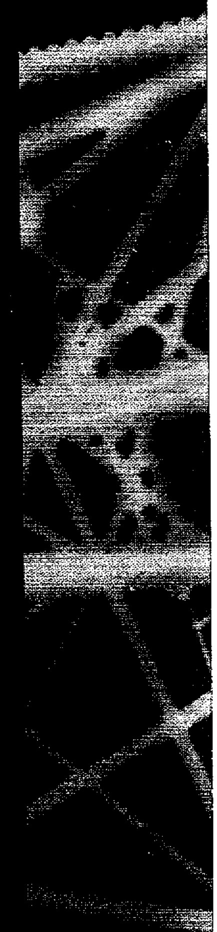
westernresources



ANNUAL REPORT 2000

Public Service Company of New Mexico

Western Resources announced its intention a year ago to find a partner for its utility operations to help grow shareholder value, increase generation capacity and position the company for the future. The company sought a partner that would be committed to employees, customers, shareholders and Kansas communities. On Nov. 8, 2000, the company reached an agreement with Public Service Company of New Mexico (PNM) to combine with Western Resources' utility companies, KGE and KPL.

A progressive company based in Albuquerque, PNM has a similar corporate philosophy with regard to power generation and wholesale marketing, a solid understanding of business energy concerns, a track record of charitable contributions, a strong environmental program and a commitment to diversity.

The new combined company will have the scale and scope to succeed in the evolving energy marketplace with:

- More than one million retail electric customers in Kansas and New Mexico and 400,000 retail natural gas customers in New Mexico,
- A generating capacity of more than 7,000 megawatts and
- A combined work force of about 5,000 employees.

The new combined company will be headquartered in Albuquerque, but the Kansas utility headquarters will remain in Topeka.

TRANSACTION OVERVIEW

The alliance will provide the new combined company with a broader, more predictable cash flow; solid revenues and potential earnings growth; improved access to capital; and an opportunity to share the best practices of both organizations for the benefit of customers and shareholders.

The tax-free, stock-for-stock transaction should be completed during 2002, pending approvals from shareholders of both companies and regulatory agencies, including the Kansas Corporation Commission, the New Mexico Public Regulation Commission, the Securities and Exchange Commission, the Nuclear Regulatory Commission and the Federal Energy Regulatory Commission.

Each Western Resources share will be converted into a fraction of a share (to be determined at closing) in the new holding company. Each PNM share will be converted into one new holding company share.

Approximately 42 percent of the new holding company will be owned by former PNM shareholders. Former Western Resources shareholders and Westar Industries will own approximately 58 percent.

For more information about the transaction, please visit the companies' joint website at www.pnmwr.com. For more information about PNM, please visit the company's website at **www.pnm.com.**

CONTENTS

2000 Financial Measures

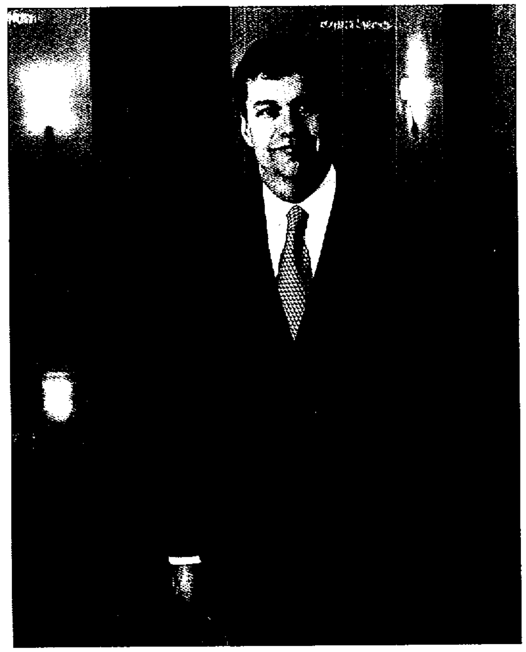
	2000	1999
FINANCIAL DATA (Dollars in Millions)		
Sales	**$2,368**	$2,030
EBITDA[1]	**853**	668
Earnings available for common stock	**135**	13
Adjusted earnings[2]	**209**	58
Cash flow[3]	**377**	235
Total assets	**7,767**	7,990
OPERATING DATA		
Electric:		
Sales (thousands of MWH)		
Utility service	**18,635**	17,604
Wholesale	**6,892**	5,617
Total	**25,527**	23,221
Customers	**636,000**	628,000
Monitored Services customers (at year end)	**1,504,000**	1,624,000
Number of employees (at year end)	**8,300**	7,000
COMMON STOCK DATA		
Earnings per share	**$1.96**	$0.20
Adjusted earnings per share[2]	**$3.03**	$0.88
Cash flow per share[3]	**$5.46**	$3.50
Dividends declared per share	**$1.44**	$2.14
Book value per share	**$27.20**	$27.66
Market value per share (at 12/31)	**$24.81**	$16.94
Average shares outstanding	**68,962,245**	67,080,281
Number of common shareholders	**39,546**	50,680
Dividend yield	**5.8%**	12.6%
Average daily volume traded	**498,780**	283,606
Price/earnings ratio	**12.7**	84.7
Multiple for adjusted earnings[2]	**8.2**	19.7
Multiple for cash flow per share[3]	**4.5**	4.8
Common stock price range		
High	**$25.88**	$33.88
Low	**$14.69**	$16.81

[1] Earnings before interest, taxes, depreciation and amortization

[2] Earnings + goodwill amortization

[3] Earnings + utility depreciation and amortization + ONEOK dividends

Dear Fellow Shareholders



David C. Wittig
Western Resources
Chairman of the Board, President
and Chief Executive Officer

In 2000, our common stock price rose 46 percent from the previous year and the total return to shareholders topped 58 percent. If you participated in our dividend reinvestment plan, you earned a return of more than 60 percent.

Here's a look at the company's many highlights during 2000:

- We had record earnings during the first six months, surpassing the previous record set in 1994.
- We exceeded previous utility sales levels without interrupting customers during a sweltering Kansas summer that shattered heat records across the state. Part of the reason reliability was not threatened for Kansas customers last summer was because of rigorous power plant maintenance efforts and the addition of two combustion turbines at Gordon Evans to help meet record demand for electricity.
- KPL customers set a new record peak of 2,485 megawatts on Aug. 28, 2000, and KPL and KGE set a combined record peak of 4,531 megawatts on Sept. 11, 2000. We were able to continue service without having to cut power to "interruptible" customers or make pleas for conservation as many electric companies across the country were forced to do.
- The value of Westar Industries' investment in ONEOK rose by 91.5 percent to more than $1 billion.
- We sold the balance of our Hanover Compressor Company position for a $91.1 million gain, and we sold our interest in Paradigm Direct for $51.0 million, making a 60 percent gain on the investment in just 18 months.
- We reduced our consolidated total debt by $385 million.
- In May 2000, Westar Wind celebrated its first anniversary as a viable renewable energy option for environmentally committed customers. The two wind turbines provide 1.5 megawatts of electrical capacity.

Another notable highlight was our agreement on Nov. 8, 2000, to combine our KPL and KGE utilities in a tax-free, stock-for-stock transaction with Public Service Company of New Mexico (PNM), a company with similar corporate philosophies and operating procedures. (Please see the inside front cover for more information about PNM.)

This year, 2001, poses several pivotal challenges for the company. We're asking the Kansas Corporation Commission to grant rate increases for KPL and KGE so we can recover our investment in new power plants and higher operating and maintenance costs, including natural gas fuel costs. The companies were last granted rate increases in 1983 and 1989, respectively. The rate cases are necessary to ensure our continued ability to provide safe, reliable electricity to meet customer demand that has grown by more than 22 percent in the last decade.

The rate requests encompass new generation and depreciation costs, retiree medical benefits, tax and interest adjustments, operating and maintenance expenses, environmental expenses and fuel costs. Few companies, if any, can provide products and services at the same prices they did in 1983 or 1989. We believe our rate relief requests are fair and reasonable.

A second vital area is Protection One. Business operations have improved significantly. Protection One has decreased debt and achieved positive cash flow in 2000. Management at Protection One and Protection One Europe is continuing to find ways to enhance operating and financial performance.

In 2001, shareholders will have an opportunity to participate in the initial public offering of Westar Industries, which represents the unregulated part of our business. Westar Industries includes our investments in Protection One, other wholly owned subsidiaries collectively referred to as Protection One Europe, ONEOK, the utility created by the merger of PNM, KGE and KPL, unregulated international generation interests and other miscellaneous assets. Details concerning Westar Industries and the initial public offering will be provided to shareholders.

The year 2000, more than any other before it, underscored the amount of risk and volatility inherent in the utility industry, with the ongoing energy crisis in California as a prime example. During the last six years, returns for Western Resources' shareholders were as follows:

- 1995, up 24 percent
- 1996, down 1 percent
- 1997, up 48 percent
- 1998, down 18 percent
- 1999, down 44 percent
- 2000, up 58 percent

Later this year we expect to combine the annual shareholders' meeting with the special meeting to vote on the PNM transaction. We will provide you with details of the meeting later this year.

The noteworthy accomplishments of 2000 also extend to the company's community activism. We strive to be a leader in the many communities we serve through our charitable donations and encourage employees to volunteer for a variety of causes through our Community Partners program. Our award-winning GreenTeam employee volunteers are dedicated to preserving and enhancing the Kansas environment so more generations can enjoy its beauty and abundance. I encourage you to read more about our commitment to the communities we serve in the next few pages.

Thank you for your support and your investment.

Sincerely,

David C. Wittig
Chairman of the Board, President
and Chief Executive Officer

Western Resources energizes and enriches communities through caring employees and a commitment to corporate stewardship.

(Top) Dorcella Reese and Maria Torrez Anderson, with the American Red Cross in Topeka, help administer the Project DESERVE program to furnish relief for qualified utility customers in northeast Kansas. (Bottom) Alan Hagge, director of operations in Leavenworth and a Green Team volunteer, helps his son, Colton Hagge, plant a tree in Tonganoxie to replace trees lost to a tornado that hit the town in June 2000.

Project DESERVE and the Western Resources Foundation

In 1982, KGE and the American Red Cross created Project DESERVE, through which customers may donate extra money through their utility bills to benefit adults over 60 and severely disabled individuals struggling to make their own payments. When KPL acquired KGE in 1992, the program continued to grow. Contributions from the private sector have allowed the agency to make grants exceeding $5 million since the program's inception.

Mike Wemmer, assistant executive director of the Midway-Kansas Chapter of the American Red Cross, said, "The willingness of customers to contribute to the program to help those in need is really quite striking and a strong statement of support from Kansas communities."

Clara Nell Walker, 72, has sought utility bill payment assistance through Project DESERVE. "The people with Project DESERVE always take care of me with a smile," said the Wichita resident. "Of all the programs that I can think of that try to help people, this is the best one."

The Western Resources Foundation has donated more than $660,000 to Project DESERVE, as well as to many other causes dedicated to enhancing the quality of life for individuals living in Kansas communities. In 2000, the Western Resources Foundation contributed more than $1.9 million to fund social service agencies, develop educational programs, promote environmental efforts, support capital campaigns and underwrite cultural arts exhibits and performances.

Green Team

Green Team volunteers made up of Western Resources employees, retirees and their families spend countless weekends and evenings preserving wetlands, restoring prairies, planting trees and helping sensitive species like peregrine falcons and golden eagles thrive in the wild. Often working with environmental, educational and community groups, the more than 730 volunteers statewide plant wildflowers, design and build bluebird nesting boxes and create nature trails from recycled lumber, fly ash and bottom ash taken from the coal used in the power plants.

In October, the Green Team received the U.S. Fish and Wildlife Service's Region Six Hero Award and in February 2001 garnered the Conservation Organization of the Year Award from the Kansas Wildlife Federation.

The Green Team has completed more than 700 grassroots projects in Kansas and received more than 40 awards since its inception in 1989. Since 1991, the Green Team has planted more than 17,000 trees, many of which replaced those lost to flood, freeze, tornado and wind damage or drought. Their expertise was used to plant 101 trees at Washburn University of Topeka on May 15, 2000, as part of a national U.S. Forest Service millennium project. Each state had the option to obtain 100 trees with historical significance. For example, the Green Team planted a Dwight D. Eisenhower green ash and an Amelia Earhart sugar maple taken from the yards of these distinguished Kansans' childhood homes.

"These dedicated, enthusiastic and creative volunteers have worked hard to not only preserve and enhance the state's beauty but also to make it easier for more people to enjoy its natural assets," said Brad Loveless, Green Team coordinator.

Meals on Wheels

In 2000, Western Resources donated $10,000 to Meals on Wheels to establish another delivery route so more elderly and disabled persons in Topeka can benefit from the nutritional program. Five days a week for six years Western Resources employees have been delivering meals to clients who no longer have the ability or the inclination to prepare homecooked meals for themselves.

Jane Metzger, executive director of Meals on Wheels, said, "Our program's success depends on the generosity of our donors and the dedication of the volunteers who brave all kinds of weather to make sure that our clients get a hot meal and a warm word each day."

Fred Ward, retired fleet coordinator for Western Resources, delivers meals three days a week and helps out when other volunteers cannot. He has also intervened when clients have suffered strokes or diabetic episodes. "I enjoy the people immensely," he said. "They're usually waiting for you and happy to see you since you're probably the first person they've visited with all day. It's a rewarding interchange."

(Top) Jewell Bronson shares a laugh with the Western Resources employee volunteers delivering her lunch as part of the Meals on Wheels program in Topeka. (Bottom) Shirley Stolzenburg, KPL retiree, visits with two children she watches out for as a Court Appointed Special Advocate (CASA) volunteer for North Central Kansas CASA.

Community Partners

Community Partners began in January 1998 with Western Resources employees and retirees recording about 12,000 volunteer hours for local community causes. In 2000, the number spiked to 36,000 hours logged by 246 participants. Nineteen volunteers with at least 125 service hours were randomly selected to designate a charity of choice to receive stipends at various levels that collectively totaled $12,500.

David C. Wittig, chairman, president and chief executive officer of Western Resources, presented retiree Shirley Stolzenburg with the 2000 Community Partners CEO Award, a $2,000 stipend she designated to the North Central Kansas CASA, Inc. The court-appointed special advocates agency nominated Stolzenburg, a former dispatcher, for her extensive efforts on behalf of abused and neglected children.

"My greatest satisfaction is dealing with the children," said Stolzenburg, who also meets with teachers, parents and foster parents and others to prepare court reports and recommendations for the children's welfare. "A 10-year-old boy recently invited me to attend his school program 50 miles away, and although I debated whether to drive the distance, his wanting me to be there gave me a special feeling that made the travel well worth the effort. He was so happy to have someone there besides his foster parents to support him."

"Community Partners is an extension of the creativity, compassion and can-do spirit that employees and retirees have long brought to their jobs," said Cynthia McCarvel, representative, media and community relations for KPL and Community Partners coordinator and creator. "The program allows us to recognize and reward their time to help others."

Protection Connection

Kansans donated 2,027 used wireless phones to provide an emergency lifeline to victims of domestic violence and their children through Protection Connection, a phone recycling campaign sponsored by Western Resources, Westar Communications, Southwestern Bell Wireless and Alltel during the 2000 holiday season.

The refurbished phones will be reprogrammed solely with 911 access and distributed this spring to 15 domestic violence shelters throughout Western Resources' service area. Local police stations served as collection points.

Kansas Attorney General Carla Stovall, the honorary chairperson for Protection Connection, said, "With the cell phones, victims can call law enforcement to get an immediate response. This program absolutely will save lives of victims and their children."

Western Resources Company Profile

Western Resources (NYSE: WR) www.wr.com

ELECTRICITY – KGE AND KPL

These two regulated electric utilities produce and sell retail electricity in Kansas and wholesale electricity nationwide with generating capacity of 5,604 megawatts. The utilities operate more than 6,300 miles of transmission lines, with 26 interconnects. Currently the companies serve about 636,000 customers in Kansas.

We completed our search for a strategic partner for this segment by formulating an agreement to join our electric businesses with those of Public Service Company of New Mexico. We placed 148 megawatts of new generating capacity into production and sold more than 25 million megawatthours of electricity. **www.wr.com/energy_services.html**

WESTAR WIND

Westar Wind celebrated its first birthday in May 2000. To celebrate its birthday, we made a $5,000 contribution in customers' names to the Kansas Department of Wildlife and Parks to develop the Milford wetlands project, for which the Western Resources' Green Team also volunteers. "It's evident from their support of Westar Wind that Kansans display a commitment to preserving and protecting the environment," said Les Evans, senior manager, generation strategy. Also in 2000, Western Resources was one of six companies to receive the World Safety Organization Concerned Company/Corporation Award for its Westar Wind renewable energy initiative. Two Westar Wind turbines, located near the company's Jeffrey Energy Center in northeast Kansas, provide a renewable energy option for our electric customers.

INVESTMENTS – WESTAR INDUSTRIES

MONITORED SERVICES INVESTMENTS

Protection One (NYSE: POI), including PowerCall and Network Multifamily
Protection One Europe
Guardian International (OTC: GIIS), including Mutual Central Alarm Services and Gibraltar Security Alarms

These companies serve more than 1.5 million customers in the United States, Canada, the United Kingdom and Western Europe.

Westar Industries owns 85% of Protection One. Protection One's cash flow increased about 8% in 2000. Protection One acquired PowerCall Security, consolidated its customer service and administrative functions and strengthened its internal sales and marketing programs. **www.protectionone.com**

Westar owns 100% of Protection One Europe. Westar purchased Protection One Europe from Protection One in February 2000. Sales totaled $106 million and customers rose to 133,000.

Westar owns about 29% of Guardian International. Sales were about $18.3 million for 2000, and cash flow grew 9%. Guardian serves about 26,700 customers, primarily in Florida and New York City. **www.guardianinternational.com**

ONEOK (NYSE: OKE)

ONEOK serves about 1.4 million natural gas distribution customers in Kansas and Oklahoma. ONEOK's unregulated operations include interests in 24 natural gas processing plants and related gathering systems, marketing operations in 28 states and transportation pipelines and storage facilities in Kansas, Oklahoma and Texas.

Earnings for this company were up 42% in 2000. Growth through acquisitions of unregulated assets, valued at more than $850 million, were key to this performance. Westar Industries received about $33 million in dividends from this investment, and our 45% ownership stake appreciated about 90% to more than $1 billion at year end. **www.oneok.com**

WESTAR COMMUNICATIONS AND OTHER INVESTMENTS

A wholly owned subsidiary, Westar Communications provides Kansans with wireless communication services and accessories. Westar Communications grew to 9,069 paging customers in 2000. **www.wr.com/paging_services.html**

We sold much of our unregulated investment portfolio in 2000 and gains on the sale of our interests in Hanover Compressor Company, Paradigm Direct and other holdings contributed approximately $1.06 per share to earnings. Year-end market value of our investments, excluding ONEOK, was about $137 million.

A rights offering for Westar Industries is expected to be completed in 2001. Westar Industries holds the company's investments in Protection One, Protection One Europe, ONEOK, unregulated international generation interests and an investment in the utility to be created by the merger of the electric businesses of PNM, KGE and KPL.

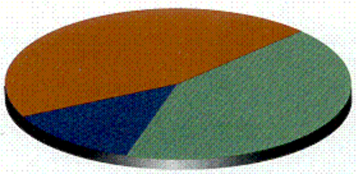
ELECTRIC UTILITY OPERATIONS

ONEOK

MONITORED SERVICES (includes P-One North America and P-One Europe)

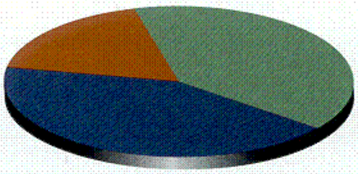
Thousands of Dollars

EBITDA*
Earnings before interest, taxes, depreciation and amortization by line of business



Electric Utility Operations	$526,095
ONEOK	495,759
Monitored Services	150,876

CUSTOMERS*
At year-end 2000, Western Resources had access to more than 3.5 million customers



Electric Utility Operations	636,000
ONEOK	1,400,000
Monitored Services	1,504,000

**Line of business measures are shown at 100%, i.e., monitored services and natural gas numbers reflect total company numbers, even though Western Resources owns only 85% and 45%, respectively, of those companies.*

C-1

Directors and Officers

DIRECTORS

Frank J. Becker (64)
Elected 1992
President
Becker Investments, Inc.
Lawrence, Kansas
Committees: Human Resources, Nominating

Dr. Gene A. Budig (61)
Elected 1999*
Senior Adviser to the Commissioner of Baseball
Professor, Princeton University
New York, New York
Committees: Human Resources, Audit and Finance

Charles Q. Chandler IV (47)
Elected 1999
Chairman of the Board, President and Chief Executive Officer
INTRUST Bank
Wichita, Kansas
Committees: Corporate Public Policy, Audit and Finance

John C. Dicus (67)
Elected 1990
Chairman of the Board and Chief Executive Officer
Capitol Federal Savings
Topeka, Kansas
Committees: Human Resources, Corporate Public Policy

Douglas T. Lake (50)
Elected 2000
Executive Vice President and Chief Strategic Officer
Western Resources, Inc.
Topeka, Kansas
Committee: Corporate Public Policy

Owen F. Leonard (60)
Elected 2000
President
KL Industries, Inc.
Saddle Brook, New Jersey
Committee: Audit and Finance

John C. Nettles, Jr. (44)
Elected 2000
Partner
Morrison & Hecker LLP
Overland Park, Kansas
Committee: Nominating

Louis W. Smith (57)
Elected 1991
President and Chief Executive Officer
Ewing Marion Kauffman Foundation
Kansas City, Missouri

David C. Wittig (45)
Elected 1996
Chairman of the Board, President and Chief Executive Officer
Western Resources, Inc.
Topeka, Kansas
Committee: Nominating

OFFICERS

Executive Officers

David C. Wittig (45) 1995
Chairman of the Board, President and Chief Executive Officer

Thomas L. Grennan (48) 1974
Executive Vice President
Electric Operations

Carl M. Koupal, Jr. (47) 1992
Executive Vice President and Chief Administrative Officer

Douglas T. Lake (50) 1998
Executive Vice President and Chief Strategic Officer

Richard D. Terrill (46) 1980
Executive Vice President and General Counsel

Rita A. Sharpe (42) 1977
Executive Vice President
Shared Services

Utility Operations

Richard A. Dixon (56) 1975
Vice President
Transmission Services

Douglas J. Henry (47) 1977
Vice President
Power Delivery

Wayne A. Kitchen (50) 1987
Vice President
Regulatory and Environmental

Shane A. Mathis (30) 1997
Vice President
Commodity Strategy

Leslie D. Morgan (53) 1969
Vice President
Generation Services

Caroline A. Williams (44) 1975
Vice President
Customer Service

Shared Services

Anita J. Hunt (38) 1989
Vice President
Information Technology

Peggy S. Loyd (43) 1978
Vice President
Financial Services

Corporate Management

Paul R. Geist (37) 1999
Vice President
Corporate Development

Larry D. Irick (44) 1999
Corporate Secretary

James A. Martin (43) 1983
Senior Vice President
Finance and Treasurer

Carl A. Ricketts (43) 1982
Vice President
Investor Relations

Leroy P. Wages (52) 1977
Controller

Westar Communications

Lori A. Finney (39) 1984
President

( ) Age as of December 31, 2000
Year joined Western Resources or predecessor company
*Dr. Budig also served as a director from 1987 to 1998.

