2000 Annual Report

UtiliCorp United

Investor Newsmagazine

NYSE: UCU

Schedule 1-1

What We Do

OUR BUSINESSES	OUR MARKETS

NETWORKS

■ UNITED STATES

Through seven operating divisions, our electric and natural gas distribution utilities deliver energy through networks of wires and pipes serving the Mid-continent. These operations serve monopoly territories with rates for service set by state or local regulators.

408,000 electric distribution customers in three states: Missouri, Kansas and Colorado; 863,000 gas distribution customers in seven states: Missouri, Kansas, Colorado, Nebraska, Iowa, Michigan and Minnesota.

ServiceOne® repairs and services appliances and provides home warranty and other services.

ServiceOne serves about 156,000 contract customers in seven states, both inside and outside of our utility territories.

■ AUSTRALIA

United Energy Limited, managed and 34%-owned by UtiliCorp, is an electric distribution utility which also manages the gas distribution of Multinet Gas, in which UtiliCorp has a 50% economic interest. Uecomm, 66%-owned by United Energy, provides broadband fiber-optic networks. AlintaGas Limited, 45%-owned by UtiliCorp and United Energy jointly, is the major natural gas distributor in the state of Western Australia.

United Energy and Multinet Gas distribute energy to 551,000 electric customers and 596,000 gas customers in metropolitan Melbourne, Victoria; energy retail customers are reached through the Pulse Energy joint venture; AlintaGas has 431,000 gas distribution customers in Western Australia, including the city of Perth. Uecomm's fiber-optic networks serve Melbourne, Sydney and Brisbane.

■ NEW ZEALAND

UnitedNetworks Limited, 62%-owned by UtiliCorp, is New Zealand's largest energy distribution company.

499,000 electric lines consumers, mostly in the Auckland and Wellington areas; 121,000 gas distribution customers; fiber-optic networks serve Auckland and Wellington.

■ CANADA

UtiliCorp Networks Canada operates an electric distribution network in Alberta and West Kootenay Power is an integrated hydroelectric utility in the southern interior of British Columbia.

368,000 electric distribution customers in Alberta and 135,000 in British Columbia.

ENERGY MERCHANT

■ NORTH AMERICA

Aquila, Inc., a wholly-owned subsidiary, is one of the largest risk managers and wholesale marketers of energy in the U.S. and Canada. Its Wholesale Services operations market and trade natural gas, electricity, broadband capacity and other commodities, and provide a wide range of energy-related financial and risk management products and services.

Aquila markets and trades wholesale energy and other commodities across the U.S. and most of Canada to industrial and other large wholesale customers, including distribution utilities. It also provides structured financing for the oil and gas industry.

Aquila's Capacity Services business owns, operates or controls electric generating plants; facilities that gather, transport and process natural gas and natural gas liquids and store natural gas; and coal handling facilities.

Aquila's gas gathering, pipeline and processing facilities are in Oklahoma and Texas. Aquila's power plants in eight states sell a portion of their output into the wholesale electricity grid and under long-term contracts to large industrial customers.

■ EUROPE

Aquila's European operations, headquartered in London, provide wholesale energy marketing, trading and related services in the United Kingdom, Spain, Germany and Scandinavia.

823,000 indirect gas marketing customers in the United Kingdom. Aquila trades power through the Nord Pool market in Scandinavia, and has trading offices in Germany, Spain and Norway.

SERVICES

UtiliCorp Communications Services manages our North American telecommunications businesses, including Everest Connections Corporation, which are installing broadband fiber-optic networks and introducing a wide range of video, telephone, Internet and data services.

We are beginning to build broadband communications networks in select Mid-continent markets. Marketing of cable television, local and long-distance telephone and high-speed Internet service was in the start-up phase in the greater Kansas City area in December 2000.

Quanta Services, Inc. builds and maintains networks used to carry energy and telecommunications. UtiliCorp holds an effective 36% equity interest in Quanta.

Quanta Services is one of the largest specialized contractors serving utilities, telecommunications and cable television operators, and government. Based in Houston, Quanta works nationwide through principal offices in 40 states.

Down-Under Success Keeps Up

Creating a model to follow, Australia and New Zealand businesses set the pace for other UtiliCorp networks.

It's been more than five years now since UtiliCorp and its Australian partners bought United Energy, and a little more than two years since UtiliCorp created UnitedNetworks in New Zealand by combining three separate network companies.

In the year just past, operations in both countries reached new levels of accomplishment and strategic development. The model UtiliCorp first developed for United Energy is proving so successful that today it is being replicated not only in New Zealand, but in the U.S and Canada as well.

The contribution to UtiliCorp's 2000 EBIT from Australia and New Zealand combined came to $123 million, 23% of the total.

Both United Energy and UnitedNetworks acquired sizable natural gas distribution operations in 2000, and both pushed ahead in developing broadband fiber-optic networks serving major business centers. (See article on page 18.) They also continued improving customer service and operating efficiency.

The contribution to UtiliCorp's 2000 earnings before interest and taxes (EBIT) from Australia and New Zealand combined came to $123 million, or 23 percent of the consolidated total.

Creating the Australian Model

When United Energy was acquired in 1995 in the first privatization of an electricity distribution company by the state of Victoria, UtiliCorp wanted to help the utility grow, to achieve both efficiencies and strong competitive position. This meant going outside the original scope of United Energy's basic business.

In 1999, natural gas distribution and retail were added to the product mix through acquisition of Multinet Gas and Ikon Energy, with service territories in greater Melbourne that overlap United Energy's electric area. In 2000, things kept on changing.

"United Energy at year end 2000 was a vastly different company from the United Energy that existed in 1999," says Don Bacon, its chief executive officer. "We launched a new type of energy retailer, set up our own version of UtiliCorp's Aquila, and reached significant milestones in our Uecomm telecom business."

The gas side of the business stretched a new direction—out west, to be exact. United Energy and UtiliCorp in mid-2000 joined as bidding partners and won the 45 percent "cornerstone" shareholding in AlintaGas Limited, the principal natural gas distribution company in the state of Western Australia. The transaction, which closed in October 2000, privatized the formerly state-owned utility. The other 55 percent of AlintaGas was sold to the public in Australia.

AlintaGas serves more than 431,000 customers. Its largest market is Perth.

The Pulse of Competition

Putting a new twist on the business of energy retailing, United Energy and Ikon Energy in July 2000 launched Pulse Energy in partnership with Shell Australia and Woodside Energy, a leading natural gas producer. (UtiliCorp owns 34 percent of United Energy.)

The venture got a running start by taking on the 1.1 million customer accounts of United Energy and Ikon Energy, which transferred their retail base to Pulse. United Energy continues to own and maintain its distribution lines and under a seven-year contract provides billing, meter reading, a call center and other back-office services for Pulse Energy.

IMAGE PROVIDED BY STONE/JOHN LAMB

▲ The city of Perth in Western Australia is headquarters for AlintaGas Limited, the state's principal natural gas distribution company. UtiliCorp and United Energy jointly acquired 45 percent of AlintaGas in October 2000.

As Australia's states move to full competition and urge people to choose new energy providers, Pulse plans to use Shell's national marketing reach and strong brand recognition. Total market potential in the states where Pulse operates is about 10 million customers.

Indeed, it's no accident that the Shell brand is prominent in Pulse Energy's logo. A national loyalty program in which Shell participates enables people to rack up points in bonus accounts by signing up with Pulse Energy. Pulse Energy also has an early crack at customers.

"As Australia's first national retailer of energy, we have first-mover advantage," says John Bogatz, a UtiliCorp expatriate who headed to Australia three years ago and now is Pulse Energy's chief operating officer. "Some of the Australian states have delayed the start of open competi-

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tion for residential customers until mid-2001 or early 2002," he says, "but it's still exciting to be part of this process.

"It's a long-term business. Whenever the rest of the markets open, Pulse will be ready."

EdgeCap, a Mini-Aquila

To take advantage of the rapid growth in Australia's wholesale market for natural gas, electricity and related commodities, United Energy again joined with Pulse partners Shell and Woodside, this time to form EdgeCap Pty Limited at the end of October 2000.

In addition to its trading activities, EdgeCap provides a range of risk management products and services very similar to those developed by UtiliCorp's Aquila subsidiary in the United States. Pulse Energy is one of the businesses that is reducing its risk through using some of EdgeCap's services and expertise.

Under the guidance of Aquila, United Energy had been nurturing its own energy trading and risk management business since 1996. It received about $9 million for contributing that operation to be the nucleus from which EdgeCap was formed. United Energy holds a 50 percent interest in EdgeCap, while Shell holds 40 percent and Woodside 10 percent.

The joint venture plans to offer many types of risk management contracts, including weather hedges and bandwidth trading.

"EdgeCap is very well positioned to play a leading role in the ongoing development of the wholesale energy markets in Australia," says United Energy CEO Don Bacon, an EdgeCap director.

"It's not only backed by the skills and expertise of United Energy and its mentor, Aquila. Shell also brings international expertise in electricity and natural gas trading, and both Shell and Woodside provide access to substantial upstream resources."

With the growth of Uecomm and the investments in Pulse and EdgeCap, Bacon expects that by 2003 about 60 percent of United Energy's sales will come from non-regulated businesses. Currently that number is closer to 20 percent.

Network Growth in New Zealand

Expanding its presence in the New Zealand energy market, UnitedNetworks Limited bought the natural gas distribution network of Orion New Zealand Limited in April 2000 for $274 million. The purchase included Orion's contracting business serving New Zealand's North Island.

Since a lot of Orion's gas service territory overlaps UnitedNetworks' electric distribution areas, the expansion creates many of the same synergies that came about in Australia when United Energy combined electric and gas operations.

The Orion gas business is New Zealand's largest low-pressure gas distributor. It serves the North Island's two biggest cities, Auckland and Wellington, as well as smaller towns. The acquisition solidifies UnitedNetworks' position as the country's largest energy distributor, with 499,000 electric customers (more than 30 percent of the market) and 121,000 natural gas customers (a 50 percent market share).

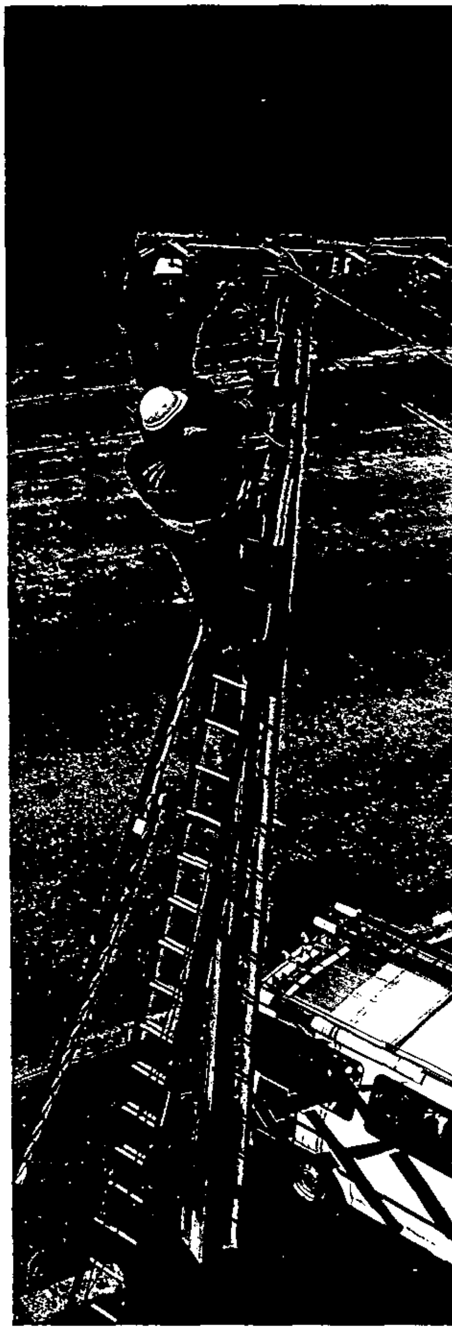
"That sounds like a huge market share in gas," says UnitedNetworks Chief Executive Officer Dan Warnock. "However, that's just our share of current gas consumers. The potential market for natural gas here still has relatively low penetration.

