

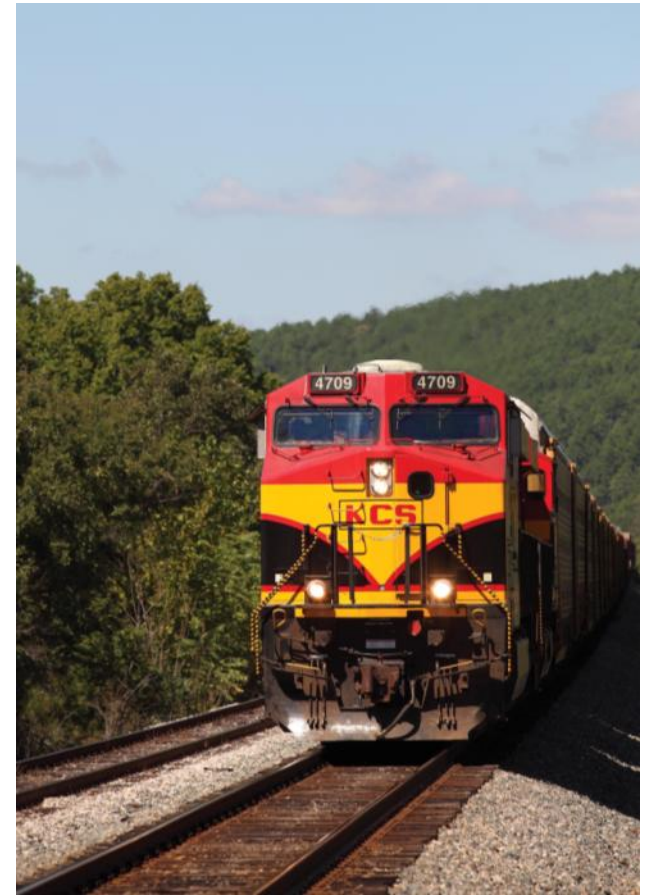
Mexico: The Story Behind the Headlines



Susan McVaney, AVP Sales & Marketing
SEARS Conference – Fall 2011

Outline

- What is the media saying?
- What makes Mexico unique?
- Why is Mexico important to the US?
- Where Does KCS fit in?
- How secure is cross-border transit?



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 WALL STREET JOURNAL.

“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

“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



“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

THE WALL STREET JOURNAL.

“When it comes to global manufacturing, Mexico is quickly emerging as the "new" China.”

Keith Fitz-Gerald, Chief Investment Strategist, Money Morning



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

- Highly skilled workforce in Mexico
- 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

