

## Kansas City Southern reports third quarter 2009 earnings

Written by Kansas City Southern  
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KANSAS CITY, Mo. — Kansas City Southern (KCS) (NYSE: KSU) reported third quarter 2009 revenues of \$386.1 million compared with \$491.5 million in the third quarter of 2008. While all commodity groups experienced revenue declines in the third quarter compared to a year ago, every commodity group recorded higher revenues on a sequential basis from the second quarter, reflecting a gradually improving business environment. Third quarter revenues were up 13% from second quarter 2009 and carloadings were up 12% over the same time period.

For the quarter:

- Operating expenses of \$301.7 million, a modest increase over second quarter 2009
- Operating income of \$84.4 million, almost double that of second quarter 2009
- Operating ratio of 78.1%, compared with 87.3% in second quarter 2009

Continued emphasis on controlling costs contributed to the improved profitability as volumes rebounded in the third quarter over second quarter. Overall operating costs were down 21% in the third quarter of 2009 compared with the same period in 2008. Compensation and benefits expense declined 10% in the third quarter compared to third quarter 2008. Purchased services declined 29% in the quarter primarily due to the partial cancellation of a contract which resulted in recognition of a one-time \$6 million deferred credit, and the renegotiation of other contracts which will provide recurring savings. Fuel expense was down 45% as a result of a large drop in fuel prices year over year as well as reduced consumption. Casualties and insurance experienced a decrease of 48% compared to third quarter 2008 due to fewer accidents and higher expense in 2008 related to hurricane damage. Equipment costs and materials & other each decreased 6%. Due to growth in the capital base, depreciation and amortization expense increased 5%.

Operating income for the third quarter of 2009 was \$84.4 million, compared with \$111.0 million in 2008. The third quarter operating ratio was 78.1%, compared with 77.4% in the third quarter of 2008. Second quarter 2009 operating ratio was 87.3%.

KCS recorded net income of \$25.8 million, or \$0.27 per diluted share for the third quarter of 2009, compared with net income of \$48.9 million, or \$0.52 per share in the third quarter of 2008.

Comments from the Chairman

"KCS's third quarter results confirmed comments made by management during the second quarter earnings call that the company believed it was beginning to experience a gradually improving business environment. That KCS recorded sequential volume improvement of 12% and revenue growth of 13% provide reason to believe that at least we are seeing some signs of a modest recovery.

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"The impact of a gradually improving business environment was further strengthened by consistently strong operations and across-the-board expense controls. Sequentially, as volumes and revenues improved, operating expenses increased only slightly. As a result, operating income nearly doubled in the third quarter and the operating ratio improved over nine points from the preceding quarter.

"As encouraging as KCS' third quarter results are, management recognizes there is much work yet to be done to get the company's revenues and earnings back to pre-recession levels. However, the company's mix of new and expanded business opportunities, coupled with a continued commitment to efficient operations and cost controls, provides KCS with the resources to build upon the operational and financial leverage achieved in the third quarter and to bring back volumes at a rate above our historical experience."

Headquartered in Kansas City, Mo., Kansas City Southern is a transportation holding company that has railroad investments in the U.S., Mexico and Panama. Its primary U.S. holding is The Kansas City Southern Railway Company, serving the central and south central U.S. Its international holdings include Kansas City Southern de Mexico, S.A. de C.V., serving northeastern and central Mexico and the port cities of Lazaro Cardenas, Tampico and Veracruz, and a 50 percent interest in Panama Canal Railway Company, providing ocean-to-ocean freight and passenger service along the Panama Canal. Kansas City Southern's North American rail holdings and strategic alliances are primary components of a NAFTA Railway system, linking the commercial and industrial centers of the U.S., Mexico and Canada.