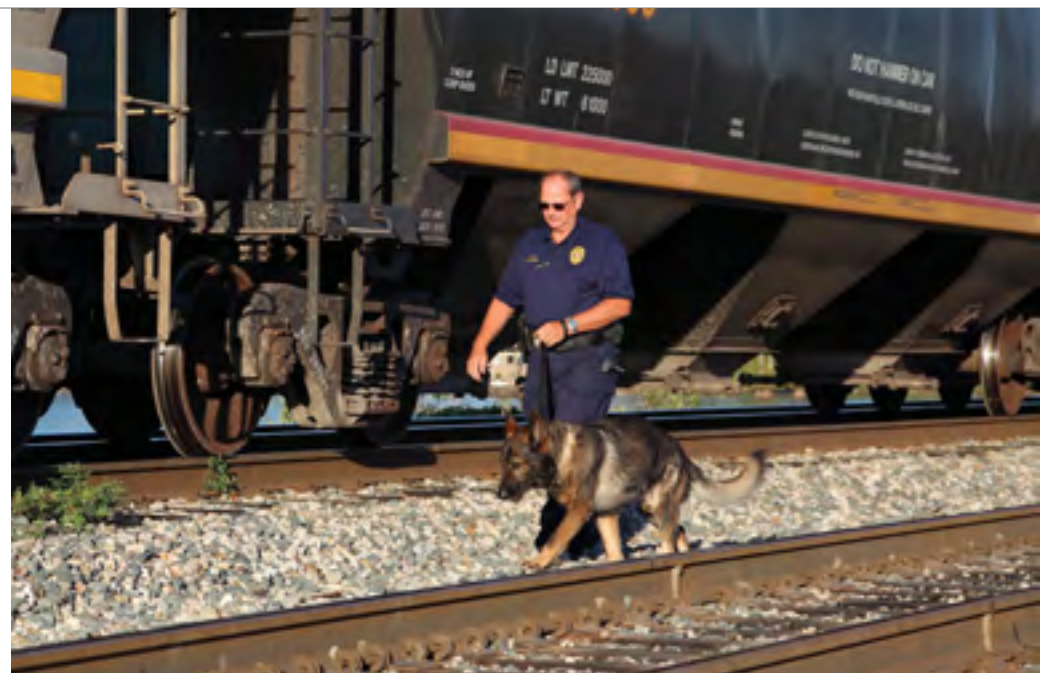
KCSR special agents:

- Patrol KCSR trains
- Track/monitor shipments using covert surveillance and other means

In 2018, KCSR purchased a cloud-based police reporting system that allows for real-time interactive sharing of information among agents in the field. The system:

- Provides a platform for uploading pictures and videos that can be accessed by other members of the force
- Is designed to facilitate the collection of information for criminal prosecution cases, should they arise
- Became active during 1st Quarter 2019

Continued





U.S. SECURITY

(continued)

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

This allows KCSR to:

- Identify and evaluate terrorism and criminal trends, patterns and indicators of concern
- Provide timely awareness briefs to front-line personnel regarding reported incidents
- Proactively apply necessary and appropriate security measures

In 2018, KCSR implemented a real-time intelligence and analysis database that compiles, analyzes and distributes security information from public and private sector partners to personnel in the field.

KCSR Security Personnel: KCSR special agents completed their state-mandated curricula and requirements for 2018. KCSR's Chief of Police and the Department of Public Safety keep the officers' records on file in each agent's home state.

As part of yearly recertification, all KCSR special agents complete a number of mandated continuing education requirements in areas such as:

- Ethics, including the ethics of police work
- Dealing with aggressive behavior
- Cultural diversity
- Prisoner rights and privileges, including how to handle persons before and after detainment
- Communication obstacles, including overcoming communication barriers with physically and/or mentally challenged individuals
- Tactical communication

Security personnel contracted by KCSR receive training regarding human rights, ethics, diversity and communications skills during orientation within their companies.

SECURITY IN MEXICO

► KCSM is ever vigilant in seeing that our customers' freight transport is secure. To proactively secure shipments in Mexico, a multi-layered security model uses high-speed digital imaging, system velocity, and covert and overt security filters to mitigate the risk of illicit activity.

KCSM Security Operations Center (KSOC): This 24/7 central command and control facility features state-of-the-art equipment and allows KCSM to carry out:

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

At KSOC:

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

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

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

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

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

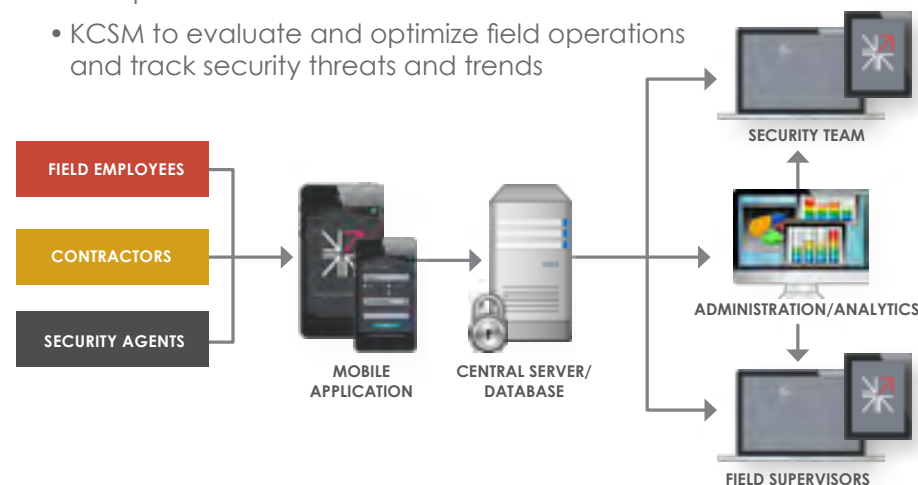
¹ <https://www.iit-corp.com/north-american-railroad-system-security-plan/>

Security Procedures: Our stringent security procedures include, among others:

- All cross-border trains hauling northbound and southbound cargo pass through a digital monitoring process.
- We convert all aspects of physical security into digital files to measure performance and to incorporate security measures into risk mitigation models.
- We digitally record all freight entering and leaving the KCSM system until the trains or freight cars are constructively placed or reach their destinations.
- All freight is monitored for conditions and quality assurance via:
 - High-speed digital imagers
 - Management control systems
 - GPS Technologies

Mobile Security App: KCSM's mobile security app enhances the safety and security of our trains in Mexico. With the app, our security team collects data, which allows:

- Supervisors to respond immediately in critical or important situations
- KCSM to evaluate and optimize field operations and track security threats and trends



SECURITY THROUGH TECHNOLOGY

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

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

- Firewall security for perimeter protection
- Intrusion detection/prevention analysis
- Vulnerability management and patching processes
- Software updates for operating systems and applications
- Backup copies of data and information
- Controlled physical access to computers and networks
- Wi-Fi security
- Requirement for each individual user to have his/her own account
- Limited employee access to data and information
- Password complexity and aging
- Third-party penetration testing
- Centralized logging and alerting systems for real-time suspicious event notifications
- Two-factor authentication
- Traffic behavioral analysis
- Website filtering
- Spam/phishing gateway protection
- Mock phishing campaigns
- Subsidiary employee education and training:
 - Data Protection and Destruction
 - Anti-Phishing
 - Safe Social Networks
 - Social Engineering
 - Personally Identifiable Information
 - Mobile App Security
 - Mobile Device Security
 - Password Security
 - Safer Web Browsing
 - Physical Security
 - Security Beyond the Office

Data Security

We employ redundant data centers, allowing us to recover business systems in the event of a disaster.

In 2018, we also completed two major projects to significantly enhance our overall security:

- Updated the technology that serves anti-virus and application whitelisting
- Implemented an advanced logging system that allows for artificial intelligence to customize alerts

Video Security

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

For Mexico operations, we installed 115 additional cameras in the main KCSM yards and buildings. KCSM monitors the cameras locally in each yard and at KSOC.

[Continued](#)





SECURITY THROUGH TECHNOLOGY

(continued)

Electronic Device Security

We protect our business operations related to the use of electronic devices, including:

- Mobile computing
- Cloud migration
- Subsidiary employee mobile-device and application use
- Social media platforms
- Email and web use
- Data sovereignty

To provide the necessary protection, we utilize a number of defense layers, including:

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

Cybersecurity

To increase subsidiary employee awareness of the importance of cybersecurity, we:

- Mandate security awareness and training modules
- Alert employees to specific security events via newsletters and direct emails
- Segment employee personally identifiable information (PII) off from normal operations
- Encrypt transfers of employee data
- Protect employee Internet activity via URL filtering and domain name checking
- Deploy multiple mock phishing campaigns to keep employees alert to the possibility of targeted phishing attacks

2018 CYBERSECURITY MEASURES

To protect the best interests and private information of our company, subsidiary employees and customers, we:

- Conducted our annual third-party penetration test, which simulates the customer experience. The test found no critical gaps, and existing projects addressed minor gaps
- Participated in an industry-wide operational exercise that also yielded no critical findings
- Upgraded our MyKCS customer portal, including the back-end support systems. We scan these systems for vulnerabilities and correct issues with appropriate criticality
- Conducted customized training courses for financial department personnel to alert them to the latest techniques for business email compromise
- Continued our employee security awareness and training, mock phishing campaigns and online courses on:
 - Internet-facing systems
 - Phishing
 - Mobile Security
 - Password Security
 - Social Media
 - PII Protections
 - Security At Home
 - Data Privacy

TO ADDRESS AND ELIMINATE incidences of cyberterrorism, we:

- Streamlined and formalized our threat intelligence program for specific alerts that may affect the KCS environment or the industry at large
- Continued our relationships with local and federal law enforcement agencies



DELIVERING PROSPERITY



BUSINESS UNITS AND REVENUES

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

In 2018, we shipped more than 2.3 million customer carloads/units of goods to:

- Stock car showrooms and store shelves for consumers
- Provide materials for manufacturing
- Build homes, offices and highways
- Service the U.S. military
- Feed livestock
- Power homes, businesses and vehicles

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

- U.S. and Mexico cross-border rail network
- Partnerships with other Class I and short-line railroads, as well as with other transport industries
- Global access via 13 ports on the Gulf of Mexico and Pacific Ocean

Our expertise in shipping, security and operations provides a competitive advantage to customers that entrust their domestic and cross-border shipping to us.

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

Management Approach Disclosures

Read our disclosures on [Economic / Financial Performance](#) in the [Appendix: Stakeholder Priority Material Topics](#), page 77.

In 2018, total revenue was \$2,714.0 million, which represents an increase of 5% compared to 2017.

KCS TOTAL FREIGHT REVENUE

	2018	2017	2016
Agriculture & Minerals	\$486.4M	\$477.4M	\$461.0M
Automotive	\$253.2M	\$230.8M	\$189.9M
Chemical & Petroleum	\$622.1M	\$539.9M	\$475.4M
Energy	\$256.3M	\$283.8M	\$202.7M
Industrial & Consumer Products	\$591.0M	\$588.3M	\$554.0M
Intermodal	\$382.8M	\$363.8M	\$357.6M
Other Revenue	\$122.2M	\$ 98.9M	\$ 93.6M



Continued



BUSINESS UNITS AND REVENUES

(continued)

► Our 2018 commodity groups—each with a business unit assigned to it—accounted for 95% of our total revenues.



AGRICULTURE & MINERALS

\$486.4M Revenue
18% of Total Revenue
241.9K Carloads

Includes: Grain (primarily corn, wheat and soybeans), food products (such as soybean meal, grain meal, oils, canned goods, distillers dried grains, corn syrup and sugar) and ores (such as iron, steel, zinc and copper), minerals, stone, clay and glass

We serve:

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



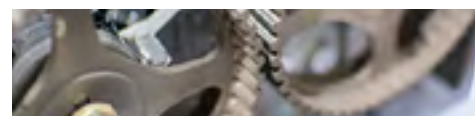
AUTOMOTIVE

\$253.2M Revenue
9% of Total Revenue
161.9K Carloads

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

We provide service for:

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



CHEMICAL & PETROLEUM

\$622.1M Revenue
23% of Total Revenue
297.9K Carloads

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

Within the U.S. and Mexico, we:

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



ENERGY

\$256.3M Revenue
9% of Total Revenue
248.6K Carloads

Includes: Utility coal, frac sand, coal and petroleum coke, and crude oil

We deliver:

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



INDUSTRIAL & CONSUMER PRODUCTS

\$591.0M Revenue
22% of Total Revenue
324.9K Carloads

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

We support supply chains by shipping both raw materials and finished goods to serve major:

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



INTERMODAL

\$382.8M Revenue
14% of Total Revenue
1,030.4K Units

Includes: Appliances, auto parts, machinery, plastics, metals, forest products and by-products, and a wide range of miscellaneous consumer goods

We haul freight containers in partnership with:

- Ocean carriers
- Other surface transportation companies
- Intermodal marketing companies

CAPITAL EXPENDITURES

- In 2018, we invested \$512.3 million on capital expenditures. This accounted for approximately 19% of our approximately \$2.7 billion of consolidated revenues.

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

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

In 2018, our capital expenditure priorities included investments in:

Roadway Capital Program: To advance the safety and efficiency of our operations, included the installation of approximately:

- 166 track miles of rail
- 651,000 railroad ties

Capacity: Included new track sidings, yard expansions and branch line rehabs to:

- Handle new or incremental volumes
- Prepare for future volume opportunities

Locomotive and Freight Cars: Rolling stock included new equipment purchases and major overhauls

Positive Train Control (PTC): Included:

- Installation or enhancement of information
- Signal and locomotive technology on trains and tracks
- Developing interoperability with other railroads

IT/Other: Included:

- Computer hardware and software
- Equipment for communications, waysides and locomotives
- Other investments supporting our day-to-day operations as well as innovation

KCS CAPEX SPEND BY CATEGORY

CATEGORY	2018	2017
Roadway Capital Program	\$245.7M	\$269.3M
Locomotives & Freight Cars	\$101.2M	\$75.7M
Capacity	\$69.8M	\$111.4M
Positive Train Control (PTC)	\$28.9M	\$51.7M
IT/Other	\$66.7M	\$51.4M



Reducing my carbon footprint: My wife drives me to work 5 miles each morning or else I take the bus. When I go home, I get on the bus or ride my bike—sometimes pedaling an extra 20 miles before I arrive home. That way, I'm being environmentally friendly while getting a great workout.

I also make an effort to reduce the amount of packaging and other materials that end up in the trash can.



Name: Tom Dillon

KCS role:
Customer Solutions Analyst,
based in Kansas City, MO

Prompt for more sustainable lifestyle:

By putting less than 5,000 miles per year on my car, I get a significant discount on automobile insurance. Also, I truly believe waste is abhorrent.

2019 efforts: I am focusing on cooking from scratch on the weekends and preparing meals for the week ahead. I am bringing my lunch to work more often instead of eating out.

This is a more efficient and energy efficient way to live my life.

Rewards: I save money, keep my weight down and reduce waste.

Small step for starting a sustainable lifestyle:

Don't buy prepared foods—cook from scratch. You will significantly reduce the amount of your weekly trash, which is a lot more than you might think. Processed foods also have a higher carbon footprint.



SUPPLIERS SUPPORTING OPERATIONS

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

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

- Apply the company's core competencies in strategic sourcing, material management and contract management
- Expect suppliers to commit to conducting business in accordance with the highest ethical standards and in compliance with all laws and regulations. See our [Supplier Expectations](#).
- Welcome disadvantaged and under-represented business enterprises for the opportunity to participate as potential suppliers of products and services. Read about our [Supplier Diversity Program Initiative](#).
- Achieve the best value for the company by partnering with suppliers across North America and around the world.

