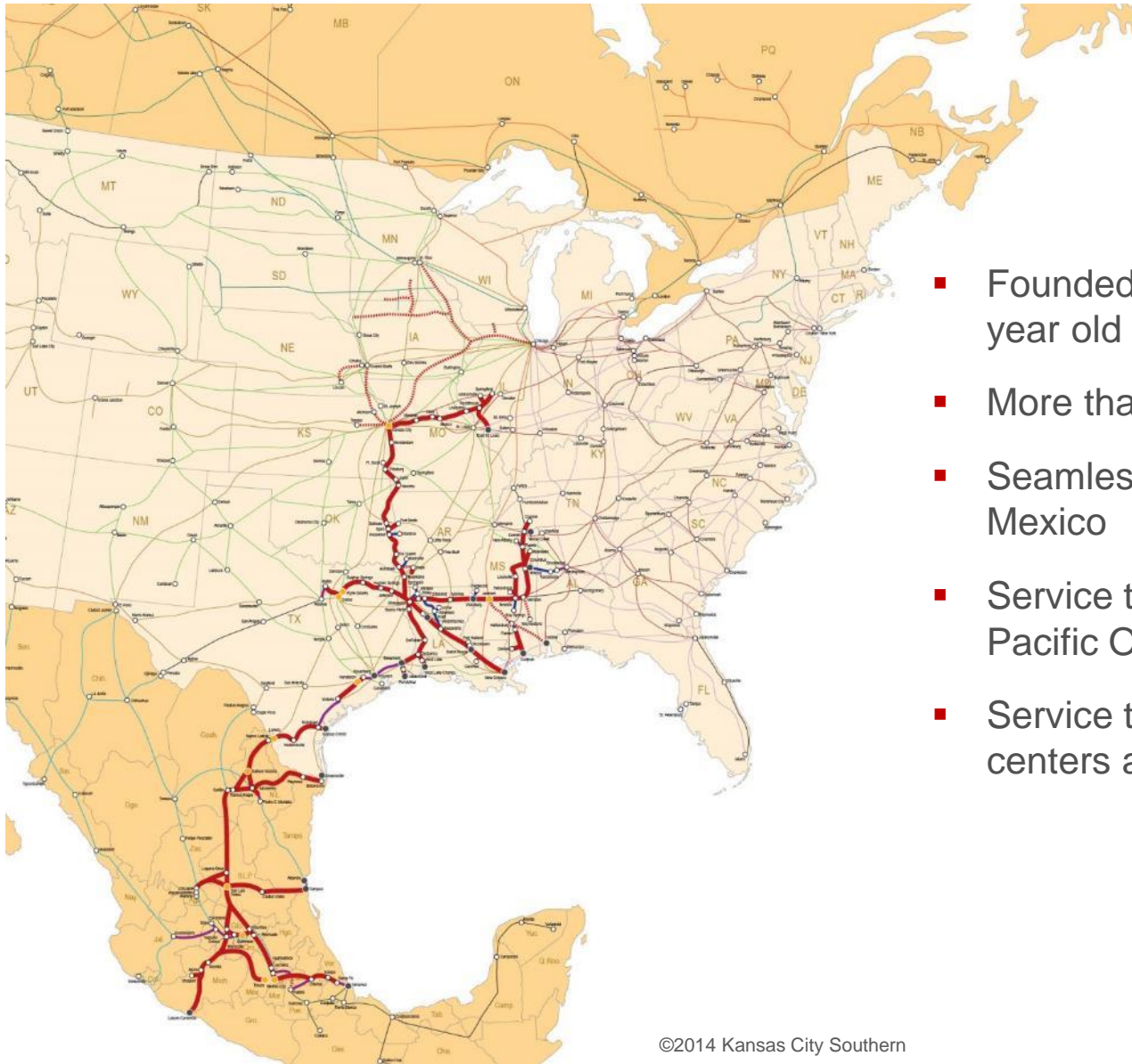


# Pat Ottensmeyer, EVP & CMO



# RAILTRENDS®

# KCS Rail Network



- Founded in 1887, KCS is a 127 year old growth story
- More than 6,400 track miles
- Seamless network in and out of Mexico
- Service to 12 Gulf ports and 1 Pacific Ocean port
- Service to more than 140 transload centers and 11 intermodal ramps



# The New York Times

## How Mexico Got Back in the Game

By Thomas L Friedman

*"Chrysler, for example, is using Mexico as a base to supply some of its Fiat 500s to the Chinese market." What struck me most here in Monterrey, though, is the number of tech start-ups that are emerging from Mexico's young population — 50 percent of the country is under 29 — thanks to cheap, open source innovation tools and cloud computing."*

<http://www.nytimes.com/2013/02/24/opinion/sunday/friedman-how-mexico-got-back-in-the-game.html>

## Mexico: The New China

By Chris Anderson

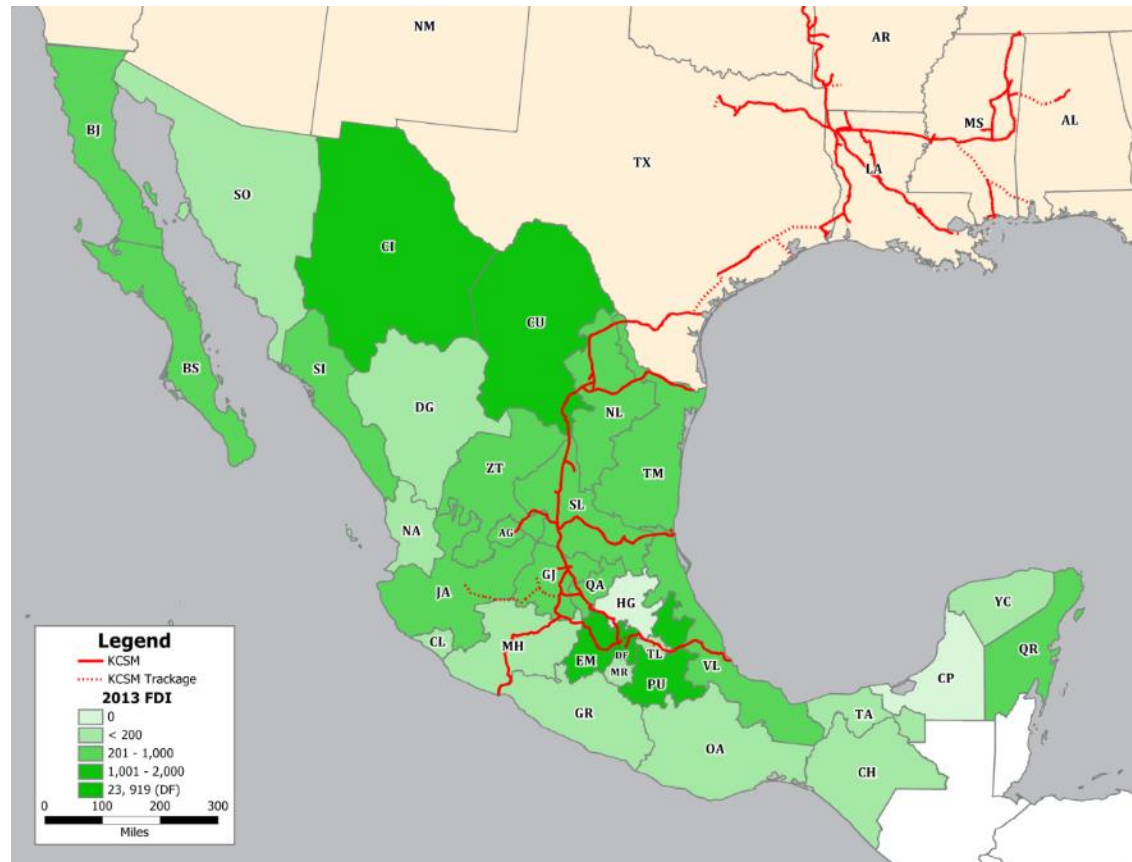
*"That's because the TJ template isn't so much about outsourcing as it is quicksourcing. And that's also the way to create thousands of good jobs in the United States. As any entrepreneur can tell you, the shorter and more nimble a supply chain is, the better."*

[http://www.nytimes.com/2013/01/27/opinion/sunday/the-tijuana-connection-a-template-for-growth.html?hp&\\_r=0](http://www.nytimes.com/2013/01/27/opinion/sunday/the-tijuana-connection-a-template-for-growth.html?hp&_r=0)



# Foreign Direct Investment (FDI) in Mexico

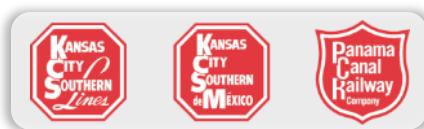
- 2013 Foreign Direct Investment (FDI) reached **\$39.2 Billion (120% increase vs 2012)**
- **Manufacturing sector was key in 2013 with 72.3% investments**
- 85% of FDI was registered on states where KCS has access
- 2014 FDI through June reached \$9.7 Billion.
  - 71.8% manufacturing .
- From 2000 to 2014 FDI accounts \$354.3 Billion