"This provides another significant growth opportunity for UnitedNetworks."

Unbundling Down Under

In September 2000, UnitedNetworks announced it plans to sell its contracting business that designs, builds and maintains electricity distribution networks as well as facilities for other industries. If the sale is completed in mid-2001 to a satisfactory bidder, the company will outsource the construction and maintenance for its networks through a close partnership with that buyer.

UnitedNetworks Contracting had more than $49 million in total sales last year. The decision to sell the business is similar to UtiliCorp's decision to outsource its North American network maintenance and construction operations. Careful analysis shows that the company can benefit by focusing entirely on being a network operator, and the maintenance activities can benefit from being operated by a firm specializing in those functions.



▲ With the volcanic cone of Rangitoto Island behind them, UnitedNetworks linemen Dion Connelly and Norrie Main do maintenance along Narrow Neck Beach on Auckland's North Shore.

▶ What's It Mean?

Risk Management ~ *The ability to earn a profit by helping others manage their future supply and cost of energy. Managing energy risk includes many variables, such as hourly changes in the weather, and daily or even hourly consumption patterns, as well as the supply and availability of energy. Aquila markets a wide range of risk management products and services in the U.S., Canada and Europe.*

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UtiliCorp Grows In Canada

What's up north of the border? Plenty!

For UtiliCorp's utilities in Canada, 2000 was the most significant year since 1987, when the company completed the acquisition of West Kootenay Power.

On August 31 last year, UtiliCorp wrapped up another network purchase—this time the Alberta electric distribution operations of TransAlta Corporation. The transaction quadrupled the number of customers UtiliCorp serves in Canada. It also about quadrupled its total miles of distribution lines in North America.

We anticipate other opportunities to acquire distribution operations in Canada.

More important than the operating statistics, though, is the strategic relevance of this expansion into another Canadian territory.

"With several provinces embracing electricity market reform, we're ready to repeat in Canada the process we've been through several times in Australia and New Zealand," says Robert Holzwarth, chief executive officer of UtiliCorp Networks Canada (UNC).

That's a new unit of the company that was created in 2000 to operate the former TransAlta distribution network as well as oversee West Kootenay Power. Serving south-central British Columbia adjacent to Washington State, West Kootenay Power is an integrated hydroelectric utility—it has its own generation facilities as well as transmission and distribution lines and retail customers.

Beginning in 1995, Alberta passed legislation deregulating electricity. It includes full retail choice starting in January 2001, which means consumers now can choose their retail electric supplier.

TransAlta chose to focus on generation and transmission, so it put its distribution and retail operations up for sale. The company had gotten to know UtiliCorp from previous dealings in New Zealand, so before long the two were discussing a possible Alberta transaction.

Shortly after UtiliCorp bought TransAlta's distribution and retail operations for $480 million, it agreed to sell the retail arm to EPCOR, an Alberta utility based in Edmonton, for $75 million. It also assigned retail services to EPCOR. The sale was completed in late November.

Now EPCOR provides all retail services to those of UNC's 368,000 Alberta customers who wish to remain on the regulated rate option. These customer-specific services include call center operations and billing. However, customers may choose to buy from another retailer.

UtiliCorp Networks Canada provides electric service up to and including the customer's electric meter. That includes reading the meter and managing the data from it. UNC crews also maintain the whole 57,000-mile distribution network,

"Our transfer of retail responsibilities to EPCOR allows UtiliCorp to keep a strategic focus on managing our distribution networks in Alberta as efficiently as possible," says Holzwarth. "We also anticipate additional opportunities to acquire distribution operations elsewhere in Canada as deregulation and privatization continue to evolve."

The UtiliCorp purchase from TransAlta was a key step in Alberta's five-year process to introduce new players to its power market. Ontario is another province working to lead the country's $19 billion electricity market toward deregulation. Across Canada, almost 90 percent of the country's 11.7 million electric customers are still served by government-owned or municipal utilities. By contrast, in Alberta half of all customers are served by investor-owned utilities. For the last two years, Ontario has been encouraging some 300 municipal and regional utilities to prepare for private investment. UtiliCorp is definitely interested as a potential buyer.

Holzwarth points to plenty of other Canadian growth opportunities already on the horizon. These include a booming Alberta economy, the recent announcement by New Brunswick that the province intends to pursue electricity market reform, and a new agreement for West Kootenay Power to operate the electric system of Kelowna, a city of 100,000 people in British Columbia. That contract, effective October 1, 2000, secured West Kootenay Power's position in the largest market in its franchise area.

Meanwhile, UtiliCorp's Alberta and British Columbia operations are being integrated to achieve critical mass and adopt the industry's best practices. One plan already under way, subject to regulatory approval, is to introduce performance-based ratemaking in Alberta. Through such rates, cost savings and other efficiencies are shared over the long term between the utility and its customers, a concept pioneered in Canada and used successfully by West Kootenay Power since 1996.

ROTH & RAMBERT INC., EDMONTON, ALBERTA

▲ At a former TransAlta facility in Edmonton, Alberta, workers install a new sign panel with the UtiliCorp Networks Canada name.

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FINANCIAL REVIEW

Key Events in 2000

- UnitedNetworks acquired the Orion New Zealand gas distribution business in April for $274 million.
- We invested an additional $360 million in Quanta Services, Inc. during the first half of the year, raising our beneficial equity interest to 36%.
- In June, we reduced our interest in UnitedNetworks from 79% to 62% and granted the minority shareholder participation and protective rights. This resulted in deconsolidating the financial reporting for our New Zealand operations and removing approximately $670 million in existing New Zealand debt and related assets from UtiliCorp's balance sheet.
- We purchased the Alberta electric network operations of TransAlta Corporation in late August for $480 million and formed UtiliCorp Networks Canada. In November, we sold the retail part of the acquired business for $75 million.
- In September, Uecomm, United Energy's broadband telecommunications business, had a successful initial public offering in Australia of 34% of its shares. As a result, UtiliCorp recorded a $44 million gain.
- UtiliCorp and United Energy acquired 45% of AlintaGas Limited, the largest gas distribution company in Western Australia, in October for $166 million.
- On December 13 we announced plans for an initial public offering of approximately 20% of Aquila's common shares, expected to take place in the first or second quarter of 2001.
- Aquila bought GPU International in December for $225 million, acquiring interests in six power plants with 500 megawatts of generating capacity.
- We completed our $282 million merger with St. Joseph Light & Power on December 31. Its Missouri electric and gas territory is adjacent to ours.
- On January 2, 2001, we terminated our agreement to merge with the Empire District Electric Company due to regulatory uncertainties.

This review of 2000 performance is organized by business segment, reflecting the way we manage our businesses. Each business unit leader is responsible for operating results, expressed as earnings before interest and taxes (EBIT). Therefore, each segment discussion focuses on the factors affecting EBIT.

We generally make decisions on finance, dividends and taxes at the corporate level. We discuss those topics separately on a consolidated basis. →

In 2000, our performance versus our main financial objective was as follows:

	2000	
	Objective	Result
Earnings per share growth	8–10%	26%

At the end of 2000, our total three-year return to shareholders was 35.5%.

Earnings Before Interest and Taxes

A summary of our EBIT by business segment is shown below.

Dollars in millions, except per share	2000		1999	1998
Networks:				
United States	$180.5	33.5%	$195.1	$217.8
International	158.0	29.2	129.9	111.0
Total Networks	338.5	62.7	325.0	328.8
Energy Merchant	191.1	35.4	79.7	36.8
Services	35.1	6.5	13.2	—
Corporate and other	(24.7)	(4.6)	(3.9)	(14.2)
Total EBIT	$540.0	100.0%	$414.0	$351.4
Earnings Per Share—Diluted	$2.21		$1.75	$1.62

Peter Lowe

As senior vice president and chief financial officer, Peter Lowe is responsible for all of UtiliCorp's treasury, tax, accounting and investor relations functions. He came to us in 1999 from Australia, where he served as chief financial officer of our United Energy affiliate.

tory assets. We expect our rates will continue to be based on historical costs for the foreseeable future. If we discontinued applying SFAS No. 71, we would make adjustments to the carrying value of our regulatory assets. Total net regulatory assets at December 31, 2000 were $404.5 million, including deferred purchased power costs of $232.8 million related to our Alberta, Canada electricity business. The Alberta government issued regulations in January 2001 which permit us to recover these deferred costs in 2002 to 2004, subject to a prudency review by the regulatory authorities. The regulations also provide for the current recovery of carrying costs during 2001.

Competition in Australia. The State of Victoria is deregulating its electricity market in stages. In 2000, customers with yearly usage above 160 megawatt-hours (industrial and large commercial customers) chose their retail electricity suppliers. Effective January 1, 2001, electricity customers with annual usage between 40 and 160 megawatt-hours (small commercial customers) chose their retail electricity suppliers. Beginning January 1, 2002, all customers of United Energy Limited (UEL) will be able to choose their retail electricity suppliers. A majority of UEL's gross margin comes from distribution line charges that are not affected by these customer choices.

Regulation in New Zealand. An Electricity Industry Bill was introduced to Parliament in November 2000 which was broadly consistent with our position in support of a regulatory system that is developed and administered by the utility industry. We fully support this movement and are working with our advisors to promote the inclusion of these objectives in the final regulations.

North American Energy Marketing. Our energy marketing businesses operate in a fully competitive environment that rewards participants on price, service and execution. Our energy marketing businesses compete for customers with the largest energy companies in North America. The industry is premised on large-volume sales with relatively low margins. Companies that operate in this industry must fully understand the price sensitivity and volatility of commodities. The public first became more aware of some of the risks associated with this industry when a number of companies announced sudden losses resulting from the June 1998 price spike in electricity. We expect price volatility to occur and we have risk control policies in place for dealing with such events.

European Energy Marketing. Our energy marketing business in Europe continues to build its capability to offer new products in gas, electricity and other energy related areas. Trading in the United Kingdom electricity market began in October 1999 and trading in the Nordic power market began in November 1999.

Environmental Matters

We are currently named as a potentially responsible party (PRP) at two PCB disposal sites. Our combined cleanup expenditures have been less than $1 million to date at these and other PCB disposal sites for which we had been named a PRP but have settled our liability. We anticipate that future expenditures on the two sites where we are currently named as a PRP will not be significant.

We also own or once operated 29 former manufactured gas plant sites which may require some form of environmental remediation. As of December 31, 2000, we estimate cleanup costs on these identified sites to be $12.7 million. See Note 15 to the Consolidated Financial Statements for further discussion of this topic.

In October 1998, the EPA published new air quality standards to further reduce the emission of nitrous oxide (NOx). These more strict standards would have required us to install new equipment on our baseload coal units in Missouri that we estimated would cost $35 million. A federal court ruled in March 2000 that the EPA regulation could not be applied to power plants in Western Missouri. In May 2000, the state of Missouri adopted a revised regulation that also requires reduction of NOx from our power plants. We are currently conducting a study to determine the cost of complying with the Missouri regulation but estimate that the cost would be comparable to that required to comply with the former federal regulation. The new standard is expected to be effective in May 2003 but could be delayed for one year.

In December 2000, the EPA announced that it would regulate mercury emissions from coal- and oil-fired power plants. The EPA is expected to propose regulations by December 2003 and issue final regulations by December 2004. The impact of this action on our power plants cannot be determined until final regulations are issued.