In 2018, we engaged with approximately 1,750 suppliers—up from 1,700 in 2017—throughout U.S. and Mexico operations. We procured the vast majority of goods and services through a centralized, competitive supplier selection process that incorporated:

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

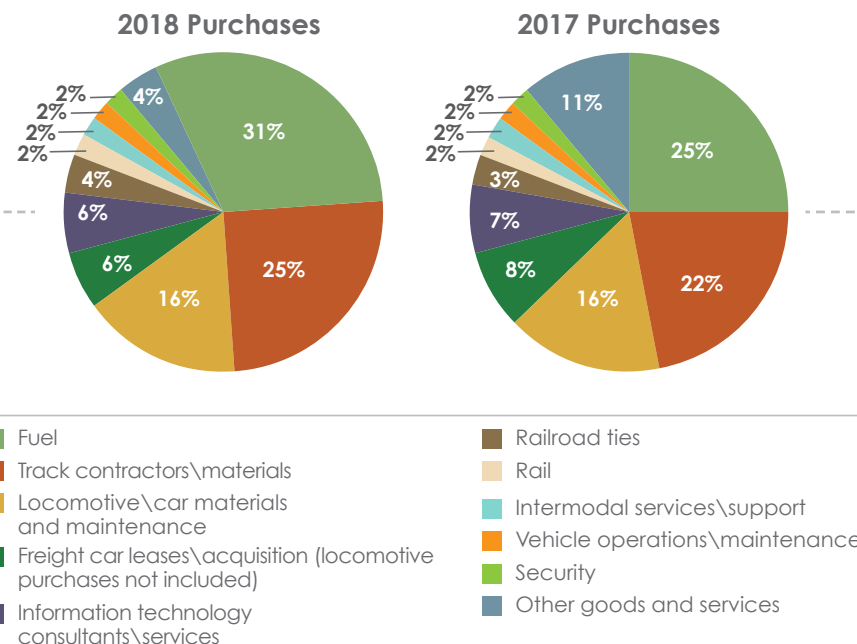
We sourced approximately \$1.17 billion on goods and services in 2018.¹

KCS SUPPLIER SPEND ON GOODS AND SERVICES

2018	2017
KCSR \$594 M	KCSR \$745 M
+ KCSM \$572 M	+ KCSM \$537 M
= Total \$ 1.17 B	= Total \$ 1.28 B

In 2018, our top 10 types of goods and services purchased accounted for 96% of our supplier spend.

KCS TYPES OF GOODS AND SERVICES PURCHASED BY PERCENTAGE



¹ Represents acquisitions for sourced capital and operating expenses.



VALUING PEOPLE



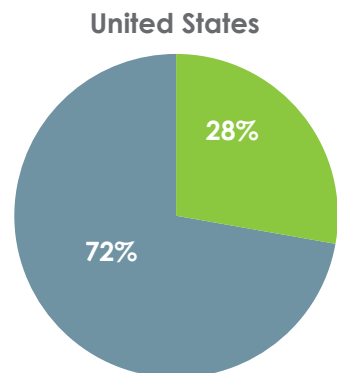
EMPLOYEES: OUR GREATEST ASSET

Our goal is to provide a workplace environment where our employees enjoy a safe, welcoming, inclusive and challenging workplace. Toward that goal, KCS:

- Actively engages employees through a variety of measures, including:
 - Town Hall meetings
 - Webcasts
 - Robust intranet site
 - Weekly newsletters
 - Employee appreciation events
 - Various other activities
- Develops employees' talents to advance and meet KCS's growing needs
- Provides employees with tools they need to have fulfilling, successful careers
- Offers benefits and lifestyle opportunities to enhance employees' well-being

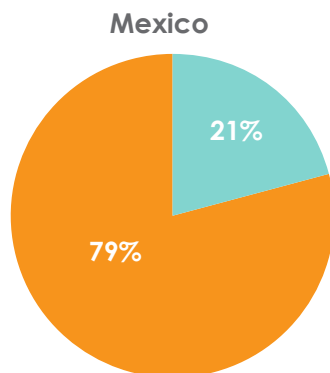
As of December 31, 2018, KCS and its subsidiaries had 7,209 employees. In 2018, approximately 76% of our subsidiary employees were members of a union, and 57% of all subsidiary employees were based in Mexico.

KCS 2018: SUBSIDIARY EMPLOYEES BY COUNTRY



■ U.S. Non-Union — 862 Employees
■ U.S. Union — 2,239 Employees

= 3,101 Total Employees | U.S.



■ Mexico Non-Union — 844 Employees
■ Mexico Union — 3,264 Employees

= 4,108 Total Employees | Mexico

KCS 2018: FULL-TIME (FT) SUBSIDIARY EMPLOYEES¹

Non-Union	2018	2018 % of Workforce
Female	316	19%
Male	1,390	81%
Total	1,706	

Union	2018	2018 % of Workforce
Female	52	1%
Male	5,451	99%
Total	5,503	

U.S. and Mexico

368 — Female
6,841 — Male
= 7,209 — Total

NEW HIRES

In 2018, KCS welcomed 515 subsidiary employees to the company.

KCS 2018: New Hires by Age and Country

Country	Over 50	30-50	Under 30
U.S.	8%	55%	37%
Mexico	2%	49%	49%

To promote workforce diversity, KCSR attended a Woman's Employment Network Job Fair in 2018.

KCS 2018: Subsidiary Employees New Hires

	New Hires
U.S. Non-Union Women & People of Color	44%
Mexico Non-Union Women	15%

Management Approach Disclosures

Read our disclosures on [Subsidiary Employee Information: Turnovers, New Hires, Benefits](#) in the **Appendix: Stakeholder Priority Material Topics**, page 78.

¹KCS had no part-time subsidiary employees in 2018.



ATTRACTING AND RETAINING OUR WORKFORCE

A comprehensive workforce retention program helps KCS:

- Attract and retain key people
- Reduce turnover and its associated costs

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

- A challenging and welcoming work environment
- Competitive compensation and high-quality benefits
- Valuable training and education opportunities

Management Approach Disclosures

Read our disclosures on [Subsidiary Employee Information: Turnovers, New Hires, Benefits](#) in the **Appendix: Stakeholder Priority Material Topics**, pages 78.

Continued

TENURE AND ATTRITION

Our stable workforce provides a professional consistency to our operations that's key to our company's accomplishments. Our attrition rate is less than half the average U.S. rate.¹ Plus, our average employee tenure exceeds national averages.²

KCS ATTRITION RATE AND AVERAGE EMPLOYEE TENURE

	2018	2017	2016
Attrition Rate	7.0%	6.60%	7.88%
Average Employee Tenure	11.9 YEARS	11.8 YEARS	11.4 YEARS

¹ <https://business.dailypay.com/blog/employee-retention-rate>

² <https://www.bls.gov/news.release/pdf/tenure.pdf>





ATTRACTING AND RETAINING OUR WORKFORCE

(continued)

SUBSIDIARY EMPLOYEE BENEFITS

► As part of the overall compensation program, our subsidiary employees and their dependents are eligible for an array of competitive benefits. Our U.S. and Mexico workforce has access to portals containing information regarding their benefits, as well as resources for health, wellness and retirement planning. Due to differences in the healthcare industries in the U.S. and Mexico, priority benefits vary.

U.S.: KCSR's full-time benefits package typically includes:

- Comprehensive health insurance
- Dental insurance
- Vision coverage
- Employee Assistance Program
- Flexible spending accounts
- Health savings plan
- Free or low-cost health benefits/presentations/events
- Health and wellness programs
- National gym network discounts

- Accidental death and dismemberment insurance
- Life insurance
- Vacation days
- Long-term disability benefits
- Salary continuation program
- Stock purchase plan
- Annual incentive plan
- 401(k) plan including company matching contributions
- Railroad Retirement pension benefits
- Miscellaneous discounts through PerkSpot.com

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

NOTE: Health and welfare benefits are subject to collective bargaining agreements between KCSR and the various unions.

Mexico: KCSMS offers a competitive benefits package that typically includes:

- Major medical expense coverage
- Employee Assistance Program
- Free or low-cost health benefits/presentations/events
- Health and wellness programs
- Physical activity events
- Christmas bonus
- Food allowance
- Accidental death coverage
- Life insurance
- Vacation days
- Vacation premium
- Long-term disability
- Bereavement and extraordinary event leave
- Maternity leave for women and men
- Savings fund
- Mexico Social Security employee fee
- Annual incentive plan

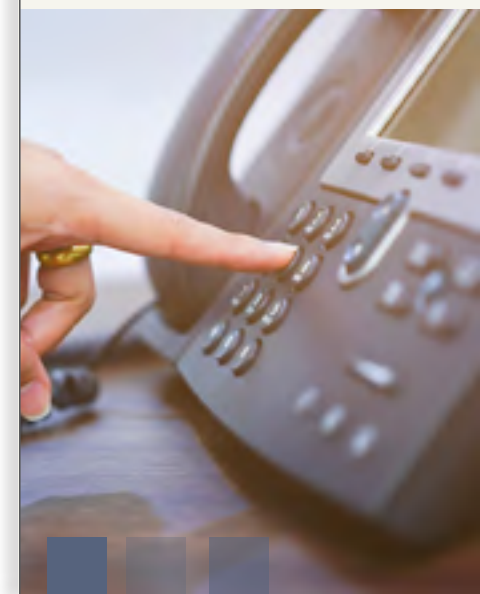
In addition, KCSMS provides transportation benefits to certain management employees.

EMPLOYEE ASSISTANCE PROGRAM

Our Employee Assistance Program (EAP) is a voluntary and confidential service that provides employees and their immediate family members/dependents with professional counseling and referral services. This program:

- Has face-to-face and/or telephonic sessions available
- Is available by phone or website 24 hours a day, 7 days a week

There is no cost to the employee for this program.



TRAINING AND EDUCATION

► We strive to maintain a strong, nimble and customer-focused culture focused on performance, accountability and execution.

In our efforts to achieve this culture, KCS provides valuable learning opportunities in online and instructor-led formats to all subsidiary employees to develop our workforce.

In 2018, KCS offered a program of training initiatives and other learning opportunities on topics that helped subsidiary employees upgrade their skills and achieve specific competencies.

Our training courses and programs cover topics such as:

- Team management
- Collaboration and Teamwork
- Effective Communications
- Coaching through Conflict
- Spanish (in the U.S.)
- English (in Mexico)
- Emotional Intelligence
- Negotiating Skills
- Training the Trainers
- Women Empowerment
- Customer Service Improvement
- On-Track Performance
- Wellness Initiatives
- Technical Training (can be general or job-specific):
 - Security
 - Technology and Systems Improvement
 - Desktop Applications, including Microsoft Office
 - Operational Excellence
 - Union Rail Operations
 - Technical Updates
 - Hazmat Controls
 - Transportation Rules
 - Training for New Hires

KCS also provides technical training to U.S. and Mexico union employees selected for promotion. This allows them to prepare for their new positions effectively.

Additional training concentrates on:

- Occupational health and safety
- Cybersecurity

Management Approach Disclosures

Read our disclosures on [Subsidiary Employee Training and Education](#) in the **Appendix: Stakeholder Priority Material Topics**, page 79.



ASSESSING PERFORMANCE

KCS's On-Track Performance Management System facilitates the development of behaviors that will contribute to the completion of the employees' job responsibilities and skill development. The system also facilitates the communication and assessment of the demonstration of the identified behaviors. All employees in the U.S. and Mexico receive annual performance reviews.



EQUAL AND PROTECTED ENVIRONMENT

At KCS, we strive to create a workplace culture that reflects KCS's Vision, Values, and Culture by:

- Valuing diversity and inclusivity
- Treating all individuals with dignity and respect

We work to accomplish this by expecting our subsidiary employees, managers and senior leadership to exemplify our company values and manage others to do likewise. We also set down our expectations in policies related to these issues:

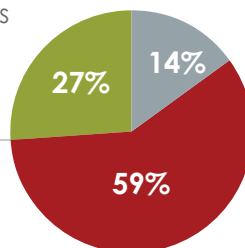
- Equal employment opportunities
- Anti-harassment
- Diversity
- Anti-retaliation
- Non-discrimination

We do all this with the goal of embracing a cross-cultural heritage and promoting a work environment inclusive of everyone.

By promoting a diverse workforce and equal employment opportunities, KCS's multi-generational, multi-ethnic workforce allows for a blend of fresh ideas and proven strategies.

KCS 2018: EMPLOYEES BY AGE (approximate)

■ Under age 30
 ■ Age 30-50
 ■ Over age 50



KCSR 2018 SUBSIDIARY EMPLOYEE DIVERSITY POPULATION¹ (Self-Identified Percentages Only)

American Indian or Alaskan Native	1.1%
Asian or Asian-American	1.2%
Black or African-American	21.1%
Hispanic or Latino(a)	8.0%
Native Hawaiian or Other Pacific Islander	0.1%
Two or More Races	0.9%

¹Percentage of individuals not self-identified do not figure into the calculations for this chart—thus, the chart doesn't reflect the complete and actual percentage of individuals in each category who work for KCSR.

DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITIES

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

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

Additionally, equal employment opportunities lead to bigger, more diverse pools of candidates for our open positions, enabling us to hire the best-qualified workers. To remain competitive when hiring and retaining our workforce, we have these policies:

- In the U.S., our **Equal Employment Opportunity Policy** applies to all terms, conditions and privileges of U.S. employment, from hiring through retirement.
- In Mexico, our **Política Modelo de Equidad y Género** covers equal opportunity employment, as well as non-discrimination, anti-harassment, anti-retaliation and other issues.

Continued

Management Approach Disclosures

Read our disclosures on [Diversity and Equal Employment Opportunities](#) in the **Appendix: Stakeholder Priority Material Topics**, pages 80.





EQUAL AND PROTECTED ENVIRONMENT

(continued)

NON-DISCRIMINATION AND ANTI-HARASSMENT

► The KCS **Non-Discrimination & Anti-Harassment Policy** states that:

“It is the policy of (KCS) to provide a work environment free from all forms of discrimination and harassment. (KCS) recognizes the importance of providing all employees a work environment free of discrimination and/or harassment in any term or condition of employment on the basis of race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, age, disability, marital status, pregnancy status, citizenship status, genetic information, military or veteran status, or any status protected by law...”

Management Approach Disclosures

Read our disclosures on [Diversity and Equal Employment Opportunities](#) in the **Appendix: Stakeholder Priority Material Topics**, page 80.

The policy lists many examples of prohibited conduct, and warns that prohibited conduct is not confined to what is specifically listed.

Reporting and Complaint Process: This includes reporting conduct violating our policy via our 24/7 Report Hotlines or at [ethicspoint.com](#).

Employees can report anonymously because a third-party vendor manages the system. Our **Anti-Retaliation Policy** also protects our employees. This policy strictly prohibits retaliation against employees who, in good faith, do any of the following regarding conduct they reasonably believe to be in violation of our policies and/or rules, or in violation of applicable laws:

- Raise a concern
- Assist in an investigation or proceeding
- Provide information

Consequences: Any employee who violates the Non-Discrimination & Anti-Harassment Policy is subject to appropriate disciplinary action, up to and including dismissal.



GIVING BACK / PAYING IT FORWARD

- Generosity. Generosidad. Whether expressed in English or Spanish, being generous is a hallmark of the culture at KCS. To support the communities we serve in the U.S. and Mexico, we give back to them in a number of ways.

IN THE U.S.



CHARITABLE FUND

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

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

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



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

In 2018, our total donations increased by 117.6% vs. our 2017 donations.

KCSR 2018: Giving Back

Program	KCS Participants	KCS Charitable Fund	2018 Contributions
KCS Discretionary Contributions	N/A	\$1,319,875	\$1,319,875
KCS Matching Gifts Program	\$675,834	\$ 445,344	\$1,121,178
United Way	\$ 34,311 (KCSR employees only)	\$ 17,155	\$ 51,466
Total	\$710,145	\$1,782,374	\$2,492,519



Holiday Express Fundraising Campaign: Our annual event raises funds for the KCS Charitable Fund's purchase of gift cards, which are donated to the Salvation Army in communities along our Holiday Express route. In 2018, KCSR raised \$175,256.

