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**Corporate Governance Guidelines**  
**of Kansas City Southern**

These guidelines have been approved and adopted by the Board of Directors (the "Board") of Kansas City Southern ("KCS or the "Company"). The guidelines, along with the Certificate of Incorporation, Bylaws and the charters and key practices of the Board committees, form the framework for governance of the Company.

**I. Role of Board and Management.** The Company's business is conducted by its employees, managers and officers, under the direction of the chief executive officer (CEO) and the oversight of the Board, to enhance the long-term value of the Company for its stockholders. The Directors are elected by the stockholders to oversee management and to assure that the long-term interests of the stockholders are being served.

**II. Functions of the Board.** The Board will meet as frequently as necessary for the Board to properly discharge its responsibilities. Regularly scheduled meetings of the Board are held four times a year, at which the Board receives and discusses reports from Committees of the Board, reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. Directors are expected to attend all scheduled Board and committee meetings. Directors are encouraged to attend the Annual Meeting of Stockholders. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

- a. selecting, evaluating and compensating the CEO and overseeing CEO succession planning;
- b. providing counsel and oversight on the selection, evaluation, development and compensation of senior management;
- c. reviewing, monitoring and approving fundamental financial and business strategies and major corporate actions;
- d. assessing major risks facing the Company and reviewing options for dealing with such risks; and
- e. ensuring processes are in place for maintaining the integrity of the Company, including the integrity of the financial statements and relationships with customers, suppliers and other stakeholders.

Information and materials for Board consideration are to be distributed to Directors sufficiently in advance of each Board meeting to permit appropriate consideration, except with respect to matters which arise without sufficient time to complete distribution of materials in advance.

**III. Director Selection Process.** The Directors are elected each year by the stockholders at the Annual Meeting of Stockholders to serve a three-year term. The Board, following receipt of recommendations from the Nominating and Corporate Governance Committee, is responsible for proposing a slate of nominees for consideration each year. Between annual meetings, the Board, in accordance with the KCS Bylaws, may elect Directors to fill vacancies and newly created positions.

Stockholders may propose nominees in accordance with Article I, Section 11 of the KCS Bylaws for consideration by the Nominating and Corporate Governance Committee by submitting a timely written nomination notice to the Office of the Corporate Secretary at Kansas City Southern, P.O. Box 219335, Kansas City, Missouri, 64121-9335, or via express carrier to Corporate Secretary, Kansas City Southern, 427 West 12<sup>th</sup> Street, Kansas City, Missouri 64105.

**IV. Director-Nominee Evaluation and Identification.** At least annually, the Nominating and Corporate Governance Committee will evaluate the governance needs of the Company, including consideration of director-nominee candidates to fill existing or anticipated vacancies on the Board or to make appropriate additions to the Board. In making its evaluation, the Nominating and Corporate Governance Committee will consider the qualifications, qualities and skills referred to below, in the context of the current composition and performance of the Board and of the evolving needs of the Company.

The Nominating and Corporate Governance Committee may in its discretion utilize the resources and relationships of its members, Company stockholders and executive recruiting or search firms to identify director-nominee candidates, as provided in the Nominating and Corporate Governance Committee Charter. Nominees recommended by stockholders in compliance with the Bylaws of the Company will be evaluated on the same basis as other nominees considered by the Nominating and Corporate Governance Committee

**V. Director Qualifications, Qualities & Skills.** Directors and nominees must be committed to representing the long-term interests of the stockholders and must meet, at a minimum, the following qualifications:

- Highest personal and professional ethics, integrity and values;
- Independence, in accordance with the requirements of the New York Stock Exchange, unless their lack of independence would not prevent two-thirds of the Board from meeting such requirements;
- No current service on Boards of companies that, in the judgment of the Nominating and Corporate Governance Committee, are in competition with, or opposed to the best interests of, the Company;
- Below the age of 72 years as of the date of the meeting at which their election would occur.

Additionally, it is considered desirable that directors and nominees possess the following qualities and skills:

- Significant experience at policy making levels in business, government or education;
- Significant experience or relationships in, or knowledge about, geographic markets served by the Company or industries that are relevant to the Company's business;
- Willingness to devote sufficient time to carrying out their duties and responsibilities effectively, including service on appropriate committees of the Board.