Cash Requirements

Future cash requirements include capital expenditures for property, plant and equipment additions and structured financing loans and required redemptions of long-term securities. We estimate expenditures over the next three years for these activities, excluding acquisitions, will be as follows:

	Actual	Future Cash Requirements		
In millions	2000	2001	2002	2003
Capital expenditures	$501.2	$722.0	$ 687.0	$660.0
Maturing long-term debt	309.7	51.7	532.9	47.8
Total	**$810.9**	$773.7	$1,219.9	$707.8

We believe that our available cash resources from both operating cash flows and borrowing capacity will be adequate to meet our anticipated future cash requirements.

Significant Balance Sheet Movements

Total assets increased $6.6 billion in 2000 compared to 1999. This increase is primarily due to the following:

- Increased accounts receivable of $3.0 billion that resulted from increased natural gas and electricity prices and strong gas trading activity in our Energy Merchant business.
- A $10.2 million decrease in property, plant and equipment, net resulting from the deconsolidation of our New Zealand business, offset by our acquisition of TransAlta's electricity distribution business, St. Joseph Light & Power Company and GPU International.
- An $892.7 million increase in our investments in subsidiaries and partnerships. The deconsolidation of our New Zealand business resulted in an increase of approximately $364 million. Additional purchases of Quanta Services, Inc. stock added approximately $360 million.
- Merchant notes receivable increased $133.9 million from growth in our structured financing business.
- Price risk management assets, current and non-current, increased a total of $1.8 billion due to the higher prices discussed above.
- Deferred charges and other assets increased $426.2 million, primarily due to deferred purchased power costs in our Alberta network operations and our acquisition of St. Joseph Light & Power.

In 2000, total liabilities increased by $6.2 billion, company-obligated preferred securities increased by $100.0 million and common shareholders' equity increased by $274.2 million. These increases were primarily due to the following:

- Increased accounts payable of $3.1 billion due to higher natural gas and electricity prices and strong gas trading activity in our Energy Merchant business.
- Customer funds on deposit increased $362.4 million primarily due to increased natural gas and electricity trading activity in our Energy Merchant business.
- Price risk management liabilities, current and non-current, increased $1.8 billion due to the higher prices discussed above and additional prepaid gas contracts executed in 2000.
- Increased short-term debt, long-term debt, including current maturities, and company-obligated preferred securities of $504.6 million to finance a portion of our investments in Quanta, TransAlta, AlintaGas, GPU International and UtiliCorp Communications Services.
- Income taxes and credits increased $191.0 million primarily due to acquisition and divestiture activity of $218.0 million offset by a deferred income tax benefit of $27.0 million.
- Common shareholders' equity increased $274.2 million. This was primarily due to the issuance of 6.56 million shares in the merger with St. Joseph Light & Power Company, which increased equity by $190.2 million, and net income of $206.8 million offset by common dividends of $111.6 million. An increase in unrealized translation adjustments of $11.6 million was net of $30.6 million of unfavorable currency translation adjustments eliminated in the deconsolidation of our New Zealand business.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard was amended in June 2000 by SFAS No. 138. See Note 3 for further discussion.

Effects of Inflation

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

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NOTE 5: Investments in Subsidiaries and Partnerships

Our consolidated balance sheet contains various equity investments as shown in the table below. The table below summarizes our investments and related equity earnings:

Dollars in millions	Ownership at 12/31/00	Country	Investment at December 31, 2000	Investment at December 31, 1999	Equity Earnings Year Ended December 31, 2000	1999	1998
United Energy Limited *(a)*	34.0%	Australia	$ 239.5	$ 234.2	$ 63.8	$28.0	$ 69.1
Multinet/Ikon *(b)*	25.5%	Australia	168.6	245.3	10.4	(6.9)	—
AlintaGas Limited (c)	22.5%	Australia	69.4	—	.1	—	—
UNZ investment: *(d)*							
UnitedNetworks Ltd. (UNL)	62.2%	New Zealand	374.9	—	13.9	—	8.1
WEL Energy Group Ltd. (WEL)	—	New Zealand	—	—	—	—	11.3
Pacific Energy	—	New Zealand	—	1.2	—	.6	—
Independent power project partnerships *(e)*	17%–50%	U.S. & Jamaica	248.6	136.6	18.7	34.0	33.4
Oasis Pipe Line Company (Oasis)	50%	United States	97.5	97.7	(.3)	.6	1.1
Quanta Services, Inc. *(f)*	36%	United States	711.9	319.5	53.7	13.2	—
Other	Various		46.2	29.4	(.8)	—	2.1
Total			$1,956.6	$1,063.9	$159.5	$69.5	$125.1

(a) Includes our 34% investment in United Energy Limited (UEL). Equity earnings in 2000 include a $44 million gain on the Uecomm IPO.

(b) On March 12, 1999, we acquired, for $224 million, a 25.5% interest in Multinet/Ikon, a natural gas network and retailer in Victoria, Australia.

(c) On October 17, 2000, we purchased a 45% interest in AlintaGas Limited, a gas utility in Western Australia, in a $166 million joint acquisition with UEL. Our 22.5% interest is reflected as an equity investment with the remaining 22.5% reflected as part of our interest in UEL.

(d) On June 30, 2000, we sold a portion of our New Zealand investment to a private equity investor (minority shareholder) that reduced our effective ownership in UnitedNetworks to approximately 62%. In connection with the transaction we granted the minority shareholder board and shareholder participation and protective rights and therefore no longer consolidate these operations for financial statement purposes. Our New Zealand investments were reflected on a consolidated basis from October 1998 to June 2000.

(e) Includes interests in 15 independent power projects located in eight states and Jamaica. Of these, 14 are currently in commercial operation. These investments are aggregated because individual investments are not significant. In 1999, our partner in a power project exercised an option to purchase our interest in the project. We received $83.8 million and recognized a gain of $7.1 million.

(f) In 2000 and 1999, we acquired convertible preferred and common stock of Quanta Services, Inc. (Quanta) for approximately $360 million and $319 million, respectively. Our fully converted beneficial interest in Quanta is approximately 36%. Management advisory fees of $17.5 million and $7.6 million in 2000 and 1999, respectively, are reflected as equity earnings in the accompanying consolidated statements of income. Included in the 2000 management advisory fees is a contract termination fee of $8.1 million of the total $26.8 million termination fee paid in 2000.

Following is the summarized combined financial information of the unconsolidated material equity investments listed above:

In millions	December 31, 2000	1999 *(a)*
Assets:		
Current assets	$1,087.8	$ 660.0
Non-current assets	6,713.9	4,024.2
Total Assets	$7,801.7	$4,684.2
Liabilities and Equity		
Current liabilities	$ 684.1	$ 422.3
Non-current liabilities	3,810.6	2,267.6
Equity	3,307.0	1,994.3
Total Liabilities and Equity	$7,801.7	$4,684.2

In millions	Year Ended December 31, 2000	1999 *(a)*	1998
Operating Results:			
Revenues	$3,069.3	$1,986.0	$850.3
Costs and expenses	2,751.4	1,801.1	752.4
Net Income	$ 317.9	$ 184.9	$ 97.9

(a) Excludes UnitedNetworks since this subsidiary is reflected in the consolidated statements.

NOTE 9: Short-Term Debt

Short-term debt includes the following components:

Dollars in millions	December 31, 2000	1999
Bank borrowing and other	$388.0	$243.9
Commercial paper	113.0	5.0
Total	$501.0	$248.9
Weighted average interest rate at year end	7.32%	5.95%

We have a $150 million commercial paper program supported by a $400 million revolving credit agreement. Our credit agreement contains restrictive covenants and charges annual commitment fees ranging from .15% to .175%.

During 2000 we put in place a new Canadian credit facility that we used to acquire TransAlta's Alberta-based electricity distribution and retail assets and expanded a revolving credit agreement at our West Kootenay Power business. At December 31, 2000, the facilities had the following terms:

Dollars in millions Maximum Amount	December 31, 2000 Amount Outstanding	Interest Rate	Maturity Date
$C60.0	$C54.5	7.006%	May 2001
$C236.8	$C236.8	6.720%	May 2001

The interest rates may vary with changes in the Canadian bank rate. The $C60 million facility carries a commitment fee of .17% on unused amounts.

We have a $30 million credit facility with a U.S. financial institution which provides working capital financing to our European energy merchant business at a floating rate of 7.0% at December 31, 2000. We had $25.7 million borrowed on this facility at December 31, 2000.

We also have a $125 million letter of credit facility with a group of banks that is used for trading and other activities of Aquila with various counterparties. As of December 31, 2000, we had $88.8 million outstanding against this facility. We have certain financial covenants that need to be maintained to stay in compliance with the credit facility that relate to coverage and capitalization ratios. As of December 31, 2000, we were in compliance with these covenants.

NOTE 10: Company-Obligated Preferred Securities

Summarized information regarding our company-obligated preferred securities is as follows:

Dollars in millions	December 31, 2000	1999	Liquidation Value Per Share
UtiliCorp Capital L.P. (UC) 8.875% Cumulative Monthly Preferred Securities, Series A (4,000,000 shares) *(a)*	$100.0	$100.0	$ 25
UtiliCorp Capital Trust I (UCT I) 9.75% Premium Equity Participating Security Units (PEPS Units) (9,999,960 shares at December 31, 2000 and 10,000,000 shares at December 31, 1999) *(b)*	250.0	250.0	25
UtiliCorp Capital Trust II (UCT II) 7.715% Trust Preferred Securities (100,000 shares) *(c)*	100.0	—	1,000
Total company-obligated preferred securities	$450.0	$350.0	
Fair market value of company-obligated preferred securities	$488.7	$317.4	

(a) 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. The sole asset of UC consists of 8.875% UtiliCorp senior deferrable notes due June 12, 2025.

(b) Each PEPS Unit had an issue price of $25 and consists of a contract to purchase shares of our common stock on or prior to November 16, 2002 and a preferred security of UCT I. The sole asset of UCT I consists of 7.35% senior deferrable notes due November 16, 2004 of UtiliCorp. Each purchase contract yields 2.40% per year, paid quarterly, on the $25 stated amount of the PEPS Unit. Each trust preferred security yields 7.35% per year, paid quarterly on the $25 stated amount of the PEPS Unit, until November 16, 2002. Following a remarketing of the trust preferred securities, the yields will be reset at a rate that will be equal to or greater than 7.35%.

(c) The sole asset of UCT II consists of senior deferrable notes due September 30, 2002 of UtiliCorp. Each trust preferred security yields interest adjusted quarterly at three-month LIBOR plus 90 basis points per year. The rate payable at December 31, 2000 was 7.715%. In connection with this financing we also agreed to sell $100 million of UtiliCorp United Inc. common stock or trust preferred securities at prevailing market prices through the financial institution by June 2002. Under certain circumstances, we may elect to extend this time period by an additional 12 months.