Continued



KCSM HONORED AS A SOCIALLY RESPONSIBLE BUSINESS

► For the third year, KCSM was recognized in 2018 as an Empresa Socialmente Responsable (ESR / Socially Responsible Business) by the Centro Mexicano para la Filantropía (CEMEFI / Mexican Center for Philanthropy) and the Alianza para la Responsabilidad Social Corporativa (AliARSE / Alliance for Corporate Social Responsibility).

The ESR designation recognized KCSM's effort to commit to standards related to, among other things:

- Ethics and corporate governance
- Business profitability
- Quality of work life for its employees
- Care of the environment
- Commitment to the communities where KCSM operates



GIVING BACK / PAYING IT FORWARD

(continued)

IN MEXICO

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

Children's Day: In 2018, KCSM donated 500 toys for the benefit of vulnerable communities of Michoacan.

Club Monarcas and Club Monarcas Femenil: To create a positive link between KCSM and the state of Michoacan, KCSM sponsors these popular soccer clubs, with the clubs' uniforms sporting the KCSM logo. The railroad is a main sponsor for various socially responsible activities in conjunction with the teams. In 2018, KCSM celebrated its ninth year as sponsor for the men's Club Monarcas and its second year as sponsor for the women's Club Monarcas Femenil.

Operación Pelota (Operation Ball): This annual campaign event raises funds to purchase balones de fútbol (soccer balls) for children who visit Tren Navideño during the holiday season.

Operación Cobija (Operation Blanket): Each winter when the temperature drops, some people are left vulnerable and may be exposed to hypothermia. To help address this public health concern and provide warmth for those in need, KCSM initiated Operación Cobija in 2018. KCSMS employees and members of the public collected 104 blankets that were distributed in December throughout the state of Michoacán.



KCSM OUTREACH

In 2018, four universities in the states of Michoacan, Guanajuato, Salinas Victoria and Tamaulipas welcomed KCSM and guests to forums to discuss topics related to rail marketing, logistics and transportation.

KCSMS professional and trained personnel interacted with more than 3,000 students, government officials and entrepreneurs at the events.



COMMUNITY ENGAGEMENT

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

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

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

Our most popular community outreach programs take place annually during the holiday season—the Holiday Express in the U.S. and Tren Navideño in Mexico, which are free and open to the public.



KCS Holiday Express (Year Started: 2001)

Led by our Southern Belle business train, the Holiday Express train features:

- Rail cars adorned with lights
- The smiling tank car “Rudy”
- Gingerbread and model train box cars
- An elves workshop
- A flatcar carrying Santa's sleigh, reindeer and a miniature village

At each stop, KCSR volunteers are on hand as children visit Santa and his elves, and Holiday Express visitors board the festive train for some merriment. Thanks to the generosity of KCSR employees, vendors and friends, we donate gift cards to each community's Salvation Army to provide warm clothes and other necessities to children in need.



Because “Safety Starts Here” at each Holiday Express stop, we:

- Conduct outreach to emergency responders at our stops
- Show Operation Lifesaver videos on the train's exterior
- Include Operation Lifesaver promotional items in the gift bags for kids



KCSM Tren Navideño (Year Started: 2010)

Led by an environmentally friendly locomotive, Tren Navideño celebrates Christmas as well as Mexican history. Tren Navideño attracts visitors who enjoy touring the train's:

- Rail cars decorated with ornaments and a Nativity scene
- Cars with photos of Mexican rail history and model trains
- Caboose that commemorates the Mexican Revolution

Amidst the brightly decorated and twinkling lights of the Tren Navideño, KCSM volunteers make each stop merry and bright by giving out edible treats—including traditional Acambaro bread—and other gifts to visiting children. Visitors are also entertained by an open-air movie and Super, the Club Monarcas mascot.

In addition to giving soccer balls to visiting children, volunteers present Alto Total information to all visitors because safety is a vital component of any KCS rail event.

In 2018, the two trains welcomed approximately 137,500 visitors in 34 communities along KCS's U.S. and Mexico rail network.

2018: Holiday Express in the U.S. and Tren Navideño in Mexico

	Communities Visited	States Visited	Visitors
Holiday Express	22	8 (U.S.)	Approx. 82,500
Tren Navideño	12	8 (Mexico)	Approx. 55,000





KCS CARBON CALCULATOR

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



Try out the [Carbon Calculator](#).¹

ENVIRONMENTAL COMPLIANCE

Achieving 100% compliance with environmental laws and regulations is a KCS corporate goal.

In 2018, our compliance efforts allowed us to avoid any notice of violations that resulted in monetary fines, non-monetary sanctions or dispute resolution mechanisms.

Management Approach Disclosures

Read our disclosures on [Environmental Compliance](#) in the [Appendix: Stakeholder Priority Material Topics](#), page 82.

SURFACE FREIGHT TRANSPORTATION AND THE ENVIRONMENT

- ▶ The very nature of train transport allows us to minimize our impact on the environment versus shipping by truck.

In 2018, KCS moved one ton of freight an average of 372 miles on only one gallon of fuel.

By choosing KCS rail over highway truck transportation, our customers avoided the release of approximately 3.4 million metric tons of CO₂e emissions into the atmosphere in 2018.

KCS 2018: Rail vs. Truck (estimated)

	Revenue Ton Miles	Gallons Used	RTM/Gallons	Metric Tons CO ₂ e
Highway Transportation ²	50,232.9M	473.9M	106	4.8M
KCS Rail Transportation	50,232.9M	135.8M	370	1.4M
Net Difference		338.1M		3.4M

Ups and downs of fuel consumption: While other Class I railroads have pockets of challenging grades on small segments of their rail networks, KCS has challenging grades throughout KCSM's network in Mexico. For example, more than 20% of the KCSM network has grades in excess of 1%. This includes segments with 2% grades or more from Lazaro Cardenas to Morelia, Monterrey to Saltillo, and Tampico to San Luis Potosi.

These grades drive higher horsepower use and fuel consumption in Mexico.

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

² Assumptions: Avg. truck load 16.35 tons / Fuel consumption 6.5 mpg.

PARTNERS AND PROGRAMS SUPPORTING KCS EFFORTS

In our efforts to be a safe, environmentally conscious corporate citizen, our Environmental and Hazmat Department works with and relies on the following organizations and their resources.

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

We have employees serving on and contributing to numerous AAR committees, including:

- Environmental Affairs Committee
- Hazardous Materials Committee
- Nuclear Waste Transportation Task Force
- Risk Management Working Committee
- Tank Car Committee

SmartWaySM Transport—KCSR is a partner in this innovative collaboration between the United States Environmental Protection Agency (EPA) and the freight transportation sector designed to:

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

We work in cooperation with the American Chemistry Council (ACC) with:

Responsible Care[®]—global initiative aimed at:

- Driving continuous improvement in health, safety, security and environmental (HSSE) performance
- Encouraging open and transparent reporting by partner companies

KCSR has been a Responsible Care[®] partner company since 1999.

TRANSCAER[®]—KCSR and KCSM work with this community outreach program that focuses on assisting communities to prepare for and respond to possible hazardous materials transportation incidents.

In 2018, TRANSCAER[®] honored KCS with its Regional Achievement Award for the fifth consecutive year.



RENEWABLE AND EFFICIENT ENERGY INITIATIVES

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

We reduced our electricity bill for our Wyandotte Data Center by 44% in 2018 vs. 2017 even as we approximately doubled our workforce in the facility. This reduction was the result of a facility redesign that included the following updates:

- Decreased the facility's square footage from approximately 3,500 sq. ft. to 800 sq. ft. by eliminating under-utilized areas while still allowing for comfortable working conditions
- Installed more efficient cooling and lighting systems

In 2018, KCS used solar energy as a primary or alternative power source for:

- 94 signal locations—of which 40 signal solar locations are Positive Train Control (PTC) Wayside Interface Unit (WIU) locations
- 14 mobile Wi-Fi pods mounted on solar panels at three of our intermodal facilities in the U.S. and Mexico



KCSM ENVIRONMENTAL IMPACT MANAGER HONORED

The Association of American Railroads (AAR) awarded Miguel Antonio Flores Puente, KCSM's manager of environmental impact, the 2018 Professional Environmental Excellence Award. It is the industry's highest honor for environmental professionals.

The AAR honored Flores Puente for helping build a more environmentally responsible future for KCSM. Working in close collaboration with Mexico's Attorney General's Office for Environmental Protection, Flores Puente led efforts to mitigate historical contaminations at legacy rail yards now operated by KCSM, protecting the railroad's employees and surrounding communities.



Name: Carl Akins

KCS role: Assistant Vice President Environmental and Hazmat, based in Kansas City, MO

Prompt for more sustainable lifestyle: The desire of my family and my work team to be good stewards of our resources in an effort to preserve and protect our health and the environment.

Sustainability at work: At KCS, we recycle wood, metal, used oil, batteries, electronics, aluminum, steel, plastics and paper. We also look for ways to reduce the commodities we use.

In 2018, I switched from a gas-guzzling company vehicle to one that still meets my requirements, but costs much less to operate and gets 66% more miles per gallon.

Sustainability at home:

My family and I:

- Participate in our city's recycling program
 - Keep our thermostat below 70 degrees in the winter and above 72 degrees in the summer
 - Primarily eat plant-based products
 - Use reusable drinking bottles
- We also installed a water filter system so our tap water is as pure as any bottled water. Plus, we replaced all incandescent bulbs with LED lights to reduce our electrical power use.

Additionally, we make our own environmentally friendly cleaning solutions, which reduces the toxins in our home and manufacturers'

containers in our trash. We buy the ingredients needed in bulk to make batches of these items:

- General all-purpose cleaning solution (1-1/2 cups water, 1/2 cup vinegar, 10 drops of tea tree oil; don't use on marble or travertine)
- Shower cleaning solution (3 cups water, 1/2 cup peroxide, 1/2 cup rubbing alcohol, 2 teaspoons vinegar, 2 teaspoons Dawn dishwashing liquid)
- Scrubbing power (baking soda or salt)

2019 plans: We will continue our current practices and look for ways to become better at what we are doing. We'd like to be able to increase our recycling and reuse numbers.

Rewards: At work and home, our efforts are helping us to maintain a safe and healthy environment. We have also reduced costs.

Small steps for starting a sustainable lifestyle: Always ask yourself: Is there a better and environmentally friendlier alternative to what I'm doing now?

Being sustainable is not hard to do if you make a conscious effort to use less. There are so many outlets and resources to help you get started to initiate and maintain a more sustainable lifestyle.

**Working together,
we can
make a difference!**





ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS

► At KCS, we continually find ways to be more energy efficient in an effort to further reduce our carbon footprint.

FUEL REDUCTION

In 2018, we continued to reduce our diesel fuel consumption through conservation and efficiency initiatives.

Reduction of Fuel Consumption (estimated)

Reduction in Megajoules		Reduction in Diesel Gallons	
2018	2017	2018	2017
1,384.5M	1,228.5M	9.5M	8.5M

NOTE: Conversion factor used: <http://www.eia.gov>

We reduced our fuel consumption by:

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

KCS 2018: Primary Fuel Reduction Initiatives and Savings

Initiative	Description	2018 Status	2018 Fuel Savings (Diesel) ¹
TRIP OPTIMIZER (TO)	Intelligent, fuel-saving technology for locomotives that determine the train's most efficient operating mode, resulting in fuel savings of 5-14%	Installed in 244 locomotives	2.1M gallons / 303.5 megajoules
EXCESSIVE IDLE REDUCTION	Automated Engine Stop/Start (AESS) system supplemental with Manual Stop/Start policy	AESS installed on 832 locomotive engines	5.4M gallons / 795.7 megajoules
DISTRIBUTED POWER	Dedicated radio-frequency-controlled locomotive power placed throughout train to distribute ability to brake evenly and share engine load		1.0M gallons / 138.8 megajoules
HORSEPOWER PER TRAILING TON (HPT) GUIDELINES	HPT Compliance monitoring to determine exact amount of HPT required to haul freight		1.0M gallons / 146.4 megajoules
REMOTE TECHNOLOGY	Devices allowing remote administration, reducing technicians' drive-time fuel consumption	Installed 869 remote devices at PTC wayside locations	Not determined

¹ Based on internal reduction goals and targets. Excessive idle duration measured in Wi-Tronix system and theoretical idle fuel consumption rate of 3.25 gallons per hour used to calculate fuel savings. Trip Optimizer savings are estimated between 5% and 14% depending on territory and train type. Distributed power estimated at 2% fuel savings for DP-equipped trains, which are used in hauling 45% of total gross ton miles. HPT fuel savings are estimated based on the difference between the baseline and actual fuel used depending on territory, train type and compliance.

Management Approach Disclosures

Read our disclosures on [Energy and Emissions](#) in the **Appendix: Stakeholder Priority Material Topics**, page 83.

Continued

ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS

(continued)

ENERGY CONSUMPTION

In 2018, we continued to reduce our energy intensity ratio.
All fuel types we used in 2018 are in the chart below.

KCS Energy Consumption (estimated)

	2018 ¹	2017 ¹
Diesel	19,788.4M megajoules (136.5M gallons) ¹	20,594.1M megajoules (142.1 M gallons)
Gasoline	152.4M megajoules (1.2M gallons) ¹	156.9M megajoules (1.2M gallons)
Natural Gas	12.6M megajoules (11.6 M cubic feet) ¹	16.7M megajoules (15.3M cubic feet)
Electricity	226.6M megajoules (62.9M kwh)	250.2M megajoules (69.5M kwh)
Total Direct Consumption	20,180.1M megajoules	21,018.1M megajoules
Energy Intensity Ratio	184,843 joules/gtm	185,319 joules/gtm
KCS-specific Metric Calculating Ratio gtm=gross ton miles	109,174.3M gtm	113,415.5M gtm

¹ Conversion factor used: <https://www.eia.gov/tools>; includes 136.5M gallons for locomotives and 1.2M gallons for non-locomotives. 2017 data were recalculated using the US Energy Information Administration energy conversion calculator to ensure YOY comparison. We will be using this conversion method going forward, to ensure accuracy and comparability of data.

EPA EMISSIONS AND GREENHOUSE GASES

Regarding GHG emissions, we:

- Conduct annual emissions testing as part of our maintenance practices throughout the useful life of a locomotive to determine our compliance with EPA standards
- Do business with locomotive and parts suppliers who hold EPA certificates of conformity for emissions
- Implement various fuel conservation initiatives



KCS: Scope 1 GHG Emissions Reduced Via Fuel Reduction Initiatives¹
(estimated in metric tons)

Initiative	2018	2017
Trip Optimizer	21.2K	10.7K
Excessive Idle Reduction	55.6K	61.0K
Distributed Power	9.7K	10.4K
Horsepower Per Trailing Ton (HPT) Guidelines	10.2K	4.6K
Total	96.7K	86.7K

Continued

ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS

(continued)

KCS EMISSIONS

(estimated in metric tons unless otherwise indicated)

	2018	2017 ¹
Scope 1 GHG Direct Emissions ^{2,3}	1.4M CO ₂ e	1.5M CO ₂ e
Scope 2 GHG Emissions ⁴	0.03M CO ₂ e	0.03M CO ₂ e
Scope 1 & 2 (Total Emissions)	1.43M CO ₂ e	1.53M CO ₂ e
GHG Emissions Intensity Ratio (gtm=gross ton miles of railroad transportation) ⁵	13.18 grams CO ₂ e/gtm	13.15 grams CO ₂ e/gtm
KCS-specific Metric Calculating Ratio	109,174.3M gtm	113,415.5M gtm
NOx Emissions	16,773	16,813
SOx Emissions	12.36	13.3
CO ₂ Emissions	3,528	3,761
HAP Emissions	0	Didn't report
ODS Emissions	0	Didn't report
POP Emissions	0	Didn't report
VOC Emissions	0	Didn't report
Hydrocarbons	824	706
Particulate Matter	484	409

¹ 2017 serves as the baseline year for calculating Scope 1 emissions and GHG intensity ratio. Though 2016 was the first year KCS developed a comprehensive sustainability report for both KCSR and KCSM, we've updated our methodologies to determine more accurate data. See our **RESTATEMENT** in the column at right for more information.

