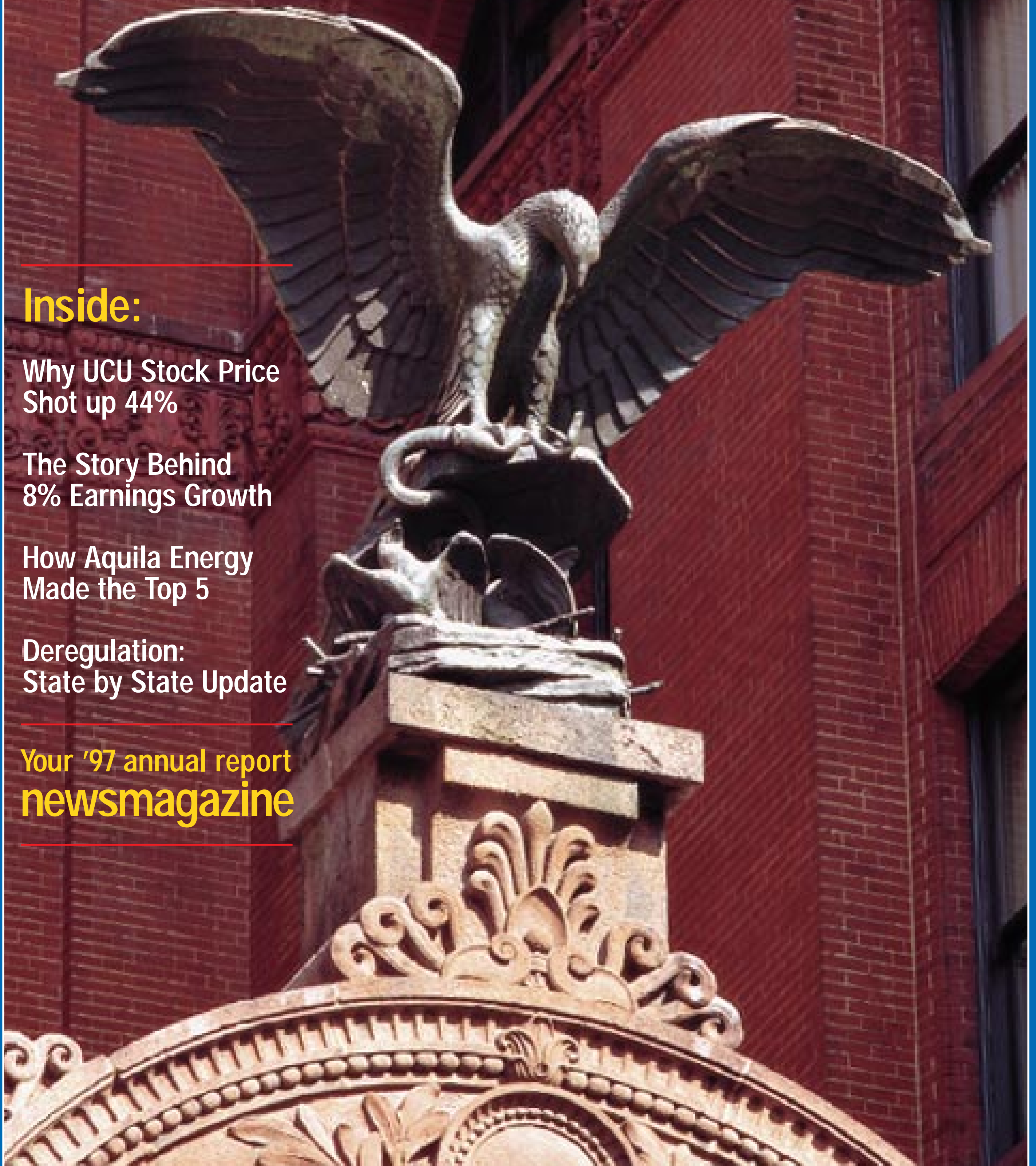
UTILICORP UNITED 1997 Annual Report

FIRST MOVER



Inside:

Why UCU Stock Price Shot up 44%

The Story Behind 8% Earnings Growth

How Aquila Energy Made the Top 5

Deregulation: State by State Update

Your '97 annual report **newsmagazine**

Results in Brief

In millions except per share	1997	1996	% Change
Sales	$8,926.3	$4,332.3	106.0%
Earnings before interest and taxes	359.1	326.2	10.1
Earnings before extraordinary item and cumulative effect of accounting change	134.1	105.8	26.7
Earnings available for common shares	121.8	103.7	17.5
Basic earnings per common share	$ 2.27	$ 2.20	3.2%
Normalized earnings per common share	2.26	2.10	7.6
Cash dividends per common share	1.76	1.76	—
Book value per common share	21.65	21.73	(.4)
Basic average common shares outstanding	53.62	47.21	13.6
Total assets	$5,113.5	$4,739.8	7.9%
Total capitalization	2,885.6	3,031.4	(4.8)
Common equity/capitalization	40.3%	38.2%	5.5
Return on average common equity	10.27%	10.31%	(1.1)

Where To Find It

FIRST MOVER

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ON THE COVER ▲

One of the most striking features adorning the 20 West Ninth Street world headquarters of UtiliCorp United in Kansas City is the bronze eagle designed by sculptor Louis Saint-Gaudens. The company's total restoration of the 1888 neo-Italianate Renaissance landmark earned a 1997 National Honor Award from the National Trust for Historic Preservation. The Trust cited a design that combines environmental sensitivity and energy efficiency with exacting attention to historical detail. The result is a unique workplace equipped for the 21st Century.

Introducing *First Mover*

The name of this annual report magazine refers to what UtiliCorp Chairman Richard C. Green, Jr. calls the company's be-ahead-of-the-change philosophy. UtiliCorp strives to be *a* first mover, if not *the* first, in any aspect of its business where changing ahead of the times brings strategic value, and this certainly includes annual reports to its shareholders!

This 1997 annual report introduces a new format— part business-oriented newsmagazine and part traditional financial report. We hope the more journalistic approach to our featured subjects helps you get to know your company better, as well as a few of the people who are contributing to its growth.

We've even thrown in a few ads. They're not just there to simulate the feel of a commercial magazine, though. They help tell the *First Mover* story about UtiliCorp companies, products and services.

Also like a magazine, we welcome your letters and feedback of any kind. For mailing and e-mail addresses, see the bottom of page 11.

PRINTED ON RECYCLED PAPER WITH AT LEAST 10% POST-CONSUMER WASTE.

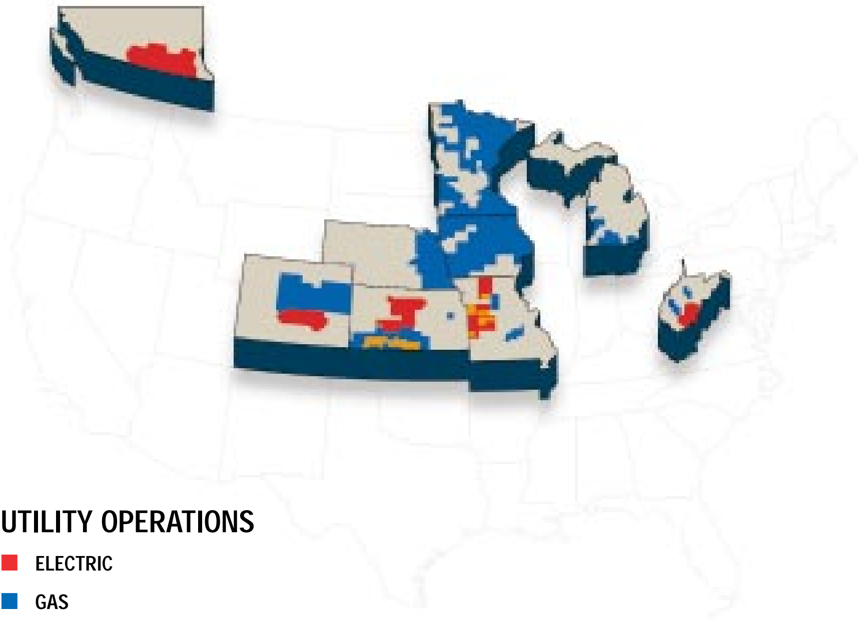
Company Overview

WHAT WE DO

Wherever UtiliCorp operates, whether in North America or overseas, it focuses on growth strategies for its four lines of business. These are described below, along with the markets they serve.

Businesses	Markets
Energy Delivery Networks	
■ Distributing electricity and natural gas through networks of "wires and pipes" is UtiliCorp's original business. ■ Still mostly regulated, these operations serve monopoly territories with rates for electricity and gas service set by state or local regulatory bodies.	■ UtiliCorp serves 365,500 electric distribution customers in four states: Missouri, Kansas, Colorado and West Virginia. ■ It has 828,100 natural gas distribution customers in eight states: Missouri, Kansas, Colorado, Nebraska, Iowa, Michigan, Minnesota and West Virginia.
Energy Merchant Businesses	
■ Aquila Energy, a wholly-owned subsidiary, markets and trades wholesale natural gas and electricity and deals in a wide range of related financial and risk management products. ■ Its Aquila Gas Pipeline Corporation subsidiary (82% owned) gathers, transports, processes and markets natural gas and natural gas liquids. ■ UtiliCorp's Generation segment includes coal- and gas-fired electric generating plants and interests in 17 independent power projects.	■ Aquila Energy markets and trades wholesale natural gas and electricity throughout the U.S. to industrial and large commercial customers, including distribution utilities. ■ Aquila Gas Pipeline's gas gathering, pipeline and processing facilities are in Oklahoma and Texas. It markets and trades gas and gas liquids within Texas. ■ The company's generation facilities produce electricity distributed by UtiliCorp's energy delivery networks in Missouri, Kansas and Colorado.
International Businesses	
■ In foreign markets, UtiliCorp operates and invests in the same two principal activities it pursues in the United States — energy delivery networks and energy merchant businesses. ■ West Kootenay Power is a wholly-owned hydroelectric distribution utility in British Columbia, Canada. ■ UtiliCorp operates in Australia as manager and 49.9% owner of United Energy Limited, and in the United Kingdom and New Zealand through various subsidiaries.	■ Canada — West Kootenay Power serves 84,000 electric distribution customers in south-central British Columbia; Aquila Energy markets to customers in six provinces. ■ Australia — 533,000 electric distribution customers in metropolitan Melbourne (49.9% interest). ■ New Zealand — 276,000 electric distribution customers in the Auckland and Hamilton areas (30-40% interest). ■ United Kingdom — 96,000 gas marketing customers (100%), plus a gas marketing joint venture (25%).
Retail Businesses	
■ Retail businesses being developed by UtiliCorp include non-regulated natural gas and electricity sales, appliance repair and servicing, home warranty and other homeowner services. These are operated as parts of the energy delivery and energy merchant businesses and are in various stages of development. ■ As an EnergyOne[SM] distributor, UtiliCorp's energy delivery business offers a number of products and services that can be ordered from a single source and in the future will be billed with electric and gas service.	■ The company markets natural gas to retail industrial and small commercial customers in several regions of the U.S. ■ UtiliCorp provides appliance repair and servicing to 170,000 customers in 10 states. ■ In 1998, UtiliCorp's 1.2 million energy delivery customers are being introduced to EnergyOne's offerings of AT&T long-distance service, ADT Security service and other retail products and services.

WHERE WE ARE



UTILITY OPERATIONS

- ELECTRIC
- GAS
- COMBINATION

NON-UTILITY OPERATIONS

- GAS AND ELECTRICITY MARKETING
- GAS PIPELINES–OWNED
- GAS PIPELINE–EQUITY INTEREST
- GAS PROCESSING PLANTS
- INDEPENDENT POWER PROJECTS

NEW ZEALAND

- ELECTRIC OPERATIONS

AUSTRALIA

- ELECTRIC OPERATIONS

UNITED KINGDOM

- GAS MARKETING
- GAS JOINT VENTURE

HOW THE CEO

Chief Executive Officer Richard C. Green, Jr. envisions a solid future built on UtiliCorp's four platforms for success.

In 1995 UtiliCorp committed to two years of reinvesting in its own future— spending a higher portion of profits than usual to develop marketing and information capabilities that strengthen our ability to compete. With those two years behind us, in 1997 our earnings not only came back as we predicted, but exceeded our original 4 to 6 percent growth target. Sales and earnings available for common shares were record highs.

The Market's Response

When we raised our sights and explained to Wall Street why we thought we could achieve 8 percent growth in earnings per share, the market responded positively. Between June 1, 1997 and January 1998, UCU shares had their biggest advance in the company's history. This was obviously buoyed in part by a sustained bull market, but we also outperformed our industry. Our total return to shareholders for 1997 puts us in the top quartile of utilities.

UtiliCorp shareholders enjoyed a 52.7 percent total return for the year, based on share price growth and reinvestment of dividends. For the five years ended December 31, 1997, total return was 89.2 percent, for an average annual return of 13.6 percent. As we continue honing our ability to compete in deregulated markets, our dividend will likely grow at about the average rate for our industry, which is less than our expected rate of growth in earnings per share. At the end of 1997, the annualized dividend yield on our common stock was 4.5 percent. The quarterly dividend rate was raised 2.3 percent in February 1998, from $.44 to $.45 per share.

What "First Mover" Means to Me

The title of this annual report magazine refers to a be-ahead-of-

SEES IT

the-change philosophy UtiliCorp has practiced since the company was created in 1985. We strive to be *a* first mover, if not *the* first, in any aspect of our business where changing ahead of the times brings strategic value. We don't use "first mover" as a buzzword. It simply sums up our track record.

The people of UtiliCorp have the passion it will take to profitably win market share...

Among utilities, UtiliCorp was clearly a first mover in mergers and acquisitions, international operations, non-regulated energy marketing and national branding. The importance of each of these moves was later confirmed in the marketplace as many other players decided to follow similar paths.

Being a first mover for more than a decade, we have grown used to constantly reexamining our businesses, looking for ways to continue changing ahead of the next trend, testing new approaches for tapping into new markets. And at the same time, making sure we're doing a first class job of tending the basics— such as customer service, system integrity and operating efficiency.

My concern is that the industry is caught in the muddle of legislative delay and on-again, off-again deregulation. Without unifying action at the federal level, we may wind up with a state-by-state patchwork quilt of variations on open access to energy markets. Instead of robust competition, we could be stuck with only "Competition Lite"— somewhere between a regulated and a truly open market.

Regardless of deregulation's final form, the people of UtiliCorp have the passion it will take to profitably win market share and take advantage of change as it occurs. They have also clearly demonstrated that they have the grit and the resolve to keep us a first mover, no matter how challenging it seems at times.

Our Four Platforms for Success

To generate value and growth, we concentrate on two main businesses— operating energy networks and being an energy merchant. In both these businesses we are taking our expertise to other countries as well as expanding our retail capabilities. These are our four platforms for success:

Energy delivery networks are our original business— traditional electric and gas distribution utilities and related transmission systems, plus new product and service offerings under the EnergyOne℠ national brand.

Energy merchant businesses include wholesale marketing and trading of gas and electricity, gas gathering and processing, and electric generation. In 1997 our Aquila Energy subsidiary was among the fastest-growing energy marketers in the U.S., ranking fifth nationally in natural gas and sixth in electricity.

International businesses, wherever we operate around the world, enable us to pursue some combination of our platforms for success, depending on how far each country has progressed toward deregulated, competitive energy markets.

Retail businesses include industrial and commercial energy accounts, appliance repair and other homeowner products and services.

Developing non-regulated retail businesses in our industry is still an embryonic effort because of the erratic, state-by-state approach to energy deregulation. At the same time, the non-regulated retail market is potentially the biggest and— someday, perhaps— most profitable market that will come about when energy is more fully deregulated.

Normalized 1997 Results Up 8 Percent

At $2.26, basic earnings per share were up 8 percent compared to $2.10 in 1996. These numbers are normalized, which means the reported results have been adjusted to eliminate non-recurring items booked in each year.

The star performer in 1997 was Aquila Energy's marketing operations, which contributed $37.8 million in earnings before interest and taxes (EBIT), up 184 percent from the prior year. Its marketed gas volumes grew 189 percent and electricity volumes 905 percent. We expect volumes will continue to grow in 1998 as gas and electricity marketing becomes a bigger and bigger piece of the energy industry. Aquila's total EBIT was

We still have mergers and acquisitions in our blood...

$70.2 million, up 49 percent from $47.2 million.

The non-recurring items booked in 1996 and 1997 are discussed in detail later in this report. The largest single item was the $53 million gain from a merger termination fee paid to UtiliCorp in February 1997 by Kansas City Power & Light Company. Those funds were used to pay down short-term debt.

Missouri Rate Case Decision Is Due Soon

In March 1997 the staff of the Public Service Commission of Missouri filed a complaint against the company seeking to reduce our annual electric revenues in the state by $23 million. The staff increased this amount in September to $28.5 million, which would mean a 10.8 percent rate cut. Our Missouri Public Service division had requested a $24.6 million per year, or 9.3 percent, *increase* in electric rates as part of a broad filing addressing many competitive issues.

The Commission is expected to announce its ruling in early March 1998. We currently expect the final result of the case to reduce rates by somewhere between $12 and $23 million.

Getting a Preview Overseas

Our primary goal in having foreign operations has been to add to UtiliCorp's bottom line. In 1997 the international segment contributed about 15 percent of earnings before interest and taxes. Our experience in select foreign markets has also been very valuable as a foretaste of deregulation and open competition several years ahead of their introduction in the United States. All our foreign operations over the past 11 years have been in English-speaking countries, but we are continuing to review opportunities in other countries that meet our criteria for political and economic stability, regulatory and business environment, and dependable partners.

In Australia, the State of Victoria has already begun phasing in open competition. In 1997 electric customers consuming about 40 percent of the power sold in Victoria were "contestable," which means they can choose from among competing energy suppliers. By the end of 2000, the state's entire electricity market will be contestable.

UtiliCorp hopes to expand its interests in Australia this year by bidding with its partners if Victoria privatizes its natural gas distribution network as planned.

In the wake of recent developments in the New Zealand power industry, we see new opportunities to consolidate our position and increase the long-term value of our investments in that country.

In the United Kingdom, our primary focus in 1996 and 1997 has been on laying the groundwork for a more active UtiliCorp role as full competition opens up British retail gas markets. By this summer, all residential gas customers will be able to choose their suppliers. We have also developed a niche as an independent supplier of wholesale gas transportation services to companies entering the new retail gas market.

"What About M&A?"

I've been asked that question many times since our merger agreement with KCP&L was called off in September 1996. We still have mergers and acquisitions in our blood, and they remain a key avenue for major growth. We were a first mover in this strategy and are still constantly on the lookout for companies to partner with or acquire. We still aim to add significant scale to UtiliCorp, but we will not overpay for assets in the midst of merger frenzy. Nor will we do deals that would dilute our strategic focus or our balance sheet. We can afford to wait for the best opportunities, because we are already achieving above-average growth in earnings and we possess the talents and skills to succeed in a competitive market.

The biggest force for change... will come from the customers themselves.

We Also Do M&B

UtiliCorp launched the industry's first national brand, EnergyOne℠, in 1995, and we've been a recognized innovator in M&B— that's "marketing and branding"— since then. In June 1997 we turned the EnergyOne brand over to EnergyOne, L.L.C., a 50-50 partnership of UtiliCorp and Philadelphia-based PECO Energy Company. PECO and our electric and gas utilities in the U.S. and Canada now provide EnergyOne products and services to 2.7 million customers as the initial retail distributors licensed by the partnership. EnergyOne gets revenues from franchise, royalty and transaction fees from participating distributors and suppliers.

The slowed and uncertain pace of utility deregulation has meant less sense of urgency on the part of some of the utilities considering becoming franchised EnergyOne

distributors. To enlarge the pool of potential franchisees, EnergyOne has introduced a program specifically aimed at distribution companies with fewer than half a million customers.

Customer choice will usher in a new era of economic savings, convenience and technological advances.

Why We Strongly Advocate Customer Choice

I believe the biggest force for change in the utility business ultimately will come from the customers themselves, when they realize the many benefits that come through the ability to choose. Customer choice in energy supplier, mix of customized services, and billing options— and other benefits we can't even determine yet— will usher in a new era of economic savings, convenience and technological advances. Just as the cellular phone altered the face of telecommunications and automated teller machines changed banking, I expect new advances in the way energy is marketed and delivered to consumers. I also foresee fierce competition among both traditional energy suppliers and new entrants in our business.

For all these reasons, UtiliCorp has been a vocal advocate of customer choice for several years. We have spoken out before regulators, legislators and others to push for opening the barriers to choice sooner rather than later. And we will continue to do so.

The biggest challenge may be to shift consumer concern from "Don't tell me you're going to call me up when I sit down for dinner" to "Show me how you'll improve my service and save me money." The greatest benefits can reach consumers if full competition is brought to energy markets on a national instead of a state-by-state basis.

We still have a lot of advocating and educating to do.

We Are a Company of Owners

The people of UtiliCorp own more than 12 percent of the company's outstanding shares. At the end of 1997, that amounted to more than a quarter-billion dollars in market value held by employees who are your fellow shareholders. With nine of every 10 workers thinking and acting like owners— because they are— we're putting our money behind our words every day of the week. And we think that's one more good reason for you to invest in UtiliCorp.

Will Earnings Continue to Rise?

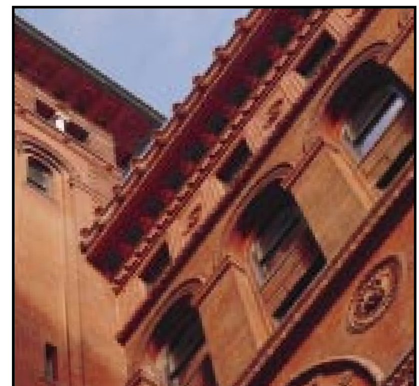
UtiliCorp is targeting another year of earnings growth in 1998. Our challenges are before us. Extremely mild weather in the central U.S.

We're putting our money behind our words every day of the week.

in the first quarter so far is putting a damper on Energy Delivery sales. The pending Missouri electric rate case has been estimated to be a $12 to $23 million reduction in rates.

On the opportunity side, Aquila has added to its wholesale marketing staff and is positioned to continue increasing its volumes in both gas and electricity, entering new regional markets and introducing new risk management products. Also, we continue to reexamine the market value of our various businesses to see if alternative structuring ideas can add value.

The long-term opportunities on the horizon are huge. As they open up with further deregulation, whatever its final form, we relish being ready to transform them into bottom line value for our shareholders. ■



MIKE SINCLAIR

Richard C. Green Jr.

RICHARD C. GREEN, JR.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
FEBRUARY 23, 1998

CREATING VALUE

UtiliCorp Chief Operating Officer Robert K. Green reviews the company's business activity around the world.

The people who provide the human energy behind UtiliCorp— our 4,640 employees— enabled us to earn the title 1997 Utility of the Year from *Electric Light & Power* magazine. This recognition is especially meaningful because it is based on a wide range of performance measures, including customer service, operating efficiencies, environmental awareness, innovation and technology, and leadership on competitive issues.

Our employees have shown they have the drive and the courage to take on the radical changes facing our industry and turn them into growth opportunities for your company. It's not easy to reorganize multi-state businesses, redesign work processes, replace information systems and recast products and services — all while also holding the line on operating costs and taking earnings to a record level. But that is what they did all through 1997, and they are focusing on similar challenges in 1998.

We're concentrating on increasing profit margin and market reach...

Energy Networks

Over the past three years we have integrated the network operations and marketing of seven utility divisions in eight states into a single business unit, UtiliCorp Energy Delivery. This has improved their operating efficiency and united their strategic focus. Customer satisfaction levels have stayed at 94 percent, well above our target of 90 percent. In 1997 we added 22,000 new customers. Sales and transportation volumes were up 16.6 percent for electricity and down 4.7 percent for gas.

We are concentrating on increasing the profit margin and market reach of this business unit by providing services to marketers and extending additional channels to the customer. For example, we provide appliance repair services and contracts to 170,000 customers in 10 states and deliver unregulated, bulk electricity and gas to a growing number of customers on our distribution systems.

Energy Merchant Businesses

In 1997 Aquila Energy's total sales grew to $7.0 billion from $2.7 billion and normalized earnings before interest and taxes (that is, adjusted to eliminate non-recurring items booked in each year) went up 49 percent, to $70.2 million from $47.2 million in 1996.

Unregulated gas marketing volumes were 4.8 billion cubic feet per day, up 189 percent, and electricity volumes were 65.3 million megawatt-hours, up 905 percent.

Our growth in 1997 was achieved by maintaining Aquila's reputation for fast, dependable service and an innovative, sophisticated product mix that includes a wide range of financial instruments and price risk management tools. To continue growing, Aquila is focusing on building liquidity in key market regions, as well as targeting specific energy-intensive industries.

Aquila has also been introducing GuaranteedWeather℠, a line of products and services that allows business customers to manage the volumetric risk associated with weather which can adversely impact revenues and expenses.

International Earnings Were Down

Our businesses in other countries had total normalized EBIT of $57.5 million in 1997, down 28 percent from $79.7 million in 1996. About half the decline, or $11.3 million, was due to lower EBIT from Australian operations, reflecting reduced contestable margins, lower management fees, and unfavorable foreign exchange rates. Also, a state franchise fee was ruled non-deductible for Australian federal income tax purposes. Our original purchase contract provides an indemnity which will reimburse UtiliCorp in 1998.

