

KANSAS CITY SOUTHERN

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MICHAEL R. HAVERTY
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

July 7, 2005

Chairman Roger Nober
Surface Transportation Board
1925 K Street NW, Suite 810
Washington, DC 20433

Dear Chairman Nober.

Thank you for your letter concerning Kansas City Southern's (KCS) view of fall peak demand, our plan to meet that demand and our approach to communicating that plan to our customers. This year has been one of significant progress for KCS with initiatives designed to enhance competitiveness and service reliability through peak season and beyond. Some of these initiatives include:

- The closing on April 1, 2005, of the Amended Acquisition Agreement placing The Kansas City Southern Railway Company (KCSR), The Texas Mexican Railway Company (Tex Mex) and TFM, S.A. de C.V. (TFM) under the common control of the holding company, KCS. The transition since closing is enhancing communication between the three railroads, improving asset utilization with shared efficiencies, and strengthening the operation.
- KCS' U.S. operation was reorganized into three divisions focused on promoting teamwork and achieving better communication between the transportation, mechanical and engineering departments. Two layers of management were removed and positions were added in the field, allowing more personalized service to customers and prompt problem resolution.
- KCS has hired 15 percent more train and engine employees than last year and enhanced training efforts with mobile locomotive simulators.
- Implementation of the Enterprise Workforce Management system on KCSR and Tex Mex was completed, providing more accurate and timely information to manage crew starts and reduce train delays.
- KCSR, Tex Mex and TFM are working together to improve locomotive asset utilization and taking every opportunity to grow the fleet. In January and February 2005, KCSR leased 12 SD40/45 locomotives from Montana Rail Link for 12 months. In July and August, KCSR will lease 18 more of these locomotives from Montana Rail Link, in addition to a 12-month lease of 12 SD40 locomotives from Helm. In an agreement on February 15, 2005, KCSR purchased 30 SD70ACe locomotives from Electro-Motive Diesel with delivery expected in fourth quarter 2005. Meanwhile, KCSR is using two SD70ACe prototypes and planning for two more.

To ascertain and prepare for the demand for rail service, the sales and marketing team regularly monitors a combination of factors, including foreign trade, population growth, interest rates, demand for building materials, automobiles, appliances and the price of oil. These factors would indicate that growth in the second half of the year will be strong, but not as strong as the first half of the year, and certainly not as strong as this time last year. To meet this demand, KCS has ascertained the growth plans for our top 20 customers, which represent 90 percent of our overall business, and matched our capital spending plans with our customers' requirements.

Already this year, KCS has experienced record volumes on both the primary north-south and east-west lines. Our performance goals are to maintain steady operating measurements, despite these volumes and an aggressive capital improvements program.

In 2005, KCS has continued to pursue capital improvements on the key north-south line from Kansas City, Missouri to Shreveport, Louisiana and Laredo, Texas, which connects to the strategically important, West Coast Port of Laredo, and on the Meridian Speedway between Dallas, Texas and Meridian, Mississippi, the fastest-growing, least-congested east west route in the U.S. These capital improvements projects include:

Systemwide

- In 2005, KCSR will install 21 miles of new and secondhand rail and 280,000 main line ties. Additionally, 35 turnouts will be replaced and \$4.1 million will be spent on bridge repairs and replacements.

Mississippi

- This summer, in the 11 miles of track between the east end of Vicksburg and the Mississippi River bridge, all the rail was relayed, the track was undercut, a 9,000-foot siding was added at Vicksburg and a new drainage system was added along the main track.
- By peak season, CTC will be added in the 50 miles between Bovay, Louisiana and Jackson through Vicksburg, and the yard and main track capacity at High Oak Yard in Jackson will be expanded.
- Also continuing this year, 18 sets of crossing signals and gates will be installed and 22 grade crossings surfaces will be upgraded as part of a five-year cooperative effort between KCSR and MDOT to improve safety at 88 public grade crossings.

Louisiana

- In September, a double track from west Magenta to the east end of the rail yard in Monroe will be completed, improving the lead for the yard operation.
- This fall, a multi-year project will begin that will increase the capacity of Deramus Yard in Shreveport by 50 percent. The north, classification lead will be modified, additional receiving/departure tracks will be constructed, existing receiving/departure tracks will be extended and CTC will be extended north to shorten the limits of Deramus Yard and six miles east to reduce dark territory.

Texas

- In June, Fox siding at Karnack was completed adding capacity for longer trains.
- By August a siding extension will be completed at Jury to accommodate longer trains.
- Tex Mex recently received a Railroad Rehabilitation & Improvement Financing loan, allowing several upgrades including siding extensions at Killiam, Realitos and Matthews,

two new sidings at Bruni and Benevidas, installation of approximately 170,000 ties as part of the main line tie project, installation of 158 miles of new and second hand continuously welded rail and 200,000 tons of ballast. These upgrades are planned for completion before the 2006 peak season.