² In this table, we calculated Scope 1 emissions gases using the Greenhouse Gas Protocol Mobile Source Worksheet. The gases in the calculation were CO₂: 1,396,297.647 metric tons; CH₄: 109.163 metric tons; and N₂O 35.586 metric tons. Scope 1 GHG Direct Emissions were location-based emissions. We had no Scope 1 GHG biogenic emissions.

³ Approximately 99% of emissions came from locomotive fuel.



⁴ Scope 2 location-based CO₂, N₂O, and CH₄ emissions from electricity are quantified by multiplying the annual electricity usage by average emission rates. Emissions factors for U.S. locations are obtained from U.S. EPA's Emissions Generation Resource Integrated Database (eGRID2016). 2017 serves as the baseline year for calculating Scope 2 emissions.

⁵ The slight increase in the emissions intensity in 2018 appears to be due to KCS experiencing a 15% reduction in coal traffic because of lower electric utility demand for coal. This impacted overall system fuel efficiency. Coal transportation can average approximately 700-800 revenue ton miles (RTM) per gallon whereas the freight transportation that mostly offset the loss in coal traffic—single carload and intermodal rail transportation—can average approximately 400-500 RTM/gallon. This contributed to the 0.28% increase in overall emissions intensity. Utility fuel choice is outside of KCS control.

RESTATEMENT: Scope 2 emissions and GHG intensity ratios for 2017 were recalculated for the 2018 report. In 2016, KCS began inventorying GHG emissions and, as inventory practices have expanded and matured, we've updated calculation methodologies and adopted the EPA's Emissions Generation Resource Integrated Database (eGRID2016) methodology. While energy consumption data have not changed, the eGRID2016 methodology includes updated emissions factors that changed the Scope 2 emissions and intensity ratios. KCS will use the eGRID2016 methodology in future reporting years as emissions factors are regularly updated with the EPA's eGRID standards. This will improve data accuracy and comparability.



WASTE MANAGEMENT: RECYCLING, REUSING, REPURPOSING, REDUCTION AND DISPOSAL

At KCS, we strive to dispose of non-hazardous and hazardous waste in environmentally sound ways. In 2018, KCSR recycled, repurposed, reused or recovered approximately 82% of the waste we monitored, as noted in the table below.

KCSR 2018: Hazardous and Non-Hazardous Waste Management Disposal
(estimates in tons)

	HAZARDOUS WASTE	NON-HAZARDOUS WASTE
RECYCLED	1,306.7 ¹	12,824.2 ²
REPURPOSED / REUSED	0	14,985.2
RECOVERED / ENERGY RECOVERY	No estimates for 2018	12,228.3
INCINERATED	69.1	21.2
DEEP WELL INJECTION	0	0
LANDFILL	0	7,270.7
ON-SITE STORAGE	0	0

¹ Hazardous waste includes the used oil, signal batteries, lead-acid batteries and fluorescent lights recycled from U.S. Operations.

² Non-hazardous waste includes 330.3 tons solid waste generated during incidents, 12,481.0 tons of scrap metal recycled from U.S. Operations, and 12.9 tons of items recycled at KCS Headquarters.

Management Approach Disclosures

Read our disclosures on [Waste: Liquid and Solid](#) in the **Appendix: Stakeholder Priority Material Topics**, page 84.

In 2018, KCSR efforts involved initiatives that account for approximately 41,000 tons of rail materials and other items being recycled, reused or used in energy recovery.

KCSR 2018: Materials and Other Items Recycled, Reused and Recovered for Energy
(estimated amounts in tons)

MATERIALS/ITEMS	RECYCLED	REUSED	ENERGY RECOVERY
SCRAP METAL	12,481.0		
USED OIL	1,121.0		
SIGNAL BATTERIES ³	11.9		
LEAD-ACID BATTERIES	173.6		
FLUORESCENT LIGHTS	0.2		
METAL TIE PLATES		4,260.0	
WOOD TIES		10,725.2	
SCRAP TIES			12,228.3
CATEGORY TOTALS	13,787.7	14,985.2	12,228.3
TOTAL= 41,001.2			

³ Batteries include 19,885 pounds of Nickel Cadmium, 3,059 pounds of Lead Absolyte/Steel, and 872 pounds of lead acid

Continued

WASTE MANAGEMENT:

RECYCLING, REUSING, REPURPOSING, REDUCTION AND DISPOSAL

(continued)

U.S. AND MEXICO EFFORTS

In 2018, we reduced our eco-impact by continuing to:

- Buy and use rechargeable batteries
- Convert traditional lighting to LED lighting in facilities and rail yards
- Extend the life of railroad ties by using a tie-treatment process to prevent fungus growth and rot leading to track degradation
- Repair rolling stock materials to reuse in their reconditioned status—in 2018, this accounted for 24% of the total value of rolling stock materials.

KCSR also began transitioning to Generation 7 lube oil in 2018, and by January 2019, all U.S. sites were fully equipped with the oil designed to meet Tier IV emissions standards.

RECYCLING AT KCSR HEADQUARTERS

In 2018, a new recycling program rolled out at Cathedral Square headquarters in Kansas City. The program included:

- Adding/replacing recycling bins in 100% of our breakrooms, kitchens, offices, workstations and conference rooms
- Installing signage noting items that can be recycled and encouraging employees to use non-disposable drinking glasses and mugs

This new program resulted in a 37% increase in the tons of material recycled at our headquarters in Kansas City.

KCSR: Kansas City Headquarters Recycling (estimates in tons)

	2018	2017	% Change
Commingled Plastic and Aluminum	2.6	1.2	117% ↑
Corrugated Paper	1.7	0.9	89% ↑
Special File Stock Paper	8.6	7.3	18% ↑
Total	12.9	9.4	37% ↑

KCSR'S CONTINUING EFFORTS INCLUDE:



- Mobile phones and accessories: KCSR works with the e-waste disposal charity Cells for Cells, whose proceeds from the recovery of precious metals benefit families affected by cancer. In 2018, KCSR donated roughly 160 phones to Cells for Cells.



- Office electronic and technology equipment: KCSR uses best management practices and standards in refurbishing and recycling computer workstations, printers and other equipment.



RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT

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

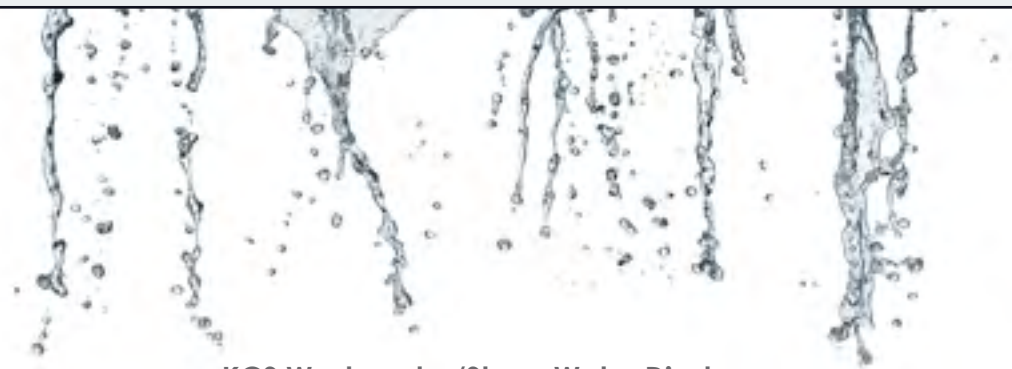
- Invest in state-of-the-art treatment systems
- Operate, maintain and continually monitor our wastewater treatment systems
- Employ best management practices and technology to prevent wastewater and storm water contamination
- Minimize wastewater quantities and contamination through engineering evaluations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

Management Approach Disclosures

Read our disclosures on [Waste: Liquid and Solid](#) in the **Appendix: Stakeholder Priority Material Topics**, page 84.

WASTEWATER AND STORM WATER DISCHARGE

In 2018, following U.S. and Mexican regulatory guidelines, we responsibly discharged 94.7 million gallons of treated wastewater and storm water to surface water or publicly owned treatment works (POTWs) at 40 locations requiring permits.



KCS Wastewater/Storm Water Discharge

Wastewater and Storm Water Discharge (in gallons)				Discharge Locations (requiring permits) ²	
	2018 ¹	2017	2016		2018
KCSR	40.0M	13.1M	7.3M	KCSR	14
KCSM	54.7M	32.6M	40.0M	KCSM	26
Total	94.7M	45.7M	47.3M	Total	40

¹ Rainfall in some key areas increased substantially in 2018 vs. 2017. In Shreveport, rainfall increased approximately 80% in 2018 vs. 2017 according to the site Weather Underground: wunderground.com

² Locations are surface waters and publicly owned treatment works (POTWs).

Continued



RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT

(continued)

2018 TREATMENT AND DISCHARGE IMPACTS

KCSR: As primary methods of treating wastewater, KCSR relies on:

- American Petroleum Institute (API) oil-water separators in eight treatment systems
- Combination of oil-water separators and Dissolved Air Flotation (DAF) in three treatment systems

In 2018, at all KCSR locations, our treated wastewater and contact storm water discharges showed no significant negative effect on any of the receiving water bodies and related habitats, even in sensitive areas.

KCSR continued to take measures to segregate wastewater and contact storm water streams to reduce volumes requiring treatment and to improve effluent quality.

Projects completed in 2018 as part of our measures included:

- Installation of inspection pit roof and toilet dump station at Gulfport Yard
- Pretreatment with new oil-water separator installed in East St. Louis Diesel Shop
- Reroute of pretreated wastewater from East St. Louis Diesel Shop to local sanitary sewer system

We experienced several storms in 2018 that challenged our treatment systems to the point that in 2019 we began conducting additional studies to find ways to further improve our ability to address storms and our processes.

KCSM: The railroad relies on Physical-Chemical Processes at three of its locations to treat wastewater prior to discharge to a POTW. At 11 locations, KCSM transports untreated wastewater from containment pits and discharges it to POTWs for treatment.

In 2018, at KCSM, no discharge of wastewater on soil, water bodies or wetland habitats took place.





SPILLS MANAGEMENT

To prevent spills of oil, fuel, waste, chemicals and other items, KCS takes the utmost care.

Our Environmental and Hazmat Department is responsible for spills management, which includes preventative and mitigation measures. The department has contingency plans to address spills along our rail network and in fuel-storage facilities. We regularly conduct drills and inspections as part of our contingency plan process.

For non-accident related releases during rail transport, we actively work with shippers to identify root causes and take actions aimed at preventing reoccurrence.

Our active preventative and mitigation measures include:

- Providing training materials to shippers, including the AAR's Pamphlet 34 on the safe loading and unloading of tank cars
- Conducting site visits to rail car loading / unloading operations to:
 - Train personnel on best practices
 - Check that adequate procedures are in place to prevent releases
- Conducting spot inspections to catch issues with equipment
- Investigating spills associated with accidents by trains in transit and taking corrective actions
- Implementing new preventative actions as they arise

Resulting in part from our preventative measures, we had zero hazmat spills in 2018.

Management Approach Disclosures

Read our disclosures on [Waste: Liquid and Solid](#) in the **Appendix: Stakeholder Priority Material Topics**, page 84.



KCSR CUSTOMERS RECOGNIZED AS SAFE HAZMAT SHIPPERS

KCSR shares with our customers a steadfast dedication to the safe movement of every shipment every day. Our Safe Shipper Award program recognizes customers for their commitment to these shared values:

- Protection of our environment
- Safety and health of our employees, our customers and the citizens of every community where KCSR lives and operates

In 2018, we recognized 26 companies as "Safe Shippers" since each shipped more than 500 hazardous materials tank cars with no incidents.



SAFE HAZARDOUS MATERIALS (HAZMAT) TRANSPORT

► The safe transportation of hazardous materials is a major responsibility and our obligation to the communities we serve in the U.S and Mexico.

In the U.S. and Mexico, the KCS Environmental and Hazmat Department is a hazmat transportation resource for our customers and communities regarding:

- Preventative measures
- Emergency preparedness
- Response management
- Recovery efforts

The department can provide:

- Risk analysis
- Pre-emptive strategies
- Mitigation on our rail network
- Up-to-date regulations
- Technology, including access to Railinc's AskRail™ app, which gives first responders immediate and accurate access to data about types of materials railcars are carrying in their communities
- Contracts with personnel supporting hazmat-incident efforts who work with local emergency response departments
- Training for KCS employees and local community first responders, including TRANSCAER® training (See HAZMAT MANAGEMENT AND SAFETY TRAINING at right.)

In 2018, we transported approximately 23 million gross tons of hazmat safely and without incident.

2018 KCS: HAZMAT TRANSPORTED (approximate gross tons¹)

KCSR	KCSM
14.3M	8.8M

¹Gross tonnage includes tank car weight in loaded cars/containers only for linehaul and haulage revenue shipments. Net tonnage equals approximately 16.0M for KCSR and KCSM combined.

Management Approach Disclosures

Read our disclosures on [Hazardous Materials Transport](#) in the **Appendix: Stakeholder Priority Material Topics**, page 85.

HAZMAT MANAGEMENT AND SAFETY TRAINING

To meet our goals relating to prevention, preparedness, response and recovery, KCS has worked diligently with these groups regarding the safe transport of hazardous materials:

- Association of American Railroads (AAR), including the organization's:
 - Bureau of Explosives (BOE)
 - Strategic Research Program
 - Security and Emergency Response Training Center
 - North American Tank Car Committee
 - Railroad Tank Car Safety Research and Test Project
 - Safety and Operations Management Committee
- Federal Railroad Administration (FRA)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Rail Transportation and Engineering Center (RailTEC)
- State regulators and local first responders
- Our customers, peers and other groups working to improve hazmat safety

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

- Promoting safe transportation and handling of hazardous materials
- Educating communities near our routes about rail transportation of hazardous materials
- Aiding community emergency response planning for possible hazardous material transportation incidents

- In 2018, KCS:
- Hosted trainings and demonstrations, including hazmat training for 485 local community first responders
 - Attended Local Emergency Planning Committee (LEPC) meetings
 - Granted access to 130 first responders to download the AskRail™ app
 - Provided hazmat traffic reports upon request from bona fide emergency management agencies



APPENDIX



STAKEHOLDER ENGAGEMENT

In 2018, we engaged with our stakeholders in many ways. We cover some of these engagement activities in detail throughout the report.

Community Engagement¹

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

Customer and Partner Engagement

- Conferences, events and trade shows, including our Strategic Partners Conference where we host transload and short line operators—as well as other key partners—to provide rail industry updates and strengthen relationships
- Customer advisory councils: MPEC (Multi Level Pooling Executive Committee)
- Customer satisfaction surveys
- Daily tactical communication and relationships via Customer Solutions Center
- E-business tools

- Regular meetings on a variety of topics, including result reviews and planning for the future
- Digital communications via emails and website announcements, resources and tools
- Relationship calls and visits
- Service Status Updates and other communication channels
- Special events: Business train trips, golf events, etc.
- Symposiums focused on key topics, such as 2018's Mexico Energy Reform
- Visits onsite to KCS

Emergency Responder Engagement

- Assistance to communities to prepare for and respond to possible hazmat transportation incidents
- Participation in Local Emergency Preparedness Committee (LEPC) meetings
- Providing commodity flow information to local officials regarding what is transported through their communities to better prepare for emergencies
- Sponsorship of access to AskRail®, mobile app to provide information regarding railcar loading
- TRANSCAER® trainings and drills to prepare for rail emergencies

Subsidiary Employee Engagement

- Company-wide communications
- Satisfaction surveys
- Focus groups
- Training programs

- Internal committees: On-Track Ambassadors, Health and Wellness Committee, local safety committees serving KCS states
- Health and Wellness benefits, presentations, programs and events
- Departmental presentations
- Team meetings
- Intranet sites
- One-on-one discussions between managers and direct reports
- Ethics and critical incident hotlines
- Sponsorship of physical activity/ sports events and programs
- Physical activity incentives
- Town Hall meetings
- Appreciation events
- Weekly employee newsletters

Government/Regulator Engagement

- Reviews of federal, state and local regulatory issues
- Discussions on federal, state and local government/regulatory trends
- Ongoing engagement with federal, state and local officials on issues important to KCS, areas we serve, and the freight rail transportation industry in the U.S. and Mexico
- Participation in numerous organizations and committees that promote the U.S. and Mexico freight rail industry, as well as the economic development and community interests in states where we operate
- State and federal legislative and regulatory advocacy

Investor (Shareholder) Engagement

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

Media Engagement

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

Supplier Engagement

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

Union Engagement

- KCSMS negotiation of amendments to collective bargaining agreements with the Mexico rail union
- KCSR negotiation of amendments to collective bargaining agreements with 13 U.S. rail unions
- KCSM weekly meetings with union to review and negotiate operation conditions/changes
- KCSR meetings with union representatives throughout the year to address issues arising out of local operations

¹**RESTATEMENT:** In our 2017 Sustainability Report, we mistakenly put the heading "CUSTOMER ENGAGEMENT" above the "COMMUNITY ENGAGEMENT" bullet points.