ASSOCIATE TRAINEES

Recognizing the need to attract top college graduates from Kansas universities to remain competitive, Western Resources established its associate trainee program in 1997 to recruit and develop outstanding individuals in their fields. Eleven trainees have completed the hands-on learning program and obtained positions with the company. "The program enables us to cultivate demonstrated talent so we can help keep outstanding graduates here in Kansas to apply their expertise on behalf of our customers and shareholders," said David C. Wittig, chairman, president and chief executive officer, who established the program. Samuel Todwong, Jo Beilman, Elaine Chew and Brad Inman make up the Spring 2001 class of Western Resources associate trainees.

Selected Financial Data

	2000	1999 [a]	1998 [b]	1997 [c]	1996
For the Year Ended December 31, (In Thousands)					
INCOME STATEMENT DATA:					
Sales	**$2,368,476**	$2,030,087	$2,034,054	$2,151,765	$2,046,827
Net income before extraordinary gain and accounting change	**91,050**	2,554	34,058	498,652	168,950
Earnings available for common stock	**135,352**	13,167	32,058	493,733	154,111
As of December 31, (In Thousands)					
BALANCE SHEET DATA:					
Total assets	**$ 7,767,208**	$7,989,892	$7,929,776	$6,945,350	$6,647,781
Long-term debt (net) and other mandatorily redeemable securities	**3,457,849**	3,103,066	3,283,064	2,391,889	1,951,583
For the Year Ended December 31,					
COMMON STOCK DATA:					
Basic and diluted earnings per share available for common stock before extraordinary gain and accounting change	**$1.30**	$0.02	$0.46	$7.58	$2.41
Basic and diluted earnings per share available for common stock	**$1.96**	$0.20	$0.48	$7.58	$2.41
Dividends declared per share [d]	**$1.44**	$2.14	$2.14	$2.10	$2.06
Book value per share	**$27.20**	$27.66	$29.21	$30.86	$25.15
Average shares outstanding (000's) [e]	**68,962**	67,080	65,634	65,128	63,834

[a] Information reflects the impairment of marketable securities and a change to an accelerated amortization method for Monitored Services customer accounts.

[b] Information reflects exit costs associated with international power development activities.

[c] Information reflects the gain on the sale of Tyco common shares, our strategic alliance with ONEOK and the acquisition of Protection One.

[d] In March 2000, the company announced a new dividend policy.

[e] See Note 2 of the Notes to Consolidated Financial Statements for information about shares issued to Westar Industries on February 28, 2001, that will be excluded from outstanding shares solely for purposes of computing per share data in the Consolidated Financial Statements in future periods.

The Notes to Consolidated Financial Statements are an integral part of these statements.

INTRODUCTION

Unless the context otherwise indicates, all references in this report on Form 10-K to the "company," "Western Resources," "we," "us," "our" or similar words are to Western Resources, Inc., and its consolidated subsidiaries.

In Management's Discussion and Analysis we explain the general financial condition, significant annual changes and the operating results for Western Resources and its subsidiaries. We explain:

- What factors impact our business
- What our earnings and costs were in 2000 and 1999
- Why these earnings and costs differ from year to year
- How our earnings and costs affect our overall financial condition
- What our capital expenditures were for 2000
- What we expect our capital expenditures to be for the years 2001 through 2003
- How we plan to pay for these future capital expenditures
- Any other items that particularly affect our financial condition or earnings

As you read Management's Discussion and Analysis, please refer to our Consolidated Financial Statements, which show our operating results.

FORWARD-LOOKING STATEMENTS

Certain matters discussed here and elsewhere in this Annual Report are "forward-looking statements." The Private Securities Litigation Reform Act of 1995 has established that these statements qualify for safe harbors from liability. Forward-looking statements may include words like we "believe," "anticipate," "expect" or words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning capital expenditures, earnings, liquidity and capital resources, litigation, rate and other regulatory matters, possible corporate restructurings, mergers, acquisitions, dispositions, including the proposed separation of Westar Industries, Inc., from our electric utility businesses and the consummation of the acquisition of our electric operations by Public Service Company of New Mexico, compliance with debt covenants, changes in accounting requirements and other accounting matters, interest and dividends, Protection One's financial condition and its impact on our consolidated results, environmental matters, changing weather, nuclear operations, ability to enter new markets successfully and capitalize on growth opportunities in non-regulated businesses, events in foreign markets in which investments have been made, and the overall economy of our service area. What happens in each case could vary materially from what we expect because of such things as electric utility deregulation, ongoing municipal, state and federal activities, such as the Wichita municipalization efforts, future economic conditions, legislative and regulatory developments, competitive markets and other circumstances affecting anticipated operations, sales and costs.

SUMMARY OF SIGNIFICANT ITEMS

PNM Merger and Split-off of Westar Industries

On November 8, 2000, we entered into an agreement under which Public Service Company of New Mexico (PNM) will acquire our electric utility businesses in a stock-for-stock transaction. Under the terms of the agreement, both we and PNM will become subsidiaries of a new holding company. Immediately prior to the consummation of this combination, we will split-off our remaining interest in Westar Industries to our shareholders. Westar Industries, our wholly owned subsidiary, owns our interests in Protection One, Inc., Protection One Europe, ONEOK, Inc., and other non-utility businesses. In connection with this transaction, in February 2001 Westar Industries converted a portion of a receivable owed by us into approximately 14.4 million shares of our common stock. See Note 2 of the Notes to Consolidated Financial Statements.

Westar Industries has filed a registration statement with the Securities and Exchange Commission (SEC) covering the proposed sale of a portion of its common stock through the exercise of non-transferable rights proposed to be distributed by Westar Industries to our shareholders. We anticipate that the rights offering will be completed in 2001.

We can give no assurance as to whether or when the rights offering will be consummated or whether or when the separation of our electric and non-electric utility businesses, or the consummation of the acquisition of the company by PNM may occur.

Extraordinary Gain on Extinguishment of Debt

During 2000, Westar Industries purchased $170.0 million face value of Protection One bonds on the open market. In exchange for cash and the settlement of certain intercompany payables and receivables, $103.9 million of these debt securities were transferred to Protection One. Protection One also purchased $30.5 million face value of its bonds on the open market during 2000. An extraordinary gain of $49.2 million, net of tax of $26.5 million, was recognized at December 31, 2000, on these retirements.

Exposure Draft for Goodwill Accounting

The Financial Accounting Standards Board (FASB) issued an exposure draft on February 14, 2001, which, if adopted as proposed, would establish a new accounting standard for the treatment of goodwill in a business combination. The new standard would continue to require recognition of goodwill as an asset in a business combination but would not permit amortization as currently required by APB Opinion No. 17, "Intangible Assets." The new standard would require that goodwill be separately tested for impairment using a fair-value based approach as opposed to an undiscounted cash flow approach, which is required under current accounting standards. If goodwill is found to be impaired, we would be required to record a non-cash charge against income. The impairment charge would be equal to the amount by which the carrying amount of the goodwill exceeds the fair value. Goodwill would no longer be amortized on a current basis as is required under current accounting standards. The exposure draft contemplates this standard to become effective on July 1, 2001, although this effective date is not certain. Furthermore, the proposed standard could be modified prior to its adoption.

If the new standard is adopted as proposed, any subsequent impairment test on our customer accounts would be performed on the customer accounts alone rather than in conjunction with goodwill utilizing an undiscounted cash flow test pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of."

At December 31, 2000, we had $976 million in goodwill attributable to acquisitions of businesses and $1,006 million for monitored services' customer accounts. These intangible assets together represented 25.5% of the book value of our total assets. We recorded approximately $61.4 million in goodwill amortization expense in 2000. If the new standard becomes effective July 1, 2001, as proposed, we believe it is probable that we would be required to record a non-cash impairment charge. We cannot determine the amount at this time, but we believe the amount would be material and could be a substantial portion of our intangible assets. This impairment charge would have a material adverse effect on our operating results in the period recorded.

Strategic Transactions and the Separation of Westar Industries

Our strategic plans contemplate the acquisition of our electric utility businesses by PNM and the split-off of Westar Industries to our shareholders. Prior to the completion of these transactions, Westar Industries intends to sell a portion of its common stock in a rights offering to our shareholders. The completion of these transactions is subject to the satisfaction of various conditions, including the receipt of shareholder and regulatory approvals in the case of the PNM transaction. We can give no assurance that the conditions to closing will be satisfied and that the transactions will be consummated as contemplated. Furthermore, if the Westar Industries rights offering is completed, we would record a non-cash charge against income equal to the difference between the book value of the portion of our investment in Westar Industries sold in the rights offering and the offering proceeds received by Westar Industries. Similarly, if the split-off of Westar Industries is completed, we would record a non-cash charge against income equal to the difference between the book value of our remaining investment in Westar Industries and the fair market value of the shares of Westar Industries common stock distributed to our shareholders. We are unable to determine the amount of the charges at this time because the subscription price in the rights offering has not been determined and the fair market value of the common stock of Westar Industries distributed in the split-off will be determined at the time of the split-off. However, the charges would be material and would have a material adverse effect on our operating results in the period recorded.

Monitored Services Change in Estimate of Useful Life of Goodwill

In January 2000, Protection One re-evaluated the original assumptions and rationale utilized in the establishment of the carrying value and estimated useful life of goodwill. Protection One concluded that due to continued losses, increased levels of attrition experienced in 1999 and other factors, the estimated useful life of goodwill should be reduced from 40 years to 20 years as of January 1, 2000. After that date, remaining goodwill, net of accumulated amortization, is being amortized over its remaining useful life based on a 20-year life. Protection One Europe made a similar change. Based on Protection One's and Protection One Europe's existing account bases at January 1, 2000, this resulted in an increase in aggregate annual goodwill amortization of approximately $33.0 million in 2000.

Marketable Securities

During the fourth quarter of 1999, we decided to sell our remaining marketable security investments in paging industry companies. These securities were classified as available-for-sale; therefore, changes in market value were historically reported as a component of other comprehensive income.

The market value for these securities declined during the last six to nine months of 1999. We determined that the decline in value of these securities was other than temporary and a charge to earnings for the decline in value was required at December 31, 1999. Therefore, a non-cash charge of $76.2 million was recorded in the fourth quarter of 1999 and is presented separately in the accompanying Consolidated Statements of Income.

During the first quarter of 2000, we sold the remainder of our portfolio of paging company securities. We realized a gain of $24.9 million on these sales. This gain was largely attributable to a general increase in the market value of paging companies triggered by an announcement made by one paging company in February 2000, which had a favorable impact on the market value of public paging company securities.

During 2000, we sold our equity investment in a gas compression company and realized a pre-tax gain of $91.1 million.

OPERATING RESULTS

Western Resources Consolidated

2000 Compared to 1999: Basic earnings per share were $1.96 compared to $0.20 in 1999. This increase is primarily attributable to increased investment earnings from the sale of certain investments and the extraordinary gain on the retirement of Protection One bonds. This increase was partially offset by a change in the estimated life of goodwill and operating losses from our monitored services segment.

1999 Compared to 1998: Basic earnings per share were $0.20 compared to $0.48 in 1998. Our 1999 results of operations benefited from the performance of the regulated electric utility operations. However, this performance was not sufficient to offset the impairment recorded on marketable securities in the fourth quarter of 1999 or the losses from our monitored services segment.

The following discussion explains significant changes from prior year results in sales, costs of sales, operating expenses, other income (expense), interest expense, income taxes and preferred dividends.

Electric Utility

We supply electric energy at retail to approximately 636,000 customers in Kansas. We also supply electric energy at wholesale to the electric distribution systems of 65 communities and four rural electric cooperatives. We have contracts for the sale, purchase or exchange of electricity with other utilities.

In addition, we have power marketing operations and we engage in system hedging transactions. Power marketing transactions are electric purchases and sales made in areas outside of our historical marketing territory. System hedging transactions are entered into at certain times to reduce exposure relative to the volatility of market prices for purchased power. The settlement of system hedging transactions affects both our sales and our cost of sales, although the net effect in 2000 was insignificant. If the cost of settling the hedging transactions exceeds the premiums from the related sales, the net effect will be a loss just as there would be a net gain if the premiums from the sales exceed the corresponding cost of the sales.

Many things will affect our future electric sales. They include:

- The weather
- Our electric rates
- Competitive forces
- Customer conservation efforts
- Wholesale demand
- The overall economy of our service area
- The City of Wichita's attempt to create a municipal electric utility
- The cost of fuel and purchased power included in base rates
- The results of our power marketing and system hedging transactions

Our electric sales for the last three years are as follows:

	2000	1999	1998
		(In Thousands)	
Residential	$ 452,674	$ 407,371	$ 428,680
Commercial	367,367	356,314	356,610
Industrial	252,243	251,391	257,186
Wholesale and Interchange	214,721	174,895	145,320
Power Marketing	457,178	190,101	382,601
System Hedging	35,321	3,320	—
Other	49,628	46,306	41,288
Total	$1,829,132	$1,429,698	$1,611,685

The following tables reflect the changes in electric sales volumes, as measured by megawatt hours, for the years ended December 31, 2000, 1999 and 1998:

(Thousands of MWH)	2000	1999	% Change
Residential	6,222	5,551	12.1
Commercial	6,485	6,202	4.6
Industrial	5,820	5,743	1.4
Other	108	108	—
Total retail	18,635	17,604	5.9
Wholesale	6,892	5,617	22.7
Total	25,527	23,221	9.9

(Thousands of MWH)	1999	1998	% Change
Residential	5,551	5,815	(4.5)
Commercial	6,202	6,199	0.1
Industrial	5,743	5,808	(1.1)
Other	108	108	—
Total retail	17,604	17,930	(1.8)
Wholesale	5,617	4,826	16.4
Total	23,221	22,756	2.0

Power marketing and system hedging sales do not have any physical sales volumes associated with them.

2000 Compared to 1999: Electric operations gross profit increased $28.3 million, or 3%. The increase is due primarily to increased power marketing sales. Electric operations gross profit as a percentage of sales decreased to 54% from 67% primarily due to higher fuel and purchased power prices. See Market Risk Disclosure for further discussion.

Additionally, we experienced a 12% increase in residential sales volumes and a 23% increase in wholesale sales volumes. The increase in residential sales is primarily due to increased demand caused by warm weather. Cooling-degree days increased by 27%. The increase in wholesale sales volumes was primarily due to increased wholesale market opportunities because of our larger trading operation.

Items included in energy cost of sales are fuel expense, purchased power expense (electricity we purchase from others for resale) and power marketing expense.

Partially offsetting the higher sales was an increase of $371.3 million in cost of sales primarily due to higher power marketing expense of $263.0 million and increased fuel and purchased power expenses of approximately $71.0 million. Fuel and purchased power expenses were higher primarily due to increased commodity prices, increased demand from retail customers because of warmer weather and higher wholesale sales volumes.

1999 Compared to 1998: Electric utility gross profit increased 3%, or $30.5 million. Gross profit as a percentage of sales improved to 67% from 57%. These improvements were due primarily to increased power marketing profit and increased wholesale sales. In the summer of 1999, we had increased power plant availability during hot weather when demand was high, which allowed increased wholesale sales. Power plant availability impacts both gross profit and gross profit percentage, as it is more profitable for us to generate electricity for resale than to purchase power for resale. Partially offsetting these increases were lower retail sales due to weather, which was milder in 1999.

BUSINESS SEGMENTS

Our business is segmented based on differences in products and services, production processes and management responsibility. Based on this approach, we have identified four reportable segments: Fossil Generation, Nuclear Generation, Power Delivery and Monitored Services. We also have other non-utility operations and our ONEOK investment.

Fossil Generation produces power for sale internally to the Power Delivery segment and externally to wholesale customers. Power marketing and system hedging are components of our Fossil Generation segment. Nuclear Generation represents our 47% ownership in the Wolf Creek nuclear generating facility. This segment has only internal sales because it provides all of its power to its co-owners. The Power Delivery segment consists of the transmission and distribution of power to our retail customers in Kansas, the customer service provided to these customers and the transmission of wholesale energy. Monitored Services represents our security alarm monitoring business in North America and Europe.

We manage our business segments' performance based on their earnings before interest and taxes (EBIT). EBIT does not represent cash flow from operations as defined by generally accepted accounting principles, should not be construed as an alternative to operating income and is indicative neither of operating performance nor cash flows available to fund the cash needs of our company. Items excluded from EBIT are significant components in understanding and assessing the financial performance of our company. We believe presentation of EBIT enhances an understanding of financial condition, results of operations and cash flows because EBIT is used by our company to satisfy its debt service obligations, capital expenditures, dividends and other operational needs, as well as to provide funds for growth. Our computation of EBIT may not be comparable to other similarly titled measures of other companies.

The following tables reflect key information for our three electric utility business segments:

For the Years Ended December 31,	2000	1999	1998
		(In Thousands)	
Fossil Generation:			
External sales	$ 705,536	$ 365,311	$ 525,974
Internal sales	572,533	546,683	517,363
Depreciation and amortization	60,331	55,320	53,132
EBIT	202,744	219,087	144,357
Nuclear Generation[a]:			
Internal sales	$ 107,770	$ 108,445	$ 117,517
Depreciation and amortization	40,052	39,629	39,583
EBIT	(24,323)	(25,214)	(20,920)
Power Delivery:			
External sales	$1,123,590	$1,064,385	$1,085,711
Internal sales	291,927	293,522	66,492
Depreciation and amortization	75,419	71,717	68,297
EBIT	171,872	145,603	196,398

[a] Our 47% share of Wolf Creek's operating results

Fossil Generation

Fossil Generation's external sales include power produced for sale to external wholesale customers located outside our historical marketing territory and the amounts associated with the system hedging transactions discussed above. Internal sales include power produced for sale to Power Delivery, which delivers the power to our retail and wholesale customers. The internal transfer price for these sales is set by us based upon what we believe would be competitive market prices for capacity and energy at the time of sale.

2000 Compared to 1999: External sales increased $340.2 million primarily due to power marketing sales, which increased by $267.1 million, wholesale sales, which increased by $39.8 million and system hedging sales, which increased by $32.0 million. Since 1997, we have gradually increased the size of our power trading operation in an effort to better utilize our market knowledge and to mitigate the risk associated with energy prices.

While sales increased significantly, EBIT was $16.3 million lower because of higher cost of sales. Cost of sales was $371.3 million higher primarily due to higher power marketing expense of $263.0 million, increased fuel and purchased power expenses of approximately $71.0 million and system hedging transaction costs of approximately $33.1 million.

Fuel and purchased power expenses were higher primarily due to increased commodity prices, increased demand from retail customers because of warmer weather and higher wholesale sales volumes.

The cost of fuel was significantly affected by increased gas costs of $13.3 million (despite a 9% reduction in MMBtu of gas burned). Our average natural gas price increased 45% during the year compared to 1999. Additionally, coal costs increased by $35.1 million primarily due to increasing the quantities of coal burned in our efforts to minimize gas costs. Cost of oil increased $7.2 million primarily due to increased price and increasing the quantities of oil burned. See the Market Risk Disclosure for further discussion.

1999 Compared to 1998: External sales decreased $160.7 million, or 31%, primarily due to lower power marketing sales. Power marketing sales decreased $189.2 million, or 50%, due to milder weather compared to 1998. In 1999 and 1998, the wholesale power market experienced extreme volatility in prices and supply. This volatility impacts our cost of power purchased and our participation in power trades.

The decrease in power marketing sales was partially offset by higher wholesale sales of $29.6 million. Due to warmer than normal weather throughout the Midwest in July and increased availability of our coal-fired generation stations, we were able to sell more electricity to wholesale customers in 1999 than in 1998. During the summer of 1998, one of our coal-fired generation units was unavailable for an extended period of time, reducing our wholesale sales capacity.

The internal transfer price Fossil Generation charged Power Delivery was higher due to a higher forecasted peak demand. Therefore, internal sales and EBIT of Fossil Generation were higher. EBIT was also higher due to improved net profit on power marketing transactions.

Nuclear Generation

Nuclear generation has only internal sales because it provides all of its power to its co-owners: KGE, Kansas City Power and Light Company (KCPL) and Kansas Electric Power Cooperative, Inc. KGE owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek Generating Station (Wolf Creek). Internal sales are priced at the internal transfer price that Nuclear Generation charges to Power Delivery.

Wolf Creek has a scheduled refueling and maintenance outage approximately every 18 months. The next outage is scheduled in the spring of 2002. During an outage, Wolf Creek produces no power for its co-owners; therefore internal sales, EBIT and nuclear fuel expense decrease.

2000 Compared to 1999: Wolf Creek shut down on September 29, 2000, for its eleventh scheduled refueling and maintenance outage. Internal sales and EBIT declined immaterially because both periods had scheduled refueling and maintenance outages.

1999 Compared to 1998: Internal sales and EBIT decreased primarily due to the scheduled 36-day refueling and maintenance outage at Wolf Creek in 1999. In 1998, Wolf Creek operated the entire year without any refueling outages.

Power Delivery

The Power Delivery segment's external sales consist of the transmission and distribution of power to our electric retail and wholesale customers and the customer service provided to them. Internal sales consist of the intra-segment transfer price charged to Fossil Generation and Nuclear Generation for the use of the distribution lines and transformers.

2000 Compared to 1999: External sales increased $59.2 million, or 6%, and EBIT increased $26.3 million, or 18%. We experienced a 12% increase in residential sales volumes primarily due to a 27% increase in cooling degree days and a 15% increase in heating degree days, which increased the demand for power on our system.