Elaboration by KCS Market Research based on Secretaría de Economía de México. Data includes all economic sectors. (2013 & 2014 FDI)

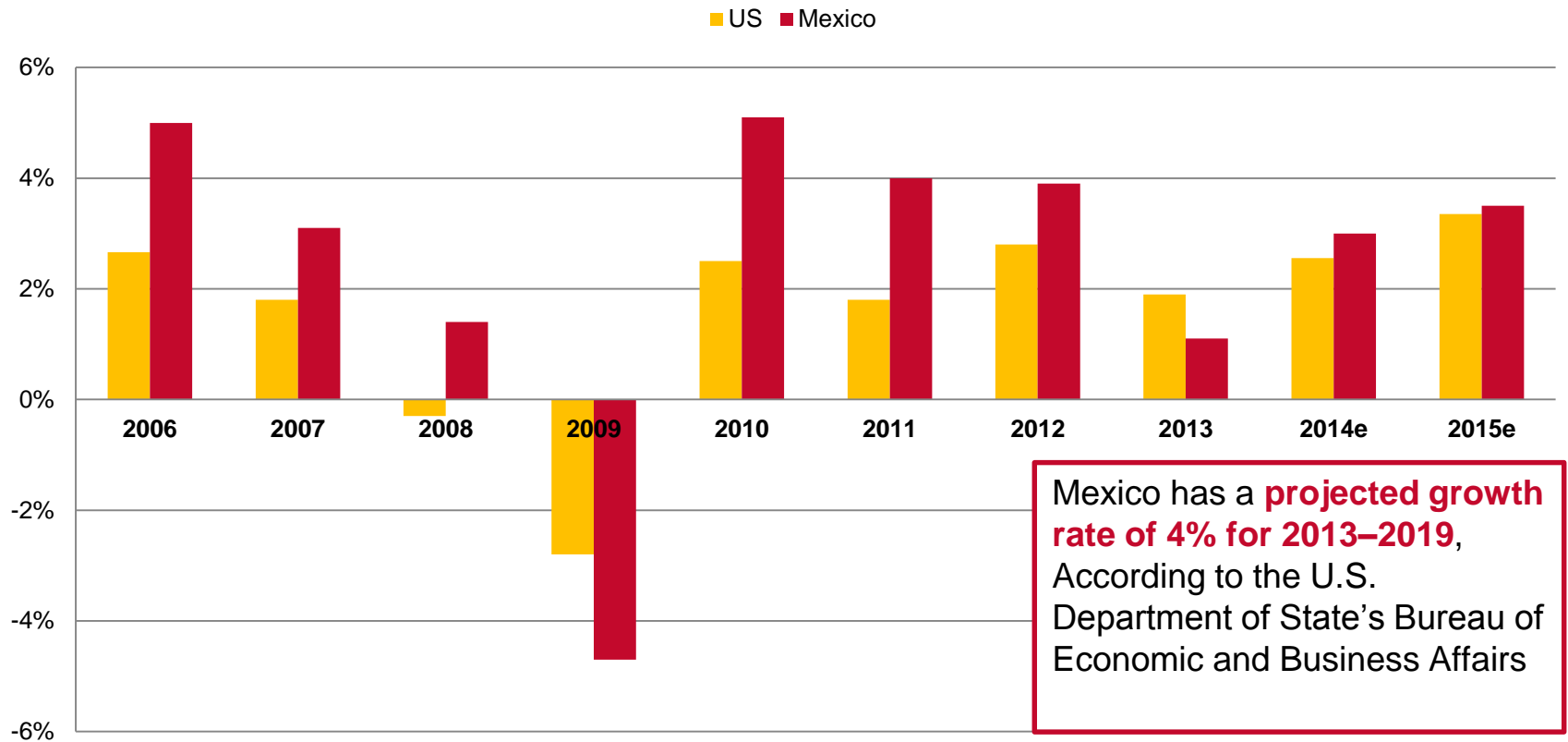


# Why are decision makers looking at Mexico?



# Economic Growth

## Annual GDP Growth Rate



SOURCE: DOC, Bloomberg Businessweek, World Bank, Mexico Today, J.P. Morgan, U.S. Bureau of Labor Statistics, SICE, Goldman Sachs, Boston Consulting Group, Reuters., IMF



# Trade Growth

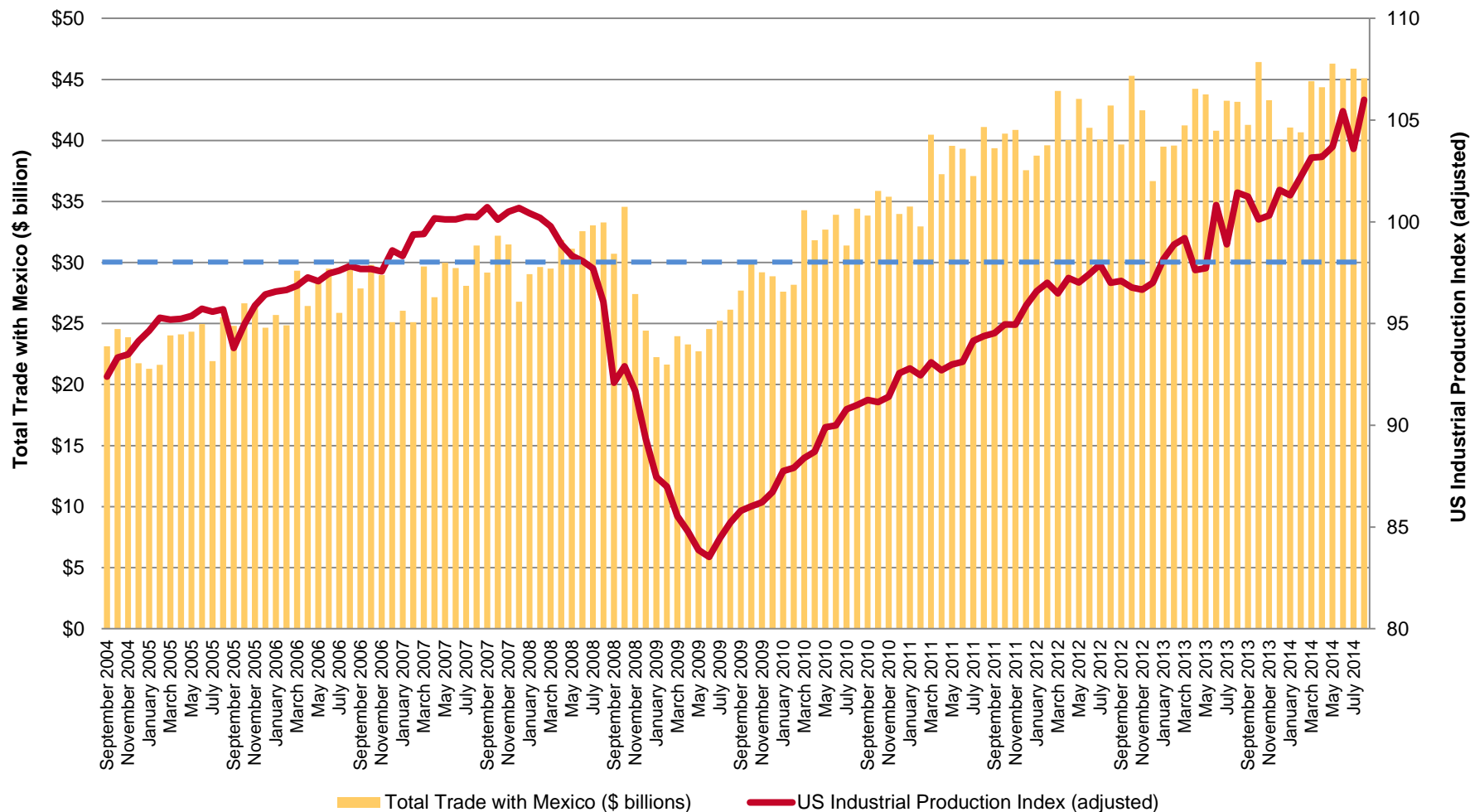
**The U.S. is Mexico's largest trading partner**  
**U.S. imports from Mexico have risen 23.5% since 2010**



SOURCE: DOC, Bloomberg Businessweek, World Bank, Mexico Today, J.P. Morgan, U.S. Bureau of Labor Statistics, SICE, Goldman Sachs, Boston Consulting Group, Reuters