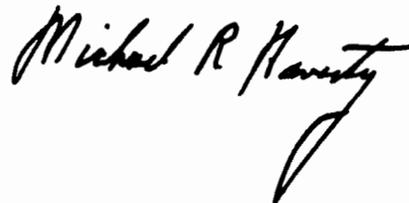
Oklahoma, Arkansas, Kansas

- In July, a double track extension and modification of CTC from north Howe to south Heavener, Oklahoma will be completed.
- In August, construction will begin on a siding extension and set out track at Wade, Arkansas to drop off and pick up distributed power.
- In August, a distributed power track and two main line crossovers will be completed in Pittsburg, Kansas.
- In September, a siding extension will be completed at Page, Oklahoma.

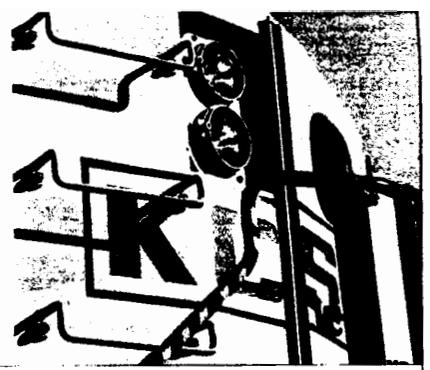
Communication of our plans and actions to customers is provided via multiple channels. Our account managers and customer service representatives are the primary, ongoing method of two-way communication. In addition, KCS communicates with customers via a quarterly customer newsletter, *Connections*, and timely emails and faxes regarding changes to service are available via www.kcsi.com.

KCS is committed to providing competitive, efficient and reliable service to our customers throughout the fall peak season and beyond, and we are confident that these plans and actions will help us continue to provide this service to customers.

Sincerely,

A handwritten signature in black ink that reads "Michael R. Haverty". The signature is written in a cursive style with a large, stylized initial "M" and a long, sweeping tail on the "y".

Michael R. Haverty



KANSAS CITY SOUTHERN CONNECTIONS

A CUSTOMER NEWSLETTER FOR THE NAFTA RAILWAY

KCS announces closing of TFM transaction; Names TFM interim CEO

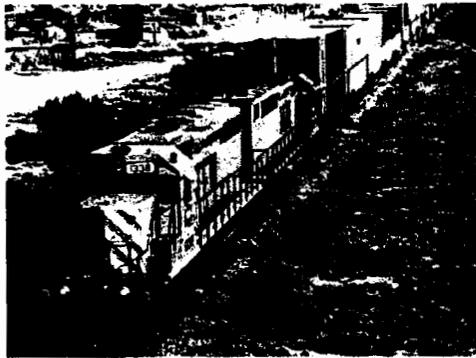
On March 29, 2005, Kansas City Southern (KCS) stockholders, on an affirmative vote of 99% of the shares voted at a special meeting, approved the issuance of 18 million shares of common stock, plus the potential issuance of additional shares under certain circumstances, in conjunction with KCS' acquisition of a controlling interest in TFM, S.A. de C.V. (TFM). With this approval, all of the conditions precedent to the closing covered in the December 15, 2004 Amended and Restated Acquisition Agreement were satisfied. On April 1, 2005, KCS completed its purchase of the controlling interest in TFM, KCS now owns all of the common stock of Grupo Transportación Ferroviaria Mexicana, S.A. de C.V. and controls all of the shares of TFM entitled to full voting rights.

"This is an historic opportunity to create one of North America's premier railroads," said Michael R. Haverty, KCS chairman, president and chief executive officer. "TFM, KCSR and Tex Mex will now operate under common overall leadership, creating a seamless transportation system that spans the heart of North America."

The union of TFM, The Kansas City Southern Railway Company (KCSR) and The Texas Mexican Railway Company (Tex Mex) under common ownership has several inherent advantages for Mexico and the entire NAFTA region including greater investment in cross-border transportation infrastructure, the implementation of advanced cargo tracing and tracking systems, improved border security, and world-class employee training programs. The long-term result will be more employment opportunities and greater overall competitiveness in Mexico.

TFM will remain a Mexican corporation with Mexican leadership. As of April 1, 2005, Vicente Corta Fernández has assumed the duties of TFM Interim CEO. "Vicente Corta is a skilled negotiator and a natural leader," said Haverty. "He comes to TFM as part of a distinguished career in government and private business. We will all look to Vicente for leadership and guidance as we work together to take TFM to the next level."