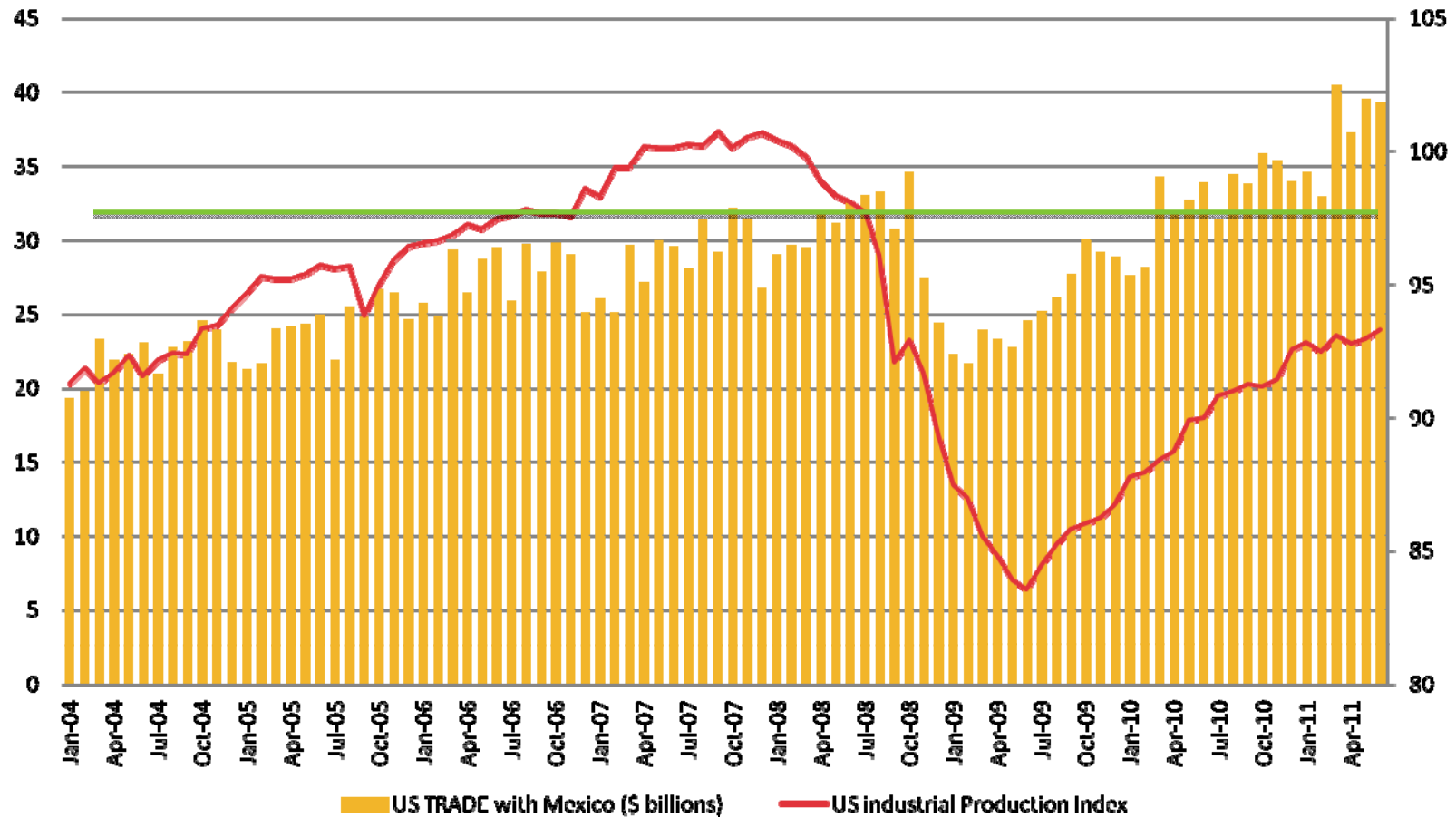
Transportation Costs

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

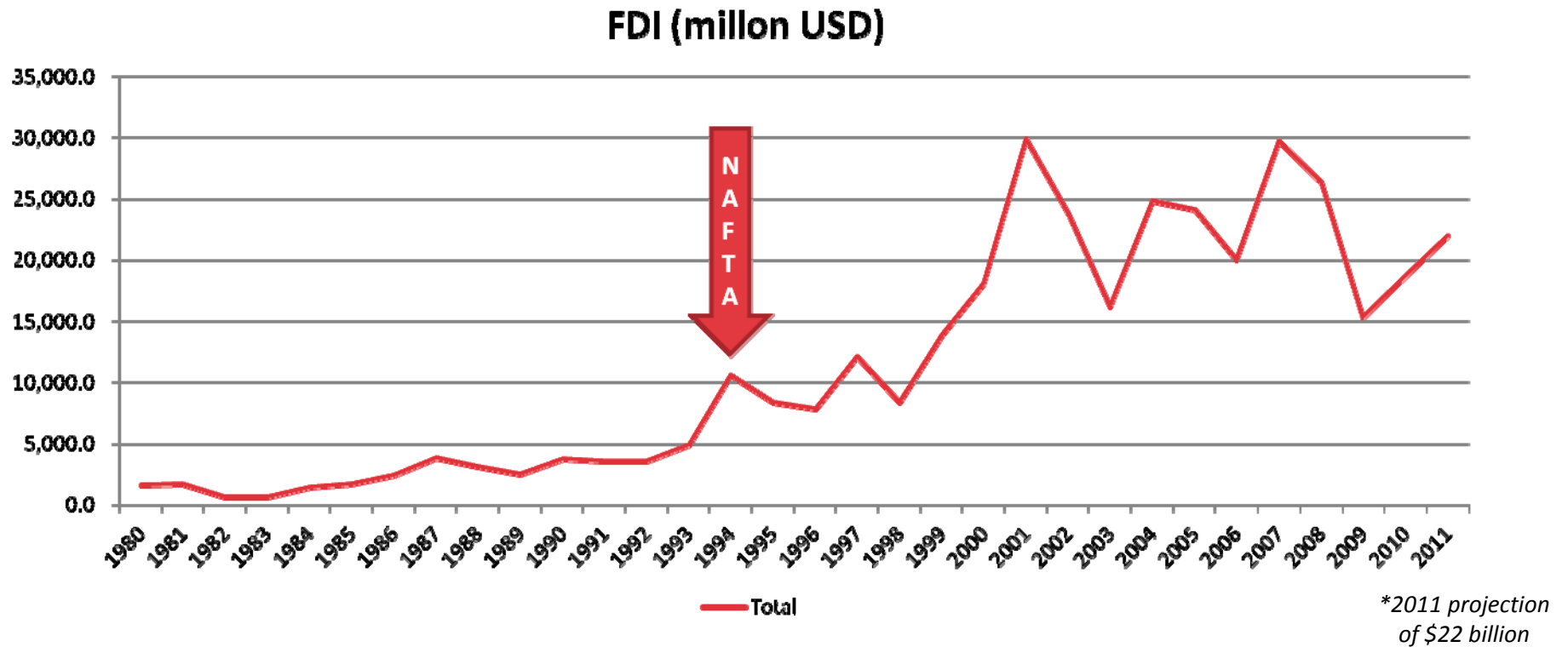


Cross Border Trade Volume