©2014 Kansas City Southern

# U.S. – Mexico Trade Growth



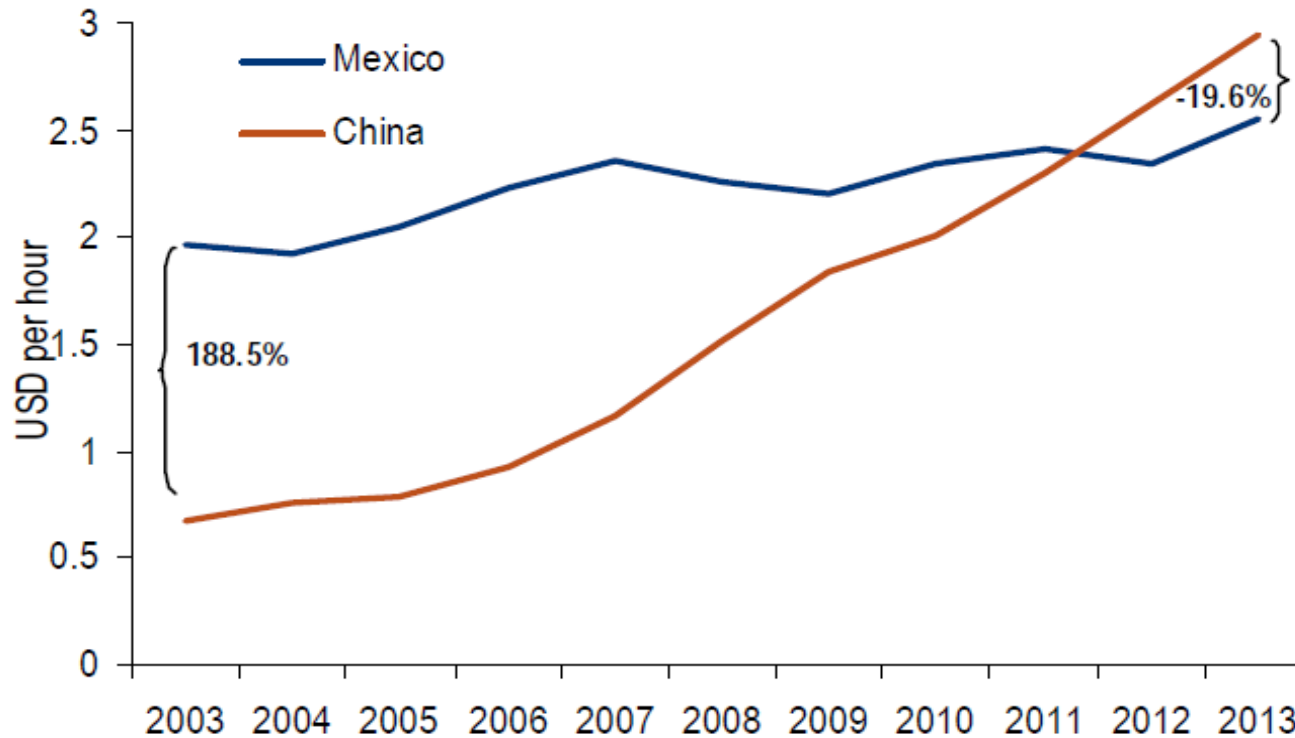
Source: Board of Governors of the Federal Reserve System and US Census Bureau

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# Labor Force

- Mexico has a labor force advantage over China
  - By 2015, wages in Mexico are forecasted to be 30% lower than in China
  - Mexican labor is highly skilled; Mexico manufacturing is moving from low-skill, high volume products to high-skill, sophisticated products



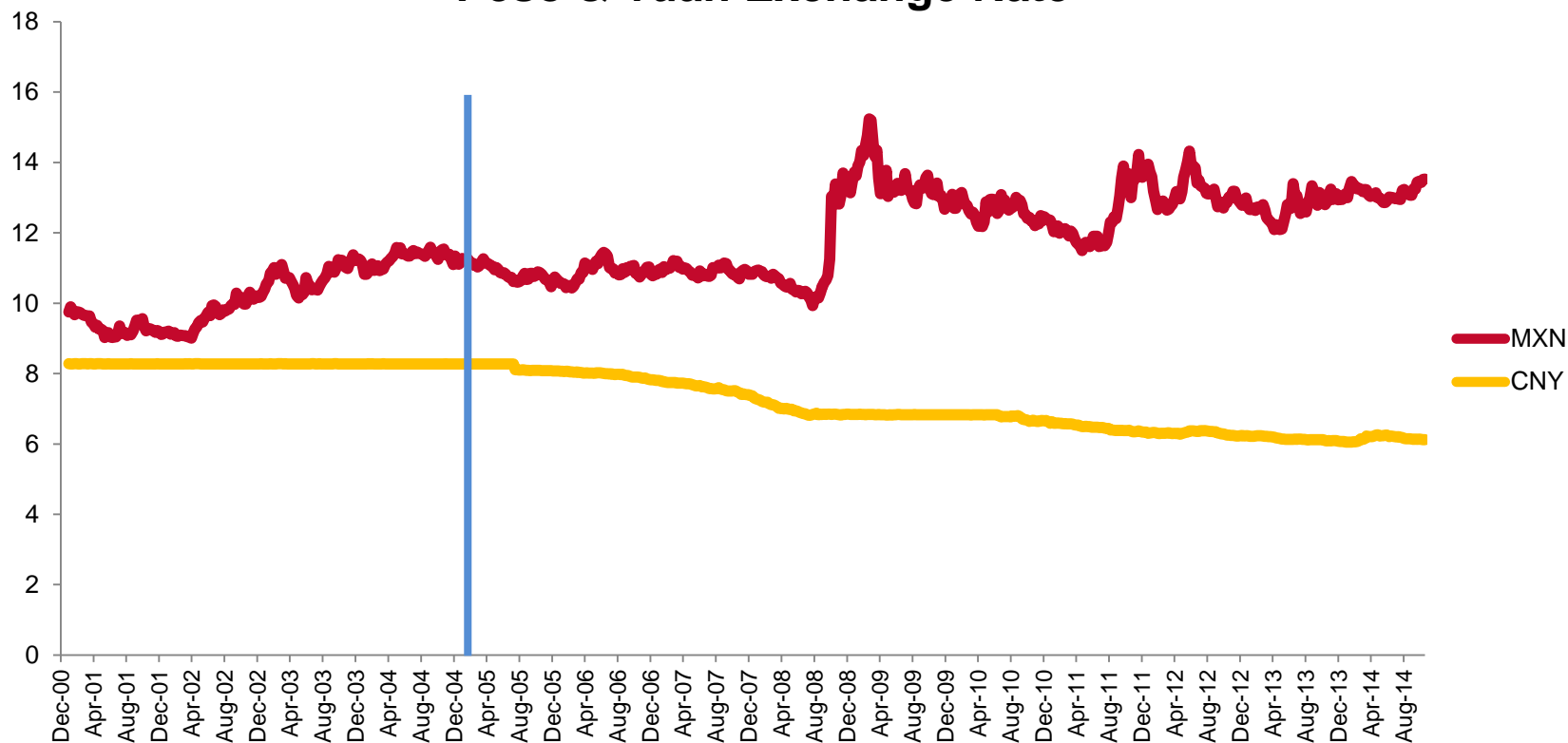
Source: BofA Merrill Lynch Global Research, Banxico, INEGI, International Labor Organization, China NBS  
Own estimates for China since 2009 and for Mexico in 2013



# Currency Advantage

In U.S. dollar terms, since 2005 Chinese products have become about 65% more expensive than those sourced in Mexico