1999 Compared to 1998: External sales decreased $21.3 million due primarily to 2% lower retail electric sales volumes. Retail sales volumes decreased primarily as a result of milder temperatures in 1999 than in 1998. Our service territories averaged 22% fewer cooling degree days in 1999. The cumulative effect of the electric rate decreases implemented on June 1, 1998, and June 1, 1999, reduced sales by approximately $10 million.

Internal sales were $227 million higher due to a change in the internal transfer price charged for the use of the distribution lines and transformers.

EBIT decreased $50.8 million primarily due to $21.3 million lower external sales, a $16.1 million higher internal transfer price charged by Fossil Generation and $8.3 million in ancillary service fees charged by Fossil Generation. Ancillary services include such items as voltage stabilization and spinning reserve. No ancillary service fees were charged by Fossil Generation in 1998. The increased internal transfer price was due to higher peak demand to accommodate air conditioning load.

Monitored Services

Protection One and Protection One Europe comprise our Monitored Services business. The results discussed below reflect Monitored Services on a stand-alone basis. These results do not take into consideration Protection One's minority interest of approximately 15% at December 31, 2000, 1999 and 1998.

	2000	1999	1998
		(In Thousands)	
External sales	$537,859	$599,105	$421,095
Depreciation and amortization	248,414	235,465	125,103
EBIT	(91,370)	(20,675)	34,438

2000 Compared to 1999: Sales decreased $61.2 million primarily due to a decline in customer base and the effect of the adoption of Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB 101). Adoption of SAB 101 reduced revenue by $10.9 million. In North America, Protection One had a net decrease of 141,527 customers in 2000 as compared to a net increase of 8,595 customers in 1999. The decrease in customers is primarily attributable to the fact that Protection One's present customer acquisition strategies were not able to generate accounts in a sufficient volume at acceptable costs to replace accounts lost through attrition. Protection One expects this trend will continue until the efforts it is making to acquire new accounts and reduce attrition become more successful than they have been to date. Until Protection One is able to reverse this trend, net losses of customer accounts will materially and adversely affect its business, financial condition and results of operations. Protection One's focus remains on the completion of its current infrastructure projects, the development of cost-effective marketing programs, the development of its commercial business and the generation of positive cash flow. Protection One Europe had a net increase of 9,115 customers. The increase is primarily due to internal marketing efforts.

EBIT decreased \$70.7 million due to lower sales, higher cost of sales and lower other income. Cost of sales increased \$5.6 million due to increased compensation costs for additional personnel hired at Protection One's monitoring centers, an increase in the cost of parts and materials and increased vehicle costs. Other income decreased because Protection One recorded a \$17.2 million gain on the sale of the Mobile Services Group in the third quarter of 1999.

Depreciation and amortization expense increased by \$12.9 million primarily due to the change in the estimated life of goodwill, which was reduced from 40 years to 20 years.

Operating and maintenance expense decreased \$13.6 million primarily due to declines in third party monitoring costs, signs and decals, printing and compensation expenses. These decreases are a direct result of the significant decline in the number of new accounts acquired during 2000 primarily due to the restructuring of Protection One's dealer program.

1999 Compared to 1998: Monitored Services had a net increase of 63,611 customers in 1999 as compared to a net increase of 544,521 customers in 1998. Accordingly, results for 1999 include a full year of operations with the customers added throughout 1998. The increase in customers is the primary reason for the \$178.0 million increase in external sales.

EBIT decreased \$53.6 million due to higher cost of sales as a result of increased customers, higher depreciation and amortization expense and higher selling, general and administrative expenses.

Depreciation and amortization expense increased \$108.8 million. In 1999, Protection One and Protection One Europe changed their customer amortization method from a 10-year straight-line method to a 10-year declining balance method for most of the North American and European customers. This change increased amortization expense by approximately \$39.2 million. The balance of the increase is primarily attributed to a full year of amortization expense on customers acquired during 1998. See Note 1 of Notes to Consolidated Financial Statements for further discussion.

Selling, general and administrative expenses increased \$71.5 million primarily due to costs associated with the overall increase in the average number of customers billed, additional bad debt expense of approximately \$10.5 million resulting from higher attrition, costs associated with Year 2000 compliance, professional fees and salary increases.

WESTERN RESOURCES CONSOLIDATED

Other Operating Expenses

In 1999, we recorded a charge of \$17.6 million for deferred KCPL merger costs related to the termination of the KCPL merger.

In 1998, we recorded a \$98.9 million charge to income associated with our decision to exit the international power project development business. See Note 17 of Notes to Consolidated Financial Statements for further discussion.

Other Income (Expense)

2000 Compared to 1999: Other income increased \$214.4 million primarily due to a \$91.1 million gain on the sale of our remaining investment in a gas compression company and a \$24.5 million gain on the sale of marketable securities. Other income also improved in 2000 because of a special charge of \$76.2 million we recorded in 1999 related to our paging securities portfolio. These increases were partially offset by a decrease in other income due to the \$17.2 million gain on the sale of Protection One's Mobile Services Group recorded in the third quarter of 1999.

1999 Compared to 1998: Other income for 1999 decreased \$57.3 million primarily due to the impairment charge for an other than temporary decline in the value of marketable securities recorded in 1999 as discussed above.

Interest Expense

2000 Compared to 1999: Interest expense represents the interest we paid on outstanding debt. We retired long-term debt during 1999 and 2000, causing long-term debt interest expense to decrease by \$10.0 million for the year ended December 31, 2000. The retirements included \$125 million of Western Resources' first mortgage bonds in 1999 and \$75 million in 2000. We also retired Protection One bonds in the fourth quarter of 1999 and during 2000 with an aggregate face value of \$290.4 million. For more information, see the Liquidity and Capital Resources section below.

Short-term debt interest expense was \$5.5 million higher due to increased short-term borrowings under our credit facilities. The majority of this short-term debt was repaid in the third quarter of 2000 with proceeds from the \$600 million term loan.

1999 Compared to 1998: Interest expense increased 30% primarily due to Protection One incurring additional long-term debt to fund purchases of customer accounts. We also had higher long-term debt interest expense because of the 6.25% and 6.8% unsecured senior notes due in 2018 that we issued in the third quarter of 1998. Short-term debt interest expense was \$2.4 million higher due to higher average balances of short-term debt in 1999.

Income Taxes

2000 Compared to 1999: We had income tax expense of \$46.1 million in 2000 compared to an income tax benefit of \$32.2 million in 1999. Our effective income tax rates were 33.6% for December 31, 2000, and (108.6%) for December 31, 1999. This change is primarily due to earnings before income taxes in 2000 compared to a loss before income taxes in 1999. Earnings before income taxes increased primarily due to the \$115.6 million gain on the sale of investments.

In 1999, our loss before income taxes included an impairment charge for marketable securities and the charge related to the termination of the KCPL merger.

In 2000, we also had tax expense of \$26.5 million related to our extraordinary gain on the purchase of Protection One bonds.

The difference between our effective tax rate and the statutory rate is primarily attributable to the tax benefit of excluding from taxable income, in accordance with IRS rules, 70% of the dividends received from ONEOK, the generation and utilization of tax credits from affordable housing investments, the amortization of prior years' investment tax credits, the amortization of non-deductible goodwill, the tax benefits from corporate-owned life insurance and the deduction for state income taxes.

1999 Compared to 1998: We have recorded an income tax benefit in 1999 of $32.2 million and income tax expense in 1998 of $6.8 million. This change is primarily due to lower earnings before income taxes in 1999. Earnings before income taxes decreased primarily due to operating results at Protection One, the impairment of marketable securities discussed above and the charge related to the termination of the KCPL merger.

We also had tax expense of $7.2 million related to Westar Industries' extraordinary gain on the purchase of Protection One bonds, which is presented on the consolidated statement of income after income from continuing operations.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion explains significant factors in liquidity and capital resources at December 31, 2000.

Overview

Most of our cash requirements consist of capital expenditures and maintenance costs associated with the electric utility business, cash needs of our Monitored Services business, debt service and cash payments of common stock dividends. Our ability to attract necessary financial capital on reasonable terms is critical to our overall business plan. Historically, we have paid for these items with cash on hand and the issuance of stock or long- or short-term debt. Our ability to provide the cash, stock or debt to fund our capital expenditures depends upon many things, including available resources, our financial condition and current market conditions.

We had $8.8 million in cash and cash equivalents at December 31, 2000. We consider cash equivalents to be highly liquid debt instruments when purchased with a maturity of three months or less. We also had $22.2 million of restricted cash classified as a current asset. The current asset portion of our restricted cash consists primarily of cash held in escrow as required by certain letters of credit. In addition, we had $35.9 million of restricted cash classified as a long-term asset, which consists primarily of cash held in escrow required by the terms of a pre-paid capacity and transmission agreement.

At December 31, 2000, current maturities of long-term debt were $41.8 million and short-term debt outstanding was $35.0 million. At March 19, 2001, our short-term debt outstanding was $72.0 million.

On June 28, 2000, we entered into a $600 million, multi-year term loan that replaced two revolving credit facilities, which matured on June 30, 2000. The net proceeds of the term loan were used to retire short-term debt. The term loan is secured by first mortgage bonds of the company and KGE and has a final maturity date of March 17, 2003.

Maturities of the term loan through March 17, 2003, are as follows:

Year	Principal Amount
	(In Thousands)
2001	$ 9,000
2002	6,000
2003	585,000
	$600,000

The terms of the loan contain requirements for maintaining certain consolidated leverage ratios, interest coverage ratios and consolidated debt to capital ratios. We are in compliance with all of these requirements.

Interest on the term loan is payable on the expiration date of each borrowing under the facility or quarterly if the term of the borrowing is greater than three months. The weighted average interest rate, including amortization of fees, on the term loan for the year ending December 31, 2000, was 10.28%.

We also have an arrangement with certain banks to provide a revolving credit facility on a committed basis totaling $500 million. The facility is secured by first mortgage bonds of the company and KGE and matures on March 17, 2003. Borrowings on this facility were $35.0 million at December 31, 2000, and $72.0 million at March 19, 2001. Under the terms of the agreement, we are required, among other restrictions, to maintain a total debt to total capitalization ratio of not greater than 65% at all times. We are currently in compliance with this restriction.

We have registered securities for sale with the Securities and Exchange Commission (SEC). As of December 31, 2000, these included $400 million of unsecured senior notes, $500 million of our first mortgage bonds, $50 million of KGE first mortgage bonds and approximately 11.2 million of our common shares.

Our ability to issue additional debt and equity securities is restricted under limitations imposed by the Articles of Incorporation and the Mortgage and Deed of Trusts of Western Resources and KGE.

Our mortgage prohibits additional first mortgage bonds from being issued (except in connection with certain refundings) unless our unconsolidated net earnings available for interest, depreciation and property retirement (which as defined, does not include earnings or losses attributable to the ownership of securities of subsidiaries) for a period of 12 consecutive months within 15 months preceding the issuance are not less than the greater of twice the annual interest charges on, or 10% of the principal amount of, all first mortgage bonds outstanding after giving effect to the proposed issuance. In addition, the issuance of bonds is subject to limitations based upon the amount of bondable property additions. As of December 31, 2000, $39 million of first mortgage bonds (at an assumed interest rate of 9.5%) could be issued under the most restrictive provisions in the mortgage.

KGE's mortgage prohibits additional first mortgage bonds from being issued (except in connection with certain refundings) unless KGE's net earnings before income taxes and before provision for retirement and depreciation of property for a period of 12 consecutive months within 15 months preceding the issuance are not less than either two and one-half times the annual interest charges on, or 10% of the principal amount of, all KGE first mortgage bonds outstanding after giving effect to the proposed issuance. In addition, the issuance of bonds is subject to limitations based upon the amount of bondable property additions. As of December 31, 2000, approximately $242 million principal amount of additional KGE first mortgage bonds could be issued under the most restrictive provisions in the mortgage.

Standard & Poor's, Fitch Investors Service (Fitch) and Moody's Investors Service (Moody's) are independent credit-rating agencies that rate our debt securities. These ratings indicate the agencies' assessment of our ability to pay interest and principal on these securities.

As of March 15, 2001, ratings with these agencies are as follows:

Rating Agency	Western Resources Mortgage Bond Rating	Western Resources Unsecured Debt	KGE Mortgage Bond Rating	Protection One Senior Unsecured Debt	Protection One Senior Subordinated Unsecured Debt
S&P	BBB–	BB–	BB+	B+	B–
Fitch	BB+	BB	BB+	B+	B–
Moody's	Ba1	Ba2	Ba1	B3	Caa2

Credit-rating agencies are applying more stringent guidelines when rating utility companies due to increasing competition and utility investment in non-utility businesses.

Following the announcement on November 9, 2000, of an agreement under which PNM will acquire our electric utility businesses, S&P revised its CreditWatch for us from developing to positive. Moody's has also upgraded its outlook from negative to positive. Fitch also revised our RatingWatch from negative to evolving after the November 2000 announcement.

On March 24, 2000, Moody's downgraded its ratings on Protection One's outstanding securities and on March 9, 2001, Moody's further downgraded these ratings citing concerns regarding Protection One's operations, leverage and liquidity over the intermediate term, with outlook remaining negative. S&P and Fitch currently have Protection One's ratings on negative watch.

Sale of Accounts Receivable

On July 28, 2000, we and KGE entered into an agreement to sell, on an ongoing basis, all of our accounts receivable arising from the sale of electricity, to WR Receivables Corporation, a special purpose entity wholly owned by the company. The agreement expires on July 26, 2001, and is annually renewable upon agreement by both parties. The special purpose entity has sold and, subject to certain conditions, may from time to time sell, up to $125 million (and upon request, subject to certain conditions, up to $175 million) of an undivided fractional ownership interest in the pool of receivables to a third-party, multi-seller receivables funding entity affiliated with a lender. Our retained interests in the receivables sold are recorded at cost, which approximates fair value. We have received net proceeds of $115.0 million as of December 31, 2000.

Cash Flows from Operating Activities

Cash from operations decreased to $286.1 million for the year ended December 31, 2000, from $368.4 million for the same period of 1999. The primary reasons for this decrease are income taxes paid on the sale of marketable securities in 2000 and cash required to be escrowed in 2000 for certain contractual agreements as discussed in Liquidity and Capital Resources. Changes in working capital also contributed to this decrease in cash flow from operations.

Cash Flows (used in) Investing Activities

Investing activities used net cash flow of $86.0 million in 2000. The proceeds from the sale of marketable securities of approximately $218.6 million were offset by $308.1 million of capital additions which included costs associated with two new combustion turbine generators which were placed in service in June 2000.

Investing activities used net cash flow of $467.1 million in 1999 primarily due to net additions to property, plant and equipment of approximately $275.7 million and Protection One's use of approximately $268.4 million for customer account and security alarm business acquisitions.

Cash Flows (used in) from Financing Activities

We had a net use of cash for financing activities totaling $202.4 million during 2000 due primarily to net payments on short-term and long-term debt and dividend payments. In June 2000, we received $600 million of proceeds on a multi-year term loan, which was used to replace two revolving credit facilities, which matured at the end of the second quarter. The proceeds from the sale of marketable securities and accounts receivable were also used to reduce short-term debt and to retire long-term debt.

We had net cash provided from financing activities totaling $93.3 million during 1999 due primarily to proceeds of short-term and long-term debt of $408.9 million offset by payments on long-term debt totaling $198.0 million and dividend payments of $145.0 million.

Debt and Equity Repurchase Plans

We and Protection One may, from time to time, purchase our and Protection One's debt and equity securities in the open market or through negotiated transactions. The timing and terms of purchases, and the amount of debt or equity actually purchased, will be determined by the company and Protection One based on market conditions and other factors.

Future Cash Requirements

We believe that internally generated funds and access to capital markets will be sufficient to meet our operating and capital expenditure requirements, debt service and dividend payments through the year 2003. Uncertainties affecting our ability to meet these requirements include the factors affecting sales described above, the impact of inflation on operating expenses, regulatory actions, the proposed change in accounting for goodwill, the rights offering, compliance with future environmental regulations, municipalization efforts by the City of Wichita, the pending rate applications and the impact of our Monitored Services operations and financial condition.

Additionally, our ability to access capital markets will affect the new and existing credit agreements we have available to meet our operating and capital expenditure requirements, debt service and dividend payments. We have $747 million of long-term debt and a $500 million revolving credit facility that will mature in 2003. Additionally, we have $400 million of putable/callable bonds that may either mature in August 2003 or be remarketed and repriced at our current credit spread and mature in 2018. We believe we will be successful in refinancing these obligations but can make no assurance that these financings will be completed at similar costs to maturing debt or at all.

We are constructing a new combustion turbine generator with an installed capacity of approximately 154 MW. The unit is scheduled to be placed in operation in mid-2001. We estimate that completion of the project will require approximately $20 million in capital resources during 2001.

We forecast that we will need additional capacity of approximately 150 MW by 2005 to serve our customers' expected electricity needs. The methods for supplying this additional energy will be determined at a future date.

In July 1999, we and Empire District Electric Company (Empire) agreed to jointly construct a 500-MW combined-cycle generating plant, which Empire will operate. We will own a 40% interest in the plant through a subsidiary, Westar Generating, Inc., which will be entitled to 40% of the plant's capacity. We estimate that our share of the cost of completing the project will require approximately $31 million in capital resources during 2001. Commercial operation is expected to begin in mid-2001.

Our business requires significant capital investments. We currently expect that through the year 2003, we will need cash mostly for:

- Ongoing utility construction and maintenance programs designed to maintain and improve facilities providing electric service
- Improving operations within the Monitored Services business and the acquisition of customer accounts

Capital expenditures for 2000 and anticipated capital expenditures for 2001 through 2003 are as follows:

	Fossil Generation	Nuclear Generation	Power Delivery	Monitored Services	Other	Total
	(In Thousands)					
2000	$162,600	$25,900	$97,000	$ 69,500	$ 2,900	$357,900
2001	110,700	16,700	89,300	92,900	200	309,800
2002	76,600	19,900	97,100	101,300	—	294,900
2003	70,400	29,400	96,000	134,900	—	330,700

Monitored Services includes capital expenditures for Protection One and Protection One Europe, including purchases of customer accounts. Other represents our commitment to fund our affordable housing tax credit program.

These estimates are prepared for planning purposes and will be revised from time to time. See Note 6 of Notes to Consolidated Financial Statements. Actual expenditures are likely to differ from our estimates.

Maturities of long-term debt as of December 31, 2000, are as follows:

Year	Principal Amount
	(In Thousands)
2001	$ 41,825
2002	116,705
2003	747,207
2004	370,617
2005	313,007
Thereafter	1,683,819
	$3,273,180

Capital Structure

Our capital structure at December 31, 2000 and 1999, was as follows:

	2000	1999
Shareholders' Equity	35%	38%
Preferred stock	1	1
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company subordinated debentures	4	4
Long-term debt	60	57
Total	100%	100%

Dividend Policy

Our board of directors reviews our dividend policy from time to time. Among the factors the board of directors considers in determining our dividend policy are earnings, cash flows, capitalization ratios, competition and financial loan covenants. Provisions in our Articles of Incorporation contain restrictions on the payment of dividends or the making of other distributions on our common stock while any preferred shares remain outstanding unless certain capitalization ratios and other conditions are met. Our agreement with PNM prohibits an increase in the dividend paid on our common stock without the consent of PNM.

OTHER INFORMATION

Electric Utility

City of Wichita Municipalization Efforts: In December 1999, the City Council of Wichita, Kansas, authorized the hiring of an outside consultant to determine the feasibility of creating a municipal electric utility to replace KGE as the supplier of electricity in Wichita. The feasibility study was released in February 2001 and estimates that the City of Wichita would be required to pay us \$145 million for our stranded costs if it were to municipalize. However, we estimate the amount to be substantially greater. In order to municipalize KGE's Wichita electric facilities, the City of Wichita would be required to purchase KGE's facilities or build a separate independent system and arrange for its own power supply. These costs are in addition to the stranded costs for which the city would be required to reimburse us. On February 2, 2001, the City of Wichita announced its intention to proceed with its attempt to municipalize KGE's retail electric utility business in Wichita. KGE will oppose municipalization efforts by the City of Wichita. Should the city be successful in its municipalization efforts without providing us adequate compensation for our assets and lost revenues, the adverse effect on our business and financial condition could be material.

KGE's franchise with the City of Wichita to provide retail electric service expires in March 2002. There can be no assurance that we can successfully renegotiate the franchise with terms similar, or as favorable, as those in the current franchise. Under Kansas law, KGE will continue to have the right to serve the customers in Wichita following the expiration of the franchise, assuming the system is not municipalized. Customers within the Wichita metropolitan area account for approximately 25% of our total energy sales.

KCC Rate Proceedings: On November 27, 2000, we and KGE filed applications with the KCC for a change in retail rates, which included a cost allocation study and separate cost of service studies for our KPL division and KGE. We and KGE also provided revenue requirements on a combined company basis on December 28, 2000. If approved as proposed, the impact of these rate requests will be an annual increase of \$93.0 million for our KPL division and \$58.0 million for KGE for a total of \$151.0 million. The proposal also contains a mechanism for adjusting these rate requests up or down if projected natural gas fuel prices are different from the prices utilized in the November 27, 2000, filings. We anticipate a ruling by the KCC in July 2001 but are unable to predict its outcome. We can give no assurance that these rate requests will be approved as proposed.

FERC Proceeding: In September 1999, the City of Wichita filed a complaint with FERC against us alleging improper affiliate transactions between our KPL division and KGE, our wholly owned subsidiary. The City of Wichita asked that FERC equalize the generation costs between KPL and KGE, in addition to other matters. A hearing on the case was held at FERC on October 11 and 12, 2000, and on November 9, 2000, a FERC administrative law judge ruled in our favor that no change in rates was required. On December 13, 2000, the City of Wichita filed a brief with FERC asking that the Commission overturn the judge's decision. On January 5, 2001, we filed a brief opposing the city's position. We anticipate a decision by FERC in the second quarter of 2001. A decision requiring equalization of rates could have a material adverse effect on our business and financial condition.

Competition and Deregulation: The United States electric utility industry is evolving from a regulated monopolistic market to a competitive marketplace. During 2000 and early 2001, extensive problems in the deregulated California market have made many states reconsider deregulation efforts. Various states have taken steps to allow retail customers to purchase electric power from providers other than their local utility company. Several bills promoting deregulation were introduced to the Kansas Legislature in the 1999 legislative session, but none passed. No bills were considered in the legislature during the 2000 legislative session. Based on these events, we do not anticipate deregulation to occur in Kansas in the near term.

