200. COMPARATIVE STATEMENT OF FINANCIAL POSITION - EXPLANATORY NOTES – Continued

The Kansas City Southern Railway Company ("KCSR") is a U.S. Class I railroad, founded in 1887 and is a wholly-owned subsidiary of Kansas City Southern ("KCS"). KCSR serves a ten-state region in the midwest and southeast regions of the United States and has the shortest north/south rail route between Kansas City, Missouri and several key ports along the Gulf of Mexico in Alabama, Louisiana, Mississippi, and Texas. As used herein, "KCSR" or the "Company" may refer to The Kansas City Southern Railway Company or, as the context requires, to one or more subsidiaries and affiliated companies of The Kansas City Southern Railway Company.

9. Leases

The Company leases transportation equipment, as well as office and other operating facilities, under various operating leases. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the implicit rate is not readily determinable in most of the Company's lease agreements, the Company uses its estimated secured incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense is recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of approximately 1 year to 35 years, which may include the option to extend the lease when it is reasonably certain the Company will exercise that option. The Company does not separately identify lease and nonlease components (i.e. maintenance costs) except for fleet vehicles and real estate. The Company does not have lease agreements with residual value guarantees, sale leaseback terms or material restrictive covenants. Additionally, short-term leases and leases with variable lease costs are immaterial, and the Company does not have any sublease arrangements.

Leases	Classification	December 31, 2021	December 31, 2020
Assets		*(in millions)*	
Operating	Account 741 - Other Assets	$ 34.0	$ 41.7
Total leased assets		$ 34.0	$ 41.7
Liabilities			
Current			
Operating	Account 763 - Other Current Liabilities	$ 12.9	$ 14.0
Noncurrent			
Operating	Account 772 - Accrued Liability; Leased Property	20.4	26.8
Total lease liabilities		$ 33.3	$ 40.8

Cash Flow Information	Years ended December 31, 2021	Years ended December 31, 2020
	(in millions)	
Cash paid for operating leases included in operating activities	$ 15.3	$ 30.5
Right-of-use assets obtained in exchange for operating lease liabilities	13.9	8.9

Lease Term and Discount Rate	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years)	3.61	3.75
Weighted-average discount rate	2.3%	3.1%

Remaining Maturities of Lease Liabilities Year Ending December 31 *(in millions)*,	Operating Leases
2022	$ 13.7
2023	8.8
2024	7.0
2025	3.2
2026	2.1
Thereafter	1.2
Total lease payments	36.0
Less imputed interest	2.7
Total	$ 33.3

Lease Termination. On January 10, 2020, the Company executed agreements that resulted in the termination of two existing leases covering 91 locomotives and the purchase of the underlying assets for a total cash purchase price of $78.0 million. This lease termination and purchase resulted in a decrease of the operating lease right-of-use asset and operating lease liability and 78 of the locomotives were subsequently recorded within property and equipment. The remaining 13 locomotives were impaired during the fourth quarter of 2019. The purchase of the impaired leased locomotives resulted in $6.0 million of make-whole payments recorded as incremental restructuring charges in the first quarter of 2020.

10. Commitments and Contingencies

Litigation. Occasionally, the Company is a party to various legal proceedings, regulatory examinations, investigations, administrative actions and other legal matters, arising for the most part in the ordinary course of business, incidental to its operations. Included in these proceedings are various tort claims brought by current and former employees for job-related injuries and by third parties for injuries related to railroad operations. The Company aggressively defends these matters and has established liability provisions that management believes are adequate to cover expected costs. The outcome of any litigation and other legal matters is always uncertain. The Company believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously, and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, the Company evaluates the likelihood of an unfavorable outcome in legal or regulatory proceedings to which it is a party to and records a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These subjective determinations are based on the status of such legal or regulatory proceedings, the merits of the Company's defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from the current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to the Company's consolidated results of operations, liquidity or financial condition.

Environmental Liabilities. The Company's operations are subject to extensive federal, state and local environmental laws and regulations. The major environmental laws to which the Company is subject include, among others, the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA," also known as the Superfund law), the Toxic Substances Control Act, the Clean Water Act, and the Hazardous Materials Transportation Act. CERCLA can impose joint and several liabilities for cleanup and investigation costs, without regard to fault or legality of the original conduct, on current and predecessor owners and operators of a site, as well as those who generate, or arrange for the disposal of, hazardous substances. The Company does not believe that compliance with the requirements imposed by the environmental legislation will impair its competitive capability or result in any material additional capital expenditures, operating or maintenance costs. The Company is, however, subject to environmental remediation costs as described in the following paragraphs.

