The Empire District Electric Company

ANNUAL REPORT 1998

Power, Precision, Flexibility, Efficiency...

ATTACHMENT 1

Profile: An independent, investor-owned utility providing electrical and other value-added services to over 144,000 residential, commercial, and industrial customers. Serves a 10,000 square-mile service area in Missouri, Kansas, Oklahoma, and Arkansas. Founded in 1909. Listed on the New York Stock Exchange since 1946. Has paid dividends continuously since 1944.

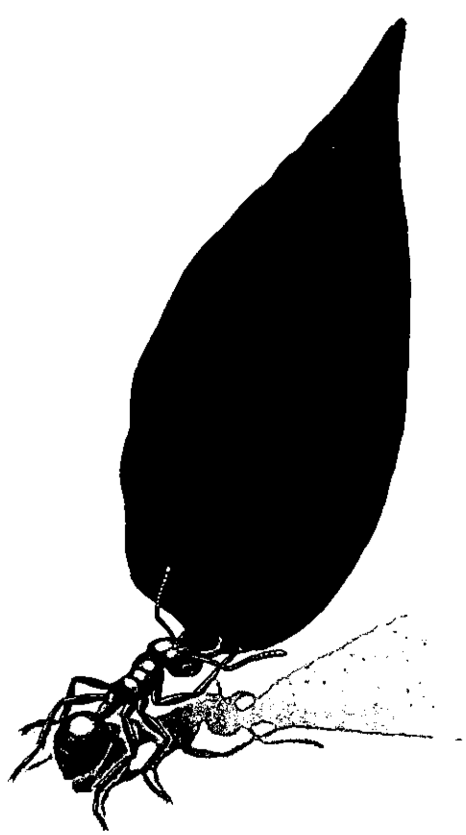
Our Mission: (1)To be the regional supplier of choice for energy and energy-related products (2)To know our customers and to exceed their expectations (3)To provide increasing value to our shareholders (4)To create a safe, challenging, and satisfying work environment (5)To develop a corporate culture which will enable success in a competitive marketplace (6)To ensure financial strength to respond to an increasingly deregulated environment

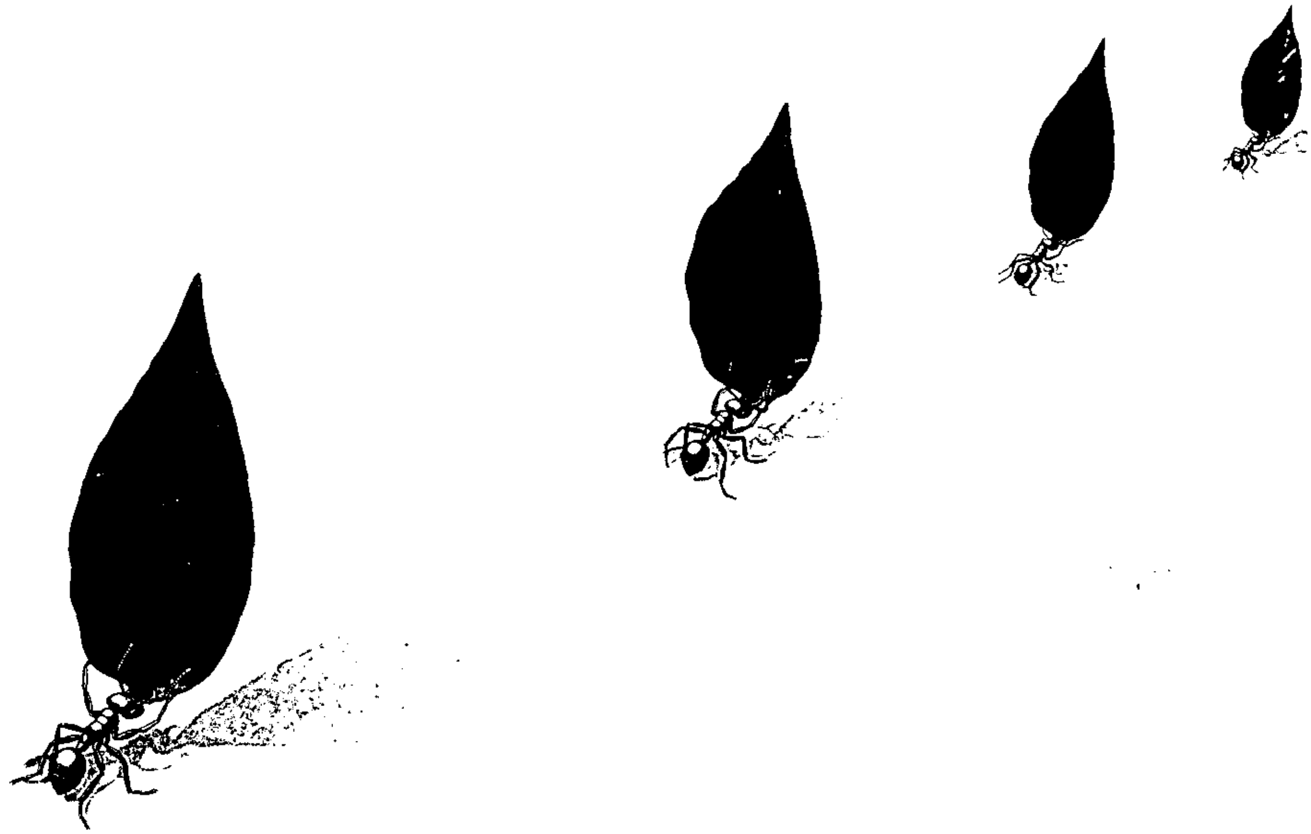
Contents:
Financial Highlights p.2 / Charted Data p.3 / Shareholder's Letter p.4 / Operations p.10
Directors and Officers p.18 / Financial Section p.20

No 1.

ANTS CAN CARRY UP TO 50 TIMES THEIR OWN WEIGHT. BUT BEYOND INDIVIDUAL STRENGTH, THEY ARE KNOWN FOR THEIR PRODUCTIVITY...

THE ABILITY TO WORK AS A TEAM.