The 1992 Energy Policy Act began deregulating the electricity market for generation. The Energy Policy Act permitted FERC to order electric utilities to allow third parties the use of their transmission systems to sell electric power to wholesale customers. During 2000, traditional wholesale electric sales, excluding power marketing sales, represented approximately 12% of total electric sales. In 1992, we agreed to open access of our transmission system for wholesale transactions. FERC also requires us to provide transmission services to others under terms comparable to those we provide ourselves. In December 1999, FERC issued an order (FERC Order 2000) encouraging formation of regional transmission organizations (RTOs), whose purpose is to facilitate greater competition at the wholesale level. We are a member of the Southwest Power Pool (SPP), which filed a second request with FERC in October 2000 to seek RTO recognition, which reflects FERC comments to the SPP's first request. We anticipate that FERC Order 2000 will not have a material effect on us or our operations.

If retail wheeling is implemented in Kansas, increased competition for retail electricity sales may reduce our future electric utility earnings compared to our historical electric utility earnings. Wholesale and industrial customers may pursue cogeneration, self-generation, retail wheeling, municipalization or relocation to other service territories in an attempt to cut their energy costs. Our rates range from approximately 5% to 24% below the national average for retail customers. Because of these rates, we expect to retain a substantial portion of our current sales volumes in a competitive environment.

Stranded Costs: The definition of stranded costs for a utility business is the investment in and carrying costs on property, plant and equipment and other regulatory assets, which exceed the amount that can be recovered in a competitive market. We currently apply accounting standards that recognize the economic effects of rate regulation and record regulatory assets and liabilities related to our Fossil Generation, Nuclear Generation and Power Delivery operations. If we determine that we no longer meet the criteria of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), we may have a material extraordinary non-cash charge to earnings. Reasons for discontinuing SFAS 71 accounting treatment include increasing competition that restricts our ability to charge prices needed to recover costs already incurred and a significant change by regulators from a cost-based rate regulation to another form of rate regulation and the impact should the City of Wichita's municipalization efforts be successful. We periodically review SFAS 71 criteria and believe our net regulatory assets, including those related to generation, are probable of future recovery. If we discontinue SFAS 71 accounting treatment based upon competitive or other events, such as the successful municipalization efforts by areas we serve, we may significantly impact the value of our net regulatory assets and our utility plant investments, particularly Wolf Creek.

Regulatory changes, including competition or successful municipalization efforts by the City of Wichita, could adversely impact our ability to recover our investment in these assets. As of December 31, 2000, we have recorded regulatory assets that are currently subject to recovery in future rates of approximately $327.4 million. Of this amount, $187.3 million is a receivable for income tax benefits previously passed on to customers. The remainder of the regulatory assets are items that may give rise to stranded costs, including debt issuance costs, deferred employee benefit costs, deferred plant costs and coal contract settlement costs.

In a competitive environment or because of such successful municipalization efforts, we may not be able to fully recover our entire investment in Wolf Creek. KGE presently owns 47% of Wolf Creek. We may also have stranded costs from an inability to recover our environmental remediation costs and long-term fuel contract costs in a competitive environment. If we determine that we have stranded costs and we cannot recover our investment in these assets, our future net utility income will be lower than our historical net utility income has been unless we compensate for the loss of such income with other measures.

Nuclear Decommissioning: Decommissioning is a nuclear industry term for the permanent shut-down of a nuclear power plant. The Nuclear Regulatory Commission (NRC) will terminate a plant's license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear plants to prepare formal financial plans to fund decommissioning. These plans are designed so that funds required for decommissioning will be accumulated during the estimated remaining life of the related nuclear power plant.

On September 1, 1999, Wolf Creek submitted the 1999 Decommissioning Cost Study to the KCC for approval. The KCC approved the 1999 Decommissioning Cost Study on April 26, 2000. Based on the study, our share of Wolf Creek's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $631 million during the period 2025 through 2034, or approximately $221 million in 1999 dollars. These costs include decontamination, dismantling and site restoration and were calculated using an assumed inflation rate of 3.6% over the remaining service life from 1999 of 26 years. The actual decommissioning costs may vary from the estimates because of changes in the assumed dates of decommissioning, changes in regulatory requirements, changes in technology and changes in costs of labor, materials and equipment. On May 26, 2000, we filed an application with the KCC requesting approval of the funding of our decommissioning trust on this basis. Approval was granted by the KCC on September 20, 2000.

The FASB is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. The FASB has issued an Exposure Draft "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." The FASB expects to issue a final statement of financial accounting standard in the second quarter of 2001. The proposed Exposure Draft contains an effective date of fiscal years beginning after June 15, 2001. However, the ultimate effective date has not been finalized. If current accounting practices for nuclear power plant decommissioning are changed, the following could occur:

- Our annual decommissioning expense could be higher than in 2000
- The estimated cost for decommissioning could be recorded as a liability (rather than as accumulated depreciation)
- The increased costs could be recorded as additional investment in the Wolf Creek plant

We do not believe that such changes, if required, would adversely affect our operating results due to our current ability to recover decommissioning costs through rates. See Note 14 of the Notes to Consolidated Financial Statements.

Monitored Services

Attrition: Customer attrition has a direct impact on Protection One's and Protection One Europe's results of operations since it affects revenues, amortization expense and cash flow. Any significant change in the pattern of their historical attrition experience would have a material effect on the results of operations.

Customer attrition for the years ended December 31, 2000 and 1999, is summarized below:

	Customer Account Attrition			
	December 31, 2000		December 31, 1999	
	Annualized Fourth Quarter	Trailing Twelve Month	Annualized Fourth Quarter	Trailing Twelve Month
Protection One	15.0%	14.0%	14.7%	14.3%
Protection One Europe	11.4%	12.2%	10.7%	9.5%

Our Monitored Services segment had a net decrease of 119,415 customers from December 31, 1999, to December 31, 2000. The number of customers decreased primarily because Monitored Services' customer acquisition strategies were not able to generate accounts in a sufficient volume at acceptable costs to replace accounts lost through attrition. We expect that this trend will continue until the efforts being made to acquire new accounts at acceptable costs and reduce attrition become more successful than they have been to date. Until this trend has been reversed, net losses of customer accounts will materially and adversely affect Monitored Services' business, financial condition, results of operation and prospects.

Related Party Transactions

We and ONEOK have shared services agreements in which we provide and bill one another for facilities, utility field work, information technology, customer support, bill processing and human resources services. Payments for these services are based on various hourly charges, negotiated fees and out-of-pocket expenses. In 2000 and 1999, ONEOK paid us $5.0 million and $5.6 million, net of what we owed ONEOK, for services.

At December 31, 2000, $44.0 million was outstanding under Protection One's senior credit facility with Westar Industries. In February 2001, the facility maturity date was extended to January 2, 2002, and in March 2001, Protection One requested a $40 million increase in the commitment under the facility pursuant to the terms of the facility.

We have a tax sharing agreement with Protection One. This pro rata tax sharing agreement allows Protection One to be reimbursed for current tax benefits utilized in our consolidated tax return. Upon consummation of the PNM merger and the split-off, we will no longer consolidate Protection One's tax return with ours.

During 2000, Westar Industries purchased $170.0 million face value of Protection One bonds on the open market. In exchange for cash and the settlement of certain intercompany payables and receivables, $103.9 million of these debt securities were transferred to Protection One. The balance of the bonds was sold to Protection One in March 2001. No gain or loss was recognized on these transactions.

On February 29, 2000, Westar Industries purchased the European operations of Protection One and certain investments held by a subsidiary of Protection One for an aggregate purchase price of $244 million. Westar Industries paid approximately $183 million in cash and transferred Protection One debt securities with a market value of approximately $61 million to Protection One. Westar Industries has agreed to pay Protection One a portion of the net gain, if any, on a subsequent sale of the European businesses on a declining basis over the four years following the closing. Cash proceeds from the transaction were used to reduce the outstanding balance owed to Westar Industries on Protection One's revolving credit facility. No gain or loss was recorded on this intercompany transaction and the net book value of the assets was unaffected.

We may acquire additional Protection One debt securities. The timing and terms of purchases, and the amount of debt actually purchased, will be based on market conditions and other factors. Purchases are expected to be made in the open market or through negotiated transactions. Because Protection One's debt currently trades at less than its carrying value, we would expect to realize an extraordinary gain on extinguishment of debt on any future purchases.

On February 28, 2001, Westar Industries converted a portion of a receivable owed by us into approximately 14.4 million shares of our common stock. See Note 2 of the Notes to Consolidated Financial Statements.

Market Risk Disclosure

Market Price Risks: We are exposed to market risk, including market changes, changes in commodity prices, equity instrument investment prices and interest rates.

Commodity Price Exposure: In 2000, we engaged in both trading and non-trading activities in our commodity price risk management activities. We traded electricity, gas and oil. We utilized a variety of financial instruments, including forward contracts involving cash settlements or physical delivery of an energy commodity, options, swaps requiring payments (or receipt of payments) from counterparties based on the differential between specified prices for the related commodity and futures traded on electricity, natural gas and oil.

We are involved in trading activities primarily to minimize risk from market fluctuations, capitalize on our market knowledge and enhance system reliability. We attempted to balance our physical and financial purchase and sale contracts in terms of quantities and contract terms. Net open positions existed or were established due to the origination of new transactions and our assessment of, and response to, changing market conditions. To the extent we had open positions, we were exposed to the risk that fluctuating market prices could adversely impact our financial position or results from operations. In 2001, we expect to trade coal, natural gas and oil fossil fuel types as well as electricity.

We manage and measure the exposure of our trading portfolio using a variance/covariance value-at-risk (VAR) model, which simulates forward price curves in the energy markets to estimate the size of future potential losses. The quantification of market risk using VAR methodologies provides a consistent measure of risk across diverse energy markets and products.

The use of the VAR method requires a number of key assumptions including the selection of a confidence level for losses and the estimated holding period. We express VAR as a potential dollar loss based on a 95% confidence level using a one-day holding period. Our Risk Oversight Committee sets the VAR limit. The high, low and average VAR amounts for the year ended December 31, 2000, were $725,403, $36,559 and $269,217. We employ additional risk control mechanisms such as stress testing, daily loss limits and commodity position limits. We expect to use the same VAR model and VAR limits in 2001.

We have considered a number of risks and costs associated with the future contractual commitments included in our energy portfolio. These risks include credit risks associated with the financial condition of counterparties, product location (basis) differentials and other risks, which management policy dictates. The counterparties in our portfolio are primarily large energy marketers and major utility companies. The creditworthiness of our counterparties could positively or negatively impact our overall exposure to credit risk. We maintain credit policies with regard to our counterparties that, in management's view, minimize overall credit risk.

We are also exposed to commodity price changes outside of trading activities. We use derivatives for non-trading purposes primarily to reduce exposure relative to the volatility of market prices. From 1999 to 2000, we experienced a 13% increase in the average price per MW of electricity purchased for utility operations. Actual purchased power market volatility was significantly greater than the average price increase indicates. If we were to have a similar increase from 2000 to 2001, given the amount of power purchased for utility operations during 2000, we would have an exposure of approximately $5.4 million of operating income. Due to the volatility of the power market, past prices cannot be used to predict future prices.

We use a mix of various fuel types, including coal and natural gas, to operate our system, which helps lessen our risk associated with any one fuel type. Natural gas prices increased significantly during 2000 throughout the nation. This increase impacted the cost of gas we used for generation as well as our cost of purchased power. From December 31, 1999, to December 31, 2000, we experienced a 45% increase in our average cost for natural gas purchased for utility operations, or an increase of $1.07 per MMBtu. The higher natural gas prices increased our total cost of gas purchased during 2000 by approximately $16.9 million although we decreased the quantity burned by 1.5 million MMBtu. If we were to have a similar increase from 2000 to 2001, we would have an exposure of approximately $24.4 million of operating income.

Based on MMBtus of natural gas and fuel oil burned during 2000, we had exposure of approximately $6.8 million of operating income for a 10% change in average price paid per MMBtu. Actual natural gas market volatility was significantly greater than that indicated by the average price increase. Due to the volatility of natural gas prices, past prices cannot be used to predict future prices.

During the first quarter of 2001, spot market prices for western coal markets increased significantly. This increase will impact the fuel contracts currently in place for a portion of our 2001 anticipated coal needs at our La Cygne Generating Station, increasing our coal commodity price market risk. We believe that 2001 spot market purchases will be at higher rates than those experienced during 2000.

In an effort to mitigate fuel commodity price market risk, we use hedging arrangements to minimize our exposure to increased coal, natural gas and oil prices. Our future exposure to changes in fossil fuel prices will be dependent upon the market prices and the extent and effectiveness of any hedging arrangements we enter into.

Additional factors that affect our commodity price exposure are the quantity and availability of fuel used for generation and the quantity of electricity customers will consume. Quantities of fossil fuel used for generation could vary dramatically year to year based on the individual fuel's availability, price, deliverability, unit outages and nuclear refueling. Our customers' electricity usage could also vary dramatically year to year based on the weather or other factors.

Financial Hedging Exposure: We also use financial instruments to hedge a portion of our anticipated fossil fuel needs. At the time we enter into these transactions, we are unable to determine what the value will be when the agreements are actually settled.

Decline in Equity Price Risk: During 2000, our balance in marketable securities declined approximately $173.2 million from December 31, 1999, due to the sale of a significant portion of our marketable security portfolio. We do not expect to be materially impacted by changes in the market prices of our remaining investments.

Interest Rate Exposure: We have approximately $156.9 million of variable rate debt and current maturities of fixed rate debt as of December 31, 2000. Our weighted average interest rate increased from 6.96% at December 31, 1999, to 8.11% at December 31, 2000. A 100 basis point change in each debt series' benchmark rate used to set the rate for such series would impact net income on an annual basis by approximately $1.6 million after tax.

Foreign Currency Exchange Rates: We have foreign operations with functional currencies other than the U.S. dollar. As of December 31, 2000, the unrealized loss on currency translation, presented as a separate component of shareholders' equity and reported within other comprehensive income was approximately $9.4 million pretax. A 10% change in the currency exchange rates would have an immaterial effect on other comprehensive income.

New Accounting Pronouncements

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

We adopted SFAS 133 on January 1, 2001. We have evaluated our commodity contracts, financial instruments and other contracts and have determined that we have derivative instruments, which will be marked to market through earnings in accordance with SFAS 133. We will not designate any derivatives as hedges. We estimate that the effect on our financial statements of adopting SFAS 133 on January 1, 2001, will be to increase pre-tax earnings for the first quarter of 2001 by approximately $31 million. Accounting for derivatives under SFAS 133 may increase volatility in future earnings.

Consolidated Balance Sheets

As of December 31, (Dollars in Thousands)	2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,762	$ 11,040
Restricted cash	22,205	15,962
Accounts receivable (net)	152,165	229,200
Inventories and supplies (net)	101,303	112,392
Marketable securities	3,946	177,128
Energy trading contracts	185,364	16,370
Prepaid expenses and other	40,503	40,876
Total Current Assets	514,248	602,968
PROPERTY, PLANT AND EQUIPMENT (NET)	3,993,438	3,889,444
OTHER ASSETS:		
Restricted cash	35,878	—
Investment in ONEOK	591,173	590,109
Customer accounts (net)	1,005,505	1,122,585
Goodwill (net)	976,102	1,057,041
Regulatory assets	327,350	366,004
Other	323,514	361,741
Total Other Assets	3,259,522	3,497,480
TOTAL ASSETS	$ 7,767,208	$7,989,892
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 41,825	$ 111,667
Short-term debt	35,000	705,421
Accounts payable	177,067	132,834
Accrued liabilities	207,329	226,786
Accrued income taxes	53,834	40,328
Deferred security revenues	73,585	61,148
Energy trading contracts	191,673	15,182
Other	34,187	57,829
Total Current Liabilities	814,500	1,351,195
LONG-TERM LIABILITIES:		
Long-term debt (net)	3,237,849	2,883,066
Western Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely company subordinated debentures	220,000	220,000
Deferred income taxes and investment tax credits	919,807	976,135
Minority interests	184,591	192,734
Deferred gain from sale-leaseback	186,294	198,123
Other	272,747	279,451
Total Long-term Liabilities	5,021,288	4,749,509
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
SHAREHOLDERS' EQUITY:		
Cumulative preferred stock	24,858	24,858
Common stock, par value $5 per share, authorized 150,000,000 shares, outstanding 70,082,314 and 67,401,657 shares, respectively	350,412	341,508
Paid-in capital	850,100	820,945
Retained earnings	714,454	679,880
Accumulated other comprehensive income (loss) (net)	(8,404)	37,788
Treasury stock, at cost, 0 and 900,000 shares, respectively	—	(15,791)
Total Shareholders' Equity	1,931,420	1,889,188
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 7,767,208	$7,989,892

The Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31, (Dollars in Thousands, Except Per Share Amounts)	2000	1999	1998
SALES:			
Energy	**$1,830,617**	$1,430,982	$1,612,959
Monitored Services	**537,859**	599,105	421,095
Total Sales	**2,368,476**	2,030,087	2,034,054
COST OF SALES:			
Energy	**850,277**	478,982	691,468
Monitored Services	**185,555**	179,964	131,791
Total Cost of Sales	**1,035,832**	658,946	823,259
Gross profit	**1,332,644**	1,371,141	1,210,795
OPERATING EXPENSES:			
Operating and maintenance expense	**337,481**	337,081	337,507
Depreciation and amortization	**426,369**	403,669	288,125
Selling, general and administrative expense	**343,163**	340,609	263,310
International power development costs	—	(5,632)	98,916
Deferred merger costs	—	17,600	—
Total Operating Expenses	**1,107,013**	1,093,327	987,858
INCOME FROM OPERATIONS	**225,631**	277,814	222,937
OTHER INCOME (EXPENSE):			
Investment earnings	**192,423**	35,979	49,797
Impairment of marketable securities	—	(76,166)	—
Minority interests	**8,625**	12,600	2,762
Other	—	14,234	(8,563)
Total Other Income (Expense)	**201,048**	(13,353)	43,996
EARNINGS BEFORE INTEREST AND TAXES	**426,679**	264,461	266,933
INTEREST EXPENSE:			
Interest expense on long-term debt	**226,419**	236,417	170,855
Interest expense on short-term debt and other	**63,149**	57,687	55,265
Total Interest Expense	**289,568**	294,104	226,120
EARNINGS (LOSS) BEFORE INCOME TAXES	**137,111**	(29,643)	40,813
Income tax expense (benefit)	**46,061**	(32,197)	6,755
NET INCOME BEFORE EXTRAORDINARY GAIN AND ACCOUNTING CHANGE	**91,050**	2,554	34,058
Extraordinary gain, net of tax of $26,514, $6,322 and $2,730	**49,241**	11,742	1,591
Cumulative effect of accounting change, net of tax of $1,097	**(3,810)**	—	—
NET INCOME	**136,481**	14,296	35,649
Preferred dividends	**1,129**	1,129	3,591
EARNINGS AVAILABLE FOR COMMON STOCK	**$ 135,352**	$ 13,167	$ 32,058
Average common shares outstanding	**68,962,245**	67,080,281	65,633,743
BASIC AND DILUTED EARNINGS PER AVERAGE COMMON SHARE OUTSTANDING:			
Before extraordinary gain and accounting change	**$1.30**	$0.02	$0.46
Extraordinary gain	**0.71**	0.18	0.02
Accounting change	**(0.05)**	—	—
After extraordinary gain and accounting change	**$1.96**	$0.20	$0.48
DIVIDENDS DECLARED PER COMMON SHARE	**$1.435**	$2.14	$2.14

The Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31, (In Thousands)	**2000**	1999	1998
NET INCOME	**$136,481**	$14,296	$35,649
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized holding gains/(losses) on marketable securities arising during the year	**43,174**	(55,420)	(17,244)
Adjustment for (gains)/losses included in net income	**(114,948)**	102,417	14,029
Net change in unrealized gain/(loss) on marketable securities	**(71,774)**	46,997	(3,215)
Foreign currency translation adjustment	**(9,376)**	(115)	(1,026)
Income tax (expense)/benefit	**34,958**	(18,602)	1,630
Total other comprehensive income (loss), net of tax	**(46,192)**	28,280	(2,611)
COMPREHENSIVE INCOME	**$ 90,289**	$42,576	$33,038

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, (In Thousands)	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 136,481**	$ 14,296	$ 35,649
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary gain	**(49,241)**	(11,742)	(1,591)
Cumulative effect of accounting change	**3,810**	—	—
Depreciation and amortization	**426,369**	403,669	288,125
Amortization of gain on sale-leaseback	**(11,828)**	(11,828)	(11,828)
Equity in earnings from investments	**(11,219)**	(8,199)	(6,064)
Minority interests	**(8,625)**	(12,600)	(2,762)
(Gain)/loss on sale of marketable securities	**(114,948)**	26,251	14,029
Impairment of marketable securities	—	76,166	—
Gain on sale of investments	**(9,562)**	(17,249)	—
Accretion of debt premium	**(6,237)**	(6,799)	3,034
Write-off of international development activities	—	(5,632)	98,916
Net deferred taxes	**(29,744)**	(15,825)	(57,119)
Deferred merger costs	—	17,600	—
Changes in working capital items (net of effects from acquisitions):			
Restricted cash	**(15,234)**	(18,689)	(11,987)
Accounts receivable (net)	**(37,127)**	(3,824)	118,844
Inventories and supplies (net)	**12,282**	(15,024)	(8,000)
Accounts payable	**44,172**	5,000	(33,613)
Accrued liabilities	**(19,457)**	(20,152)	(42,411)
Accrued income taxes	**13,506**	7,386	5,582
Deferred security revenues	**(2,065)**	3,479	(2,237)
Other	**(10,314)**	(2,571)	43,518
Changes in other assets and liabilities	**(24,875)**	(35,272)	(29,873)
Net cash flows from operating activities	**286,144**	368,441	400,212
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Additions to property, plant and equipment (net)	**(308,073)**	(275,744)	(182,885)
Customer account acquisitions	**(35,513)**	(241,000)	(277,667)
Security alarm monitoring acquisitions, net of cash acquired	**(11,748)**	(27,409)	(549,196)
Purchases of marketable securities	—	(12,003)	(261,036)
Proceeds from sale of marketable securities	**218,609**	73,456	27,895
Other investments (net)	**50,688**	15,556	(91,451)
Net cash flows used in investing activities	**(86,037)**	(467,144)	(1,334,340)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Short-term debt (net)	**(670,421)**	392,949	75,972
Proceeds of long-term debt	**610,045**	16,000	1,096,238
Retirements of long-term debt	**(208,952)**	(198,021)	(167,068)
Proceeds from accounts receivable sale (net)	**115,000**	—	—
Proceeds from issuance of stock by subsidiary	—	—	45,565
Issuance of common stock (net)	**38,059**	43,245	17,284
Redemption of preference stock	—	—	(50,000)
Cash dividends paid	**(98,827)**	(145,033)	(144,077)
Acquisition of treasury stock	**(9,187)**	(15,791)	—
Reissuance of treasury stock	**21,898**	—	—
Net cash flows from (used in) financing activities	**(202,385)**	93,349	873,914
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,278)**	(5,354)	(60,214)
CASH AND CASH EQUIVALENTS:			
Beginning of year	**11,040**	16,394	76,608
End of year	**$ 8,762**	$ 11,040	$ 16,394

The Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)	Cumulative Preferred and Preference Stock	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation	Treasury Stock	Total
BALANCE, December 31, 1997	$74,858	$327,048	$760,553	$919,045	$12,119	$ —	$ —	$2,093,623
Net income	—	—	—	35,649	—	—	—	35,649
Redemption of preference stock	(50,000)	—	—	—	—	—	—	(50,000)
Dividends on preferred and preference stock	—	—	—	(3,591)	—	—	—	(3,591)
Issuance of common stock	—	2,500	12,711	—	—	—	—	15,211
Dividends on common stock	—	—	—	(140,486)	—	—	—	(140,486)
Unrealized loss on marketable securities	—	—	—	—	(3,215)	—	—	(3,215)
Currency translation adjustments	—	—	—	—	(1,026)	—	—	(1,026)
Tax benefit	—	—	—	—	1,630	—	—	1,630
Grant of restricted stock	—	—	4,137	—	—	(4,137)	—	—
Amortization of restricted stock	—	—	—	—	—	2,073	—	2,073
BALANCE, December 31, 1998	$24,858	$329,548	$777,401	$810,617	$9,508	$ (2,064)	$ —	$1,949,868
Net income	—	—	—	14,296	—	—	—	14,296
Dividends on preferred and preference stock	—	—	—	(1,129)	—	—	—	(1,129)
Issuance of common stock	—	11,960	44,906	—	—	—	—	56,866
Dividends on common stock	—	—	—	(143,904)	—	—	—	(143,904)
Unrealized gain on marketable securities	—	—	—	—	46,997	—	—	46,997
Currency translation adjustments	—	—	—	—	(115)	—	—	(115)
Tax expense	—	—	—	—	(18,602)	—	—	(18,602)
Acquisition of treasury stock	—	—	—	—	—	—	(15,791)	(15,791)
Grant of restricted stock	—	—	4,333	—	—	(4,333)	—	—
Amortization of restricted stock.	—	—	—	—	—	702	—	702
BALANCE, December 31, 1999	$24,858	$341,508	$826,640	$679,880	$37,788	$ (5,695)	$ (15,791)	$1,889,188
Net income	—	—	—	136,481	—	—	—	136,481
Dividends on preferred and preference stock	—	—	—	(1,129)	—	—	—	(1,129)
Issuance of common stock	—	8,904	18,537	—	—	—	—	27,441
Dividends on common stock	—	—	—	(97,698)	—	—	—	(97,698)
Unrealized loss on marketable securities	—	—	—	—	(71,774)	—	—	(71,774)
Currency translation adjustments	—	—	—	—	(9,376)	—	—	(9,376)
Tax benefit	—	—	—	—	34,958	—	—	34,958
Acquisition of treasury stock	—	—	—	—	—	—	(9,187)	(9,187)
Issuance of treasury stock.	—	—	—	(3,080)	—	—	24,978	21,898
Grant of restricted stock	—	—	22,989	—	—	(22,989)	—	—
Amortization of restricted stock.	—	—	—	—	—	10,618	—	10,618
BALANCE, December 31, 2000	$24,858	$350,412	$868,166	$714,454	$(8,404)	$(18,066)	$ —	$1,931,420

The Notes to Consolidated Financial Statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business: Western Resources, Inc. (Western Resources, the company) is a publicly traded consumer services company. The company's primary business activities are providing electric generation, transmission and distribution services to approximately 636,000 customers in Kansas and providing monitored security services to approximately 1.5 million customers in North America and Europe. Rate-regulated electric service is provided by KPL, a division of the company, and Kansas Gas and Electric Company (KGE), a wholly owned subsidiary. Monitored security services are provided by Protection One, Inc., a publicly traded, approximately 85%-owned subsidiary, and other wholly owned subsidiaries collectively referred to as Protection One Europe. In addition, through the company's 45% ownership interest in ONEOK, Inc., natural gas transmission and distribution services are provided to approximately 1.4 million customers in Oklahoma and Kansas. Westar Industries, Inc., the company's wholly owned subsidiary, owns the company's interests in Protection One, Protection One Europe, ONEOK and other non-utility businesses.

Principles of Consolidation: The company prepares its financial statements in conformity with accounting principles generally accepted in the United States. The accompanying Consolidated Financial Statements include the accounts of Western Resources and its wholly owned and majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Common stock investments that are not majority owned are accounted for using the equity method when the company's investment allows it the ability to exert significant influence.

Regulatory Accounting: The company currently applies accounting standards for its rate-regulated electric business that recognize the economic effects of rate regulation in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71) and, accordingly, has recorded regulatory assets and liabilities when required by a regulatory order or when it is probable, based on regulatory precedent, that future rates will allow for recovery of a regulatory asset.

Use of Management's Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The company considers highly liquid collateralized debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted Cash: Restricted cash consists of cash used to collateralize letters of credit and cash held in escrow.

Accounts Receivable: Receivables, which consist primarily of trade accounts receivable, were reduced by allowances for doubtful accounts of $45.8 million at December 31, 2000, and $35.8 million at December 31, 1999.

Available-for-sale Securities: The company classifies marketable equity and debt securities accounted for under the cost method as available-for-sale. These securities are reported at fair value based on quoted market prices. Cumulative, temporary unrealized gains and losses, net of the related tax effect, are reported as a separate component of shareholders' equity until realized. Current temporary changes in unrealized gains and losses are reported as a component of other comprehensive income. Realized gains and losses are included in earnings and are derived using the specific identification method.

The following table summarizes the company's investments in marketable securities as of December 31:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
2000:				
Equity securities	$ 6,690	$ —	$ (2,744)	$ 3,946
Debt securities	—	—	—	—
Total	$ 6,690	$ —	$ (2,744)	$ 3,946
1999:				
Equity securities	$ 43,124	$70,407	$ (1,628)	$111,903
Debt securities	65,225	—	—	65,225
Total	$108,349	$70,407	$ (1,628)	$ 177,128

Proceeds from the sales of equity and debt securities were $218.6 million in 2000 and $73.5 million in 1999. The gross realized gains from sales of equity and debt investments were $116.0 million in 2000 and $12.6 million in 1999. The gross realized losses from sales of equity and debt investments were $1.0 million in 2000 and $38.8 million in 1999.

Energy Trading Contracts: The company is involved in system hedging and trading activities primarily to minimize risk from commodity market fluctuations, capitalize on its market knowledge and enhance system reliability. In these activities, the company utilizes a variety of financial instruments, including forward contracts involving cash settlements or physical delivery of an energy commodity, options, swaps requiring payments (or receipt of payments) from counterparties based on the differential between specified prices for the related commodity and futures traded on electricity and natural gas.

The company accounts for transactions on either a settlement basis or using the mark-to-market method of accounting. On a settlement basis, the company recognizes the gains or losses on system hedging transactions as the power is delivered. Under the mark-to-market method of accounting, trading transactions are shown at fair value in the consolidated balance sheets as energy trading contracts assets – current and energy trading contracts liabilities-current. Long-term energy trading contract assets and liabilities are included in other long-term assets and other long-term liabilities, respectively. The company reflects changes in fair value resulting in unrealized gains and losses from these transactions in energy sales. The company records the revenues and costs for all transactions in its consolidated statements of income when the contracts are settled. The company recognizes revenues in energy sales; costs are recorded in energy cost of sales.

The company values contracts in the trading portfolio using end-of-the-period market prices, utilizing the following factors (as applicable):

- closing exchange prices (that is, closing prices for standardized electricity products traded on an organized exchange such as the New York Mercantile Exchange)
- broker/dealer and over-the-counter price quotations

Property, Plant and Equipment: Property, plant and equipment is stated at cost. For utility plant, cost includes contracted services, direct labor and materials, indirect charges for engineering, supervision, general and administrative costs and an allowance for funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds used to finance construction projects. The AFUDC rate was 7.39% in 2000, 6.00% in 1999 and 6.00% in 1998. The cost of additions to utility plant and replacement units of property are capitalized. Interest capitalized into construction in progress was $9.4 million in 2000, $4.4 million in 1999 and $1.9 million in 1998.

Maintenance costs and replacement of minor items of property are charged to expense as incurred. Incremental costs incurred during scheduled Wolf Creek Generating Station refueling and maintenance outages are deferred and amortized monthly over the unit's operating cycle, normally about 18 months. When units of depreciable property are retired, the original cost and removal cost, less salvage value, are charged to accumulated depreciation.

In accordance with regulatory decisions made by the Kansas Corporation Commission (KCC), the acquisition premium of approximately $801 million resulting from the acquisition of KGE in 1992 is being amortized over 40 years. The acquisition premium is classified as electric plant in service. Accumulated amortization totaled $108.2 million as of December 31, 2000, and $88.1 million as of December 31, 1999.

Depreciation: Utility plant is depreciated on the straight-line method at rates approved by regulatory authorities. Utility plant is depreciated on an average annual composite basis using group rates that approximated 2.99% during 2000, 2.92% during 1999 and 2.88% during 1998. Nonutility property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets. The company periodically evaluates its depreciation rates considering the past and expected future experience in the operation of its facilities.

Inventories and Supplies: Inventories and supplies for the company's utility business are stated at average cost. Monitored Services' inventories, comprised of alarm systems and parts, are stated at the lower of average cost or market.

Nuclear Fuel: The cost of nuclear fuel in process of refinement, conversion, enrichment and fabrication is recorded as an asset at original cost and is amortized to cost of sales based upon the quantity of heat produced for the generation of electricity. The accumulated amortization of nuclear fuel in the reactor was $18.6 million at December 31, 2000, and $29.3 million at December 31, 1999.

Customer Accounts: Customer accounts are stated at cost. The cost includes amounts paid to dealers and the estimated fair value of accounts acquired in business acquisitions. Internal costs incurred in support of acquiring customer accounts are expensed as incurred.

Protection One and Protection One Europe historically amortized most customer accounts by using the straight-line method over a 10-year life. The choice of an amortization life was based on estimates and judgments about the amounts and timing of expected future revenues from these assets and average customer account life. Selected periods were determined because, in Protection One's and Protection One Europe's opinion, they would adequately match amortization cost with anticipated revenue.

Protection One and Protection One Europe conducted a comprehensive review of their amortization policy during the third quarter of 1999. This review was performed specifically to evaluate the historical amortization policy in light of the inherent declining revenue curve over the life of a pool of customer accounts and Protection One's historical attrition experience. After completing the review, Protection One identified three distinct pools, each of which has distinct attributes that affect differing attrition characteristics. The pools corresponded to Protection One's North America, Multifamily and Europe business segments. For the North America and Europe pools, the analyzed data indicated that Protection One can expect attrition to be greatest in years one through five of asset life and that a change from a straight-line to a declining balance (accelerated) method would more closely match future amortization cost with the estimated revenue stream from these assets. Protection One elected to change to that method, except for accounts acquired in the Westinghouse acquisition, which are utilizing an accelerated method. No change was made in the method used for the Multifamily pool.

Protection One's and Protection One Europe's amortization rates consider the average estimated remaining life and historical and projected attrition rates. The amortization method for each customer pool is as follows:

Pool	Method
North America	
Acquired Westinghouse customers	Eight-year 120% declining balance
Other customers	10-year 130% declining balance
Europe	10-year 125% declining balance
Multifamily	10-year straight-line

Adoption of the declining balance method effectively shortens the estimated expected average customer life for these customer pools, and does so in a way that does not make it possible to distinguish the effect of a change in method (straight-line to declining balance) from the change in estimated lives. In such cases, generally accepted accounting principles require that the effect of such a change be recognized in operations in the period of the change, rather than as a cumulative effect of a change in accounting principle. Protection One changed to the declining balance method in the third quarter of 1999 for Europe customers and the North America customers, which had been amortized on a straight-line basis. Accordingly, the effect of the change in accounting principle increased Protection

One's amortization expense reported in the third quarter of 1999 by approximately $40 million. Accumulated amortization would have been approximately $34 million higher through the end of the second quarter of 1999 if the declining balance method had historically been used.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," (SFAS 121) long-lived assets held and used by Protection One and Protection One Europe are evaluated for recoverability on a periodic basis or as circumstances warrant. An impairment would be recognized when the undiscounted expected future operating cash flows by customer pool derived from customer accounts is less than the carrying value of capitalized customer accounts and related goodwill.

Goodwill has been recorded in business acquisitions where the principal asset acquired was the recurring revenues from the acquired customer base. For purposes of the impairment analysis, goodwill has been considered directly related to the acquired customers.

Due to the high level of customer attrition experienced in 2000 and 1999, the decline in market value of Protection One's publicly traded equity and debt securities and because of recurring losses, Protection One and Protection One Europe performed an impairment test on their customer account assets and goodwill in both 2000 and 1999. These tests indicated that future estimated undiscounted cash flows exceeded the sum of the recorded balances for customer accounts and goodwill.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net assets acquired by Protection One and Protection One Europe. Protection One and Protection One Europe changed their estimates of goodwill life from 40 years to 20 years as of January 1, 2000. After that date, remaining goodwill, net of accumulated amortization, is being amortized over its remaining useful life based on a 20-year life. As a result of this change in estimate, goodwill amortization expense for the year ended December 31, 2000, increased by approximately $33.0 million.

The carrying value of goodwill was included in the evaluations of recoverability of customer accounts. No reduction in the carrying value was necessary at December 31, 2000.

Amortization expense was $61.4 million, $31.6 million and $22.5 million for the years ended December 31, 2000, 1999 and 1998. Accumulated amortization was $118.6 million and $59.3 million at December 31, 2000, and 1999.

The Financial Accounting Standards Board (FASB) issued an exposure draft on February 14, 2001, which, if adopted as proposed, would establish a new accounting standard for the treatment of goodwill in a business combination. The new standard would continue to require recognition of goodwill as an asset in a business combination but would not permit amortization as currently required by APB Opinion No. 17, "Intangible Assets." The new standard would require that goodwill be separately tested for impairment using a fair-value based approach as opposed to an undiscounted cash flow approach, which is required under current accounting standards. If goodwill is found to be impaired, the company would be required to record a non-cash charge against income. The impairment charge would be equal to the amount by which the carrying amount of the goodwill exceeds the fair value. Goodwill would no longer be amortized on a current basis as is required under current accounting standards. The exposure draft contemplates this standard to become effective on July 1, 2001, although this effective date is not certain. Furthermore, the proposed standard could be modified prior to its adoption.

If the new standard is adopted, any subsequent impairment test on the company's customer accounts would be performed on the customer accounts alone rather than in conjunction with goodwill utilizing an undiscounted cash flow test pursuant to SFAS 121.

At December 31, 2000, the company had $976 million in goodwill attributable to acquisitions of businesses and $1,006 million for Monitored Services' customer accounts. These intangible assets together represented 25.5% of the book value of the company's total assets. The company recorded approximately $61.4 million in goodwill amortization expense in 2000. If the new standard becomes effective July 1, 2001, as proposed, the company believes it is probable that it would be required to record a non-cash impairment charge. The company cannot determine the amount at this time, but it believes the amount would be material and could be a substantial portion of its intangible assets. This impairment charge would have a material adverse effect on the company's operating results in the period recorded.

Regulatory Assets and Liabilities: Regulatory assets represent probable future revenue associated with certain costs that will be recovered from customers through the rate-making process. The company has recorded these regulatory assets in accordance with SFAS 71. If the company were required to terminate application of that statement for all of its regulated operations, the company would have to record the amounts of all regulatory assets and liabilities in its Consolidated Statements of Income at that time. The company's earnings would be reduced by the total amount in the table below, net of applicable income taxes. Regulatory assets reflected in the Consolidated Financial Statements are as follows:

As of December 31,	2000	1999
	(In Thousands)	
Recoverable income taxes	$187,308	$218,239
Debt issuance costs	63,263	68,239
Deferred employee benefit costs	36,251	36,251
Deferred plant costs	29,921	30,306
Other regulatory assets	10,607	12,969
Total regulatory assets	$327,350	$366,004

- **Recoverable income taxes:** Recoverable income taxes represent amounts due from customers for accelerated tax benefits, which have been previously flowed through to customers and are expected to be recovered in the future as the accelerated tax benefits reverse.
- **Debt issuance costs:** Debt reacquisition expenses are amortized over the remaining term of the reacquired debt or, if refinanced, the term of the new debt. Debt issuance costs are amortized over the term of the associated debt.
- **Deferred employee benefit costs:** Deferred employee benefit costs represent costs to be recovered by income generated through the company's Affordable Housing Tax Credit (AHTC) investment program as authorized by the KCC.
- **Deferred plant costs:** Costs related to the Wolf Creek nuclear generating facility.

The company expects to recover all of the above regulatory assets in rates charged to customers. A return is allowed on deferred plant costs and coal contract settlement costs and approximately $18.0 million of debt issuance costs.

Minority Interests: Minority interests represent the minority shareholders' proportionate share of the shareholders' equity and net loss of Protection One.

Revenue Recognition

Energy Sales Recognition: Energy sales are recognized as services are rendered and include estimated amounts for energy delivered but unbilled at the end of each year. Unbilled sales are recorded as a component of accounts receivable (net) and amounted to $44 million at December 31, 1999. During 2000, the company sold its energy related accounts receivable, including amounts related to unbilled sales.

Monitored Services Sales Recognition: Monitored Services sales are recognized when security services are provided. Installation revenue, sales revenues on equipment upgrades and direct costs of installations and sales are deferred for residential customers with service contracts. For commercial customers and national account customers, revenue recognition is dependent upon each specific customer contract. In instances when the company sells the equipment outright, revenues and costs are recognized in the period incurred. In cases where there is no outright sale, revenues and direct costs are deferred and amortized.

Deferred installation revenues and system sales revenues will be recognized over the expected useful life of the customer, utilizing a 130% declining balance. Deferred costs in excess of deferred revenues will be recognized over the contract life. To the extent deferred costs are less than deferred revenues, such costs are recognized over the customers' estimated useful life, utilizing a 130% declining balance.

Deferred revenues also result from customers who are billed for monitoring, extended service protection and patrol and response services in advance of the period in which such services are provided, on a monthly, quarterly or annual basis.

Income Taxes: Deferred tax assets and liabilities are recognized for temporary differences in amounts recorded for financial reporting purposes and their respective tax bases. Investment tax credits previously deferred are being amortized to income over the life of the property that gave rise to the credits.

Foreign Currency Translation: The assets and liabilities of the company's foreign operations are generally translated into U.S. dollars at current exchange rates. Revenues and expenses are translated at average exchange rates for the year.

Cash Surrender Value of Life Insurance: The following amounts related to corporate-owned life insurance policies (COLI) are recorded in other long-term assets on the Consolidated Balance Sheets at December 31:

	2000	1999
	(In Millions)	
Cash surrender value of policies[a]	$ 705.4	$ 642.4
Borrowings against policies	(665.9)	(608.3)
COLI (net)	$ 39.5	$ 34.1

[a] Cash surrender value of policies as presented represents the value of the policies as of the end of the respective policy years and not as of December 31, 2000, and 1999.

Income is recorded for increases in cash surrender value and net death proceeds. Interest incurred on amounts borrowed is offset against policy income. Income recognized from death proceeds is highly variable from period to period. Death benefits recognized as other income approximated $0.9 million in 2000, $1.4 million in 1999 and $13.7 million in 1998.

Cumulative Effect of Accounting Change: The company adopted Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB 101) in the fourth quarter of 2000, which had a retroactive effective date of January 1, 2000. The impact of this accounting change generally requires deferral of certain monitored services sales for installation revenues and direct sales-related expenses. Deferral of these revenues and costs is generally necessary when installation revenues have been received and a monitoring contract to provide future service is obtained. Historically, Protection One acquired a majority of its customers by acquisition or through an independent dealer program for its North American operations. Dealers billed and retained any installation revenues. In 2000, Protection One began an internal sales program. Because of these factors the impact of adopting SAB 101 for Protection One was not significant. Protection One Europe has a larger concentration of commercial customers where installation revenues and related costs had previously been recognized.

The cumulative effect of the change in accounting principle was approximately $3.8 million, net of tax benefits of $1.1 million and is related to changes in revenue recognition at Protection One Europe. Prior to the adoption of SAB 101, Protection One Europe recognized installation revenues and related expenses upon completion of the installation. Pro forma amounts and amounts per share, assuming the change in accounting principle was applied retroactively are as follows:

	2000		1999		1998	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In Thousands, Except Per Share Amounts)					
Earnings available for common stock before extraordinary gain and accounting change:						
As reported ...	$ 89,921	$1.30	$ 1,425	$ 0.02	$30,467	$0.46
Pro forma effect of accounting change	—	—	(2,800)	(0.04)	(1,010)	(0.01)
Pro forma	$ 89,921	$1.30	$ (1,375)	$(0.02)	$29,457	$0.45
Earnings available for common stock:						
As reported ...	$135,352	$1.96	$13,167	$ 0.20	$32,058	$0.48
Pro forma effect of accounting change	3,810	0.05	(2,800)	(0.04)	(1,010)	(0.01)
Pro forma	$139,162	$2.01	$10,367	$ 0.16	$31,048	$0.47

New Accounting Pronouncements: In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

The company adopted SFAS 133 on January 1, 2001. The company has evaluated its commodity contracts, financial instruments and other contracts and determined that certain commodity contracts are derivative instruments. Under current GAAP, these contracts qualify as hedges. However, under SFAS 133, these contracts will not qualify as hedges. Accordingly, the instruments will be marked to market through earnings. The company estimates that the effect on its financial statements of adopting SFAS 133 on January 1, 2001, will be to increase pre-tax earnings for the first quarter of 2001 by approximately $31 million. Accounting for derivatives under SFAS 133 may increase volatility in future earnings.