PROFESSIONAL ENGAGEMENT

We stay active and up-to-date in our industry and commit to be participants in our stakeholders' interests. We do this through individual, departmental and company-wide participation in organizations related to topics and issues relevant to our business.

Environmental

We strive to be environmentally responsible, safe and secure by our participation or partnership with:

- SmartWaySM Transport
- Responsible Care[®]
- TRANSCAER[®]
- Numerous Association of American Railroads (AAR) committees

Economic: Commerce and Trade

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

- The U.S. Chamber of Commerce
- Mexico Chamber of Commerce
- American Chamber of Commerce Mexico
- U.S.-Mexico Chamber of Commerce
- Confederation of Industrial Chambers of Mexico
- International Chamber of Commerce
- Executive Council of Global Enterprises (CEEG)

- Association of American Railroads (AAR)
- Asociación Mexicana de Ferrocarriles (AMF / Association of Mexican Railroads)
- National Freight Transportation Association (NFTA)
- National Association of Rail Shippers (NARS)
- Asociación Mexicana de Agentes Navieros A.C. (AMANAC / Mexican Shipping Agents Association)
- Intermodal Association of North America (IANA)
- Asociación Mexicana del Transporte Intermodal (AMTI / Mexican Association of Intermodal Transport)
- State railroad associations in AR, IL, KS, LA, MO, MS, OK and TX
- Missouri Hawthorn Foundation—Facilitating Missouri-based economic development efforts
- Kansas City Downtown Council
- Many other U.S. and Mexican organizations that promote the economic development of states and local communities along our rail network

Safety, Security and Technology

KCS executives, directors and employees serve on:

- Operation Lifesaver:
 - National board
 - National advisory council
 - State board agencies
- Alto Total and Cuidado con el Tren (Beware of the Train) board of directors
- Federal Railroad Administration (FRA) Grade Crossing Task Force Committee
- National Committee on Uniform Traffic Control Devices (NCUTCD)
- These AAR subsidiaries and committees, among many other committees:
 - Transportation Technology Center, Inc. (TTCI)—Dedicated to research, development, testing, consulting and training for railway-related technologies
 - Railinc, providing IT service to North American railroads (KCS CTO is on board)

- Railinc Project Support Working Committee (RPSWC)—Industry technology group working on asset health and other systems (KCS COO is chairman)
- Rail Information Security Committee (RISC)—Comprised of railroad IT leaders dedicated to being proactive regarding cyber security
- Safety and Operations Management Committee (SOMC) Executive Committee (KCS COO is chairman)
- Grade Crossing & Trespasser Prevention Committee

We also actively participate in these groups:

- Project Management Institute (PMI)
- PMI Kansas City Mid-America Chapter
- Americas' SAP User Group (ASUG)

Continued



PROFESSIONAL ENGAGEMENT

(continued)

Social and Educational

Our Executive Leadership engages with organizations with positive direct or indirect impacts on both people and communities in which we serve. Some organizations on which our executive leaders hold committee or board memberships include:

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

- St. Luke's Hospital of Kansas City Physician Contract Review Committee
- The Greater Kansas City Community Foundation through individual employee and director donor advised funds

In addition, to serve our subsidiary employees, our communities and social justice causes, we are members of or active participants in various organizations at the international, national, state and local levels in the U.S. and Mexico. These organizations include:

- Society of Human Resource Management (SHRM)
- Employee Assistance Program Association (EAPA)
- Employee Benefits Institute (EBI)
- HR Certification Institute (HRCI)
- National Seminars Star 12 Program
- WorldatWork—Global association focused on attracting, motivating, and retaining employees
- Total Rewards KC
- ArtsKC
- Fountain City Performing Arts
- Habitat for Humanity KC
- Mid-America Gay & Lesbian Chamber of Commerce (ambassador, board nominating committee, Business Equality Conference committee)

- For Registered Nurse on staff: Commission for Case Manager Certification (CCMC) and Missouri's Nurse Licensure Compact (NLC)
- Ejecutivos de Relaciones Industriales, AC (ERAC / Executives of Industrial Relations)
- Asociación Técnica en Compensaciones (ATECO / Association of Technical Compensation)

- Centro Mexicano para la Filantropía (CEMEFI / Mexican Center for Philanthropy)
- Workplace Wellness Council—Mexico (accreditation as ESR—Empresa Socialmente Responsable / Socially Responsible Company)

Labor

KCSR is a member of the National Railway Labor Conference (NRLC) and of the National Carriers Conference Committee (serves as multiemployer bargaining representative). The NRLC website¹ notes that the not-for-profit association is responsible for representing “member railroads in dealing with representatives of organized employees on a national level in matters involving railroad labor relations, appropriate matters before the courts, Congressional committees, and other governmental bodies, [as well as] other matters of interest or concern to its members.”

¹National Railway Labor Conference (NRLC): <https://www.nrlc.ws/>



Delivering Prosperity

KCS 2018: RESULTS OF OPERATIONS W/2017 COMPARISON (\$ in millions)

	2018	2017	Change	% Change
Revenues ¹	\$2,714.0	\$2,582.9	\$131.1	5%
Operating expenses	1,727.7	1,661.3	66.4	4%
Operating income	986.3	921.6	64.7	7%
Equity in net earnings of affiliates	2.6	11.5	(8.9)	(77%)
Interest expense	(110.0)	(100.2)	(9.8)	10%
Debt retirement costs	(2.2)	-	(2.2)	100%
Foreign exchange gain	7.8	41.7	(33.9)	(81%)
Other income (expense), net	2.4	(0.3)	2.7	(900%)
Income before income taxes	886.9	874.3	12.6	1%
Income tax expense (benefit)	257.5	(89.6)	347.1	(387%)
Net income	\$ 629.4	\$ 963.9	\$(334.5)	(35%)

¹Revenues include revenue for transportation services and fuel surcharges. Revenues and carload/unit volumes increased 5% and 2%, respectively, for the year ended December 31, 2018, compared to the prior year. Volumes increased primarily due to increased refined product shipments to Mexico, crude oil growth as a result of increased production in Canada, higher intermodal volumes, and favorable comparative volumes due to Hurricane Harvey service interruptions in 2017. These increases were partially offset by a decline in Energy driven primarily by a reduction in utility coal volume due to a Texas utility closure in January 2018, and network congestion in northern Mexico during the second half of 2018.

Revenue per carload/unit increased by 3% due to higher fuel surcharge and positive pricing impacts. The increase in revenue per carload/unit was partially offset by the weakening of the Mexican peso against the U.S. dollar of approximately \$9.0 million, compared to the prior year, for revenue transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.19.2 for 2018 compared to Ps.18.9 for 2017.

KCS 2018: REVENUES AND CARLOADS/UNITS BY COMMODITY W/2017 COMPARISON

	Revenues (\$ in millions)			Carloads and Units (in thousands)			Revenue per Carload/Unit		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
Chemical and petroleum	\$622.1	\$539.9	15%	297.9	273.5	9%	\$2,088	\$1,974	6%
Industrial and consumer products	591.0	588.3	-	324.9	329.9	(2%)	1,819	1,783	2%
Agriculture and minerals	486.4	477.4	2%	241.9	244.3	(1%)	2,011	1,954	3%
Energy	256.3	283.8	(10%)	248.6	291.7	(15%)	1,031	973	6%
Intermodal	382.8	363.8	5%	1,030.4	975.1	6%	372	373	-
Automotive	253.2	230.8	10%	161.9	155.5	4%	1,564	1,484	5%
Carload revenues, carloads and units	2,591.8	2,484.0	4%	2,305.6	2,270.0	2%	1,124	1,094	3%
Other revenue	122.2	98.9	24%						
Total revenues ¹	2,714.0	2,582.9	5%						
Included in revenues:									
Fuel surcharge	253.1	169.5							



Delivering Prosperity (cont.)

KCS 2018: OPERATING EXPENSES¹ W/2017 COMPARISON (\$ in millions)

	2018	2017	\$ Change	% Change
Compensation and benefits	\$495.7	\$493.8	\$1.9	-
Purchased services	200.7	193.7	7.0	4%
Fuel	348.2	316.1	32.1	10%
Mexican fuel excise tax credit	(37.7)	(44.1)	6.4	(15%)
Equipment costs	126.1	129.2	(3.1)	(2%)
Depreciation and amortization	346.7	320.9	25.8	8%
Materials and other	265.9	251.7	14.2	6%
Gain on insurance recoveries related to hurricane damage	(17.9)	-	(17.9)	100%
Total operating expenses	\$1,727.7	\$1,661.3	\$66.4	4%

¹Operating expenses increased \$66.4 million for the year ended December 31, 2018, compared to 2017, primarily due to higher fuel prices, increases in depreciation and personal injury expense, and an increase in expenses due to network congestion in northern Mexico during the second half of 2018. These increases were partially offset by a gain on insurance recoveries related to hurricane damage and the weakening of the Mexican peso against the U.S. dollar. The weakening of the Mexican peso against the U.S. dollar resulted in an expense reduction of approximately \$9.0 million for expense transactions denominated in Mexican pesos. The average exchange rate of Mexican pesos per U.S. dollar was Ps.19.2 for 2018 compared to Ps.18.9 for 2017.

KCS 2018: DILUTED EARNINGS PER SHARE W/2017 COMPARISON

	2018	2017
Reported	\$6.13	\$9.16
Adjustments for:		
Gain on insurance recoveries related to hurricane damage	(0.13)	-
Debt retirement costs	0.02	-
Foreign exchange gain	(0.05)	(0.28)
Foreign exchange component of income taxes	0.21	0.30
Tax Cuts and Jobs Act	(0.21)	(3.93)
Adjusted²	\$5.97	\$5.25

²The Company believes adjusted diluted earnings per share is meaningful as it allows investors to evaluate the Company's performance for different periods on a more comparable basis by excluding the impact of changes in foreign currency exchange rates, the impact of and adjustments to 2017 provisional income tax benefit for the Tax Cuts and Jobs Act, and items that are not directly related to the ongoing operations of the Company. The income tax expense impacts related to these adjustments are calculated at the applicable statutory tax rate.



Stakeholder Priority Material Topics

ANTI-CORRUPTION PRACTICES

Description & Purpose	See REDUCING KCS RISKS on page 19 .
Management Approach	Our Legal, Human Resources and other departments implement the company's anti-corruption policy, which was approved by the Board of Directors. For more information, see REDUCING KCS RISKS on page 19 .
Evaluation Mechanisms	Incidents of corruption can be reported and tracked through a number of channels, including reporting: <ul style="list-style-type: none"> • To management • To compliance officers in multiple departments • To Legal, Human Resources or Purchasing departments • Through our 24/7 Report Hotlines
Results & Adjustments of Evaluations	Results: See REDUCING KCS RISKS on page 19 . Adjustments: We systematically compile, review and forward incidents to appropriate departments. Each department then: <ol style="list-style-type: none"> 1.Examines the report and the results 2.Identifies appropriate measures to take on a case-by-case basis
Impacts	If incidents of corruption are ever identified, it would be detrimental to the business and individuals throughout our U.S. and Mexico operations. Thus, our capacity to control corruption allows us to: <ul style="list-style-type: none"> • Use our human and financial resources more efficiently • Attract more investment • Continue to grow
Policies, Commitments, Programs, Initiatives, Goals and Targets	See REDUCING KCS RISKS on page 19 .
Responsibilities & Resources	Responsibilities: Effective management of anti-corruption is a shared responsibility across our entire organization. Our Legal, Human Resources and other departments are directly responsible for implementing policies and codes. Resources: see 24/7 REPORT HOTLINES on page 23 .

ANTI-COMPETITIVE BEHAVIOR

Description & Purpose	See REDUCING KCS RISKS on page 19 .
Management Approach	Our approach to anti-competitive behavior is based on the Code of Business Conduct and Ethics, which requires the company and all employees to act fairly in the market regarding both customer and supplier interactions, and in accordance with applicable antitrust laws. For more information, see REDUCING KCS RISKS on page 19 .
Evaluation Mechanisms	Any attempt to prevent or reduce competition in the market can be reported and tracked through a number of channels, including reporting: <ul style="list-style-type: none"> • To management • To compliance officers in multiple departments • To Legal, Human Resources or Purchasing departments • Through our 24/7 Report Hotlines • Governmental agencies
Results & Adjustments of Evaluations	Results: See REDUCING KCS RISKS on page 19 . Adjustments: We systematically compile, review and forward incidents to appropriate departments. Each department then: <ol style="list-style-type: none"> 1.Examines the report and the results 2.Identifies appropriate measures to take on a case-by-case basis
Impacts	If attempts to prevent or reduce competition in the market are ever identified, it would be detrimental to the business and individuals throughout our U.S. and Mexico operations. Thus, our capacity to control anti-competitive behavior allows us to: <ul style="list-style-type: none"> • Use our human and financial resources more efficiently • Attract more investment • Continue to grow
Policies, Commitments, Programs, Initiatives, Goals and Targets	See REDUCING KCS RISKS on page 19 .
Responsibilities & Resources	Responsibilities: Effective management of anti-competitive behavior is a shared responsibility across our entire organization. Our Legal, Human Resources and other departments are directly responsible for implementing policies and codes. Resources: see 24/7 REPORT HOTLINES on page 23 .

Continued



Stakeholder Priority Material Topics (cont.)

SOCIOECONOMIC COMPLIANCE

Description & Purpose	<p>Socioeconomic compliance guidelines are documented in our Code of Business Conduct and Ethics and address a range of topics. From conducting honest business dealings, avoiding conflicts of interests, or achieving full transparency – our policy guidelines come to life through the decisions our employees make every day in their work. This allows us to maintain compliance with regulations, and voluntary codes of practice.</p> <p>Maintaining compliance with social and economic laws and regulations:</p> <ul style="list-style-type: none"> • Reduces risks and resulting liabilities • Positively impacts the communities where we operate • Contributes to a healthy prevailing economy
Management Approach	<p>Our Legal, Human Resources and other departments implement the company's code of business conduct and ethics policy, which has been approved by the Board of Directors.</p> <p>We conduct:</p> <ul style="list-style-type: none"> • Bi-annual Foreign Corrupt Practices Act (FCPA) Risk Assessments • Vendor Reviews <p>In addition to making policies and codes available, a Conflict of Interest and Compliance Questionnaire is distributed annually to employees. By completing and signing the questionnaire, employees signify their compliance.</p>
Evaluation Mechanisms	<p>Incidents of non-compliance can be reported and tracked through a number of channels, including reporting:</p> <ul style="list-style-type: none"> • To management • To compliance officers in multiple departments • To Legal, Human Resources or Purchasing departments • Through our 24/7 Report Hotlines

SOCIOECONOMIC COMPLIANCE

Results & Adjustments of Evaluations	<p>Results: See REDUCING KCS RISKS on page 19.</p> <p>Adjustments: We systematically compile, review and forward incidents to appropriate departments. Each department then:</p> <ol style="list-style-type: none"> 1. Examines the report and the results 2. Identifies appropriate measures to take on a case-by-case basis
Impacts	<p>If incidents of socioeconomic non-compliance are ever identified, it would be detrimental to the business and individuals throughout our U.S. and Mexico operations. Thus, our capacity to maintain compliance allows us to:</p> <ul style="list-style-type: none"> • Use our human and financial resources more efficiently • Attract more investment • Continue to grow
Policies, Commitments, Programs, & Initiatives	<p>See on REDUCING KCS RISKS on page 19.</p>
Goals and Targets	<p>We are committed to making all company employees, customers and partners aware of our stringent anti-corruption, conflict of interest, insider trading and other ethics policies or codes.</p> <ul style="list-style-type: none"> • Achieving 100% regulatory compliance is always the overarching goal.
Responsibilities & Resources	<p>Our Legal, Human Resources and other departments are directly responsible for implementing policies and codes.</p> <ul style="list-style-type: none"> • Resources: see 24/7 REPORT HOTLINES on page 23.