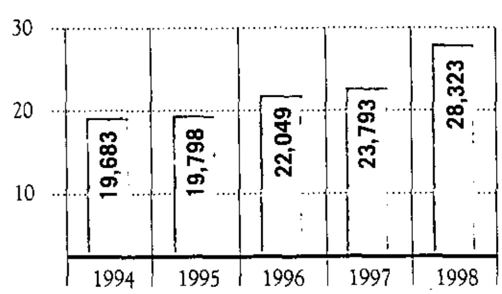


>Team.work.<

Power, efficiency, precision, and flexibility often come in small packages. As A STRONG PLAYER IN A FIELD OF GIANTS, The Empire District Electric Company is known for providing these qualities to our customers and shareholders. During 1998, every individual and employee team at Empire went above and beyond their regular duties to prepare for a new era of customer services, plan for a new generation facility, and pursue innovative solutions for the needs of a new century.

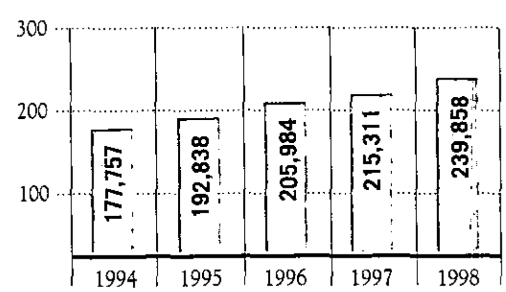
1998 Financial Highlights

December 31,	1998	1997	Change
Operating Revenues	$ 239,858,000	$ 215,311,000	11.40%
Operating Income	$ 47,372,000	$ 40,962,000	15.65%
Net Income	$ 28,323,000	$ 23,793,000	19.04%
Basic and Diluted Earnings Per Average Common Share	$ 1.53	$ 1.29	18.60%
Dividends Paid	$ 1.28	$ 1.28	0.00%
Return on Common Equity	11.30%	9.76%	15.78%
Book Value Per Share of Common Stock	$ 13.40	$ 13.03	2.84%
Common Shares Outstanding	17,108,799	16,776,654	1.98%
Weighted Average Common Shares Outstanding	16,932,704	16,599,269	2.01%
Number of Common Shareholders of Record *(Year end)*	9,173	9,672	-5.16%
Total Construction Expenditures	$ 50,899,000	$ 55,071,000	-7.58%
Gross Utility Plant	$ 831,496,000	$ 797,839,000	4.22%
On-System Sales *(Thousand kwh)*	4,153,667	3,919,079	5.99%
Electric Customers (Year end)	144,546	142,000	1.79%
Total System Capability *(Net kw)*	1,108,000	1,088,000	1.84%
System Peak Demand *(Net kw)*	916,000	876,000	4.57%
Degree Days, Heating	3,548	4,074	-12.91%
Degree Days, Cooling	1,991	1,340	48.58%
Number of Employees *(Year end)*	626	626	0.00%



NET INCOME

(Dollars in Thousands)

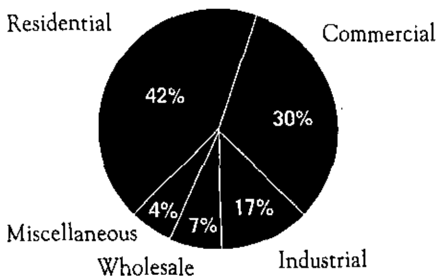


TOTAL OPERATING REVENUES

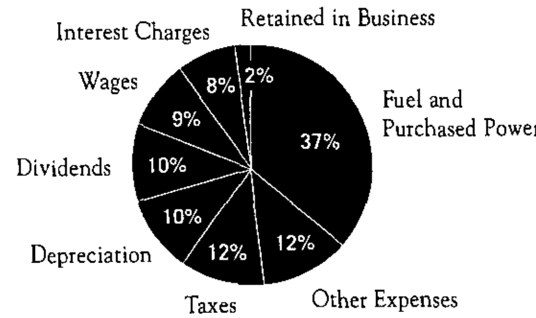
(Dollars in Thousands)

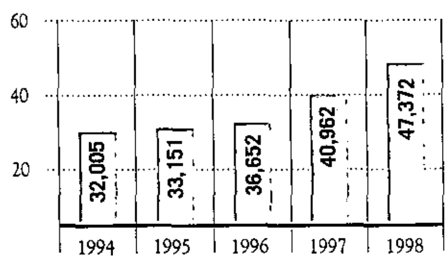
Charted Data

1998 SOURCES OF
TOTAL REVENUE

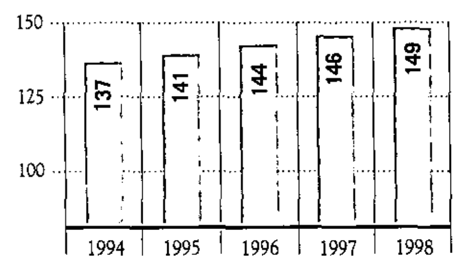


1998 ALLOCATION
OF REVENUE

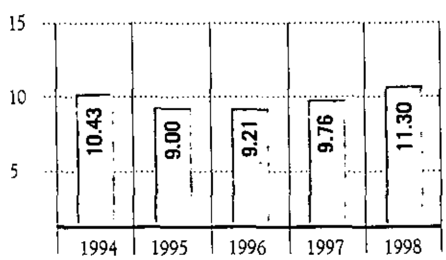




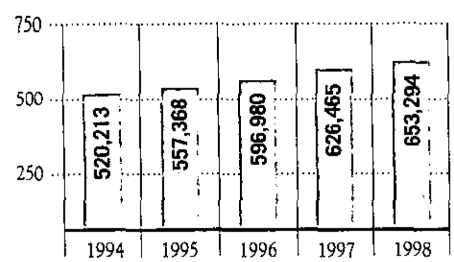
OPERATING
INCOME
(Dollars in Thousands)



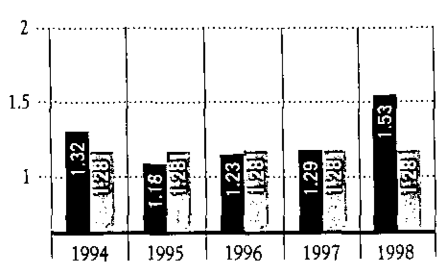
UTILITY
CUSTOMERS
(Thousands)