## Peso & Yuan Exchange Rate



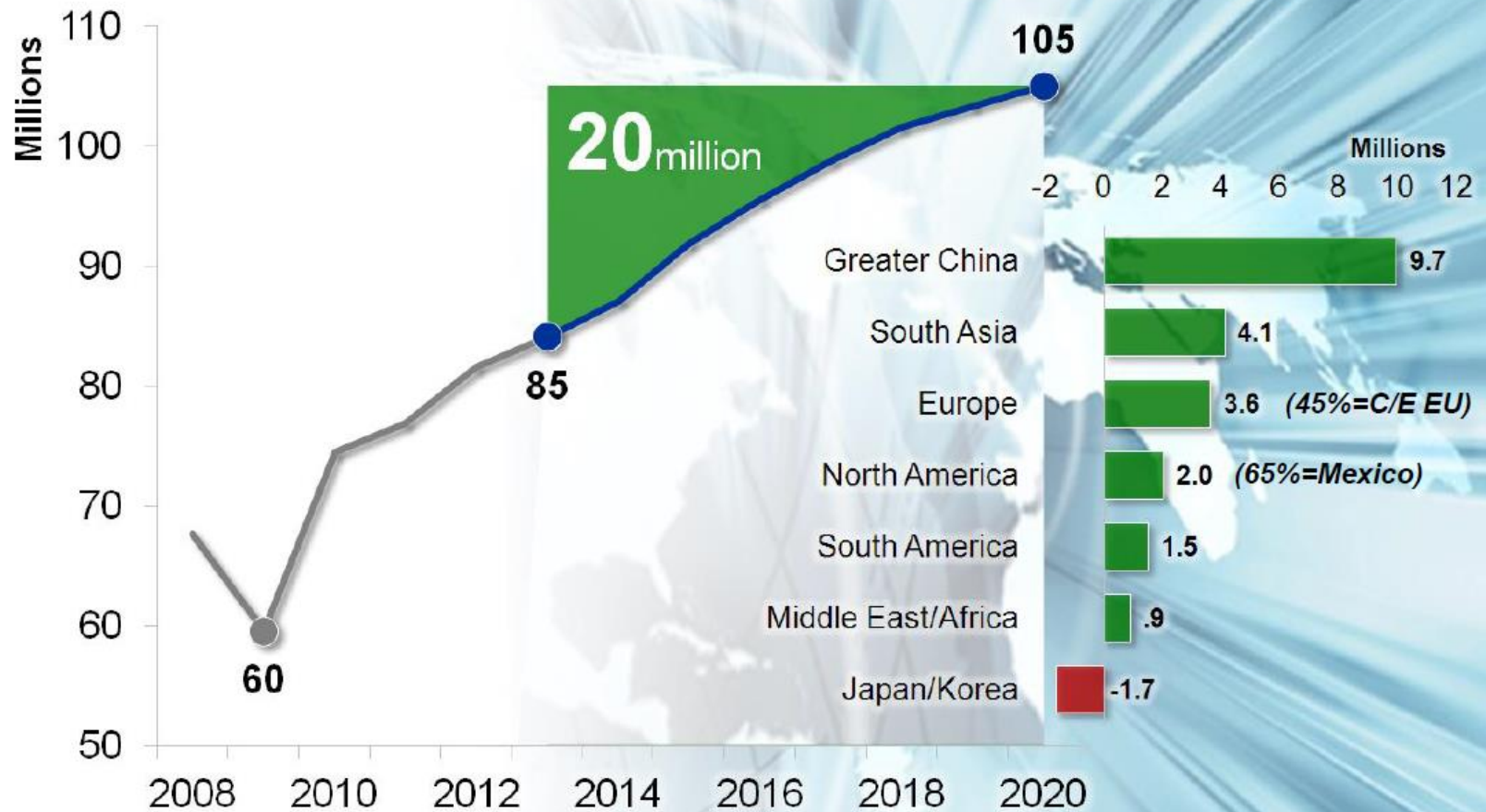
Source: YCharts

# Top Industries for Nearshoring Opportunities



# Global Automotive Production

## Global Production





PLANT TIJUANA



PLANT HERMOSILLO



PLANT CHIHUAHUA



PLANT MOTORS RAMOA ARIZPE



PLANT SALTILLO



PLANT SALTILLO



PLANT RAMOS ARIZPE



KIA MONTERREY 2016



PLANT AGUASCALIENTES



PLANT AGUASCALIENTES



PLANT 2017 AGUASCALIENTES



PLANT EL SALTO



PLANT S.L.P



PLANT S.L.P 2019



PLANT MORELOS



PLANT PUEBLA



PLANT AUDI 2016



PLANT SALAMANCA



PLANT CELAYA



PLANT SILAO



PLANT MOTORS



PLANT TOLUCA



PLANT TOLUCA



PLANT CUATITLAN

# New Auto Plant Openings



## AUDI

San Jose Chiapa,  
Puebla, Mexico  
Opens 2<sup>nd</sup> Quarter 2016 <sup>(1)</sup>  
Est. Prod Capacity: 173K <sup>(1)</sup>



## KIA

Pesqueria (Monterrey), Mexico  
Opens Mid 2016 <sup>(2)</sup>  
Est. Prod Capacity: 300K <sup>(2)</sup>



Mercedes-Benz



INFINITI®

## MERCEDES BENZ/INFINITI

Aguascalientes, Mexico  
Opens 2017 <sup>(2)</sup>  
Est. Prod Capacity: 300K <sup>(2)</sup>



## BMW

San Luis Potosi, Mexico  
Opens 2019 <sup>(2)</sup>  
Est. Prod Capacity: 150K <sup>(2)</sup>

Source: (1) Autocast, June 2014 – Audi (Est. 2017 production)  
(2) Manufacturer's Press Releases



# By 2019, Mexico's Auto Production Expected to Increase by 1 Million Units



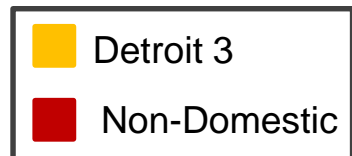
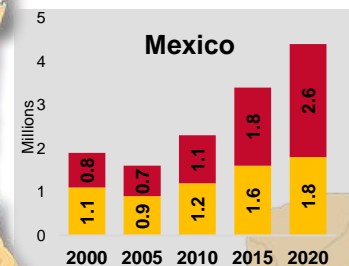
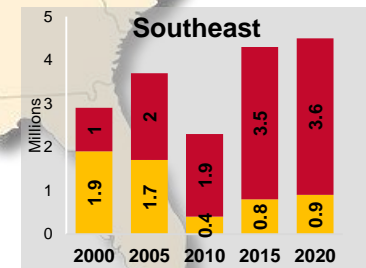
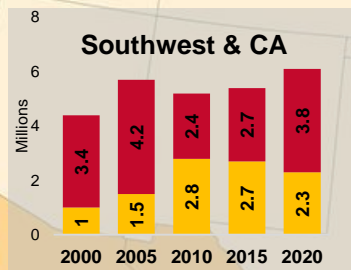
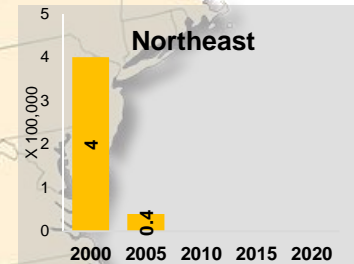
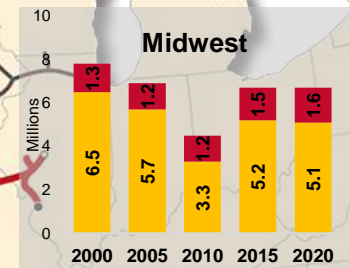
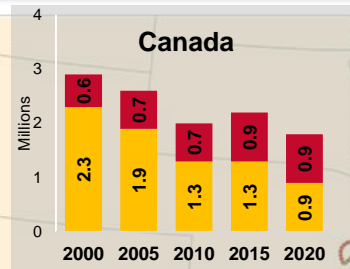
Source: Autocast, September 2014

# NAFTA Output By Region

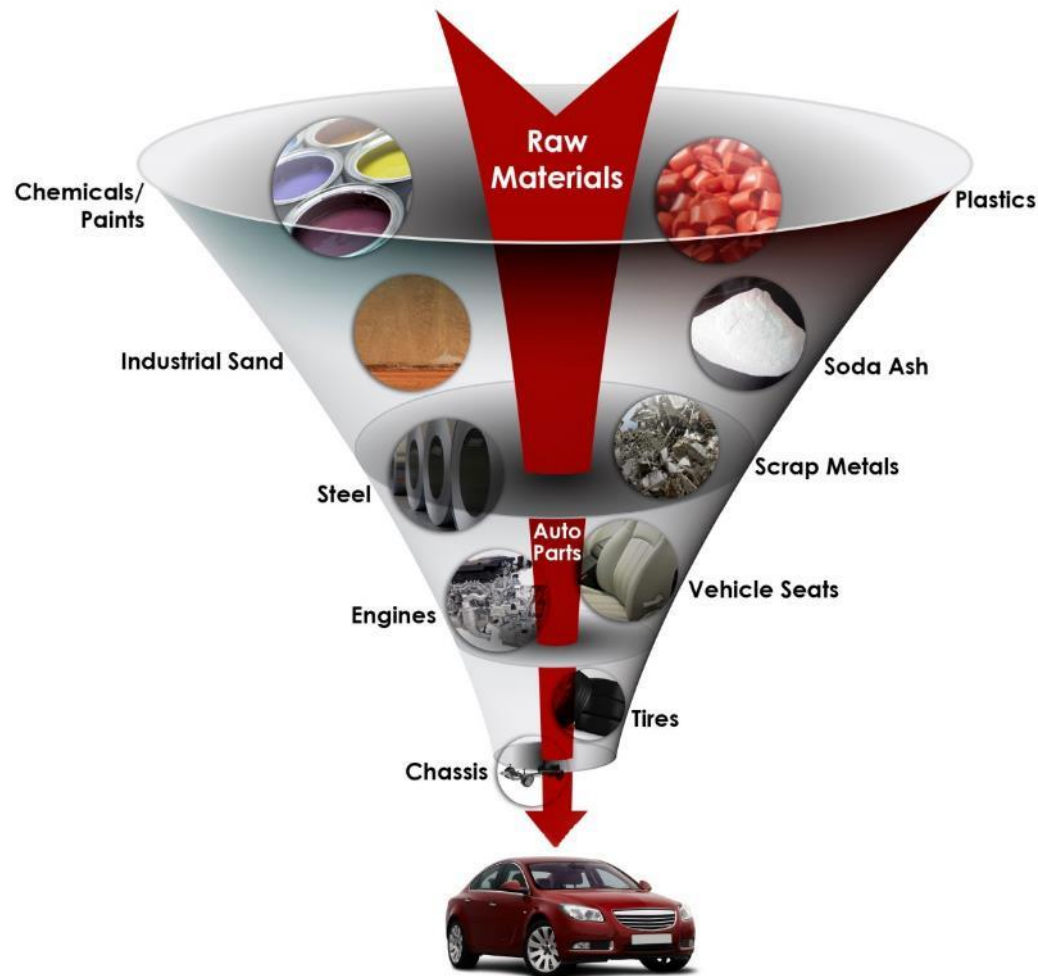
## Shifting Towards the US South & Mexico