NOTE 11: Long-Term Debt

This table summarizes the company's long-term debt:

In millions	December 31, 2000	December 31, 1999
First Mortgage Bonds:		
Various, 9.65%*, due 2001–2021	$ 37.6	$ 17.3
Senior Notes:		
7.634% Floating Rate Series, due May 15, 2002	250.0	—
Aquila Southwest Energy 8.29% Series, due September 15, 2002	25.0	37.5
7.0% Series, due July 15, 2004	250.0	250.0
6.875% Series, due October 1, 2004	150.0	150.0
6.375% Series, due June 1, 2005	—	100.0
9.03% Series, due December 1, 2005	20.2	20.2
6.70% Series, due October 15, 2006	100.0	100.0
8.2% Series, due January 15, 2007	130.0	130.0
7.625% Series, due November 15, 2009	200.0	200.0
10.5% Series, due December 1, 2020	35.7	35.7
8.27% Series, due November 15, 2021	131.8	131.8
9.0% Series, due November 15, 2021	18.2	18.2
8.0% Series, due March 1, 2023	125.0	125.0
Medium Term Notes:		
Various, 7.78%*, due 2005–2023	40.0	—
Secured Debentures of West Kootenay Power:		
8.90%*, due 2001–2023	66.5	69.6
Convertible Subordinated Debentures:		
6.625%, due July 1, 2011 (convertible into 264,083 common shares)	4.2	4.9
Senior Notes of Australia:		
7.04%*, due October 2002	83.8	98.4
Floating Rate Notes of New Zealand, 6.89%, due April 2001	88.8	—
New Zealand Denominated Credit Facility, due June 2002	110.8	456.6
Floating Rate Notes of Australia, 6.98%, due December 2003 *(a)*	44.7	—
Australian Denominated Credit Facilities, due January 2001 and March 2002	114.6	187.0
Canadian Denominated Credit Facilities, due May 2004	290.7	48.5
Capital Leases	4.2	23.4
Other notes and obligations	75.8	41.0
Total Long-Term Debt	2,397.6	2,245.1
Less current maturities	51.7	42.8
Long-term debt, net	$2,345.9	$2,202.3
Fair value of long-term debt, including current maturities *(b)*	$2,455.2	$2,211.6

* *Weighted average interest rate.*

(a) $16.8 million is hedged with an interest rate swap moving the floating rate to a fixed rate of 6.69%.
(b) The fair value of long-term debt is based on current rates at which the company could borrow funds with similar remaining maturities.

All of our Michigan network assets are subject to the lien of a mortgage indenture. We cannot issue mortgage bonds under our General Mortgage Indenture without directly securing certain Senior Notes equally as any mortgage bond issue. Currently we have no plans to issue mortgage bonds.

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

In millions	Maturing Amounts
2001	$ 51.7
2002	532.9
2003	47.8
2004	693.5
2005	68.7
Thereafter	1,003.0
Total	$2,397.6

Debt Refinancing Exchange Offer

In March 1999, approximately $131.8 million of our 9% senior notes were exchanged for 8.27% senior notes and $20.2 million of our 10.5% senior notes were exchanged for 9.03% senior notes.

New Zealand Denominated Credit Facilities

We maintain a $NZ 250 million credit facility with two banks that matures in June 2002. The interest rate on this facility fluctuates with changes in the New Zealand bank bill rate. At December 31, 2000, $NZ 249.6 million was outstanding at a rate of 7.52%. A commitment fee of .40% applies to the unused portion of the credit facility.

Australian Denominated Credit Facilities

We maintained a $A75 million credit facility with a bank that matured in January 2001. The interest rate for this facility fluctuated with changes in the Australia bank bill rate. At

Dollars in millions	2000		1999	1998
	Year Ended December 31,			
Earnings Before Interest and Taxes:				
Networks—				
United States	$180.5	33.5%	$195.1	$217.8
International	158.0	29.2	129.9	111.0
Total Networks	338.5	62.7	325.0	328.8
Energy Merchant	191.1	35.4	79.7	36.8
Services	35.1	6.5	13.2	—
Corporate and other	(24.7)	(4.6)	(3.9)	(14.2)
Total	$540.0	100.0%	$414.0	$351.4

Dollars in millions	2000		1999	1998
	Year Ended December 31,			
Depreciation and Amortization Expense:				
Networks—				
United States	$121.0	53.8%	$115.3	$109.3
International	45.5	20.2	42.2	10.7
Total Networks	166.5	74.0	157.5	120.0
Energy Merchant	48.8	21.7	39.1	29.8
Services	8.3	3.7	—	—
Corporate and other	1.4	.6	(2.9)	.2
Total	$225.0	100.0%	$193.7	$150.0

Dollars in millions	2000		1999
	December 31,		
Identifiable Assets:			
Networks—			
United States	$ 2,768.0	19.7%	$2,042.3
International	2,285.4	16.2	1,792.1
Total Networks	5,053.4	35.9	3,834.4
Energy Merchant	7,798.5	55.2	3,089.1
Services	879.4	6.2	320.6
Corporate and other	384.3	2.7	294.5
Total	$14,115.6	100.0%	$7,538.6

Dollars in millions	2000		1999	1998
	Year Ended December 31,			
Capital Expenditures:				
Networks—				
United States	$145.6	39.6%	$130.2	$101.8
International	24.2	6.6	23.0	12.5
Total Networks	169.8	46.2	153.2	114.3
Energy Merchant	68.4	18.6	61.3	33.8
Services	104.3	28.4	—	—
Corporate and other	24.8	6.8	39.0	48.8
Total	$367.3	100.0%	$253.5	$196.9

B. Geographical Information *(a)*

Dollars in millions	2000		1999	1998
	Year Ended December 31,			
Sales:				
United States	$22,675.2	78.3%	$15,348.5	$10,924.8
Canada	4,357.9	15.0	2,381.8	1,222.4
Other international	1,941.8	6.7	891.2	416.2
Total	$28,974.9	100.0%	$18,621.5	$12,563.4

Dollars in millions	2000		1999
	December 31,		
Long-Lived Assets:			
United States	$2,834.9	77.6%	$2,857.6
Canada	777.2	21.2	224.1
New Zealand	—	—	563.6
Other international	42.8	1.2	19.8
Total	$3,654.9	100.0%	$3,665.1

(a) Canadian sales and long-lived assets include Aquila's Canadian operations and various small Canadian gas marketing companies.

NOTE 17: Mergers, Acquisitions and Divestitures

Empire District Electric Company

On January 2, 2001, we notified The Empire District Electric Company that we were terminating our merger agreement with them. Under the terms of the agreement, either company could terminate the deal if regulatory approvals of the merger were not obtained by December 31, 2000. As of December 31, 2000, the Arkansas Public Service Commission had rejected the merger application and the Kansas Corporation Commission had not acted on our application.

St. Joseph Light & Power Company

Effective December 31, 2000, St. Joseph Light & Power Company (SJL&P) merged with us. Under the agreement, SJL&P shareholders received $23.00 in UtiliCorp common shares for each SJL&P common share held. We issued approximately 6.6 million shares of UtiliCorp common stock with a total value of $190.2 million in connection with this merger. We also assumed short-term debt of $23.6 million and long-term debt of $68.1 million. We accounted for the transaction as a purchase.

Proposed Aquila Stock Offering

In December 2000, we announced our current intention to offer approximately 20% of Aquila's stock to the public in an initial public offering.

GPU International

On December 22, 2000, Aquila purchased GPU International, a company holding interests in six independent U.S.-based generating plants, for $225 million. We accounted for the transaction as a purchase.

AlintaGas

On October 17, 2000, we closed on our $166 million joint acquisition with United Energy Limited of a 45% cornerstone interest in AlintaGas Limited, a gas distribution utility in Western Australia. We funded one-half of the purchase price primarily through short-term borrowings. The remaining 55% of the shares of AlintaGas were sold to the Australian public in a share float on October 17, 2000. UtiliCorp owns approximately 34% of United Energy.

Initial Public Offering—Uecomm Limited

In September 2000, Uecomm Limited (UEC), formerly a wholly owned subsidiary of United Energy Limited, sold 34% of its common stock to the public, reducing United Energy's ownership share of UEC to 66%. As a result, we recorded a $44 million gain in "Equity in Earnings of Investments and Partnerships" from the initial public offering.

TransAlta Assets

On August 31, 2000, we completed our acquisition of TransAlta Corporation's Alberta-based electricity distribution and retail assets for approximately $480 million. We operate this business as UtiliCorp Networks Canada (Alberta) Ltd. On November 28, 2000, we sold the retail assets to EPCOR, an Edmonton-based utility, for approximately $75 million.

Pulse Energy

On June 30, 2000, United Energy and Energy Partnership (Ikon Energy Pty Ltd) closed a transaction that resulted in the formation of Pulse Energy, a joint venture with Shell Australia Ltd and Woodside Energy Ltd. United Energy contributed its electric retail customers in exchange for $210 million and Ikon contributed its gas retail customers in exchange for $281 million. United Energy and Ikon each loaned Pulse $70 million, and hold a combined 50% ownership of Pulse.

Sale of Retail Marketing

In January 2000, we sold our retail gas marketing business for $14 million.

Sale of West Virginia Power Division

On September 9, 1999, we agreed to sell our West Virginia Power division to Allegheny Energy, Inc. for $75 million. The sale closed on December 31, 1999 and resulted in a 1999 fourth quarter gain of $4.5 million. In addition to the sale of West Virginia Power's electric and natural gas distribution assets, we entered into a separate agreement for Allegheny to purchase Appalachian Electric Heating, our heating and air conditioning service business in West Virginia.

Aquila Gas Pipeline Tender Offer

On May 7, 1999, approximately 3.4 million shares of Aquila Gas Pipeline Corporation (AQP) were tendered to us at $8.00. The 3.4 million shares together with the 24.0 million shares already held represented 93% of AQP's total shares outstanding. All remaining shares not tendered were converted in a "short-form" merger into a right to receive $8.00 per share. Upon completion of the short-form merger on May 14, 1999, AQP ceased being a publicly traded company and became wholly owned by Aquila, Inc.

Multinet/Ikon

In March 1999, we acquired a 25.5% equity interest in two Melbourne-area gas businesses, the Multinet gas distribution utility and the Ikon Energy gas retail sales business, for $224 million. These investments are accounted for under the equity method.

Natural Gas Storage Facility

On March 29, 1999, we agreed to purchase Western Gas Resources Storage Inc. The $100 million cash transaction increased our ownership and control of strategically located natural gas storage assets. The 2,400-acre subsurface facility in Katy, Texas has a storage capacity of 20 billion cubic feet. The purchase closed on May 3, 1999.

Interest in New Zealand Electric Utilities

Through a series of transactions in 1998, we acquired an additional 48% of Power New Zealand's common stock for approximately $245 million, increasing our ownership to 78.6%. Concurrent with this acquisition, we sold our 39.6% interest in New Zealand's WEL Energy Group, which we acquired throughout 1995, 1996 and 1997, and bought out the 21% minority shareholder in our New Zealand subsidiary, UtiliCorp N.Z., Inc.

New Zealand's Electricity Industry Reform Act of 1998 required all the country's utilities to separate ownership of their lines (network) and supply (generation and retail) businesses. Power New Zealand, with approximately 90% of its assets and earnings in the lines area, in November 1998 announced its intention to remain in the network business and to exit the supply business. It also agreed to purchase the Wellington-based lines assets of TransAlta New Zealand Ltd. and to sell to TransAlta its retail electricity business serving the Auckland area for a net expenditure by Power New Zealand of $238 million.

Because Power New Zealand's name transferred to TransAlta as part of the retail business TransAlta acquired, the network business became UnitedNetworks Limited on January 1, 1999.

In November 1998, Power New Zealand agreed to purchase the electric line assets of neighboring power company TrustPower Limited for approximately $261 million. The assets became part of a greater network, which includes parts of metropolitan Auckland and other areas in the central and southern regions of New Zealand's North Island. The TrustPower transaction closed in January 1999. Completion of the TransAlta and TrustPower transactions created the country's largest electricity distribution network.

On March 22, 2000, we expanded our presence in the New Zealand energy market by announcing an agreement to purchase the natural gas distribution network and North Island contracting business of Orion New Zealand Limited for about $274 million. The transaction had an effective date of April 1, 2000.

On June 30, 2000, we sold a portion of our New Zealand investment to a private equity investor (minority shareholder) that reduced our effective ownership in UnitedNetworks to about 62%. In connection with the transaction we granted the minority shareholder participation and protective rights and therefore no longer consolidate our New Zealand operations for financial statement purposes.

Initial Public Offering—United Energy Limited

In May 1998, United Energy Limited (UEL) sold 42% of its common stock to the Australian public. As a result, we recorded a $45.3 million gain. The partial sale to the public reduced our effective ownership of UEL to 29%.

