KANSAS CITY SOUTHERN

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March 16, 2018

Surface Transportation Board
Attention: Pedro Ramirez
Office of Economics (OE)
395 E Street, S.W., Suite 1170
Washington, DC 20423-0001

Dear Mr. Ramirez:

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("U.S. Tax Reform"). This legislation significantly changes U.S. tax law and permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Kansas City Southern Railway Company ("KCSR") uses the asset and liability method of accounting for income taxes, which is in accordance with STB reporting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the new legislation, KCSR revalued its ending net deferred tax liabilities (Account 786) at December 31, 2017 and recognized a material, non-cash income tax benefit of $455 million for the year ended December 31, 2017.

In preparation of KCSR's Quarterly Report of Revenues, Expenses, and Income for fourth quarter 2017, the material income tax benefit of $455 million was presented in Account 557, Provision for Deferred Taxes. This presentation allows for the impact from U.S. Tax Reform to be included in the Net Railway Operating Income (Loss), which is in Line 71 of Schedule 210 of the R-1. KCSR believes this presentation would cause the 2017 Net Railway Operating Income to be neither comparable to previous years nor representative of actual earnings when included in Uniform Rail Costing System ("URCS") calculations as well as revenue adequacy determinations. As a point of reference, Net Railway Operating Income for the fourth quarter 2017 was $534 million, while the fourth quarter 2016 amount was $61 million. Furthermore, preliminary Return on Investment calculations for fiscal year 2017 would be almost triple fiscal year 2016 if this material income tax benefit were to be included in Net Railway Operating Income.

The change in the U.S. federal corporate tax rate included in U.S. Tax Reform is unprecedented in recent history. The last change approaching this magnitude occurring more than 30 years ago with passage of the 1986 Tax Reform Act, and even that legislation resulted in a lesser rate change than included in U.S. Tax Reform. As such, KCSR believes this unprecedented, material income tax benefit should receive extraordinary item treatment, and therefore be recognized in Account 591, Provision for Deferred Taxes – Extraordinary Items. This presentation would exclude the material income tax benefit from Net Railway Operating Income, resulting in comparable financial information to previous years.

Furthermore, KCSR's parent company, Kansas City Southern ("KCS"), provided non-GAAP disclosures excluding the impact of U.S. Tax Reform from its fourth quarter and full year 2017 results in its earning release. KCS believes this non-GAAP adjustment for U.S. Tax Reform is meaningful as it allows investors to evaluate KCS' performance for different periods on a more comparable basis.

In accordance with 49 CFR Part 1201, we respectfully submit this request to the Board for approval and have attached a letter from PwC, the Company's external auditors, containing their comments on U.S. Tax Reform's impact on 2017 financial results.

We appreciate your attention to this matter and respectfully request a prompt response to ensure we can meet the R-1 filing deadline of March 31, 2018.

Sincerely,

Suzie Grafton

Suzie Grafton
Vice President and Chief Accounting Officer