**Over 50% of NA output will be South of Ohio by 2014**

**Mexican production growth is one of the fastest through the balance of the decade – rivaling Brazil, Russia and India**



# Automotive Production Has a Large Freight “Funnel”



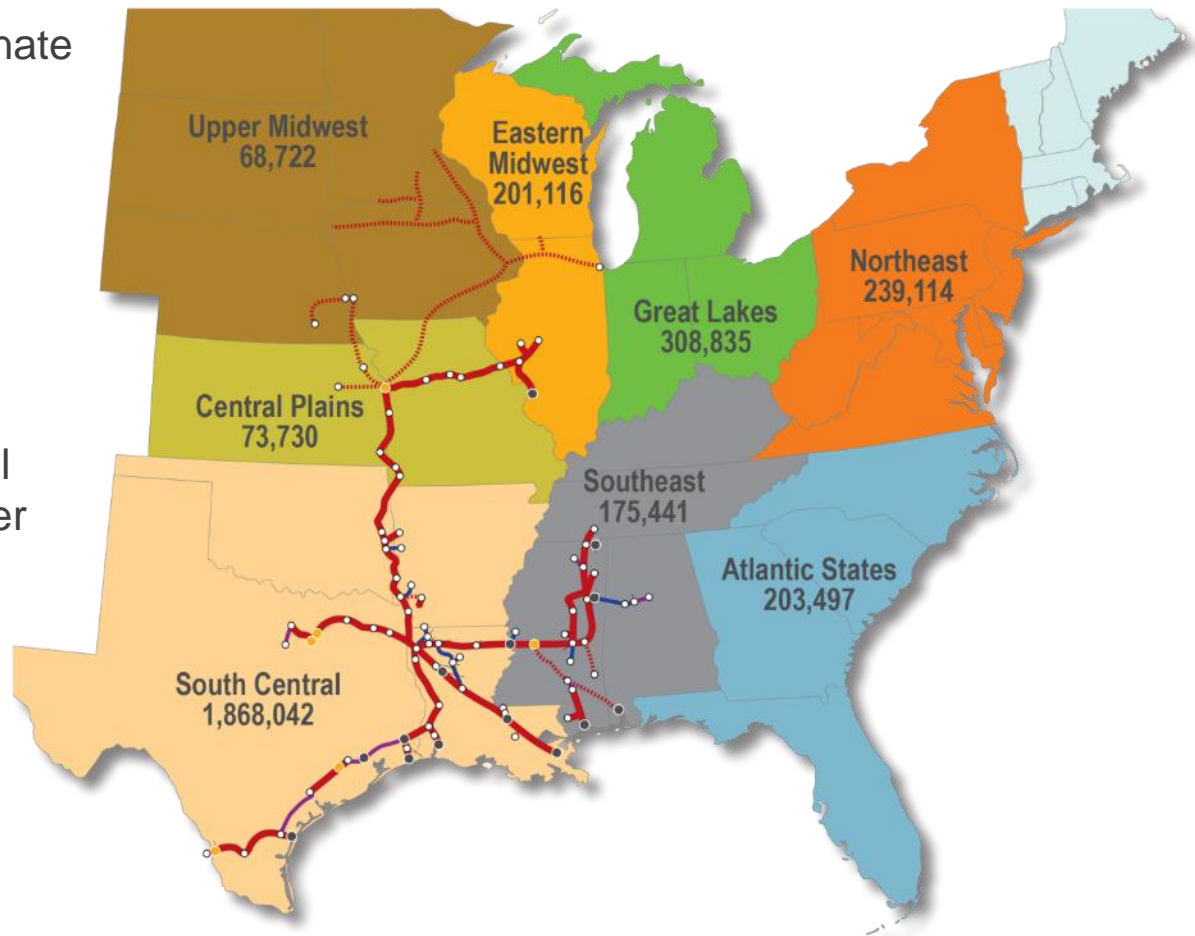
# Cross-border truck shipments represent a significant opportunity for KCS