RETURN ON
COMMON EQUITY
(Percent)

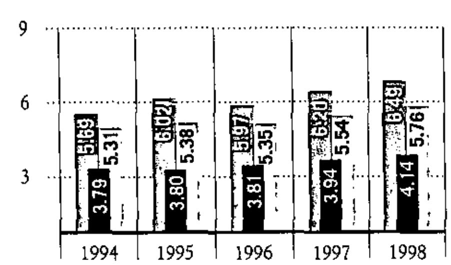


TOTAL ASSETS
(Dollars in Thousands)



EARNINGS AND DIVIDENDS
PAID PER COMMON SHARE
(Dollars)

Dividends
EPS



AVERAGE RATES
(Cents per Kilowatt-hour)

Commercial
Residential
Industrial

Shareholder

"1998 was a year of major achievements in preparing for the power supply and information needs of a new century."

rs

e

To our

MYRON W. MCKINNEY
President and Chief Executive Officer

Fellow Shareholders: I am pleased to report that 1998 was a year of significantly improved financial performance for the Company. As you will learn in the pages of this report, 1998 was a year of major achievements in preparing for the power supply and information needs of a new century.

While our service area and staff size are relatively small compared to many other investor-owned utilities, we have developed a world-class corporate culture which encourages change and flexibility. Our peers in the industry have taken notice and recognize Empire's technical expertise and innovation.

Financial performance. Our earnings are up 24 cents (18.60%) over last year, at $1.53 per share. Two other key financial highlights of the year include an 11.40% improvement in Operating Revenues and a 19.04% increase in Net Income, compared to 1997.

Above-average temperatures through much of the summer helped to establish a new all-time system peak and contributed to improved results for the year. Also, 1998 represents a full year's effect of the Missouri rate increases, which became effective during the third quarter of 1997. These increases were important in offsetting increased generating equipment maintenance, as well as fuel and purchased power costs. In February 1998, we filed an application to increase rates for our Arkansas customers by $618,497 (10.00%), and in July received an order from the Arkansas Public Service Commission authorizing an increase of $358,848 (6.60%).

Even with these increases, our rates remain very competitive: approximately 30% below the national average for residential, 28% below for commercial, and 18% below for industrial customers.

The thriving economy within our service area also contributed to our strong 1998 performance. Our kilowatt-hour sales increased 5.2% over 1997 sales, and customer growth was 1.8%, compared with the national average of 0.8%,

For 1998, we paid an annual dividend of $1.28 which, when coupled with a stock price appreciation of $5.13 per share and dividend reinvestment, provides a total return of 33.47%. This return places us in the top ten utilities in Edison Electric Institute's Index of Investor-Owned Electrics.

In summary, it was a very good year to be an Empire shareholder.

Plans for new generation announced. On October 2, 1998,
projected electrical needs for the year 2001 and beyond,
generation at our State Line Power Plant. This addition
combustion turbine unit to supply heat to a new steam
technology will provide a nominal 500 megawatts of co
in undertaking this project is to make us more self-suffic
customers with an economic and reliable supply of elect

We have elected to take a joint owner for this addition. I
Understanding with Western Resources, Inc. of Topeka, I
cycle unit. We anticipate retaining 60% ownership and b
of the facility. Our share of the project as completed wou
additional capacity. Further details regarding the additior

Complementary customer services. We are no longer just a
Services You Count On — new technologies, new comf
peace of mind. While we remain committed to our core
introduced several new service offerings. Our strategy in
our involvement, strengthen our relationships, build loya
expand our customer base.

It is our mission to be the regional supplier of choice for
achieve excellence in the services we provide and expan
can profitably serve. Specifically, these products are elec
lighting, electric system surge protection, fiber optic cab
industrial customers. As other products become viable, v

Software solutions to meet the millennium. Centurion, a st
("CIS"), and its deserving development team at Empire,
throughout the year. Centurion features technical benefi
available CIS systems selling for millions of dollars. It is

Also, installation of a comprehensive new PeopleSoft fi
Company for the foreseeable future. In addition to finan
human resources functions. These systems provide the fl
needs well into the next century.

Year 2000 readiness. We continue to identify, evaluate, and implement changes to all information technology ("IT") and non-IT systems in order to achieve Year 2000 readiness. Implementation of our new financial software package from PeopleSoft and our new Centurion CIS is expected to be complete by mid-1999. Both software systems are Year 2000 ready.

Additionally, our Year 2000 Readiness Plan includes awareness and communications, a special readiness task force, as well as development of documentation, remediation, and testing procedures. We are currently testing and remediating equipment and systems and obtaining certificates of compliance from vendors and other third parties with whom we do business. Year 2000 readiness is a top priority at Empire.

Electric utility restructuring update. On the state and national levels, there was little forward motion on restructuring in 1998, with little interest on the part of the voter/ratepayer constituency. Many states that actually implemented competitive measures during and prior to 1998 have experienced lower than anticipated participation.

With little support to move the issue in the 1999 legislative sessions, it does not appear that restructuring is likely to begin in Missouri or Kansas before 2002. Oklahoma has chosen July 1, 2002, as a target date, and legislation has been introduced in Arkansas with a target date of 2002. We are actively engaged in these efforts and will continue to protect our interests in the legislative arena.

Forward into 1999 and the new century. Our 1998 performance is a strong indicator of our preparedness for the challenging business environment of the future. In addition to our primary responsibility of supplying reliable, low-cost electric energy to our customers today, we have devised flexible, economical, and innovative solutions to our power supply and information management needs of the next century. The next few years will provide major challenges as our industry transitions to competition. I am confident we will successfully meet these challenges and reward your confidence in our Company.

MYRON W. MCKINNEY
President and Chief Executive Officer

March 16, 1999

“

In summary, it was a very good

d year to be an Empire shareholder.

”

№ 2.

THIS WATCH CONTAINS HUNDREDS OF INGENIOUSLY DESIGNED PARTS, ALL MOVING IN HARMONY AND PRECISION, TO KEEP TIME FLAWLESSLY —24 HOURS A DAY, 365 DAYS A YEAR.