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



Foreign Direct Investment Trend



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



Demographics favor Mexico

- Mexico's population is 112 million
- 27% are between the ages of 15 and 29



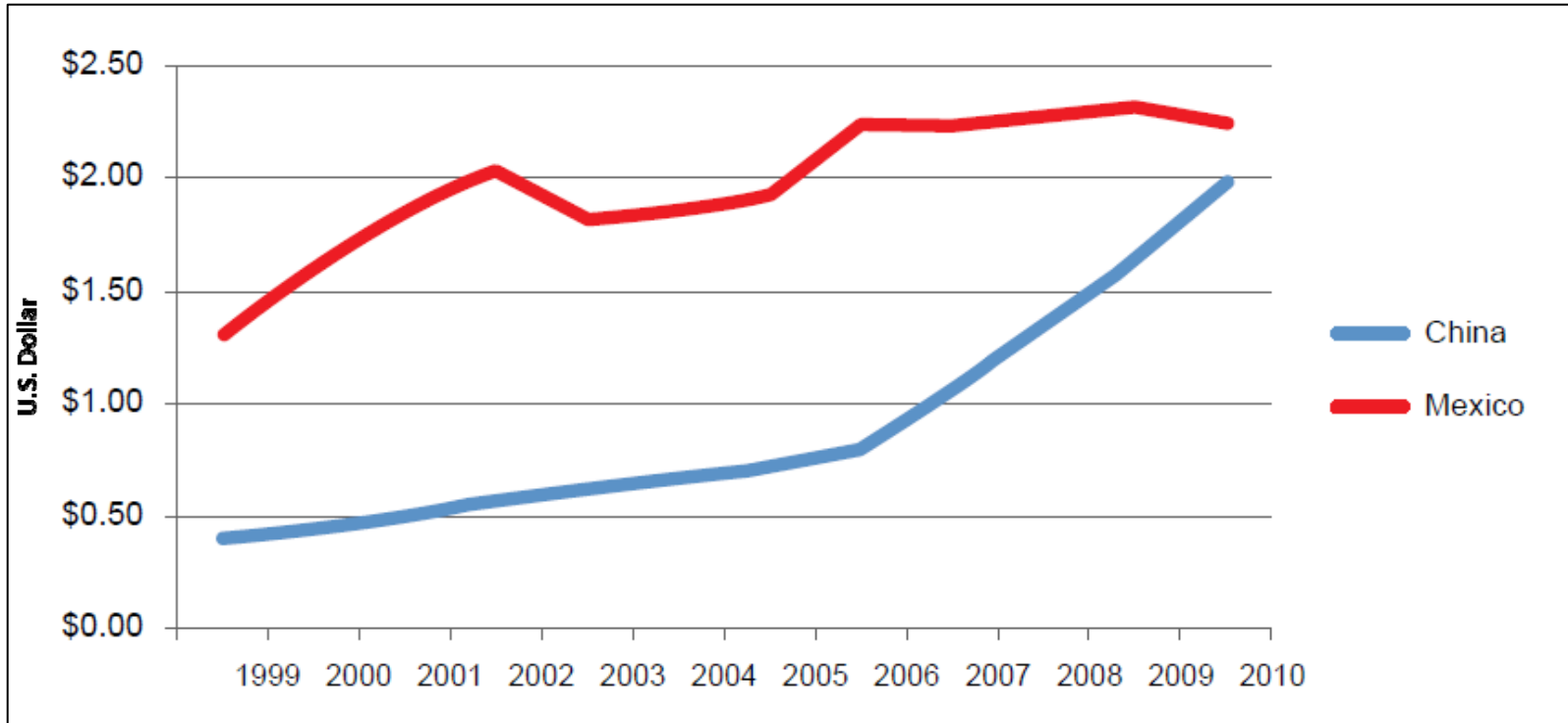
Highly Skilled Work Force

- 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