**3.1 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 less than 3% of available market.



SOURCE: KCS Market Research derived from BTS Data

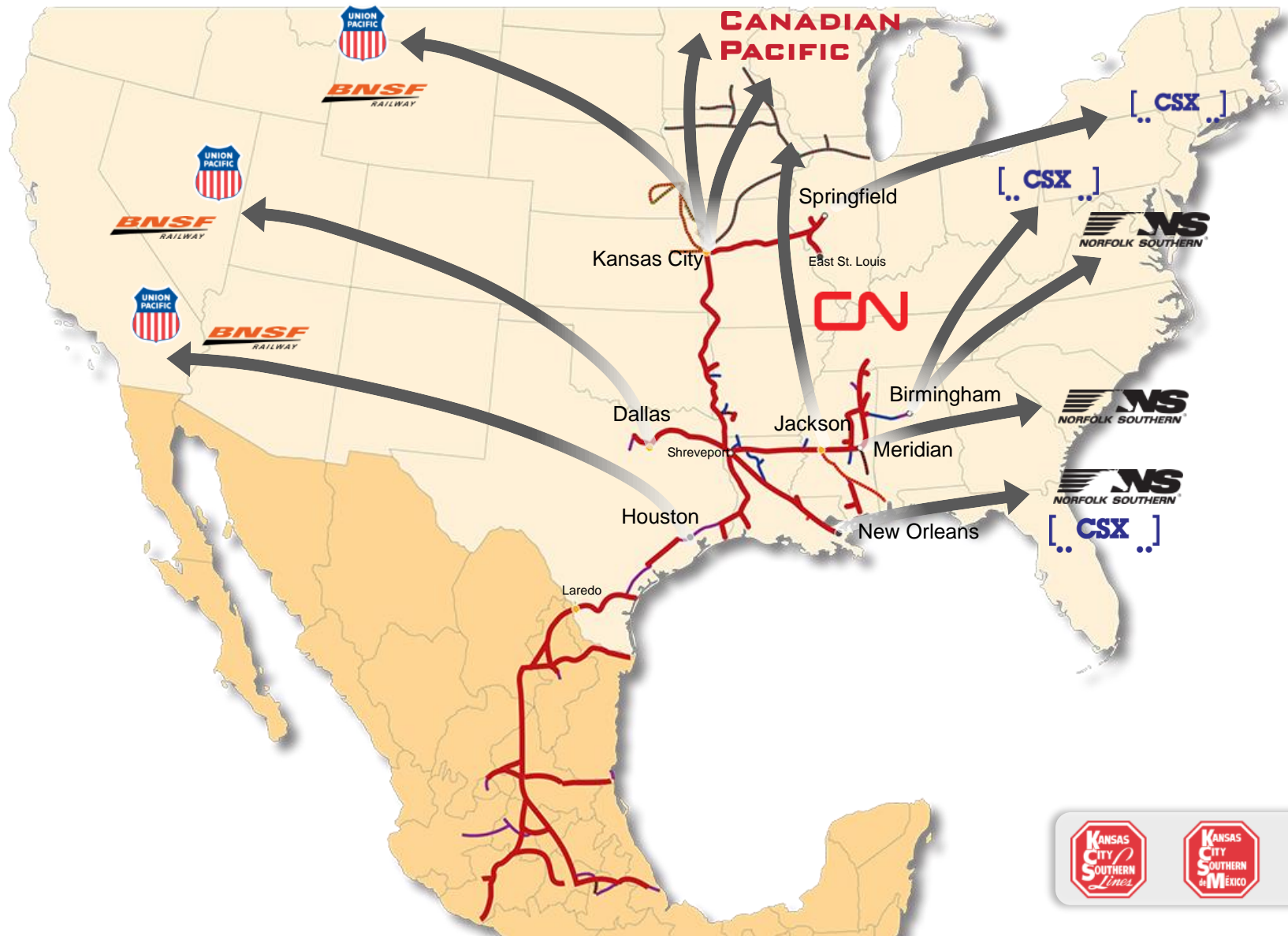


# Cross Border Intermodal Coverage



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

# KCS's Network is the center of the North American rail system

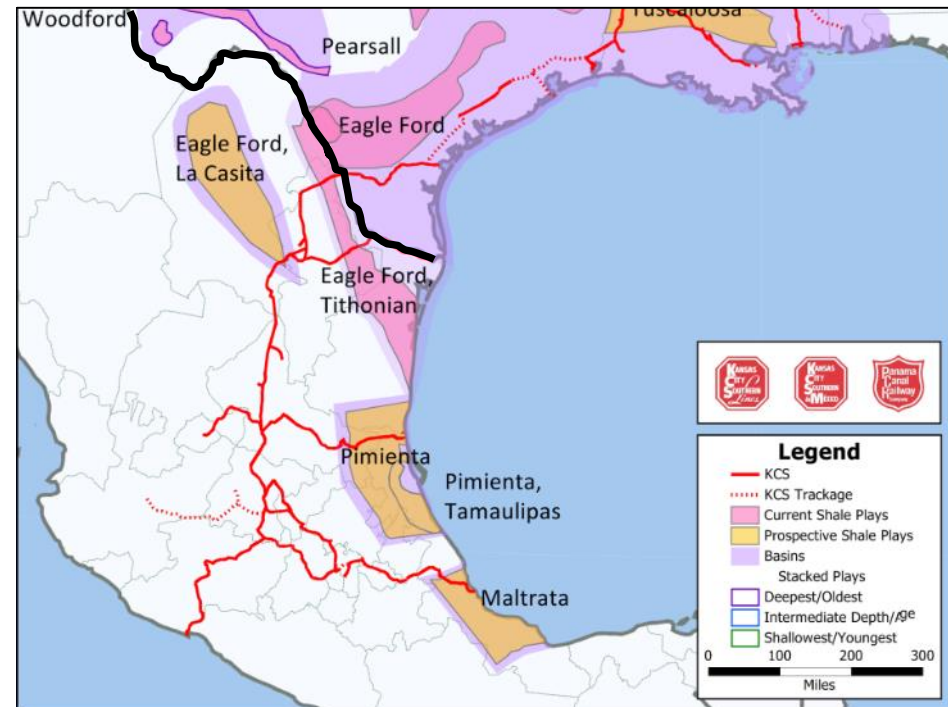


# Mexico Energy Reform is a Reality

- Dec. 2013 – Mexico passed energy reform legislation in the constitution
- Reform will affect refining, oil & gas drilling, power generation and new private-sector driven logistics market
- Laws and regulations associated with this reform will be decided during 2014

## Reform could drive an increase in rail shipments in the following ways:

- General economic growth in Mexico
- Increased movement of steel tubing, frac sand, fuel oil, diesel, gasoline, LPG and shale oil



# Mexico's Natural Gas Potential



Image © 2012 GeoEye  
© 2012 Google

Image © 2012 DigitalGlobe

Google earth

# Potential New Business Opportunities Resulting from Mexican Energy Reform

## 1. Importation and intra-Mexico movement of steel pipe for oil fields and natural gas transmission

- New natural gas pipelines are under construction

## 2. Increased Fuel Oil Moves

- KCS current transports fuel from Pemex refineries to export
- Energy reform has opened the door to private sector participation in terminals and more flexible contract guidelines

## 3. Importation of LPG

- Deficit of LPG in Central Mexico
- Specialized rail terminal in SLP has been permitted and construction will begin in 1Q 2015

## 4. Importation of refined products (gasoline, diesel & biofuels)

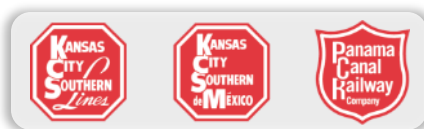
- Demand is increasing in Mexico
- Refining capacity is insufficient
- Strategic facilities and partners are being identified

## 5. Importation of frac sand

## 6. Shale oil (CBR) shipments from Mexican basins

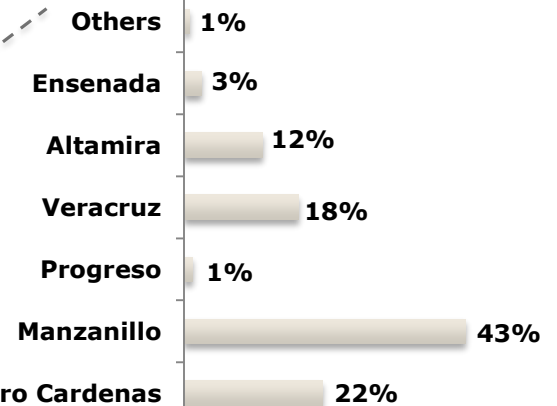


# Mexico Port Expansions

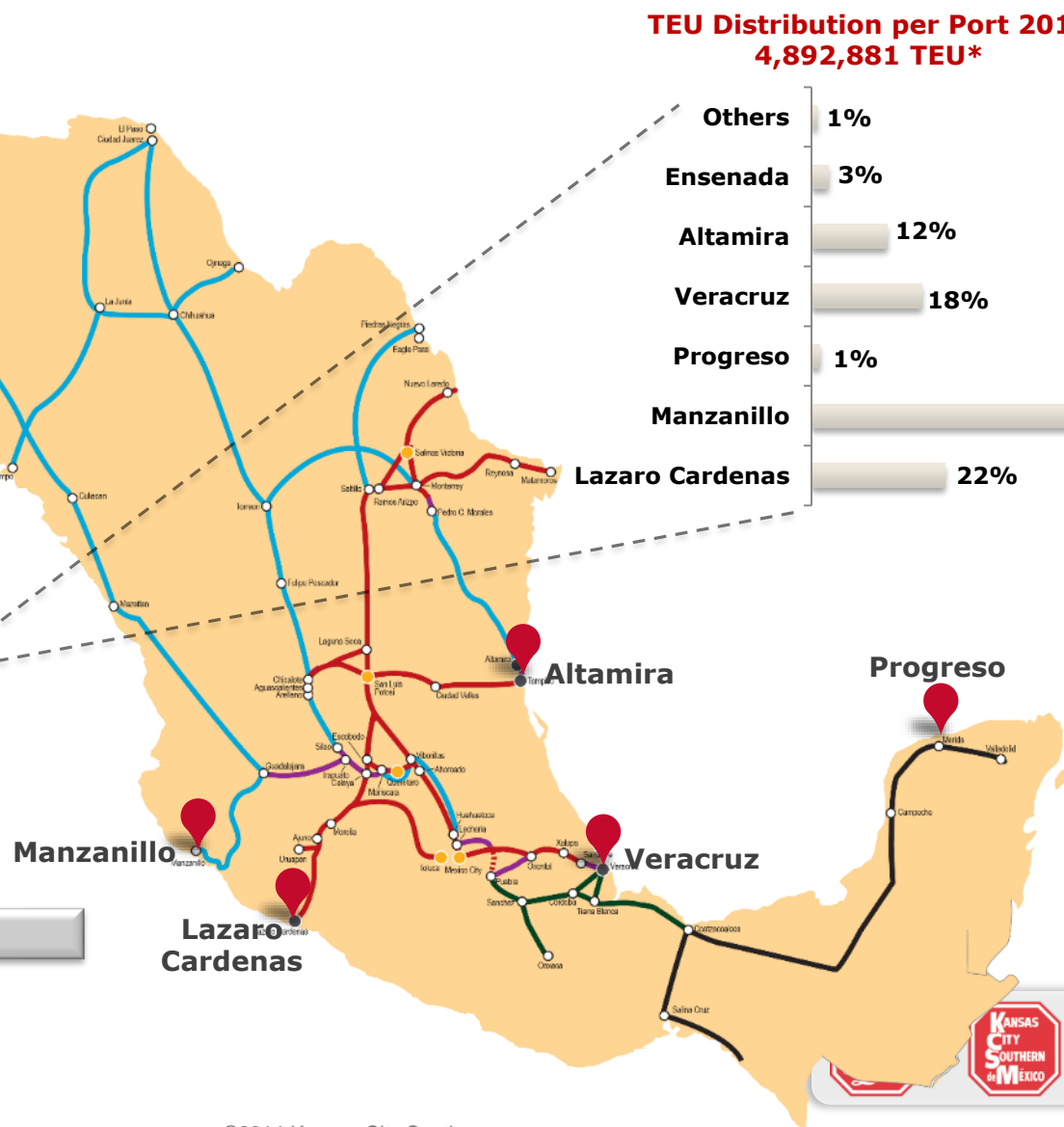
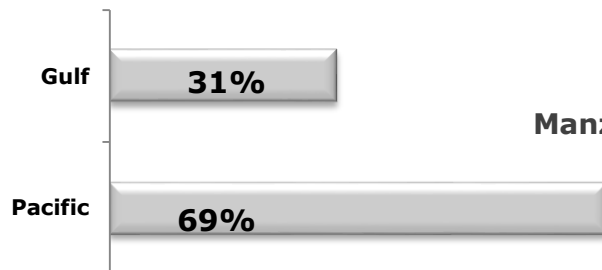


# Mexico Overview – Container Ports

**TEU Distribution per Port 2013**  
**4,892,881 TEU\***



**TEU Distribution 2013**  
**4,892,881 TEU\***



Source: SCT 2013 Data

©2014 Kansas City Southern



# Port of Manzanillo

- Expansion of the specialized container terminal & improvement of technology
- Six year investment of \$200M
- Terminal will increase capacity to 4 million TEUs.