>Precision<

"We are able to respond strategically and efficiently to the fast changing utility environment."

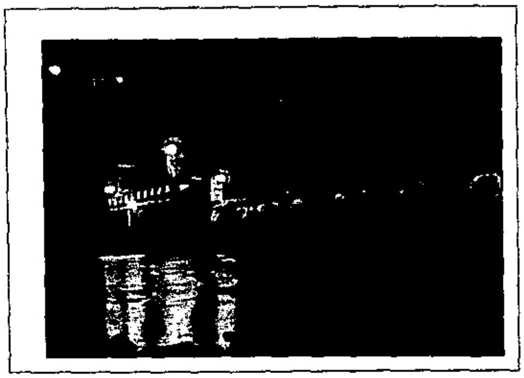
Services You Count On – 24 hours a day.

As one of the smaller investor-owned utilities in the nation, The Empire District Electric Company moved with extraordinary precision and agility during 1998. With accurate input from talented individuals and work groups throughout our organization, we were able to respond strategically and efficiently to the fast changing utility environment. Look at the steps we've taken to meet the needs of 2000 and beyond.

Future energy supply. Changes in the industry. Over the last two years, the industry has experienced significant increases in the price of purchased power, even in the traditionally low-cost Midwest. In addition to a detailed internal assessment by our Planning and Energy Supply departments, we contracted with industry consultants, Black & Veatch, to study future energy needs for the Midwestern region. With limited new generation facilities currently under construction or announced, their study and ours concluded that there will be a need for additional generation in the Midwest by the year 2001.

Our decision to build new generation capacity. After comparing the Company's projected electricity needs with the increasingly volatile purchased power market, we determined that our best option was to add 350 megawatts of generation at our State Line Plant. In August, the Company purchased an option on a combustion turbine to be delivered in July 2000 with an anticipated in-service date of June 1, 2001. On October 2, we announced our generation plans. The new 150-megawatt combustion turbine will be used along with our existing 152-megawatt Unit II combustion turbine to supply heat to a new 200-megawatt steam turbine. This will provide a nominal 500 megawatts of state-of-the-art combined cycle energy. This environmentally friendly, proven technology captures waste exhaust heat from the gas combustion turbines to be utilized for additional steam generation. Whether operated in a regulated or a restructured market, the plant will be a cost-competitive provider of power for the Company's own use or for sale on the wholesale market.

In January we entered into a Memorandum of Understanding with Western Resources, Inc. of Topeka, Kansas, to share in the ownership of the combined cycle unit. We anticipate retaining 60% ownership and being responsible for the construction and operation of the facility. We would also be entitled to 60% of the addition's capacity. Because we would contribute our existing 152-megawatt Unit II combustion turbine to the project, our share of the project as completed would provide us with approximately 150 megawatts of additional capacity.



LOW-COST GENERATION FROM OUR OZARK BEACH FACILITY HELPS EMPIRE MAINTAIN SOME OF THE LOWEST RATES IN THE NATION.

A GROWING LOCAL ECONOMY AND A DIVERSE INDUSTRIAL BASE HELP KEEP DEMAND FOR OUR SERVICES STRONG AND STABLE.

Financial strength for the future. On April 28, 1998, the Company issued $50 million of First Mortgage Bonds, 6.5% Series due 2010, in an underwritten offering. Net proceeds were added to the Company's general funds to repay $23 million of the Company's First Mortgage Bonds due May 1, 1998, and to repay short-term debt, including debt incurred for construction. As we begin construction of our State Line expansion, we plan to issue both equity and long-term debt.

Operational highlights during 1998. On January 25, 1998, a ground fault in the generator at our Asbury Plant caused an unplanned outage. Since a spring maintenance outage had already been planned, the team at Asbury took decisive action and was able to complete the planned maintenance work simultaneously with the repair work. This proved to be a benefit later when the plant was available to provide power during an early spring heat wave.

As we run our combustion turbines on a more regular basis to reduce dependence on high-cost purchased power, these units require considerable ongoing maintenance. For instance, we had to undertake major turbine maintenance at the Energy Center during the fourth quarter of 1998. Even with higher maintenance expenditures, we increasingly discover situations where we are able to produce power at a lower cost than we can purchase it in the competitive market.

A thriving local economy. Empire's 10,000 square mile service territory has a diverse and expanding economy. This is due in part to our continuous efforts in economic development, helping communities recruit desirable new employers. In 1998, our overall customer growth rate was 1.8%, compared with the national average of 0.8%, and our unemployment rate was lower than the national average. Diverse industries within our service area include chemicals, food processing, manufacturing, building materials, transportation, machine products, furniture, warehousing, and paper goods. This diversity has promoted above-average growth during strong economic times, and helps insulate the Company when slowdowns occur in individual sectors of the economy.

AS WE ADDED NEW SERVICES IN 1998, OUR EMPLOYEES DEMONSTRATED EAGERNESS AND ABILITY TO IMPLEMENT THEM.

Unlike many utilities that depend on one or a few industrial customers for a high percentage of their load, our largest retail customer accounts for less than 1% of our total revenues.

New services that add value. While the majority of our revenues come from electrical power supply, we have strategically expanded our focus to include companion services that not only benefit our customers, but provide potential value to our shareholders as well. These services are important because they differentiate us from future competitors and deepen our relationships with existing customers. In many cases, they are services of an unregulated nature, enabling us to approach new customers outside of our regulated service area who may eventually want to become power customers in a restructured marketplace.

These services include: E-Watch 24-hour monitored security for homes and businesses, E-Luminate specialty lighting products and services, and whole-house surge protection. Additional services offered exclusively to the business community include fiber optic leasing and natural gas marketing to qualified industrial customers. Strategically, for every service added, we had the expertise in place to implement them. Therefore, new services have been added with limited increases in staffing.

While continuing to provide low-cost, efficient power day-in and day-out, our employees consistently performed beyond their regular duties during 1998 to help position the Company for a strong and promising future in a competitive marketplace.

No 3.

MINIATURE COMPUTER CHIPS POSSESS BREATHTAKING POWER TO PROCESS INFORMATION, AT SPEEDS BEYOND OUR ABILITY TO COMPREHEND.

