The KCS Cross Border Network
KCS International Intermodal Corridor
Achieving Cross Border Success

- Mainline infrastructure
- Terminal infrastructure
- Channel strategy
- Network density and velocity
- Market access
Critical Impact of Victoria – Rosenberg

- Shorter route improved transit speed and consistency
- Enabled cross border access to the Houston market
- Reduced route congestion
- Reduced cross border line-haul cost
Capital Spending
Cross Border Network

Between 2008 and 2011 (full year estimate), KCS projects it will have invested more than $275 million on the Houston to Lazaro Cardenas cross border corridor alone.

- 100 mile track expansion at Victoria Rosenberg
- Significant expansion and upgrade at Salinas Victoria (Monterrey)
- Planned investment at intermodal facility at Interpuerto in San Luis Potosi
- Upgraded and expanded intermodal layout at Puerta Mexico
- Upgrades and expansion in Lazaro Cardenas
- Continued investment in lift equipment at various locations
Key Cross Border Intermodal Coverage

Kansas City Southern covers 60 percent of Mexico’s population and 63 percent of Mexico’s GDP.

SOURCE: INEGI Censo de Población y Vivienda 2010
Effective Channel Strategy

2007

2011

Cosco Container Lines Americas

EVERGREEN MARINE CORP.
### Intermodal Border Crossing Cost Advantage

<table>
<thead>
<tr>
<th>Border Crossing Event / Other Costs</th>
<th>Clearance</th>
<th>Cost</th>
<th>Clearance</th>
<th>Cost</th>
<th>Cost Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forwarder / Warehouse Maneuvers</td>
<td>Yes</td>
<td>$100</td>
<td>No</td>
<td>$0</td>
<td>($100)</td>
</tr>
<tr>
<td>Dray Across Bridge</td>
<td>Yes</td>
<td>$115</td>
<td>No</td>
<td>$0</td>
<td>($115)</td>
</tr>
<tr>
<td>Electronic Processing</td>
<td>Yes</td>
<td>$25</td>
<td>Yes</td>
<td>$25</td>
<td>$0</td>
</tr>
<tr>
<td>Seals</td>
<td>Yes</td>
<td>$5</td>
<td>Yes</td>
<td>$5</td>
<td>$0</td>
</tr>
<tr>
<td>Total Costs</td>
<td></td>
<td>$245</td>
<td></td>
<td>$30</td>
<td>($215)</td>
</tr>
</tbody>
</table>
Laredo, TX is the Leading Border Crossing

2010 U.S. Surface Trade by Border Crossing Imports and Exports (Volume)

SOURCE: TranSystems “Freight Flow Analysis, 2011”
Cross Border Shipments by Truck

2.6 million truckloads originate or terminate in KCS’ Target Market

50 percent of loads move to/from locations deep into Mexico

KCS operates the Laredo rail bridge on both sides of border

The current KCS intermodal cross border market share represents about 1 percent of available market

SOURCE: TranSystems, “Freight Flow Analysis” 2011
KCS Intermodal Cross Border Growth

Cross Border Volumes

YTD 2009: 3,718
YTD 2010: 11,110 (+33%)
YTD 2011: 14,749

Cross Border Revenue

($ in thousands)

YTD 2009: $4,202 (+133%)
YTD 2010: $9,777 (+39%)
YTD 2011: $13,605

(*Data projected through August 31, 2011)
Between 2005 and 2013, Mexico’s Auto Production is Projected to Double

**Mexican Automobile Production**

**SOURCE:** North America Production Quarterly Canada & Global Auto Report / Scotiabank Group, Autocast
KCS currently serves ten automotive plants in Mexico.

- OEMS in site selection
  - Mazda
  - Toyota
  - Tata Motors
- Plant expansion projects
  - Chrysler Flat Toluca
  - VW Puebla
  - Ford Cuautitlan
  - GM SLP
- Increased production creates new cross border part and vehicle opportunities
Port of Lazaro Cardenas
The Lazaro Cardenas Advantage

- No environmental issues/fees
- No infrastructure issues/fees
- Productive workforce
- Pro-business local government
- State of the art port infrastructure
- Natural deep water port – maximum vessel flexibility
- Ample land for future terminal expansion
Lazaro Cardenas Growth Plans

New Container Terminal

Bulk Facility
Nine Major Ocean Carriers at Port of Lazaro Cardenas
Phase Two Infrastructure
TEUs Growth at Lazaro Cardenas

Source: Secretaría de Comunicaciones Y Transportes, BMO Capital Markets, Port of Lazaro Cardenas
Lazaro Cardenas is the Fastest Growing Container Port in North America

North American Container Ports
2010 Year over Year Growth

KCS Lazaro Cardenas Growth

### Revenue
- Q2 2009: 7,194,238
- Q2 2010: 10,395,535
- Q2 2011: 14,087,381

Revenue growth: 36%

### Carloads
- Q2 2009: 21,933
- Q2 2010: 29,439
- Q2 2011: 40,479

Carloads growth: 85%
The Lazaro Land Bridge Route Advantage

The Lazaro Cardenas – Houston route is 335 rail miles shorter than the LA – Houston Route.