With contestable margins under pressure in the 750 megawatt-hour (MWH) per year segment, we are electing to let go of some large-volume retail customers rather than commit to unprofitable contracts to retain market share. We are developing an energy merchant business at United Energy similar to Aquila's. Margins have been much healthier as the 160 MWH per year market opens in 1998. United Energy continues to earn a very competitive return although down from its very strong performance in 1996.

In the United Kingdom, EBIT was down due to losses from two unprofitable gas purchase contracts and expiration of two profitable long-term gas sales contracts. The U.K. businesses had a loss of $5.6 million in 1997 after earning $2.1 million in 1996. The roll-out of competition in the British residential gas market began in 1996 and is scheduled for completion this summer. At the end of 1997 nearly one fourth of the customers were contestable.

Aquila's product mix includes a wide range of financial instruments and price risk management tools.

Our United Gas subsidiary in the U.K., an independent energy transporter, has gained a niche helping both established and new marketers obtain and manage their gas supplies. There is a strong demand for these services since many electricity and water providers are offering dual fuel programs to capture a share of the still-opening gas market.

In 1997 we had EBIT of $9.9 million from our interests in New Zealand. Donald G. Bacon, president of our West Kootenay Power subsidiary, became interim CEO of Power New Zealand in September. This will allow us to execute our strategy more effectively and drive value at Power New Zealand and WEL Energy.

In Canada, West Kootenay Power and our other investments in British Columbia contributed $26.2 million to consolidated EBIT. This does not include the expanding activities of Aquila Energy, which has marketed natural gas in parts of Canada since 1996 and now has a gas marketing and trading staff in Calgary. In 1997 Aquila's Canadian marketing volumes reached 1.1 billion cubic feet per day, one fifth of its North American total.

Corporate Headquarters

In December 1996 UtiliCorp moved its world headquarters to 20 West Ninth Street in Kansas City. Our restoration of this 110-year-old landmark earned a 1997 National Honor Award from the National Trust for Historic Preservation.

Besides providing a uniquely beautiful and technologically advanced office setting for nearly 500 employees, we have made an important contribution to the ongoing revival of Kansas City's historic downtown.

The Quest for Value

The men and women whose hands and minds help carry UtiliCorp toward its ambitious goals show a tremendous degree of drive and determination. More than any other factor, seeing the way they apply themselves every day as engaged employees, and owners, gives me confidence that we will continue creating value for UtiliCorp shareholders. ■

ROBERT K. GREEN

PRESIDENT AND CHIEF OPERATING OFFICER

FEBRUARY 23, 1998

Common Stock Performance

1997 Change: UCU up 43.8% | S & P 500 up 31.0% | S & P Utilities up 18.3% | DJ Utilities up 17.4%

Investment Research

Analysts at the following investment firms currently follow UtiliCorp and have issued research reports on its performance:

- Donaldson, Lufkin & Jenrette Securities Corporation
- George K. Baum & Company
- Goldman Sachs & Co.
- HSBC James Capel
- Jefferies & Company, Inc.
- J. P. Morgan Securities Inc.
- Merrill Lynch & Co.
- Morgan Stanley Dean Witter
- Oppenheimer & Co., Inc.
- PaineWebber Incorporated
- Value Line Publishing, Inc.

Dividend Dates in ’98

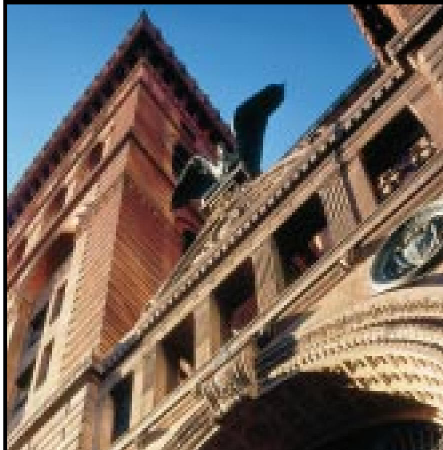
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Dividends *(a)*				
Dividends are **declared** by the board of directors on:	Feb. 4	May 5	Aug. 5	Nov. 4
The **record dates** to qualify for a dividend are:	Feb. 20	May 20	Aug. 20	Nov. 20
Dividend **checks** should be received on *(b)*:	March 12	June 12	Sept. 12	Dec. 12
Dividend Reinvestment *(c)*				
Dividends for Plan participants are **reinvested** by the company with a 5% discount on:	March 12	June 12	Sept. 12	Dec. 12
For the purchase made on the 12th of each month, First Chicago Trust Company of New York must receive **optional cash payments** *(c)* by:	Jan. 9 Feb. 10 March 10	April 9 May 8 June 10	July 10 Aug. 10 Sept. 10	Oct. 9 Nov. 10 Dec. 10
Quarterly statements for Plan participants are mailed:	Late March	Late June	Late Sept.	Late Dec.

(a) Declaration of dividends, dividend rates and the dates shown are subject to the discretion of directors of UtiliCorp United. Dates provided have been prepared assuming past patterns will continue. However, the company does not and cannot make any assurances that any or all of the events listed will occur on dates shown, if at all. UtiliCorp reserves the right to amend, suspend or terminate the Dividend Reinvestment and Common Stock Purchase Plan at any time. Plan participants will be notified of any changes in writing.

(b) If you don’t receive your dividend check on the payment date, please allow reasonable time for postal delays before inquiring.

(c) Please refer to the latest Prospectus of the Dividend Reinvestment and Common Stock Purchase Plan dated June 30, 1997. To request a Prospectus and an enrollment card, call toll-free in the U.S. and Canada: 1-800-884-5426; or download these documents from UtiliCorp’s web site at http://www.utilicorp.com.

DEAR UTILICORP



MIKE SINCLAIR

All year long, shareholders and others call or write to let the company know exactly what's on their minds.

Cost of Sales a Concern

We'd like a clear explanation for why the cost of sales went up so much.

D. S., SKOKIE, ILLINOIS

The majority of the increase in cost of sales (133% in 1997 vs. 1996) is directly related to the increase in gas sales at Aquila Energy's gas marketing operations. Their sales volumes are up significantly (189%) and therefore Aquila is purchasing more gas to meet that demand. The cost of the gas has also gone up, further increasing the cost of sales figure.

Possible to Purchase Shares of UtiliCorp Directly?

Can one's initial shares be purchased directly from the company?

E. G., LONG BEACH, CALIFORNIA

Through the direct purchase provisions of our Dividend Reinvestment and Common Stock Purchase Plan, investors can acquire their first shares of UtiliCorp common stock directly from the company, without brokerage fees. For first-time buyers, the plan requires a minimum initial purchase of $250. The plan prospectus can be downloaded from UtiliCorp's web site at www.utilicorp.com, or call 1-800-884-5426 to request.

Executive Compensation Linkage

The annual percent increase in total compensation of top executives should be limited to the annual percent increase in common stock dividends.

J.R., KEIZER, OREGON

UtiliCorp links the compensation of senior management to the company's financial results and to total return to shareholders (which includes dividends). This is done through long-term incentive plans, additional incentives to take annual bonuses under the plan in the form of restricted UtiliCorp stock, and stock options which have value only if the share price goes up.

No long-term or annual incentive plan payouts are made if UCU fails to meet certain earnings per share and total return targets. This means senior executives have significant "compensation at risk" linked directly to shareholder value.

20 West Ninth Street an Inspiration

Thank you very much for the tour of the UtiliCorp World Headquarters building. We hope the awards you received for the design will inspire others and engender the desire to save our grand old buildings from the wrecking ball. Not only have you restored the building to its former glory, but you have actually surpassed it by introducing innovative and environmentally friendly features.

FIRST MOVER

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THE POWER OF OWNERSHIP

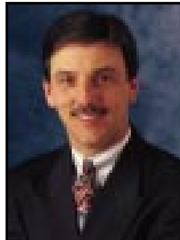
It's an important UtiliCorp difference that sets the company apart from its peers. *One of the factors behind UtiliCorp's drive to compete is the high level of share ownership among employees— not just at senior management levels but throughout the workforce. At the end of 1997, about 88 percent of UtiliCorp's 4,640 employees were shareowners, holding about 12 percent of the total shares outstanding. Each of the individuals listed below has been recognized as a UtiliCorp Partner in 1997 for reaching a particularly significant level of ownership in relation to salary level.*

"Owning UCU stock, I feel I'm working for myself and my own future, in partnership with one of the boldest leaders in the utility industry."

JANET L. DAUGHERTY
CUSTOMER SERVICE

LARRY W. ADAMS
DAVID R. AKERS
JUNE ALEXANDER
GAIL ALLEN
PAUL E. ALLERTON
HUGH E. ALM JR.
DENNIS D. AMBROSE
MIKE APPRILL
GEORGE ARMSTRONG
PAT ASHWORTH
VERLE AYRES
DONALD G. BACON
DIANE M. BAILEY
LARRY N. BAILEY
MARJORIE K. BAJOR
MICHAEL P. BAKER
RICK A. BAKER
ROBERT G. BARBEE
ART BARR JR.
PATRICIA A. BAUER
CHERYL BAUMANN
BOB BECK
RUTH M. BEHRENS
TED B. BEISSENHERZ
THOMAS J. BENORE
LESLIE H. BENSON
ROBERT L. BENSTEAD
DIANA M. BERGER
RUTH E. BERGLUND
BUDDY RAY BLACK
DAVID E. BLANN
HAL BLOOMBERG
EDYTHE M. BOLTHOUSE
RAYMOND BONKOWSKI JR.
RANDALL K. BOONE
HOLLY M. BOYAN
WILLIAM K. BOYER
JOSEPH A. BRADEN
RICHARD A. BRADSHAW
JAMES S. BROOK
J. ALAN BROOKER
F. PAULINE BROOM
MARYBELLE L. BRYANT
DORIS J. BUCHHOLZ
DONALD W. BUNDY
ROY A. BURKE JR.
JAMES E. BURNETT
DALE BURTCH
DUANE K. CALDWELL
RON CARLBERG

DONALD D. CASLER
A. G. CHRISTENSON
R. A. CHRISTIANSEN
CALVIN W. CLARK
RUSSELL A. CLAUSEN
PAMELA S. COBLE
EDWARD S. COLE
DAVID R. COLGROVE
GARY D. COLGROVE
TIM L. CONNEALY
ELLIOTT W. CONNELL
TIMOTHY E. CONNER
WILLIAM S. COOK
FRANK B. COSTANZA
DENNIS E. COUGHLIN
MARY COURTER
BOB CURTIS
LARRY D. DAMME
DARAN G. DAMMEYER
ALLAN NEAL DANCY
LOIS A. DANIELSON
JANET L. DAUGHERTY
LELA B. DAVIS
THOMAS G. DAVIS
KAY M. DEAHL
DONALD LEE DEKEMA
CHARLES K. DEMPSTER
MARGARET DESMET
TED F. DICE
THOMAS J. DISTERHEFT
ALBERT J. DOLAN
ROBERT B. DRAEGER
FORREST M. DRINNAN
JOHN D. DURDAHL
ROBERT J. DYE
CHRIS EDLIN
RON W. EGGLESTON
GARY F. ELGAN
DONNA KAY ELLIOTT
KATHRYN ELLIS
JON EMPSON
JAMES ERICKSON
MARK E. EVEN
DEBRA J. EVERETT
PHILLIP W. FAGG
PHYLLIS K. FAUTH

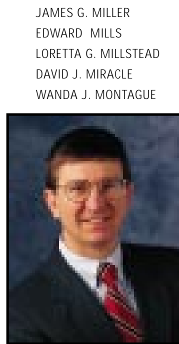


"Having stock in UCU encourages me to support all the other parts of the company to improve shareholder value."

BRUCE P. REED
RIGHT-OF-WAY

JOHN G. FAVREAU
GEORGE S. FEAMSTER JR.
BEVERLY A. FEINE
RUSSEL W. FELLER
RONALD E. FINK
JOHN R. FISCHER

MICHAEL FISHER
CARL L. FOLKERTS JR.
FRANK F. FONG
RON FOX
MARILYN A. FREY
GEORGE J. FRISBIE
AUGUST R. FROEHLICH
KEITH R. GABERT
RAYMOND D. GAMBLE
LESTER E. GARRISON
KURT GESSNER
WAYNE GIESE
HAROLD L. GILLIHAN
GENE GRAVES
DENNIS M. GREASHABER
KEITH FRANK GREEN
RICHARD C. GREEN, JR.
ROBERT K. GREEN
SANDRA J. GUGE
GARY MAC HACKETT



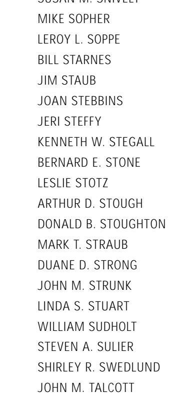
"As an employee-owner, you're much more motivated to help the company achieve its goals and objectives, because you share in the rewards of its success."

DAVID A. SISEL
OPERATIONS SUPPORT

JOHN G. HALL
ROBERT HALL
RODNEY F. HAMM
KENNETH J. HANSEN
THOMAS E. HANSON
DELLA D. HARRIS
STEVEN E. HARTMAN
JIM R. HASLEY
CHUCK HAUSKA
MILO A. HAWKINSON
TEDDY D. HAYES
REBECCA HEERES
JERALD F. HEIMS
ARLIE HEISTERBERG
CARLA J. HELMERS
K. G. HENDERSON
LAWRENCE J. HERBER
JEAN HERNDON
RONALD L. HERR
RON HERSTEIN
MICHAEL E. HERTLING
RICHARD H. HICKMAN
PAUL D. HILL
ROBERT H. HOBBS
GARY M. HOFFMAN
DONALD L. HOLZ
MICHAEL R. HOOK
EDWARD L. HORNE
MARTIN C. HOTCHKISS

GORDON D. HOUGH
ROBERT L. HOWELL
CHUCK HUDLER
TERRY L. HUTCHINS
STEVE HYKE
JESSE T. HYLTON
GAIL V. ISACKSON
DONALD B. JACKSON
DAVE JASCHEN
VIRGIL JENSEN
THEODORE C. JOHNSON
LARRY WRAY JONES
LEROY M. JUNGE
MICHAEL R. KANE
DAVE KASPER
RONALD W. KESTER
RONALD G. KIEFT
DENNIS KINNE
RICHARD KINTIGH
MICHAEL KISICKI
G. A. KLOSTERMANN
JOSEPH A. KLUSAW
ROGER L. KNUTSON
DENISE KOERN
ROGER KORT
WESLEY O. KOSIER
DAVID P. KREIMER
PATTI KRIER
DOUGLAS E. KUBASH
JOHN E. KUBESH
DANIEL M. KUEHNE
TIMOTHY M. KUEHNLEIN
DONALD KUHLMAN
RANDY J. KULL
ROBERT J. LAGE
PATRICIA A. LAMMERS
CAROLE J. LANGE
TINA M. LAPLANTE
STEPHEN LARNER
NORMAN LECY
TROY LEE
ROBERT O. LEEN
HAROLD E. LINK
PAUL J. LIVERNOIS
WILLIAM A. LOCKREY
KAREN L. LOOMIS
RICHARD C. LOOMIS
KENNETH L. LOOSE
JOHN D. LUCK
BILL LUCKE
MYRON V. LUECK
LEROY M. LUTES
CAROL E. LYON
JUDITH M. MAASS
AL MAIER
DONALD W. MALONE
TOM MANDERSCHEID
GEARY LYNN MANSKE
DON E. MARISTUEN
ROBERT D. MARKER
RICHARD H. MARTENS
THOMAS F. MARTIN
DONALD T. MASON
JOHN C. MAXSON
JANICE E. McCALL
NANCY D. McCLELLAND
DANIEL L. McCOY
LARRY G. McDONALD
MYRT McDONALD
MELVIN R. McGREW
CAROL McKIBBEN
DAVID J. McLAUGHLIN
VERNON RAY MEANS
WALT MIER
PHILIP S. MIGLIORE
HERMAN L. MILLER

JAMES G. MILLER
EDWARD MILLS
LORETTA G. MILLSTEAD
DAVID J. MIRACLE
WANDA J. MONTAGUE



"UtiliCorp employees have extremely high levels of drive and intensity. I believe this is directly attributable to our ownership level."

DOUGLAS R. WELCH
FINANCIAL MANAGEMENT

SANDRA MOORE
MARIO A. MORALES
BETTY MORGAN
PAUL D. MUMM
STEVE MUNCKTON
ROBERT MURPHY
MARY C. MURRAY
RON MURRAY
OPAL NAUGLE
JUDY NESS
HENRY NIEDER
JAMES NIEMAN
ALVIN NIENDICK
ROBERT NOREM
RODNEY O'BRIEN
CHARLES H. OGG
DAVID R. OTTER
CECIL E. OVERBAY
LARRY E. OWENS
LARRY PADGETT
KRIS PAPER
CHARLES B. PARKER
JEFFREY M. PAUL
HAROLD W. PEERY
STEVE PELLA
CHRIS A. PERRAULT
SUSAN K. PETERS
PAMELA J. PETERSEN
GEORGE M. PETERSON
LARRY D. PIERCE
GARY PIKE
RON PISCHKE
ROBERT D. POPELAR
JAMES PRCHAL JR.
NANCY J. PREUCIL
CAROLYN PRICE
GARY J. PRICE
GENE PRYOR
MICHAEL B. RADL
HERMAN RAST
WILLIAM H. RAYMOND
TERRY L. REBEL
BRUCE A. REED
BRUCE P. REED
ANTHONY C. RICHARDSON

TIM E. RICHARDSON
DONALD A. RIFFLE
BRUCE W. ROBERTSON
FRANK A. ROBESON JR.
LINDA R. ROBINSON
MICHAEL W. RODENBECK
LAWRENCE L. RODENZ
PATRICE M. ROE
ARNOLD ROGERS
RICH ROGERS
DANNY ROSE
JOHN W. ROYSTON
DANIEL W. RUFFNER
JAMES W. RYAN
GARY J. SAUSER
RONALD SCHALLER
JAMES SCHAUM
STAN SCHIERMEYER
EDWARD J. SCHULTE
BARB SCHULTZ
VERN R. SCHWARZ
THOMAS M. SCHWEIKERT
SUSAN R. SEARS
MELVIN J. SEMRAD
STAN SHREVE
VERN SIEMEK
STEPHEN E. SIMMS
DAVID A. SISEL
JAMES R. SISUNG
BOBBIE SKEELS
CHARLIE SMOCK
SUSAN M. SNIVELY
MIKE SOPHER
LEROY L. SOPPE
BILL STARNES
JIM STAUB
JOAN STEBBINS
JERI STEFFY
KENNETH W. STEGALL
BERNARD E. STONE
LESLIE STOTZ
ARTHUR D. STOUGH
DONALD B. STOUGHTON
MARK T. STRAUB
DUANE D. STRONG
JOHN M. STRUNK
LINDA S. STUART
WILLIAM SUDHOLT
STEVEN A. SULIER
SHIRLEY R. SWEDLUND
JOHN M. TALCOTT

"I consider UtiliCorp 'my' company, so what I do every day is affecting my stake in the company, and my own future security."

JUDY NESS
COMMUNITY SERVICES

PATTI J. TAYLOR
CONNIE J. TOMPKINS
ROGER A. TORKELSON
JENNIFER TURNER
PENELOPE B. TVRDIK
MICHAEL J. TYLUTKI
JANICE VANDERCOOK
JANET L. VANHAUTE
DAVID H. VERGOT
DAVID D. VINCENT
DAVID W. VOLKER
ROBERT E. WAECHTER
DAVID W. WALDVOGEL
DIANE R. WALKER
THOMAS E. WALSTON
SUSAN J. WALTER
GERALD C. WALTERS
GREG WALTERS
REGINALD C. WALTON
JERRY WARGA
GARY T. WARWICK
BURTON G. WATKINS
BRADLEY A. WATROUS
TODD R. WEGENER
FRITZ WEIR
DOUGLAS R. WELCH
JULIE M. WELCH
CAROL S. WELLER
MARSHA WELLMAN
RAY H. WERNER
CAROL I. WHITE

"When I'm in a meeting and it boils down to a couple of equal choices, I simply say, 'As a shareholder, here's what I think we should do.' "

GAIL ALLEN
INFORMATION TECHNOLOGY

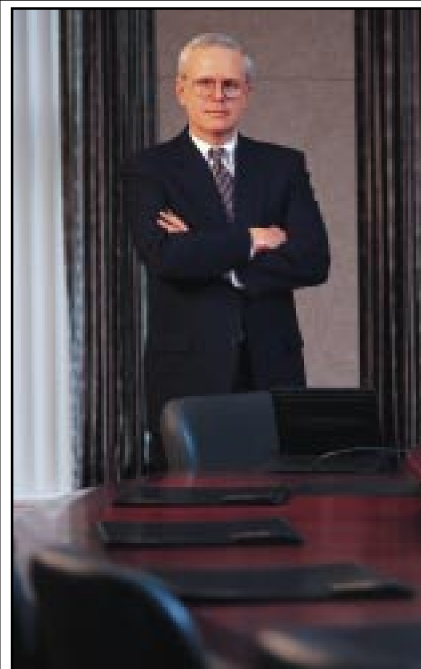
JUDY L. WHITE
DARLENE M. WHITEAKER
JAMES E. WHITELOW
JULIAN B. WILDROM
CLAIR L. WILLIAMS
DENNIS R. WILLIAMS
GEROLD R. WILLIS
BRAD WILTSE
HARRY J. WINFREY
PAUL K. WOHL
DALE J. WOLF
KIRBY WOODS
JOHN W. WORTMAN
JAMES H. WURSTER
CHERYL L. ZATKO
LAURA J. ZEMSKY
ELIZABETH A. ZIMMERMAN
ROBERT E. ZWIRLEIN

THIS MAN USES

A FOUR-LETTER WORD

in the board room and gets invited back over and over again.

The word is R-I-S-K, and UtiliCorp has set the industry standard with a Risk Control Officer who reports to the Board and makes daily assessments.



Cal Payne has a unique position. Think of him as the shareholder's advocate. As UtiliCorp's Risk Control Officer he's examining how much the company has on the line. Not just at the end of each quarter, or the end of each month.

> "You must manage risk extremely well... It's an obligation, not a choice."

Every day, week after week, all year long, he goes online in Kansas City, watching real-time energy trading as it happens— across town, in San Antonio, in Omaha, in Calgary... By the end of the day, he's calculated where the company stands in terms of total risk as a result of all that activity. Contract positions in the United Kingdom (gas) and Australia (electricity) are included in his daily reports.

You could probably call Cal a control freak and get away with it. His passion, after all, is having in place the best control methods known, company-wide. Regulated utility operations, non-regulated energy marketing and trading, international ventures and retail all come under his relentless scrutiny.

That means helping every part of the company recognize business risk upfront, and take it very seriously... Install policies that spell out specific limits of authority to execute deals and trades... And get used to having that snoop from the Risk Control Office asking for data. (What a Payne.)

To measure UtiliCorp's total "value-at-risk," Cal takes into account such things as historical price movements in various energy markets, the length of contracts, the likelihood that assumed scenarios will prove to be correct, open positions of each energy commodity held and numerous other factors. At the end of 1997, the company's value-at-risk was well within the limits established by the board of directors.

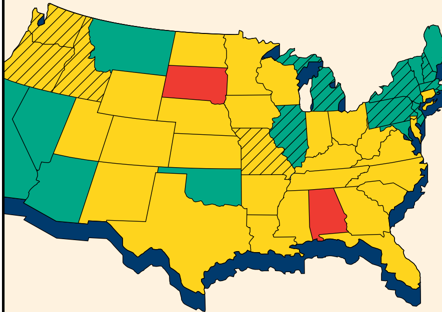
What prepared this guy for such a far-reaching responsibility? Among other things, years of experience as treasurer of a $4 billion energy company, including serving as vice president of risk management and trading for its trading firm.

"If you recognize and understand risk, you know you must manage it extremely well," he says. "Besides, it's an obligation, not a choice." ■

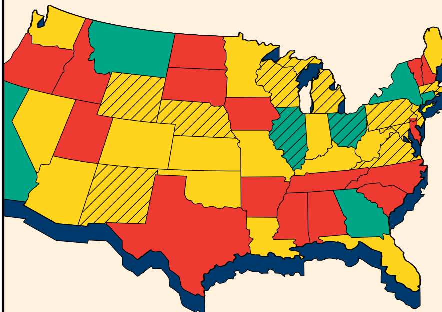
> "The recognition and management of risk is something we take very seriously at UtiliCorp."
>
> CAL PAYNE
> RISK CONTROL OFFICER

CUSTOMER CHOICE

ELECTRIC DEREGULATION



GAS DEREGULATION



LEGEND

NO MEANINGFUL ACTIVITY

LEGISLATION/ADOPTION LIKELY OR PENDING

LEGISLATION PASSED OR PLANS/UNBUNDLED TARIFFS ORDERED

DIAGONAL LINES = PILOT PROGRAMS

The utility industry is restructuring nationwide, and the end result of this change will very likely affect YOU.

The electric industry in America is entering perhaps the most important transition period in its history. From coast to coast, calls for change are likely to end decades of monopoly status for utilities, allowing customers to choose their electric supplier.

The industry is changing to let competition usher in lower prices and better service, and at the same time bring consumers a wider range of innovative products and services.

The current regulatory structure was designed decades ago to ensure available and reliable utility service. That model is outmoded because technology and creative concepts make it possible for electricity and related services to be provided reliably by many other suppliers.