Computers do only what we tell them to do. Their power to perform is phenomenal, when programmed with ingenuity and purpose. Since the mid-1990s, uniquely talented individuals and teams throughout the Company have been instrumental in preparing and programming all information systems for a smooth transition to the new century on January 1, 2000. It's an ongoing effort, which is going well.

New financial software. In preparation for a restructured marketplace, adaptable financial software is critical. In late 1997, after a careful review of available alternatives, the Company committed to the purchase and implementation of integrated financial and human resources software from PeopleSoft, Inc., a leading vendor in its field. Financial modules include: general ledger, budgets, purchasing, inventory, accounts payable, asset management, and projects tracking. Human resources modules include: human resources records, payroll, benefits administration, and time and labor.

For cost effectiveness, we specified a non-customized PeopleSoft package, requiring us to change some of the ways things have been done in the past. Unlike many larger utilities, this kind of flexibility and openness to change has been ingrained as part of Empire's corporate culture. As their co-workers help pick up normal department workloads, a special project team is working to configure the software to meet the Company's needs, with final deployment expected to be complete by mid-1999.

Creating an industry breakthrough in customer information. According to an article in *UTILITIES it* magazine, "Some of the boldest steps in preparing utility IT for competition and the Year 2000 may have been taken by one of the smaller investor-owned utilities...." The article refers to the Company's internal development of an entirely original Customer Information System ("CIS") using Java-based programming software. Similar recognition was received in *Information Week* and *InfoWorld.* To provide both regulated and non-regulated services to customers in a competitive marketplace and across state lines, flexibility in billing format is a pre-requisite. The Java programming even makes the information available to business and residential customers across the Internet.

Commercially available systems either used outdated programming technology or literally cost millions of dollars. With no acceptable solution, we created a small, highly innovative team of both system developers and customer service end users, to develop our own CIS. In 1997, the system, named Centurion, and its development team were internationally recognized at the Comdex Internet Application Awards in Germany. Empire was the only US company to be so recognized, and the only company in the world to receive two awards at Comdex. And, in 1998, Centurion was honored for innovation by *Public Utilities Fortnightly.*

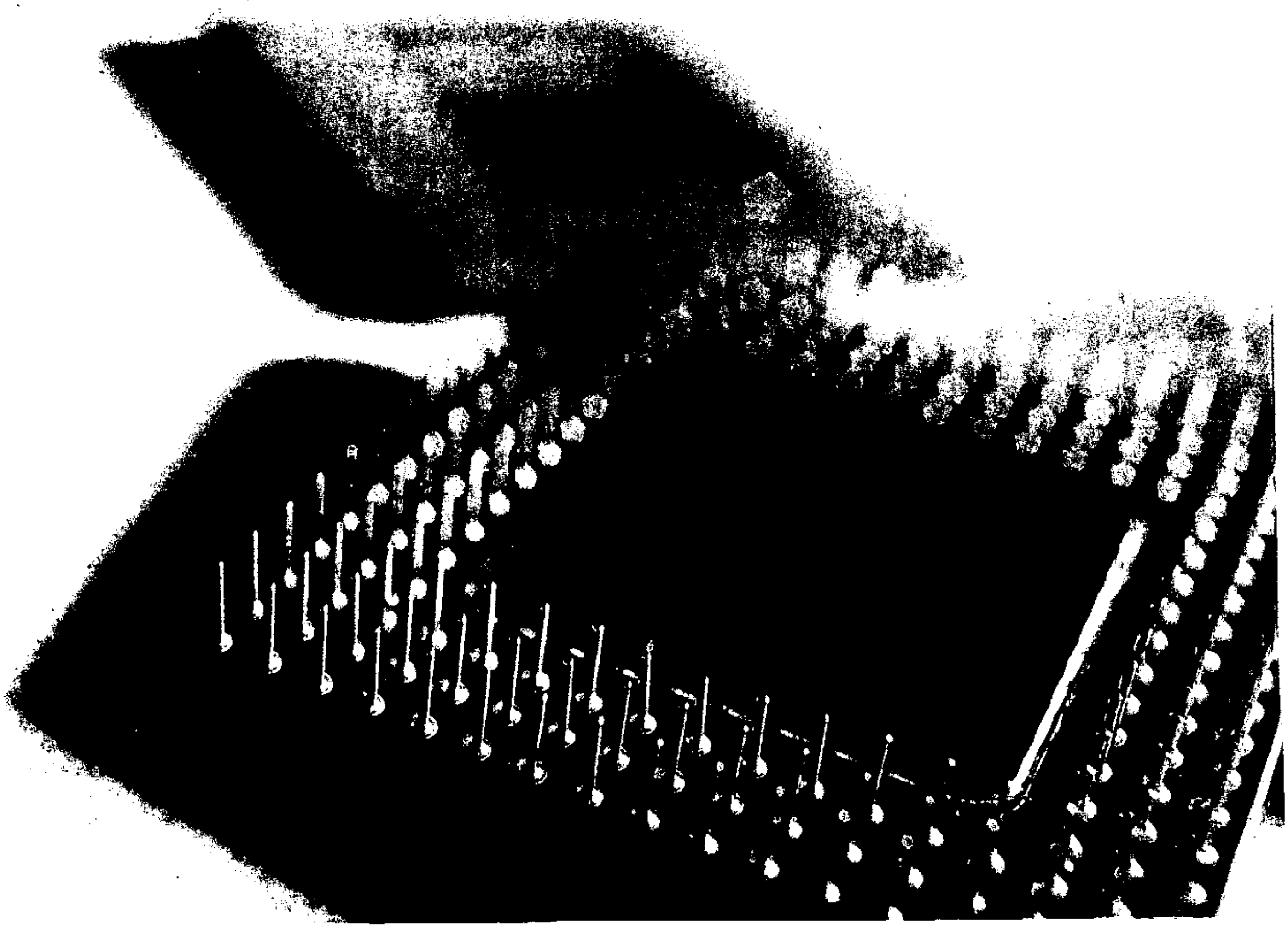
Year 2000 readiness. Our plan to attain Year 2000 readiness is proceeding on-time and on-target with a third party monitoring our progress. For more information, see our President's comments in his letter to shareholders. Or for a detailed look at the logistics which have been implemented, see Management's Discussion and Analysis, page 26.