Continued



Stakeholder Priority Material Topics (cont.)

HEALTH and SAFETY

Description & Purpose	See OUR NO. 1 PRIORITY: SAFETY on page 25 and OCCUPATIONAL HEALTH & SAFETY on page 30 . Railroad operations are associated with potential health and safety risks. Risks can include exposure to chemical, biological and physical hazards. We strive to mitigate those risks.
Management Approach, Policies, Commitments, Programs, & Initiatives	See: <ul style="list-style-type: none"> • VISION, VALUES AND CULTURE on page 11. • HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 16. • OUR NO. 1 PRIORITY: SAFETY on page 25. • OCCUPATIONAL HEALTH & SAFETY on page 30. • ATTRACTING AND RETAINING EMPLOYEES on page 47.
Purpose	To: <ul style="list-style-type: none"> • Foster a safe and healthy work environment • Protect internal and external stakeholders such as subsidiary employees, contractors, guests and the residents of the communities we serve from health and safety hazards resulting from our operations
Evaluation Mechanisms	<ul style="list-style-type: none"> • Through an operational testing program, internal experts identify, monitor and manage existing or emerging safety risks. • We conduct tests continuously, measuring employees' knowledge and compliance with our safety procedures. • We report work-related injuries and illnesses to the Federal Railroad Administration (FRA) where required. • Other evaluation methods include audits, inspections, investigations and rules classes in which testing is conducted.
Results & Adjustments of Evaluations	<p>Results: See OCCUPATIONAL HEALTH & SAFETY on page 30.</p> <p>Adjustments: We determine the need for remedial training based on operational testing program results, incident findings, audits, etc.</p> <p>We develop testing system-wide in response to identified risk trends, recent injuries or accidents, and operational test results.</p>

HEALTH and SAFETY

Impacts	<p>We directly impact workplace health and safety through established business activities that maintain safe business operations. These activities include:</p> <ul style="list-style-type: none"> • Adhering to compliance • Delivering appropriate safety training and education to employees and enforcing work rules related to, among other things, health and safety. • Requiring contractors to comply with our health and safety standards • Eliminating or minimizing exposure to health and safety risks and hazards
Goals and Targets	<p>Goals for OH&S include achieving:</p> <ul style="list-style-type: none"> • A decrease in injury rates • Consistently better health and safety rates than the overall industry average • Recognition as the best in class and industry for our comprehensive approach to safety
Responsibilities & Resources	<p>Health and safety is a responsibility of every employee.</p> <p>The Human Resources and Health, Safety and Environmental departments oversee their respective responsibilities for:</p> <ul style="list-style-type: none"> • Record keeping • Delivering health and safety training • Maintaining compliance • Responding to reported concerns or identified risks

Continued



Stakeholder Priority Material Topics (cont.)

SECURITY PRACTICES

Description, Purpose, Management Approach and Evaluation Mechanisms	See: <ul style="list-style-type: none"> • SECURING OUR RAIL NETWORK on page 32. • U.S. SECURITY on page 35. • SECURITY IN MEXICO on page 37. • SECURITY THROUGH TECHNOLOGY on page 38.
Results & Adjustments of Evaluations	Results: See SECURING OUR RAIL NETWORK on page 32 and SECURITY THROUGH TECHNOLOGY on page 38 . Adjustments: Program improvements and development are ongoing and situation-specific. Our actions mitigate risk and are scalable to operations, predictable in outcome, efficient and effective.
Impacts	See U.S. SECURITY on page 35 and SECURITY IN MEXICO on page 37 . Also, any security threat potentially might: <ul style="list-style-type: none"> • Lead to financial and physical damage, as well as to prevention and remediation costs • Indirectly influence the economy by affecting the amount of income spent on security measures • Reduce competitiveness and investments • Impact property values • Impact our reputation, resulting in reduction of customer confidence
Policies, Commitments, Programs, & Initiatives	KCS is committed to continually improving and developing its security program, and ensuring that actions are scalable to operations, predictable in outcome, efficient, effective, and mitigate risk. Trained personnel and advanced security technologies comprise our rail and IT security efforts. Ongoing efforts are in place to employ more security technology to reduce the burden and risk on personnel. For more information, see SECURING OUR RAIL NETWORK on page 32 and SECURITY THROUGH TECHNOLOGY on page 38 .

SECURITY PRACTICES

Goals and Targets	Goals include: <ul style="list-style-type: none"> • Monitoring goods while maintaining train velocity and arrival/departure schedules • Detecting, deterring and reducing security threats • Applying latest threat intelligence techniques to safeguard our information and assets from cyber attacks
Responsibilities & Resources	Security is a responsibility of every one of our employees. Various Operations Departments, the IT Department, and KCSR Police and KCSM Security Departments oversee company-wide security programs and initiatives. Additionally, we contract with private security companies to reinforce our efforts.

Continued



Stakeholder Priority Material Topics (cont.)

ECONOMIC / FINANCIAL PERFORMANCE

Description	As a publicly traded company, driving shareholder return requires: <ul style="list-style-type: none"> • Understanding and reacting to challenging economic conditions • Innovative rail freight transportation solutions • Mindful management of our resources Strong economic performance depends on how well we: <ul style="list-style-type: none"> • Adapt to industry shifts • Understand customer preferences and current market trends • Address demand for more sustainable business practices
Purpose	See our KCS Vision on the VISION, VALUES AND CULTURE page 11 .
Management Approach	Through strategic planning, we strive to: <ul style="list-style-type: none"> • Create industry-leading shareholder returns • Operate in a safe and reliable environment • Build a strong and nimble, customer-oriented culture focused on performance, accountability and execution • Promote strong governance, social responsibility, regulatory compliance and risk management Our strategic intent is to: <ul style="list-style-type: none"> • Capitalize on the strategic location of our cross-border rail network and the diverse and growing North American markets, while maintaining a commitment to operational excellence • Embrace new and emerging technologies and a strong cost discipline within a safe and reliable environment • Provide service that consistently exceeds our customers' expectations, challenging careers to our employees and industry-leading returns to our shareholders
Evaluation Mechanisms	Our financial performance is monitored and evaluated routinely via daily financial reporting, weekly pacing, monthly performance reviews and quarterly forecast updates.
Results & Adjustments of Evaluations	Results: See our 2018 Annual Report and quarterly reports . Adjustments: We adjust financial goals quarterly, or as needed, based on current market and economic conditions.
Impacts	Our economic performance impacts are directly attributable to shareholder returns, the income generated in communities, including employee wages, supplier and contractor payments, taxes paid, and community investments. Indirect impacts attributable to us may include jobs created by suppliers or increases in productivity that result from our operations.

ECONOMIC / FINANCIAL PERFORMANCE

Policies, Commitments, Programs, & Initiatives	See: <ul style="list-style-type: none"> • Our VISION, VALUES AND CULTURE on page 11. • BUSINESS UNITS AND REVENUES on page 41 • CAPITAL EXPENDITURES on page 43 We design our strategic planning efforts to generate actions and decisions that shape and guide successful financial performance outcomes. Our strategic planning comprises comprehensive ongoing activities and processes to systematically coordinate and align resources and actions with the company's vision and strategy. Strategic planning initiatives focus on: <ul style="list-style-type: none"> • Capitalize on the strategic location of our cross-border rail network and the diverse and growing North American markets, while maintaining a commitment to operational excellence • Embrace new and emerging technologies and a strong cost discipline within a safe and reliable environment • Provide service that consistently exceeds our customers' expectations, challenging careers to our employees and industry-leading returns to our shareholders
Goals and Targets	We set financial goals annually as part of our long-range planning process
Responsibilities & Resources	Effective management of economic performance is a shared responsibility across our entire organization. All employees and departments directly contribute to our economic performance, including: <ul style="list-style-type: none"> • Operations and Operations Support • Information Technology (IT) • Purchasing • Sales and Marketing • Human Resources • Accounting and Finance

Continued



Stakeholder Priority Material Topics (cont.)

SUBSIDIARY EMPLOYEE INFORMATION: TURNOVERS, NEW HIRES, BENEFITS

Description	A comprehensive employee retention program plays a vital role in both attracting and retaining key employees, as well as in reducing turnover and its associated costs. Managing for employee retention involves strategic actions to keep employees motivated and focused so they elect to remain employed and productive.
Management Approach	See: OCCUPATIONAL HEALTH & SAFETY on page 30 . EMPLOYEES: OUR GREATEST ASSET on page 46 . ATTRACTING AND RETAINING OUR WORKFORCE on page 47 . TRAINING AND EDUCATION on page 49 .
Purpose	To: <ul style="list-style-type: none"> • Promote a safe and positive work environment • Attract and retain top talent • Increase productivity • Develop leaders • Create a culture of innovation • Increase employee satisfaction
Evaluation Mechanisms	We: <ul style="list-style-type: none"> • Measure the quality of training and education programs regularly • Measure new hire and turnover rates regularly • Record training hours for each employee on a regular basis • Encourage line managers to evaluate the needs of direct reports annually
Results & Adjustments of Evaluations	Results: See EMPLOYEES: OUR GREATEST ASSET on page 46 . Adjustments: After evaluating new hire and turnovers, we make adjustments based on results of the reporting year. These adjustments might include <ul style="list-style-type: none"> • New programs or initiatives • Further development or expansion of existing programs
Impacts	Our training and education programs directly impact employees and our operations by: <ul style="list-style-type: none"> • Helping employees define and identify their career goals to encourage their long-term success and career satisfaction • Increasing employee loyalty and retention • Advancing employees' skill sets to provide expert levels of service, which builds a positive reputation with customers and leads to company growth • Increasing the safety and security of our company

SUBSIDIARY EMPLOYEE INFORMATION: TURNOVERS, NEW HIRES, BENEFITS

Policies, Commitments, Programs, Initiatives, Goals and Targets	See: <ul style="list-style-type: none"> • EMPLOYEES: OUR GREATEST ASSET on page 46. • ATTRACTING AND RETAINING OUR WORKFORCE on page 47.
Responsibilities & Resources	Turnovers, new hires, and benefits responsibilities fall under the Human Resources Department. Line managers also assume responsibility for seeing that direct reports receive adequate departmental training necessary to perform specific tasks or carry out certain job functions.

Continued



Stakeholder Priority Material Topics (cont.)

SUBSIDIARY EMPLOYEE TRAINING AND EDUCATION

Description	Keeping pace with the evolving freight rail transportation industry requires developing and maintaining a high-quality workforce with necessary skills and expertise to: <ul style="list-style-type: none"> • Operate the business safely and ethically • Meet customer needs • Explore opportunities created by emerging technologies
Management Approach	See: <p>OCCUPATIONAL HEALTH & SAFETY on page 30.</p> <p>SECURITY THROUGH TECHNOLOGY on page 38.</p> <p>ATTRACTING AND RETAINING OUR WORKFORCE on page 47.</p> <p>TRAINING AND EDUCATION on page 49.</p>
Purpose	To: <ul style="list-style-type: none"> • Promote safe, secure and ethical work practices • Strengthen employee skill sets • Improve employee performance • Develop leaders • Increase employee satisfaction
Evaluation Mechanisms	We: <ul style="list-style-type: none"> • Measure the quality of training and education programs regularly • Record training hours for each employee on a regular basis • Encourage line managers to evaluate the needs of direct reports annually

SUBSIDIARY EMPLOYEE TRAINING AND EDUCATION

Results & Adjustments of Evaluations	Results: See TRAINING AND EDUCATION on page 49 . Adjustments: After evaluating our training and education, we make adjustments based on results of the reporting year. These adjustments might include <ul style="list-style-type: none"> • New programs or initiatives • Further development or expansion of existing programs
Impacts	Our training and education programs directly impact employees and our operations by: <ul style="list-style-type: none"> • Helping employees define and identify their career goals to encourage their long-term success and career satisfaction • Increasing employee loyalty and retention • Advancing employees' skill sets to provide expert levels of service, which builds a positive reputation with customers and leads to company growth • Increasing the safety and security of our company
Policies, Commitments, Programs, Initiatives, Goals and Targets	See TRAINING AND EDUCATION on page 49 .
Responsibilities & Resources	Training and education responsibilities fall under the Human Resources Department. Line managers also assume responsibility for seeing that direct reports receive adequate departmental training necessary to perform specific tasks or carry out certain job functions.

Continued



Stakeholder Priority Material Topics (cont.)

DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITIES

Description	<p>Our presence in the U.S and Mexico makes the integration of varying cultures and the global exchange of knowledge essential to the success of our business.</p> <p>For more information, see KCSR's SUPPLIER DIVERSITY PROGRAM INITIATIVE on page 15 and EQUAL AND PROTECTED ENVIRONMENT on page 50.</p>
Management Approach and Purpose	<p>Employees and Applicants: All departments and team members are required to acknowledge and adhere to our policy of providing equal employment opportunities to all. Our diversity and equal opportunity initiatives strive to:</p> <ul style="list-style-type: none"> • Develop employees • Create opportunities for career advancement • Foster respectful work environments <p>For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 50.</p> <p>Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE on page 15.</p>
Evaluation Mechanisms, Results & Adjustments of Evaluations	<p>Employees and Applicants: Assessment and evaluation of diversity and equal opportunity is an integral part of our management system, which includes:</p> <ul style="list-style-type: none"> • Employee satisfaction survey results that identify concerns and determine needs for new or revised policies • Formal reports and documentation of complaints whether informal or formal, verbal or written • Reports and documentation of specific acts found to be in violation of our Non-Discrimination & Anti-Harassment Policy • Reports and documentation of disciplinary action, including termination, if/when an investigation concludes a violation of policy has occurred <p>For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 50.</p> <p>Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE on page 15.</p> <p>Adjustments: We monitor and review our programs and outcomes annually. We then identify adjustments to schedules, policies, programs and procedures. We make the adjustments on an as-needed basis.</p>

DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITIES

Impacts	<p>Our diversity and equal opportunity programs have direct impacts through job creation that supports individuals, as well as contributing to the economic well-being of their families and their communities.</p> <p>These programs increase adaptability and morale, promote different perspectives, and improve community relations and customer satisfaction.</p>
Responsibilities & Resources	<p>Our diversity and equal opportunity initiatives include:</p> <ul style="list-style-type: none"> • Recruitment strategies that identify a diverse pool of qualified candidates • Identifying as an "equal opportunity employer" on all job postings to encourage diverse applicants to submit resumes • Trainings on workplace diversity and how to recognize and report behaviors inconsistent with company diversity policies <p>For more information, see SUPPLIER DIVERSITY PROGRAM INITIATIVE on page 15 and EQUAL AND PROTECTED ENVIRONMENT on page 50.</p>
Goals and Targets	<p>Employees and Applicants: We demonstrate the application of good faith efforts to increase the pool of qualified minority, female, veteran and disabled candidates when recruiting for open positions. For more information, see EQUAL AND PROTECTED ENVIRONMENT on page 50.</p> <p>Suppliers: See SUPPLIER DIVERSITY PROGRAM INITIATIVE on page 15.</p>
Responsibilities & Resources	<p>Our Human Resources Department maintains responsibility for record keeping, training, recruiting and requirements mandated by law.</p> <p>Our employees and suppliers are responsible for reporting instances of improper or potentially improper business practices, including harassment and discrimination, by calling the Speak Up! line in the U.S. or Linea de Denuncias in Mexico.</p> <p>For more information, see 24/7 REPORT HOTLINES on page 23.</p> <p>Suppliers may also submit questions or concerns to supplierexpectations@kcsouthern.com.</p>

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Stakeholder Priority Material Topics (cont.)