Concurrent with UEL's stock offering, we bought an additional 5% in UEL from another company to bring our ownership to 34%. The management agreement between UEL and UtiliCorp remains in place.

Pro Forma Operating Results

The following reflects our results for the three years ended December 31, 2000, assuming significant acquisitions during the year ended December 31, 2000 occurred as of the beginning of each of the respective periods:

	(Unaudited) Year Ended December 31,		
Dollars in millions, except per share	2000	1999	1998
Sales	$29,418.2	$19,206.0	$13,143.4
Net income	243.1	185.9	160.2
Diluted earnings per common share	$2.42	$1.88	$1.83

The pro forma results of operations are not necessarily indicative of the actual results that would have been obtained had we made the acquisitions at the beginning of the respective periods, or of results which may occur in the future. The 2000 pro forma operating results include certain unusually large mark-to-market gains. The pro forma operating results do not include adjustments for synergies or other adjustments to the business operations.

NOTE 18: Quarterly Financial Data (Unaudited)

Financial results for interim periods do not necessarily indicate trends for any 12-month period. Quarterly results can be affected by the timing of acquisitions, the effect of weather on sales, and other factors typical of utility operations and energy related businesses.

	2000 Quarters				1999 Quarters			
In millions, except per share	First	Second	Third	Fourth	First	Second	Third	Fourth
Sales	$4,749.7	$5,770.9	$8,085.5	$10,368.8	$3,801.0	$3,970.1	$6,464.2	$4,386.2
Gross profit	317.9	323.2	267.8	519.8	282.9	273.0	289.1	311.8
Net income	54.4	29.3	74.9	48.2	51.9	24.8	42.5	41.3
Earnings per common share:*								
Basic	$.59	$.32	$.80	$.51	$.57	$.27	$.46	$.45
Diluted	.59	.31	.80	.50	.57	.27	.46	.45
Cash dividend per common share	$.30	$.30	$.30	$.30	$.30	$.30	$.30	$.30
Market price per common share:								
High	$20.06	$21.88	$28.50	$31.31	$23.58	$25.13	$24.56	$22.00
Low	15.19	17.31	19.88	23.94	22.44	22.63	21.00	19.00

** The sum of the quarterly earnings per share amounts may differ from that reflected in Note 1 due to the weighting of common shares outstanding during each of the respective periods.*

Electronic Proxy Voting

There are several ways to cast your proxy vote. Each proxy card contains instructions and a personal security number to allow you to vote over the telephone or via the Internet.

You may vote by telephone using a toll-free number. Just follow the voice prompts to vote on each issue shown on the proxy card. This takes only minutes. You may also vote online by accessing our secure UtiliCorp shareholder voting site. The web address and instructions are shown on your 2001 proxy card.

When you vote online, you can also sign up to receive all future proxy materials, annual meeting notices and annual reports electronically. When doing this, you will be prompted to supply your e-mail address.

Online Account Access

You can review your UtiliCorp stock account over the Internet, using your personal identification number (PIN). To access your account, log on to **www.equiserve.com** and choose the Account Access menu. Then use the account number shown on your statement. We provide your PIN on your June account statement each year. You may also request a new PIN at www.equiserve.com under Account Access, or by calling **1-800-UTILICO** (884-5426).

This service allows you to check the current share price and total value of your account, obtain certificates for your shares, enter requests to sell shares, or request investment plan information. It is available 24 hours a day.

Shareholder Information Line

Our current stock price, news releases and other UtiliCorp information are accessible by dialing a toll-free number—**1-888-UCU-2000**. By following the voice prompts, you can also get information about our shareholder services and transfer agent.

Corporate Leadership

		Age / Year Joined Company
Richard C. Green, Jr.	Chairman of the Board and Chief Executive Officer	46 / 1976
Robert K. Green	President and Chief Operating Officer; Chairman, Aquila, Inc.	39 / 1988
James G. Miller	Senior Vice President; Chief Executive Officer, U.S. Utility	52 / 1983
Keith Stamm	Chief Executive Officer, Aquila, Inc.	40 / 1983
Ed Mills	President and Chief Operating Officer, Aquila, Inc.	41 / 1993
Jon R. Empson	Senior Vice President, Regulatory, Legislative and Environmental Services	55 / 1978
Peter Lowe	Senior Vice President and Chief Financial Officer	48 / 1999
Sally C. McElwreath	Senior Vice President, Corporate Communications	60 / 1994
Leo E. Morton	Senior Vice President and Chief Administrative Officer	55 / 1994
Leslie J. Parrette, Jr.	Senior Vice President and General Counsel	39 / 2000
C. E. Payne, Jr.	Senior Vice President and Chief Risk Officer	50 / 1995
R. Paul Perkins	Senior Vice President, Corporate Development	58 / 1994
Dale J. Wolf	Vice President, Finance and Corporate Secretary	61 / 1962
International		
Donald G. Bacon	Chief Executive Officer, United Energy Limited; Chairman, West Kootenay Power	63 / 1993
Robert B. Browning	Chief Executive Officer, AlintaGas Limited	46 / 1993
Robert W. Holzwarth	President and Chief Executive Officer, UtiliCorp Networks Canada	53 / 1993
Dan W. Warnock	Chief Executive Officer, UnitedNetworks Limited	41 / 1988

UtiliCorp United Inc. (ticker: UCU, exchange: New York Stock Exchange) News Release - February 8, 2000

UtiliCorp Sales Increased Nearly 50% in 1999, to Record $18.6 Billion; Company Reports Third Straight Year of 8% Earnings Growth

KANSAS CITY, Mo.--(BUSINESS WIRE)--Feb. 8, 2000-- UtiliCorp Sales Increased Nearly 50% in 1999, to Record $18.6 Billion; Company Reports Third Straight Year of 8% Earnings Growth

Fueled by record sales and strong growth in international network operations, UtiliCorp United (NYSE:UCU) today reported record financial results for 1999. Earnings available for common shares were $160.5 million, up 21 percent from $132.2 million in 1998. Earnings per diluted share were $1.75, up 8 percent from the normalized $1.62 in the prior year. Primarily due to strong gas and power marketing and trading volumes, sales in 1999 reached a record $18.6 billion --almost 50 percent higher than the $12.6 billion record posted in 1998.

"By continuing to focus on ways to create additional value with our two core businesses--electric and gas networks and energy merchant activities--we delivered again on our promise of 8 percent growth in earnings per share," said Richard C. Green, Jr., chairman and chief executive officer. "With three years of 8 percent growth under our belts, the market should now begin to recognize our long-term commitment to growth."

"A major factor in our 1999 success was the 97 percent increase in the contribution to earnings before interest and taxes (EBIT) from our international network businesses. Results also benefited from a major improvement in the price of natural gas liquids, a better year in the gas marketing and trading business, and the results of our investment in Quanta Services, Inc." (NYSE: PWR).

"Our global network business continues to be a solid foundation," said Robert K. Green, UtiliCorp's president and chief operating officer, "contributing 79 percent of 1999 EBIT. We will continue looking for expansion opportunities in the deregulating global energy market to leverage our core competencies the way we did by investing in Quanta, which contributed 3 percent of EBIT in 1999." That contribution is expected to at least double this year, he said.

Average diluted common shares outstanding in 1999 were approximately 92.1 million versus 81.2 million in 1998. A common stock offering of 13 million shares was completed in December 1998.

The following discussion of results by segment is based on earnings before interest and taxes (EBIT):

Networks

United States - EBIT for the U.S. Networks segment was $195.2 million in 1999 compared to $220.3 million in 1998. Weather was not a major factor for these operations, primarily due to an effective weather hedging strategy. UtiliCorp continued to see steady growth in customers and energy use, but these were more than offset by increased costs of purchased power, fewer opportunities to sell power off-system, costs related to continued investment in technology infrastructure, and the first full-year impact of the 1998 Missouri rate reduction. A peaking unit in Missouri went out of service during a period of record demand in July 1999 due to an explosion.

Australia - EBIT from Australia was $28.1 million, an increase of $5.7 million over 1998, mainly the result of strong contributions from non-regulated businesses, improved results from the integration of our purchase of Multinet/Ikon and changes in Australian tax rates. These improvements were offset somewhat by lower gas margins stemming from the warmest winter on record since 1855.

New Zealand - EBIT from New Zealand was $80.9 million, up $59.5 million compared to 1998. Most of this increase resulted from the acquisition of two additional network operations in late 1998 and early 1999 and the successful integration of those properties. Also, UtiliCorp increased its investment in New Zealand by more than $700 million since late 1998 and now holds a 79 percent interest in UnitedNetworks Limited, New Zealand's largest electric distribution system. In 1998 it held only a 35 percent interest in a much smaller business.

Schedule 2-1

Canada - EBIT in 1999 was $20.9 million compared to $22 million in

1998. The decrease is primarily due to higher purchased power costs.

The British Columbia Utilities Commission approved the company's 2000

Revenue Requirements Application, which means a 4.9 percent rate increase effective January 1, 2000. Combined with projected residential growth, the rate increase should improve UtiliCorp's Canadian utility earnings.

Energy Merchant

North America Energy Assets - EBIT from Energy Assets was $67.2 million in 1999, up $17.7 million compared to 1998. Increased throughput volumes, strong natural gas liquids prices and the sale of an ownership interest in an independent power project contributed to this 36 percent increase in EBIT.

Late in the first quarter of 1999, a restructuring plan was implemented by Aquila Gas Pipeline Corporation (AQP) which decreased operating expenses for the remainder of the year. In May 1999, Aquila acquired the remaining 18 percent interest in AQP that it did not already own and AQP ceased trading as a public company.

North America Marketing and Trading - EBIT from Marketing and Trading was $14.2 million, up $2.4 million from 1998. These results include improved results in gas marketing and strong initial results from structured finance transactions. These were partially offset by lower results from marketing of power and hydrocarbons and approximately $4.7 million in costs associated with moving Aquila's trading operations to downtown Kansas City. Also included in these results was a $19.8 million loss related to Aquila's retail business, which was sold in January 2000. That business showed a loss of $6.4 million in 1998.

Europe - During 1999 Aquila established a marketing and trading presence in Spain, Norway and Germany. Within each region, these new locations allow the company to offer energy-related and risk management services to industrial and commercial end users and segments of the energy industry. EBIT for 1999 increased $2.1 million over 1998 EBIT of $6.2 million for a total contribution of $8.3 million, despite start-up costs associated with each of the new European offices.

Services

This new business segment is comprised of UtiliCorp's ownership of approximately 28 percent of the voting stock of Quanta Services, Inc. Quanta is the largest specialty services firm serving the construction and maintenance needs of the utility, telecommunications and cable television industries. It was formed in 1998 by combining four services companies, and since then has been expanding rapidly by acquiring other firms that extend its specialized capabilities and market reach.

Quanta is due to release its 1999 audited financial results later this month. Preliminary review indicates that successful integration of its acquisitions has helped the company continue shifting its revenue mix and enhancing operating margins. Results were further boosted by favorable weather conditions during the fourth quarter, which enabled Quanta to complete more work than expected .

In September 1999, UtiliCorp entered into a strategic alliance with Quanta. At that time the company made a $186 million investment in Quanta's preferred stock that is convertible into common stock at $30 per share. UtiliCorp also purchased shares of Quanta's common stock on the open market and in privately negotiated transactions. In 1999, EBIT from the Quanta investment was $13.2 million, derived from advisory and management fees Quanta paid to UtiliCorp and UtiliCorp's equity in Quanta's earnings since making the investment.