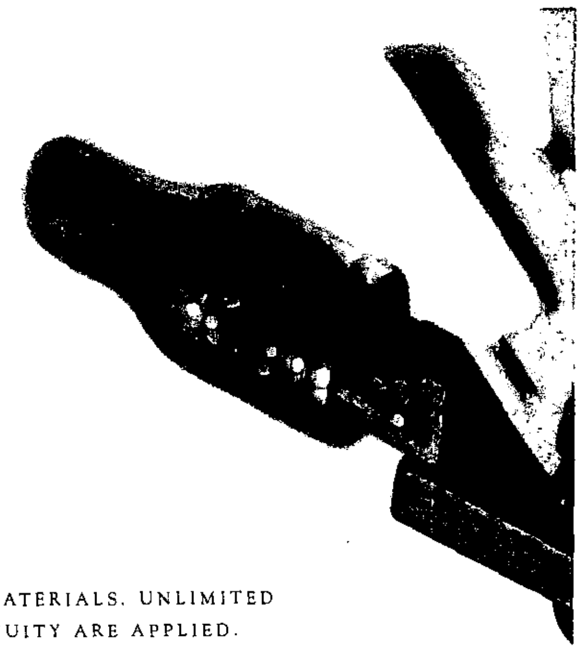
As evidenced by both national and international recognition, the Company has demonstrated itself to be world-class in capability and attitude. Working together, our employees have made some dramatic advances in technology — proof once again that good and surprising things often come in small packages.

>Power<

"We are preparing for a smooth transition to the new century... It's an ongoing effort, which is going well."

New means and methods to greet the new century.





Nº 4.

ONE TOOL. EFFICIENT USE OF SPACE AND MATERIALS. UNLIMITED ABILITIES—WHEN IMAGINATION AND INGENUITY ARE APPLIED.

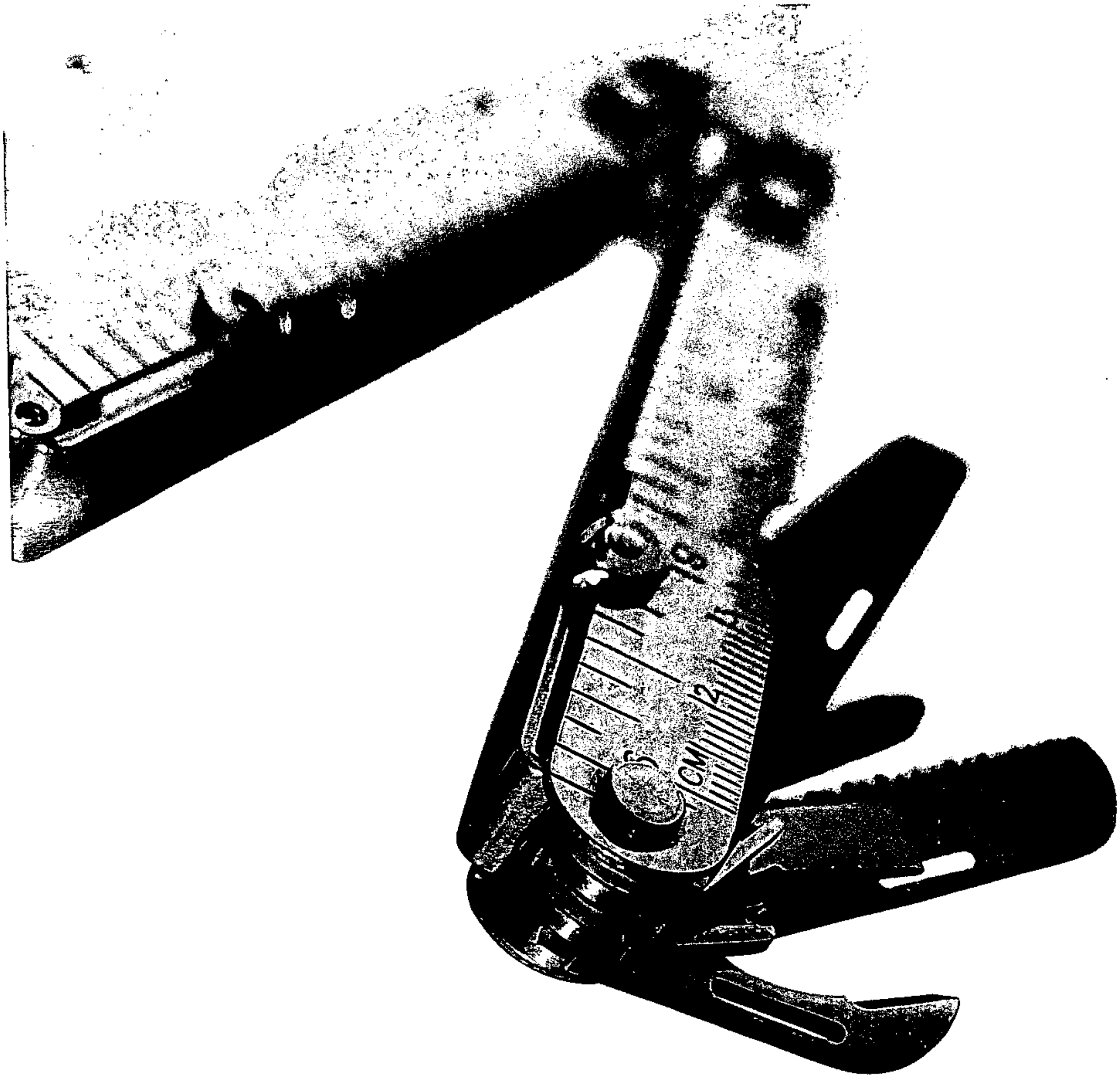
Empire people, working both independently, and in closely-knit work groups, are our most important asset. Early on, in anticipation of industry restructuring, the Company undertook a concerted effort to build a strong and efficient organization. Today, more than ever, our team members are adaptable to change, and they welcome new and better ways of doing things.