NON-DISCRIMINATION

Description and Purpose	The culture of KCS is characterized by a trusting and respectful relationship among customers, employees, suppliers, and business partners. This commitment is spelled out in our policy, which is to recognize: "the importance of providing all employees a work environment free of discrimination and/or harassment in any term or condition of employment on the basis of race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, age, disability, marital status, pregnancy status, citizenship status, genetic information, military or veteran status, or any status protected by law."
Management Approach	Our Non-Discrimination & Anti-Harassment Policy aims to provide "a work environment free from all forms of discrimination and harassment." This policy covers a wide array of prohibited conduct, including sexual harassment, bullying and gender discrimination. The KCS Board of Directors, in its oversight role, extensively discusses bullying and sexual harassment, including: <ul style="list-style-type: none"> • Discussing company policies • Receiving reports of violations • Discussing company responses to complaints We offer Harassment Training courses, among others, to reinforce and encourage our core value of treating everyone with respect and dignity.
Evaluation Mechanisms	Assessment and evaluation of non-discrimination is an integral part of our management system, which includes: <ul style="list-style-type: none"> • Employee satisfaction survey results that identify concerns and determine needs for new or revised policies • Formal reports and documentation of complaints whether informal or formal, verbal or written • Reports and documentation of specific acts found to be in violation of our Non-Discrimination & Anti-Harassment Policy • Reports and documentation of disciplinary action, including termination, if/when an investigation concludes a violation of policy has occurred
Results & Adjustments of Evaluations	Results: See EQUAL AND PROTECTED ENVIRONMENT on page 50 . Adjustments: We monitor and review non-discrimination and anti-harassment outcomes annually. We then identify adjustments to schedules, policies, programs and procedures. We make the adjustments on an as-needed basis.
Impacts	Our non-discrimination and anti-harassment policy has direct impacts through job creation that supports individuals, as well as contributing to the economic well-being of their families and their communities. These programs increase adaptability and morale, promote different perspectives, and improve community relations and customer satisfaction.

NON-DISCRIMINATION

Policies, Commitments, Programs, & Initiatives	See EQUAL AND PROTECTED ENVIRONMENT on page 50 .
Goals and Targets	To embrace a cross-cultural heritage and promote a work environment that is inclusive of everyone.
Responsibilities & Resources	Our Human Resources Department maintains responsibility for record keeping, training, recruiting and requirements mandated by law. Our employees and suppliers are responsible for reporting instances of improper or potentially improper business practices, including harassment and discrimination, by calling the Speak Up! line in the U.S. or Linea de Denuncias in Mexico. For more information, see 24/7 REPORT HOTLINES on page 23 .

Continued



Stakeholder Priority Material Topics (cont.)

ENVIRONMENTAL COMPLIANCE

Description	Our operations are subject to comprehensive local, state and federal environmental laws and regulations. Maintaining compliance: <ul style="list-style-type: none"> • Reduces our risks of environmental contamination and resulting liabilities • Protects human and environmental health
Management Approach	Environmental regulatory compliance initiatives include regular inspections of environmental management facilities, employee training, analysis of waste and water sampling results, and ongoing record keeping. Also, see: ENVIRONMENTAL COMPLIANCE on page 56 . HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 16 .
Purpose	The purpose of our management approach is to achieve environmental compliance while: <ul style="list-style-type: none"> • Fostering a system of environmental innovation • Serving as a provider of technical and business solutions • Being a respected partner in the communities where we operate
Evaluation Mechanisms	Environmental compliance is evaluated through a variety of programs and efforts that monitor: <ul style="list-style-type: none"> • Comprehensive data collection of all regulated and permitted facilities and environmental management operations • Regular analysis of compliance performance trends and exceptions • Regular updating of: <ul style="list-style-type: none"> ◦ Facility response plans ◦ Spill prevention control and countermeasures (SPCC) • See more at Policies, Commitments, Programs, & Initiatives at right. Our Environmental and Hazmat Department utilizes a database to track compliance with permit obligations and compliance-related tasks.
Results & Adjustments of Evaluations	Results: In 2018, our operations were environmentally compliant. Adjustments: Adjustments to our compliance programs vary and are determined on a case-by-case basis.
Impacts	Achieving environmental compliance has a positive impact on our business operations. We are aware that non-compliance could impact soil quality and biodiversity, air quality, or water resources along our right-of-way or in areas of operations. We are also aware that unmanaged spills, waste generation or environmental non-compliance could impact our business relationships.

ENVIRONMENTAL COMPLIANCE

Policies, Commitments, Programs, & Initiatives	We are dedicated to improving our compliance processes and business practices by working openly with our stakeholders and using quantifiable goals to drive sustained safety and environmental excellence. Programs and initiatives aimed at achieving 100% compliance in the areas of: <ul style="list-style-type: none"> • Wastewater and Storm Water • Solid and Hazardous Waste • Air Emissions • Hazardous Materials Storage • Petroleum Product Storage • Soil and Groundwater Contamination Remediation Also see: <ul style="list-style-type: none"> • HEALTH, SAFETY, SECURITY AND ENVIRONMENTAL (HSSE) COMMITMENT on page 16. • PROTECTING OUR PLANET chapter starting on page 55.
Goals and Targets	Our Environmental & Hazmat Department establishes annual project and performance goals that support achievement of environmental compliance. Achieving 100% regulatory compliance is always the overarching goal.
Responsibilities & Resources	Our Environmental & Hazmat Department, Engineering, Mechanical, Facilities, and Transportation departments all share responsibility for maintaining environmental compliance with local, state and federal regulations. The KCS Environmental & Hazmat Department is responsible for management and oversight of environmental compliance.

Continued



Stakeholder Priority Material Topics (cont.)

ENERGY AND EMISSIONS

Description	<p>We recognize our responsibility to minimize greenhouse gas emissions. We are a transportation company that relies almost entirely on fossil fuels, so reduction of fuel use and improvement of operating efficiency are key to minimizing our climate change impacts and lowering the cost of doing business.</p> <p>Our energy consumption is based almost entirely on non-renewable sources of energy, including:</p> <ul style="list-style-type: none"> • Diesel fuel to operate our locomotives and supporting equipment and gasoline for vehicles (primary source of emissions) • Purchased electricity and natural gas used to heat and cool buildings and facilities <p>More than 98% of our greenhouse gas (GHG) emissions is a direct result of the combustion of diesel fuel in our locomotives.</p> <p>Our use of non-renewable fuels exposes us to price volatilities, supply and production uncertainties, and increasing regulatory interventions related to climate change.</p>
Management Approach	<p>Company-wide, we continue to focus on reducing both direct and indirect energy consumption and emissions as well as increasing efficiencies through:</p> <ul style="list-style-type: none"> • Monitoring and reporting programs • Conservation and control programs • Reduction and efficiency initiatives • Application of new technologies <p>Emissions management across company operations is intended to decrease air emissions, mitigate climate change impacts, and maintain compliance with U.S. EPA locomotive emissions regulations. For more information, see ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS on page 58.</p>
Evaluation Mechanisms	<p>Our Fuel Conservation Department performs fuel conservation monitoring for our three primary energy reduction initiatives: Trip Optimizer, Excessive Idle Reduction and Distributed Power. See ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS on page 58.</p> <p>In 2016, KCS established baselines and identified relevant key performance indicators for evaluating:</p> <ul style="list-style-type: none"> • Energy efficiency in our operations and in our buildings • GHG emissions
Results & Adjustments of Evaluations	<p>Results: See ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS on page 58.</p> <p>We regularly communicate fuel conservation performance through electronic reports to field staff who identify opportunities for improvement throughout all locomotive terminals. Communicating the results has increased the effectiveness of energy conservation and emissions reduction programs over time.</p> <p>Adjustments: These will be contingent upon the 2018 performance data to be evaluated and compared to the 2016 baseline year. We'll report any adjustments in our 2019 report.</p>

ENERGY AND EMISSIONS

Impacts	<ul style="list-style-type: none"> • We directly and indirectly contribute to energy and emissions impacts through energy we purchase and use throughout our buildings and for our trains. • Providing rail freight transportation services generates direct energy impacts through burning diesel fuel and gasoline to run locomotives and motor vehicles. This, in turn, generates GHG and priority pollutant air emissions regulated by the U.S. EPA. However, our transportation services compare favorably to other types of transportation regarding GHG emissions—see SURFACE TRANSPORT AND THE ENVIRONMENT on page 56. • Direct and indirect energy and emissions impacts may also occur as services increase based on market needs as well as customer and partner demand.
Policies, Commitments, Programs, & Initiatives	<p>See ENVIRONMENTAL COMPLIANCE on page 56 and ENERGY EFFICIENCY: REDUCTION, CONSUMPTION AND EMISSIONS on page 58.</p> <p>For our buildings and facilities, we authorized implementing an energy monitoring, reporting, and control program to further monitor and review energy consumption.</p>
Goals and Targets	<p>We plan to:</p> <ul style="list-style-type: none"> • Integrate energy management into regular facility assessments through tracking programs • Improve efficiency of purchased energy, from 2016 baseline, by implementing more accurate energy usage measurements, energy use reduction projects, equipment upgrades, process improvements, and fuel efficiency • Reduce overall energy consumption, from 2016 baseline, through employee awareness campaign and implementation of a formal monitoring, reporting and control program • Achieve a reduction (indirect and direct) of GHG emissions, from 2016 baseline, through better measurement and management of purchased energy, process improvement projects, partnerships, and implementation of a formal monitoring, reporting, and control program. • We authorized Implementing an emissions monitoring, reporting, and control program to increase the regularity of monitoring and reviewing emissions throughout our buildings and facilities.
Responsibilities & Resources	<p>Energy and emissions management is a shared responsibility of the Environmental & Hazmat, Fuel Conservation, Purchasing, Facilities and Mechanical Departments. These departments and team:</p> <ul style="list-style-type: none"> • Oversee fuel acquisition and conservation initiatives • Conduct building maintenance and improvement efforts to reduce energy consumption • Negotiate contracts for purchased electricity and natural gas • Maintain locomotives • Monitor and manage excessive idling • Maintain emissions maintenance records <p>We appoint specialized contractors to overhaul locomotives to higher Tier levels (lower emissions levels).</p>

Continued



Stakeholder Priority Material Topics (cont.)

WASTE: LIQUID AND SOLID

Description	<p>Freight rail operations and maintenance require the use of raw materials and resources, which result in solid and liquid waste generation. Additionally, our operations require hazardous waste management and transportation.</p> <p>We employ the highest safety standards in the management and transportation of waste and hazardous waste. Our safe and responsible management of waste materials:</p> <ul style="list-style-type: none"> • Reduces disposal and liability costs • Improves worker health and safety
Management Approach	<p>Our waste management approach helps to enable efficient use of resources. The approach also assists us in reusing, recycling or disposing of materials responsibly while meeting regulatory standards.</p> <p>We manage liquid effluents, solid waste and hazardous waste in an environmentally compliant manner through a variety of programs and efforts that address:</p> <ul style="list-style-type: none"> • Waste minimization • Wastewater and storm water collection, treatment, and discharge compliance • Accidental oil-related release response plans based on spill prevention control and countermeasures (SPCC)
Evaluation Mechanisms	<p>Our Environmental and Hazmat Department utilizes a database to track:</p> <ul style="list-style-type: none"> • Compliance with permit obligations and compliance-related tasks • Analytical data from water samples and waste • Routine inspections <p>We also monitor and track air and soil quality impacts through various reporting channels.</p>
Results & Adjustments of Evaluations	<p>Hazardous and Non-Hazardous Waste Results: See WASTE MANAGEMENT: RECYCLING, REUSING, REPURPOSING, REDUCTION AND DISPOSAL on page 61.</p> <p>Effluents & Waste Results: See:</p> <ul style="list-style-type: none"> • RESPONSIBLE WASTEWATER AND STORM WATER MANAGEMENT on page 63. • SPILLS MANAGEMENT on page 65. <p>Adjustments: These will be contingent upon our evaluation of the 2018 performance data. We'll report adjustments in our 2019 report.</p>
Impacts	<p>Liquid and solid waste generation is directly attributed to daily business operations and results from these activities, among others:</p> <ul style="list-style-type: none"> • Generating office waste • Maintaining and cleaning facilities, equipment, locomotives • Maintaining our rail infrastructure • Responding to derailments and non-accident releases <p>Hazardous waste might potentially be generated from accidental spills during transport.</p>

WASTE: LIQUID AND SOLID

Purpose	<ul style="list-style-type: none"> • To achieve 100% compliance with local, state and federal regulations • Minimize impacts from our operations in a responsible manner
Policies, Commitments, Programs, & Initiatives	<p>See ENVIRONMENTAL COMPLIANCE on page 56.</p> <p>For information on to spills of oil, fuel, waste, chemicals and other items KCS transports, see SPILLS MANAGEMENT on page 65.</p> <p>For information on our buildings and facilities initiative, see WASTE MANAGEMENT: RECYCLING, REUSING, REPURPOSING, REDUCTION AND DISPOSAL on page 61.</p>
Goals and Targets	<p>With the guidance and leadership of the Environmental & Hazmat Department, we establish annual project and performance goals that align with achieving our corporate goals, including:</p> <ul style="list-style-type: none"> • Reducing waste and effluents • Achieving 100% regulatory compliance • Integrating waste management into regular facility assessments <p>We also plan to reduce waste sent to landfills through an employee awareness campaign and implementation of a formal monitoring, reporting and control program.</p>
Responsibilities & Resources	<p>The Environmental & Hazmat Department, Engineering, Mechanical, Facilities and Maintenance of Way departments all share responsibility for managing effluents and waste.</p>

Continued



Stakeholder Priority Material Topics (cont.)

HAZARDOUS MATERIALS TRANSPORT

Description	Safely transporting hazardous materials (hazmat) is a major responsibility, as well as our obligation to the communities we serve. A rigorous management and training program to protect the public and workers engaged in hazmat is critical to safe transportation and includes: <ul style="list-style-type: none"> Working diligently with a variety of stakeholder groups to improve the transportation of hazardous materials. Engaging in programs and trainings that facilitate safe and efficient emergency response, minimizing impact to those who live in areas where we operate. Voluntary outreach efforts that focus on assisting communities to prepare for and respond to possible hazmat transportation incidents.
Management Approach	KCS: <ul style="list-style-type: none"> Provides education and training on hazmat safety Works with customers to improve the safe handling of hazardous materials during loading and unloading operations Hosts trainings and demonstrations Attends Local Emergency Planning Committee (LEPC) meetings Provides hazmat traffic reports Provides AskRail™ apps Educates and assists communities near our routes about rail transportation of hazardous materials Aids community emergency response planning for possible hazardous material transportation incidents
Evaluation Mechanisms	Our Environmental and Hazmat Department utilizes a database to track: <ul style="list-style-type: none"> Responses to all hazmat-related incidents Activities listed in Management Approach section
Results & Adjustments of Evaluations	Results: See SAFE HAZARDOUS MATERIALS (HAZMAT) TRANSPORT on page 66 . Adjustments: We systematically compile, review and forward incidents to appropriate internal departments and external agencies. Each involved party then: <ol style="list-style-type: none"> Examines the report and the results Identifies appropriate measures to take on a case-by-case basis.
Impacts	Hazardous materials might potentially be generated from accidental spills during transport. Severity of impact would depend upon type and amount of material.