Based in Kansas City, UtiliCorp United is an international electric and gas company with energy

 Schedule 2-2

customers and operations across the U.S. and in Canada, the United Kingdom, New Zealand, and Australia. Its Aquila Energy subsidiary is ranked the second-largest wholesaler of electricity and third-largest wholesaler of natural gas in North America. Aquila also provides wholesale energy services in the U.K. and in 1999 established a presence in Scandinavia, Germany and Spain. Additional information is available on the World Wide Web at www.utilicorp.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding UtiliCorp United Inc.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties and could cause actual results to differ from those contained in the forward-looking statements.

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UTILICORP UNITED INC.

Earnings Before Interest and Taxes (EBIT)

In millions except per share	Year Ended December 31, 1999	1998	Favorable (Unfavorable)
Networks:			
United States	$195.2	$220.3	$(25.1)
Australia	28.1	22.4	5.7
New Zealand	80.9	21.4	59.5
Canada	20.9	22.0	(1.1)
Total Networks	325.1	286.1	39.0
Energy Merchant:			
Energy Assets	67.2	49.5	17.7
Marketing and Trading	14.2	11.8	2.4
Europe	8.3	6.2	2.1
Total Energy Merchant	89.7	67.5	22.2
Services	13.2	--	13.2
Corporate and Other	(14.0)	(6.4)	(7.6)
Normalized EBIT	414.0	347.2	66.8
Normalizing Items, Net	--	4.2	(4.2)
EBIT As Reported	$414.0	$351.4	$62.6
Diluted EPS, As Reported	$1.75	$1.63	$.12
Normalizing Items, Net	--	(.01)	.01
Diluted EPS, Normalized	$1.75	$1.62	$.13

UTILICORP UNITED INC.

Consolidated Condensed Statements of Income
(As Reported, Prior to Normalizing Items)

3 Months Ended Year Ended

Dec. 31, Dec. 31,

In millions except per share	1999	1998	1999	1998
Sales	$4,386.1	$ 3,294.0	$18,621.5	$12,563.4
Cost of sales	4,074.5	3,038.4	17,464.7	11,596.0
Gross profit	311.6	255.6	1,156.8	967.4
Equity in earnings of investments	34.9	17.8	69.5	125.1
Operating expenses	(251.9)	(175.7)	(829.0)	(758.6)
Other income (expense)	7.6	(6.9)	16.7	17.5
EBIT	102.2	90.8	414.0	351.4
Interest expense	51.0	26.1	185.3	132.6
Income taxes	9.8	27.7	68.2	86.6
Earnings Available for Common Shares	41.4	37.0	160.5	132.2
Weighted Average Shares Outstanding - Diluted	92.4	82.2	92.1	81.2
Earnings Per Share:				
Diluted EPS - As reported	$.45	$.45	$1.75	$1.63
Diluted EPS - Normalized	$.45	$.45	$1.75	$1.62

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Pooling of Interests: Alterations of Equity Interests (47c) and Asset Dispositions (48c)

OVERVIEW

As stated in paragraphs 45 and 46 of Accounting Principles Board Opinion No. 16, *Business Combinations* ("APB 16"), two underlying concepts of the pooling of interests method are that:

> "The pooling of interests method of accounting is intended to present as a single interest two or more common stockholder interests which were previously independent and the combined rights and risks represented by those interests. That method shows that stockholder groups neither withdraw nor invest assets but in effect exchange voting common stock in a ratio that determines their respective interests in the combined corporation."

> "Certain attributes of combining companies indicate that independent ownership interests are combined in their entirety to continue previously separate operations. Combining virtually all of existing common stock interests avoids combining only selected assets, operations, or ownership interests, any of which is more akin to disposing of and acquiring interests than to sharing risks and rights."

Alterations of Equity Interests Paragraph 47(c) of APB 16 prohibits a combining company from altering the equity interests of its shareholders "in contemplation" of effecting the proposed business combination to be accounted for as a pooling of interests. Transactions that may constitute an alteration of equity interests that would preclude pooling of interests accounting include (but are not limited to): changes in voting rights or other rights of outstanding stock; issuance of bonus shares of stock to employees; new stock option grants; changes in the original terms of stock option or stock award plans; changes in terms of outstanding warrants, options, and convertible securities; exchanges of equity securities; unusual dividends or distributions to stockholders; and spin-offs to stockholders. By analogy, Accounting Principles Board – Accounting Interpretations Nos. 19 and 20 of APB 16 ("AIN–APB 16, #19 and #20") indicate a presumption that any alteration of equity interests within two years of initiation of a business combination or between initiation and consummation is in contemplation of effecting the business combination, and so would preclude accounting for the proposed business combination as a pooling of interests.[1] This presumption can be overcome provided there is sufficient, persuasive, and objectively verifiable evidence indicating that the alteration of equity interests was not done in contemplation of the proposed business combination. In general, the nearer the date at which the alteration of equity interests occurs to the initiation and consummation of a merger, the more sufficient, persuasive, and objectively verifiable the evidence must be. Transactions occurring between the dates of initiation and

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consummation require particularly strong evidence.

Asset Dispositions Certain types of transactions included in the negotiations and terms of the business combination, either explicitly or implicitly, are contrary to the conceptual underpinnings of the pooling of interests method. For example, either the plan or the intent at consummation to dispose of a significant amount of assets within two years following consummation (except for disposals in the ordinary course of business, to eliminate duplicate facilities or pursuant to governmental orders) violates paragraph 48(c) of APB 16. Furthermore, AIN–APB 16, #22 refers to "prior or planned" disposals, which the SEC staff has generally interpreted to extend the provisions of paragraph 48(c) to preconsummation disposals as well. That is, disposals of a significant amount of assets prior to the consummation of a merger that were planned as part of the merger would preclude pooling treatment just as would dispositions of significant assets that are planned to occur within two years following consummation.

The determination of whether the presumption that a transaction involving a company's equity interests was undertaken "in contemplation" has been overcome or that a disposal of assets "was planned or intended as part of the combination" involves a careful analysis of the surrounding facts and circumstances. All available evidence, both positive and negative, must be considered in evaluating these issues.

Generally accepted auditing standards provide a framework for how to evaluate the sufficiency, persuasiveness, and verifiability of evidential matter in Statement on Auditing Standards No. 31, *Evidential Matter* (SAS 31/AU 326). For purposes of evaluating the sufficiency, persuasiveness, and verifiability of evidence needed to overcome the prohibitions in paragraphs 47(c) and 48(c) of APB 16, the same guiding principles should be applied. Those guiding principles include:

- Competent evidence is that which is both valid and relevant to the question, which is sometimes indicated by the degree of detail and analysis which supports the assertion.
- Evidence from an independent source outside the entity provides greater assurance than internally developed information.
- Data supported by objectively verifiable documentation is of greater value than data derived from subjective sources or oral representations.
- Relevant and persuasive evidence needs to demonstrate that a decision had taken place, rather than merely indicating or being suggestive of the general intentions of the entity. The entity must be able to objectively demonstrate that it is committed to the decision, independent of whether the plan of combination is carried out.
- Evidence is more persuasive when items from different sources or of a different nature are consistent and corroborate assertions.
- Evidence is more persuasive when it is prepared contemporaneously rather than after the fact.

PARAGRAPH 47(C) – ALTERATIONS OF EQUITY INTERESTS

Audit evidence which seeks to overcome the presumption in paragraph 47(c) of APB 16 by its nature may in some cases only be persuasive rather than conclusive. Accordingly, registrants and their independent accountants will need to continue to apply judgment to

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each situation on a case-by-case basis. Registrants and their independent accountants should consider the cumulative effect of the various types of evidence to determine if the total of all evidence considered, both positive and negative, results in sufficient, persuasive and objectively verifiable evidence to overcome the presumption in paragraph 47(c) of APB 16.

The following examples are intended to illustrate circumstances in which sufficient, persuasive, and objectively verifiable evidence did or did not exist such that the presumption in paragraph 47(c) of APB 16 was or was not overcome. The examples presented are not intended to be an all-inclusive list of determinative factors, but rather to illustrate a general framework for evaluating the quality of evidence available for any alteration of equity interests which may be "in contemplation" of a specific pooling of interests business combination.

Example 1:

Facts: Company A announced a plan to merge with Company B on February 1, 1997 (i.e., initiation date) that was consummated on April 1, 1997. Merger discussions between the parties began on December 1, 1996 as a result of an approach by Company A. On March 1, 1997, in connection with its annual compensation cycle, Company B granted stock options to its directors, officers, and other employees. Company B's compensation cycle has been in place for more than two years (i.e., pre-March 1995), and the terms, amounts, timing, and categories/classes of recipients of the stock options granted in March 1997 are consistent with annual grants made in prior years. The amounts granted to each recipient are based upon specific performance factors, consistently applied.

Question: Does Company B's granting of stock options to its directors, officers, and other employees in March 1997, preclude the merger from being accounted for under the pooling-of-interests method?

Response: No. While the annual granting of stock options to directors, officers, and other employees in March 1997 was subsequent to the commencement of merger discussions, Company B had an established history of granting stock options every March for the past several years (i.e., more than two). Furthermore, the annual grants on March 1, 1997, were consistent with prior years' annual grants with regard to terms, amounts, and timing for each category/class of recipients. Therefore, absent any other evidence indicating Company B acted in anticipation of the merger with Company A (e.g., it was documented in previous board of directors minutes of Company B that the March 1, 1997 annual grant of stock options was to be reduced from the level of prior years due to a poor current year operating performance; however, in anticipation of the pending merger with Company A, the level of grants was restored to that of prior years) there is sufficient, persuasive, and objectively verifiable evidence to overcome the presumption that Company B's annual granting of stock options on March 1, 1997, was done in contemplation of the proposed merger with Company A.

Whether a company initiates a transaction, and whether it is an issuing or combining company in a pooling of interests transaction, is not the determinative factor in this analysis. A company that has established a historical pattern of granting stock options (e.g., terms, amounts, frequency and timing, and category/class of recipients) for a period

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of at least two years prior to the grant occurring after merger discussions have commenced, absent evidence to the contrary indicating that the grant was in anticipation of the merger, would be able to overcome the presumption that the post-merger-discussions grants were done in contemplation of the proposed merger.

Example 2:

Facts: October 1, 1995 – Company C engages a third-party benefits consultant to evaluate the company's director, officer, and other employee compensation programs and make recommendations where appropriate.

December 31, 1995 – The benefits consultant issues its report to Company C's board of directors, recommending changes in Company C's compensation programs. Those recommendations include the adoption of a stock option program with 5-year cliff vesting and acceleration of vesting in the event of a change in control.[2] The consultant's report does not recommend ranges of stock option grants for each category or class of director, officer, or other employee, nor does it specify frequency or timing of option grants. The board instructs management to develop a plan to implement the consultant's recommendations.

March 31, 1996 – Company C's shareholders approve the adoption of a stock option plan developed by management that is consistent with the third-party benefits consultant report. Following the approval, the board of directors made initial grants of stock options to directors, officers, and other employees.

December 31, 1996 – Company C initiates merger discussions with Company D.

February 1, 1997 – Company D announces the signing of a merger agreement with Company C.

March 31, 1997 – Company C makes a second annual grant of stock options to its directors, officers, and other employees. This grant is consistent with the grant made in March 1996 as regards to terms, amounts, frequency and timing, and categories/classes of recipients.

April 15, 1997 – Company C and Company D consummate their merger.

Question: Does Company C's granting of stock options to its directors, officers, and other employees in March 1997, preclude the merger from being accounted for under the pooling-of-interests method?

Response: Yes. It is difficult to conclude that an established history of annually granting stock options exists (and thus overcomes the "in contemplation" presumption) when fewer than two annual grants have been made. There may be limited facts and circumstances in which other substantial compelling evidence might exist to overcome the lack of history and the "in-contemplation" presumption. However, in the above fact pattern, the benefit consultant's report lacked specificity as to ranges of option grants and did not address the frequency or timing of grants. Therefore, the report is not persuasive in overcoming the presumption that the March 1997 stock option grant is an alteration of

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equity interests in contemplation of the merger with Company D and, thus, violates paragraph 47(c) of APB 16.