Mexico vs. China Wage Rate

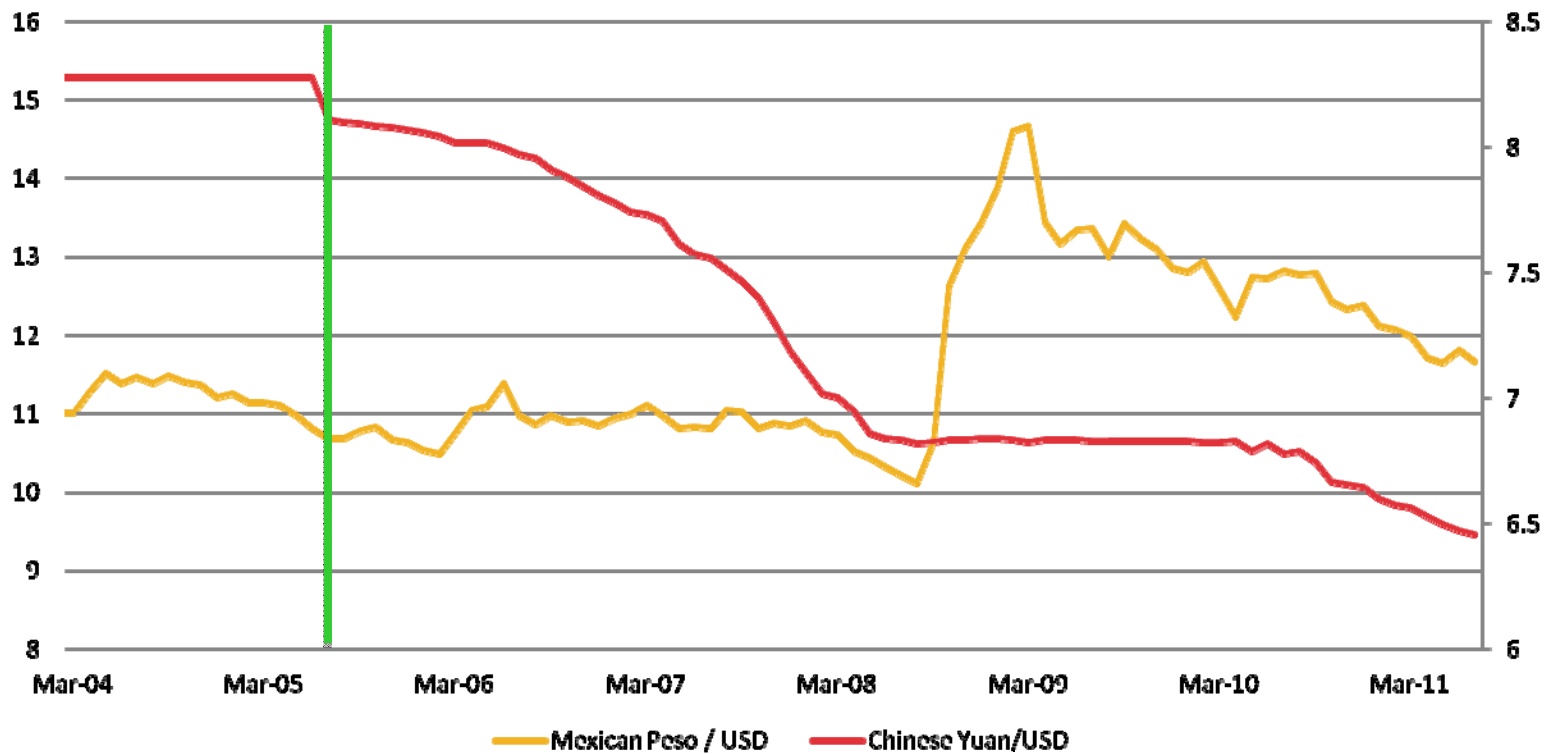
Since 2003, wages in Mexico have risen only 25 percent compared to 218 percent in China.