Common sense. Creativity. Change. These are qualities that we value, and we see them demonstrated daily by our employees. Our business becomes more technical each year. The marketplace is changing more rapidly than ever. Industry restructuring will bring new challenges and new requirements, and we will need to implement these requirements on a different timetable in each of the states where we do business. In every area at Empire, change is a given, and it is embraced.

An attitude of differentiation. Our employees understand that we do not consider ourselves a commodity supplier of electrical power alone. Customer service must be stellar. New services must be explored and considered, while we continue to do our primary job: providing services our customers count on, 24 hours a day. In recent months, as new services have been introduced, we have asked existing personnel to step in and bring these products to market. And their attitude has been to accept the challenge and provide expertise even beyond what was asked. Both the management team and the support teams we depend on to provide information and infrastructure feel ready to meet the new century and the changes it will bring.

An emphasis on motivation and training. While remaining a low-cost supplier of electrical power and other services, and one of the nation's smaller investor-owned utilities, we don't skimp on training. We believe in it. It's what keeps us knowledgeable, motivated, and in touch with the state of our industry. It's what makes industry breakthroughs (like our internally developed Centurion software) possible. It keeps us where we like to be — on our toes and at the forefront of our respective disciplines, whether customer service or power line construction and safety. It's what makes others in our industry take notice. We like that.

Creativity and teamwork at Empire. Teamwork is the only way for us to achieve more than we could as individuals. Doing things differently, and better than we've ever done them before. It's an ongoing story, and it always will be. Dramatic achievements were made during 1998, and the outlook for the future is every bit as bright.



>Efficiency<

"Our team members are adaptable to change, and they welcome new and better ways of doing things."

A multi-skilled work force who gets the job done.

Directors

Virgil E. Brill
Vice President - Energy Supply
The Empire District Electric Company
Joplin, Missouri
(Age 57, Director since 1989)

Melvin F. (Nick) Chubb, Jr.
Retired Senior Vice President
Eagle-Picher Industries Inc.
Cincinnati, Ohio
(Age 65, Director since 1991)

R. Dwain Hammons
Chairman and Chief Executive Officer
Hammons Products Company
Stockton, Missouri
(Age 65, Director since 1983)

Ross C. Hartley
President
The Hartley Agency
Baxter Springs, Kansas
-also-
Vice President
International Information Consortium
Topeka, Kansas
(Age 51, Director since 1988)

Jack R. Herschend
Chairman of the Board and Co-Owner
Silver Dollar City, Inc.
Branson, Missouri
(Age 66, Director since 1994)

Francis E. Jeffries
Retired Chairman
Phoenix Duff & Phelps Corporation
Chicago, Illinois
(Age 68, Director since 1984)

Robert L. Lamb
Retired President
The Empire District Electric Company
(Age 66, Director since 1978)

Roy E. Mayes
Retired Chairman and Chief Executive Officer
Carmar Group Inc.
Carthage, Missouri
(Age 64, Director since 1991)

Myron W. McKinney
President and Chief Executive Officer
The Empire District Electric Company
Joplin, Missouri
(Age 54, Director since 1991)

Mary McCleary Posner
President and Principal
Posner McCleary Inc.
Columbia, Missouri
(Age 58, Director since 1991)

Officers

Myron W. McKinney
President and Chief Executive Officer
and Director
(Age 54, 31 years of service)

Virgil E. Brill
Vice President - Energy Supply
and Director
(Age 57, 36 years of service)

Robert B. Fancher
Vice President - Finance
(Age 58, 26 years of service)

William L. Gipson
Vice President - Commercial Operations
(Age 42, 18 years of service)

Clifford A. (Tony) Stark
Vice President - General Services
(Age 54, 18 years of service)

David W. Gibson
Director of Financial Services and
Assistant Secretary
(Age 52, 19 years of service)

Gregory A. Knapp
Controller and Assistant Treasurer
(Age 47, 20 years of service)

Janet S. Watson
Secretary - Treasurer
(Age 46, 4 years of service)

Committees of the Board

Audit Committee
Posner, Chairman; Chubb; Hartley; Jeffries

Compensation Committee
Jeffries, Chairman; Herschend; Lamb; Mayes; Posner

Executive Committee
McKinney, Chairman; Brill; Hammons; Hartley; Lamb; Mayes

Nominating Committee
Mayes, Chairman; Chubb; Hammons; Herschend

Retirement Committee
Hammons, Chairman; Brill; Hartley; Lamb

Service Map

Service Area

Directors


VIRGIL E. BRILL


MELVIN F. (NICK) CHUBB, JR.


R. DWAIN HAMMONS


ROSS C. HARTLEY


JACK R. HERSCHEND


FRANCIS E. JEFFRIES


ROBERT L. LAMB


ROY E. MAYES


MYRON W. MCKINNEY


MARY MCCLEARY POSNER

Officers


MYRON W. MCKINNEY


VIRGIL E. BRILL


ROBERT B. FANCHER


WILLIAM L. GIPSON


CLIFFORD A. (TONY) STARK


DAVID W. GIBSON


GREGORY A. KNAPP


JANET S. WATSON

Financial Section

Contents:
Management's Discussion and Analysis of Financial Condition and Results of Operations p.21
Report of Independent Accountants p.29 / Balance Sheet p.30 / Statement of Income p.31
Statement of Common Stockholders' Equity p.32 / Statement of Cash Flows p.33 / Notes to Financial Statements p.34
Selected Financial Data p.44 / Electric Operating Statistics p.46 / Glossary p.48 / Corporate Data p.49

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

The following discussion analyzes significant changes in the results of operations for the year ended December 31, 1998, compared to the year ended December 31, 1997, and for the year ended December 31, 1997, compared to the year ended December 31, 1996.