Notwithstanding the actual annual timing of the second grant of awards under this stock option plan, there is no evidence predating the merger discussions that indicates a plan to make grants on an annual basis. Had Company C made public disclosure or otherwise documented its intention to make annual stock option grants at or about the time of its initial grants in March 1996, a different conclusion may have been reached with respect to the March 1997 grants. Further, if the March 1997 grants were not made because of the pending merger, the facts outlined above would likely be sufficient to overcome the presumption that the March 1996 grants were made in contemplation of the pending merger. However, all available evidential matter would have to be considered.

<u>Example 3:</u>

Facts: Assume the same facts as in Example 2 above, except that:

a) In March 1996, Company C instructs a previously engaged investment banker to begin "shopping" Company C to a list of potential merger partners (which includes Company D) that Company C and the investment banker had compiled prior to March 1996, and
b) On September 30, 1996 the investment banker and Company C evaluate a number of "expressions of interest," thus reducing the list of potential merger partners to a select few, and
c) On December 31, 1996 Company C initiates merger discussions with Company D, one of the companies on the "short list."

Question: Do these additional factors impact the answer given in the Response to Example 2 above with respect to the March 1996 grants?

Response: The added factors (a) through (c) raise a substantial amount of additional concern regarding the ability of Company C to convincingly separate the decision to grant the March 1996 stock options from the decision to pursue a merger with Company D.

<u>Example 4:</u>

Facts: May 15, 1996 – Company E engages an independent, third-party benefits consultant to evaluate the company's various compensation programs and to make recommendations where appropriate.

September 15, 1996 – The benefits consultant presents its report to Company E's board of directors, and recommends adoption of a stock option plan. The report also specifies recommended ranges of initial stock option grants for each category or class of director, officer, and other employee, as well as terms, amounts, and the frequency and timing of additional option grants. The board instructs management to begin developing a stock option plan consistent with the consultant's recommendations.

Prior to November 15, 1996 – Management develops and documents clearly a detailed plan as well as the initial grant recommendations which are consistent with the consultant's recommendations, especially insofar as they relate to the specificity of the

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grants (e.g., specifies category/class of recipients, terms, amounts, frequency, etc.).

November 15, 1996 – The board of directors decides to recommend to the shareholders adoption of an option plan and endorses management's recommended detailed plan subject to the shareholders' approval of the adoption of a stock option plan. Proxies are mailed to shareholders seeking their approval for the adoption of the stock option plan at a shareholders meeting, which is to be held December 15, 1996.

December 1, 1996 – Company F contacts Company E regarding a potential merger of the two companies. Merger discussions commence.

December 15, 1996 – Company E's shareholders approve the adoption of a stock option plan for directors, officers, and other employees.

January 15, 1997 – Company E's board of directors, based on management's detailed plan, grants stock options to specific individuals. The initial grants are consistent with the benefit consultant's and management's recommendations that were developed prior to November 15, 1996.

February 1, 1997 – Company F announces the signing of a merger agreement with Company E.

April 15, 1997 – Company E and Company F consummate their merger.

Question: Does Company E's grant of stock options to its directors, officers, and other employees in January 1997, preclude the merger from being accounted for under the pooling of interests method?

Response: It is difficult to overcome the presumption that a grant of stock options shortly before the date the merger is initiated was not in contemplation of the business combination without an established history of granting stock options. However, all available evidential matter should be considered. In the above fact pattern this available evidential matter includes:

1. Company E received a compensation study from a third-party benefits consultant on September 15, 1996 which specified recommended ranges of annual stock option grants encompassing terms, amounts, and the frequency and timing of grants for each category or class of directors, officers, and other employees.[3]
2. The stock option plan approved by the board of directors and the detailed plan and initial grant recommendations developed by management prior to the date merger discussions commenced with Company F were consistent with the benefits consultant's recommendations.[4]
3. The minutes and related materials from the November 15, 1996 board meeting document clearly the specificity of the stock option plan, management's detailed plan and initial grant recommendations (encompassing terms, amounts, and the frequency and timing of grants for each category or class of directors, officers, and other employees), and the Board's commitment to the course of action.

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4. Proxy solicitations seeking shareholder approval for the adoption of a stock option plan were distributed prior to the date Company F contacted Company E regarding a potential merger of the two companies.
5. The stock options ultimately granted were consistent with both the benefit consultant's and management's recommendations.
6. There is no evidence to indicate that Company F's contact with Company E on December 1, 1996 was initiated or solicited by Company E or by any party acting or appearing to act on Company E's behalf.

Absent any additional evidence that would contradict the above, there is sufficient, persuasive, and objectively verifiable evidence present in this example to overcome the presumption that the decision to alter the equity interests through the granting of stock options in January 1997 was made in contemplation of effecting the merger with Company F. Accordingly, even though the options were actually granted shortly before initiation of the merger, pooling of interests accounting for the merger of Company E and Company F would be appropriate, assuming all other pooling criteria had been met.

PARAGRAPH 48(C) – "SIGNIFICANT" ASSET DISPOSALS

While a plan to dispose of assets, either pre- or post-consummation, may be developed as part of a specific business combination, only plans to dispose of a "significant" amount of assets developed as part of the business combination violate paragraph 48(c) of APB 16. In general, the SEC staff has indicated the following factors should be considered in evaluating the significance of either a pre-consummation or a post-consummation asset disposition under paragraph 48(c) of APB 16:

a. The total assets to be disposed of relative to the total assets of the combining company disposing of the assets, on both a book value and a fair value basis.
b. The revenues of the operation to be disposed of relative to the revenues of the combining company.
c. The income/(loss) from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principle of the operation to be disposed of relative to the income/(loss) from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principle of the combining company.[5]
d. The gain or loss[6] to be recognized on the sale of the operation to be disposed of relative to the income/(loss) from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principle of the combining company.

The disposal would be considered "significant" if any one of the above measurements was in excess of 10 percent. If the disposal is determined to be significant, then the plan to dispose of assets is considered to be a plan to dispose of a significant amount of assets for purposes of assessing compliance with paragraph 48(c) of APB 16.

The following examples are intended to illustrate circumstances in which sufficient, persuasive, and objectively verifiable evidence did or did not exist to support the conclusion that a plan to dispose of a "significant" amount of assets was not developed as

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part of the plan to merge. The examples presented are not intended to be an all-inclusive list of determinative factors, but rather to illustrate a general framework for evaluating the quality of evidence available for any asset disposition which may be considered to have been done as part of a specific pooling of interests business combination. For purposes of illustration, it is assumed that each of the asset disposals in the examples is "significant."

Example 5:

Facts: Company A announced a plan to merge with Company B on February 1, 1997 that was consummated on April 1, 1997. Merger discussions between the parties commenced on December 1, 1996 as a result of an approach by Company A. As of June 30, 1996, Company B met the criteria of FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS 121") for the long-lived assets of Sub S to be accounted for as assets held for disposal. In addition, Company B has made the disclosures required by SFAS 121 in all consolidated financial statements prepared since June 30, 1996. Those disclosures included a statement that the disposal would be either by outright sale of Sub S or by its IPO, and that Company B was actively pursuing both plans. On February 2, 1997 Company B signed a contract to sell Sub S to an unrelated party for cash, closing the sale on March 1, 1997.

Question: Does the disposal of Sub S shortly before consummation of the merger preclude the merger from being accounted for under the pooling of interests method?

Response: No. Company B's assertion that its decision and intent to dispose of Sub S are unrelated to its planned business combination with Company A is supported by:

1. The accounting for and disclosure of Sub S's long-lived assets as held for disposal in accordance with SFAS 121 at June 30, 1996[7], well before merger discussions commenced with Company A, and
2. Company B's active pursuit of plans to dispose of Sub S either by sale or IPO.

Therefore, absent any additional evidence to the contrary, there is sufficient, persuasive, and objectively verifiable evidence to support the conclusion that Company B's plan to dispose of Sub S was not developed in anticipation of its plans to merge with Company A. That is, there is evidence supporting the assertion that the disposition of assets would have occurred independent of whether or not the proposed business combination was consummated.

Example 6:

Facts: December 15, 1996 – Management and the board of directors of Company A develop a strategic plan to "maximize the benefit" of its mortgage-servicing division. The objective of the plan is to improve the marketability of the mortgage-servicing division in preparation for disposal of the division. The plan is clearly documented and detailed, setting forth four primary initiatives: (1) discontinuing bulk purchases of new servicing, (2) selling all new loans originated by Company A with servicing released, (3) improving servicing portfolio delinquency rates by selling off delinquent loan servicing, and (4) improving portfolio marketability by repurchasing or terminating outstanding sub-servicing agreements. The plan, culminating in the sale of the division, is scheduled to be completed by December 1998.

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Over the next year Company A actively pursues and consistently executes on the above plan, with the only exception being that they have not yet started to search actively for a buyer for the division. Company A makes no public disclosures regarding its plans or intentions for the mortgage-servicing division on the basis that such disclosures are not material.[8]

November 1997 – Company A is approached by and enters into negotiations with Company B for the sale of its mortgage-servicing division.

February 25, 1998 – Company A and Company B agree on a tentative sales price range for the division, subject to mutually agreeable terms, conditions, and due diligence, which commences shortly thereafter.

April 5, 1998 – Company C contacts Company A regarding a potential merger of the two companies. Merger discussions commence.

June 15, 1998 – Company C announces the signing of a merger agreement with Company A.

June 20, 1998 – Company A and Company B agree to terms and conditions for the sale of the mortgage-servicing division at a sales price consistent with the sales price range tentatively agreed to on February 25, 1998, close the sale, and Company A announces the sale of the division.

July 15, 1998 – Company A and Company C consummate their merger.

Question: Does the disposal of the mortgage-servicing division shortly before consummation of the merger preclude accounting for the merger under the pooling of interests method?

Response: No. However, evidence is needed to support the conclusion that the disposal was undertaken for reasons unrelated to the merger with Company C. While accounting and disclosures in accordance with either APB 30 or SFAS 121 prior to the date merger discussions commence provide persuasive evidence in that regard, other circumstances may exist in which there is sufficient, persuasive and objectively verifiable evidence to conclude that the disposal was undertaken for reasons unrelated to the merger and therefore does not violate paragraph 48(c) of APB 16.

In the above facts and circumstances, negative evidence includes the fact that Company A had made no public disclosures of its plans or intentions prior to June 1998 relative to the mortgage-servicing division. As for positive evidence, however:

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1. Company A implemented a strategic plan (albeit, a plan not meeting the requirements of either APB 30 or SFAS 121 at the time) for its mortgage-servicing division in December 1996.
2. Company A actively pursued and consistently executed on that plan, with the only exception being not actively searching for a buyer.
3. Company A commenced sale discussions with the buyer, proceeding to an advanced stage on February 25, 1998, prior to Company A being contacted by Company C regarding a potential merger of the two companies.
4. The disposal was ultimately consummated at a price essentially consistent with the sales price range agreed to on February 25, 1998.
5. And finally, there is no evidence to indicate that Company C's contact with Company A was initiated or solicited by Company A or by any party acting or appearing to act on Company A's behalf.

Given these extenuating facts and circumstances, there is sufficient, persuasive, and objectively verifiable evidence to conclude that Company A's plan to dispose of its mortgage servicing division was not developed in anticipation of its merger with Company C. Accordingly, the merger of Company A and Company C would not be precluded from being accounted for as a pooling of interests.

Question: Is the answer different if closing the sale of the division occurred after the consummation of the merger?