Mexico's Currency Advantage

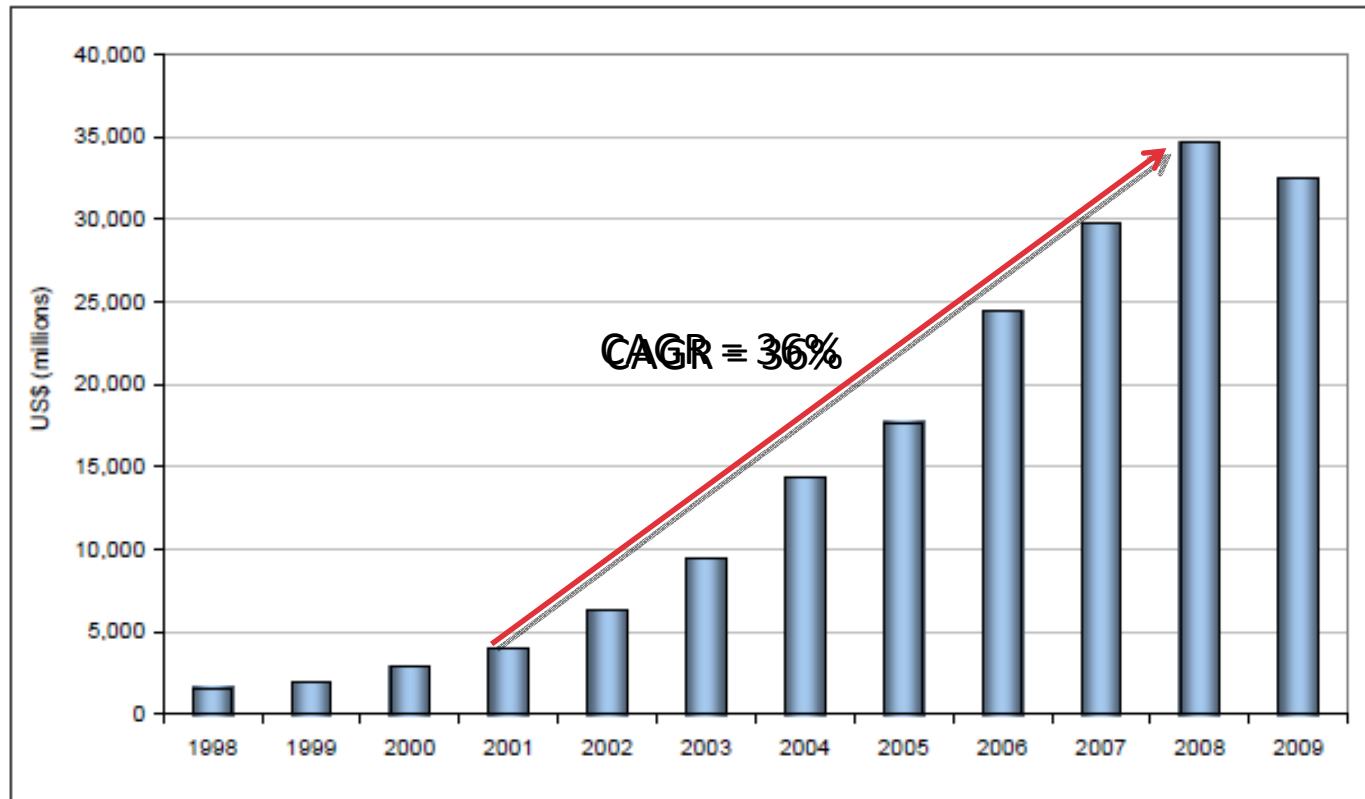
In US Dollar terms, since 2005 products sourced in Mexico have become about 40 percent less expensive than products sourced in China.

