



January 2018

INFORMATION NOTE**Update of the Policy of Reduction on Rate Discount applicable to Public Rail Freight Transportation due to the fuel price variations**

Dear Customer,

Due to the changes experienced in the Mexican Fuel¹ market, as well as its variability on prices, effective February 1st 2018, Kansas City Southern de México, S.A. de CV. (KCSM) will update its policy of reduction on Linehaul Rate² discount applicable to Public Rail Freight Transportation³ due to fuel price variations (RDD⁴) as a factor per unit of distance for the route, based on the following:

The RDD is calculated monthly and added to the Linehaul Rate in accordance to the methodology described below:

1. The first step to calculate the RDD is to determine the adjustment factor to apply (hereinafter, the "RDD Factor") during a given month. The RDD Factor will be determined in accordance with the values indicated in the factor chart included in **Exhibit 1**. The calculation will use the Fuel Price⁵ from two months prior to the current month when calculating the RDD.

The RDD Factors established in the Exhibit 1 of this document are published for Cars or Hauling Equipments⁶. Regarding containers assigned to the intermodal traffic, the RDD Factor will be determined as follows:

¹ **Fuel.** Diesel used to provide the Public Rail Freight Transportation Service.

² **Linehaul Rate.** It is the rate applicable to the Public Rail Freight Transportation services which considers discounts from the TUCE (maximum rate registered before the authority that a Rail Concessionaire is allowed to apply for Public Rail Freight Transportation services) corresponding to a customer and service in particular. The RDD should be added to this rate.

³ **Public Rail Freight Transportation Service.** It is the public service of rail freight transportation that KCSM provides in accordance with its Concession Title, the Rail Service Regulatory Law and its Regulations, which only considers the rail transportation of cargo from a point of origin to a point of destination, without including any accessorial or additional services that may be generated.

⁴ **RDD.** Reduction on Linehaul Rate Discount due to Fuel Price variation, which will be used to calculate the Total Rate.

⁵ **Fuel Price.** It is the diesel fuel price at the Storage and Distribution Terminal at Irapuato (Terminal de Almacenamiento y Reparto - TAR) published by PEMEX; available at www.comercialrefinacion.pemex.com, in the "Current product prices" section inside the "General Consult". The price will be calculated based on the average daily price for the month (before VAT), two months prior to the application of RDD. The Fuel Price for each month will be published on the KCS webpage <http://www.kcsouthern.com>

⁶ **Cars or Hauling Equipment.** Rail car assigned to the Public Rail Freight Transportation Service that does not have its own traction.



Container	RDD Factor
20' ft Container	25% of the RDD Factor per Car or Hauling Equipment
40'- 53' ft Container	50% of the RDD Factor per Car or Hauling Equipment

- After having determined the RDD factor applicable to an equipment type (i.e. car, container) 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 KCSM-installed version of *ALK Technologies PC*Miler 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.
- The RDD is the result of multiplying the distance for the route by the RDD Factor (RDD= RDD Factor * distance).

The Total Rate⁷ will be the addition of the Linehaul Rate plus the RDD.

$$\text{Total Rate} = \text{Linehaul Rate} + \text{RDD}$$

$$\text{RDD} = \text{RDD Factor} * \text{distance}$$

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

- 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.

EXAMPLES

- Determining the RDD Factor applicable during February 2018 for a rail car movement:

Fuel Price during December = \$13.982 pesos per liter.

Determining the RDD Factor per car corresponding to the Fuel Price for December.

⁷ **Total Rate.** It 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.



Per KM Factors			Per Mile Factors		
Diesel Price (MXP/Liter)		RDD Factor	Diesel Price (MXP/Liter)		RDD Factor
From	To	MXP / Car KM	From	To	MXP / Car Mile
\$ 13.916	\$ 14.064	\$6.88	\$ 13.916	\$ 14.064	\$11.08

- Determining the RDD Factor per Car on rates denominated in US dollars applicable during February:

Average foreign exchange rate to pay obligations entered in USD payable in the Mexican Republic published daily by Banco de Mexico during December = \$19.1013 pesos/USD

$$\$6.88 / \$19.1013 = \$0.36 \text{ USD/Car KM}$$

$$\$11.08 / \$19.1013 = \$0.58 \text{ USD/Car Mile}$$

- Calculating the RDD for a Car on Laredo-San Luis Potosi route during February:

Distance = 475.2 miles

RDD Factor applicable during February = \$0.58 USD/Car Mile

$$\text{RDD} = \$0.58 \text{ USD/Car Mile} * 475.2 \text{ miles} = \$275.62$$

The Total Rate for a Car movement for the lane in question will be the result of adding the RDD to the applicable Linehaul Rate for such lane.