KCS was founded in 1887 by Arthur E. Stilwell, whose vision was to build a railroad from the U.S. heartland directly south to the Gulf of Mexico and to Mexico to transport commodities from there to markets throughout the world. With the signing of the North American Free Trade Agreement, KCS made a strategic decision to build upon Arthur Stilwell's 19th century vision, and to become a significant carrier of North American freight through the NAFTA trade corridor.



New data warehouse to improve service reliability

The KCSR and Tex Mex service design team is now using a new data warehouse to perform research and analysis on historical data derived from the Management Control System (MCS). While MCS is used to research current, real-time activity, the new data warehouse provides the capability to extend analysis to include historical data. This business intelligence tool adds a new dimension to our efforts to analyze and improve service quality.

The data warehouse will allow us to quickly and accurately get a comprehensive view of any number of the parameters involved in the service design process to evaluate trends, identify synergies and cost savings opportunities and develop new service offerings. In addition to the service design team, the sales and marketing department will use the new data warehouse to monitor shipment performance. Historical shipment performance can be analyzed for railcar or intermodal traffic across various shipping lanes, or to measure individual customer commitments.

With better information to measure performance against plan, KCSR and Tex Mex have taken another step toward continually improving our service offerings and being a reliable supply partner for our customers.

Tex Mex transition enhances service, lowers operating costs

On November 29, the Surface Transportation Board approved KCS' application for authority to control Tex Mex and the U.S. portion of the International Rail Bridge at Laredo, TX. Control was taken on January 1, 2005. Since that time, a KCS task force has been working to integrate all KCSR and Tex Mex departments to enhance service to customers and lower operating costs.

In April 2005, the Tex Mex information technology systems will begin being phased out and migrated to KCSR systems. This includes revenue and pricing applications. Tex Mex is already using the Management Control System (MCS) and soon will be using Enterprise Workforce Management (EWM) for payroll and timekeeping.

The transition is anticipated for completion by mid-year. While KCSR and Tex Mex will be under the same management and governed by many of the same operating processes and procedures, Tex Mex will retain its own identity.

Much of the current operation, including transportation, engineering, mechanical and police is already integrated or may receive only minor changes. Changes to the operating department will include more complete use of the Critical Incident Desk and assurance that personal protective and other equipment standards meet KCS standards. More substantial changes will affect the finance, marketing and information technology functions.

KCS to purchase 30 new SD70ACe locomotives

In January 2005, KCS agreed to purchase 30 new SD70ACe locomotives from the Electro-Motive Division of General Motors Corporation (GM) to be delivered in fourth quarter 2005. In 2004, GM offered KCSR a 75-day, free trial of two, new SD70ACe locomotives. The primary benefit of the new SD70ACe is that it can pull 9.6 percent more 110-ton coal cars than any of the locomotives currently in the fleet.

E-commerce enhances security, efficiency

The KCSR and Tex Mex e-commerce team is developing a number of new initiatives to make doing business with KCS online more secure, convenient and efficient for customers.

- Effective March 28, when customers register to perform Online Transactions at www.kcsi.com they will find a new legal disclaimer. The revised disclaimer is more detailed and consistent with industry standards.

- In third quarter 2005, KCS will launch a new online registration process, allowing customers to customize and reset their own ID and pass words to access all Online Transactions.
- Later this year, an improved bill of lading process will be released, simplifying the billing process for customers with intuitive field patterns that match customer profiles in the Management Control System (MCS).



Demurrage simplified

In the last year, KCS has made great strides toward making the demurrage process better organized and more efficient. To ensure you are handling demurrage bills correctly, manager demurrage collections Jamie Mayrose recommends the following:

- Proactive customer monitoring of demurrage is recommended by using Track and Trace and other tools at www.kcsi.com.
- Payment/Claims for relief must be submitted within 30 days from invoice date. After 30 days, claims will not be accepted and the invoice is due in full. Claims must identify the car(s) in question, state the reason the charges are contested, and have supporting documentation.
- To change your billing address or receive your invoice via email, please email your request and patron number to Jamie Mayrose.
- KCS Tariff 6000-C governing demurrage can be found at www.kcsi.com. Simply go to For Customers, Doing Business with KCS and then Switching/Demurrage/Diversion & Other Charges.
- For more information, contact Jamie Mayrose at (816) 983-1927 or jamie.l.mayrose@kcsr.com.

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KCS Connections is a newsletter for customers. Please direct feedback to the editor at 816-983-1372 or doniele.c.kane@kcsr.com.

KCS poised for transition with new leadership

New KCSR and Tex Mex President



Arthur L. Shoener
In January 2005, Kansas City Southern (KCS) announced the appointment of Arthur L. Shoener to the positions of executive vice president and chief operating officer of KCS and president and chief executive officer of The Kansas City Southern Railway Company (KCSR) and The Texas Mexican Railway Company (Tex Mex). Shoener reports directly to KCS chairman, president and chief executive officer, Michael R. Haverty. "We are fortunate to have someone of Art Shoener's caliber join KCS," stated Michael Haverty. "He is widely acknowledged to be one of the premier railroad operations professionals in the business. He comes to KCS at a crucial juncture in the Company's history as we set out to significantly enlarge the scope of our operations in the U.S. and internationally. Art provides us with the expertise and management capabilities to ensure that KCS' rail investments

achieve and maintain the highest level of operational efficiency and customer service."