Peso & Yuan Exchange Rate



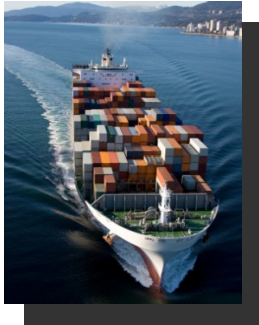
Mexico is Second Only to U.S. in Exports to China

Chinese Imports from Mexico



Shipping Costs Advantages to Chicago

- Marine and Ground Transportation Shanghai to Chicago



Shipping Cost	\$5,243
Cost per cubic foot	\$2.19
Transit Time	25 days

- Truck Transportation Monterrey Mexico to Chicago



Shipping Cost	\$3,479
Cost per cubic foot	\$0.91
Transit Time	4-5 days

- Rail Transportation Monterrey Mexico to Chicago



Shipping Cost	\$1,525
Cost per cubic foot	\$0.40
Transit Time	6-7 days



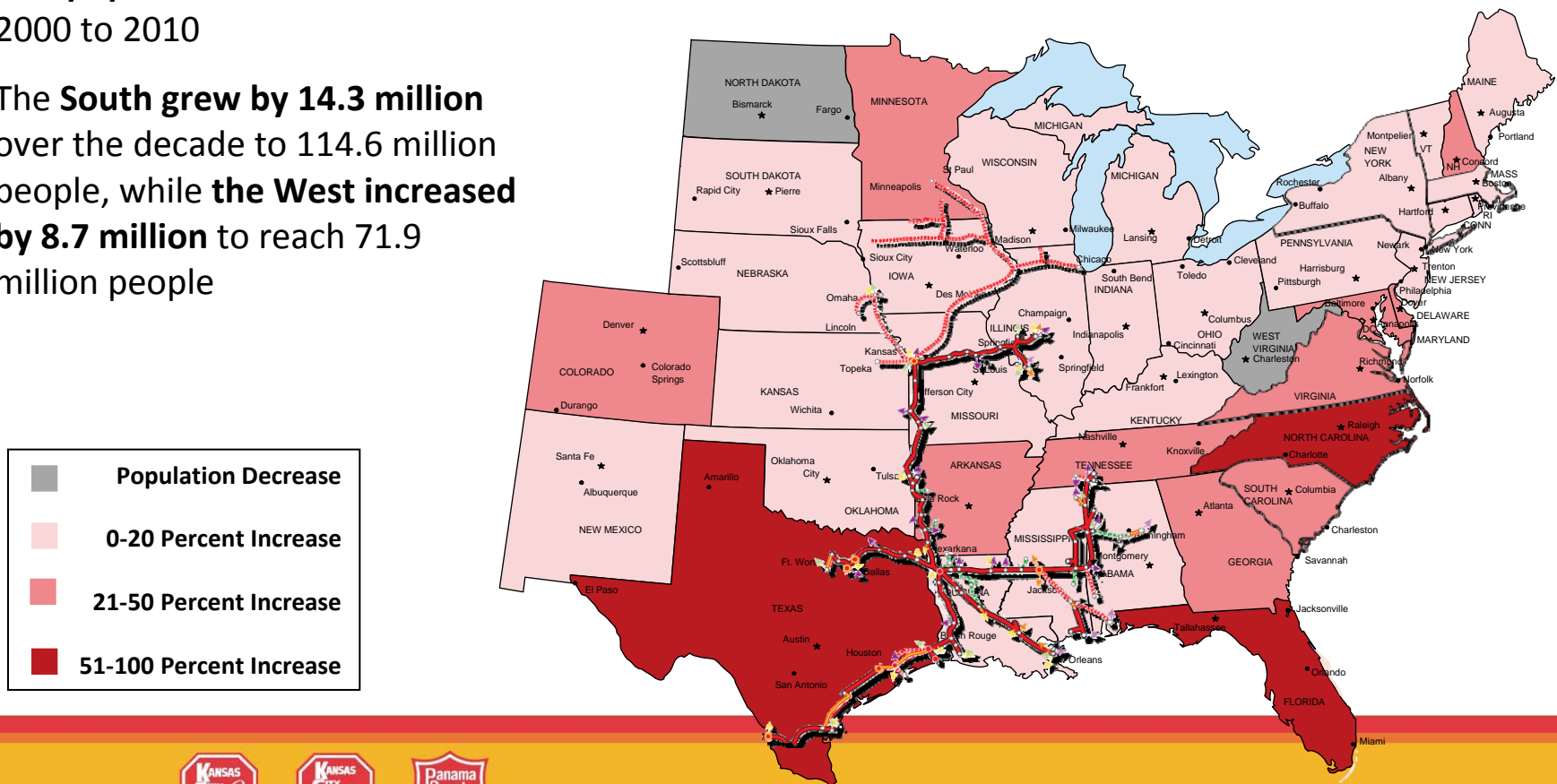
The Emerging Population on KCS

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.



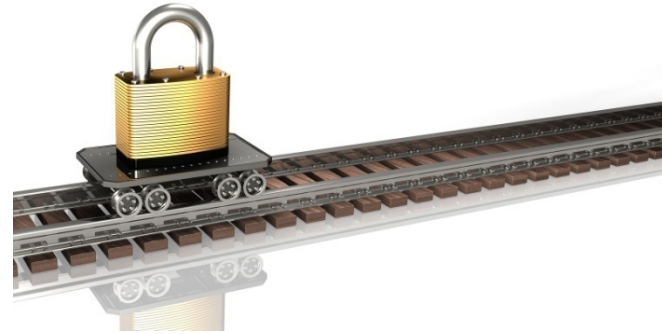
Security Mexico

- Security is the top priority for President Calderon
- The Federal Government has implemented a campaign highlighting two points:
 - *The levels of insecurity have not affected the flow of foreign investment in Mexico*
 - *Despite criticisms on the strategy in fighting the cartels, President Calderon has stated that his administration won't change it and he will continue to reinforce it*
- On a weekly basis KCS meets with Dr. Alejandro Poire Romero, Security Spokesman, in order to implement strategies oriented to reduce vandalism and robberies on the trains
 - *The meetings are attended by President Calderon's security advisors, Federal Police, and officer of the National Center of Intelligence and Security*
 - *Several operations have taken place, with positive results in Monterrey*

