

KCS Energy, Inc.
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January 5, 2001

To Our Creditors and Shareholders:

I am pleased to report that we have reached an agreement with the Official Committee of Unsecured Creditors (the "Committee") and Credit Suisse First Boston on a consensual plan of reorganization for KCS, which is included in this package as the Debtors Fourth Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Consensual Plan").

KCS management believes the Consensual Plan is the ideal blueprint for KCS to emerge from bankruptcy on a timely basis because it pays all creditors the full amount of their claims and preserves the equity in its business for shareholders. The Committee, Credit Suisse First Boston, and each of the four noteholder members of the Committee have agreed to support the Consensual Plan. **KCS MANAGEMENT URGES YOU TO VOTE TO ACCEPT THE CONSENSUAL PLAN.** The Committee has also recommended that creditors and shareholders vote to accept the Consensual Plan.

KCS sought relief in chapter 11 when, in our view, an extreme downturn in oil and gas prices reduced its cash flow below what was necessary to stay current on its interest obligations to noteholders. We believe this situation was temporary and has reversed itself. Oil and gas prices have improved. Our average realized price was up more than 55% for the first nine months of 2000 and has increased further since then. KCS posted record earnings for its last two quarters ended June 30 and September 30, 2000, and expects to report another record quarter ended December 31, 2000.

The Consensual Plan provides that KCS will remain in business with a reorganized capital structure. As a part of the Consensual Plan, KCS will raise at least \$25 million, but not more than \$30 million, in new equity in a private placement of convertible preferred stock. An overview of the distributions to be made to classes of creditors and shareholders under the Consensual Plan is included in the Supplemental Disclosure Statement for Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Supplemental Disclosure Statement"). Please carefully review this Supplemental Disclosure Statement together with the Disclosure Statement previously sent to you. Together they fully describe the history of the chapter 11 case, our view of the current state of KCS, and the Consensual Plan.

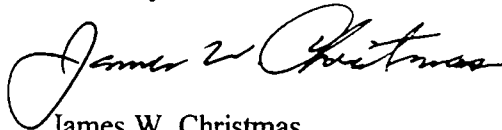
Under the Consensual Plan:

- All administrative expenses of the chapter 11 case (including general trade claims arising after the bankruptcy) will be paid in full in cash.
- The secured bank claims will be paid in full in cash.
- Holders of the 11% Senior Notes will be paid all past due interest as of January 15, 2001, compounded semi-annually, and \$60 million of principal repayment together with interest from January 15, 2001 to the Effective Date. The remaining \$90 million principal amount will be renewed subject to an amended indenture at the same interest rate.
- Holders of the 8.875% Senior Subordinated Notes will be paid all past due interest as of January 15, 2001, compounded semi-annually. The \$125 million principal amount will be renewed subject to an amended indenture at the same interest rate with an accelerated maturity date of January 15, 2006.
- General unsecured claims due and payable on or before the Effective Date will be paid in full in cash on the Effective Date.
- Our shareholders will retain all of their existing shares, which will represent approximately 77.84% of the common stock equity ownership of KCS on a fully diluted basis assuming \$25 million (74.53% assuming \$30 million) of new convertible preferred stock is issued in connection with the Consensual Plan.

The management of KCS respectfully urges all KCS' Senior Noteholders, Senior Subordinated Noteholders and Shareholders (the voting classes) to **vote to accept the Debtors' Plan.**¹ We are dedicated to the prompt reorganization of KCS for the benefit of all creditors and shareholders.

Thank you for your support.

Sincerely,



James W. Christmas
President and Chief Executive Officer

¹ If you are a Shareholder and you previously voted in connection with the Debtors' Third Amended Plan of Reorganization (also known as the Debtors' Plan) your previous vote will be carried forward and counted as your vote on the Consensual Plan unless you cast a new ballot. You must submit a new ballot if you wish to change your previous vote. Senior Noteholders and Senior Subordinated Noteholders **must** return a new ballot to vote on the Consensual Plan.