UtiliCorp has been a vocal advocate for deregulation.

"Customers will benefit from lower prices, enhanced technology and better service as a result of competition," says Jon Empson, UtiliCorp's senior vice president for regulatory, legislative and environmental services. "We're willing to allow competitors into our territories in return for having a crack at the rest of the country ourselves. We feel what's best for the customer will also benefit the suppliers who can provide the best combination of service and cost."

States Are Becoming More Active

There has been a dramatic increase in activity at the state level to allow consumers to choose their electric supplier. About 15 states have either passed legislation or issued regulatory mandates to provide customers the right to choose their supplier by a certain date. Industry restructuring bills are pending in many states, and nearly *every* state is at least studying the issue.

Logically, those with high electric rates moved first, such as California, New Hampshire, Pennsylvania and Massachusetts. But several low-rate states have also passed customer choice legislation— Oklahoma, Montana and Nevada. Whether more will actually pass legislation in 1998 is still uncertain.

As often happens, people figure California will be the first to try out the latest concept, so the common wisdom is to "wait and see what happens in California." It may not be a very long wait. The Golden State is scheduled to open its retail electric market to competition on March 31, 1998.

Experimental pilot programs are under way or planned in 13 states. Some companies have shown they are willing to pay surprisingly large amounts to acquire new customers.

And at the Federal Level?

Congress and the U.S. Department of Energy will continue to consider federal legislative mandates for customer choice for electric consumers, but no federal legislation is likely to be enacted in 1998.

One issue under intense federal scrutiny is taxpayer subsidies for agencies like the Tennessee Valley Authority when investor-owned electric suppliers will be expected to compete against them. Such supports may get cut or ended altogether to "level the playing field."

On the Natural Gas Side

The wholesale and large-customer retail markets for natural gas have been competitive for over 10 years. However, only in the last few years has there been a significant move to provide residential and small commercial customers the right to choose suppliers.

Georgia so far is the only state to pass a comprehensive bill on gas customer choice. Residential pilot programs have taken place in about 15 states, with varying degrees of success.

About 15 million homes in the U.S., out of about 100 million total, can choose gas suppliers. The notion of choice for small customers still isn't exactly cooking with gas.

Why not?

Customers Appear To Be Satisfied

Surveys show that by and large, customers seem satisfied with the service provided by their local gas utility. At the same time, customers say they would be interested in at least considering alternative suppliers if that means an opportunity to save.

State regulators have been slow to take steps that would expose gas utilities to increased competition.

This indicates a potential opening for retailers able to meet customer needs at competitive prices. State regulators have been slow to take steps that would expose gas utilities to increased competition, but momentum is building. UtiliCorp expects to offer choice to its gas residential customers within the next few years.

Electric Spillover Could Help

Choice in electricity will bring more retailers into mass markets. Many of the major retailers pushing for electric deregulation have expressed an interest in selling both gas and electricity. The opportunity to sell both, and for consumers the opportunity to buy both from a single alternative supplier, will create more drive to provide choice in natural gas markets. ■

THE CUSTOMER CHOICE Countdown

Year at least some electricity customers begin choosing their suppliers:

(YEARS OF TRANSITION TO BROADER COMPETITION SHOWN WHERE APPLICABLE)

1998
CALIFORNIA
MASSACHUSETTS
MICHIGAN (1998-2002)
MONTANA (1998-2002)
NEW HAMPSHIRE
NEW JERSEY (1998-2000)
NEW YORK (1998-2001)
RHODE ISLAND

1999
ARIZONA (1999-2003)
ILLINOIS (1999-2002)
PENNSYLVANIA (1999-2001)

2000
MAINE
MARYLAND (2000-2002)
NEVADA

2002
OKLAHOMA

"OF COURSE IT WON'T TOAST YOUR BAGEL, SILLY... YOU FORGOT TO ENTER THE 18-DIGIT-ELECTRIC-POWER-SERVICE-PROVIDER ACCESS CODE FOLLOWED BY OUR FAMILY PERSONAL IDENTIFICATION NUMBER."

REPRINTED WITH SPECIAL PERMISSION OF KING FEATURES SYNDICATE.

BIG-TIME MERCHANT

Aquila's Reach

PIPELINE TRANSPORTATION AGREEMENTS
440+

TRADING RELATIONSHIPS WITH GAS PRODUCERS, UTILITIES AND FINANCIAL INTERMEDIARIES
2,120+

NUMBER OF PIPELINES ACCESSIBLE
100+

GAS SUPPLY AND DELIVERY POINTS
15,000+

PHOTO: TRADER THOMAS CARMODY AT HOME IN AQUILA'S WAR ROOM IN OMAHA, NEBRASKA.

Aquila Energy's continued rapid growth puts it solidly in the Top 5 among America's natural gas marketers.

In the mid-1980s two men in a small backroom office in downtown Council Bluffs, Iowa started something that today is a mainstay of the energy business. Their idea was simple enough: provide friends and associates throughout the utility industry with access to very large quantities of natural gas.

They figured they could do better than other wholesale marketers who were beginning to pop up on the gas scene, because they knew so many potential buyers on a first name basis. What's more, they knew that through

their parent company they could easily stay abreast of the changes that were brewing in the energy industry.

These men were more than just a little bit right. Their idea evolved into what is today UtiliCorp's Aquila Energy subsidiary. In even less time than it took Microsoft's Bill Gates to become a billionaire, Aquila zoomed to the top ranks in wholesale energy marketing and trading. Sales in 1997 came to $7 billion.

In an average day Aquila's marketers and traders touch in some way roughly 5 percent of the natural gas and electric power consumed in the United States. Add to that their industrial, commercial and distribution utility customers across southern Canada.

The most visible aspect of Aquila's business is its expansive trading rooms in Omaha, Nebraska, the city Aquila now calls home. The company operates a smaller trading room for electricity in Kansas City and one for gas and power in Calgary. About 100 people work at the trade desks in the Omaha "War Room," with another 50 in Kansas City and about 25 in Calgary.

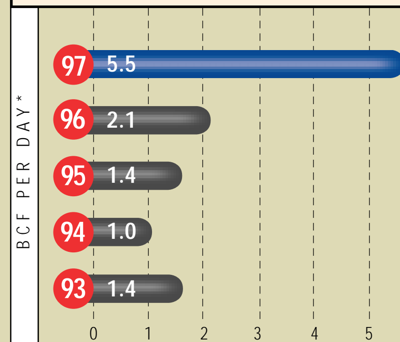
Common to all the trading rooms are wall-sized video screens that show nothing but the Weather Channel all day long. As trader Cara Spicer says: "Nothing affects the price of energy like the weather."

For all its business success, Aquila suffers one nagging problem. Many people, particularly in the Southwest, use the Spanish pronunciation "ah-*kee*-luh" (as though it rhymes with that clear Mexican drink made from the fermented sap of a cactus plant).

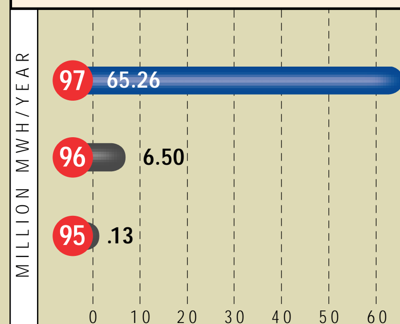
Employees prefer to say "uh-*kwill*-uh."

Either way, the word means eagle. And with the company's gas and electricity volumes continuing to soar, the folks at Aquila find that utterly appropriate. ■

Aquila's growth in volumes



*Physical transactions only; excludes financial trades. Includes Aquila Gas Pipeline.



Life as a Trader

Help Wanted: Energy experts with lots of experience trading commodities and in-depth knowledge of natural gas and power production/transportation/distribution. Need zillions of contacts throughout the North American natural gas and electric power industry. Must love interaction with customers, be comfortable with computer technology and dealing in huge dollars, be astute at gauging and managing risks. Only quick minds and rapid talkers need apply. Most workdays begin 7 a.m. and rarely end before 7 p.m. High rewards for those who succeed plus weekends off. Go with a winner.

Thomas Carmody, Janine McArdle and Cara Spicer, all regular residents of the Aquila Energy trading floor in Omaha, Nebraska, would add: "It also helps if you like popcorn."

Not only is it the War Room food of choice, but occasionally a piece of popcorn may land between you and your computer screen to let you know that a fellow trader needs your help on another deal.

It's a friendly environment where information and teamwork are critical to making money for the shareholder. The prices of natural gas and electricity are among the most volatile for traded commodities. A tenth of a cent per unit can mean the difference between profit and loss. Which is why traders spend their days, headsets firmly on their heads, talking constantly with energy buyers, sellers and traders throughout the industry to keep current with prices in the market.

With Aquila moving, on average, over 6 billion cubic feet of gas per day and 60 million megawatt-hours of electricity a year, traders have to make every conversation count.

"Nothing affects the price of energy like the weather."

CARA SPICER
SENIOR FINANCIAL TRADER

GUARANTEED WHAT??

TONY STONE IMAGES

Even before the return of El Niño, Aquila Energy was developing a line of products that reduce weather risk.

If you're a local distribution utility for gas or electricity, you know better than anyone (except maybe farmers and the Red Cross) the havoc that weather can wreak on normal daily life. "Everyone talks about the weather," the old saying goes, "but nobody ever *does* anything about it."

UtiliCorp's Aquila Energy has changed all that. Recently Aquila expanded its GuaranteedWeather℠ product line to help wholesale energy customers, industrial companies, commercial firms, city governments and others— even ski resorts— manage their cash flow and budgets in spite of unusual weather conditions that distort normal patterns of energy use.

Everyone likes finding ways to avoid worry. And ways that never existed— until now— naturally attract attention. The reason for GuaranteedWeather℠ products is very simple: Customers like them. For everything from snowfall to temperature. That's why Aquila's GuaranteedWeather is now a full line of financial instruments designed to offset lost revenues or increased costs associated with variations in weather.

The expanded product line now has GuaranteedPrecipitation℠, which includes reliable hedges and option products based not only on temperature, but rain and snow conditions as well. And unlike insurance, which pays based on actual damages, GuaranteedPrecipitation pays based on the weather activity alone.

Weather-based financial products help electric and gas utilities protect their revenues even when consumer demands fluctuate due to changes in the weather. For example, a cooler than usual summer could adversely affect an electric utility's revenues, while a warmer than usual winter could do the same for a gas company. GuaranteedWeather products could produce a cash payment to the utility under such conditions, helping to stabilize earnings.

We cover exposure to weather even if there's no actual loss or damage.

Aquila offers these products as part of its national trading operations that involve contracts for both natural gas and electric power. The GuaranteedWeather℠ product line applies the knowledge of more than 200 Aquila energy traders and market experts in imaginative and innovative ways, benefiting everyone in the energy chain.

For example, municipalities typically budget for an average annual snowfall to plow streets and clear sidewalks. When it snows more often than expected, money must

be diverted from other programs to cover added removal expenses. As a hedge, Aquila Energy's new GuaranteedSnowfall℠ option can provide the funds to cover the costs exceeding the allotted budget.

Or, if a gas distribution utility is exposed to a big drop in revenue due to mild winter weather, it can purchase a GuaranteedHeatingDegreeDays℠ option to offset potential lost earnings. These products can be embedded within traditional energy transactions, or structured as a variety of standard financial tools common on Wall Street such as "caps," "floors," "swaps" and "collars."

Aquila currently offers its weather-related products at many locations throughout North America and Australia, unlike other firms whose offerings are limited to a few major U.S. cities. It can provide weather options for more than 500 locations. Not only that, locations can be combined and weighted to best represent a customer's weather-related risk.

"Our focus is to use the knowledge of more than 200 energy and weather traders and market experts in imaginative and innovative ways," says Jeffrey Pantages, manager of Aquila's weather desk. "We can develop solutions for all classes of customer— from large energy producers and wholesalers to individual homeowners."

Now if you want it to rain only at night, with a constant daytime temperature of 62 degrees all year long so you can play more golf—well, no one at Aquila is ready just yet to say how soon that might be available as an optional package. ■

The growing line of GuaranteedWeather℠ products:

GuaranteedPrecipitation℠

GuaranteedSnowfall℠

GuaranteedSnowdepth℠

GuaranteedHeatingDegreeDays℠

GuaranteedCoolingDegreeDays℠

GuaranteedAverageTemperature℠

GuaranteedMaximumTemperature℠

GuaranteedMinimumTemperature℠

GuaranteedForecast℠

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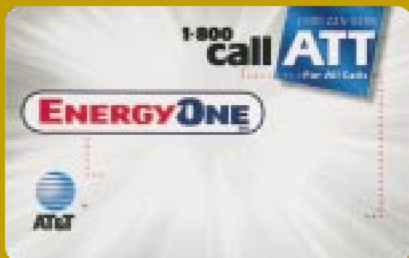

"We're selling comfort and convenience."

ANDY GUARRIELLO
PRESIDENT AND CEO
ENERGYONE, L.L.C.

ENERGYONE SM

The EnergyOne℠ partnership is an ambitious effort to change the way utilities relate to their customers.

As states deregulate utilities over the next five years or so , local utility companies will find themselves in a vastly different business environment. Fortunately, those companies can turn to EnergyOne for the most rapid and cost-effective way to enter the emerging retail arena.

When introduced by UtiliCorp in 1995, EnergyOne was the utility industry's first national brand name. In June 1997, EnergyOne took on a new form to become the first provider of "end-to-end" solutions for local utilities. It now offers everything needed to run a successful retail and utility business, from billing and customer care infrastructure to customer research and marketing.

UtiliCorp and PECO Energy Company of Philadelphia are the joint equity partners of EnergyOne, L.L.C., each owning 50 percent. The companies are also the first two utilities to launch the EnergyOne brand and its products and services.

EnergyOne is Allied with Big, Premier Brands

"We're selling comfort and convenience," says Andy Guarriello, the partnership's president and chief executive officer. "We've integrated traditional energy offerings with a portfolio of competitively priced products and services under the EnergyOne label. And they're provided by our alliances with premier, icon brand names."

He's not kidding. These are very familiar names, like AT&T for residential long-distance service, ADT for security services, and GE Service Management for home appliance warranty protection.

EnergyOne provides essential tools that enable utilities to compete under deregulation.

The AT&T and ADT offerings will roll out to 1.2 million EnergyOne customers in eight states during the first quarter of 1998. The GE Service Management warranty program is expected to roll out later in the year.

UtiliCorp no longer markets its own EnergyOne Security program, introduced in 1996, since through the new relationship with ADT it now has the best-known nationwide provider of residential and commercial security available to its customers. UtiliCorp's ServiceOne unit will continue to offer appliance servicing and repair to the company's utility customers, while the GE Service Management

warranty program is available to all other EnergyOne customers.

The One-Call Concept

To the consumer, one of the most meaningful benefits of EnergyOne is the low number of phone calls it will take in the future to start or stop service, schedule repairs, inquire about billing, or transfer services to a new address. That number is as low as it gets— *one*. A total of one call, not just for electric and gas service, but for any combination of additional product and service offerings through the customer's EnergyOne account. The fundamental philosophy is to solve customers' problems as conveniently as possible.

As time goes on, the list of optional services provided through EnergyOne will keep growing to include such things as home entertainment, Internet access and appliance sales. To determine exactly which products and services will best serve a utility's customers, EnergyOne has formed a strategic alliance with PNR and Associates, Inc., a leading market research firm noted for its work with the Electric Power Research Institute.

And to build customer loyalty, EnergyOne is developing EnergyOne EXTRAS, a rewards program that offers a catalog of products to choose from, such as cordless phones, a pocket television, or coupons good for free movie tickets.

Smoothing the Transition for Local Utilities

EnergyOne will get revenues from franchise and licensing fees from its provider utilities, but what will make utility companies want to link up with EnergyOne in the first place?

The concept combines the clout of a national brand name, an established product line and a group of premier third party suppliers, all of which took several years and millions of dollars to develop. The big selling point is that a utility can bypass most of that lead time and investment and enter the retail market very quickly. This jump start enables a company to launch a structured marketing program suited to retaining customers in the coming deregulated, competitive market, and do it cost-effectively.

The big selling point is that a utility can bypass most of that lead time and investment.

EnergyOne provides consumer-ready infrastructure and products *(continued on page 23...)*

Who's the ONE who sees what to do between now and deregulation?

Bringing successful transition into focus.

To succeed in a competitive environment, today's utilities need to put plans in place now to build a profitable consumer business. That's why EnergyOne is ready to help now. Ready with expertise in wholesale fuel supply and mass market risk management. Ready with a turnkey approach to infrastructure—including flexible billing, customer focused invoicing and advanced customer care solutions. Ready to help with market segmentation and promotion programs to build brand loyalty with a utility's best customers. And ready with a growing list of products and services from world-class providers like ADT Security Services, AT&T and more. Together with EnergyOne, utilities can move faster, grow stronger and take advantage of greater economies of scale than they ever could alone. Call 816.802.5151 or visit www.energyone.com and discover your *one source for more.*

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ENERGYONE Energy · Communications · Information

CUSTOMER SERVICE

In this new Energy Delivery facility, her desk may not look that big, but she's providing 24 x 7 service.

"On a peak day our center has handled nearly 3,500 calls without missing a beat."

JONNA RENEE MOULDER
CUSTOMER SERVICE ASSOCIATE

When is a BTU not a British thermal unit? When it's a far-reaching project called Building Tomorrow's UtiliCorp.

This particular BTU is a three-year effort to equip the company with competitive processes and systems for a whole host of customer service, operational and support functions. Everything from automated mapping of energy delivery networks to computer-aided dispatching of service technicians.

And then there's the centralized customer service center that lets people like Jonna Renee Moulder *(pictured at left)* take your call at 2:17 in the morning when your electricity is knocked out by a falling branch during a midwestern ice storm.

Three centers now handle calls for eight states.

The way she has all the information about your account in front of her mere seconds after you call, you'd never guess she's really 368 miles away, although that might explain why you dialed an "800" prefix when you were sleepily reporting the outage.

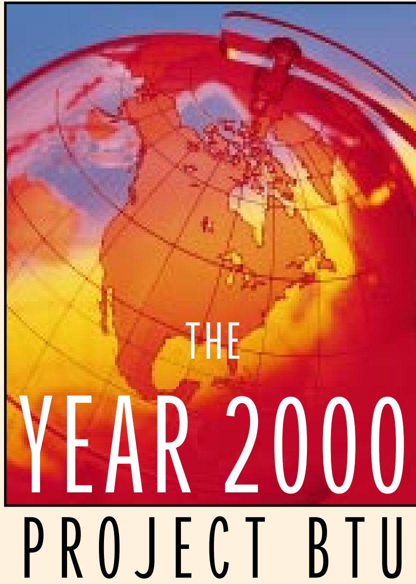
Three UtiliCorp customer service centers now handle all the customer calls once fielded by many offices across eight states. The new arrangement isn't really noticeable to the customer, but it's helping ensure that UtiliCorp's quality of service is consistently high across its entire utility service territory.

This effort helps ensure that the quality of service is consistently high across our entire service terrritory.

Calls can be rerouted from one customer service center to another during widespread outages or other emergencies— like that ice storm we were talking about.

And an all-new customer information system being phased in over the next two years will enable service associates like Jonna Moulder to have immediate access to more information about their customers. It also provides for itemized and more flexible billing, which is helpful now and likely to be necessary with deregulation.

By the way: "24 x 7" stands for 24 hours a day, seven days a week. When we figure out a way to be available more often than that, we'll let you know. ■



TONY STONE IMAGES

PROJECT BTU

Directly or indirectly, you and virtually everyone else in the modern world are likely to be affected personally by the arrival of the Year 2000 ("Y2K" if you like code words). Figuring out how to date your check to the local utility company could be the least of your problems the morning of 1/1/00.

Will your microwave nuke your coffee? Will your VCR still tape Oprah while you're at work? Will your ATM card still cough up cash?

For energy companies like UtiliCorp, the ramifications of Y2K are multiplied hundreds, if not thousands, of times.

Every operation, process and transaction throughout the company, if touched by a microprocessor or computer, must be checked out to be sure it won't be tripped up by the Millennium Bug. Each computer brain has to know the difference between the years 1900 and 2000. Otherwise? Weird things could happen.

Fortunately, Project BTU, UtiliCorp's sweeping effort to install new information and support systems, will replace at least 80 percent of the software that would be vulnerable to The Big Bug. January '00 bills to electric and gas customers will go out on schedule. (Sorry!)

The other 20 percent of software is being analyzed and will be upgraded or replaced during 1998 and 1999. Hardware such as control systems and equipment in the field is also under careful scrutiny.

Shareholders will receive further Y2K updates over the next two years as the millennial countdown continues.

NEW WORLD... *continued from page 21*

to local utilities for a significantly smaller investment than it would cost to develop on their own. One of EnergyOne's first accomplishments in 1997 was creation of a customer care infrastructure that streamlines the process for local utilities. Companies already facing deregulation have indicated that their primary concern is having the infrastructure — that is, the framework of various systems and processes— in place early enough to compete effectively for market share.

To create that infrastructure, EnergyOne developed alliances with three companies that are recognized leaders in their fields. AT&T Solutions will provide the calling center that will be on the front line when customers call to add or change services.

From there, information is transmitted to Saville Systems, a leader in the billing industry. Saville compiles the billing information and converges the data for printing onto a single invoice. Saville's billing process will roll out in March 1998 for a portion of EnergyOne's customers and will be applied to all billing beginning this summer. EnergyOne is currently completing negotiations with a third vendor, also a leader in its field, to develop, print and distribute user-friendly invoices to consumers.

Customers See Comfort and Convenience

Processes and systems may be of great importance to the utility companies that join EnergyOne, but to their customers all this infrastructure is invisible. What they will see is the wide array of products and services available from their local utility and EnergyOne, the convenience of changing multiple services with a single phone call, and a variety of payment options for their utility bills.

Pennsylvania the Next Proving Ground

During a 1997 pilot program to test open competition in Pennsylvania, EnergyOne and PECO Energy developed a successful approach that gained the leading market share during the test. Five percent of the market was eligible to participate in the pilot, and it proved an invaluable experience for EnergyOne.

While EnergyOne has had early success in Pennsylvania, EnergyOne's management knows that the total-source concept is revolutionary for most local utilities. Coupled with the piecemeal approach and slow pace of state-by-state deregulation, this is a venture that requires patience.

"It's clear that the speed of progress toward deregulation is slower than we anticipated three years ago," Guarriello says.

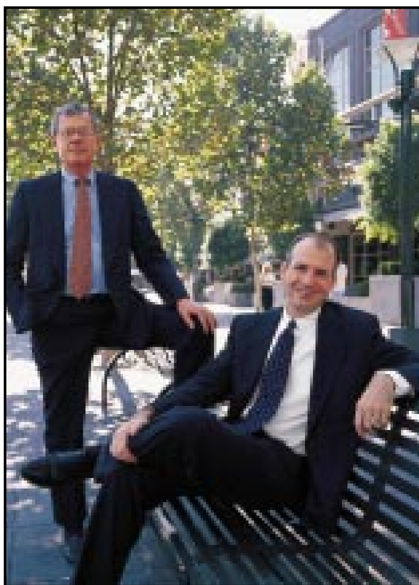
"The growing number of imitators in this category says clearly that EnergyOne's leadership position is very valuable," he adds. "We plan to keep that position."

To make EnergyOne's package more appealing to the smaller utilities that are least likely to be able to go it alone, the partnership has added options to the package which will enhance its value to those companies.

"We're sure about the rightness of what we've developed," Guarriello says. "When deregulation speeds up, our phone will be ringing off the wall." ■

PROFITS FIRST

TONY STONE IMAGES



ANDREW CHAPMAN

PAUL PERKINS (LEFT) AND KEITH STAMM ON LOCATION IN MELBOURNE, VICTORIA. UTILICORP'S SENIOR VICE PRESIDENT FOR AUSTRALASIA, PERKINS IS AN OLD HAND WHEN IT COMES TO WORKING THE WORLD—HE'S DONE BUSINESS IN MORE THAN 50 COUNTRIES. STAMM, AN EXPERIENCED UTILITY MANAGER FROM MISSOURI, BECAME CHIEF EXECUTIVE OF UNITED ENERGY LIMITED IN 1997. **TOP PHOTO:** THE YARRA RIVER FLOWS BY DOWNTOWN MELBOURNE.

When it's investing overseas, UtiliCorp looks for earnings growth, not just an education.

Being an international company isn't new for UtiliCorp. The company bought West Kootenay Power, a Canadian electric utility, more than a decade ago.

In spite of some initial negative reactions to foreign ownership, the company is generally well accepted in Canada these days. It has invested steadily in West Kootenay's infrastructure while also promoting energy conservation. As the utility begins its second century of service in southern British Columbia, it carries the EnergyOne℠ brand and breathes UtiliCorp's entrepreneurial culture of business development.

But don't drop in to see West Kootenay Power President Don Bacon without an appointment. His office these days is in Auckland, some 7,400 miles away. He's interim chief executive of Power New Zealand, with several times the customer base of the outfit he heads in Canada. UtiliCorp holds a 30 percent interest in PNZ and is glad to make use of Bacon's considerable prior experience in that very southern part of the world.

He's one of many UtiliCorp people looking after company interests in foreign lands, making sure there's a smooth and profitable transition from being government-owned to being investor-owned. Implementing deregulation and,

Are things different in Australia?