The risk of incurring environmental liability is inherent in the railroad industry. As part of serving the petroleum and chemicals industry, the Company transports hazardous materials and has a professional team available to respond to and handle environmental issues that might occur in the transport of such materials.

The Company performs ongoing reviews and evaluations of the various environmental programs and issues within the Company's operations, and, as necessary, takes actions intended to limit the Company's exposure to potential liability. Although these costs cannot be predicted with certainty, management believes that the ultimate outcome of identified matters will not have a material adverse effect on the Company's financial statements.

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

Personal injury claims are subject to a significant degree of uncertainty, especially estimates related to incurred but not reported personal injuries for which a party has yet to assert a claim. In deriving an estimate of the provision for personal injury claims, management must make assumptions related to substantially uncertain matters (injury severity, claimant age and legal jurisdiction). Changes in the assumptions used for actuarial studies could have a material effect on the estimate of the provision for personal injury claims. The most sensitive assumptions for personal injury accruals are the expected average cost per claim and the projected frequency rates for the number of claims that will ultimately result in payment.

Actual results may vary from estimates due to the number, type and severity of the injury, costs of medical treatments and uncertainties in litigation. Adjustments to the liability are reflected within operating expenses in the period in which changes to estimates are known. Personal injury claims in excess of self-insurance levels are insured up to certain coverage amounts, depending on the type of claim and year of occurrence. The personal injury liability as of December 31, 2021 is based on an updated study of personal injury claims through October 31, 2021 and review of the last two months' experience. For the years ended December 31, 2021 and 2020, the Company recognized a decrease of $1.4 million and an increase of $9.4 million, respectively, in personal injury liability, due to changes in estimates as a result of the Company's claims development and settlement experience.

The personal injury liability activity was as follows (*in millions*):

	2021	2020
Balance at beginning of year	$ 31.3	$ 20.9
Accruals	6.3	6.3
Changes in estimate	(1.4)	9.4
Payments	(3.6)	(5.3)
Balance at end of year	$ 32.6	$ 31.3

Contractual Agreements. In the normal course of business, the Company enters into various contractual agreements related to commercial arrangements and the use of other railroads' or governmental entities' infrastructure needed for the operations of the business. The Company is involved or may become involved in certain disputes involving transportation rates, product loss or damage, charges, and interpretations related to these agreements. While the outcome of these matters cannot be predicted with certainty, the Company believes that, when resolved, these disputes will not have a material effect on its financial statements.

11. Merger Agreement

On March 21, 2021, KCS entered into a merger agreement with Canadian Pacific Railway Limited ("CP"), a Canadian corporation, under which CP agreed to acquire KCS in a stock and cash transaction valued at $275 per common share. On May 6, 2021, the U. S. Surface Transportation Board ("STB") unanimously approved the use of a voting trust for CP's proposed merger with KCS. The voting trust permits KCS to maintain its independence and protect its financial health during the STB's review of the ultimate merger as well as enable KCS stockholders to receive the value of their shares, even if the STB ultimately rejected the merger.

On September 15, 2021, KCS and CP entered into an updated merger agreement and on December 14, 2021, CP acquired the outstanding common and preferred stock of KCS. Each share of common stock, par value $0.01 per share, of KCS that was outstanding immediately prior to the merger was converted into the right to receive (1) 2.884 common shares of CP and (2) $90 in cash (together, the "Merger Consideration"), and each share of preferred stock, par value $25 per share, that was outstanding immediately prior to the merger was converted into the right to receive $37.50 in cash. The Merger Consideration value received by KCS stockholders was $301.20 per KCS common share. KCS stockholders were expected to own approximately 28% of CP's outstanding common shares at the date of the acquisition.

Following receipt of the final and non-appealable approval or exemption by the STB pursuant to 49 U.S.C. § 11323 et seq., of the transactions contemplated by the merger agreement ("STB Final Approval") and approval from other applicable regulatory authorities, the voting trust will be terminated and CP will acquire control over KCS's railroad operations. As a result of CP not controlling KCSR railroad operations as of December 31, 2021, KCSR's financial statements and related supporting schedules presented in this R-1 did not reflect any fair value adjustments related to the purchase price accounting of CP's acquisition of KCS. STB Final Approval is expected to be granted in the fourth quarter of 2022, subject to the regulatory review process.