**VI. Director Independence.** A majority of the members of the Board must be independent, as determined affirmatively by the Board in accordance with the listing standards of the New York Stock Exchange; although the goal of the Company is to have two-thirds of the members of the Board meet these standards of independence. To be considered independent, no member of the Board may:

- Have a material relationship with the Company (directly or as a partner, shareholder or officer of an organization that has such a relationship); provided, a material relationship shall not be inferred merely because (i) the Director is a director, officer, shareholder, partner or principal of, or advisor to, another company that does business with the Company and the annual sales to, or purchases from, the Company are less than the greater of \$1 million or 2% of the annual revenues of the other company, if the Director does not receive any compensation as a direct result of such business with the Company or (ii) the Director is an officer, director or trustee of a charitable organization, and the Company's discretionary charitable contributions to that organization are less than the greater of \$1,000,000 or 2% of that organization's consolidated gross revenues;
- Be, or have been during the three years preceding the determination, an employee, or have an immediate family member who is, or was during the three years preceding the determination, an executive officer, of the Company,;
- Have received, or have an immediate family member who has received during any twelve-month period within the three years preceding the determination, more than \$100,000 in direct compensation from the Company, other than director and committee fees, pension or other forms of deferred compensation for prior service (provided such deferred compensation is not contingent in any way on future service);
- Be, or have an immediate family member who is, a current partner of a firm that is the Company's internal or external auditor; be a current employee of such a firm; have an immediate family member who is a current employee of such firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or have been, or have an immediate family member who was, within the three years preceding the determination (but is no longer) a partner or employee of such firm and personally worked on the Company's audit within that time;
- Be, or have been during the three years preceding the determination, employed, or have had an immediate family member who is, or was during the three years preceding the determination employed, as an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee;
- Be a current employee, or have an immediate family member who is a current executive officer, of a company that, has made payments to, or received payments

from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of such other company's consolidated gross revenues for the last completed fiscal year of such other company.

An immediate family member includes a Director's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares the Director's home.

References to the "Company" include any subsidiary in a consolidated group with the Company.

The Company will not make any personal loans or extensions of credit to Directors or executive officers. No Director or immediate family member may provide personal services for compensation to the Company, unless approved unanimously by the Non-management Directors.

**VII. Director Orientation and Education.** The Company will maintain an orientation program for new Directors. In addition, the Company will provide Directors information about appropriate programs Directors are encouraged to attend and provide appropriate materials to assist Directors in performing their Board responsibilities.

**VIII. Director Tenure, Succession and Retirement.** Directors serve for a three-year term and until their successors are elected. Subject to the following policy on Director retirement, there are no limits on the number of three-year terms that may be served by a Director. Pursuant to the Bylaws of the Company, no person is eligible to be nominated or serve as a Director after such person's 72<sup>nd</sup> birthday, unless that birthday occurs during the term of directorship to which he or she was elected, in which case, such Director is eligible to serve the remainder of such term. Any Director may resign at any time by giving written notice to the President or the Secretary, effective upon or after receipt of such notice.

**IX. Board Committees.** The Board has established the following committees to assist the Board in discharging certain of its responsibilities: (i) Audit; (ii) Compensation and Organization; and (iii) Nominating and Corporate Governance. Members of each of these committees must consist only of Independent Directors as defined by the New York Stock Exchange listing standards. In addition, members of the Audit Committee must also meet applicable standards established by the SEC for Audit Committee members. In addition, the Board has established the Finance Committee, which shall have a minimum of three directors, a majority of whom shall be non-officer directors. Each committee has adopted a charter and shall review it at least annually and amend it from time to time as appropriate. Committee charters and subsequent amendments thereto are subject to Board approval. The current charters of these committees shall be published on the Company's website and will be mailed to stockholders on written request. The committee chairs report the highlights of their meetings to the full Board following each meeting of the respective committees. The Board has also established an Executive Committee empowered to act with the authority of the Board when the Board is not in session, to the extent permitted by law and by the Bylaws of the Company. Effective following the annual meeting of shareholders in 2004, a majority of the members of the Executive Committee shall be Independent Directors, as defined by the New York Stock Exchange listing standards.

**X. Financial Literacy and Financial Expert on Audit Committee.** The Company requires, in accordance with New York Stock Exchange listing standards, that each member of the Audit Committee be financially literate, as determined by the Board of Directors. Financial literacy requires, at a minimum, that the member possess the ability to read and understand the fundamental financial statements of the Company so as to be able to discuss the adequacy of such statements. In addition, it is the Company's policy that at least one member of the Audit Committee meet the definition of "audit committee financial expert" set forth in the rules of the Securities and Exchange Commission.

**XI. Service by Audit Committee Members on Audit Committees of More than Three Other Public Companies.** The Company does not limit the number of audit committees on which the members of its Audit Committee may serve. However, for any director to simultaneously serve on the Company's Audit Committee and the audit committees of more than three other public companies, the Board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the Company's Audit Committee and disclose that determination in the Company's annual proxy statement.

**XII. Meetings of Non-Management Directors and Independent Directors.** The non-management Directors will meet in executive session, without management present, before each scheduled Board meeting. The Board shall designate one independent director as Presiding Director, whose duties shall include: (a) authority to call meetings of non-management directors, (b) presiding at meetings of non-management directors, (c) serving as liaison between the Chairman and non-management directors, and (d) presiding at all meetings of the Board when the Chairman is not present. The independent Directors will meet annually in February without the presence of any non-independent Directors. The independent directors may also meet without the presence of non-independent Directors at such other times as they deem necessary or desirable.