Source: Mexican PNI (Plan nacional de infraestructura)

Picture: Manzanillo Port Authority, Inc.



# Port of Altamira

- Expansion started in 2013 and will be completed in 2018
- Total Investment - \$820M
- Will provide better access via rail and highway
- 1<sup>st</sup> port in Latin America with a deep-water area for oil rigs & oil platforms
- Will also include a station to compress natural gas



Source: Mexican PNI (Plan nacional de infraestructura)

Photo: Administración Portuaria Integral de Altamira



# Port of Veracruz

- Expansion started in 2013 and will be completed in 2030.
- Total investment - \$4.6B
  - \$1.8B will be invested between 2013 and 2018.
- Will reduce congestion by tripling capacity
- Revival of older areas of the port which will integrate it into the historic part of the city.



Source: Mexican PNI (Plan nacional de infraestructura)

Photo: International Transport Workers' Federation



# Port of Veracruz

## Full Build Out (2030)



Source: SCT

# Lázaro Cárdenas Development Plans



- APM Terminals will invest \$900m in the project. The new container port will have a capacity of 1.2 million TEUS when opened and projected volume of +3 million TEUS by 2019. Projected completion is 1<sup>st</sup> half of 2016.
- In October 2012, SSA Marine won a concession to develop, operate and maintain a Specialized Auto Terminal capable of handling up to 750,000 autos annually
- Hutchinson Port Holdings installed six new vessel cranes at Lazaro over the past two years.

Source: APM Terminals Press Release dated October 9, 2014; sct.gob.mx



# Lázaro Cárdenas Growth Plans

**New Container  
Terminal**

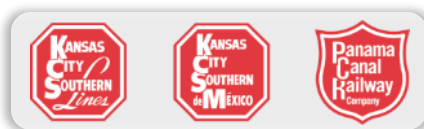
**Expanded  
Container Terminal**

**New Auto  
Terminal**

**Bulk  
Facility**



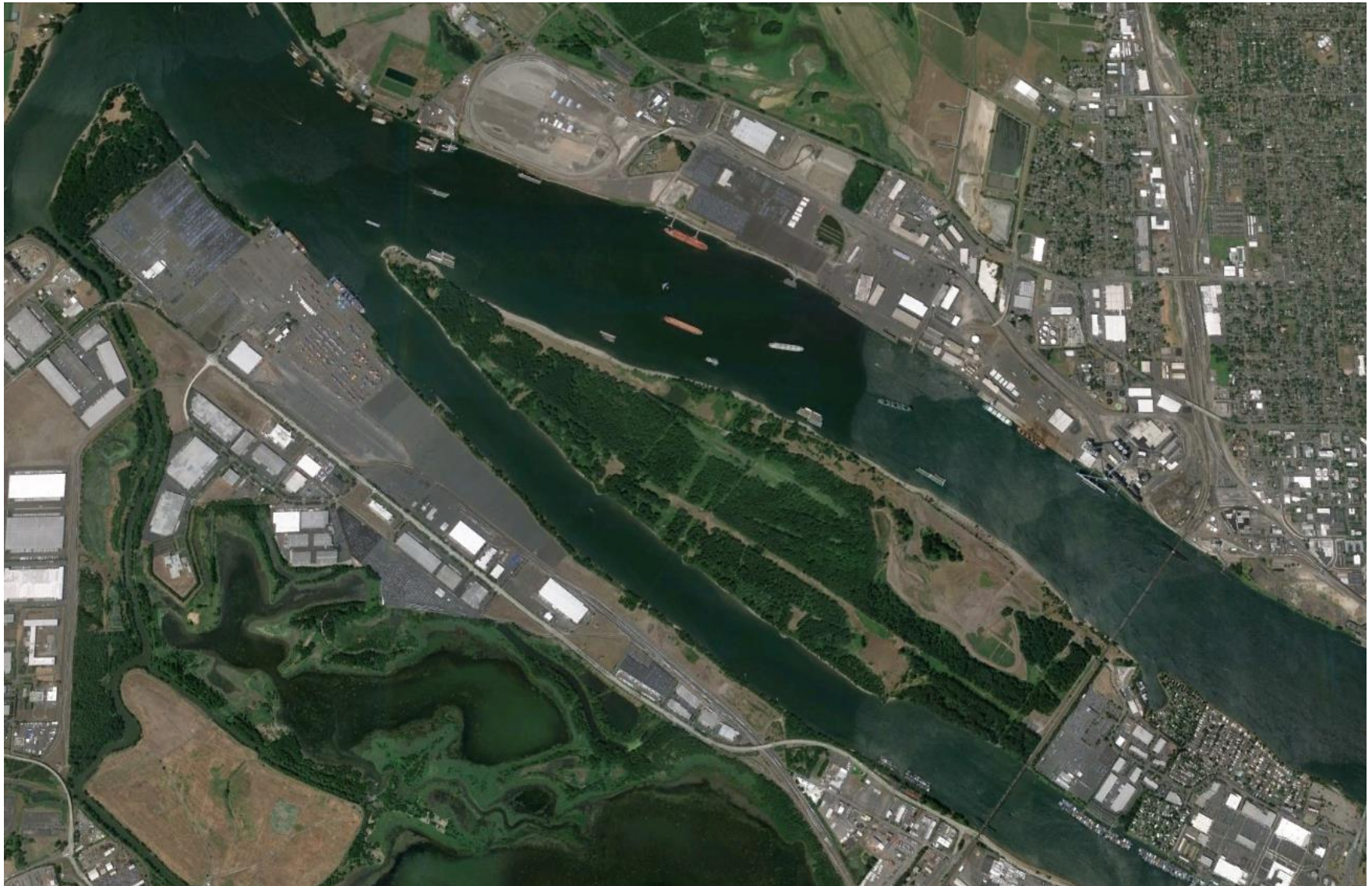
# West Coast Ports... Which One Looks Different?