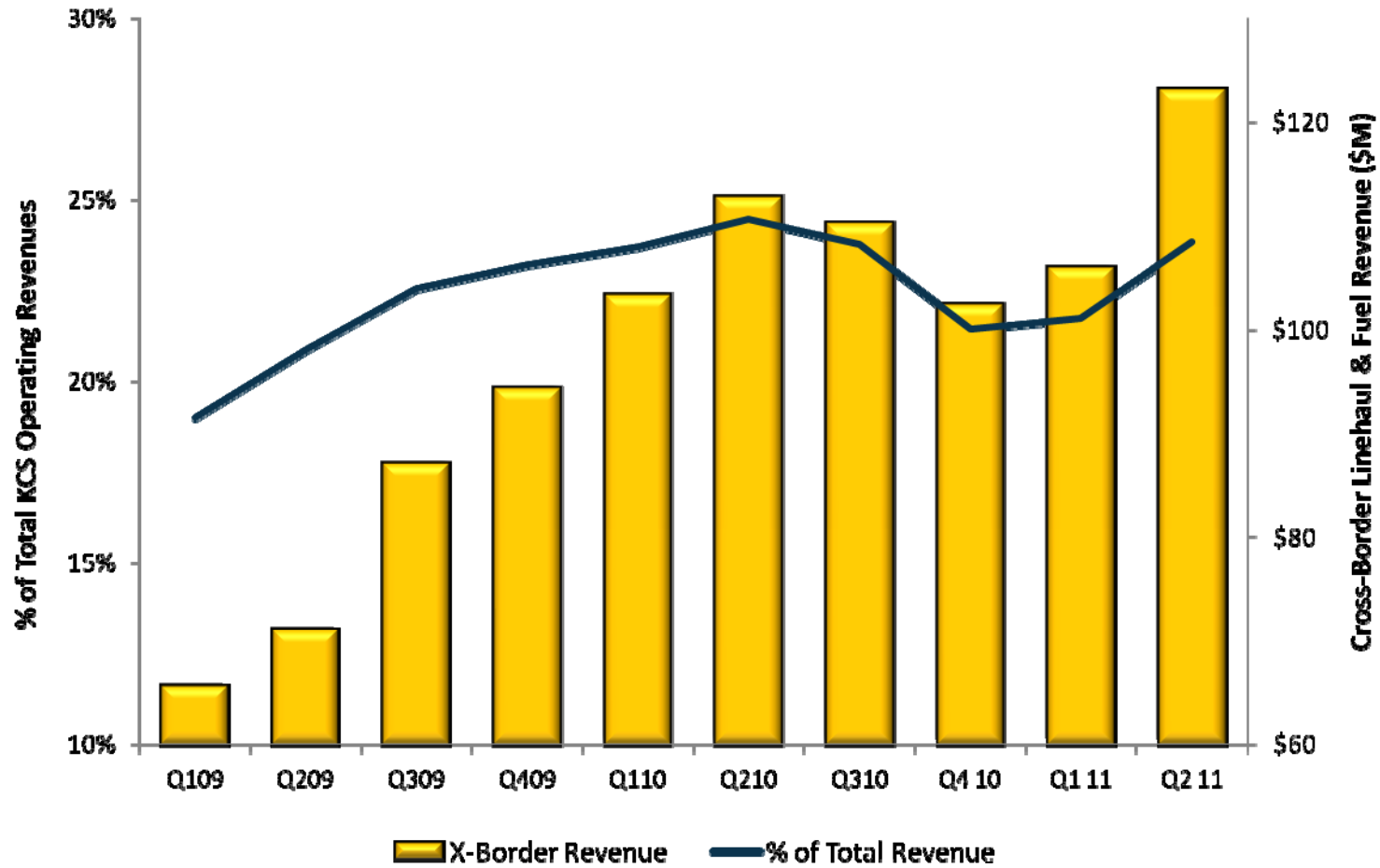


KCSM Shipment Security

- 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*



Total Cross Border Revenue



Mexico: The Most Important Country for the US in the 21st Century



Questions?