ASK MOTHER NATURE

FPG INTERNATIONAL
POSSUM STATESIDE

RAWDON STHRADHER, VICTORIA NRE
POSSUM DOWN UNDER

Shortly after UtiliCorp and its partners acquired United Energy in 1995, news media reports about Melbourne-area power outages kept showing up in Kansas City.

A high percentage of the mini-blackouts were caused by possums straying too far into power line equipment, like transformers, causing short circuits that left hundreds and even thousands of people in the dark. And in the process, the fuzzy little critters were getting fried, to boot.

But, we wondered, was a "possum" really a "possum" Down Under? We looked in our *Encyclopedia of Mammals* for a clue.

Sure enough— suspicions confirmed! Instead of the gray, pointy-snouted member of the *Didelphis virginiana* clan that Americans are so used to, in Melbourne it was one version or another of *Philangeridae*, such as the common brushtail, that was getting its cuddly self— and United Energy— into a lot of trouble.

Like American possums, they are nocturnal marsupials, have prehensile tails and like to climb trees. To a brushtail, a utility pole looks like a pretty good tree. Not only that— transformers give off warmth.

The solution? The utility's line crews began installing about 1,000 plastic-tipped possum guards next to pole-mounted transformers. Common in the States to protect electric networks from damage by errant squirrels, the devices provide a good enough barrier to possums and other climbing animals that United Energy has seen a steady decline in critter-related disruptions to service.

Now then— what else could possumbly go wrong?

in New Zealand and Australia, privatization reveals like nothing else does the need to increase efficiency, base decisions on sound commercial reasoning, and really look after the customer.

UtiliCorp sees operating overseas in the midst of that kind of change process extremely valuable— as long as it's adding to the company's bottom line.

Since the company and its Australian partners purchased United Energy from the Victorian government in 1995, UtiliCorp (as 49.9 percent owner) has had more than a front row seat. It's been on the playing field as coach and manager during the ongoing transition to open competition. The lessons learned in the scrimmage for electricity customers will come in quite handy back home, where deregulation is still just getting started.

In London, meanwhile, Chuck Dempster is leading UtiliCorp's efforts to create a niche in a similar transition— in the United Kingdom's gas market. Not too long ago he was president of Aquila Energy, so he knows all the ropes when it comes to gathering, marketing, transporting and trading natural gas. Even storing it.

UtiliCorp has been on the playing field as coach and manager...

UtiliCorp's newest project in England is creation of an underground gas storage facility within existing salt formations. The facility will hold 1 billion cubic feet of gas, enough to help the company's United Gas subsidiary in its role of independent energy wholesaler. United Gas is managing gas supply and transportation for other companies entering the British gas market, which began opening to competition in 1996.

In 1997, UtiliCorp's international activities combined brought in 17 percent of the company's normalized earnings before interest and taxes. That was down from 24 percent in 1996 due to currency fluctuations, growth in domestic earnings and various other factors. But over the long term, foreign interests and operations could rise to as much as 40 percent of total earnings as the company's businesses become more global. ■

OPERATIONS AND FINANCE

Consolidated Operations

Except where noted, the following discussion refers to the consolidated entity, UtiliCorp United Inc., including the following businesses: UtiliCorp Energy Delivery (UED), consisting primarily of domestic transmission and distribution utility operations, on-system appliance repair servicing operations, and gas marketing operations; Aquila Energy Corporation (Aquila), consisting primarily of wholesale gas and electricity marketing, gas gathering and processing and gas pipelines; and Generation, consisting of domestic electric generation and independent power projects. The company also has various operations that include generation, gas marketing, electric distribution and several investments that are discussed in the International section of this report.

UtiliCorp Energy Solutions (UES), consisting of retail gas marketing, appliance repair and service contracts, was realigned during the second quarter of 1997 into the operations of UED and Aquila. The realignment better leverages existing support facilities, processes and expertise.

Significant events and trends are presented which have had an effect on the operations of the company during the three-year period ended December 31, 1997. Also presented are factors that may affect future operating results, financial position and liquidity. This discussion should be read in conjunction with the company's consolidated financial statements and accompanying notes.

The results of operations for the three years ended December 31, 1997 have been affected by several items that, in management's opinion, do not have a continuing impact on the company's financial position or results from operations.

The table below summarizes the effect of the non-recurring items on earnings before interest and taxes (EBIT).

In millions	Year Ended December 31, 1997	1996	1995
EBIT, as reported	$359.1	$326.2	$253.6
Non-recurring items:			
Merger termination fee *(a)*	(53.0)	—	—
Write-off of deferred merger costs, net *(a)*	—	11.0	—
Gain on sales lease of a power project *(b)*	—	(20.9)	—
Provision for asset impairments *(c)*	26.5	—	34.6
Change to mark-to-market method of accounting *(d)*	—	—	(29.8)
Reserve for United Kingdom gas contracts and other reserves *(e)*	6.5	—	11.0
EBIT from oil and gas production business *(f)*	—	—	(5.0)
Normalized EBIT	$339.1	$316.3	$264.4

(a) In 1997, the company received a $53.0 million termination fee from Kansas City Power & Light Company related to the terminated merger. In 1996, the company expensed deferred merger costs, net of a termination fee received, resulting in an $11.0 million charge against earnings.

(b) In 1996, the company recorded a gain from a sales lease on a power project, which was partially offset by certain restructuring reserves in connection with changes in power project agreements. The result of these items increased EBIT $20.9 million.

(c) In 1997, the company recorded a provision for impaired assets of $26.5 million related to certain technology and royalty assets. In 1995, the company recorded a provision for impaired assets of $34.6 million.

(d) In 1995, the company changed its method of accounting for domestic natural gas trading operations to the mark-to-market method. This increased EBIT by $29.8 million.

(e) In 1997 and 1995, the company recorded a $5.0 million and an $11.0 million reserve against earnings, respectively, for unfavorable gas supply contracts in the United Kingdom.

(f) In 1995, the company sold substantially all of its oil and gas production assets at book value for $204.5 million. This normalizing adjustment represents the EBIT from this business in 1995.

Normalized EBIT is a term used by management to describe the recurring EBIT of the company. These terms are not meant to replace actual EBIT or other measures under generally accepted accounting principles.

"What our Energy Delivery folks do every day is provide superior network services, hour by hour throughout the year."

JIM MILLER
SENIOR VICE PRESIDENT
ENERGY DELIVERY

The following table summarizes the operations of UtiliCorp Energy Delivery for the three years ended December 31, 1997. Energy Delivery obtains all of its electricity requirements from Generation except for its West Virginia operations. The cost of electricity from Generation is reflected as "Purchases from Generation" in the sales section of the three-year table below.

Three Year Review—Energy Delivery

	Year Ended December 31,		
Dollars in millions	1997	1996	1995
Sales:			
Electric	$ 557.4	$ 519.3	$ 490.1
Gas	767.4	727.9	616.6
Non-regulated	258.7	124.8	88.1
Purchases from Generation	(313.6)	(285.2)	(263.2)
Total net sales	1,269.9	1,086.8	931.6
Cost of sales:			
Electric	14.2	14.9	14.1
Gas	493.2	455.2	352.7
Non-regulated	223.0	84.5	55.0
Total cost of sales	730.4	554.6	421.8
Gross profit	539.5	532.2	509.8
Operating expenses:			
Other operating	237.3	228.8	225.4
Maintenance	30.6	26.0	22.7
Taxes, other than income taxes	54.7	50.9	48.0
Depreciation and amortization	68.7	66.8	66.9
Total operating expenses	391.3	372.5	363.0
Income from operations	148.2	159.7	146.8
Other income	5.3	10.3	6.8
Earnings before interest and taxes (EBIT)	$ 153.5	$ 170.0	$ 153.6
Identifiable assets	$1,806.7	$1,814.7	$1,674.8
Electric sales and transportation *(MWH 000's)*	11,201	9,607	8,351
Gas sales and transportation *(MCF 000's)*	287,396	301,513	306,585
Electric customers	829,000	813,000	797,000
Gas customers	365,000	359,000	354,000
Total customers	1,194,000	1,172,000	1,151,000

Gross Profit

Energy Delivery's gross profit in 1997 increased $7.3 million over 1996. Gross profit from utility operations increased $11.9 million from 1996 levels, which was offset by a decrease of $4.6 million in non-regulated profits. Utility profit increased from customer growth of 2%, new gas rates in Michigan, and the full-year impact of rate increases in Kansas and Nebraska. Utility profit decreased $9.7 million from the very favorable weather in 1996 compared to near-normal weather in 1997. Profit from non-regulated operations decreased as a result of lower margins on non-regulated energy sales and the effects of certain businesses that were sold in 1996. The non-regulated profit decrease was partially offset by appliance service margin growth from customer growth and price increases.

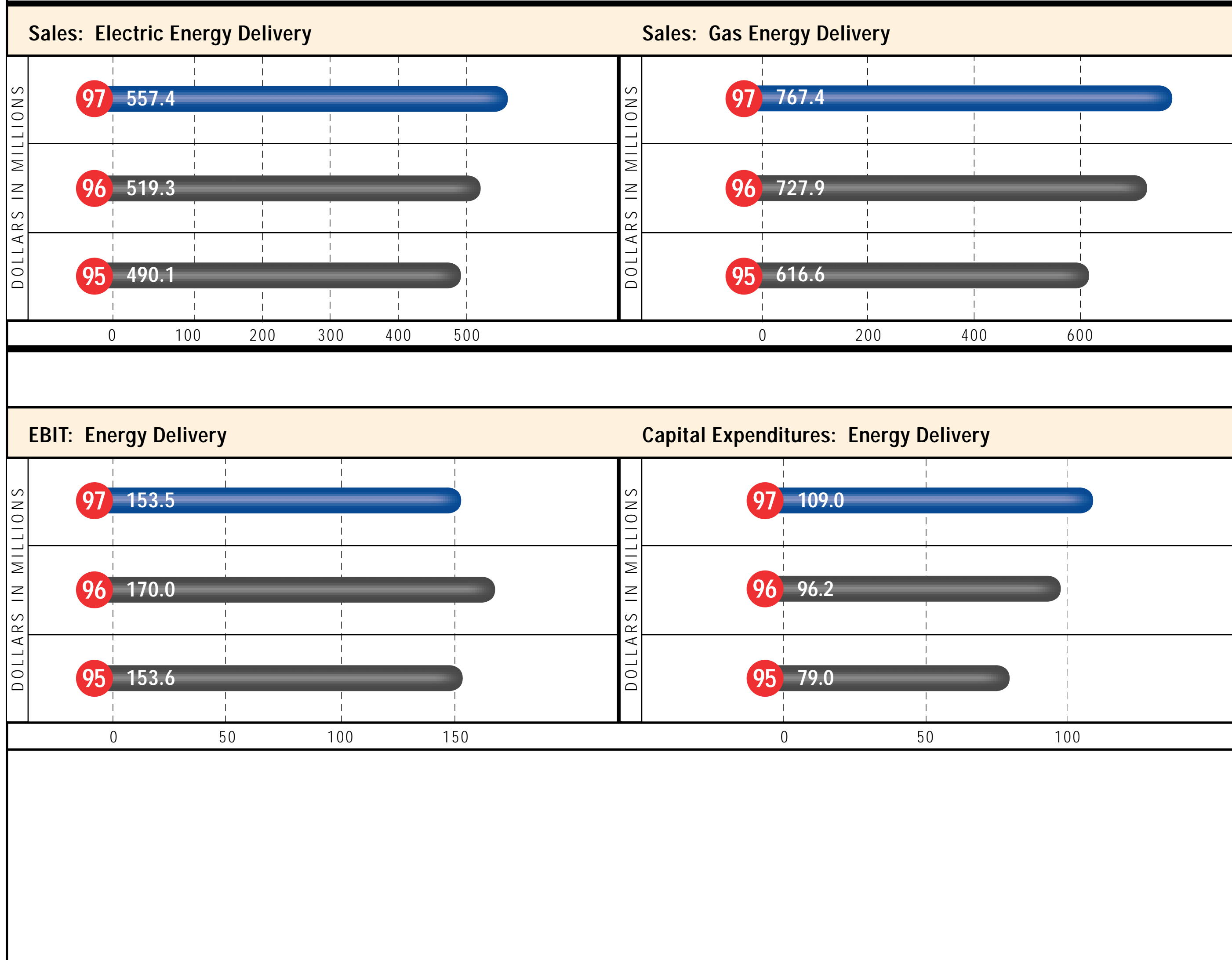
Gross profit in 1996 increased $22.4 million compared to 1995 primarily due to colder temperatures affecting gas utility operations ($11.9 million), increased margins from non-regulated operations ($7.2 million) and increased gas rates in Nebraska and Kansas ($4.4 million).

Early 1998 winter temperatures in the company's primary service territories have been unseasonably mild compared to 30-year average temperatures as a result of global weather patterns related to the El Niño phenomenon. The initial unfavorable impact may be mitigated by Energy Delivery's summer-peaking operations.

Operating Expenses

Operating expenses increased $18.8 million in 1997 compared to 1996. Energy Delivery was allocated approximately $6.0 million of additional expenses from Corporate. These charges primarily related to information system reengineering efforts and other technology capital projects placed in service to help position Energy Delivery for the more competitive future environment. Approximately $5.7 million of the remaining increase relates to additional depreciation on utility plant expenditures and property taxes.

Operating expenses for Energy Delivery's regulated businesses in 1996 were essentially flat with 1995. Savings in 1996 resulted from a series of efficiency initiatives that began in 1995, but were offset by increased uncollectible customer accounts triggered by escalating gas prices and higher property taxes. Operating expenses in 1996 for non-regulated businesses increased by $8.8 million over 1995 due to support costs for non-regulated energy sales and positioning expenses to improve the appliance repair business.



Generation provides firm wholesale electricity to Energy Delivery based on an internal transfer pricing model which represents a full requirements capacity and energy contract. This segment also sells non-firm energy to other utilities and municipalities in the wholesale market and retains an interest in independent power projects. The following table summarizes the operations of Generation for the three years ended December 31, 1997.

Three-Year Review—Generation

Dollars in millions	Year Ended December 31, 1997	1996	1995
Sales to affiliate and other	$313.6	$285.2	$263.2
Cost of sales—fuel used for generation and purchased power	184.8	164.3	151.6
Gross profit	128.8	120.9	111.6
Operating expenses:			
Other operating	47.1	52.3	42.2
Maintenance	17.1	14.6	12.9
Taxes, other than income taxes	6.5	6.6	6.8
Depreciation and amortization	16.2	16.4	18.1
Provision for asset impairment	—	—	15.4
Total operating expenses	86.9	89.9	95.4
Income from operations	41.9	31.0	16.2
Equity in earnings of investments and partnerships	29.6	48.5	19.6
Other income (expense), net	.3	(.2)	(.5)
Earnings before interest and taxes (EBIT)	71.8	79.3	35.3
Non-recurring items:			
Provision for asset impairments	—	—	15.4
Gain on sales lease of power project	—	(20.9)	—
Normalized EBIT	$ 71.8	$ 58.4	$ 50.7
EBIT by business subunit:			
Regulated power	$44.0	$36.3	$36.1
UtilCo Group	27.8	22.1	14.6
Total	$71.8	$58.4	$50.7
Identifiable assets	$503.0	$482.1	$460.8
Affiliate sales *(MWH 000's)*	7,767	7,411	6,998
Non-affiliate sales *(MWH 000's)*	1,546	998	589

Gross Profit

In 1997 energy sales to non-affiliates increased more than 50% due to a variety of market conditions which included regional nuclear outages, coal shortages and extremely hot midwest temperatures during late July. Overall margins for this unit increased by $7.9 million compared to 1996 due to higher margins on off-system sales, load growth, and reduced purchased power costs due to available hydroelectric power in the Missouri Basin.

Gross profit in 1996 increased $9.3 million over 1995 due to system load growth, an increase in off-system sales of 409,000 MWH, reduced fuel cost resulting from a new coal supply and transportation contract, and aggressive fuel blending at the Sibley generating station.

Operating Expenses

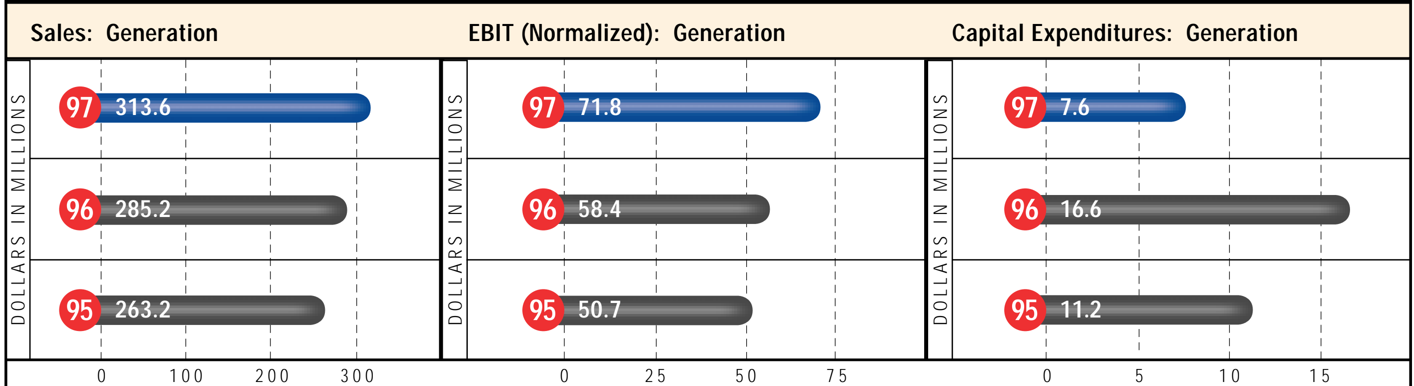
Operating expenses decreased by $3.0 million in 1997 compared to 1996 primarily due to a change in the strategic direction of the independent power generation segment. The company is no longer seeking additional investments in independent power projects and therefore is not making acquisition related expenditures.

Operating expenses increased $9.9 million in 1996 compared to 1995 after adjusting for the provision for asset impairment recorded in 1995 relating to a power project. The 1996 normalized increase is due to additional support costs, such as information technology, human resources, legal and other activities. Additional increases primarily related to the establishment of an energy trading group to sell available generation capacity during off-peak periods.

Equity in Earnings

Equity in earnings increased $2.0 million in 1997 compared to 1996 after normalizing for the gain on sales lease of $20.9 million. The increase is primarily due to innovative gas tolling and dispatch arrangements at one of the independent power projects combined with increased production from another project.

Equity earnings in 1996 increased $8.0 million compared to 1995 after adjusting for the net gain on a sales lease transaction and other restructuring charges. The equity earnings increase is due to higher steam output, new rates at two projects and a full year of performance at another.



In 1897 we climbed our first mountain

100 years later, we're still reaching new heights

In 1897 it had never been done. No one had ever built a high voltage transmission line thru the mountains. But to the enterprising people who founded West Kootenay Power, reaching new heights was a pre-requisite to meeting customers' needs.

That 50 kilometre transmission line has grown to a 1,500 kilometre transmission system serving 129,000 customers in the West Kootenay, Okanagan and Similkameen Valleys.

Today we provide some of the lowest cost, most reliable electricity in the country.

In 1897 we climbed our first mountain. A hundred years later we are Canada's oldest integrated electric utility and we're still reaching new heights for our customers.

INCORPORATED MAY 8, 1897

WEST KOOTENAY POWER
ENERGYONE

> "The keys to Aquila's rapid growth have been initiative, ambition and imagination. Those three words describe what we're all about."

HARVEY PADEWER
SENIOR VICE PRESIDENT
ENERGY GROUP

The following table summarizes the operations of Aquila Energy for the three years ended December 31, 1997.

Three-Year Review—Aquila Energy

Dollars in millions	Year Ended December 31, 1997	1996	1995
Sales:			
Energy marketing	$6,017.1	$1,882.4	$ 773.8
Aquila Gas Pipeline	1,013.9	790.3	485.2
Oil and gas production	—	—	50.6
Total sales	7,031.0	2,672.7	1,309.6
Cost of sales:			
Cost of energy marketing	5,909.0	1,822.6	714.0
Aquila Gas Pipeline	894.6	664.1	387.1
Total cost of sales	6,803.6	2,486.7	1,101.1
Gross profit	227.4	186.0	208.5
Operating expenses:			
Operating and maintenance	119.0	100.2	78.7
Depreciation, depletion and amortization	27.6	28.6	49.6
Provision for asset impairments	15.5	—	13.2
Total operating expenses	162.1	128.8	141.5
Income from operations	65.3	57.2	67.0
Minority interest expense and other	10.6	10.0	2.1
Earnings before interest and taxes (EBIT)	54.7	47.2	64.9
Non-recurring items:			
Change to mark-to-market method of accounting	—	—	(29.8)
Provision for asset impairments	15.5	—	10.8
Oil and gas operating income and other	—	—	(5.0)
Normalized EBIT	$ 70.2	$ 47.2	$ 40.9
EBIT by business subunit:			
Energy marketing	$ 18.4	$ (4.2)	$ 3.3
Aquila Gas Pipeline	51.8	51.4	37.6
Total	$ 70.2	$ 47.2	$ 40.9
Identifiable assets	$2,067.7	$1,698.9	$1,100.4
Physical gas volumes marketed *(billion cubic feet per day) (a)*	5.5	2.1	1.4
Gas throughput volumes *(billion cubic feet per day)*	.5	.5	.5
Electricity marketing volumes *(MWH 000's)*	65,258	6,495	129
Natural gas liquids produced *(thousand barrels per day)*	37	41	32

(a) Includes volumes marketed by Aquila Gas Pipeline.

Gross Profit

Gross profit in 1997 increased $41.4 million or 22% compared to 1996. This increase is due to a 189% and 905% increase in gas and electricity volumes marketed which resulted in $26.2 million and $9.0 million, respectively, in additional margin. These volumetric increases reflect the impact of an aggressive expansion program that led to Aquila's gas and electricity marketing businesses being ranked fifth and sixth nationally, respectively.

Gross profit from Aquila Gas Pipeline (AGP) decreased $6.9 million in 1997 compared to 1996 due to reduced natural gas liquids (NGL) production volumes resulting from leaner gas streams, lower NGL prices and reduced gas marketing results. In 1997, NGL production volumes and prices were off 10% and 3%, respectively, compared to 1996. The leaner gas streams are due to deep well drilling in the Austin Chalk area of Texas making up a higher percentage of the area's total activity. It is expected that the drilling profile for 1998 may contain more volumes from deep wells and less volumes from oil wells than in 1997, resulting in lower NGL production. In addition, the NGL prices in 1998 so far are considerably lower than in 1997 and may remain below the 1997 average price of $.33 per gallon. The continuation of these trends may reduce gross profit from AGP in 1998 compared to 1997.

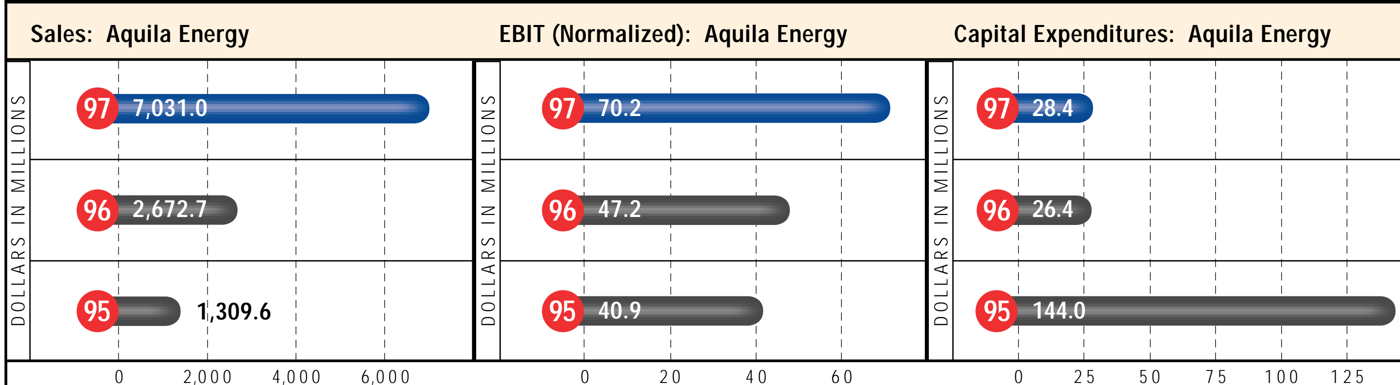
Gross profit from retail gas marketing increased $13.1 million over 1996 as these businesses were assimilated into Aquila from UtiliCorp Energy Solutions. The increase is due to the expansion of sales to industrial and commercial customers. In 1996, the retail business had fixed price sales contracts against variable purchase contracts when the price of natural gas escalated. Although the retail business improved in 1997, it still had a net EBIT loss in 1997 of $5.1 million compared to $13.1 million in 1996.

Gross profits in 1996 increased $59.5 million compared to 1995 after normalizing for the sale of the oil and gas business and the change to the mark-to-market method of accounting. This increase is primarily due to 54% growth in gas marketing volumes that increased gross profit by $28.8 million. Gross profit from AGP increased $28.1 million due to a 28% increase in NGL production and a 20% increase in NGL prices.

Operating Expenses

Operating expenses increased $17.8 million in 1997 after normalizing for the provision for asset impairment compared to 1996. This increase reflects higher staffing and salary cost in support of Aquila's aggressive growth strategy and its rapid increase in marketed volumes.