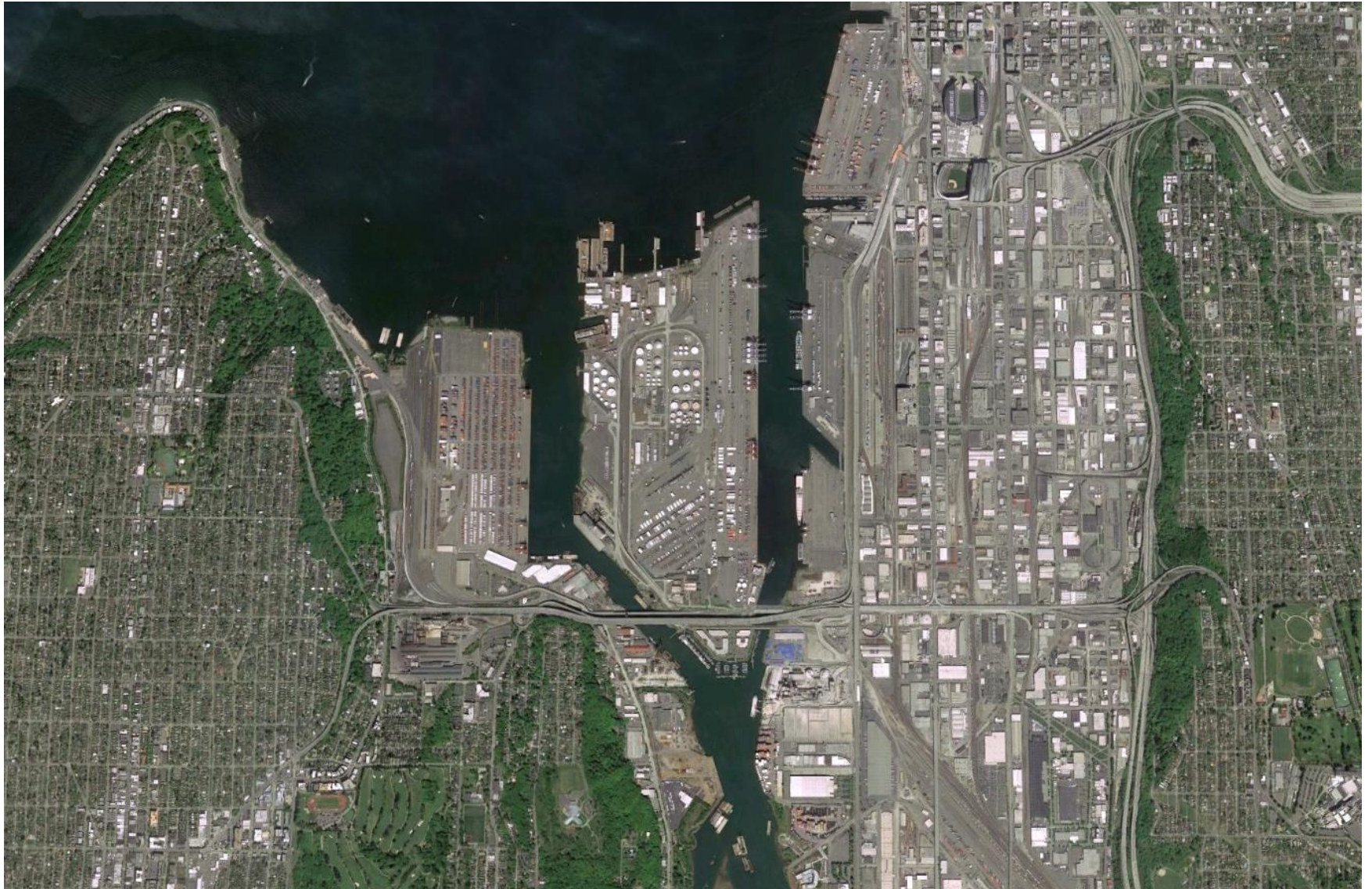
# Prince Rupert



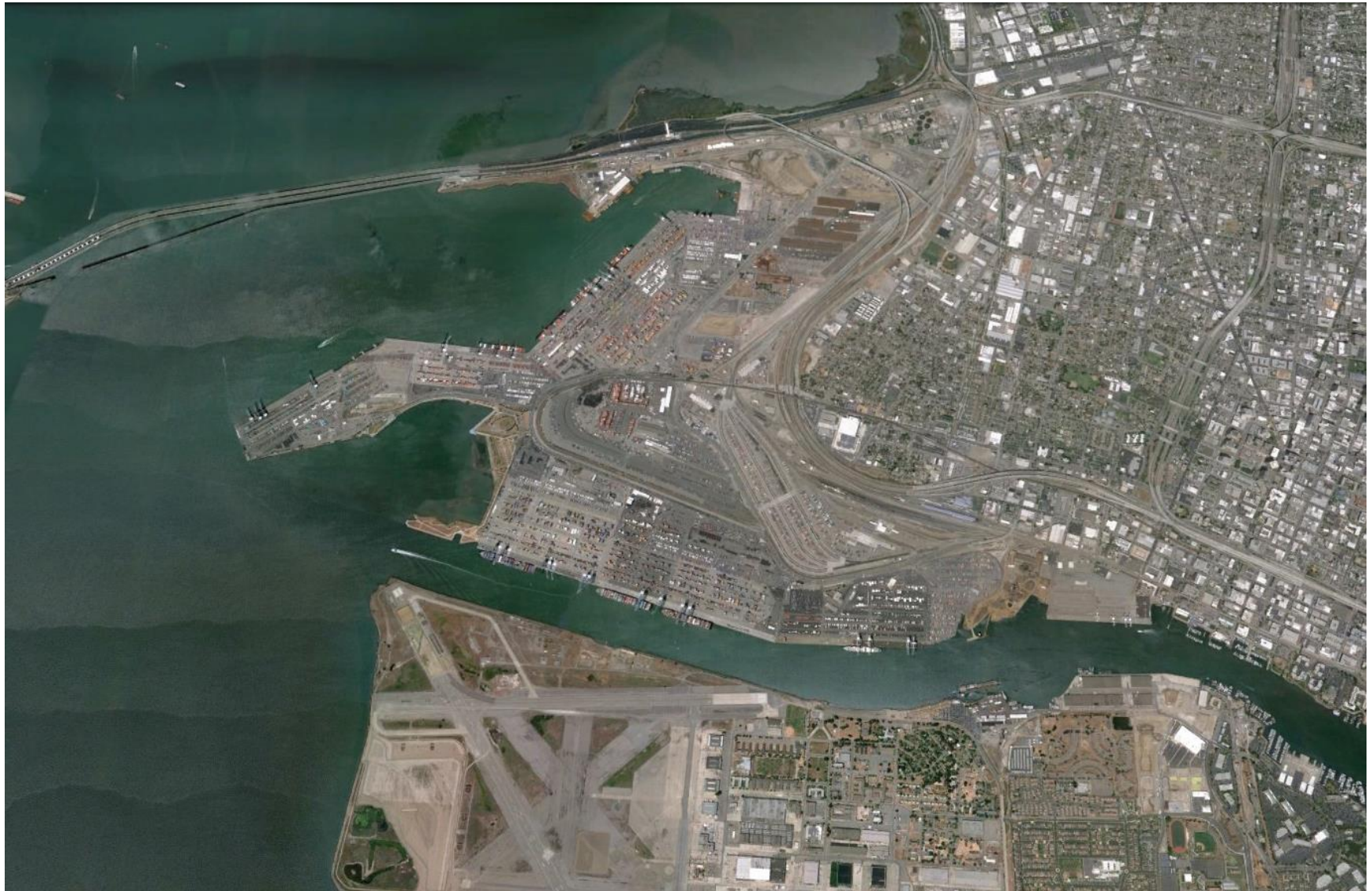
# Vancouver



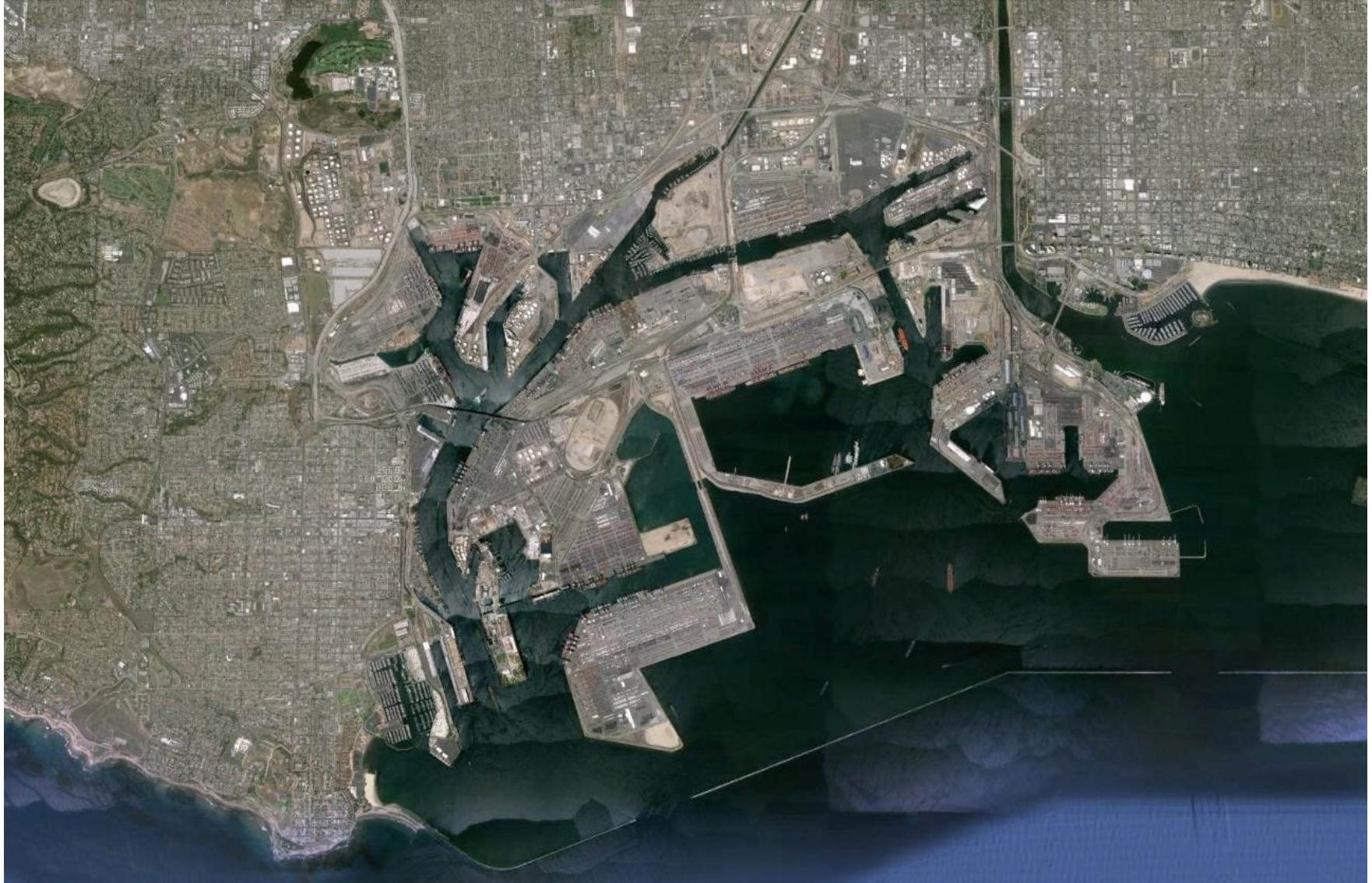
# Seattle



# Oakland



# LA/Long Beach



# Manzanillo



# Lázaro Cárdenas



# Thank you!