Supplemental Cash Flow Information: Cash paid for interest and income taxes for each of the years ended December 31 are as follows:

	2000	1999	1998
		(In Thousands)	
Interest on financing activities (net of amount capitalized)	$310,345	$298,802	$220,848
Income taxes	28,751	784	47,196

Reclassifications: Certain amounts in prior years have been reclassified to conform with classifications used in the current year presentation.

2. PNM MERGER AND SPLIT-OFF OF WESTAR INDUSTRIES

On November 8, 2000, the company entered into an agreement under which Public Service Company of New Mexico (PNM) will acquire the electric utility businesses of the company in a stock-for-stock transaction. Under the terms of the agreement, both the company and PNM will become subsidiaries of a new holding company. Immediately prior to the consummation of this combination, the company will split-off its remaining interest in Westar Industries to its shareholders.

Westar Industries has filed a registration statement with the Securities and Exchange Commission (SEC) covering the proposed sale of a portion of its common stock through the exercise of non-transferable rights proposed to be distributed by Westar Industries to the company's shareholders.

The company and Westar Industries entered into an Asset Allocation and Separation Agreement at the same time the company entered into the merger agreement with PNM. Among other things, this agreement permits a receivable owed by the company to Westar Industries to be converted into certain securities of the company. At the closing of the merger, any of these securities then owned by Westar Industries will be converted into securities of PNM or the holding company to be formed by PNM.

On February 28, 2001, Westar Industries converted $350 million of the receivable into approximately 14.4 million shares of the company's common stock pursuant to the Asset Allocation and Separation Agreement. These shares represent approximately 16.9% of the company's outstanding common stock including these shares in outstanding shares. There are no voting rights with respect to these shares as long as Westar Industries is a majority owned subsidiary of the company.

3. RATE MATTERS AND REGULATION

KCC Rate Proceedings: On November 27, 2000, the company and KGE filed applications with the KCC for a change in retail rates, which included a cost allocation study and separate cost of service studies for the company's KPL division and KGE. The company requested an annual rate increase totaling approximately $151 million. The company and KGE also provided revenue requirements on a combined company basis on December 28, 2000. The company anticipates a ruling by the KCC in July 2001 but is unable to predict its outcome.

FERC Proceeding: In September 1999, the City of Wichita filed a complaint with the Federal Energy Regulatory Commission (FERC) against the company alleging improper affiliate transactions between the company's KPL division and KGE, a wholly owned subsidiary of the company. The City of Wichita asked that FERC equalize the generation costs between KPL and KGE, in addition to other matters. A hearing on the case was held at FERC on October 11 and 12, 2000, and on November 9, 2000, a FERC administrative law judge ruled in favor of the company that no change in rates was required. On December 13, 2000, the City of Wichita filed a brief with FERC asking that the Commission overturn the judge's decision. On January 5, 2001, the company filed a brief opposing the city's position. The company anticipates a decision by FERC in the second quarter of 2001.

4. SALE OF ACCOUNTS RECEIVABLE

On July 28, 2000, the company and KGE entered into an agreement to sell, on an ongoing basis, all of their accounts receivable arising from the sale of electricity, to WR Receivables Corporation, a special purpose entity wholly owned by the company. The agreement expires on July 26, 2001, and is annually renewable upon agreement by both parties. The special purpose entity has sold and, subject to certain conditions, may from time to time sell, up to $125 million (and upon request, subject to certain conditions, up to $175 million) of an undivided fractional ownership interest in the pool of receivables to a third-party, multi-seller receivables funding entity affiliated with a lender. The company's retained interests in the receivables sold are recorded at cost, which approximates fair value. The company has received net proceeds of $115.0 million as of December 31, 2000.

5. SHORT-TERM DEBT

The company has an arrangement with certain banks to provide a revolving credit facility on a committed basis totaling $500 million. The facility is secured by first mortgage bonds of the company and KGE and matures on March 17, 2003. The company also has arrangements with certain banks to provide unsecured short-term lines of credit on a committed basis totaling approximately $12.0 million. As of December 31, 2000, borrowings on these facilities were $35.0 million.

The agreements provide the company with the ability to borrow at different market-based interest rates. The company pays commitment or facility fees in support of these lines of credit. Under the terms of the agreements, the company is required, among other restrictions, to maintain a total debt to total capitalization ratio of not greater than 65% at all times. The company is in compliance with all restrictions.

Information regarding the company's short-term borrowings, comprised of borrowings under the credit agreements, bank loans and commercial paper, is as follows:

As of December 31,	2000	1999
	(Dollars in Thousands)	
Borrowings outstanding at year end:		
Credit agreement	$ 35,000	$ 50,000
Bank loans	—	120,000
Commercial paper notes	—	535,421
Total	$ 35,000	$ 705,421
Weighted average interest rate on debt outstanding at year end (including fees)	8.11%	6.96%
Weighted average short-term debt outstanding during the year	$402,845	$ 455,184
Weighted daily average interest rates during the year (including fees)	7.92%	5.76%
Unused lines of credit supporting commercial paper notes	$ —	$1,021,000

The company's interest expense on short-term debt and other was $63.1 million in 2000, $57.7 million in 1999 and $55.3 million in 1998.

6. LONG-TERM DEBT

Long-term debt outstanding is as follows at December 31:

	2000	1999
	(In Thousands)	
Western Resources		
First mortgage bond series:		
8 7/8% due 2000	$ —	$ 75,000
7 1/4% due 2002	100,000	100,000
8 1/2% due 2022	125,000	125,000
7.65% due 2023	100,000	100,000
	325,000	400,000
Pollution control bond series:		
Variable due 2032, 4.70% at December 31, 2000	45,000	45,000
Variable due 2032, 4.62% at December 31, 2000	30,500	30,500
6% due 2033	58,410	58,420
	133,910	133,920
6 7/8% unsecured senior notes due 2004	370,000	370,000
7 1/8% unsecured senior notes due 2009	150,000	150,000
6.80% unsecured senior notes due 2018	28,977	29,783
6.25% unsecured senior notes due 2018, putable/callable 2003	400,000	400,000
Senior secured term loan	600,000	—
Other long-term agreements	16,889	21,895
	1,565,866	971,678
KGE		
First mortgage bond series:		
7.60% due 2003	135,000	135,000
6 1/2% due 2005	65,000	65,000
6.20% due 2006	100,000	100,000
	300,000	300,000
Pollution control bond series:		
5.10% due 2023	13,623	13,653
Variable due 2027, 4.60% at December 31, 2000	21,940	21,940
7.0% due 2031	327,500	327,500
Variable due 2032, 4.60% at December 31, 2000	14,500	14,500
Variable due 2032, 4.60% at December 31, 2000	10,000	10,000
	387,563	387,593
Protection One		
Convertible senior subordinated notes due 2003, fixed rate 6.75%	23,785	53,950
Senior subordinated discount notes due 2005, effective rate of 11.8%	42,887	87,038
Senior unsecured notes due 2005, fixed rate 7.375%	204,650	250,000
Senior subordinated notes due 2009, fixed rate 8.125%[(1)]	255,740	341,415
Other	267	2,033
	527,329	734,436
Protection One Europe		
CET recourse financing agreements, average effective rate 15%	33,512	60,838
Unamortized debt premium	13,541	13,726
Less:		
Unamortized debt discount	(7,047)	(7,458)
Long-term debt due within one year	(41,825)	(111,667)
Long-term debt (net)	$3,237,849	$2,883,066

[(1)] The rate is currently 8.625% and will continue at that rate until an exchange offer related to the offering is completed.

Debt discount and expenses are being amortized over the remaining lives of each issue.

The amount of the company's first mortgage bonds authorized by its Mortgage and Deed of Trust, dated July 1, 1939, as supplemented, is unlimited. The amount of KGE's first mortgage bonds authorized by the KGE Mortgage and Deed of Trust, dated April 1, 1940, as supplemented, is limited to a maximum of $2 billion. First mortgage bonds are secured by the utility assets of the company and KGE. Amounts of additional bonds which may be issued are subject to property, earnings and certain restrictive provisions of each mortgage.

The company's unsecured debt represents general obligations that are not secured by any of the company's properties or assets. Any unsecured debt will be subordinated to all secured debt of the company, including the first mortgage bonds. The notes are structurally subordinated to all secured and unsecured debt of the company's subsidiaries.

On June 28, 2000, the company entered into a $600 million, multi-year term loan that replaced two revolving credit facilities, which matured on June 30, 2000. The net proceeds of the term loan were used to retire short-term debt. The term loan is secured by first mortgage bonds of the company and KGE and has a maturity date of March 17, 2003.

Maturities of the term loan through March 17, 2003, are as follows:

Year	Principal Amount
	(In Thousands)
2001	$ 9,000
2002	6,000
2003	585,000
	$600,000

The terms of the loan contain requirements for maintaining certain consolidated leverage ratios, interest coverage ratios and consolidated debt to capital ratios. The company is in compliance with all of these requirements.

Interest on the term loan is payable on the expiration date of each borrowing under the facility or quarterly if the term of the borrowing is greater than three months. The weighted average interest rate, including amortization of fees, on the term loan for the year ending December 31, 2000, was 10.28%.

In 1998, Protection One issued $350 million of Unsecured Senior Subordinated Notes. The notes are redeemable at Protection One's option, in whole or in part, at a predefined price. Protection One did not complete a required exchange offer during 1999. As a result, the interest rate on these notes has been 8.625% since June 1999. If the exchange offer is completed, the interest rate will revert back to 8.125%. Interest on these notes is payable semiannually on January 15 and July 15.

In 1998, Protection One issued $250 million of Senior Unsecured Notes. Interest is payable semiannually on February 15 and August 15. The notes are redeemable at Protection One's option, in whole or in part, at a predefined price.

In 1995, Protection One issued $166 million of Unsecured Senior Subordinated Discount Notes with a fixed interest rate of 13.625%. Interest payments began in 1999 and are payable semiannually on June 30 and December 31. In connection with the acquisition of Protection One in 1997, these notes were restated to fair value reflecting a current market yield of approximately 6.4% through June 30, 2000, the first full call date of the notes. Since the notes were not called on that date, the current market yield was adjusted to 11.8% as of July 1, 2000. The 1997 revaluation resulted in a bond premium being recorded to reflect the increase in value of the notes as a result of the decline in interest rates since the note issuance. This revaluation had no impact on the expected cash flow to existing noteholders. As of June 30, 2000, the notes became redeemable at Protection One's option, at a specified redemption price.

In 1998, Protection One redeemed unsecured senior subordinated discount notes with a book value of $69.4 million and recorded an extraordinary gain on the extinguishment of $1.6 million, net of tax.

In 1996, Protection One issued $103.5 million of Convertible Senior Subordinated Notes. Interest is payable semiannually on March 15 and September 15. The notes are convertible at any time at a conversion price of $11.19 per share. The notes are redeemable, at Protection One's option, at a specified redemption price, beginning September 19, 1999.

In 1999, Westar Industries purchased Protection One bonds on the open market at amounts less than the carrying amount of the debt. The company recognized an extraordinary gain of $13.4 million, net of tax, at December 31, 1999, related to the retirement of this debt.

During 2000, Westar Industries purchased various issues of Protection One bonds on the open market at amounts less than the carrying amount of the debt. The company recognized an extraordinary gain of $49.2 million, net of tax, at December 31, 2000, related to the retirement of this debt.

Protection One Europe has recognized as a financing transaction cash received through the sale of security equipment and future cash flows to be received under security equipment operating lease agreements with customers to a third-party financing company.

Maturities of long-term debt through 2005 are as follows:

Year	Principal Amount
	(In Thousands)
2001	$ 41,825
2002	116,705
2003	747,207
2004	370,617
2005	313,007
Thereafter	1,683,819
	$3,273,180

The company's interest expense on long-term debt was $226.4 million in 2000, $236.4 million in 1999 and $170.9 million in 1998.

Protection One's debt instruments contain financial and operating covenants, which may restrict its ability to incur additional debt, pay dividends, make loans or advances and sell assets. At December 31, 2000, Protection One was in compliance with all financial covenants governing its debt securities.

The indentures governing all of Protection One's debt securities require that Protection One offer to repurchase the securities in certain circumstances following a change of control.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value as set forth in Statement of Financial Accounting Standards No. 107 "Disclosures About Fair Value of Financial Instruments."

Cash and cash equivalents, short-term borrowings and variable-rate debt are carried at cost, which approximate fair value and are not included in the table below. The decommissioning trust is recorded at fair value and is based on the quoted market prices at December 31, 2000, and 1999. The fair value of fixed-rate debt and other mandatorily redeemable securities is estimated based on quoted market prices for the same or similar issues or on the current rates offered for instruments of the same remaining maturities and redemption provisions. The estimated fair values of contracts related to commodities have been determined using quoted market prices of the same or similar securities.

The recorded amounts of accounts receivable and other current financial instruments approximate fair value.

The fair value estimates presented herein are based on information available at December 31, 2000, and 1999. These fair value estimates have not been comprehensively revalued for the purpose of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

The carrying values and estimated fair values of the company's financial instruments are as follows:

	Carrying Value		Fair Value	
As of December 31,	2000	1999	2000	1999
	(In Thousands)			
Decommissioning trust	$ 64,222	$ 58,286	$ 64,222	$ 58,286
Fixed-rate debt, net of current maturities	3,109,415	2,743,057	2,809,711	2,350,880
Other mandatorily redeemable securities ...	220,000	220,000	182,232	187,950

The tables below present the estimated fair value of contracts not settled at December 31, 2000.

The notional volumes and estimated fair values of the company's forward contracts and options for electricity positions are as follows at December 31:

	2000		1999	
	Notional Volumes (MWH)	Estimated Fair Value	Notional Volumes (MWH)	Estimated Fair Value
	(Dollars in Thousands)			
Forward contracts:				
Purchased	3,581,500	$ 264,488	1,137,600	$33,021
Sold	3,713,248	269,731	1,088,800	32,395
Options:				
Purchased	647,600	$ 12,606	944,800	$ 5,524
Sold	387,200	11,976	754,200	8,458

The notional volumes and estimated fair values of the company's forward contract and options for gas positions are as follows at December 31:

	2000		1999	
	Notional Volumes (MMBtus)	Estimated Fair Value	Notional Volumes (MMBtus)	Estimated Fair Value
	(Dollars in Thousands)			
Forward contracts:				
Purchased	73,859,179	$ 283,453	13,010,000	$31,002
Sold	50,614,417	174,441	500,000	1,108
Options:				
Purchased	39,171,500	$ 21,887	6,000,000	$ 971
Sold	30,140,000	21,196	4,000,000	615

Under mark-to-market accounting, energy trading contracts with third parties are reflected at fair market value, net of reserves, with resulting unrealized gains and losses recorded as energy trading contract assets and liabilities. These assets and liabilities are affected by the actual timing of settlements related to these contracts and current period changes resulting primarily from newly originated transactions and the impact of price movements. These changes are recognized as revenues in the consolidated statements of income in the period the changes occur. As of December 31, 2000, the company had gross mark-to-market gains (asset position) and losses (liability position) on these energy trading contracts as follows:

	2000	1999
	(In Thousands)	
Current assets – energy trading contracts	$185,364	$16,370
Other assets – other	15,883	—
	$201,247	$16,370
Current liabilities – energy trading contracts	$191,673	$15,182
Long-term liabilities – other	1,096	—
	$192,769	$15,182
Net mark-to-market gains	$ 8,478	$ 1,188

These net mark-to-market gains have been recognized in revenue. Included within these assets and liabilities is an unrealized gain of $31 million which will be recognized through revenue in 2001 as a cumulative effect of an accounting change upon adoption of SFAS 133.

8. MONITORED SERVICES BUSINESS

In 1999, Protection One sold the assets that comprised its Mobile Services Group. Cash proceeds of this sale approximated $20 million, and Protection One recorded a pre-tax gain of approximately $17 million. This gain is reflected in other income (expense) – other on the statement of income.

Protection One acquired a significant number of security companies in 1998. All companies acquired have been accounted for using the purchase method. The principal assets acquired in the acquisitions are customer accounts. The excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill. The results of operations of each acquisition have been included in the consolidated results of operations of Protection One from the date of the acquisition.

The following table presents the unaudited pro forma financial information considering Protection One's monitored services acquisitions in 1998. The table assumes acquisitions in 1998 occurred as of January 1, 1998.

Year Ended December 31,	1998 (Unaudited) (In Thousands, Except Per Share Data)
Sales	$2,175,089
Earnings available for common stock	$ 21,449
Earnings per share	$0.33

The unaudited pro forma financial information is not necessarily indicative of the results of operations had the entities been combined for the entire period nor do they purport to be indicative of results which will be obtained in the future.

9. MARKETABLE SECURITIES

During the fourth quarter of 1999, the company decided to sell its remaining marketable security investments in paging industry companies. These securities were classified as available-for-sale; therefore, changes in market value were historically reported as a component of other comprehensive income.

The market value for these securities declined during the last six to nine months of 1999. The company determined that the decline in value of these securities was other than temporary, and a charge to earnings for the decline in value was required at December 31, 1999. Therefore, a non-cash charge of $76.2 million was recorded in the fourth quarter of 1999 and is presented separately in the accompanying Consolidated Statements of Income.

In February 2000, a paging company whose securities were included in the securities discussed in the paragraph above at December 31, 1999, made an announcement that significantly increased the market value of paging company securities generally in the public markets. During the first quarter of 2000, the remainder of these paging securities were sold and a gain of $24.9 million was realized.

During 2000, the company sold its equity investment in a gas compression company and realized a pre-tax gain of $91.1 million.

10. CUSTOMER ACCOUNTS

The following is a rollforward of the investment in customer accounts (at cost) for the following years:

December 31,	2000	1999
	(In Thousands)	
Beginning customer accounts, net	$1,122,585	$1,009,084
Acquisition of customer accounts	54,993	337,464
Amortization of customer accounts	(163,297)	(185,974)
Non-cash charges against purchase holdbacks	(8,776)	(37,989)
Ending customer accounts, net	$1,005,505	$1,122,585

Accumulated amortization of the investment in customer accounts at December 31, 2000, and 1999 was $493.4 million and $330.7 million.

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

The company's investments, which are accounted for by the equity method, are as follows:

	Ownership at December 31, 2000	Investment at December 31, 2000	1999	Equity Earnings Year Ended December 31, 2000	1999
		(Dollars In Thousands)			
ONEOK[a]	45%	$591,173	$590,109	$ 8,213	$6,945
Affordable Housing Tax Credit limited partnerships[b]	13% to 29%	69,364	79,460	10,066	5,615
Paradigm Direct[c]	—	—	35,385	3,006	1,254
International companies and joint ventures[d]	9% to 50%	13,514	18,724	4,799	—

[a] The company also received approximately $40 million and $41 million of preferred and common dividends in 2000 and 1999.

[b] Investment is aggregated. Individual investments are not material. Based on an order received by the KCC, equity earnings from these investments are used to offset costs associated with post-retirement and post-employment benefits offered to the company's employees.

[c] The company sold this investment on December 15, 2000.

[d] Investment is aggregated. Individual investments are not material.

The following summarized unaudited financial information for the company's investment in ONEOK is as follows:

As of December 31,	2000	1999
	(In Thousands)	
Balance Sheet:		
Current assets	$3,324,959	$ 595,386
Non-current assets	4,044,177	2,645,854
Current liabilities	3,535,352	786,713
Non-current liabilities	2,608,827	1,303,003
Equity	1,224,957	1,151,524

For the Year Ended December 31,	2000	1999
	(In Thousands)	
Income Statement:		
Revenues	$6,642,858	$2,064,726
Gross profit	797,132	632,350
Net income	145,607	106,873

At December 31, 2000, the company's ownership interest in ONEOK is comprised of approximately 2.2 million common shares and approximately 19.9 million convertible preferred shares. If all the preferred shares were converted, the company would then own approximately 45% of ONEOK's common shares outstanding.

12. EMPLOYEE BENEFIT PLANS

Pension: The company maintains qualified noncontributory defined benefit pension plans covering substantially all utility employees. Pension benefits are based on years of service and the employee's compensation during the five highest paid consecutive years out of 10 before retirement. The company's policy is to fund pension costs accrued, subject to limitations set by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The company also maintains a non-qualified Executive Salary Continuation Program for the benefit of certain management employees, including executive officers.

Postretirement Benefits: The company accrues the cost of postretirement benefits, primarily medical benefit costs, during the years an employee provides service.

The following tables summarize the status of the company's pension and other postretirement benefit plans:

	Pension Benefits		Postretirement Benefits	
December 31,	2000	1999	2000	1999
	(Dollars in Thousands)			
Change in Benefit Obligation:				
Benefit obligation, beginning of year	$350,749	$392,057	$ 79,287	$ 87,519
Service cost	7,964	8,949	1,344	1,609
Interest cost	26,901	26,487	7,158	5,854
Plan participants' contributions	—	—	1,130	784
Benefits paid	(20,337)	(21,961)	(6,476)	(6,990)
Assumption changes	19,350	(49,499)	5,038	(9,458)
Actuarial losses (gains)	(2,491)	(4,608)	15,049	(31)
Acquisitions	—	(676)	—	—
Curtailments, settlements and special term benefits	1,267	—	—	—
Benefit obligation, end of year	$383,403	$ 350,749	$ 102,530	$ 79,287
Change in Plan Assets:				
Fair value of plan assets, beginning of year	$506,995	$441,531	$ 261	$ 173
Actual return on plan assets	1,448	85,079	17	10
Acquisitions	–	—	—	—
Employer contribution	1,927	2,882	5,177	6,284
Plan participants' contributions	—	—	1,109	784
Benefits paid	(20,197)	(22,497)	(6,170)	(6,990)
Fair value of plan assets, end of year	$490,173	$506,995	$ 394	$ 261
Funded status	$106,770	$156,246	$(102,136)	$(79,026)
Unrecognized net (gain)/loss	(141,443)	(205,338)	11,904	(7,733)
Unrecognized transition obligation, net	174	209	48,183	52,171
Unrecognized prior service cost	29,538	32,854	(3,264)	(3,730)
Accrued postretirement benefit costs	$ (4,961)	$(16,029)	$ (45,313)	$(38,318)

	Pension Benefits		Postretirement Benefits	
December 31,	2000	1999	2000	1999
	(Dollars in Thousands)			
Actuarial Assumptions:				
Discount rate	7.25-7.75%	7.75%	7.25-7.75%	7.75%
Expected rate of return	9.00-9.25%	9.00%	9.00-9.25%	9.00%
Compensation increase rate	4.25-5.00%	4.50%	4.50-5.00%	4.50%
Components of net periodic (benefit) cost:				
Service cost	$ 7,972	$ 8,949	$ 1,344	$ 1,610
Interest cost	26,977	26,487	7,157	5,854
Expected return on plan assets	(39,143)	(34,393)	(24)	(16)
Amortization of unrecognized transition obligation, net	35	34	3,988	3,987
Amortization of unrecognized prior service costs	3,316	3,455	(466)	(466)
Amortization of (gain)/loss, net	(9,427)	(3,477)	457	129
Other	9	—	—	—
Net periodic (benefit) cost	$ (10,261)	$ 1,055	$ 12,456	$ 11,098

For measurement purposes, an annual health care cost growth rate of 6.0% was assumed for 2000 decreasing to 5% in 2001 and thereafter. The health care cost trend rate has a significant effect on the projected benefit obligation. Increasing the trend rate by 1% each year would increase the present value of the accumulated projected benefit obligation by $2.5 million and the aggregate of the service and interest cost components by $0.2 million. A 1% decrease in the trend rate would decrease the present value of the accumulated projected benefit obligation by $2.3 million and the aggregate of the service and interest cost components by $0.2 million.