Operating expenses for 1996 were $47.8 million higher than in 1995 after normalizing for the asset impairment charge and the sale of oil and gas properties. In addition to higher cost to support business growth, this increase includes $21.7 million from the retail segment. In 1995, the retail business was in the start-up phase.



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Ahhhhh. The peace of mind that comes from having an appliance repair plan…

A UtiliCorp United Company

The following table summarizes the company's International operations for the three years ended December 31, 1997.

Three-Year Review—International

Dollars in millions	1997	Year Ended December 31, 1996	1995
Sales:			
Electric (Canada)	$ 89.8	$ 92.9	$ 87.6
Gas marketing (United Kingdom)	215.4	191.5	199.9
Total sales	305.2	284.4	287.5
Cost of sales:			
Cost of fuel and purchased power (Canada)	28.8	29.8	27.4
Cost of gas marketing (United Kingdom)	217.3	179.9	184.2
Total cost of sales	246.1	209.7	211.6
Gross profit	59.1	74.7	75.9
Operating expenses:			
Other operating	21.6	24.8	28.4
Maintenance	10.0	9.0	8.9
Taxes, other than income taxes	11.3	12.2	13.0
Depreciation and amortization	11.0	12.5	7.1
Total expense	53.9	58.5	57.4
Income from operations	5.2	16.2	18.5
Equity earnings in subsidiaries and partnerships	42.3	60.1	9.8
Other income, net	5.0	3.4	3.4
Earnings before interest and taxes (EBIT)	52.5	79.7	31.7
Non-recurring item:			
Reserve for United Kingdom gas contracts	5.0	—	11.0
Normalized EBIT	$ 57.5	$ 79.7	$ 42.7
Identifiable assets	$789.0	$848.3	$728.2

Summary

International normalized EBIT consists of operations and equity investments in the following countries for the three years ended December 31, 1997.

In millions	1997	1996	1995
Australia	$27.0	$38.3	$10.3
Canada	26.2	27.7	23.1
New Zealand	9.9	11.6	1.7
United Kingdom	(5.6)	2.1	7.6
Total	$57.5	$79.7	$42.7

The normalized EBIT by country is discussed below.

Australia

EBIT in 1997 decreased $11.3 million or 30% compared to 1996. This decrease is due to a $3.8 million reduction in margins at United Energy Limited (UEL) reflecting lower margins on its contestable customers. In addition, the management fees that the company receives for managing UEL decreased $2.0 million, primarily due to the financial performance in 1997 relative to financial targets established following the strong performance in 1996.

EBIT was further reduced as the depreciating Australian dollar decreased dramatically relative to the U.S. dollar in the fourth quarter of 1997 when the collateral effects of the Asian stock market decline affected the Australian markets. The remaining decrease relates to the tax deductibility of certain expenses at UEL.

The 1996 EBIT increased $28.0 million or 272% compared to 1995. The 1996 EBIT reflects UEL's first full year of operations compared to 1995. The company's interest in UEL was acquired in the fourth quarter of 1995. The 1996 EBIT also reflects a successful reengineering effort that replaced many core business support systems, complementing the productivity improvements across UEL.

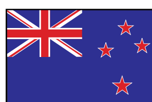
In July 1998, customers in Victoria, Australia with volumes greater than 160 MWH per year will become contestable and will be able to choose their electricity supplier. UEL plans to compete aggressively in this customer segment. As of December 31, 1997, UEL had approximately 865 customers that were already contestable.

Canada

The company's Canadian operations consist primarily of its wholly-owned Canadian electric distribution company, West Kootenay Power (WKP). This utility has four hydroelectric generation facilities with a capacity of 205 megawatts and 962 miles of transmission lines that serve approximately 84,000 customers in the south-central interior of British Columbia. In 1996, the company became the first electric utility in Canada to be granted performance-based regulation. It is now in the third year of a three-year incentive-based rate-setting mechanism. This calls for equal sharing of savings between the customer and WKP in situations where WKP performs over and above negotiated performance expectations.

Increased earnings in 1996 compared to 1995 resulted from the sale of one of WKP's investments and favorable negotiations of purchased power arrangements. The 1997 EBIT is comparable to 1996.

New Zealand



The company's New Zealand investments (Power New Zealand and WEL Energy Group) together contributed $9.9 million, $11.6 million and $1.7 million to EBIT in 1997, 1996 and 1995, respectively. In 1997 EBIT decreased compared to 1996 due to the timing of earnings at WEL Energy Group and a depreciating currency relative to the U.S. dollar. The New Zealand currency was affected similarly to the Australian currency discussed above.

EBIT improved in 1996 compared to 1995 as a result of having a full year of equity earnings from Power New Zealand shares purchased late in 1995, the additional earnings attached to shares purchased throughout 1996 from both investments, and improved operations at the underlying electric distribution companies.

United Kingdom

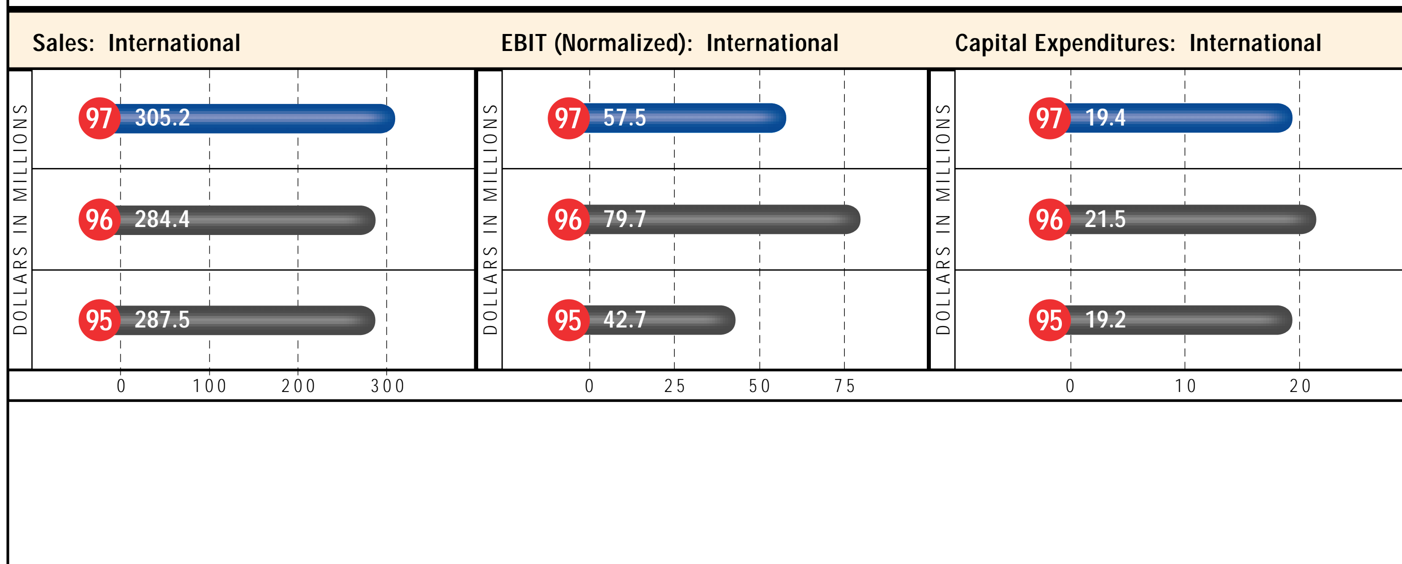
The company has several business ventures in the United Kingdom (U.K.) that market natural gas and transportation services to wholesale, industrial, and residential customers. United Gas Limited (UGL), the company's primary U.K. subsidiary, markets gas directly and indirectly to approximately 96,000 customers. It had sales volumes of 68 BCF in 1997, an increase of 12 BCF from 1996.

The U.K. residential gas markets first became contestable in 1996 and will be fully contestable by the summer of 1998. In preparation for competition, new suppliers have entered the market. These competitors include companies with a strong name recognition such as electric companies, water companies and grocery chains that intend to add natural gas to their existing products.

Since a large number of new suppliers came from outside the natural gas industry, UGL developed natural gas transportation and load balancing services for them. These products allow UGL to leverage its existing expertise and information technology systems to generate revenue while managing operational risks for these new suppliers.

At December 31, 1997, the company's portfolio of fixed price contracts was in a net long position, as it included supply commitments of 66 BCF through 2005 and sales commitments of 50 BCF through 1999. Depending on the long-term price of natural gas, estimated losses on the above portfolio range between $19 and $26 million due to two long-term supply contracts. Since the U.K. natural gas market does not have liquid long-term pricing, it is difficult to estimate the future profitability of the portfolio. Based on management's estimates and available market data at December 31, 1997, the company is carrying a $19 million pretax reserve relating to future losses that may exist within the portfolio of contracts. Management believes that this reserve is adequate and that any additional losses would not be material.

Normalized EBIT from the U.K. businesses for the three years ended December 31, 1997, 1996 and 1995 were $(5.6) million, $2.1 million and $7.6 million, respectively. The $7.7 million decrease in 1997 EBIT from 1996 is due to the full-year impact of high-cost gas contracts in 1997 compared to one quarter in 1996 and certain profitable gas sales contracts which expired in 1997. EBIT in 1996 compared to 1995 decreased $5.5 million due to unfavorable long-term gas supply contracts.



Corporate and Other

The table below summarizes the corporate and other EBIT for the three years ended December 31, 1997. Corporate primarily contains the retained costs of the company that are not allocated to the business units and the net losses from the company's investment in EnergyOne, L.L.C.

In millions	1997	1996	1995
EBIT, as reported	$ 26.6	$(50.0)	$(31.9)
Merger termination	(53.0)	11.0	—
Asset impairment provision	11.0	—	6.0
Other	1.6	—	—
EBIT, Normalized	$(13.8)	$(39.0)	$(25.9)

Corporate and other normalized EBIT improved by $25.2 million in 1997 compared to 1996 due to the elimination of certain corporate activities and transfer of capital costs associated with new information systems recorded at corporate, but allocated to business units.

Pending Rate Proceeding

In the first quarter of 1997, the Staff of the Missouri Public Service Commission (the Staff) filed a complaint against the company seeking to reduce annual Missouri electric revenues by $23 million. In September 1997, the Staff increased its recommendation for a rate reduction to $28.5 million. In a separate filing with the Staff, the company requested to increase electric rates by $24.6 million. The Staff is reviewing the company's position and the final order is expected to be issued in March 1998. The primary differences between these two dockets center on rate of return, capital structure, transition costs, depreciation methods and corporate allocations.

The company's filing is designed to recover inflationary and other cost increases which include the investment of approximately $20 million in plant and facility improvements. The rate increase also reflects the request for a temporary surcharge of $.0028 per kilowatt-hour to cover costs related to transitioning to the competitive customer-choice marketplace. In addition, the filing includes a mechanism to lessen the impact of the surcharge on consumers, and requests that the Commission approve the establishment of a $1 million fund to assist low-income customers.

The Commission is expected to issue an order by March 7, 1998, with new rates effective March 17, 1998. Although this matter is still pending, the public scenarios under consideration by the Commission range from a $12 million to a $23 million rate reduction.

Competition

Utility Operations

The electric industry has increasingly become more competitive as federal and state regulators move to a more deregulated environment. At the federal level, the passage of the Energy Policy Act of 1992 (Energy Act) allowed the Federal Energy Regulatory Commission (FERC) to order electric utilities to grant access to transmission systems by third-party power producers. The Energy Act specifically prohibits federally mandated wheeling of power for retail customers. In April 1996, the FERC issued its Order No. 888, and subsequently Orders No. 888-A and No. 888-B, which opened wholesale power sales to competition and required public utilities owning, controlling or operating transmission lines to file non-discriminatory open access tariffs that offer others the same transmission service they provide themselves. The company has open access tariffs in each of its electric jurisdictions.

On the federal legislative front, several bills in Congress have been proposed on electric restructuring matters, but no bill currently has wide support or is ready for passage. Without federal restructuring guidelines, electric restructuring is taking place on a state-by-state basis without consistency between states.

In each of the company's domestic electric jurisdictions, various restructuring proposals are being introduced in the state legislature. The pace of electric restructuring is unpredictable and subject to change.

The competitive forces affecting the company's electric operations are also affecting the company's gas operations. As competing electric utilities reduce costs, it becomes more difficult to obtain new customers through fuel switching opportunities and in certain cases the result may be a loss of customers. Federal Energy Regulatory Commission (FERC) Order 636 shifted gas supply responsibilities from traditional pipeline company sources to distribution utilities, and allows customers to bypass the company's system by directly connecting to a transportation pipeline. In addition, the mix of gas sales has changed between industrial, transportation and large commercial customers. The company has addressed increased competition and industry changes in several ways. First, its natural gas is priced competitively in its respective service territories compared to alternate energy sources. Second, the company established in 1993 a central gas procurement function designed to take advantage of opportunities created by FERC Order 636. Besides offering low cost natural gas, the company offers its customers a wide range of energy solutions to meet their needs.

The company currently accounts for the economic effects of regulation in accordance with the provisions of Statement of Financial Accounting Standards No. 71 (SFAS No. 71), "Accounting for the Effects of Certain Types of Regulation," and accordingly has recorded certain costs as regulatory assets in the financial statements. The company expects that its utility rates will continue to be based on historical costs for the foreseeable future. If the company discontinued applying SFAS No. 71, it would be required to make adjustments to the carrying value of certain assets.

Energy Marketing

The company has adopted a plan to provide both natural gas and electric power commodity services to its wholesale customers from an integrated wholesale marketing staff. This allows the company to fully meet the needs of customers that continue to have an ever-increasing port-

folio of energy options from which to choose. A number of recent mergers and consolidations of entities in the energy marketing industry have increased the focus on controlling market share on a volumetric basis. The company expects the energy marketing industry to consolidate into a few megamarketing companies. Electric power marketing will be affected by the regulatory environment of the industry. It is currently unclear as to when the various regulatory agencies will open access to all power customers, including retail users. These regulatory decisions may have a significant impact on the future economics of the power marketing sector.

Merger Termination

On September 17, 1996, KCPL terminated the Amended and Restated Agreement and Plan of Merger (the Agreement) among KCPL, KC Merger Sub, Inc., the company, and KC United Corp. Pursuant to the termination provision in the Agreement, KCPL paid the company $5.0 million in 1996 and upon KCPL's definitive agreement to merge with another company KCPL paid the company a $53.0 million breakup fee in the first quarter of 1997. The company used the $53.0 million to reduce short-term debt. In 1996 the company expensed $11.0 million of its deferred merger cost, net of the $5.0 million termination fee received in 1996, against income.

Environmental Matters

The company has been named as a potentially responsible party (PRP) at three PCB disposal facilities. The company's combined clean-up expenditures have been less than $1 million to date and it anticipates that future expenditures on these sites will not be significant.

The company also owns or once operated 29 former manufactured gas plants which may or may not require some form of environmental remediation. These are discussed in Note 14 to the Consolidated Financial Statements.

In December 1996, the EPA promulgated its final rule for nitrous oxide (NOx) emissions pursuant to the requirements of the Clean Air Act Amendments of 1990. The new NOx regulations will impact one of the company's power plants by necessitating the installation of additional emissions control equipment by January 1, 2000, as more fully discussed in Note 14.

Year 2000 Issues

The company established a cross-functional team of employees to study and address potential year 2000 issues that may impact the company, including potential year 2000 issues with key customers and vendors.

The company is addressing several mission-critical systems as part of its ongoing new system development project. The company has implemented a new financial reporting system which is year 2000 ready and it is implementing a new customer information system (CIS) that will be year 2000 ready. The new CIS system is expected to be completed in early 1999.

For complete system changeouts, the company capitalizes its cost under guidelines described in Emerging Issues Task Force (EITF) 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project that Combines Business Process Reengineering and Information Technology Transformation." For programming fixes on existing systems, the company records these costs as maintenance expense.

The company does not expect the amount spent on year 2000 issues to be material.

Market Price Risks

The company is exposed to market risk, including changes in commodity prices, interest rates and currency exchange rates. To manage the volatility relating to these exposures, the company enters into various derivative transactions in accordance with the company's policies related to its trading operations and certain hedged positions. Derivative positions are monitored using a value-at-risk (VAR) model for commodity and interest rate financial instruments within the overall trading portfolio that includes physical contracts. For the company's trading operation the company uses the mark-to-market method of accounting, reflecting all changes in fair value in the income statement. The company also uses hedge accounting for treasury related instruments and commodity related instruments pertaining to owned system volumes at Aquila Gas Pipeline.

Commodity Price Exposure

The company manages and measures its exposure to commodity price changes using a VAR model as a percentage of net income based on a 95% confidence level using three day holding periods. The company's Board of Directors sets the VAR limit.

The company also uses stress testing, daily loss limits and commodity position limits to manage risk. A simultaneous price movement of $.10 per MMBtu and $1.00 per megawatt hour along the entire forward price curve for natural gas and electricity positions held at December 31, 1997 would have impacted EBIT by $1.7 million and $.5 million, respectively.

The company is also exposed to commodity price changes outside of price risk management activities. The following table summarizes these exposures on an EBIT basis.

	Commodity Price Change	EBIT Impact *(a)*
NGL price per gallon	± $.01	$1.9 million
Oasis price spread	± $.01	1.4 million
United Kingdom natural gas prices	± $.01	1.9 million

(a) Assumes the $.01 price change occurs for an entire year. For the U.K., the price change assumes that it occurs over the entire forward contract period.

Currency Rate Exposure

The company does not currently hedge its net investment in foreign operations. As a result, the foreign denominated assets and liabilities fluctuate in value. Historically, the company's net exposure to changes in foreign currency has been limited as the company's foreign investments were financed through foreign debt.

The recent downturn in the Asian market has had a collateral impact on the Australian and New Zealand currencies which each decreased in value by 18% during the year. The net decrease in net income in 1997 due to depreciating foreign currencies was approximately $1.3 million. A 10% movement in all foreign currencies occurring uniformly over the entire year relative to the U.S. dollar would impact earnings by approximately $2.5 million.

Interest Rate Exposure

The company has approximately $240.0 million of long-term variable rate debt, including current maturities, as of December 31, 1997. A 100 basis point change in each debt's benchmark rate would impact net income by approximately $1.0 million. The company has approximately $65 million of its variable debt hedged with a fixed rate financial instrument. Changes in value of this hedge instrument are reflected as an adjustment to interest expense.

Liquidity and Capital Resources

The company's cash requirements arise primarily from its continued growth, electric and gas utility construction programs, non-regulated investment opportunities and information technology investments. The company's ability to attract the necessary financial capital at reasonable terms is critical to its overall plan. Historically, acquisitions and investments have been financed initially with short-term debt and subsequently funded with an appropriate mix of common equity and long-term debt securities, depending on prevailing market conditions.

A primary source of short-term cash has been bank borrowings from uncommitted bank lines which aggregated $100.0 million, $185.0 million and $152.0 million at December 31, 1997, 1996 and 1995, respectively. The company can also issue up to $150 million of commercial paper which is supported by a $250 million committed revolving credit agreement. The credit agreement expires in December 2000 and allows for the issuance of notes at interest rates based on various money market rates. Commercial paper borrowings at December 31, 1996 and 1995 were $50.0 million and $135.5 million, respectively. The company had no commercial paper borrowings at December 31, 1997.

To maintain flexibility in its capital structure and to take advantage of favorable short-term rates, the company also uses proceeds from its two accounts receivable sale programs to fund a portion of its short-term cash requirements. The level of funding available from these programs varies depending on the level of eligible accounts receivable, which fluctuates seasonally. These programs were fully utilized at December 31, 1997.

At December 31, 1997, the company had approximately $74.5 million in cash in its international businesses. The company does not provide for U.S. tax on its international operations.

Total capitalization at December 31, 1997, was $2.9 billion. Common equity as a percentage of total capitalization was 40% at December 31, 1997, up from 38% at December 31, 1996. The increase primarily relates to the paydown of short-term debt and depreciation of foreign currencies relative to the U.S. dollar and its impact on foreign debt.

Cash Requirements

Future cash requirements include utility plant additions, required redemptions of long-term securities and acquisition opportunities. The company's estimated expenditures over the next three years for these activities, excluding acquisitions, are as follows:

	Actual	Future Cash Requirements		
In millions	1997	1998	1999	2000
Energy Delivery	$109.0	$ 95.0	$ 91.0	$ 93.0
Generation	7.6	14.0	14.0	15.0
Aquila Energy	28.4	25.0	28.0	26.0
International	19.4	36.0	39.0	37.0
Maturing long-term debt	108.7	149.6	165.6	224.8
Other	38.2	55.0	73.0	66.0
Total	$311.3	$374.6	$410.6	$461.8

Amounts included in Other primarily relate to the company's continuing information system efforts and other technology capital expenditures to enable the company to implement its operating strategy.

In 1997, the company redeemed all one million outstanding shares of its $2.05 Series preference stock at $25.00 a share. Also in 1997, the company retired approximately $69 million of its 10.5% senior note issue which resulted in a $7.2 million extraordinary loss. The early retirement was effectively refinanced with new senior notes with an interest rate of 6.875%. In December 1997, the company received approximately $117.1 million in cash as a customer's prepayment for a 10-year gas supply contract. The company used the proceeds to reduce short-term debt.

The company is considering refinancing certain higher coupon debt in 1998 if market conditions warrant.

The company believes that its available cash resources from both operating cash flows and borrowing capacity will be adequate to meet its anticipated future cash requirements.

Significant Balance Sheet Movements

Total assets increased $373.7 million in 1997 compared to 1996. This increase is primarily due to increases in current assets reflecting the expansion of Aquila's wholesale energy marketing business in 1997 which mainly increased accounts receivable, net by $353.5 million and price risk management assets by $66.3 million. The increase in current assets is partially offset by a $69.8 million decline in investments in subsidiaries and partnerships due to depreciating foreign currencies relative to the U.S. dollar.

Total liabilities increased $393.1 million due to a $355.4 million increase in current liabilities stemming from additional accounts payable related to the wholesale energy marketing business. Partially offsetting the increase in accounts payable is a decrease in other current liabilities related to purchased gas adjustments. The remaining increase in liabilities relates to an increase in price risk management liabilities which reflects a $117.1 million contract that closed in December 1997.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130 (SFAS No. 130), "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. "Comprehensive Income" is the total of net income and all other non-owner changes in equity. This statement will be adopted by the company in 1998. The company does not expect the adoption of this statement to have a material impact.

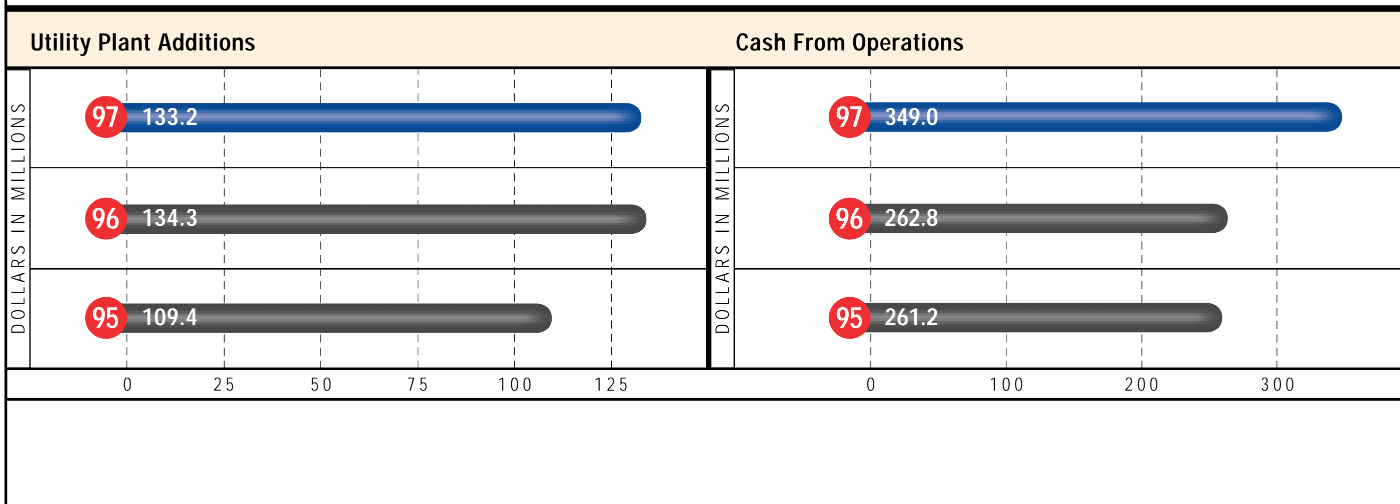
In June 1997, the FASB issued SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." This statement introduces a new model for segment reporting based on the way senior management organizes segments within a company for making operating decisions and assessing performance. This statement will be adopted by the company in 1998. The company does not expect the adoption of this statement to have a material impact.

Effects of Inflation

In the next few years, the company anticipates that the level of inflation, if moderate, will not have a significant effect on operations or acquisition activity.

Forward-Looking Information

This report contains forward-looking information. Such statements involve risks and uncertainties and there are certain important factors that could cause actual results to differ materially from those anticipated. Some of the important factors which could cause actual results to differ materially from those anticipated include, but are not limited to, future national and regional economic and competitive conditions, inflation rates, regulatory changes, weather conditions, financial market conditions, interest rates, future business decisions and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the company. Particular consideration should be given to the NGL prices and production trends noted on page 32 and related EBIT sensitivities on page 36. In addition, the pending rate proceeding is expected to decrease gross profit and EBIT in 1998 and beyond, although the exact amount is not known.