HAZARDOUS MATERIALS TRANSPORT

Purpose	<ul style="list-style-type: none"> To achieve 100% compliance with local, state and federal regulations To ensure that hazardous materials are packaged and handled safely during transportation To provide effective communication of the hazards of the materials being transported to workers and emergency responders To minimize the consequences of an incident should one occur.
Policies, Commitments, Programs, & Initiatives	See ENVIRONMENTAL COMPLIANCE on page 56 .
Goals and Targets	With the guidance and leadership of the Environmental & Hazmat Department, we establish annual project and performance goals that align with achieving our corporate goals, including: <ul style="list-style-type: none"> Achieving 100% regulatory compliance. Transporting 100% of hazardous materials without incident.
Responsibilities & Resources	The Environmental & Hazmat Department, Engineering, Mechanical, Facilities and Maintenance of Way departments all share responsibility for managing hazmat transportation.



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GRI DISCLOSURE		GENERAL DISCLOSURES	PAGE REPORTED
102-1:	Name of Organization	Kansas City Southern	
102-2:	Activities, brands, products, and services	Business Units and Revenues	41
102-3:	Location of headquarters	KCS and Our Holdings	12
102-4:	Location of operations	KCS and Our Holdings	12
102-5:	Ownership and legal form	KCS and Our Holdings	12
102-6:	Markets served	KCS and Our Holdings Business Units and Revenues	12 41 & 42
102-7:	Scale of the organization	KCS and Our Holdings Business Units and Revenues Employees: Our Greatest Assets Appendix: Delivering Prosperity	11 & 12 41 & 42 46 71
102-8:	Information on employees and other workers	Employees: Our Greatest Assets Attracting and Retaining Our Workforce	46 47
102-9:	Supply chain	Suppliers Supporting Operations	44
102-10:	Significant changes to the organization and its supply chain	The most significant impact on the KCS supply chain related to potential fuel shortages in Mexico, which resulted in: <ul style="list-style-type: none"> Continually researching for fuel providers in Mexico Maximizing the amount of fuel KCSM imported to meet operational needs 	
102-11:	Precautionary Principle or approach	We do not formally apply the precautionary principle. However, our comprehensive risk management plan proactively addresses and manages potential and existing risks across all activities.	
102-12:	External initiative	Health, Safety, Security and Environmental (HSSE) Commitment Climate Change: Financial Implications, Risks and Opportunities	16 21 & 22
102-13:	Membership of association	Appendix: Professional Engagement	69 & 70
102-14:	Statement from senior decision-maker	CEO Message	3 & 4
102-15:	Key impacts, risks, and opportunities	Climate Change: Financial Implications, Risks and Opportunities Our No. 1 Priority: Safety Keeping KCS Secure chapter Appendix: Stakeholder Priority Material Topics	21 & 22 25 31 73
102-16:	Values, principles, standards, and norms of behavior	KCS Vision, Values and Culture Supplier Diversity Program Initiative Health, Safety, Security and Environmental (HSSE) Commitment Reducing KCS Risks Equal and Protected Environment	11 15 16 19 50 & 51
102-17:	Mechanisms for advice and concerns about ethics	Reducing KCS Risks 24/7 Report Hotlines Equal and Protected Environment	19 23 51
102-18:	Governance structure	KCS Board of Directors Management of Risk	13 18
102-19:	Delegating authority	KCS Board of Directors	13



GRI DISCLOSURE		GENERAL DISCLOSURES	PAGE REPORTED
102-20:	Executive-level responsibility for economic, environmental, and social topic	<p>Initiated in 2016, our Sustainability Steering Committee (SSC) comprises senior management personnel who share responsibilities, including developing sustainability strategy and targets.</p> <p>The SSC reports to our Executive Leadership team, who in turn reports to our Board of Directors.</p> <p>Our Executive Leadership Team includes our President & Chief Executive Officer (CEO), Executive Vice President & Chief Financial Officer (CFO), Executive Vice President & Chief Operating Officer (COO), Executive Vice President & Chief Marketing Officer (CMO), Executive Vice President & Chief Innovation Officer (CIO), Executive Vice President of Administration & Corporate Affairs, Executive Vice President of Precision Scheduled Railroading, Senior Vice President of Human Resources, and President of Kansas City Southern de Mexico.</p> <p>The highest-level management positions with responsibility for climate-related issues are the Chief Operating Officer (COO) and the Executive Vice President and Chief Innovation Officer (CIO) of KCS. The COO and CIO are part of the KCS Executive Leadership Team and report directly to the Chief Executive Officer (CEO) and the Board of Directors on climate-related risks and opportunities.</p>	
102-21:	Consulting stakeholders on economic, environmental, and social topics	Consulting with stakeholders on sustainability topics is an enterprise-wide endeavor. Consultations and concerns raised by stakeholders are presented to the CEO and Board of Directors as appropriate. Also, the CEO often participates in meetings with stakeholders.	
102-22:	Composition of the highest governance body and its committees	KCS Board of Directors	13 & 14
102-23:	Chair of the highest governance body	Robert J. Druten serves as Chairman of the Board for Kansas City Southern. He also serves on the Executive, Compensation and Organization committees. A KCS Director since 2004, he served as Executive Vice President and Chief Financial Officer of Hallmark Cards, Inc. from 1994 to August 2006. The board chair is filled by an Independent Director.	
102-24:	Nominating and selecting the highest governance body	KCS Board of Directors	13 & 14
102-25:	Conflicts of interest	KCS Board of Directors	13 & 14
102-26:	Role of highest governance body in setting purpose, values, and strategy	KCS Board of Directors	13 & 14
102-27:	Collective knowledge of highest governance body	Various executives and departmental heads provide annual presentations to the Board on topics covering economic, social and environmental topics.	
102-28:	Evaluating the highest governance body's performance	<p>The Board and each of its standing committees will perform an annual self-evaluation. The Directors will be requested to provide their assessments of the effectiveness of the Board and of the committees on which they serve.</p> <p>The assessments should include the Board or committee's contribution as a whole, and specific areas in which the Board, management and each committee believe their respective contributions could be improved.</p> <p>The individual assessments are organized and summarized for discussion with the Board and the committees.</p>	



GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
102-29: Identifying and managing economic, environmental, and social impacts	Reporting Sustainability chapter KCS Board of Directors Management of Risk Appendix: Stakeholder Priority Material Topics Also see our 2019 Proxy Statement on page 26.	5 13 18 73
102-30: Effectiveness of risk management processes	Management of Risk Appendix: Stakeholder Priority Material Topics	18 73
102-31: Review of economic, environmental, and social topics	Reporting Sustainability chapter KCS Board of Directors Management of Risk Appendix: Stakeholder Priority Material Topics	5 13 18 73
102-32: Highest governance body's role in sustainability reporting	Material topics are based on stakeholder concerns and expectations through their assessment of the impacts of our operations. Senior leadership sets improvement targets for each defined material topic and focus area to include in our sustainability report. A draft sustainability report is submitted to members of the Executive Leadership team for review, feedback and final approval. They have the option of submitting the report draft to the Board of Directors before publication. The Executive Leadership has presented and discussed the sustainability report with the Board's Nominating and Corporate Governance Committee and with the full Board.	
102-33: Communicating critical concern	Since KCS is a publicly traded company, any stakeholder or interested person may communicate with the independent Directors by sending communication in writing to the office of the corporate secretary.	
102-34: Nature and total number of critical concerns	If we identify any critical risks to our company, management develops action plans to mitigate the risks to an acceptable level.	
102-35: Remuneration policies	See our 2019 Proxy Statement starting on page 30.	
102-36: Process for determining remuneration	For assistance in fulfilling its responsibilities, the Compensation Committee retained Meridian Compensation Partners as its compensation consultant to: <ul style="list-style-type: none"> • Review and independently assess various aspects of our compensation programs, including the compensation of individuals serving as executives of KCSM • Advise the Compensation Committee in making its executive compensation decisions for 2018 The Compensation Consultant is engaged by and reports directly to the Compensation Committee. Also see our 2019 Proxy Statement starting on page 37.	
102-37: Stakeholders' involvement in remuneration	We have a Say-On-Pay policy on executive compensation. See pages 14-15 of our 2019 Proxy Statement .	
102-38: Annual total compensation ratio	See pages 45 and 60-61 of our 2019 Proxy Statement .	
102-39: Percentage increase in annual total compensation ratio	See pages 45 and 60-61 of our 2019 Proxy Statement .	
102-40: List of stakeholder groups	Appendix: Stakeholder Engagement	68
102-41: Collective Bargaining Agreements	76% of our subsidiary employees covered by collective bargaining agreements.	



GRI DISCLOSURE	GENERAL DISCLOSURES	PAGE REPORTED
102-42: Identifying and selecting stakeholders	Reporting Sustainability chapter	5
102-43: Approach to stakeholder engagement	Reporting Sustainability chapter	5
102-44: Key topics and concerns raised	Stakeholder Engagement	9
102-45: Entities included in the consolidated financial statements	KCS and Our Holdings	12
102-46: Defining report content and topic boundaries	Reporting Sustainability chapter	5
102-47: List of material topics	Stakeholder Engagement	9
102-48: Restatements of information	Occupational Health & Safety Energy Efficiency: Reduction, Consumption and Emissions Appendix: Stakeholder Engagement	30 60 68
102-49: Changes in reporting	About This Report	6
102-50: Reporting period	About This Report	6
102-51: Date of most recent report	About This Report	8
102-52: Reporting cycle	About This Report	6
102-53: Contact point for questions regarding the report	About This Report	8
102-54: Claims of reporting in accordance with the GRI Standards	About This Report	6
102-55: GRI content index	GRI Content Index	86
102-56: External assurance	For the 2018 sustainability report, we did not commission a third-party verifier. However, the consolidated financial information contained herein, originated from the 2018 Annual Report , which was externally audited by PricewaterhouseCoopers LLP. An attestation report on our internal control over financial reporting as of December 31, 2018, can be found in our 2018 Annual Report .	



GRI DISCLOSURE	ECONOMIC DISCLOSURES	PAGE REPORTED
103-1: Evaluation of the material topic and its boundary 103-2: The management approach and its components 103-3: Evaluation of the management approach	Anti-Corruption Practices Anti-Competitive Behavior Economic/Financial Performance	73 73 77
201-1: Direct economic value generated and distributed	Delivering Prosperity chapter Appendix: Delivering Prosperity	40 71 & 72
201-2: Financial implications and other risks and opportunities due to climate change	Climate Change: Financial Implications, Risks and Opportunities	21 & 22
201-3: Defined benefit plan obligations and other retirement plans	Regarding the KCSR 401 (k) plan: KCS contributes a 100% match on the first 5% of salary an employee elects to defer.	
203-1: Infrastructure investments and services supported	Capital Expenditures	43
205-1: Operations assessed for risks related to corruption	Reducing KCS Risks	19
205-2: Communication and training about anti-corruption policies and procedures	Reducing KCS Risks	19
205-3: Confirmed incidents of corruption and actions taken	Reducing KCS Risks	19

GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
103-1: Evaluation of the material topic and its Boundary 103-2: The management approach and its components 103-3: Evaluation of the management approach	Environmental Compliance Energy and Emissions Waste: Liquid and Solid Hazardous Materials Transport	82 83 84 85
301-2: Recycled input materials used	Waste Management: Recycling, Reusing, Repurposing, Reduction and Disposal	61 & 62
301-3: Reclaimed products and their packaging materials	Waste Management: Recycling, Reusing, Repurposing, Reduction and Disposal	61 & 62
302-1: Energy consumption within the organization	Energy Efficiency: Reduction, Consumption and Emissions	59
302-3: Energy intensity	Energy Efficiency: Reduction, Consumption and Emissions	59
302-4: Reduction of energy consumption	Energy Efficiency: Reduction, Consumption and Emissions	58 & 59



GRI DISCLOSURE	ENVIRONMENTAL DISCLOSURES	PAGE REPORTED
302-5: Reductions in energy requirements of products and services	Energy Efficiency: Reduction, Consumption and Emissions	58
305-1: Direct (Scope 1) GHG emissions	Energy Efficiency: Reduction, Consumption and Emissions	59
305-2: Energy indirect (Scope 2) GHG emissions	Energy Efficiency: Reduction, Consumption and Emissions	59
305-4: GHG emissions intensity	Energy Efficiency: Reduction, Consumption and Emissions	60
305-5: Reduction of GHG emissions	Energy Efficiency: Reduction, Consumption and Emissions	59 & 60
305-6: Emissions of ozone-depleting substances (ODS)	Energy Efficiency: Reduction, Consumption and Emissions	60
305-7: Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Energy Efficiency: Reduction, Consumption and Emissions	60
306-1: Water discharge by quality and destination	Responsible Wastewater and Storm Water Management	63 & 64
306-2: Waste by type and disposal method	Waste Management: Recycling, Reusing, Repurposing, Reduction and Disposal	61 & 62
306-3: Significant spills	Spills Management	65
306-4: Transport of hazardous waste	Our No. 1 Priority: Safety Waste Management: Recycling, Reusing, Repurposing, Reduction and Disposal	25 61 & 62
306-5: Water bodies affected by water discharges and/or runoff	Responsible Wastewater and Storm Water Management	63 & 64
307-1: Non-compliance with environmental laws and regulations	Environmental Compliance	56 82



GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
103-1: Evaluation of the material topic and its Boundary 103-2: The management approach and its components 103-3: Evaluation of the management approach	Socioeconomic Compliance Health and Safety Security Practices Subsidiary Employee information: Turnovers, New Hires, Benefits Subsidiary Employee Training and Education Diversity and Equal Employment Opportunities Non-Discrimination	74 75 76 78 79 80 81
401-1: New employee hires and employee turnover	Employees: Our Greatest Asset Attracting and Retaining Our Workforce	46 47
401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees	Attracting and Retaining Our Workforce	48
401-3: Parental leave	Attracting and Retaining Our Workforce	48
403-1: Workers representation in formal joint management-worker health and safety committees	Occupational Health and Safety	30
403-2: Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety 24/7 Report Hotlines Equal and Protected Environment	23 30 50 & 51
403-3: Workers with high incidence or high risk of diseases related to their occupation	In the U.S. and Mexico, none of our employees and/or contractors are involved in occupational activities that have a high incidence or high risk of specific diseases	
403-4: Health and safety topics covered in formal agreements with trade unions	Attracting and Retaining Our Workforce	48
403-5: Worker Training on Occupational Health and Safety	Rail Safety Technology Occupational Health and Safety Training and Education Safe Hazardous Materials (Hazmat) Transport	29 30 49 66
403-6: Promotion of Worker Health	Attracting and Retaining Our Workforce	48
404-2: Programs for upgrading employee skills and transition assistance programs	Training and Education	49
404-3: Percentage of employees receiving regular performance and career development reviews	Training and Education	49
405-1: Diversity of governance bodies and employees	KCS Board of Directors Employees: Our Greatest Asset Equal and Protected Environment	14 46 50



GRI DISCLOSURE	SOCIAL DISCLOSURES	PAGE REPORTED
410-1: Security personnel trained in human rights policies or procedures	U.S. Security	36
412-2: Employee training on human rights policies or procedures	U.S. Security	36
412-2: Employee training on human rights policies or procedures	Training and Education	49
413-1: Operations with local community engagement, impact assessments and development programs	Public Safety: Operation Lifesaver/Alto Total Giving Back Community Engagement	28 52 & 53 54
414-1: New suppliers that were screened using social criteria	Supplier Diversity Program Initiative	15
419-1: Non-compliance with laws and regulations in the social and economic area	Reducing KCS Risks Equal and Protected Environment	19 50 & 51



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

dependency on certain key suppliers of core rail equipment; changes in securities and capital markets; unavailability of qualified personnel; labor difficulties, including strikes and work stoppages; acts of terrorism or risk of terrorist activities; war or risk of war; domestic and international economic, political and social conditions; the level of trade between the United States and Asia or Mexico fluctuations in the peso-dollar exchange rate; increased demand and traffic congestion; the outcome of claims and litigation involving KCS or its subsidiaries; and other factors affecting the operation of the business. More detailed information about factors that could affect future events may be found in filings by KCS with the Securities and Exchange Commission, including KCS’ Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-4717) and subsequent reports. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. KCS is not obligated to update any forward-looking statements to reflect future events or developments.

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