Savings Plans: The company maintains savings plans in which substantially all employees participate, with the exception of Protection One and Protection One Europe employees. The company matches employees' contributions up to specified maximum limits. The company's contributions to the plans are deposited with a trustee and are invested in one or more funds, including the company stock fund. The company's contributions were $3.9 million for 2000, $3.7 million for 1999 and $3.8 million for 1998.

In 1999, the company established a qualified employee stock purchase plan, the terms of which allow for full-time non-union employees to participate in the purchase of designated shares of the company's common stock at no more than a 15% discounted price. Western Resources' employees purchased 249,050 shares in 2000, pursuant to this plan, at an average price per share of $13.9984. In 1999, employees purchased 72,698 shares at an average price per share of $14.4234. A total of 1,250,000 shares of common stock have been reserved for issuance under this program.

Protection One also maintains a savings plan. Contributions, made at Protection One's election, are allocated among participants based upon the respective contributions made by the participants through salary reductions during the year. Protection One's matching contributions may be made in Protection One common stock, in cash or in a combination of both stock and cash. Protection One's matching cash contribution to the plan was approximately \$0.7 million for 2000, \$0.9 million for 1999 and \$1.0 million for 1998.

Protection One maintains a qualified employee stock purchase plan that allows eligible employees to acquire shares of Protection One common stock at periodic intervals through their accumulated payroll deductions. A total of 2,650,000 shares of common stock have been reserved for issuance in this program, and a total of 422,133 shares have been issued including the issuance of 145,523 shares in January 2001.

Stock Based Compensation Plans: The company, excluding Protection One and Protection One Europe, has a Long-Term Incentive and Share Award plan (LTISA Plan), which is a stock-based compensation plan. The LTISA Plan was implemented as a means to attract, retain and motivate employees and board members (Plan Participants). Under the LTISA Plan, the company may grant awards in the form of stock options, dividend equivalents, share appreciation rights, restricted shares, restricted share units (RSUs), performance shares and performance share units to Plan Participants. Up to five million shares of common stock may be granted under the LTISA Plan.

During 2000, 710,352 RSUs were granted to a broad-based group of over 900 non-union employees. Each RSU represents a right to receive one share of the company's common stock at the end of the restricted period. In addition, in 2000, current non-union employees were offered the opportunity to exchange their stock options for RSUs of approximately equal economic value. As a result, 2,246,865 stock options were canceled in 2000 in exchange for 614,741 RSUs. The grant of restricted stock is shown as a separate component of shareholders' equity. Unearned compensation is being amortized to expense over the vesting period. This compensation expense is shown as a separate component of shareholders' equity. The company granted a total of 152,000 restricted shares in 1999 and 136,500 in 1998.

Another component of the LTISA Plan is the Executive Stock for Compensation program where eligible employees are entitled to receive RSUs in lieu of cash compensation at the end of a deferral period. In 2000, 95,000 RSUs were deferred, representing \$1.3 million in cash compensation. In 1999, 35,000 RSUs were deferred, representing \$0.7 million of cash compensation. Dividend equivalents accrue on the deferred RSUs. Dividend equivalents are the right to receive cash equal to the value of dividends paid on the company's common stock.

Stock options and restricted shares under the LTISA plan are as follows:

As of December 31,	2000		1999		1998	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding, beginning of year	2,418.6	$34.139	1,590.7	$36.106	665.4	$30.282
Granted	1,953.1	15.513	981.6	30.613	925.3	40.293
Exercised	(0.5)	15.625	—	—	—	—
Forfeited	(2,265.6)	28.827	(153.7)	31.985	—	—
Outstanding, end of year	2,105.6	$22.583	2,418.6	$34.139	1,590.7	$36.106
Weighted-average fair value of awards granted during the year		$11.28		$ 8.22		$ 9.12

Stock options and restricted shares issued and outstanding at December 31, 2000, are as follows:

	Range of Exercise Price	Number Issued and Outstanding	Weighted-Average Contractual Life in Years	Weighted-Average Exercise Price
Options:				
2000	$15.3125	17,690	10.0	$15.3125
1999	27.8125-32.125	51,305	9.0	29.7357
1998	38.625- 43.125	222,720	8.0	40.986
1997	30.750	137,740	7.0	30.750
1996	29.250	68,870	5.7	29.250
		498,325		
Restricted shares:				
2000	$15.3125-19.875	1,319,083	6.3	$15.6079
1999	27.813- 32.125	151,783	8.0	29.7587
1998	38.625	136,500	7.0	38.625
		1,607,366		
Total issued		2,105,691		

An equal amount of dividend equivalents is issued to recipients of stock options and RSUs. The weighted-average grant-date fair value of the dividend equivalent was \$4.62 in 2000 and \$3.28 in 1999. The value of each dividend equivalent is calculated by accumulating dividends that would have been paid or payable on a share of company common stock. The dividend equivalents, with respect to stock options, expire after nine years from date of grant.

The fair value of stock options and dividend equivalents were estimated on the date of grant using the Black-Scholes option-pricing model. The model assumed the following at December 31:

	2000	1999
Dividend yield	6.32%	6.25%
Expected stock price volatility	16.42%	16.56%
Risk-free interest rate	5.79%	6.05%

Protection One Stock Warrants and Options: Protection One has outstanding stock warrants and options, which were considered reissued and exercisable upon the company's acquisition of Protection One on November 24, 1997. The 1997 Long-Term Incentive Plan (the LTIP), approved by the Protection One stockholders on November 24, 1997, provides for the award of incentive stock options to directors, officers and employees. Under the LTIP, 4.2 million shares are reserved for issuance. The LTIP provides for the granting of options that qualify as incentive stock options under the Internal Revenue Code and options that do not so qualify.

Options issued since 1997 have a term of 10 years and vest ratably over three years.

A summary of warrant and option activity for Protection One from December 31, 1998, through December 31, 2000, is as follows:

December 31,	2000		1999		1998	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding, beginning of year	3,788.1	$ 7.232	3,422.7	$ 7.494	2,366.4	$ 5.805
Granted	922.5	1.436	1,092.9	7.905	1,246.5	11.033
Exercised	(5.4)	3.89	—	—	(109.6)	5.564
Forfeited	(300.6)	6.698	(727.5)	10.125	(117.4)	10.770
Adjustment to May 1995 warrants	—	—	—	—	36.8	—
Outstanding, end of year	4,404.6	$ 6.058	3,788.1	$ 7.232	3,422.7	$ 7.494
Exercisable, end of year	—	—	2,313.3	$ 6.358	2,263.2	$ 5.681

(1) There were no outstanding stock or options prior to November 24, 1997

Stock options and warrants of Protection One issued and outstanding at December 31, 2000, are as follows:

	Range of Exercise Price		Number Issued and Outstanding	Weighted-Average Contractual Life in Years	Weighted-Average Exercise Price
Exercisable:					
Fiscal 1995	$ 6.375-	$ 6.500	100,800	4.0	$ 6.491
Fiscal 1996	8.000-	10.313	248,400	5.0	8.022
Fiscal 1996	13.750-	15.500	99,000	5.0	14.947
Fiscal 1997	9.500		110,500	6.0	9.500
Fiscal 1997	15.000		37,500	6.0	15.000
Fiscal 1997	14.268		50,000	1.0	14.268
Fiscal 1998	11.000		671,835	7.0	11.000
Fiscal 1998	8.5625		23,833	7.0	8.5625
Fiscal 1999	8.9275		248,297	8.0	8.9275
Fiscal 1999	5.250-	6.125	56,222	8.0	6.028
Fiscal 2000	1.438		5,000	9.0	1.438
1993 Warrants	0.167		428,400	3.0	0.167
1995 Note Warrants	3.890		780,837	4.0	3.890
			2,860,624		
Not Exercisable:					
1998 options	$11.000		112,165	7.0	$11.000
1998 options	8.5625		11,917	7.0	8.5625
1999 options	8.9275		410,403	8.0	8.9275
1999 options	5.250-	6.125	112,444	8.0	6.028
2000 options	1.313-	1.438	896,980	9.0	1.436
			1,543,909		
Total outstanding			4,404,533		

The weighted-average fair value of options granted by Protection One during 2000, 1999 and 1998 estimated on the date of grant were $1.13, $5.41 and $6.87. The fair value was calculated using the following assumptions:

Year Ended December 31,	2000	1999	1998
Dividend yield	— %	— %	— %
Expected stock price volatility	92.97%	64.06%	61.72%
Risk free interest rate	4.87%	6.76%	5.50%
Expected option life	6 years	6 years	6 years

Effect of Stock-Based Compensation on Earnings Per Share: The company accounts for both the company's and Protection One's plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and the related interpretations. Had compensation expense been determined pursuant to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the company would have recognized additional compensation costs during 2000, 1999 and 1998 as shown in the table below.

Year Ended December 31,	2000	1999	1998
	(In Thousands, Except Per Share Amounts)		
Earnings available for common stock:			
As reported	$135,352	$13,167	$32,058
Pro forma	134,274	10,699	42,640
Basic and diluted earnings per common share:			
As reported	$1.96	$0.20	$0.48
Pro forma	1.95	0.16	0.65

Split Dollar Life Insurance Program: The company has established a split dollar life insurance program for the benefit of the company and certain of its executives. Under the program, the company has purchased life insurance policies on which the executive's beneficiary is entitled to a death benefit in an amount equal to the face amount of the policy reduced by the greater of (i) all premiums paid by the company or (ii) the cash surrender value of the policy, which amount, at the death of the executive, will be returned to the company. The company retains an equity interest in the death benefit and cash surrender value of the policy to secure this repayment obligation.

Subject to certain conditions, each executive may transfer to the company their interest in the death benefit based on a predetermined formula, beginning no earlier than the first day of the calendar year following retirement or three years from the date of the policy. The liability associated with this program was $19.1 million as of December 31, 2000, and $31.9 million as of December 31, 1999. The obligations under this program can increase and decrease based on the company's total return to shareholders and payments to plan participants. This liability decreased approximately $12.8 million in 2000 due primarily to payments to plan participants and $10.5 million in 1999 based on the company's total return to shareholders. There was no change in the liability in 1998. Under current tax rules, payments to active employees in exchange for their interest in the death benefits may not be fully deductible by the company for income tax purposes.

13. COMMON STOCK, PREFERRED STOCK AND OTHER MANDATORILY REDEEMABLE SECURITIES

The company's Restated Articles of Incorporation, as amended, provide for 150,000,000 authorized shares of common stock. At December 31, 2000, 70,082,314 shares were issued and outstanding.

The company has a Direct Stock Purchase Plan (DSPP). Shares issued under the DSPP may be either original issue shares or shares purchased on the open market. During 2000, a total of 3,220,657 shares were purchased from the company made up of 1,440,000 treasury and 1,780,657 original issue shares. These shares were for DSPP, ESPP, 401(k) match and other stock based plans operated under the 1996 Long-term Incentive and Share Award Plan. Of the total shares purchased from the company in 2000, 2,750,457 were for the DSPP made up of 1,021,443 treasury and 1,729,014 original issue shares. During 2000 an additional 6,000,000 shares were registered to the DSPP. At December 31, 2000, 6,020,734 shares were available under the DSPP registration statement.

In 1999, the company purchased 900,000 shares of common stock at an average price of $17.55 per share. The purchased shares were purchased with short-term debt and available funds. These purchased shares are shown as $15.8 million in treasury stock on the accompanying Consolidated Balance Sheet. In 2000, the company purchased 540,000 shares of common stock at an average price of $17.01. All of these shares were reissued during the year.

Preferred Stock Not Subject to Mandatory Redemption: The cumulative preferred stock is redeemable in whole or in part on 30 to 60 days notice at the option of the company.

Rate	Principal Outstanding	Call Price	Premium	Total Amount to Redeem
4.500%	$13,857,600	108.00%	$ 1,108,608	$14,966,208
4.250%	6,000,000	101.50%	90,000	6,090,000
5.000%	5,000,000	102.00%	100,000	5,100,000
	$24,857,600		$ 1,298,608	$26,156,208

The provisions in the company's Articles of Incorporation contain restrictions on the payment of dividends or the making of other distributions on the company's common stock while any preferred shares remain outstanding unless certain capitalization ratios and other conditions are met.

Other Mandatorily Redeemable Securities: On December 14, 1995, Western Resources Capital I, a wholly owned trust, issued 4.0 million preferred securities of 7-7/8% Cumulative Quarterly Income Preferred Securities, Series A, for $100 million. The trust interests are redeemable at the option of Western Resources Capital I on or after December 11, 2000, at $25 per preferred security plus accrued interest and unpaid dividends. Holders of the securities are entitled to receive distributions at an annual rate of 7-7/8% of the liquidation preference value of $25. Distributions are payable quarterly and are tax deductible by the company. These distributions are recorded as interest expense. The sole asset of the trust is $103 million principal amount of 7-7/8% Deferrable Interest Subordinated Debentures, Series A due December 11, 2025.

On July 31, 1996, Western Resources Capital II, a wholly owned trust, of which the sole asset is subordinated debentures of the company, sold in a public offering, 4.8 million shares of 8-1/2% Cumulative Quarterly Income Preferred Securities, Series B, for $120 million. The trust interests are redeemable at the option of Western Resources Capital II, on or after July 31, 2001, at $25 per preferred security plus accumulated and unpaid distributions. Holders of the securities are entitled to receive distributions at an annual rate of 8-1/2% of the liquidation preference value of $25. Distributions are payable quarterly and are tax deductible by the company. These distributions are recorded as interest expense. The sole asset of the trust is $124 million principal amount of 8-1/2% Deferrable Interest Subordinated Debentures, Series B due July 31, 2036.

In addition to the company's obligations under the Subordinated Debentures discussed above, the company has agreed to guarantee, on a subordinated basis, payment of distributions on the preferred securities. These undertakings constitute a full and unconditional guarantee by the company of the trust's obligations under the preferred securities.

14. COMMITMENTS AND CONTINGENCIES

Efforts by Wichita to Equalize Electric Rates: In September 1999, the City of Wichita filed a complaint with FERC against KGE, alleging improper affiliate transactions between KGE and Western Resources' KPL division. The City of Wichita asked that FERC equalize the generation costs between KGE and KPL, in addition to other matters. On November 9, 2000, a FERC administrative law judge ruled in the company's favor that no change in rates was required. On December 13, 2000, the City of Wichita filed a brief with FERC asking that the Commission overturn the judge's decision. The company anticipates a decision by FERC in the second quarter of 2001. A decision requiring equalization of rates could have a material adverse effect on the company's operations and financial position.

Municipalization Efforts by Wichita: In December 1999, the City Council of Wichita, Kansas, authorized the hiring of an outside consultant to determine the feasibility of creating a municipal electric utility to replace KGE as the supplier of electricity in Wichita. The feasibility study was released in February 2001 and estimates that the City of Wichita would be required to pay KGE $145 million for its stranded costs if the city were to municipalize. However, the company estimates the amount to be substantially greater. In order to municipalize KGE's Wichita electric facilities, the City of Wichita would be required to purchase KGE's facilities or build a separate independent system and arrange for its own power supply. These costs are in addition to the stranded costs for which the city would be required to reimburse the company. On February 2, 2001, the City of Wichita announced its intention to proceed with its attempt to municipalize KGE's retail electric utility business in Wichita. KGE will oppose municipalization efforts by the City of Wichita. Should the city be successful in its municipalization efforts without providing the company adequate compensation for its assets and lost revenues, the adverse effect on the operations and financial position of the company could be material.

KGE's franchise with the City of Wichita to provide retail electric service expires in March 2002. There can be no assurance that this franchise can be successfully renegotiated with terms similar, or as favorable, as those in the current franchise. Under Kansas law, KGE will continue to have the right to serve the customers in Wichita following the expiration of the franchise, assuming the system is not municipalized. Customers within the Wichita metropolitan area account for approximately 25% of the company's total energy sales.

Purchase Orders and Contracts: As part of its ongoing operations and construction program, the company has commitments under purchase orders and contracts, which have an unexpended balance of approximately $154.2 million at December 31, 2000.

Manufactured Gas Sites: The company has been associated with 15 former manufactured gas sites located in Kansas which may contain coal tar and other potentially harmful materials. The company and the Kansas Department of Health and Environment (KDHE) entered into a consent agreement governing all future work at the 15 sites. The terms of the consent agreement will allow the company to investigate these sites and set remediation priorities based on the results of the investigations and risk analysis. At December 31, 2000, the costs incurred for preliminary site investigation and risk assessment have been minimal. In accordance with the terms of the strategic alliance with ONEOK, ownership of 12 of these sites and the responsibility for clean-up of these sites were transferred to ONEOK. The ONEOK agreement limits the company's future liability associated with these sites to an immaterial amount. The company's investment earnings from ONEOK could be impacted by these costs.

Superfund Sites: In December 1999, the company was identified as one of more than 1,000 potentially responsible parties at an EPA Superfund site in Kansas City, Kansas (Kansas City site). The company has previously been associated with other Superfund sites for which the company's liability has been classified as de minimis and any potential obligations have been settled at minimal cost. Since 1993, the company has settled Superfund obligations at three sites for a total of $141,300. No Superfund obligations have been settled since 1994. The company's obligation, if any, at the Kansas City site is expected to be limited based upon previous experience and the limited nature of the company's business transactions with the previous owners of the site. In the opinion of the company's management, the resolution of this matter is not expected to have a material impact on the company's financial position or results of operations.

Clean Air Act: The company must comply with the provisions of the Clean Air Act Amendments of 1990 that require a two-phase reduction in certain emissions. The company has installed continuous monitoring and reporting equipment to meet the acid rain requirements. Material capital expenditures have not been required to meet Phase II sulfur dioxide and nitrogen oxide requirements.

Decommissioning: The company accrues decommissioning costs over the expected life of the Wolf Creek generating facility. The accrual is based on estimated unrecovered decommissioning costs, which consider inflation over the remaining estimated life of the generating facility and are net of expected earnings on amounts recovered from customers and deposited in an external trust fund.

On September 1, 1999, Wolf Creek submitted the 1999 Decommissioning Cost Study to the KCC for approval. The KCC approved the 1999 Decommissioning Cost Study on April 26, 2000. Based on the study, the company's share of Wolf Creek's decommissioning costs, under the immediate dismantlement method, is estimated to be approximately $631 million during the period 2025 through 2034, or approximately $221 million in 1999 dollars. These costs include decontamination, dismantling and site restoration and were calculated using an assumed inflation rate of 3.6% over the remaining service life from 1999 of 26 years. The actual decommissioning costs may vary from the estimates because of changes in the assumed dates of decommissioning, changes in regulatory requirements, changes in technology and changes in costs of labor, materials and equipment. On May 26, 2000, the company filed an application with the KCC requesting approval of the funding of the company's decommissioning trust on this basis. Approval was granted by the KCC on September 20, 2000.

Decommissioning costs are currently being charged to operating expense in accordance with the prior KCC orders. Electric rates charged to customers provide for recovery of these decommissioning costs over the life of Wolf Creek. Amounts expensed approximated $4.0 million in 2000 and will increase annually to $5.5 million in 2024. These amounts are deposited in an external trust fund. The average after-tax expected return on trust assets is 5.8%.

The company's investment in the decommissioning fund, including reinvested earnings approximated $64.2 million at December 31, 2000, and $58.3 million at December 31, 1999. Trust fund earnings accumulate in the fund balance and increase the recorded decommissioning liability.

The FASB is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. The FASB has issued an Exposure Draft "Accounting for Obligations Associated with the Retirement of Long-Lived Assets." The FASB expects to issue a final statement of financial accounting standard in the second quarter of 2001. The proposed Exposure Draft contains an effective date of fiscal years beginning after June 15, 2001. However, the ultimate effective date has not been finalized. If current accounting practices for nuclear power plant decommissioning are changed, the following could occur:

- The company's annual decommissioning expense could be higher than in 2000.
- The estimated cost for decommissioning could be recorded as a liability (rather than as accumulated depreciation).
- The increased costs could be recorded as additional investment in the Wolf Creek plant.

The company does not believe that such changes, if required, would adversely affect its operating results due to its current ability to recover decommissioning costs through rates.

Nuclear Insurance: The Price-Anderson Act limits the combined public liability of the owners of nuclear power plants to $9.5 billion for a single nuclear incident. If this liability limitation is insufficient, the United States Congress will consider taking whatever action is necessary to compensate the public for valid claims. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of $200 million. The remaining balance is provided by an assessment plan mandated by the Nuclear Regulatory Commission (NRC). Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to $88.1 million in the event there is a major nuclear incident involving any of the nation's licensed reactors. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. There is a limitation of $10 million in retrospective assessments per incident, per year.

The Owners carry decontamination liability, premature decommissioning liability and property damage insurance for Wolf Creek totaling approximately $2.8 billion ($1.3 billion, company's share). This insurance is provided by Nuclear Electric Insurance Limited (NEIL). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The company's share of any remaining proceeds can be used to pay for property damage or decontamination expenses or, if certain requirements are met including decommissioning the plant, toward a shortfall in the decommissioning trust fund.

The Owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves and other NEIL resources, the company may be subject to retrospective assessments under the current policies of approximately $5.3 million per year.