- Oakland to Houston on UP: 2,050 miles
- LA to Houston on BNSF: 1,755 miles
- LA to Houston on UP: 1,633 miles
- Lazaro Cardenas to Houston: 1,298 miles

SOURCE: PC Miler
Transit Through Lazaro Cardenas is 16 percent Lower than Southern California

Sample Total Route Costs From Shanghai to Houston *(Per FEU)*

<table>
<thead>
<tr>
<th>Cost Area</th>
<th>Southern California</th>
<th>Lazaro Cardenas</th>
<th>Cost Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ocean Carrier</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vessel <em>1</em></td>
<td>$1,338</td>
<td>$1,590</td>
<td>$252</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,338</td>
<td>$1,590</td>
<td>$252</td>
</tr>
<tr>
<td><strong>Marine Terminal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Terminal</td>
<td>$250</td>
<td>$250</td>
<td>$0</td>
</tr>
<tr>
<td>US/MEX Terminal</td>
<td>$580</td>
<td>$160</td>
<td>($420)</td>
</tr>
<tr>
<td>Rail Lift</td>
<td>$180</td>
<td>$80</td>
<td>($100)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$760</td>
<td>$240</td>
<td>($520)</td>
</tr>
<tr>
<td><strong>Fees <em>2</em></strong></td>
<td>$149</td>
<td>$0</td>
<td>($149)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$149</td>
<td>$0</td>
<td>($149)</td>
</tr>
<tr>
<td><strong>Rail Service</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rail Rate</td>
<td>$1,425</td>
<td>$1,325</td>
<td>($100)</td>
</tr>
<tr>
<td>Fuel Surcharge</td>
<td>$513</td>
<td>$315</td>
<td>($198)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,938</td>
<td>$1,640</td>
<td>($298)</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$4,435</td>
<td>$3,720</td>
<td>($715)</td>
</tr>
</tbody>
</table>

1 Average Vessel Costs includes fuel
2 Alameda Corridor, Security & Harbor Maintenance

*SOURCE: Mercator International, LLC 2011*
Houston Market
Houston Metro Market Reach

- Beaumont: 90 MI
- Corpus Christi: 220 MI
- Freeport: 60 MI
- Port Arthur: 90 MI
- San Antonio: 240 MI
- Shreveport: 240 MI
- Baton Rouge: 270 MI
- Dallas: 240 MI
- Ft. Worth: 270 MI
- Laredo: 350 MI

Kansas City Southern Intermodal Shipper Facility
CenterPoint Intermodal Center – Houston
KCS New Business via Rosenberg

*2011 Forecast
KCS Growth from Houston

CAGR = 62%

*2011 Forecast
Last August, Caterpillar announced its plans to construct a 600,000 sq. ft. facility in Victoria, Texas for $130 million.

In June 2011, Caterpillar, Inc. announced its plan to further expand its under construction, state of the art, 850,000 sq. ft. manufacturing facility in Victoria, Texas by an additional 200,000 square feet.

The new expansion will add an additional $70 million to the project.

The plant is expected to be completed in mid-2012.

The new facility will manufacturer two excavator models currently produced in Aurora, IL and three models produced in Japan.

“Based on our comprehensive review of possible locations, Victoria’s proximity to our supply base, access to ports and other transportation, as well as the positive business climate in Texas made this the ideal site for this project.”
Recent Ethylene Growth Announcements

SOURCE: ICIS, Wall Street Journal
Mexico: The Story Behind the Headlines
The Mainstream Media Headlines

“Mexicans have endured plenty of horrific crimes during their country's bloody five-year war against drug gangs. But the arson in the northern Mexican city that killed 52, mostly women, was a macabre milestone…”
NPR, August 2011

“Since President Felipe Calderón took office in December 2006, declaring war on traffickers, roughly 43,000 people have been killed in drug-related homicides [in Mexico], according to government figures and newspaper estimates. The pace of killings is escalating. More than half the dead, 22,000, were killed in the past 18 months, a rate of one every 35 minutes.”
Wall Street Journal, August 2011

“The number of murder victims unearthed in mass graves in northern Mexico this month has risen to 279, making it easily the worst discovery of its kind since the government began a campaign against drug cartels.”
Reuters, April 2011
Recent Business Headlines

“When it comes to global manufacturing, Mexico is quickly emerging as the "new" China.”
Keith Fitz-Gerald, Chief Investment Strategist, Money Morning