EXHIBIT 1

Charts of RDD Factors per Car or Hauling Equipment to calculate the RDD as a charging factor per unit of distance.

Diesel Price (MXP/Liter)		RDD Factor	Diesel Price (MXP/Liter)		RDD Factor
From	To	MXP / Car KM	From	To	MXP / Car Mile
\$ 6.913	\$ 7.061	\$2.33	\$ 6.913	\$ 7.061	\$3.74
\$ 7.062	\$ 7.210	\$2.42	\$ 7.062	\$ 7.210	\$3.90
\$ 7.211	\$ 7.359	\$2.52	\$ 7.211	\$ 7.359	\$4.06
\$ 7.360	\$ 7.508	\$2.62	\$ 7.360	\$ 7.508	\$4.21
\$ 7.509	\$ 7.657	\$2.71	\$ 7.509	\$ 7.657	\$4.37
\$ 7.658	\$ 7.806	\$2.81	\$ 7.658	\$ 7.806	\$4.52
\$ 7.807	\$ 7.955	\$2.91	\$ 7.807	\$ 7.955	\$4.68
\$ 7.956	\$ 8.104	\$3.00	\$ 7.956	\$ 8.104	\$4.84
\$ 8.105	\$ 8.253	\$3.10	\$ 8.105	\$ 8.253	\$4.99
\$ 8.254	\$ 8.402	\$3.20	\$ 8.254	\$ 8.402	\$5.15
\$ 8.403	\$ 8.551	\$3.30	\$ 8.403	\$ 8.551	\$5.30
\$ 8.552	\$ 8.700	\$3.39	\$ 8.552	\$ 8.700	\$5.46
\$ 8.701	\$ 8.849	\$3.49	\$ 8.701	\$ 8.849	\$5.62
\$ 8.850	\$ 8.998	\$3.59	\$ 8.850	\$ 8.998	\$5.77
\$ 8.999	\$ 9.147	\$3.68	\$ 8.999	\$ 9.147	\$5.93
\$ 9.148	\$ 9.296	\$3.78	\$ 9.148	\$ 9.296	\$6.08
\$ 9.297	\$ 9.445	\$3.88	\$ 9.297	\$ 9.445	\$6.24
\$ 9.446	\$ 9.594	\$3.97	\$ 9.446	\$ 9.594	\$6.40
\$ 9.595	\$ 9.743	\$4.07	\$ 9.595	\$ 9.743	\$6.55
\$ 9.744	\$ 9.892	\$4.17	\$ 9.744	\$ 9.892	\$6.71
\$ 9.893	\$ 10.041	\$4.27	\$ 9.893	\$ 10.041	\$6.86
\$ 10.042	\$ 10.190	\$4.36	\$ 10.042	\$ 10.190	\$7.02
\$ 10.191	\$ 10.339	\$4.46	\$ 10.191	\$ 10.339	\$7.18
\$ 10.340	\$ 10.488	\$4.56	\$ 10.340	\$ 10.488	\$7.33
\$ 10.489	\$ 10.637	\$4.65	\$ 10.489	\$ 10.637	\$7.49
\$ 10.638	\$ 10.786	\$4.75	\$ 10.638	\$ 10.786	\$7.64
\$ 10.787	\$ 10.935	\$4.85	\$ 10.787	\$ 10.935	\$7.80
\$ 10.936	\$ 11.084	\$4.94	\$ 10.936	\$ 11.084	\$7.96
\$ 11.085	\$ 11.233	\$5.04	\$ 11.085	\$ 11.233	\$8.11
\$ 11.234	\$ 11.382	\$5.14	\$ 11.234	\$ 11.382	\$8.27
\$ 11.383	\$ 11.531	\$5.23	\$ 11.383	\$ 11.531	\$8.42
\$ 11.532	\$ 11.680	\$5.33	\$ 11.532	\$ 11.680	\$8.58
\$ 11.681	\$ 11.829	\$5.43	\$ 11.681	\$ 11.829	\$8.74
\$ 11.830	\$ 11.978	\$5.53	\$ 11.830	\$ 11.978	\$8.89
\$ 11.979	\$ 12.127	\$5.62	\$ 11.979	\$ 12.127	\$9.05
\$ 12.128	\$ 12.276	\$5.72	\$ 12.128	\$ 12.276	\$9.20
\$ 12.277	\$ 12.425	\$5.82	\$ 12.277	\$ 12.425	\$9.36