Response: No. The conclusion is the same if the closing of the sale of the division occurred after the consummation date of the merger since the evidence supports that the plan to sell the division was not developed as part of the plan to merge with Company C.

<u>Example 7:</u>

Facts: November 30, 1995 – The board of directors of Company A meet and discuss the operating performance of Sub S because of concerns that the company's share values were being negatively impacted by Sub S's results. The board of directors instructs management to "take such steps as management deems appropriate to deal with the 'strategic issues' relating to" Sub S.

December 31, 1995 – Management discusses strategic options relative to Sub S with an investment banker, soliciting recommendations. The investment banker advises Company A management to either seek a new strategic investor/partner for Sub S or sell Sub S.

May 15, 1996 – Company A's board of directors authorizes management and the investment banker to "locate a new strategic investor/partner for Sub S." As with the November 1995 board authorization, this authorization is also vague and general in nature.

August 15, 1996 – Company A's board of directors and the investment banker discuss, but do not reach a conclusion on, expanding the investment banker's scope of services to include finding a buyer for Sub S.

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December 31, 1996 – Company A consults with a second investment banker to advise it regarding strategic alternatives for Company A, including a takeover of Company A.

February 28, 1997 – Company A approaches and commences merger discussions with Company B.

April 15, 1997 – Company A's board of directors approves a plan to dispose of Sub S by sale. Management immediately begins a program to actively find a buyer for Sub S.

August 1, 1997 – Company A's board of directors authorizes management to commence negotiations with Company C for the sale of Sub S.

August 30, 1997 – Company A consummates the sale of Sub S to Company C for cash.

August 31, 1997 – Company B announces the signing of a merger agreement with Company A.

October 15, 1997 – Company A and Company B consummate their merger.

During the period from November 1995 through August 1997, none of Company A's periodic reports filed with the SEC contained any reference to its plans or intentions with regard to the disposition of all or part of Sub S.

Question: Does the disposal of Sub S shortly before consummation of the merger preclude the merger from being accounted for under the pooling of interests method?

Response: Yes. In the above fact pattern Company A initiated action to address "strategic issues" associated with its Sub S. The nature of the issues and the specific actions the company intended to take to address those issues, however, were vague and not clearly documented. Furthermore, throughout the period in question Company A neither actively pursued nor consistently executed on those initiatives. And, Company A made no disclosures in any of its periodic filings with the SEC which would indicate its plans or intentions for Sub S. It was not until well after merger discussions commenced that Company A made a clear, objectively verifiable decision with regard to its plans for Sub S.

Such facts and circumstances do not provide sufficient, persuasive, and objectively verifiable evidence that Company A either made a decision to dispose of Sub S or was committed to initiatives for the disposal of Sub S which were developed independently from and are unrelated to the proposed merger with Company B. Accordingly, there is not sufficient, persuasive, and objectively verifiable evidence to support the assertion that the plan to dispose of Sub S in April 1997 was not developed as part of Company A's plan to merge with Company B. Therefore, the combined companies would be precluded from accounting for the merger as a pooling of interests.

Example 8:

Facts: In January 1991 Company A and Company B each contributed a division into a newly formed joint venture. Both divisions were in the same line of business. Under the terms of the joint venture agreement, upon the change in control of either venturer the second venturer has the right to buy out the first venturer's interest in the joint venture for 90 percent of fair value (i.e., a call option). However, the buy out option is only exercisable in the event of a change in control. That is, if a transaction is being negotiated which would result in a change in control of the first venturer, but the transaction ultimately is not consummated, the second venturer's option to buy out the first venturer's interest does not become exercisable.

March 31, 1998 – Company C contacts Company A regarding a potential merger of the two companies. Merger discussions commence.

June 30, 1998 – Company C initiates a merger with Company A.

September 30, 1998 – Company C and Company A consummate their merger. Company B's option to buy out Company A's interest in the venture for 90 percent of fair value becomes exercisable pursuant to the joint venture agreement.

December 31, 1998 – Company B exercises its option and buys Company A's interest in the joint venture for 90 percent of fair value.

Question: Does the post-consummation disposal of Company A's interest in the joint venture with Company B preclude the merger of Company A and Company C from being accounted for under the pooling of interests method?

Response: Yes. The SEC staff's view is that significant asset dispositions triggered by the business combination are inconsistent with the "uniting of interests" concept underlying the pooling methodology. That is, but for the business combination the asset disposal would not occur. Combining companies should not be able to accomplish through contractual provisions what they would not otherwise be permitted to do in a pooling transaction, even if the contractual provision had been put in place over two years ago.

Furthermore, assuming the option is exercisable within two years of consummation of the business combination and, if exercised, would trigger a significant disposition, the SEC staff would object to accounting for the business combination as a pooling of interests, irrespective of whether the option is ultimately exercised.

The SEC staff considers the option to be a plan to dispose, and believes paragraph 48(c) of APB 16 prohibits a plan at consummation to dispose of significant assets within two years. That is, the plan to dispose at consummation rather than the subsequent execution of the plan is the paragraph 48(c) violation.

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1. There is no materiality or de minimis exception for alterations of equity interests that are deemed to be in contemplation of the proposed business combination.
2. As a reminder, the SEC staff has indicated that changes to previously granted options within two years of initiation of a merger would also need to be evaluated under the "in contemplation" presumption of paragraph 47(c) of APB 16.
3. The degree of detail and specificity as to grants is an important element to consider since a compensation study that is vague in this regard would represent a lower quality of evidence and

would not be persuasive in overcoming the presumption.

4. Variances from the benefits consultant's report may call into question when the company committed to granting stock options and the specific grants to be made. Furthermore, it may undermine the persuasiveness of the compensation study as evidential matter.
5. If the combining company uses other than "income/(loss) from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principle" as the basis for this test and the result is materially different from that which would have been produced if "income/(loss) from continuing operations before income taxes, extraordinary items, and cumulative effect of a change in accounting principle" had been used, the combining company should consider consulting with the SEC staff regarding the performance of this test. Furthermore, neither the numerator nor the denominator used in this test should be adjusted on a pro forma basis for restructuring charges, merger related charges or other special charges for purposes of performing this test.
6. This would be inclusive of any impairment loss recognized in connection with reclassifying an asset from "held for use" to "held for disposal" in accordance with FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*
7. Similarly, had Sub S constituted a separate major line of business or class of customer, and met the requirements of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* ("APB 30") for classification and presentation as a discontinued operation at June 30, 1996, the same conclusion would be reached.
8. The company would need to consider the applicable disclosure requirements of FRR 36, *Management's Discussion and Analysis.*

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NEWS RELEASES

November 19, 2001 - UNC will not proceed with generation sale.

(TRAIL, BC)-UtiliCorp Networks Canada has advised the BC Utilities Commission (BCUC) that, as a result of terms imposed in the commission's Oct. 26 decision, the company will not proceed with the sale of its four Kootenay River power plants at this time.

UNC had applied to sell the plants for $120 million to the Columbia Power Corporation/Columbia Basin Trust partnership. UNC is realigning itself as a "networks" (poles and wires) services provider and, last year, tripled the size of its Canadian platform by acquiring a major distribution network in Alberta. UNC now serves 500,000 customers in BC and Alberta.

The company made sale of the power plants contingent on three conditions: full job transfer for generation employees; no increase in customer rates; and shareholder retention of the $45 million after tax gain. The power plant transaction was designed to ensure customers were held harmless-no better or worse off than if UNC continued to own and operate the plants as a regulated entity. The BCUC ruled that the gain on the sale should be split between the customer and the shareholder.

During a seven-day public hearing in May, UNC argued that those who bear the risk should gain the benefit. UtiliCorp paid a significant premium (an amount over book value) to Cominco when it bought the southern interior assets in 1987. Customers did not contribute to the premium at the time of sale nor have they been "out of pocket" through regulated rates for the premium over the past 14 years.

"This is not an easy transaction for us to walk away from, but we appreciate the clarity of the Commission's ruling," said Bob Holzwarth, chief executive officer, UtiliCorp Networks Canada. "Naturally we are disappointed that the ruling does not recognize the commercial reality of business investment.

"We understand that a premium may not earn a regulated rate of return. However, it was the shareholder who put its capital at risk in BC 14 years ago, and even if customers are held harmless in the sale, it appears we will never be granted the opportunity to earn a reward for taking that risk," said Holzwarth. "This sends a strong warning signal to investors, at a time when the BC government needs to bolster investor confidence in the provincial economy."

Noting that generation is a business of scale, Holzwarth pointed to the complexity and cost of having seven power plants - owned by four different producers on a short 29-km stretch of the Kootenay River between Nelson and Castlegar.

"Managing stream flows and subsidiary agreements costs electricity customers millions of dollars every year and a transaction that would have eliminated UNC from the equation would have simplified matters and permitted the province to rationalize power production in the Lower Columbia," he said.

UNC is a subsidiary of UtiliCorp United Inc. (NYSE:UCU), a Fortune 100 company with assets of USD$12 billion and sales of USD$42 billion in Canada, United States, New Zealand, Australia, the UK and Europe.
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Executive *profiles*

Donald G. Bacon - Chief Executive Officer

B.Sc. (Civil Eng)

Appointed to the Board in January 2000, Mr Bacon brings more than forty years experience in the international utility industry to the position of Chief Executive Officer. He is also a Director of Power Partnership Pty Ltd, Uecomm Limited and AlintaGas Limited. Prior to joining United Energy Limited, Mr Bacon was Chief Executive Officer of United Networks Limited in New Zealand. He holds a Bachelor of Science degree (with distinction) in Civil Engineering from the University of Alberta.

Mike Jonagan - Chief Operating Officer

B.Sc Mech & Petroleum Eng, M.S. Engineering Mgt

Mr Jonagan was appointed Chief Operating Officer in October 2000. Prior to this he held the position of Vice President - Power Supply at UtiliCorp United Inc. Mr Jonagan's 15-year career with UtiliCorp includes various engineering and management responsibilities at UtiliCorp generating plants. He also spent four years with UtiliCorp's Aquila Energy subsidiary with responsibility for structured long term electricity transactions in the Nth American mid-continent region.

Mr Jonagan has received Bachelor of Science degrees in Mechanical and Petroleum Engineering from the University of Missouri - Rolla and a Master of Science in Engineering Management from the University of Kansas. He is also a Registered Professional Engineer in the State of Missouri.

Doug Evanson - Chief Finance Officer

B.Sc (Business Admin & Accounting), MBA, CPA

Mr Evanson was appointed Chief Finance Officer of United Energy in September 2001. He has held various financial and accounting positions with UtiliCorp since joining the firm in 1990. Most recently he held the position of Manager Corporate Finance, Assistant Treasurer and Assistant Secretary. During his employment with UtiliCorp Mr Evanson has been responsible for treasury, corporate finance, project finance and corporate accounting. Prior to joining UtiliCorp Mr Evanson was employed by Arthur Andersen (Nth America) where he qualified as a Certified Public Accountant.

Mr Evanson received a Bachelor of Science in Business Administration and Accounting from the University of Kansas and a Master of Business Administration from the University of Missouri at Kansas City.

Andrew Gould - General Manager - Corporate Development

B.Sc (Hons), Dip Ed, PhD (Eng), MBA, ASIA.

Mr Gould was appointed General Manager Corporate Development in January 2001. Mr Gould joined United Energy from JBWere Corporate Services where he held the position of Director advising clients in the energy and utility sectors. Prior to joining JBWere he worked for the Gas and Fuel Corporation of Victoria. He joined JBWere in 1993 as a resource analyst, and in 1995 he was seconded to the State Government of Victoria's Gas Industry Reform Unit for one year.

Mr Gould's qualifications include a Bachelor of Science (Hons) from Macquarie University, a Doctorate of Philosophy (Materials Engineering) from Monash University, a Master of Business Administration from the Australian Graduate School of Management (University of NSW) and a

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