"I welcome the challenge of joining what will be the fastest growing railroad system in North America," said Art Shoener. "KCS has the opportunity to create something unique within the transportation industry, something no other railroad can duplicate. The opportunities are enormous. To succeed, all of KCS' rail holdings must be operated at the highest level of efficiency, while at the same time we aggressively market our rail services to achieve top line growth. I look forward to working with the entire KCS team to attain the exceptional results that we know are possible."

Shoener is directly responsible for managing all of KCS rail holdings within the United States. As executive vice president and chief operating officer, he plays an important advisory role in the oversight of TFM, S.A. de C.V. (TFM), the Mexican subsidiary of the Company, and The Panama Canal Railway Company (PCRC), which operates across the Isthmus of Panama.

New sales and marketing team restructures into business units

In January, KCS also announced the appointment of Owen M. Zidar to the sales and marketing team. In March, along with a sales and marketing department restructuring announcement; Zidar was appointed vice president sales and marketing, carload business unit; Michael R. Bilovesky was promoted from assistant vice president to vice president sales and marketing, agriculture and minerals business unit; William J. "Jim" Wochner was promoted from vice president and general solicitor to vice president sales and marketing, coal business unit and contracts; and

Michael J. Smith's title was changed to vice president sales and marketing, intermodal and automotive business unit.

The restructuring of the department into business units removes layers from the organization, facilitating more responsive, personalized service to customers, greater ease of doing business, and focus on development of major accounts. It also provides sales and marketing employees with career development opportunities and cross-training within the four commodity group business units.



Owen M. Zidar



Michael R. Bilovesky



Jim Wochner



Michael J. Smith

Operations department restructures

In line with the sales and marketing department restructuring, the operations department has restructured into three divisions to remove layers from the organization, improve decision-making response time and provide for more effective cross-functional teamwork.

The Midwest Division, based in Shreveport is defined as the line from East St. Louis, Ill. to Kansas City, Mo., including the Kansas City Terminal, south to Shreveport and south from Shreveport to New Orleans, La. The Southeast Division, based in Shreveport includes the Meridian Speedway from

Dallas, TX to Meridian, Miss., north to Counce, Tenn., east to Tuscaloosa, Ala. and south to Gulfport, Miss. and includes Shreveport Terminal. The Texas Division to be based in Houston, TX, includes all of Tex Mex, as well as the Beaumont Subdivision, which is the line south from Shreveport to Port Arthur, TX.

Each division is organized similarly with cross-functional leadership in transportation, mechanical and engineering. A complete list of new contacts by department can be found in the Employees and Friends section of www.kcsi.com under Department Directory.

KCSR undertakes major Meridian Speedway upgrade program

In 2005, KCSR plans to invest \$10 million to upgrade its track from just east of Vicksburg, Miss. to the Mississippi River, a distance of approximately 11 miles. The program includes inserting new ties, laying new rail across the bridge over the Mississippi River, relaying all of the rail in the area, undercutting the track, adding a new 9,000 foot siding at Vicksburg and building a new drainage system along the main track. An additional \$3.1 million will be invested in Centralized Traffic Control (CTC) in the 50 miles between Bovay, La. and Jackson, Miss. through Vicksburg. CTC improves operating safety and will help expedite trains through Vicksburg. This major rehabilitation and upgrade program began the first week of 2005, and is planned for completion in the second quarter.

The Vicksburg project is only one of many that KCSR has undertaken, or will undertake, on the Meridian Speedway from Vicksburg to Meridian. In addition to a number of projects completed in 2004, projects planned for 2005 include:

- Installation of 18 sets of crossing signals and gates and 22 grade crossing surface upgrades as part of a \$10 million, five-year cooperative effort between KCSR and the Mississippi Department of Transportation to improve safety at 88 public grade crossings between Vicksburg and Meridian.
- Additional yard and main track capacity will be added to KCSR's yard at Pearl, Miss. (near Jackson) to process cars for Mississippi customers.
- Planning continues for a new overpass at Pearson Road in Pearl that will relieve congestion for motorists, and enhance rail capacity with the addition of a third track just east of High Oak Yard.

KCSR is committed to continuing to spend millions of dollars on the Meridian Speedway in the future to improve capacity, improve safety and expedite rail traffic across Mississippi as part of a strategic rail corridor moving goods between the southeast, southwest and Mexico.