**XIII. Self Evaluation.** The Board and each of the committees will perform an annual self-evaluation. The Directors will be requested to provide their assessments of the effectiveness of the Board and of the committees on which they serve. The assessments should include the Board or committee's contribution as a whole, and specific areas in which the Board, Management and each committee believe their respective contributions could be improved. The individual assessments will be organized and summarized by outside legal counsel experienced in corporate governance for discussion with the Board and the committees.

**XIV. Agenda Items for Board Meetings.** The Board shall be responsible for its agenda. Sufficiently in advance of each Board meeting, the Chairman will establish a schedule of agenda subjects to be discussed at such meeting. Each Director is free to raise meeting subjects that are not on the agenda for that meeting.

**XV. Ethics and Conflicts of Interest.** The Board expects the Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's Business Ethics and Compliance Policy. The Board will not permit any waiver of any ethics policy for any director or executive officer. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Board. If a significant conflict exists and cannot be resolved, the director should resign. All Directors will

recuse themselves from any discussion or decision affecting their personal, business or professional interests.

**XVI. Reporting of Concerns/Complaints.** Anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls or auditing matters, is encouraged to communicate that concern directly to the Chair of the Audit Committee or the Presiding Director, and may also communicate the concern to any other Director. Such communications may be confidential or anonymous, and may be submitted in writing, or reported by phone to special addresses and a toll-free phone number that are published on the Company's website. Concerns received which relate to accounting, internal controls or auditing conduct will be sent immediately to the chair of the Audit Committee. All other concerns will be sent immediately to the Presiding Director. The status of all such concerns will be reported periodically to the Board. The Audit Committee chair or the Presiding Director may direct that certain matters be presented to the Audit Committee, to the non-management directors or to the full Board, and may direct special treatment, including the retention of outside advisors or counsel, for any such concern. The Company's policy prohibits any employee from retaliating or taking any adverse action against anyone for raising or helping to resolve an integrity concern.

**XVII. Compensation of Non-management Directors.** Non-management Directors will receive compensation for their service as Board members that is competitive and encourages ownership of the Company's stock. The Company should report once a year to the Compensation and Organization Committee, the status of Board compensation in relation to similar U.S. companies. The Board and the Compensation and Organization Committee will review the annual compensation report from the Company and determine whether any changes need to be made to non-management Director compensation.

**XVIII. CEO Succession Plan.** The Board shall approve and maintain a succession plan for the CEO and senior executives based upon recommendations from the Compensation and Organization Committee. The CEO will make available to the Compensation and Organization Committee, on a continuing basis, the CEO's recommendation concerning who should assume the CEO's role in the event the CEO becomes unable or unwilling to perform his or her duties.

**XIX. Annual Compensation Review of Senior Management.** The Compensation and Organization Committee shall annually approve the goals and objectives for compensating the CEO. The Committee shall evaluate the CEO's performance in light of these goals before setting the CEO's salary, bonus and other incentive and equity compensation. The Committee shall also annually approve the compensation structure for the Company's officers.

**XX. Director Access to Management.** Directors have full and free access to management of the Company. Any meetings with any member of management which a Director wishes to initiate may be arranged directly by the Director or through the Corporate Secretary.

**XXI. Access to Independent Advisors.** The Board and its committees shall have the right at any time to (a) retain, at the Company's expense, and terminate, independent outside financial, legal or other advisors it deems necessary to fulfill its responsibilities and (b) determine the compensation of such advisors that will be paid by the Company.

**XXII. Stockholder Communications with the Board.** Stockholders may communicate directly with the Board, with non-management Directors or with any individual Director by sending such communication in writing to the office of the Corporate Secretary, Kansas City Southern, P.O. Box 219335, Kansas City, Missouri, 64121-9335, or by express carrier to Corporate Secretary, Kansas City Southern, 427 West 12<sup>th</sup> Street, Kansas City, Missouri 64105. To be considered, such communications must be signed by the stockholder, with the stockholders' name, address and telephone number and such information as may be necessary to verify the stockholder's ownership of common stock or preferred stock of the Company. All such communications made in compliance with these requirements will be forwarded by the Corporate Secretary, following verification of the stockholder's ownership of corporate securities, to the Chairman of the Nominating and Corporate Governance Committee, to the Presiding Director, or to any individual Director identified in such communication as the intended recipient. The Chairman of the Nominating and Corporate Governance Committee, the Presiding Director and any other recipient of such stockholder communication shall review the communication with the Board or group addressed in the communication for such response or other action as the Board or group shall deem appropriate.

**XXIII. Review of Corporate Governance Guidelines.** The Directors and Nominating and Governance Committee will review the adequacy of these Guidelines periodically and recommend any proposed changes to the Board for approval.