Consolidated Statements of Income

In millions except per share	1997	1996	1995
	Year Ended December 31,		
Sales	$8,926.3	$4,332.3	$2,792.6
Cost of sales	7,972.0	3,420.3	1,886.1
Gross profit	954.3	912.0	906.5
Operating, administrative and maintenance expense	554.9	549.8	485.2
Depreciation, depletion, and amortization	129.6	125.4	159.6
Provision for asset impairments	26.5	—	34.6
Write-off of deferred merger costs, net of termination fee received	—	11.0	—
Income from operations	243.3	225.8	227.1
Other income (expense):			
Equity in earnings of investments and partnerships	68.8	108.7	29.5
Minority interests	(6.5)	(8.0)	(3.7)
Merger termination fee	53.0	—	—
Other income (expense)	.5	(.3)	.7
Total other income	115.8	100.4	26.5
Earnings before interest and taxes	359.1	326.2	253.6
Interest expense:			
Interest expense—long-term debt	115.5	118.0	110.2
Interest expense—short-term debt	10.9	12.8	6.9
Minority interest in income of partnership	8.9	8.9	4.7
Total interest expense	135.3	139.7	121.8
Earnings before income taxes	223.8	186.5	131.8
Income taxes	89.7	80.7	52.0
Earnings before extraordinary item and cumulative effect of software accounting change	134.1	105.8	79.8
Loss on retirement of debt (net of income tax of $4.5)	7.2	—	—
Cumulative effect of software accounting change (net of income tax of $3.2)	4.8	—	—
Net income	122.1	105.8	79.8
Preference dividends	.3	2.1	2.1
Earnings Available for Common Shares	$ 121.8	$ 103.7	$ 77.7
Weighted Average Common Shares Outstanding:			
Basic	53.62	47.21	45.08
Diluted	54.00	47.53	45.48
Earnings Per Common Share:			
Basic	$2.27	$2.20	$1.72
Diluted	2.26	2.19	1.71

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Dollars in millions	Year Ended December 31, 1997	1996
Assets		
Current Assets:		
Cash and cash equivalents	$ 89.5	$ 137.1
Funds on deposit	31.5	56.8
Accounts receivable, net	1,165.1	811.6
Inventories and supplies	111.6	110.9
Price risk management assets	121.5	55.2
Prepayments and other	95.2	67.8
Total current assets	1,614.4	1,239.4
Property, plant and equipment, net	2,480.3	2,406.7
Investments in subsidiaries and partnerships	691.2	761.0
Price risk management assets	161.5	154.1
Deferred charges	166.1	178.6
Total Assets	$5,113.5	$4,739.8
Liabilities and Shareowners' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 149.6	$ 25.7
Short-term debt	113.8	252.0
Accounts payable	1,356.3	947.8
Accrued liabilities	13.8	50.0
Price risk management liabilities	123.7	71.7
Other	52.7	107.3
Total current liabilities	1,809.9	1,454.5
Long-term Liabilities:		
Long-term debt, net	1,358.6	1,470.7
Deferred income taxes and credits	362.7	313.7
Price risk management liabilities	170.5	64.5
Minority interests	59.0	56.9
Other deferred credits	89.2	96.5
Total long-term liabilities	2,040.0	2,002.3
Company-obligated mandatorily redeemable preferred securities of partnership	100.0	100.0
Preferred and preference stock	—	25.0
Common shareowners' equity	1,163.6	1,158.0
Commitments and contingencies		
Total Liabilities and Shareowners' Equity	$5,113.5	$4,739.8

See accompanying notes to consolidated financial statements.

Consolidated Statements of Common Shareowners' Equity

Dollars in millions except per share	1997	Year Ended December 31, 1996	1995
Common Stock: authorized 100,000,000 shares, par value $1 per share, 53,753,800 shares outstanding (53,293,645 at December 31, 1996 and 45,965,952 at December 31, 1995); authorized 20,000,000 shares of Class A common stock par value $1 per share, none issued			
Balance beginning of year	$ 53.3	$ 46.0	$ 44.8
Issuance of common stock	.5	7.3	1.2
Balance end of year	53.8	53.3	46.0
Premium on Capital Stock:			
Balance beginning of year	991.7	800.6	774.2
Issuance of common stock	7.4	191.1	26.4
Balance end of year	999.1	991.7	800.6
Retained Earnings:			
Balance beginning of year	125.3	106.2	106.4
Net income	122.1	105.8	79.8
Dividends on preference stock	(.3)	(2.1)	(2.1)
Dividends on common stock, $1.76 per share in 1997, $1.76 in 1996, and $1.72 in 1995	(94.3)	(84.6)	(77.9)
Balance end of year	152.8	125.3	106.2
Treasury stock, at cost (235,075 shares at December 31, 1997 and 228,807 shares at December 31, 1996)	(10.8)	(6.4)	—
Currency translation adjustment	(31.3)	(5.9)	(6.5)
Total Common Shareowners' Equity	$1,163.6	$1,158.0	$946.3

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions	1997	Year Ended December 31, 1996	1995
Cash Flows From Operating Activities:			
Net income	$122.1	$105.8	$ 79.8
Adjustments to reconcile net income to net cash provided:			
Depreciation, depletion and amortization	129.6	125.4	159.6
Provision for asset impairments	26.5	—	34.6
Net changes in price risk management assets and liabilities	84.3	(33.7)	(39.4)
Deferred taxes and investment tax credits	49.0	34.5	(21.2)
Equity in earnings from investments and partnerships	(68.8)	(108.7)	(29.5)
Dividends from investments and partnerships	36.0	42.7	18.6
Minority interests	6.5	8.0	3.7
Write-off of deferred merger costs, net of termination fee received	—	11.0	—
Loss on retirement of debt, net	7.2	—	—
Cumulative effect of software accounting change, net	4.8	—	—
Changes in certain assets and liabilities, net of effects of acquisitions and restructuring—			
Accounts receivable, net	(385.6)	(506.2)	(167.4)
Accounts receivable sold	50.0	61.6	50.8
Inventories and supplies	(.7)	1.6	21.8
Prepayments and other	(27.4)	(14.8)	(1.1)
Accounts payable	408.5	513.5	94.0
Accrued liabilities, net	(28.5)	15.2	(8.3)
Other	(64.5)	6.9	65.2
Cash provided from operating activities	349.0	262.8	261.2
Cash Flows From Investing Activities:			
Additions to utility plant	(133.2)	(134.3)	(109.4)
Purchase of utility and other business	—	(138.1)	(100.9)
Investments in international businesses	(2.8)	(42.3)	(379.3)
Investments in independent power projects	—	—	(59.0)
Proceeds on sale of oil and gas properties	—	—	204.5
Investments in energy related properties	(28.4)	(26.4)	(144.0)
Other	(38.2)	(70.5)	(46.8)
Cash used for investing activities	(202.6)	(411.6)	(634.9)
Cash Flows From Financing Activities:			
Issuance of common stock	7.9	198.4	29.5
Issuance of company-obligated mandatorily redeemable preferred securities of partnership	—	—	100.0
Retirement of preference stock	(25.0)	—	—
Treasury stock sold (acquired)	(4.4)	(6.4)	6.6
Issuance of long-term debt	169.0	129.7	415.2
Retirement of long-term debt	(108.7)	(22.2)	(160.3)
Short-term borrowings (repayments), net	(138.2)	(37.6)	106.2
Cash dividends paid	(94.6)	(86.7)	(80.0)
Cash provided from (used for) financing activities	(194.0)	175.2	417.2
Increase (decrease) in cash and cash equivalents	(47.6)	26.4	43.5
Cash and cash equivalents at beginning of year	137.1	110.7	67.2
Cash and Cash Equivalents at End of Year	$ 89.5	$137.1	$110.7

See accompanying notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

UtiliCorp United Inc. (the company) is an international energy and energy services company. The company's principal lines of business are in the following segments: UtiliCorp Energy Delivery (UED), Generation and Aquila Energy (Aquila). The company's international operations are managed as stand-alone companies or investments through locally based management. UED's businesses consist of the domestic utility distribution and transmission businesses, on-system appliance repair and servicing businesses, and gas marketing businesses. Generation's businesses are domestic electricity generation and independent power projects. Aquila's businesses are wholesale energy marketing, natural gas processing and gas gathering. Aquila Energy Corporation is a wholly-owned subsidiary of the company. Aquila's gas processing and gathering businesses, operated by 82%-owned Aquila Gas Pipeline Corporation (AGP), are in Texas and Oklahoma. The utility businesses operate in eight states and one province of Canada. Natural gas is marketed throughout the U.S. and in parts of Canada and the United Kingdom (U.K.). In addition to U.S., Canadian and U.K. businesses, the company has various investments in Australia, New Zealand and Jamaica.

UtiliCorp Energy Solutions (UES), consisting of retail gas marketing, appliance repair and service contracts, was realigned during the second quarter of 1997 into the operations of UED and Aquila. The realignment is expected to better leverage existing support facilities, processes and expertise.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The company's accounting policies conform to generally accepted accounting principles which, in the case of the company's utility operations, consider the impact of rate regulation.

Principles of Consolidation

The consolidated financial statements of the company include all operating divisions and all majority-owned subsidiaries. Investments in which the company has an ownership interest between 20% and 50% or otherwise exercises significant influence are accounted for using the equity method. All significant inter-company accounts and transactions have been eliminated.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost. Repair and maintenance costs are expensed as incurred. Depreciation is provided on a straight-line basis over the estimated lives for utility plant by applying composite average annual rates, ranging from 3.1% to 4.6%, as approved by regulatory authorities. When property is replaced, removed or abandoned, its cost, together with the costs of removal less salvage, is charged to accumulated depreciation. Gathering, processing and other energy related property is depreciated using a composite average annual rate of 5.0%. Remaining nonregulated property, plant and equipment are depreciated on a straight-line basis over their estimated lives ranging from three to 50 years.

Sales Recognition

Sales are generally recognized as products and services are delivered, except for price risk management activities as discussed below.

The company engages in price risk management activities for its domestic natural gas and electricity trading activities, principally conducted by Aquila Energy. Effective January 1, 1995, these activities have been accounted for using the mark-to-market method of accounting.

Under mark-to-market accounting, the company's domestic natural gas and electricity trading contracts, including both physical transactions and financial instruments, are recorded at fair value, net of future servicing costs and reserves, and recognized as an adjustment to sales upon contract execution. Changes in the market value of the portfolio (resulting primarily from newly originated transactions and the impact of price movements) are recognized as gains or losses in the period of change. The resulting unrealized gains and losses are recorded as price risk management assets and liabilities.

Financial Instruments

As indicated above, the company accounts for financial instruments associated with its natural gas and electricity trading activities using the mark-to-market method. Activities for non-trading purposes consist of transactions entered into by the company's other businesses to hedge the impact of market fluctuations on assets, liabilities, or other contractual commitments. Changes in the market value of these transactions are deferred until the gain or loss on the hedged item is recognized.

Income Taxes

The company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined by applying tax regulations existing at the end of a reporting period to the cumulative temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax expense or benefit is based on the changes in the assets and liabilities from period to period. Deferred investment tax credits are amortized over the lives of the related properties.

Cash Equivalents and Cash Flow Information

Cash equivalents are defined as temporary cash investments with an original maturity of three months or less. As of December 31, 1997, 1996 and 1995, the company had cash held in foreign countries of $74.5 million, $86.7 million and $77.5 million, respectively.

Cash payments for interest, taxes and supplemental disclosures relating to acquisition activities are presented at right:

In millions	1997	1996	1995
Cash paid during the year for:			
Interest, net of amount capitalized	$131.4	$132.1	$135.4
Income taxes	61.9	49.1	46.9
Liabilities assumed in acquisitions:			
Fair value of assets acquired	$ —	$ 7.0	$114.0
Cash paid for acquisitions	—	—	100.9
Liabilities assumed	—	7.0	13.1

Earnings Per Common Share

The following table shows the amounts used in computing earnings per share and the effect on income and weighted average number of shares of dilutive potential common stock.

In millions except per share	1997	1996	1995
Earnings available for common shares	$121.8	$103.7	$77.7
Convertible bonds	.3	.3	.2
Earnings available for common shares after assumed conversion of dilutive securities	$122.1	$104.0	$77.9
Earnings per share:			
Basic—			
Earnings before extraordinary item and cumulative effect of software accounting change	$2.49	$2.20	$1.72
Loss on retirement of debt	(.13)	—	—
Cumulative effect of software accounting change	(.09)	—	—
Earnings available for common shares	$2.27	$2.20	$1.72
Diluted—			
Earnings before extraordinary item and cumulative effect of software accounting change	$2.48	$2.19	$1.71
Loss on retirement of debt	(.13)	—	—
Cumulative effect of software accounting change	(.09)	—	—
Earnings available for common shares	$2.26	$2.19	$1.71
Weighted average number of common shares used in basic EPS	53.62	47.21	45.08
Per share effect of dilutive securities:			
Stock options	.12	—	.01
Convertible bonds	.26	.32	.39
Weighted number of common shares and dilutive potential common stock used in diluted EPS	54.00	47.53	45.48

Currency Translation Adjustments

The financial statements of foreign operations have been translated into U.S. dollars using the average monthly exchange rate during the period for income statement items and the year-end exchange rate for balance sheet items. Related translation adjustments are reported as a separate component of common shareowners' equity, whereas gains or losses resulting from foreign currency transactions are included in the consolidated statements of income.

Software Development Costs

The company capitalizes certain internally-developed software costs that relate to costs of coding and testing. All material costs that relate to reengineering activities, software feasibility analysis and data conversion activities are expensed as incurred.

Stock-Based Compensation

The company currently provides stock options to certain employees and has an employee stock purchase program whereby employees may purchase company common stock at a 15% discount. Under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" (SFAS 123), the company is required to either record additional compensation expense or disclose the impact on net income and earnings per share as if the company elected to record compensation expense. The company has elected to disclose pro forma information required by SFAS 123 rather than record compensation expense. For the years ended December 31, 1997, 1996, and 1995, compensation expense under SFAS 123 relating to stock-based compensation plans would be $4.9 million, $1.5 million and $3.6 million, respectively. If the company had recorded compensation expense pursuant to the requirements of SFAS 123, earnings per share would have been reduced by $.05, $.02, and $.05 for the years ended December 31, 1997, 1996 and 1995, respectively.

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified where necessary to conform to the 1997 presentation.

Note 2: Price Risk Management

A. Trading Activities: Price Risk Management Activities

The company offers price risk management services in connection with its energy trading activities. These services are provided through a variety of financial instruments, including forward contracts which commit the company to purchase or sell energy in the future; swap agreements, which require payments to (or receipt of payments from) counterparties based on the differential between specified prices for the related commodity; futures and options contracts traded on the New York Mercantile Exchange (NYMEX); and other contractual arrangements.

The availability and use of these types of contracts allow the company to manage and hedge its contractual commitments, reduce its exposure relative to the volatility of cash market prices, take advantage of selected arbitrage opportunities via open positions, protect its investment in natural gas storage inventories and provide price risk management services to its customers. The company is also able to secure additional sources of energy or create additional markets for existing supply through the use of exchange for physical transactions allowed by NYMEX. The management of these types of transactions is referred to herein as price risk management activities.

Market Risk

The company's price risk management activities involve offering fixed price commitments into the future. The contractual amounts and terms of these financial instruments at December 31, 1997, are shown below:

	Fixed Price Payor	Fixed Price Receiver	Maximum Term In Years
Energy Commodities:			
Gas *(trillion BTUs)*	2,012.3	1,790.4	10
Electricity *(megawatt-hours)*	6,195,744	6,647,008	2
Financial Products:			
Interest rate instruments *(in millions)*	$2,229	$830	10

Although the company attempts to balance its physical and financial purchase and sale contracts in terms of quantities and contract performance, net open positions often exist or are established due to the origination of new transactions and the company's assessment of, and response to, changing market conditions. The company will at times create a net open position or allow a net open position to continue when it believes, based upon competitive information acquired from its energy marketing activities, that future price movements will be consistent with its net open position. To the extent that the company has an open position, it is exposed to the risk that fluctuating market prices may adversely impact its financial position or results from operations.

The company measures the risk in its trading portfolio using value-at-risk methodologies, which simulate forward price curves in the energy markets to estimate the size of future potential losses. The quantification of market risk using value-at-risk methodologies provides a consistent measure of risk across diverse energy markets and products. The use of this method requires a number of key assumptions including the selection of a confidence level for losses, the estimated holding period and the treatment of risks outside the value-at-risk method.

The company expresses value-at-risk as a percentage of earnings based on a 95% confidence level using three-day holding periods. On a three-day basis as of December 31, 1997, the company's value-at-risk (unaudited) for its price risk management activities was not material to consolidated net income. The company employs additional risk control mechanisms such as stress testing, daily loss limits and commodity position limits as well as daily monitoring of the trading function by an independent function.

Based upon the policies and controls discussed above, management does not anticipate a materially adverse effect on financial position or results of operations as a result of market fluctuations.

Market Valuation

The market prices used to value these transactions reflect management's best estimate of market prices considering various factors including closing exchange and over-the-counter quotations, time value of money and price volatility factors underlying the commitments. These market prices are adjusted to reflect the potential impact of liquidating the company's position in an orderly manner over a reasonable period of time under present market conditions.

The company has considered a number of risks and costs associated with the future contractual commitments included in its energy portfolio, including credit risks associated with the financial condition of counterparties, product location (basis) differentials and other risks which management policy dictates. A calculation of the time value of money is also applied to all contracts. The company continuously monitors the valuation of identified risks and adjusts them based on present

market conditions. The following table displays the mark-to-market values of the company's energy transactions at December 31, 1997 and 1996 and the average value for the year ended December 31, 1997 and 1996:

	Price Risk Management Assets		Price Risk Management Liabilities	
Dollars in millions	Average Value	December 31, 1997	Average Value	December 31, 1997
Independent power producers	$158.7	$162.2	$ —	$ —
Financial institutions	16.1	15.4	28.7	36.6
Oil and gas producers	9.0	13.1	20.1	25.2
Gas transmission	14.6	31.7	44.2	144.4
Energy marketers	25.4	52.2	14.7	22.1
Other	5.6	8.4	3.8	5.5
Gross value	229.4	283.0	111.5	233.8
Reserves	—	—	57.9	60.4
Total	$229.4	$283.0	$169.4	$294.2

	Price Risk Management Assets		Price Risk Management Liabilities	
Dollars in millions	Average Value	December 31, 1996	Average Value	December 31, 1996
Independent power producers	$172.2	$158.3	$ —	$ .1
Financial institutions	17.4	18.3	34.3	21.0
Oil and gas producers	2.8	9.1	24.4	19.9
Gas transmission	5.4	10.0	23.5	25.1
Energy marketers	4.5	9.7	2.7	10.5
Other	2.9	3.9	2.6	2.4
Gross value	205.2	209.3	87.5	79.0
Reserves	—	—	64.6	57.2
Total	$205.2	$209.3	$152.1	$136.2

The counterparties in the company's portfolio consist primarily of gas transmission companies, energy marketers and independent power producers. The creditworthiness of the company's counterparties could impact its overall exposure to credit risk, either positively or negatively. However, the company maintains credit policies with regard to its counterparties that in management's view minimize overall credit risk.

At December 31, 1997, the company had natural gas financial instruments with a contractual volume of 3,816 BCF, expiring through 2007. As of December 31, 1997, the future cash flow requirements, net of margin deposits, related to these financial instruments were $13.5 million. Margin deposits are required on certain financial instruments to address significant fluctuations in market prices.

Three independent power producers comprise the majority of the company's net price risk management assets. This concentration of customers may impact the company's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. The net value of the 1997 price risk management portfolios reflects the $117.1 million prepayment of a long-term gas contract.

B. Non-Trading Activities—Hedging Instruments

The company enters into forwards, futures and other contracts related to its commodity businesses. Financial instruments are used to manage price fluctuations in the portfolio of natural gas transactions. The estimated fair value and cash flow requirements for these financial instruments are based on the market prices in effect at the financial statement date and do not necessarily reflect the company's entire trading portfolio.

Note 3: Accounts Receivable

The components of accounts receivable on the Consolidated Balance Sheets are as follows:

	December 31,	
In millions	1997	1996
Accounts receivable, net	$1,328.3	$925.2
Unbilled revenue	116.8	116.4
Accounts receivable sale program	(280.0)	(230.0)
Total	$1,165.1	$811.6

The company has agreements with financial institutions to sell, on a continuing basis, up to $280 million of eligible accounts receivable on a limited recourse basis. Fees associated with these sales were approximately (in millions) $15.2 in 1997, $12.2 in 1996 and $8.6 in 1995 and are included in the accompanying consolidated statements of income.

Note 4: Property, Plant and Equipment

The components of property, plant and equipment are as follows:

In millions	December 31, 1997	1996
Electric utility	$1,766.2	$1,703.8
Gas utility	1,128.7	1,102.2
Gas gathering and pipeline systems	555.8	569.2
Other non-regulated plant	261.8	189.4
Construction in process	88.2	93.3
	3,800.7	3,657.9
Less—depreciation, depletion and amortization	1,320.4	1,251.2
Property, plant and equipment, net	$2,480.3	$2,406.7

Cumulative Effect of Software Accounting Change

During 1997, the company changed its method of accounting for internally developed software costs to conform with the new requirements of Emerging Issues Task Force (EITF) 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation," that became effective November 20, 1997. The effect of this change was to reduce net income in 1997 by $4.8 million. This is described as a cumulative effect of software accounting change in the consolidated statements of income. The 1996 financial statements were not affected by EITF 97-13 as costs not allowed under the EITF had not been capitalized prior to 1997.

Sale of Oil and Gas Assets

On September 27, 1995, the company sold assets of Aquila Energy Resources Corporation, a wholly-owned subsidiary of Aquila, for approximately $205 million in cash, their approximate carrying value. The assets sold consisted of substantially all of the company's oil and gas properties.

Note 5: Asset Impairments

As part of the sale of the company's oil and gas production assets in September 1995, the company retained a net profits interest in the properties which was contingent upon the future performance and activities of the oil and gas properties sold and certain payout criteria related to the sale transaction. At the time of the sale, the net profits interest was valued at $22.5 million. Pursuant to the sales agreement, periodic drilling and reserve updates are provided each year to the company. After receiving the 1997 study, the company recorded a $15.5 million pretax charge against earnings primarily to reflect the latest estimate of its net realizable value.

Also in 1997, the company evaluated some of its technology related investments and eliminated certain technology related positions. In light of recent organizational changes at one of the company's strategic partners and the results to date, the company expensed approximately $11.0 million pretax consisting of certain contractual and software rights and severance costs.

In 1995 the company reviewed its long-lived asset carrying values and also adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121). In the fourth quarter of 1995, the company recorded a non-cash charge of approximately $34.6 million for long-term asset impairments. The assets related to this charge are summarized as follows:

In millions	Pretax Writedown
Investment in an independent power project	$15.4
Gas gathering systems	13.2
Gas processing plants	6.0
Total	$34.6

The impairment loss related to UtilCo Group's investment in an independent power project was primarily caused by a change in the projected cash flows of the project after considering updated projections of future energy prices. This resulted in the write-off of the remaining investment balance.

The impairment loss relating to AGP's gas gathering systems stems from a review of cash flows on a system-by-system basis. Prior to adoption of SFAS 121, AGP assessed asset realization on an aggregate cash flow level, which is higher than what SFAS 121 allows. In preparing cash flow projections related to AGP's assets, certain assumptions were used. The more significant assumptions included constant throughput flow based on 1994 actual throughput for an estimated remaining life of 20 years. Cash flows were discounted based on AGP's weighted average cost of capital.

The impairment loss relating to gas processing plants relates to a review conducted after the sale of Aquila's oil and gas properties. These company-owned plants were managed as part of Aquila's properties, but were not part of Aquila. In assessing these plants separately under the principles of SFAS 121, the cash flows from these assets were not sufficient to recover the carrying value of the plants.

Note 6: Investments in Subsidiaries and Partnerships

The consolidated financial statements include the company's investments in: an electric distribution utility in Australia, via UtiliCorp Australia Holding Limited (UAHL); two electric distribution utilities in New Zealand, via UtiliCorp N.Z., Inc. (UNZ); and 17 power projects via UtilCo Group. These are all accounted for under the equity method. For the company's international businesses, adjustments for significant differences between U.S. generally accepted accounting principles and local accounting standards have been made to the amounts included in the company's consolidated financial statements. The following table summarizes the company's equity investment balances at December 31, 1997 and 1996 and the related equity earnings for the three years ended December 31, 1997.

In millions	Ownership at 12/31/97	Country	Investment at December 31, 1997	1996	Equity Earnings Year Ended December 31, 1997	1996	1995
UAHL investment *(a) (e)*	49.9%	Australia	$237.9	$274.0	$28.6	$ 42.7	$ 9.3
UNZ investment *(b)*							
WEL Energy Group Ltd. (WEL) *(e)*	39.6%	New Zealand	39.6	46.1	4.5	6.2	2.2
Power New Zealand (PNZ) *(e)*	30.6%	New Zealand	115.2	134.2	9.2	11.2	—
UtilCo Group partnerships *(c) (d)*	22%–50%	U.S. & Jamaica	199.7	194.4	29.6	48.5	19.6
Oasis Pipe Line Company (Oasis)	35%	United States	96.3	110.8	.9	.1	—
Other	50%	United States	2.5	1.5	(4.0)	—	(1.6)
Total			$691.2	$761.0	$68.8	$108.7	$29.5

(a) Equity earnings include interest income and management fees between the equity investee and UAHL.
(b) The company owns 79% of UNZ with the remaining 21% owned by an unrelated party.
(c) Investments are aggregated. Individual investments are not significant.
(d) Investment and share of pretax earnings include the James River project, 49% owned by the company and 1% owned by UtilCo Group.
(e) The investment values declined in 1997 compared to 1996 due to a decline in those currencies relative to the U.S. dollar. The Australian and New Zealand dollars declined as the Asian stock market took a severe downturn in late 1997.