“In 2010...the Mexican peso appreciated against the dollar. Inflation was essentially flat. Foreign reserves rose to $113 billion...Trade with the U.S. reached an all-time high of nearly $400 billion.”
The Wall Street Journal, May 2011

“Direct foreign investment totaled $10.6 billion in the first half of the year...this put the country on target to reach official forecasts of $20 billion for the year.”
Reuters, August 2011

“Mexico's economy is expected to expand by more than 4.5 percent this year.”
CNBC, June 2011
KCSM Shipment Security

- 99.98 percent of shipments move without a claim
- Multi-layered safety and security process
  - Full-time and contract agents
  - Canine units
  - Guard points
  - Patrol vehicles
  - 24 x 7 security desk - tracks data, trends and serves as the communication link
- Full process integration with U.S. and Mexico law enforcement
- VACIS scanning system in operation at Lazaro Cardenas, Nuevo Laredo and Laredo
  - X-ray cargo imaging
  - Radiation scanning
The Story Behind the Headlines

Trade Growth
• Mexico has 13 Free Trade Agreements involving more than 44 countries
• 2010 US imports rose 31.4 percent from 2009
• The United States is Mexico’s largest trading partner

Wage Rate
• Labor costs are converging with China

Proximity
• Supply chain compression
• Time zones are similar
• Travel access is faster and cheaper

Currency
• In US dollar terms, since 2005 Chinese products have become about 40 percent more expensive than those sourced in Mexico

Transportation Costs
• 50-80 percent less expensive to U.S. Markets than for those coming from Asia

Cross Border Trade Volume

U.S. – Mexico trade has returned to pre-recession levels

SOURCE: Bureau of Transportation Statistics, BMO Capital Markets
Mexico vs. China Wage Rate

Since 2003, wages in Mexico have risen only 25 percent compared to 218 percent in China.

Mexico’s Currency Advantage

In US Dollar terms, since 2005 products sourced in Mexico have become about 40 percent less expensive than products sourced in China.

**Peso & Yuan Exchange Rate**

SOURCE: Banco de México, Chinability
Highly Skilled Work Force

• Population of 112 million people (average age of 29 years old)

• By 2030, Mexico will reach its lowest Dependency Ratio

• More than 90,000 engineers graduate every year
  • 3x higher than the US (per capita)

• 9th largest talent pool of IT professionals in the world

SOURCE: INEGI, UNESCO, ANUIES, MEXICO IT
Shipping Costs Advantages to Chicago

- **Marine and Ground Transportation Shanghai to Chicago**

<table>
<thead>
<tr>
<th>Shipping Cost</th>
<th>$5,243</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per cubic foot</td>
<td>$2.19</td>
</tr>
<tr>
<td>Transit Time</td>
<td>25 days</td>
</tr>
</tbody>
</table>

- **Truck Transportation Monterrey Mexico to Chicago**

<table>
<thead>
<tr>
<th>Shipping Cost</th>
<th>$3,479</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per cubic foot</td>
<td>$0.91</td>
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<tr>
<td>Transit Time</td>
<td>4-5 days</td>
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</tbody>
</table>

- **Rail Transportation Monterrey Mexico to Chicago**

<table>
<thead>
<tr>
<th>Shipping Cost</th>
<th>$1,525</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per cubic foot</td>
<td>$0.40</td>
</tr>
<tr>
<td>Transit Time</td>
<td>6-7 days</td>
</tr>
</tbody>
</table>
Foreign Direct Investment (FDI) in Mexico

- 2010 FDI multiyear projects reached $18.6 billion:
  - New Investments: $12B
  - Reinvestments: $2.6B
  - Intra-company: $4B

- 2011 Q1 FDI reached $4.8 billion
  - Full year projected at $22B

- 75 FDI projects will be developed from 2010 – 2015

- Investments focus on: Aerospace, Automotive, Mining, Appliances & Wind Energy

2010-2011 Multiyear Investments over $150 million

SOURCE: ProMexico
The Emerging Population on KCS

2000 – 2010 Population Growth:

- Overall, the South and West accounted for 84.4 percent of the U.S. population increase from 2000 to 2010.
- The South grew by 14.3 million over the decade to 114.6 million people, while the West increased by 8.7 million to reach 71.9 million people.

Population Forecast:

By 2030, the U.S. population is expected to increase by 29.2 percent, with most of that growth occurring in the Southeast and West.

Source: U.S. Census – Judson Drennan/The News & Observer
Total Cross Border Revenue

% of Total KCS Operating Revenues

Cross-Border Linehaul & Fuel Revenue ($M)

Q109  Q209  Q309  Q409  Q110  Q210  Q310  Q410  Q111  Q211

X-Border Revenue  % of Total Revenue