



January 13, 2017

Dear Loyal KCSM Customer [all private shippers]:

In early 2016, Intermodal customers were converted to an “all-in” linehaul rate, where a fixed fuel surcharge was included in the linehaul rate<sup>1</sup> paid by customers (“*Linehaul Option*”). As announced on December 20, 2016, KCSM is working to provide Intermodal customers with options regarding the assessment of fuel surcharge in Mexico. In light of the increase in average diesel prices in Mexico that became effective on January 1, 2017, we are adjusting “all in” pricing related to the Linehaul Option to reflect the March 2017 fuel surcharge factor per mile, which will be based on January 2017 diesel fuel prices. Our teams will issue updated pricing in early February. If you have already made your letter selections in response to the December 20, 2016 letter, please resubmit your preferences to acknowledge the revised implementation timeline.

Beginning on March 1, 2017, Kansas City Southern de México, S.A. de C.V. (KCSM) will offer to intermodal customers a fuel surcharge option that disaggregates the fuel surcharge from the linehaul rate.<sup>2</sup> Under this new option, the fuel surcharge will be based on the distance of the route in car miles (“*Per Mile Option*”) and will be added to the linehaul rate without a fuel surcharge. The fuel surcharge under this option will change monthly as the cost of fuel changes.<sup>3</sup>

1. For the Per Mile Option, KCSM will use the same RDD methodology, adjusted for intermodal equipment (see section 2 below), based on mileage already published on our website at <http://www.kcsouthern.com/en-us/pdf/fuel-surcharge/fuel-variance-mileage.pdf>, which will now be applicable to Intermodal customers. Please refer to **Exhibit 1**.
2. The Per Mile Option will be scaled to account for the different sizes of Intermodal equipment:
  - a. The fuel surcharge applied to 40-foot and 53-foot-long Intermodal equipment<sup>4</sup> will be half (1/2) of the per mile fuel surcharge rate.
  - b. The fuel surcharge applied to 20-foot-long Intermodal equipment will be one-fourth (1/4) of the per mile fuel surcharge rate.
  - c. All conversions for Intermodal equipment will be rounded to the nearest one hundredth of a cent (i.e., 0.135 would be 0.14).

Please refer to **Exhibit 2**.

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<sup>1</sup> The “linehaul rate” is the rate applicable to the Public Rail Freight Transportation Services (SPTFC). Under the existing Linehaul Option, the Reduction on Linehaul Rate Discount due to Fuel Price variation (RDD) reflects the price of fuel as of January 2016.

<sup>2</sup> Except as described in footnote 4 below, the changes to the fuel surcharge program described in this letter will not impact shipments priced by carriers other than KCSM.

<sup>3</sup> Under the Per Mile Option, the total rate for SPTFC will be the sum of the rate component without a fuel surcharge plus a per mile fuel surcharge. Please refer to calculation examples attached hereto as **Exhibit 3**.

Selection of the Per Mile Option will result in EDI billing changes to TMXU Northbound shipments moving under rate authorities other than KCSM T 1800 and KCSM T 1908. Shippers subject to these changes will receive a separate letter describing these changes.

<sup>4</sup> Regarding 53’ container Equipment: For cross-border franchise shipments that involve KCSM and The Kansas City Southern Railway Company (KCSR), the Per Mile Option will be available in addition to the existing Linehaul Option on shipments that move from KCSM to KCSR destinations of Laredo ramp and Kendleton, as well as shipments from the KCSR Laredo ramp southbound to Mexico.



- 3. In case the Per Mile Option does not fit with your current business model, you may choose to remain subject to the existing Linehaul Option. Please be advised that for shippers subject to the existing Linehaul Option, the total amount per shipment paid to KCSM would fluctuate only at the time of annual renewal versus under the Per Mile Option, where the total amount would change monthly as fuel changes.

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We kindly request by February 20, 2017, your mark and signature indicating your desired fuel surcharge method for shipments with waybill effective date of March 1, 2017. A failure to respond by the deadline will result in a continuation of the current Linehaul Option on your business. The fuel surcharge method that you select below shall remain in effect for your business unless you request a change in writing, which change shall become effective on the next rate renewal date.

Sincerely,

Erik Bo Hansen  
Vice President, Intermodal  
[EHansen@KCSouthern.com](mailto:EHansen@KCSouthern.com)

\_\_\_\_I, representative of Company noted below, agree and authorize KCSM to assess fuel surcharge on my shipments based on the Per Mile Option, from waybill effective date of March 1, 2017. I agree and understand my total rate will update monthly to include changes to fuel costs. I also agree and understand that selection of the Per Mile Option may result in EDI billing changes to northbound TMXU shipments.

\_\_\_\_I, representative of Company noted below, agree and authorize KCSM to assess fuel surcharge on my shipments based on the existing Linehaul Option for the shipment of private equipment (including EMP and UMXU). I agree and understand my total rate will only update annually to include changes to fuel costs.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed: \_\_\_\_\_

Company: \_\_\_\_\_



**Exhibit 1**

**Policy of Reduction on Rate Discount applicable to Public Rail Freight Transportation due to the fuel price variations (RDD)**

The RDD is calculated monthly and added to the linehaul rate without a fuel surcharge in accordance to the methodology described below:

1. The first step to calculate the RDD is to determine the adjustment factor to apply (the “RDD factor”) during a given month. The RDD Factor will be determined in accordance with the values indicated in the factor chart included at the KCSM’s web page at <http://www.kcsouthern.com/en-us/pdf/fuel-surcharge/fuel-variance-mileage.pdf>.

The calculation will use the Fuel Price<sup>5</sup> from two months prior to the current month when calculating the RDD.