Summarized combined financial information of unconsolidated material equity investments is presented below.

In millions	December 31, 1997	1996
Assets:		
Current assets	$ 338.1	$ 328.5
Non-current assets	2,840.6	3,131.0
Total Assets	$3,178.7	$3,459.5
Liabilities and Equity:		
Current liabilities	$ 449.8	$ 325.2
Non-current liabilities	1,718.1	2,163.7
Equity	1,010.8	970.6
Total liabilities and equity	$3,178.7	$3,459.5

In millions	Year Ended December 31, 1997	1996	1995
Operating Results:			
Revenues	$1,294.7	$1,277.8	$729.6
Costs and expenses	1,140.7	1,109.1	657.3
Net Income	$ 154.0	$ 168.7	$ 72.3

Interest In Australian Electric Utility

In September 1995, Power Partnership Pty Limited (PPL), 49.9%-owned by the company, acquired United Energy Limited (UE), an Australian electric distribution utility, from the State of Victoria. The company paid approximately $257.9 million for its 49.9% ownership interest in PPL. The company manages the operations of UE on behalf of PPL and receives an annual management fee consisting of a base amount indexed to the consumer price index and a variable amount based on UE's financial performance. The management agreement extends for 10 years from date of acquisition.

The company financed its ownership interest primarily through two five-year Australian currency revolving credit facilities. See Note 9 for more information regarding financing arrangements.

The acquisition was recorded as a purchase and, accordingly, the assets and liabilities were recorded at the estimated fair value at the date of acquisition. The equity investment is included in investments in subsidiaries and partnerships on the Consolidated Balance Sheets. Pro forma unaudited results of operations for the company, assuming the acquisition occurred at the beginning of 1995, are shown below.

In millions, except per share	Year Ended December 31, 1995
Sales	$2,798.5
Income from operations	225.1
Net income	81.7
Earnings available for common shares	79.6
Basic earnings per share	$1.76
Diluted earnings per share	1.75

The company's Australian investment has the following components:

	Carrying Value		Fair Value	
	1997	1996	1997	1996
Investment in convertible notes *(a) (b)*	$113.6	$138.1	$113.6	$138.1
Investment in floating subordinated debt *(a) (b)*	61.0	74.2	61.0	74.2
Investment in PPL common stock (not traded)	63.3	61.7		
Total	$237.9	$274.0		

(a) The company classifies these securities as held-to-maturity.

(b) These securities have floating interest rates at .9% above the Australian Bank Bill rate maturing in September 2015. The interest rate at December 31, 1997 was 7.28%.

Interest in New Zealand Electric Utilities

In November 1995, UNZ acquired 20.0% of the common stock of Power New Zealand Ltd. (PNZ), a New Zealand electric distribution utility, for $69.4 million. This acquisition was financed through a New Zealand currency credit facility. UNZ continued to acquire PNZ shares through May 1997 and at the end of 1997 held 30.6%. PNZ is New Zealand's second largest electric distribution utility, serving approximately 216,000 customers.

In February 1995, UNZ paid $16.1 million to WEL Energy Group Ltd. (WEL) to satisfy its capital commitment. UNZ continued to acquire WEL shares throughout 1996 and 1997 and at the end of 1997 held 39.6%. WEL is an electric distribution utility serving approximately 66,000 customers.

Interest in Independent Power Projects

The company participates in the ownership and operation of facilities in the independent and wholesale power generation market. It has investments in 17 projects located in seven states and Jamaica.

In April 1996, one of UtilCo Group's power projects entered into a long-term lease arrangement with a third party. This transaction was accounted for as a sale by the partnership and resulted in the recognition of a gain. UtilCo Group recorded its share of the gain through equity earnings during the second quarter. In addition, UtilCo Group recorded certain restructuring reserves primarily in connection with changes in power project agreements. The net gain from these items was $11.8 million after tax.

Investment in Pipeline System

In July 1996 and November 1996, the company acquired, in aggregate, 40% of Oasis Pipe Line Company for approximately $132.0 million. Oasis consists of a 600-mile intrastate pipeline system in Texas near many of Aquila Energy's existing gathering systems. As part of the purchase, another owner had the option to buy 20% of Oasis, including 5% held by Aquila. The option was exercised in 1997 and Aquila sold the 5% at book value.

Note 7: Regulatory Assets

The company's utility operations are subject to regulation by various regulatory authorities. The company currently applies accounting standards that recognize the economic effects of rate regulation and, accordingly, has recorded regulatory assets related to the company's energy generation, transmission and distribution operations. If the company discontinued applying this accounting standard, it would be required to make an adjustment to the carrying value of certain assets.

The following table presents the amount of regulatory assets recorded at December 31,1997 and 1996. These are primarily reflected as deferred charges on the consolidated balance sheets.

Dollars in millions	1997	1996
Income taxes	$ 55.2	$ 53.6
Environmental liabilities	11.2	11.3
Debt-related costs	19.6	22.3
Regulatory accounting orders	8.4	9.1
Demand-side management programs	13.0	10.8
Post-retirement benefits	7.4	10.5
Other (including FERC Order No. 636)	7.9	28.2
Total	$122.7	$145.8

Note 8: Short-Term Debt

Short-term debt includes the following components:

In millions	December 31, 1997	1996
Bank borrowing and other	$113.8	$202.0
Commercial paper	—	50.0
Total	$113.8	$252.0
Weighted average interest rate at year end	6.21%	5.78%

The company has a commercial paper program of $150 million. To support it, the company has a revolving credit agreement with a consortium of banks aggregating $250 million. The agreement allows the issuance of notes which bear interest at rates based on the prime rate or various money market rates. The revolving credit agreement contains restrictive covenants and the company pays an annual commitment fee of .17% on the unused portion of the revolving credit facility.

Note 9: Long-Term Debt

The company's long-term debt is summarized below:

In millions	December 31, 1997	1996
First Mortgage Bonds:		
Various, 9.94%*, due 1998–2008	$ 20.6	$ 23.0
Senior Notes:		
6.0% Series, due April 1, 1998	70.0	70.0
9.21% Series, due October 11, 1999	50.0	50.0
8.45% Series, due November 15, 1999	100.0	100.0
Aquila Southwest Energy 8.29% Series, due September 15, 2002	62.5	75.0
6.875% Series, due October 1, 2004	150.0	—
6.375% Series, due June 1, 2005	100.0	100.0
6.7% Series, due October 15, 2006	100.0	100.0
8.2% Series, due January 15, 2007	130.0	130.0
10.5% Series, due December 1, 2020	55.9	125.0
9.0% Series, due November 15, 2021	150.0	150.0
8.0% Series, due March 1, 2023	125.0	125.0
Secured Debentures of West Kootenay Power:		
9.15%*, due 2001–2023	71.3	68.2
Convertible Subordinated Debentures:		
6.625%, due July 1, 2011	5.8	7.2
New Zealand Denominated Credit Facility, due June 30, 1998	64.7	78.9
Australian Denominated Credit Facilities, due July 20, 2000	195.1	237.3
Other notes and obligations	57.3	56.8
Total Long-Term Debt	1,508.2	1,496.4
Less current maturities	149.6	25.7
Long-term debt, net	$1,358.6	$1,470.7
Fair value of long-term debt, including current maturities *(a)*	$1,581.1	$1,559.3
Interest rate swap *(a)*	(.1)	(1.8)

** Weighted average interest rate.*

(a) The fair value of long-term debt is based on current rates at which the company could borrow funds with similar remaining maturities. The interest rate swap agreements are used to reduce the effect of changing interest rates on the company's Australian denominated credit facility.

Substantially all of the domestic utility plant owned by the company is subject to the lien of various mortgage indentures. The company cannot issue additional mortgage bonds under these indentures without directly securing the 6.0%, 8.45%, 8.2%, 9.0%, 8.0%, 6.375% and 6.70% Senior Notes equally as any mortgage bond issue. Currently the company has no plans to issue mortgage bonds.

The amounts of long-term debt maturing in each of the next five years and thereafter are shown at right:

In millions	Maturing Amounts
1998	$ 149.6
1999	165.6
2000	224.8
2001	15.7
2002	15.7
Thereafter	936.8
Total	$1,508.2

For the two years ended December 31, 1997, the company issued the following series of Senior Notes which were used to reduce short-term debt.

In millions	Date Issued	Maturity	Face Amount	Net Proceeds
6.875% series	October 1997	2004	$150.0	$149.0
6.7% series	October 1996	2006*	$100.0	$ 99.5

** The holder of the 6.7% senior note may elect to redeem any portion in multiples of $1,000 on October 1, 2001 at face value plus accrued interest.*

Retirement of Debt

In March 1997, the company retired, at a premium, $69.1 million of its 10.5% series senior notes that were to mature in 2020. The transaction resulted in an extraordinary loss of $7.2 million, net of an income tax benefit of $4.5 million.

New Zealand Denominated Credit Facility

UtiliCorp South Pacific, Inc. (USP) has a $NZ135 million credit facility with a consortium of banks that was used to finance a portion of the investments made by UNZ. The interest rate fluctuates (7.93% at December 31, 1997) with changes in the New Zealand bank bill rate. The credit facility matures on June 30, 1998. A commitment fee of .20% applies to the unused portion of the credit facility.

Australian Denominated Credit Facilities

UAHL has two $A150 million credit facilities with a consortium of banks that mature on July 20, 2000. The interest rates for $A250 million of the above facilities fluctuates with changes in the Australian bank bill rate. The weighted average interest rate at December 31, 1997 was 5.51%. The interest rate on the remaining $A50 million is fixed at 7.48%. A commitment fee of .20% applies to the unused portion of the credit facility.

On November 6, 1995, UAHL entered into an interest rate swap agreement with Deutsche Bank with a contractual amount of $A100 million whereby the company exchanges variable Australian debt interest for fixed rate interest. The fixed interest rate is 7.77% for a period extending to September 7, 1998.

Convertible Subordinated Debentures

At December 31, 1997, 6.625% convertible subordinated debentures totaling $5.8 million remained outstanding. The debentures can be converted into approximately 245,000 shares of common stock, based on a conversion price of $23.68, subject to an annual maximum limitation. The debentures are subordinate to the prior payment, when due, of the principal and premium, if any, and interest on all the company's debt outstanding, except debt that by its terms is not senior in right of payment to the debentures.

Note 10: Company-Obligated Preferred Securities

In June 1995, UtiliCorp Capital L.P. (UC), a limited partnership of which the company is the general partner, issued 4 million shares of 8.875% Cumulative Monthly Income Preferred Securities, Series A, for $100 million. The limited partnership interests represented by the preferred securities are redeemable at the option of UC, after June 12, 2000, at $25 per preferred security plus accrued interest and unpaid dividends.

Holders of the securities are entitled to receive dividends at an annual rate of 8.875% of the liquidation preference value of $25. Dividends are payable monthly and in substance are tax-deductible by the company. The securities are shown as company-obligated mandatorily redeemable preferred securities of partnership on the consolidated balance sheets. The dividends are shown as minority interest in income of partnership in the consolidated statements of income.

Common Stock Offering

In November 1996, the company issued 6 million shares of common stock at $27.625. The net proceeds of $160.8 were used to reduce short-term debt.

Dividend Reinvestment and Stock Purchase Plan

In February 1995, the company registered 3 million shares of common stock to initiate a new Dividend Reinvestment and Common Stock Purchase Plan (New Plan). In 1997, an additional 5 million shares were authorized. Under the provisions of this New Plan, current and potential shareholders can purchase up to $10,000 per month of the company's common stock at a five-day average market price and without sales commissions. The New Plan allows members to reinvest dividends into additional common stock at a 5% discount. The New Plan amends the previous plan and all members in the previous plan automatically became members in the New Plan. For the year ended December 31, 1997, 1,124,283 shares were issued under this plan. As of December 31, 1997, 4,887,761 shares were available to issue under this plan.

Employee Stock Purchase Plan

Participants have the opportunity to buy shares of the company's common stock at a reduced price through regular payroll deductions and/or lump sum deposits of up to 20% of the employee's base salary. Contributions are credited to the participant's account throughout an option period. At the end of the option period, the participant's total account balance is applied to the purchase of common shares of the company. The shares are purchased at 85% of the lower of the market price on the first day or the last day of the option period. Participants must be enrolled in the Plan as of the first day of an option period in order to participate in that option period.

Restated Savings Plan

A defined contribution plan, the Restated Savings Plan (Savings Plan), covers all full-time and eligible part-time employees of the company. Participants may generally elect to contribute up to 12% (15% beginning January 1, 1998) of their annual pay on a before- or after-tax basis subject to certain limitations. The company generally matches contributions up to 6%. Participants may direct their contributions into five different investment options. All company matching contributions are in the company's common stock. In addition, the Savings Plan also includes a stock contribution fund whereby the company can contribute an additional amount of company common stock to participants.

Stock Incentive Plan

The company's Stock Incentive Plan provides for the granting of common shares to certain employees as restricted stock awards and as stock options. Shares issued as restricted stock awards are held by the company until certain restrictions lapse, generally on the third award anniversary. The market value of the stock, when awarded, is amortized to compensation expense over the three-year period. Stock options granted under the Plan allow the purchase of common shares at a price not less than fair market value at the date of grant. Options are generally exercisable commencing with the first anniversary of the grant and expire after 10 years from the date of grant.

Employee Stock Option Plan

The Board approved the establishment of an Employee Stock Option Plan in 1991. This Plan provides for the granting of up to 1 million stock options to full-time employees other than those eligible to receive options under the Stock Incentive Plan. Stock options granted under the Employee Stock Option Plan carry the same provisions as those issued under the Stock Incentive Plan. During 1992, options for 742,900 shares were granted to employees. The exercise price of these options is $27.3125. No options have been issued under this Plan since 1992.

Stock options as of December 31, 1997 and 1996 are summarized below:

Shares	1997	1996
Beginning balance	2,200,450	2,015,500
Granted	1,123,020	303,850
Exercised	(615,290)	(18,410)
Cancelled	(198,553)	(100,490)
Ending balance	2,509,627	2,200,450
Weighted average prices:		
Beginning balance	$27.94	$27.83
Granted price	27.79	28.55
Exercised price	27.60	23.96
Cancelled price	27.71	28.40
Ending balance	27.97	27.94

At December 31, 1997, restricted stock awards and stock options which were exercisable totaled 1,136,225 shares (at prices ranging between $21.88 and $31.63).

Note 12: Income Taxes

Income tax expense consists of the following components:

Dollars in millions	Year Ended December 31, 1997	1996	1995
Currently Payable:			
Federal	$27.1	$35.0	$35.4
Foreign	7.1	14.2	10.6
State	6.5	5.5	11.3
Deferred:			
Federal	42.1	23.0	(3.6)
State	8.2	4.3	(.4)
Investment tax credit amortization	(1.3)	(1.3)	(1.3)
Total Income Tax Expense	$89.7	$80.7	$52.0

The principal components of the company's deferred income taxes consist of the following:

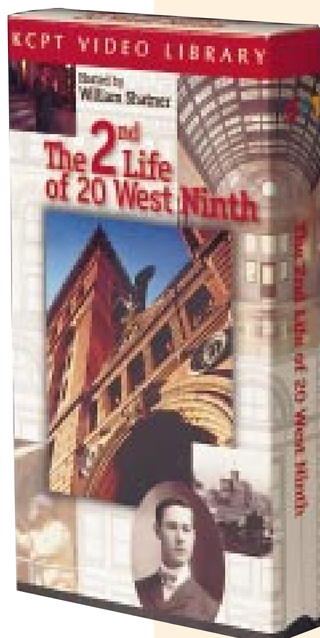
Dollars in millions	December 31, 1997	1996
Deferred Tax Assets:		
Alternative maximum carryforward	$ 98.3	$ 95.1
Total deferred tax assets	98.3	95.1
Deferred Tax Liabilities:		
Accelerated depreciation and other plant differences:		
Regulated	167.5	146.4
Non regulated	168.9	158.3
Regulatory asset—SFAS 109	38.6	37.1
Mark-to-market reserve	25.8	11.3
Other, net	60.2	55.7
Total deferred tax liabilities	461.0	408.8
Deferred income taxes, net	$362.7	$313.7

The company's effective income tax rates differed from the statutory federal income tax rates primarily due to the following:

Dollars in millions	December 31, 1997	1996	1995
Statutory Federal Income Tax Rate	35.0%	35.0%	35.0%
Tax effect of:			
Temporary difference passed through, primarily removal costs	—	.2	(.5)
Investment tax credit amortization	(.6)	(.7)	(1.0)
State income taxes, net of federal benefit	5.8	5.8	4.3
Difference in tax rate of foreign subsidiaries	(1.9)	(.7)	1.0
Other	1.8	3.7	.7
Effective Income Tax Rate	40.1%	43.3%	39.5%

The company has an alternative minimum tax credit carryforward of approximately $98.3 million at December 31, 1997. Alternative minimum tax credits can be carried forward indefinitely and the company has not recorded a valuation allowance against its tax credit carryforwards.

No provision is made for U.S. income taxes on undistributed earnings of the company's international businesses ($96.5 million at December 31, 1997) because it is management's intention to reinvest such earnings in those international operations. In the event of a distribution of these earnings in the form of dividends, the company may be subject to both foreign withholding taxes and U.S. income taxes net of allowable foreign tax credits. Consolidated income before income taxes for the years ended December 31, 1997, 1996 and 1995 included $13.6, $39.2 and $16.6 million, respectively, from international operations.



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Pensions

The following table represents the funded status of the pension plans and the amounts included in the consolidated balance sheets and statements of income:

Dollars in millions	Year Ended December 31, 1997	1996	1995
Actuarial present value of benefit obligations:			
Vested benefit obligation	$168.3	$153.9	$143.0
Accumulated benefit obligation	173.1	158.1	146.9
Projected benefit obligation	$205.4	$185.9	$183.9
Plan assets at fair value (primarily publicly traded common stocks and bonds)	240.1	208.7	191.7
Excess of plan assets over the projected benefit obligation	34.7	22.8	7.8
Unrecognized net loss from past experience different from that assumed	(2.4)	8.2	24.1
Unrecognized net asset being recognized over 16 years	(10.1)	(11.3)	(12.5)
Unrecognized prior service cost	1.1	.9	(.3)
Pension assets included in prepayments and other	$ 23.3	$ 20.6	$ 19.1
Net pension expense included the following components:			
Service cost	$ 6.2	$ 6.5	$ 5.8
Interest cost on projected benefit obligation	13.8	13.0	12.0
Actual return on plan assets	(44.8)	(25.7)	(37.6)
Regulatory adjustment	.8	.9	.6
Net amortization and deferral	23.8	6.5	20.5
Net pension expense (credit)	$ (.2)	$ 1.2	$ 1.3
Discount rate assumed	7.17%	7.60%	7.17%
Assumed rate of return on future compensation levels	5.36%	5.0–5.4%	5.0–5.5%
Assumed long-term rate of return on assets	9.73%	8.0–10.0%	8.5–10.0%

The company has pension plans covering substantially all qualified union and non-union employees. The benefit formulas vary and are based either on years of service multiplied by a percentage of salary, or a flat benefit based upon years of service. The company's policy is to fund, at a minimum, an amount sufficient to meet all ERISA funding requirements. In certain of its jurisdictions, the company has recorded pension expense equal to its funding contribution, which is consistent with the rate treatment allowed for this cost.

In 1995 the company changed its long-term view on pension fund asset returns and increased its estimated return on domestic plan assets to 10%.

Other Post-Retirement Benefits

The company provides post-retirement health care and life insurance benefits to substantially all employees. The majority of the plan's funding is provided by the company on a pay-as-you-go basis with most retirees paying a portion of the cost.

The following table summarizes the status of the company's post-retirement plans for financial statement purposes and the related amounts included in the consolidated balance sheets at December 31, 1997 and 1996:

In millions	December 31, 1997	1996
Actuarial present value of post-retirement benefit obligations:		
Retirees	$29.7	$27.8
Other fully eligible participants	4.4	4.2
Other active participants	8.5	7.0
Plan assets at fair value	(4.8)	(.5)
Unrecognized transition obligation	(30.4)	(32.4)
Unrecognized net gain	7.7	8.5
Accrued liability	$15.1	$14.6

The components of health care and life insurance costs are:

In millions	1997	1996	1995
Service cost	$ .7	$1.0	$ .8
Interest cost	2.8	2.9	2.7
Amortization of transition obligation	2.0	2.0	2.0
Net amortization and deferral	(.5)	—	(.2)
Net health care and life insurance costs	$5.0	$5.9	$5.3

The following actuarial assumptions were used in calculating the plan's year-end funded status:

	1997	1996	1995
Discount rate	7.0%	7.5%	7.0%
Assumed rate of return on future compensation levels	5.4%	5.0–5.4%	5.0–5.5%
Health care cost trend rate	10–6%	8.25–6%	10–6%

The rate of change in health care cost has an effect on the projected benefit obligation. Increasing the rate by 1% each year would have increased the present value of the accumulated projected benefit obligation by $3.4 million and the aggregate of the service and interest cost components by $.4 million in 1997.

Pursuant to regulatory orders or precedents, certain regulated divisions of the company have deferred as a regulatory asset the incremental costs associated with SFAS No. 106, "Employers' Accounting for Postretirement Benefits—Other Than Pensions."

Note 14: Commitments and Contingencies

Commitments

The company has various commitments for the years 1998 through 2002 relating primarily to power and gas supply commitments, fixed price sales obligations and lease and rental commitments. A table of the company's estimated capital expenditures and more significant estimated commitments follows.

Dollars in millions except per unit	1998	1999	2000	2001	2002
Capital expenditures	$229.0	$249.0	$239.0	$236.0	$229.0
Future minimum lease payments	23.8	22.4	21.2	18.8	18.5
Purchased power obligations	63.1	68.1	63.0	56.5	36.3
Coal contracts	$41.6	$43.8	$44.0	$31.1	$30.0
Price ranges	$12.87 to $25.90 per ton				
Fixed price sales obligations *(trillion BTUs)*	353.9	50.7	26.4	21.4	21.3
Price ranges	$.98 to $5.51 per MCF				
Fixed price purchase obligations *(trillion BTUs)*	348.6	58.9	12.7	2.2	2.0
Price ranges	$.98 to $4.19 per MCF				

Future minimum lease payments primarily relate to the Jeffrey Energy Center interest, peaking turbines, coal cars, and office space. Rent expense for the years 1997, 1996 and 1995 was (in millions) $32.1, $29.4 and $25.9, respectively.

Purchased power obligations for 1998 through 2002 are estimated to provide 989; 1,039; 926; 626; and 323 MW, respectively.

Long-Term Gas Supply Contracts

In 1996, the company realigned certain of its business relationships in the United Kingdom (U.K.). Its equity relationships in the Caledonian Gas Limited, Midlands Gas Limited (Midlands), and Egas Limited joint ventures were terminated. As part of the termination of the equity relationship in Midlands, the company assumed an interest in two long-term gas supply contracts (for deliveries through 2005) that it assimilated into its existing portfolios of sales and supply contracts.

At December 31, 1997, the portfolio of U.K. contracts was in a net long position. It has 66.4 BCF of supply commitments through 2005, and 50.0 BCF of sales commitments through 1999. Pretax losses on the above portfolio range from $19 million to $26 million depending on the estimated future spot price of natural gas. Since the U.K. natural gas market does not have liquid long-term pricing, it is difficult to calculate future profitability of the portfolio. Based on management's estimates and available market data at December 31, 1997, the company is carrying a $19 million pretax reserve relating to future losses that may exist within the portfolio of contracts. Management believes that this reserve is adequate and that any additional increases in the reserve would not be material.

Environmental

The company is subject to various environmental laws, including regulations governing air and water quality and the storage and disposal of hazardous or toxic wastes. The company assesses, on an ongoing basis, measures to ensure compliance with laws and regulations related to hazardous materials and hazardous waste compliance and remediation activities. The company owns or previously operated 29 former manufactured gas plants (MGPs) which may, or may not, require some form of environmental remediation. The company has contacted appropriate federal and state agencies and is in the process of determining what, if any, specific cleanup activities may be needed at these sites.

As of December 31, 1997, the company estimates its cleanup costs on its identified MGP sites to be approximately $6.2 million. These amounts could change materially based upon further investigations, the actions of environmental agencies and the financial viability of other responsible parties. Additionally, the ultimate liability may be significantly affected if the company is held responsible for parties not financially able to contribute to these costs. Based on prior experience, available facts and existing law, the company has recorded a liability of $6.2 million representing its estimate of the amount of environmental costs currently expected to be incurred.

The company has received favorable rate orders for recovery of its environmental cleanup costs in certain jurisdictions. In other jurisdictions, favorable regulatory precedent exists for the recovery of these costs. The company is also pursuing recovery from insurance carriers and other potentially responsible parties.