Per KM Factors			Per Mile Factors		
Diesel Price (MXP/Liter)		RDD Factor	Diesel Price (MXP/Liter)		RDD Factor
From	To	MXP / Car KM	From	To	MXP / Car Mile
\$ 12.426	\$ 12.574	\$5.91	\$ 12.426	\$ 12.574	\$9.52
\$ 12.575	\$ 12.723	\$6.01	\$ 12.575	\$ 12.723	\$9.67
\$ 12.724	\$ 12.872	\$6.11	\$ 12.724	\$ 12.872	\$9.83
\$ 12.873	\$ 13.021	\$6.20	\$ 12.873	\$ 13.021	\$9.98
\$ 13.022	\$ 13.170	\$6.30	\$ 13.022	\$ 13.170	\$10.14
\$ 13.171	\$ 13.319	\$6.40	\$ 13.171	\$ 13.319	\$10.30
\$ 13.320	\$ 13.468	\$6.49	\$ 13.320	\$ 13.468	\$10.45
\$ 13.469	\$ 13.617	\$6.59	\$ 13.469	\$ 13.617	\$10.61
\$ 13.618	\$ 13.766	\$6.69	\$ 13.618	\$ 13.766	\$10.76
\$ 13.767	\$ 13.915	\$6.79	\$ 13.767	\$ 13.915	\$10.92
\$ 13.916	\$ 14.064	\$6.88	\$ 13.916	\$ 14.064	\$11.08
\$ 14.065	\$ 14.213	\$6.98	\$ 14.065	\$ 14.213	\$11.23
\$ 14.214	\$ 14.362	\$7.08	\$ 14.214	\$ 14.362	\$11.39
\$ 14.363	\$ 14.511	\$7.17	\$ 14.363	\$ 14.511	\$11.54
\$ 14.512	\$ 14.660	\$7.27	\$ 14.512	\$ 14.660	\$11.70
\$ 14.661	\$ 14.809	\$7.37	\$ 14.661	\$ 14.809	\$11.86
\$ 14.810	\$ 14.958	\$7.46	\$ 14.810	\$ 14.958	\$12.01
\$ 14.959	\$ 15.107	\$7.56	\$ 14.959	\$ 15.107	\$12.17
\$ 15.108	\$ 15.256	\$7.66	\$ 15.108	\$ 15.256	\$12.32
\$ 15.257	\$ 15.405	\$7.75	\$ 15.257	\$ 15.405	\$12.48
\$ 15.406	\$ 15.554	\$7.85	\$ 15.406	\$ 15.554	\$12.64
\$ 15.555	\$ 15.703	\$7.95	\$ 15.555	\$ 15.703	\$12.79
\$ 15.704	\$ 15.852	\$8.05	\$ 15.704	\$ 15.852	\$12.95
\$ 15.853	\$ 16.001	\$8.14	\$ 15.853	\$ 16.001	\$13.10
\$ 16.002	\$ 16.150	\$8.24	\$ 16.002	\$ 16.150	\$13.26
\$ 16.151	\$ 16.299	\$8.34	\$ 16.151	\$ 16.299	\$13.42
\$ 16.300	\$ 16.448	\$8.43	\$ 16.300	\$ 16.448	\$13.57
\$ 16.449	\$ 16.597	\$8.53	\$ 16.449	\$ 16.597	\$13.73

*If diesel price exceeds \$16.597 pesos/liter, then, each increase on diesel price of \$0.149 pesos/liter will result in additional \$0.097 pesos/KM and \$0.156 pesos/mile for the RDD Factor, with the final RDD Factor being rounded to two decimals.

Do not hesitate to contact your Sales representative should you have any question or comment. Thanks in advance.

Sincerely,

Kansas City Southern de México, S.A. de C.V.