2. After having determined the RDD factor applicable for the month, it is multiplied by the distance of the corresponding route, that is, the total kilometers or miles in the service route. The distance associated with a route is calculated based on the mileage/kilometers obtained from the latest installed version of *ALK Technologies PC\*Miller Rail Program* between the origin and destination. Quotes and price matrixes will include distance information for each lane. The RDD Factor will remain fixed as long as the Fuel Price remains unchanged.
3. The RDD is the result of multiplying the distance for the route by the “RDD Factor” (RDD= Factor RDD \* distance).

The Total Rate<sup>6</sup> will be the addition of the Linehaul Rate plus the RDD.

Total Rate = Linehaul Rate + RDD

RDD= RDD Factor \* distance

The RDD will not apply when the Fuel Price is less than \$6.913 pesos per liter.

4. In case the Linehaul Rate is denominated in US dollars, a RDD Factor in US dollars will be applied. Conversion from MXP to USD will incorporate the average Foreign Exchange rate corresponding to the same reference month as the Fuel Price. The average Foreign Exchange rate will be calculated based on the average rate published by Banco de Mexico to pay obligations entered in USD payable in the Mexican Republic during the reference month.

For more information and examples refer to KCSM’s web page at <http://www.kcsouthern.com/en-us/pdf/fuel-surcharge/fuel-variance-mileage.pdf>

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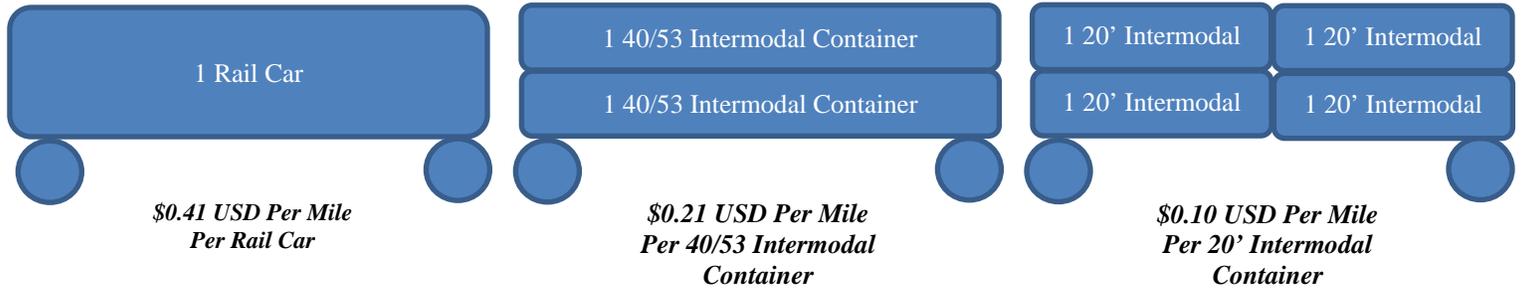
<sup>5</sup> “Fuel Price” is the average price invoiced by PEMEX to KCSM for diesel fuel (FOB Irapuato, before VAT) two months prior to the application of RDD. The Fuel Price for each month will be published on the KCS webpage at <http://www.kcsouthern.com>

<sup>6</sup> “Total Rate” is the total rate paid for the Rail Freight Transportation Services, calculated by adding the corresponding RDD to the applicable Linehaul Rate. Under no circumstances may the Total Rate exceed the corresponding TUCE to the service in question.



**Exhibit 2: Conversion Diagram for Intermodal Equipment**

**Fuel surcharge references based on November 2016 KCSM RDD Per Mile fuel surcharge, found on the [kcsouthern.com](http://kcsouthern.com) website.**



# KANSAS CITY SOUTHERN DE MÉXICO

MONTES URALES NO. 625, COL. LOMAS DE CHAPULTEPEC C.P. 11010, MÉXICO D.F.



## Exhibit 3: Calculation Examples

Rates will be adjusted considering the RDD per mile equivalents from March 2016, as March 2016 was the baseline for the 29.5% fuel surcharge which was considered in creating the new linehaul rates in January 2016, eliminating the separately assessed RDD percentage program.

Renewals for 2017 will first rebase the 2016 rate in effect to be the new RDD method of your choosing, and rate renewals will be applied on top of that figure.

Calculation Examples: Current Total Rate under Linehaul Program. Per Mile Fuel in calculation below as referenced in Exhibit 2 for each equipment type.

Origin	Destination	Container	Rail Miles	Total Rate Under Linehaul Option
Lazaro Cardenas	Pantaco	40' Loaded	494.00	\$700.00
Puerta Mexico	Salinas Victoria	53' Empty	625.00	\$350.00
Queretaro SID	Lazaro Cardenas	20' Empty	394.00	\$220.00
Interpuerto	Laredo	53' Loaded	483.00	\$675.00

Calculation Examples: From January 2017 Total Rate (disaggregated) under Per Mile Option.

Origin	Destination	Container	Rail Miles *	New Linehaul Rate (w/o Fuel Surcharge)	Fuel Under Per Mile Option (Rail Miles x fuel per mile)	Total Rate under Per Mile Option	Net Change
Lazaro Cardenas	Pantaco	40' Loaded	494.00	\$596.00	\$103.74	\$699.74	\$0.26
Puerta Mexico	Salinas Victoria	53' Empty	625.00	\$219.00	\$131.25	\$350.25	(\$0.25)
Queretaro SID	Lazaro Cardenas	20' Empty	394.00	\$177.00	\$39.40	\$220.40	(\$0.40)
Interpuerto	Laredo	53' Loaded	483.00	\$574.00	\$101.43	\$675.43	(\$0.43)

Reference: KCSM Fuel Surcharge - <http://www.kcsouthern.com/en-us/customer-resources/fuel-surcharge>

\* PC Rail, rounded to nearest whole mile