In December 1996, the U.S. Environmental Protection Agency (EPA) promulgated its final rule for nitrous oxide (NOx) emissions pursuant to the requirements of the Clean Air Act Amendments of 1990. The new NOx regulations will require the installation of additional emissions control equipment at one of the company's power plants by January 1, 2000. The company estimates that it will spend approximately $2.0 million to comply with these rules.

It is management's opinion that the ultimate resolution of these environmental matters will not have a material adverse impact upon the financial position or results of operations of the company.

Pending Rate Proceeding

In the first quarter of 1997, the Staff of the Missouri Public Service Commission (the Staff) filed a complaint against the company seeking to reduce annual Missouri electric revenues by $23 million. In September 1997, the Staff increased its recommendation for a rate reduction to $28.5 million. In a separate filing with the Staff, the company requested to increase electric rates by $24.6 million. The Staff is reviewing the company's position and the final order is expected to be issued in March 1998. The primary differences between these two dockets center on rate of return, capital structure, transition costs, depreciation methods and corporate allocations.

The company's filing is designed to recover inflationary and other cost increases which include the investment of approximately $20 million in plant and facility improvements. The rate increase also reflects the request for a temporary surcharge of $.0028 per kilowatt-hour to cover costs related to transitioning to the competitive customer-choice marketplace. In addition, the filing includes a mechanism to lessen the impact of the surcharge on consumers, and requests that the Commission approve the establishment of a $1 million fund to assist low-income customers.

The Commission is expected to issue an order by March 7, 1998, with new rates effective March 17, 1998. Although this matter is still pending, the public scenarios under consideration by the Commission range from a $12 million to a $23 million rate reduction.

Other

The company is subject to various legal proceedings and claims which arise in the ordinary course of business operations. In the opinion of management, the amount of liability, if any, with respect to these actions would not materially affect the consolidated financial position of the company or its results of operations.

Note 15: Segment Information

A. Business Lines

In millions	1997		Year Ended December 31, 1996	1995
Sales:				
Energy Delivery—				
Electric:				
Total	$ 557.4		$ 519.3	$ 490.1
Affiliated	(313.6)		(285.2)	(263.2)
Total unaffiliated electric	243.8	2.7%	234.1	226.9
Gas	767.4	8.6	727.9	616.6
Non-regulated	258.7	2.9	124.8	88.1
Total Energy Delivery	1,269.9	14.2	1,086.8	931.6
Generation—affiliated	313.6	3.5	285.2	263.2
Aquila Energy	7,031.0	78.8	2,672.7	1,309.6
International and other	311.8	3.5	287.6	288.2
Total	$8,926.3	100.0%	$4,332.3	$2,792.6

In millions	1997		Year Ended December 31, 1996	1995
Earnings Before Interest and Taxes:				
Energy Delivery	$153.5	42.7%	$170.0	$153.6
Generation *(a)*	71.8	20.0	79.3	35.3
Aquila Energy	54.7	15.2	47.2	64.9
International *(b)*	52.5	14.6	79.7	31.7
Corporate and other	26.6	7.5	(50.0)	(31.9)
Total	$359.1	100.0%	$326.2	$253.6

(a) The Generation segment includes the UtilCo Group partnership equity investments that had equity earnings of $29.6, $48.5 and $19.6 million in 1997, 1996 and 1995, respectively.

(b) The International segment includes operating activities in Australia, New Zealand, Canada and the United Kingdom which had total equity earnings of $42.3, $60.1 and $9.9 million in 1997, 1996 and 1995, respectively.

In millions	1997		Year Ended December 31, 1996	1995
Depreciation, Depletion and Amortization:				
Energy Delivery	$ 68.7	53.0%	$ 66.8	$ 66.9
Generation	16.2	12.5	16.4	18.1
Aquila Energy	27.6	21.3	28.6	49.6
International	11.0	8.5	12.5	7.1
Corporate and other	6.1	4.7	1.1	17.9
Total	$129.6	100.0%	$125.4	$159.6

In millions	December 31, 1997		1996
Identifiable Assets:			
Energy Delivery	$1,806.7	35.3%	$1,814.7
Generation	503.0	9.8	482.1
Aquila Energy	2,067.7	40.4	1,698.9
International	789.0	15.4	848.3
Corporate and other *(a)*	(52.9)	(.9)	(104.2)
Total	$5,113.5	100.0%	$4,739.8

(a) Includes approximately $130 million of sold accounts receivable that relate to Energy Delivery and Generation.

In millions	1997		Year Ended December 31, 1996	1995
Capital Expenditures:				
Energy Delivery —				
Electric	$ 49.8	24.6%	$ 47.7	$ 39.1
Gas	59.2	29.2	48.5	39.9
Total Energy Delivery	109.0	53.8	96.2	79.0
Generation	7.6	3.7	16.6	11.2
Aquila Energy	28.4	14.0	26.4	144.0
International	19.4	9.6	21.5	19.2
Corporate and other	38.2	18.9	70.5	46.8
Total	$202.6	100.0%	$231.2	$300.2

B. Geographical Information

In millions	1997		Year Ended December 31, 1996	1995
Sales:				
United States	$8,007.8	89.7%	$3,962.5	$2,505.0
Canada *(a)*	704.4	7.9	180.9	89.2
United Kingdom	214.1	2.4	188.9	198.4
Total	$8,926.3	100.0%	$4,332.3	$2,792.6

Earnings Available for Common Shares:				
United States	$105.2	86.3%	$ 77.0	$68.4
Canada *(a)*	10.8	8.9	9.5	8.2
Australia *(b)*	11.3	9.3	14.1	2.9
New Zealand *(b)*	1.9	1.6	2.4	.7
United Kingdom	(7.4)	(6.1)	.7	(2.5)
Total	$121.8	100.0%	$103.7	$77.7

In millions	1997	December 31,	1996
Identifiable Assets:			
United States	$4,205.6	82.2%	$3,798.9
Canada *(a)*	376.4	7.4	351.5
Australia *(b)*	270.3	5.3	306.3
New Zealand *(b)*	160.7	3.1	185.1
United Kingdom	100.5	2.0	98.0
Total	$5,113.5	100.0%	$4,739.8

(a) Canadian sales, earnings available for common shares and identifiable assets include Aquila Energy's Canadian operations and various small Canadian gas marketing companies.
(b) Earnings available and a majority of the identifiable assets relate to equity investments.

Note 16: Terminated Merger—Kansas City Power & Light Company (KCPL)

On September 17, 1996, KCPL terminated the Amended and Restated Agreement and Plan of Merger (the Agreement) among KCPL, KC Merger Sub, Inc., the company and KC United Corp., which would have provided for the merger of the company and KCPL.

Since KCPL's shareholders did not approve the merger under the terms of the Agreement, KCPL was required to pay the company $5.0 million. The company received this termination payment on September 19, 1996. In connection with the Agreement termination, the company expensed deferred merger costs of approximately $11.0 million (pretax), net of the termination fee payment.

In February 1997, Western Resources Inc. and KCPL signed a definitive agreement to merge. As a result, KCPL paid the company a $53.0 million breakup fee which was recorded in the first quarter of 1997.

Note 17: Quarterly Financial Data (Unaudited)

Due to the timing of acquisitions, the effect of weather on sales, and other factors characteristic of utility operations and energy related businesses, financial results for interim periods are not necessarily indicative of trends for any 12-month period.

	1997 Quarters				1996 Quarters			
In millions, except per share	First	Second	Third	Fourth	First	Second	Third	Fourth
Sales	$2,059.6	$1,550.1	$2,256.5	$3,060.1	$1,084.4	$765.0	$892.6	$1,590.3
Gross profit	254.2	216.7	237.0	246.4	249.7	202.4	206.8	253.1
Earnings before extraordinary item and cumulative effect of software accounting change	57.9	20.3	24.9	31.0	37.3	26.3	14.1	28.1
Net income	50.7	20.3	24.9	26.2	37.3	26.3	14.1	28.1
Earnings per common share before extraordinary item and cumulative effect of software accounting change:								
Basic *(a) (b)*	$1.08	$.38	$.46	$.58	$.80	$.55	$.29	$.56
Diluted *(a) (b)*	1.07	.38	.46	.58	.79	.55	.29	.56
Cash dividend per common share	$.44	$.44	$.44	$.44	$.44	$.44	$.44	$.44
Market price per common share:								
High	$28.25	$29.38	$30.88	$39.06	$30.25	$29.13	$29.13	$27.25
Low	25.50	25.75	29.00	30.13	28.25	25.75	26.50	26.38

(a) Restated for accounting change related to earnings per share. See Note 1.
(b) The sum of the quarterly earnings per share amounts differs from that reflected in Note 1 due to the weighting of common shares outstanding during each of the respective periods.

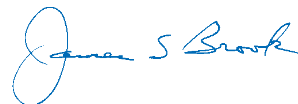
Report of Management

The management of UtiliCorp United Inc. is responsible for the information that appears in this annual report, including its accuracy. The accompanying Consolidated Financial Statements were prepared in accordance with generally accepted accounting principles. In addition to selecting appropriate accounting principles, management is responsible for the manner of presentation and for the reliability of the information. In fulfilling this responsibility, it is necessary for management to make estimates based on currently available information and judgments of current conditions and circumstances.

Through well-developed systems of internal control, management seeks to assure the integrity and objectivity of the consolidated financial information contained herein. These systems of internal control are designed to provide reasonable assurance that the assets of the company are safeguarded and that the transactions are executed to management's authorizations, and are recorded in accordance with the appropriate accounting principles.

The Board of Directors participates in the financial information reporting process through its Audit Committee, which selects the independent accountants and reviews, along with management, the company's financial reporting and internal accounting controls, policies and practices.

Richard C. Green, Jr.
Chairman of the Board
and Chief Executive Officer



James S. Brook
Vice President, Controller
and Chief Accounting Officer

Report of Independent Public Accountants

To the Board of Directors and Shareholders of UtiliCorp United Inc.:

We have audited the accompanying consolidated balance sheets of UtiliCorp United Inc. and subsidiaries at December 31, 1997 and 1996 and the related consolidated statements of income, common shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UtiliCorp United Inc. and subsidiaries at December 31, 1997 and 1996 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 4 to the consolidated financial statements, effective October 1, 1997, the company changed its method of accounting for internally developed software costs. As explained in Note 1 and Note 5 to the consolidated financial statements, effective January 1, 1995, the company changed its method of accounting for price risk management activities, and its method of assessing the impairment of long-lived assets, respectively.

Arthur Andersen LLP
Kansas City, Missouri
February 3, 1998

Selected Financial Data

Dollars in millions except per share	1997	1996	1995	10-Year Average Annual Growth Rate
Statement of Income				
Sales:				
Energy Delivery—				
Electric, net	$ 243.8	$ 234.1	$ 226.9	
Gas	767.4	727.9	616.6	
Non-regulated	258.7	124.8	88.1	
Energy Delivery, total	1,269.9	1,086.8	931.6	
Generation	313.6	285.2	263.2	
Aquila Energy	7,031.0	2,672.7	1,309.6	
International and other	311.8	287.6	288.2	
Total sales	8,926.3	4,332.3	2,792.6	31.0%
Total cost of sales and expenses	8,683.0	4,106.5	2,565.5	32.6%
Income from operations	243.3	225.8	227.1	11.4%
Other, net	19.5	39.3	95.3	(4.1)%
Income taxes	89.7	80.7	52.0	16.6%
Earnings before extraordinary item and cumulative effect of software accounting change	134.1	105.8	79.8	15.0%
Loss on retirement of debt, net	7.2	—	—	
Cumulative effect of software accounting change	4.8	—	—	
Net income	122.1	105.8	79.8	13.9%
Preference dividends	.3	2.1	2.1	(20.8)%
Earnings Available for Common Shares	$ 121.8	$ 103.7	$ 77.7	16.8%
Common Stock Data				
Basic earnings per common share	$ 2.27	$ 2.20	$ 1.72	3.3%
Return on average common equity	10.27%	10.31%	8.40%	(1.2)%
Cash dividends paid per common share	$ 1.76	$ 1.76	$ 1.72	6.6%
Book value per common share at year end	21.65	21.73	20.59	4.3%
Market price of common stock at year end	38.81	27.00	29.38	10.6%
Capitalization				
Common shareowners' equity	$1,163.6	$1,158.0	$ 946.3	16.0%
Preference and preferred stock	—	25.0	25.4	
Company-obligated mandatorily redeemable preferred securities of partnership	100.0	100.0	100.0	
Short-term debt	113.8	252.0	288.6	5.0%
Long-term debt *	1,508.2	1,496.4	1,370.5	16.9%
Total Capitalization	$2,885.6	$3,031.4	$2,730.8	15.6%
Capitalization ratios:				
Common shareowners' equity	40.3%	38.2%	34.7%	
Preference and preferred stock	—	.8	.9	
Company-obligated mandatorily redeemable preferred securities of partnership	3.5	3.3	3.7	
Short-term debt	3.9	8.3	10.5	
Long-term debt *	52.3	49.4	50.2	
Total	100.0%	100.0%	100.0%	

** Includes current maturities.*

Energy Delivery Statistics

Dollars in millions	1997		1996	1995	10-Year Average Annual Growth Rate
Electric Operations*					
Sales:					
Residential	$268.3	41.5%	$264.3	$252.4	9.2%
Commercial	173.4	26.8	167.0	161.1	11.1%
Industrial	82.2	12.6	79.8	77.3	11.2%
Other	123.3	19.1	101.1	86.9	16.2%
Total Sales	$647.2	100.0%	$612.2	$577.7	11.0%
MWH sales (000's):					
Residential	3,885	35.2%	3,887	3,678	9.5%
Commercial	2,883	26.2	2,775	2,676	10.8%
Industrial	1,993	18.1	1,973	1,927	10.9%
Other	2,262	20.5	2,848	2,264	13.0%
Total MWH Sales	11,023	100.0%	11,483	10,545	10.7%
Customers at year end:					
Residential	388,532	86.4%	381,684	374,701	6.3%
Commercial	56,207	12.5	54,692	55,266	8.1%
Industrial	326	—	323	324	6.6%
Other	4,650	1.1	4,651	4,575	4.8%
Total Customers	449,715	100.0%	441,350	434,866	6.5%
Generation mix:					
Coal	70.4%		70.6%	68.7%	
Natural gas and oil	9.9		9.2	10.1	
Hydro	19.7		20.2	21.2	
Total	100.0%		100.0%	100.0%	
Generating capability (MW):					
Coal	883	47.1%	885	875	
Natural gas and oil	786	41.9	784	705	
Hydro	205	11.0	205	205	
Total Generating Capability	1,874	100.0%	1,874	1,785	

** Electric statistics include the Canadian operations of West Kootenay Power.*

Dollars in millions	1997		1996	1995	10-Year Average Annual Growth Rate
Gas Operations					
Sales:					
Residential	$464.4	60.5%	$429.1	$362.4	11.1%
Commercial	205.8	26.8	192.6	153.9	9.8%
Industrial	46.8	6.1	45.8	45.9	(8.6)%
Other	50.4	6.6	60.4	54.6	17.8%
Total Sales	$767.4	100.0%	$727.9	$616.8	7.6%
MCF sales (000's):					
Residential	77,594	27.0%	81,698	76,461	8.2%
Commercial	39,128	13.6	40,698	37,282	6.3%
Industrial	11,059	3.9	10,944	12,901	(13.4)%
Other	678	.2	1,611	1,827	(7.0)%
Total MCF Sales	128,459	44.7%	134,951	128,471	2.1%
Gas transportation	158,937	55.3	166,562	178,114	16.1%
Total Sales and Transportation	287,396	100.0%	301,513	306,585	7.5%
Customers at year end:					
Residential	744,238	89.9%	728,867	713,586	7.9%
Commercial	78,925	9.5	77,742	76,430	6.4%
Industrial	2,491	.3	3,725	3,790	(2.1)%
Other	2,491	.3	2,573	2,815	20.4%
Total Customers	828,145	100.0%	812,907	796,621	7.8%

Annual Meeting

The 1998 annual meeting of shareholders will be held at 2:00 p.m. on Wednesday, May 6 in the Imperial Ballroom of the Muehlebach Tower of the Kansas City Downtown Marriott, 12th and Wyandotte, Kansas City, Missouri. Parking will be provided in the Auditorium Plaza garage.

Stock Listings

The common shares of UtiliCorp United Inc. are listed on the New York, Pacific and Toronto stock exchanges. The company's trading symbol is UCU.

At the end of 1997, UtiliCorp had approximately 85,000 common shareholders with about 54 million outstanding shares. The company redeemed all the outstanding shares of its preference stock in March 1997.

The common shares of Aquila Gas Pipeline Corporation are traded on the New York Stock Exchange under the symbol AQP. Approximately 18% of Aquila Gas Pipeline is held by the public. UtiliCorp's wholly-owned Aquila Energy subsidiary holds the other 82%.

Dividend Reinvestment and Direct Purchase of Shares

UtiliCorp's Dividend Reinvestment and Common Stock Purchase Plan combines dividend reinvestment and optional cash purchase with a direct purchase provision through which investors can acquire their first shares of UtiliCorp common stock directly from the company without brokerage fees.

For first-time buyers of UtiliCorp stock, the plan requires a minimum initial purchase of $250. Additional purchases through the plan may be made on a monthly basis with a minimum contribution of $50 and a maximum of $10,000 per month.

Direct shareholders can instruct the company to automatically buy more shares with all or some of their dividend proceeds. Reinvestment shares are purchased under the plan at 5% less than the market price, as defined in the plan prospectus, with no brokerage commissions. Reinvestment participants may also make cash purchases of shares ranging from $50 up to $10,000 per month, at market price without commission.

The plan also includes provisions for partial reinvestment of dividends, electronic payment for cash purchases, and safekeeping of share certificates.

Shareholders may download the plan prospectus and enrollment form from UtiliCorp's pages on the World Wide Web: http://www.utilicorp.com; or call toll-free, 1-800-884-5426, to have the information mailed to you.

Shareholder Inquiries

Questions about your account, including dividend payments, the Dividend Reinvestment and Common Stock Purchase Plan, direct deposit service or the transfer of shares, are handled by utility specialists at the company's transfer agent, First Chicago Trust Company of New York. They can be reached at a toll-free number for UtiliCorp shareholders: 1-800-UTILICO, or 884-5426.

Pat Blanton (left) and Kay McMillan get to know a lot of UtiliCorp shareholders. The two Shareholder Relations representatives field calls daily covering a wide range of stock-related subjects.

Another number is provided to assist the hearing-impaired: 201-222-4955. First Chicago's home page address on the Internet is www.fctc.com.

You may contact UtiliCorp Shareholder Relations toll-free at 1-800-487-6661, or at 816-421-6600. However, calls regarding the transfer of shares, dividend reinvestment, cash purchases or direct deposit service are normally referred to the transfer agent. Address mail inquiries to Shareholder Relations, UtiliCorp United, P.O. Box 13287, Kansas City, MO 64199-3287. Mail regarding the transfer of shares should be addressed to the following:

Transfer Agent
First Chicago Trust Company of New York, Stock Transfer Department, P.O. Box 2506, Jersey City, NJ 07303-2506. Documents may also be delivered to Utilities Group, 525 Washington Blvd., Jersey City, NJ 07310.

Co-Transfer Agent
UMB Bank, N.A., 928 Grand Avenue, 13th Floor, P.O. Box 410064, Kansas City, MO 64141; 816-860-7786.

Additional Publications

Financial publications available upon request include the company's 1997 Annual Report to the Securities and Exchange Commission on Form 10-K and the 1997 Corporate Profile, a fact book for the investment community. The Profile contains business unit operating data, historical financial data and a profile of management.

World Wide Web Site

Information available through UtiliCorp's home page on the Internet includes company news releases, live stock quotes, executive speeches and position papers, documents filed with the Securities and Exchange Commission, and information about EnergyOne products and services and UtiliCorp's LocationOne℠ site selection services.

In 1997 UtiliCorp's home page was accessed more than 2 million times. You can visit the site at http://www.utilicorp.com.

Common Questions About Common Stock

When are purchases through the Dividend Reinvestment and Common Stock Purchase Plan actually made?
Shares are purchased on the 12th of each month. If you send in funds for an optional cash purchase under the plan, your payment must be received by the last business day prior to the 12th. If the 12th falls on a weekend or holiday, the shares will be purchased on the next trading day.

Is there a discount on shares purchased through dividend reinvestment? Does it also apply to optional cash purchases made through the plan?
There is a 5% discount on purchases made with reinvested dividends. However, there is no discount on optional cash purchases under the plan. In either case, the purchase price is based on a five-day average of the market value for the five days prior to the investment date.

Is there a charge to sell the shares I have in the plan?
Each time you sell plan shares there is a sales fee of $15.00 plus $.12 per share sold.

Can my dividends be deposited directly into my bank account?
Yes. To start direct deposit service, contact the transfer agent at 1-800-UTILICO (1-800-884-5426) and request an electronic deposit form.

How do I find UtiliCorp's stock price in the newspaper?
The stock is listed in *The Wall Street Journal* as "UtiliCorp." Some papers use the abbreviation "Utilico" in their stock market tables.

May I set up an Individual Retirement Account (IRA) in UtiliCorp's dividend reinvestment plan?
Yes. You may establish a self-directed IRA in the company's common stock. You may also roll over funds from other IRA investments into this account. For further information, contact the Plan Administrator at 1-800-597-7736.

Corporate Leadership

Name	Position	Age / Year Joined Company
Richard C. Green, Jr.	Chairman of the Board and Chief Executive Officer	43 / 1976
Robert K. Green	President and Chief Operating Officer	36 / 1988
Jon R. Empson	Senior Vice President, Regulatory, Legislative and Environmental Services	52 / 1978
Robert L. Howell	Senior Vice President, Corporate Development	57 / 1988
Sally C. McElwreath	Senior Vice President, Corporate Communications	57 / 1994
James G. Miller	Senior Vice President, Energy Delivery	49 / 1983
Leo E. Morton	Senior Vice President, Human Resources and Operations Support	52 / 1994
Harvey J. Padewer	Senior Vice President, Energy Group; President, Aquila Energy	50 / 1995
James S. Brook	Vice President , Controller and Chief Accounting Officer	48 / 1976
Timothy J. Gelvin	Vice President and Chief Marketing Officer	44 / 1995
Dale J. Wolf	Vice President, Finance and Corporate Secretary	58 / 1962
International		
Donald G. Bacon	President, West Kootenay Power; interim Chief Executive Officer, Power New Zealand Ltd.	60 /1993
Charles K. Dempster	Chairman and President, UtiliCorp U.K., Inc.	55 / 1993
Robert K. Green	Chairman, United Energy Limited	36 / 1988
R. Paul Perkins	Senior Vice President, Australasia	55 / 1994
Keith Stamm	Chief Executive Officer, United Energy Limited	37 / 1983

Board of Directors

		Age / Year Joined Board
Richard C. Green, Jr.	Chairman of the Board and Chief Executive Officer	43 / 1982
John R. Baker	Vice Chairman of the Board (retired)	71 / 1971
Herman Cain	Chairman of Godfather's Pizza, Inc., Omaha, Nebraska	52 / 1992
Robert K. Green	President and Chief Operating Officer	36 / 1993
Irvine O. Hockaday, Jr.	President and Chief Executive Officer of Hallmark Cards, Inc., Kansas City, Missouri	61 / 1995
Stanley O. Ikenberry, Ph.D.	President of the American Council on Education; Regent Professor and President Emeritus of The University of Illinois, Urbana, Illinois	63 / 1993
Robert F. Jackson, Jr.	President (retired) of CharterCorp of Kansas City, Missouri (a bank holding company)	72 / 1981
L. Patton Kline	Vice Chairman (retired) of Marsh & McLennan, Incorporated, New York, New York (an international insurance brokerage company)	69 / 1986
Avis Green Tucker	Editor and Publisher, *The Daily Star-Journal*, Warrensburg, Missouri (a daily newspaper)	82 / 1973

Committees of the Board

Executive Committee: R. C. Green,* Ikenberry, R. K. Green, Jackson. **Audit Committee:** Kline,* Ikenberry, Jackson. **Compensation Committee:** Hockaday,* Cain, Kline. **Nominating Committee:** Ikenberry,* Baker, Cain, Hockaday, Tucker. **Pension Committee:** Tucker,* Baker, R. K. Green.

** Committee chairman*

IT'S SORT OF LIKE THE OSCARS WHEN YOU WIN UTILITY OF THE YEAR, SO WE ALSO WANT TO THANK OUR OWN CAST OF THOUSANDS — THE 4,640 EMPLOYEES OF UTILICORP UNITED WHOSE HARD WORK AND PERSEVERANCE MADE WINNING THIS RECOGNITION POSSIBLE. AND THANK YOU, ELECTRIC LIGHT & POWER FOR CHOOSING TO HONOR US AS YOUR 1997 WINNER BASED ON NINE CATEGORIES OF EXCELLENCE: FINANCIAL CONDITION, CUSTOMER SERVICE, EMPLOYEE RELATIONS, COMMUNITY INVOLVEMENT, OPERATING EFFICIENCIES, ENVIRONMENTAL AWARENESS, SERVICE TO SHAREHOLDERS, ATTENTION TO INNOVATION AND TECHNOLOGY, AND ATTENTION TO COMPETITIVENESS ISSUES.

THANK YOU, THANK YOU.

UtiliCorp United

P.O. Box 13287
Kansas City, MO 64199-3287