Although the company maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, the company's insurance coverage may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, would have a material adverse effect on the company's financial condition and results of operations.

Fuel Commitments: To supply a portion of the fuel requirements for its generating plants, the company has entered into various commitments to obtain nuclear fuel and coal. Some of these contracts contain provisions for price escalation and minimum purchase commitments. At December 31, 2000, Wolf Creek Nuclear Operating Corporation (WCNOC's) nuclear fuel commitments (company's share) were approximately $7.3 million for uranium concentrates expiring in 2003, $1.1 million for conversion expiring in 2003, $16.1 million for enrichment expiring at various times through 2003 and $61.3 million for fabrication through 2025.

At December 31, 2000, the company's coal and transportation contract commitments in 2000 dollars under the remaining terms of the contracts were approximately $1.52 billion. The largest contract expires in 2020, with the remaining contracts expiring at various times through 2013.

At December 31, 2000, the company's natural gas transportation commitments in 2000 dollars under the remaining terms of the contracts were approximately $61.5 million. The natural gas transportation contracts provide firm service to several of the company's gas burning facilities and expire at various times through 2010, except for one contract which expires in 2016.

Energy Act: As part of the 1992 Energy Policy Act, a special assessment is being collected from utilities for a uranium enrichment decontamination and decommissioning fund. The company's portion of the assessment for Wolf Creek is approximately $9.6 million, payable over 15 years. Such costs are recovered through the ratemaking process.

15. LEGAL PROCEEDINGS

The SEC commenced a private investigation in 1997 relating to, among other things, the timeliness and adequacy of disclosure filings with the SEC by the company with respect to securities of ADT Ltd. The company is cooperating with the SEC staff in this investigation.

The company, its subsidiary Westar Industries, Protection One, its subsidiary Protection One Alarm Monitoring, Inc. (Monitoring), and certain present and former officers and directors of Protection One are defendants in a purported class action litigation pending in the United States District Court for the Central District of California, "Alec Garbini, et al v. Protection One, Inc., et al," No. CV 99-3755 DT (RCx). Pursuant to an Order dated August 2, 1999, four pending purported class actions were consolidated into a single action. On February 27, 2001, plaintiffs filed a Third Consolidated Amended Class Action Complaint (Amended Complaint). Plaintiffs purport to bring the action on behalf of a class consisting of all purchasers of publicly traded securities of Protection One, including common stock and notes, during the period of February 10, 1998, through February 2, 2001. The Amended Complaint asserts claims under Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 against Protection One, Monitoring and certain present and former officers and directors of Protection One based on allegations that various statements concerning Protection One's financial results and operations for 1997, 1998, 1999 and the first three quarters of 2000 were false and misleading and not in compliance with generally accepted accounting principles. Plaintiffs allege, among other things, that former employees of Protection One have reported that Protection One lacked adequate internal accounting controls and that certain accounting information was unsupported or manipulated by management in order to avoid disclosure of accurate information. The Amended Complaint further asserts claims against the company and Westar Industries as controlling persons under Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. A claim is also asserted under Section 11 of the Securities Act of 1933 against Protection One's auditor, Arthur Andersen LLP. The Amended Complaint seeks an unspecified amount of compensatory damages and an award of fees and expenses, including attorneys' fees. Defendants have until April 9, 2001, to respond to the Amended Complaint. The company and Protection One intend to vigorously defend against all the claims asserted in the Amended Complaint. The company and Protection One cannot predict the impact of this litigation, which could be material.

The company and its subsidiaries are involved in various other legal, environmental and regulatory proceedings. Management believes that adequate provision has been made and accordingly believes that the ultimate disposition of such matters will not have a material adverse effect upon the company's overall financial position or results of operations. See also Note 3 for discussion of regulatory proceedings and FERC proceedings including the City of Wichita and Note 14 for discussion of the City of Wichita municipalization efforts.

16. LEASES

At December 31, 2000, the company had leases covering various property and equipment.

Rental payments for operating leases and estimated rental commitments are as follows:

Year Ended December 31,	Leases
	(In Thousands)
Rental payments:	
1998	$ 70,796
1999	71,771
2000	71,232
Future commitments:	
2001	$ 71,280
2002	67,033
2003	62,270
2004	54,647
2005	55,931
Thereafter	558,754
Total future commitments	$869,915

In 1987, KGE sold and leased back its 50% undivided interest in the La Cygne 2 generating unit. The La Cygne 2 lease has an initial term of 29 years, with various options to renew the lease or repurchase the 50% undivided interest. KGE remains responsible for its share of operation and maintenance costs and other related operating costs of La Cygne 2. The lease is an operating lease for financial reporting purposes. The company recognized a gain on the sale, which was deferred and is being amortized over the initial lease term.

In 1992, the company deferred costs associated with the refinancing of the secured facility bonds of the Trustee and owner of La Cygne 2. These costs are being amortized over the life of the lease and are included in operating expense.

Future minimum annual lease payments, included in the table above, required under the La Cygne 2 lease agreement are approximately $34.6 million for each year through 2002, $39.4 million in 2003, $34.6 million in 2004, $38.0 million in 2005 and $464.6 million over the remainder of the lease. KGE's lease expense, net of amortization of the deferred gain and refinancing costs, was approximately $28.9 million annually for 2000, 1999 and 1998.

17. INTERNATIONAL POWER DEVELOPMENT COSTS

During the fourth quarter of 1998, management decided to exit the international power development business. This business had been conducted by the company's wholly owned subsidiary, The Wing Group. The company recorded a $98.9 million charge to income in the fourth quarter of 1998 as a result of exiting this business.

During 1999, the company terminated the employment of all employees, closed offices, discontinued all development activities, and terminated all other matters related to the activity of The Wing Group in accordance with the terms of the exit plan. These activities were substantially completed by December 31, 1999. The actual costs incurred during 1999 to complete the exit plan approximated $16.9 million, which was $5.6 million less than the amount estimated at December 31, 1998. This was accounted for as a change in estimate in 1999.

18. INCOME TAXES

Income tax expense (benefit) is composed of the following components at December 31:

	2000	1999	1998
		(In Thousands)	
Currently payable:			
Federal	$ 18,600	$ 13,907	$ 52,993
State	10,131	9,622	10,881
Deferred:			
Federal	13,790	(43,090)	(46,869)
State	9,585	(6,582)	(4,185)
Amortization of investment tax credits	(6,045)	(6,054)	(6,065)
Total income tax expense (benefit)	$ 46,061	$ (32,197)	$ 6,755

Under SFAS 109, "Accounting for Income Taxes," temporary differences gave rise to deferred tax assets and deferred tax liabilities as follows at December 31:

	2000	1999
	(In Thousands)	
Deferred tax assets:		
Deferred gain on sale-leaseback	$ 82,013	$ 87,220
Monitored Services deferred tax assets	101,101	59,171
Other	119,344	131,976
Total deferred tax assets	$ 302,458	$ 278,367
Deferred tax liabilities:		
Accelerated depreciation and other	$ 609,396	$ 614,309
Acquisition premium	275,159	283,157
Deferred future income taxes	188,006	218,937
Other	58,158	40,508
Total deferred tax liabilities	$1,130,719	$1,156,911
Investment tax credits	$ 91,546	$ 97,591
Accumulated deferred income taxes, net	$ 919,807	$ 976,135

In accordance with various rate orders, the company has not yet collected through rates certain accelerated tax deductions which have been passed on to customers. As management believes it is probable that the net future increases in income taxes payable will be recovered from customers, it has recorded a regulatory asset for these amounts. These assets also are a temporary difference for which deferred income tax liabilities have been provided. This liability is classified above as deferred future income taxes.

The effective income tax rates set forth below are computed by dividing total federal and state income taxes by the sum of such taxes and net income. The difference between the effective tax rates and the federal statutory income tax rates are as follows:

For the Year Ended December 31,	2000	1999	1998
Effective income tax rate	33.6%	(108.6%)	16.6%
Effect of:			
State income taxes	(9.4)	(7.1)	(7.3)
Amortization of investment tax credits	4.4	20.4	14.9
Corporate-owned life insurance policies	8.4	28.0	22.4
Affordable housing tax credits	7.8	31.3	3.1
Accelerated depreciation flow through and amortization, net	(4.9)	(12.2)	(4.4)
Adjustment to tax provision	—	4.3	(16.9)
Dividends received deduction	7.1	34.3	23.9
Amortization of goodwill	(13.0)	(19.3)	(17.0)
Other	1.0	(6.1)	(0.3)
Statutory federal income tax rate	35.0%	(35.0%)	35.0%

19. RELATED PARTY TRANSACTIONS

The company and ONEOK have shared services agreements in which facilities, utility field work, information technology, customer support, bill processing, and human resources services are provided to and billed to one another. Payments for these services are based on various hourly charges, negotiated fees and out-of-pocket expenses. ONEOK paid the company $5.0 million in 2000 and $5.6 million in 1999, net of what the company owed ONEOK, for services.

In 1999, the company sold 984,000 shares of ONEOK stock to ONEOK as a result of ONEOK's repurchase program. The company reduced its investment in ONEOK for proceeds received from this sale. All such shares were required to be sold to ONEOK in accordance with a shareholder agreement between the company and ONEOK. The company's ownership interest remains at approximately 45% as of December 31, 2000.

20. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment at December 31:

	2000	1999
	(In Thousands)	
Electric plant in service	$5,987,920	$5,769,401
Less – accumulated depreciation	2,274,940	2,141,037
	3,712,980	3,628,364
Construction work in progress	189,853	170,061
Nuclear fuel (net)	30,791	28,013
Net utility plant	3,933,624	3,826,438
Non-utility plant in service	113,040	92,872
Less – accumulated depreciation	53,226	29,866
Net property, plant and equipment	$3,993,438	$3,889,444

The company's depreciation expense on property, plant and equipment was $201.7 million in 2000, $186.1 million in 1999 and $168.9 million in 1998.

21. JOINT OWNERSHIP OF UTILITY PLANTS

	Company's Ownership at December 31, 2000				
	In-Service Dates	Investment	Accumulated Depreciation	Net (MW)	Percent
		(Dollars in Thousands)			
La Cygne 1[a]	Jun 1973	$ 182,794	$115,903	344.0	50
Jeffrey 1[b]	Jul 1978	305,838	144,009	625.0	84
Jeffrey 2[b]	May 1980	297,979	133,701	622.0	84
Jeffrey 3[b]	May 1983	410,926	175,482	623.0	84
Jeffrey wind 1[b]	May 1999	828	58	0.6	84
Jeffrey wind 2[b]	May 1999	828	57	0.6	84
Wolf Creek[c]	Sep 1985	1,381,656	491,978	550.0	47

[a] Jointly owned with Kansas City Power and Light Company (KCPL)

[b] Jointly owned with UtiliCorp United, Inc.

[c] Jointly owned with KCPL and Kansas Electric Power Cooperative, Inc.

Amounts and capacity presented above represent the company's share. The company's share of operating expenses of the plants in service above, as well as such expenses for a 50% undivided interest in La Cygne 2 (representing 337 MW capacity) sold and leased back to KGE in 1987, are included in operating expenses on the Consolidated Statements of Income. The company's share of other transactions associated with the plants is included in the appropriate classification in the company's Consolidated Financial Statements.

22. SEGMENTS OF BUSINESS

In 1998, the company adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." This statement requires the company to define and report the company's business segments based on how management currently evaluates its business. Management has segmented its business based on differences in products and services, production processes and management responsibility. Based on this approach, the company has identified four reportable segments: Fossil Generation, Nuclear Generation, Power Delivery and Monitored Services.

The first three segments comprise the company's electric utility business. Fossil Generation produces power for sale internally to the Power Delivery segment and externally to wholesale customers. A component of the company's Fossil Generation segment is power marketing, which attempts to minimize market fluctuation risk associated with fuel and purchased power requirements and enhance system reliability. Nuclear Generation represents the company's 47% ownership in the Wolf Creek nuclear generating facility. This segment has only internal sales because it provides all of its power to its co-owners. The Power Delivery segment consists of the transmission and distribution of power to the company's retail customers in Kansas and the customer service provided to these customers and the transportation of wholesale energy. Monitored Services represents the company's security alarm monitoring business in North America, the United Kingdom and continental Europe. Other represents the company's non-utility operations and natural gas investment.

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies. The company evaluates segment performance based on earnings before interest and taxes (EBIT). Unusual items, such as charges to income, may be excluded from segment performance depending on the nature of the charge or income. The company's ONEOK investment, marketable securities investments and other equity method investments do not represent operating segments of the company. The company has no single external customer from which it receives 10 percent or more of its revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2000:	Fossil Generation	Nuclear Generation	Power Delivery	Monitored Services	Other[a]	Eliminating/ Reconciling Items[b]	Total
				(In Thousands)			
External sales	$ 705,536	$ —	$1,123,590	$ 537,859	$ 1,484	$ 7	$2,368,476
Internal sales	572,533	107,770	291,927	—	—	(972,230)	—
Depreciation and amortization	60,331	40,052	75,419	248,414	2,116	37	426,369
Earnings before interest and taxes	202,744	(24,323)	171,872	(91,370)	189,289	(21,533)	426,679
Interest expense							289,568
Earnings before income taxes							137,111
Identifiable assets	1,664,300	1,068,228	1,899,951	2,139,748	994,983	(2)	7,767,208

Year Ended December 31, 1999:	Fossil Generation	Nuclear Generation	Power Delivery	Monitored Services	Other[c]	Eliminating/ Reconciling Items[b]	Total
				(In Thousands)			
External sales	$ 365,311	$ —	$1,064,385	$ 599,105	$ 1,284	$ 2	$2,030,087
Internal sales	546,683	108,445	293,522	—	—	(948,650)	—
Depreciation and amortization	55,320	39,629	71,717	235,465	1,448	90	403,669
Earnings before interest and taxes	219,087	(25,214)	145,603	(20,675)	(28,088)	(26,252)	264,461
Interest expense							294,104
Earnings/(loss) before income taxes							(29,643)
Identifiable assets	1,476,716	1,083,344	1,783,937	2,539,921	1,165,145	(59,171)	7,989,892

Year Ended December 31, 1998:	Fossil Generation	Nuclear Generation	Power Delivery	Monitored Services	Other[d]	Eliminating/ Reconciling Items[b]	Total
				(In Thousands)			
External sales	$ 525,974	$ —	$1,085,711	$ 421,095	$ 1,342	$ (68)	$2,034,054
Internal sales	517,363	117,517	66,492	—	—	(701,372)	—
Depreciation and amortization	53,132	39,583	68,297	125,103	2,010	—	288,125
Earnings before interest and taxes	144,357	(20,920)	196,398	34,438	(99,608)	12,268	266,933
Interest expense							226,120
Earnings before income taxes							40,813
Identifiable assets	1,360,102	1,121,509	1,788,943	2,489,667	1,269,013	(99,458)	7,929,776

[a] EBIT includes the gain on the sale of our investment in a gas compression company of $91.1 million and the gain on the sale of other marketable securities of $24.9 million.

[b] Identifiable assets includes eliminating and reclassing balances to consolidate the monitored services business.

[c] EBIT includes investment earnings of $36.0 million, an impairment of marketable securities of $76.2 million and the write-off of deferred costs of $17.6 million.

[d] EBIT includes investment earnings of $21.7 million and the write-off of international power development costs of $98.9 million.

Geographic Information: Prior to 1998, the company did not have international sales or international property, plant and equipment. The company's sales and property, plant and equipment are as follows:

For the Year Ended December 31,	2000	1999	1998
		(In Thousands)	
External sales:			
North America operations	$2,262,381	$1,867,081	$1,990,329
International operations	106,095	163,006	43,725
Total	$2,368,476	$2,030,087	$2,034,054

As of December 31,	2000	1999	1998
		(In Thousands)	
Property, plant and equipment, net:			
North America operations	$3,985,331	$3,881,294	$3,792,645
International operations	8,107	8,150	7,271
Total	$3,993,438	$3,889,444	$3,799,916

23. QUARTERLY RESULTS (UNAUDITED)

The amounts in the table are unaudited but, in the opinion of management, contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of such periods. The electric business of the company is seasonal in nature and, in the opinion of management, comparisons between the quarters of a year do not give a true indication of overall trends and changes in operations.

	First	Second	Third	Fourth
	(In Thousands, Except Per Share Amounts)			
2000				
Sales	$ 481,699	$ 546,607	$ 759,562	$ 580,608
Gross profit	306,760	331,889	395,534	298,461
Net income before extraordinary gain and accounting change	39,801	23,565	53,991	(26,307)
Net income	54,483	40,912	60,707	(19,621)
Earnings per share available for common stock before extraordinary gain and accounting change				
Basic	$ 0.58	$ 0.34	$ 0.78	$ (0.40)
Diluted	$ 0.58	$ 0.34	$ 0.77	$ (0.39)
Cash dividend per common share	$ 0.535	$ 0.30	$ 0.30	$ 0.30
Market price per common share:				
High	$ 18.313	$ 17.813	$ 21.953	$ 25.875
Low	$ 15.313	$ 14.688	$ 15.375	$ 20.438
1999				
Sales	$ 460,582	$ 476,142	$ 646,740	$ 446,623
Gross profit	312,655	324,407	424,581	309,498
Net income before extraordinary gain and accounting change	19,980	17,722	53,203	(88,351)
Net income	19,980	17,722	53,203	(76,609)
Basic and fully diluted earnings per share available for common stock before extraordinary gain	$ 0.30	$ 0.26	$ 0.78	$ (1.32)
Cash dividend per common share	$ 0.535	$ 0.535	$ 0.535	$ 0.535
Market price per common share:				
High	$ 33.875	$ 29.375	$ 27.125	$ 23.8125
Low	$ 26.6875	$ 23.75	$ 20.375	$ 16.8125

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF WESTERN RESOURCES, INC.:

We have audited the accompanying consolidated balance sheets of Western Resources, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Resources, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Kansas City, Missouri,
March 9, 2001

SIX YEAR COMPARATIVE DATA

INCOME STATEMENT DATA (In Thousands):

	Operations				
Years	Total Sales	Total Cost of Sales	Gross Profit	Total Operating Expenses	Income from Operations
2000	**$2,368,476**	**$1,035,832**	**$1,332,644**	**$1,107,013**	**$225,631**
1999	2,030,087	658,946	1,373,141	1,093,327	277,814
1998	2,034,054	823,259	1,210,795	987,858	222,937
1997[1]	2,151,765	967,523	1,184,242	1,029,180	155,062
1996	2,046,827	883,126	1,163,701	775,148	388,553
1995	1,744,274	659,003	1,085,271	711,550	373,721

		Interest Expense		Income, Taxes, Earnings and Dividends						
Years	Other Income (Expense)	Long-Term Debt	Short-Term Debt	Income Before Income Taxes	Income Taxes	Net Income	Preferred & Preference Dividends	Earnings Available for Common Stock	Basic & Diluted Earnings Per Common Share	Dividends Declared Per Common Share
2000	**$201,048**	**$226,419**	**$63,149**	**$137,111**	**$ 46,061**	**$136,481**	**$ 1,129**	**$135,352**	**$1.96**	**$1.44**
1999	(13,353)	236,417	57,687	(29,643)	(32,197)	14,296	1,129	13,167	0.20	2.14
1998	43,996	170,855	55,265	40,813	6,755	35,649	3,591	32,058	0.48	2.14
1997[1]	920,607	119,972	73,836	881,861	383,209	498,652	4,919	493,733	7.58	2.10
1996	15,307	105,741	46,810	251,309	82,359	168,950	14,839	154,111	2.41	2.06
1995	18,657	95,962	30,360	266,056	84,380	181,676	13,419	168,257	2.71	2.02

ELECTRIC STATISTICS:

	MWH Sales (In Thousands)[2]					Company System Supply at Peak Hour (Net MW)			
Years	Residential	Commercial	Industrial	Other	Total	System Net Load	System Peak Responsibility[3]	Accredited Generating Capacity	System Capacity[3]
2000	**6,222**	**6,485**	**5,820**	**7,000**	**25,527**	**4,531**	**4,579**	**5,604**	**5,242**
1999	5,551	6,202	5,743	5,725	23,221	4,372	4,428	5,458	5,032
1998	5,815	6,199	5,808	4,934	22,756	4,201	4,287	5,356	4,960
1997	5,310	5,803	5,714	5,441	22,268	4,016	4,102	5,312	4,984
1996	5,265	5,667	5,622	6,013	22,567	3,997	4,077	5,312	4,978
1995	5,088	5,453	5,619	4,120	20,280	3,979	4,004	5,240	4,966

	Electric Revenues (In Thousands)					Customers	Utility Plant (In Thousands)	
Years	Residential	Commercial	Industrial	Other & Misc.	Total	Average Total	Gross Additions	Total
2000	**$452,674**	**$367,367**	**$252,243**	**$756,848**	**$1,829,132**	**636,000**	**$285,400**	**$6,208,564**
1999	407,371	356,314	251,391	414,622	1,429,698	628,000	243,100	5,967,475
1998	428,680	356,610	257,186	569,209	1,611,685	620,000	158,600	5,768,373
1997	392,751	339,167	254,076	243,999	1,229,993	614,000	159,800	5,665,397
1996	403,588	351,806	262,989	179,050	1,197,433	606,000	138,500	5,580,784
1995	396,025	340,819	268,947	140,104	1,145,895	601,000	179,100	5,495,417

[1] Information reflects the Strategic Alliance with ONEOK and the acquisition of Protection One in November 1997
[2] Excludes power marketing sales volumes
[3] Net of off-system sales and purchases

Shareholder Information and Assistance

The company is proud to offer personalized service to our individual shareholders through our Shareholder Services department. We are the transfer agent for Western Resources common and preferred stock. Shareholder Services provides information and assistance to shareholders, including:

- Dividend Payments
  - Paid on the first business day of January, April, July and October
- Direct Deposit of Dividends
- Transfer of Shares
- Lost Stock Certificates
- Direct Stock Purchase Plan
  - Become a shareholder by making an initial payment of $250 or more.
  - Reinvest all or part of your dividends.
  - Buy additional shares by making optional cash payments by check or monthly electronic withdrawal from your bank account.
  - Deposit your stock certificates into the plan for safekeeping.
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E-mail Address: investrel@wr.com

Copies of the Form 10-K Annual Report to the Securities and Exchange Commission and other published reports can be obtained without charge by contacting Investor Relations at the above address or by accessing the company's home page on the Internet at www.wr.com.

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