Operating Revenues and Kilowatt-Hour Sales. Of the Company's total electric operating revenues during 1998, approximately 42% were from residential customers, 30% from commercial customers, 17% from industrial customers, 5% from wholesale on-system customers and 3% from wholesale off-system transactions. The remainder of such revenues were derived from miscellaneous sources. The percentage changes from the prior year in kilowatt-hour ("Kwh") sales and revenue by major customer class were as follows:

	Kwh Sales		Revenues	
	1998	1997	1998	1997
Residential	8.3%	(0.7)%	13.5%	3.1%
Commercial	6.4	1.5	10.6	5.1
Industrial	1.9	2.1	7.0	5.6
Wholesale On-System	9.6	4.1	12.3	2.6
Total System	6.0	1.1	11.3	4.5

Kwh sales for the Company's on-system customers increased during 1998 primarily due to above-average temperatures during the second and third quarters. Revenues increased more than the corresponding increase in Kwh sales primarily due to increased rates in Missouri and Arkansas as reflected in the table below and the winter/summer differential in rates. This differential results from summer rates being higher than winter rates, so warm summer temperatures that increase summer Kwh usage cause the corresponding annual revenues to increase at a greater rate. Customer growth increased slightly to 1.79% in 1998 as compared to 1.68% in 1997. Residential Kwh sales increased 8.3% while commercial Kwh sales increased 6.4% as compared to 1997, primarily due to the above-average temperatures. Industrial classes, although not particularly weather-sensitive, also showed an increase in Kwh sales and revenues due to continued increases in business activity throughout the Company's service territory as well as the Missouri and Arkansas rate increases.

On-system wholesale Kwh sales were up significantly in 1998, reflecting the warm summer temperatures and the continued increases in business activity. Revenues associated with these sales increased more than the corresponding Kwh sales as a result of the operation of the fuel adjustment clause applicable to such FERC regulated sales. This clause permits changes in fuel and purchased power costs to be passed along to customers without the need for a rate proceeding.

Kwh sales for the Company's on-system customers increased only slightly during 1997 due to cool summer weather, while revenues increased more than the corresponding increase in Kwhs primarily due to increased rates in Missouri as reflected in the table below. Customer growth slowed from 2.33% in 1996 to 1.68% in 1997. Residential Kwh sales decreased slightly compared to 1996 due to a milder first half of 1997 while revenues for the period increased because of increases in Missouri rates during the last half of 1997. Commercial and industrial classes showed an increase in Kwh sales and revenues in 1997 because their sales are not as impacted by weather. Revenues from the on-system wholesale customers increased more than the Kwh sales for that class due to the operation of the fuel adjustment clause.

The following table sets forth information regarding electric rate increases affecting the revenue comparisons discussed above:

Jurisdiction	*Date Requested*	*Increase Requested*	*Increase Granted*	*Percent Increase Granted*	*Date Effective*
Arkansas	02-19-98	$618,497	$358,848	6.60%	08-24-98
Missouri	08-30-96	$23,438,000	$13,589,364	8.25%	*

** An increase of $10,589,364 was granted effective 07-28-97. An additional $3,000,000 increase became effective 09-19-97.*

The Company's future revenues from the sale of electricity will continue to be affected by economic conditions, business activities, competition, deregulation of the energy industry, weather, regulation, changes in electric rate levels and changing patterns of electric energy use by customers. Inflation affects the Company's operations in that historical costs rather than current replacement costs are recovered in the Company's rates.

Off-System Transactions. In addition to sales to its own customers, the Company sells power to other utilities to the extent it is available and provides transmission service through its system for transactions between other energy suppliers. During 1998 revenues from such off-system transactions were approximately $8.3 million as compared to approximately $7.6 million during 1997 and approximately $6.3 during 1996. The margin on such off-system sales is lower than on sales to the Company's on-system customers. In addition, pursuant to an order issued by the FERC and subsequent tariffs filed by the Company and the Southwest Power Pool ("SPP"), these off-system sales have been opened up to competition. The Company cannot predict, however, the effect such competition will have on its future operations or financial results. See "Competition" below for more information on these open-access tariffs.

Operating Revenue Deductions. During 1998, total operating expenses increased approximately $7.5 million (6.6%) compared to the prior year. Total fuel costs were up approximately $5.8 million (16.0%) due primarily to the increased generation from higher-cost gas-fired combustion turbine units at both State Line and the Energy Center. This increased generation was due to increased customer demand in the second and third quarters of 1998 resulting from the warmer temperatures. Increased gas usage is a trend the Company expects to continue, especially when the State Line Project begins commercial operation. Natural gas prices were lower by 3.0% during 1998 as compared to 1997, helping to offset some of the increased fuel expense. Total purchased power costs increased slightly by approximately $0.4 million (0.9%) during 1998.

Other operating expenses increased approximately $1.3 million (4.3%) during 1998, compared to 1997, due primarily to increases in customer accounts expense and administrative and general expense. Approximately $0.7 million of this increase was a one-time charge due to the initiation of the Directors Stock Unit Plan, a stock-based retirement compensation program for the Company's Directors. Maintenance and repairs expense increased approximately $4.7 million (36.4%) during 1998. Scheduled maintenance resulting from increased usage of the gas-fired combustion turbines at the Energy Center and the State Line Power Plant accounted for approximately $2.8 million of this increase while approximately $1.1 million resulted from the first quarter spring maintenance outage at the Asbury Plant and the second quarter five-year scheduled maintenance outage at the Riverton Plant. Transmission and distribution system maintenance contributed $0.8 million to the increase. Maintenance and repair expense is expected to increase significantly in the first quarter of 1999 as a result of a New Year's Day ice storm that interrupted service to approximately 35,000 of the Company's Missouri and Kansas customers over a three day period.

Depreciation and amortization expense increased approximately $1.6 million (6.8%) during 1998, compared to 1997, due to increased levels of plant and equipment placed in service. Total income taxes increased approximately $3.2 million (24.5%) during 1998 due primarily to higher taxable income during the current year. See Note 8 of "Notes to Financial Statements" for additional information regarding income taxes. Other taxes were up approximately $1.2 million (10.3%) during the year largely as a result of increased property taxes and city franchise taxes.

During 1997, total operating expenses increased approximately $2.9 million (2.6%) compared to the prior year. Total fuel costs were up approximately $2.5 million (7.6%) during 1997, due primarily to increased generation from higher-cost gas-fired combustion turbine units at both State Line and the Energy Center. This increased generation was due to increased customer demand in the third and fourth quarters of 1997, as well as decreased energy availability in the SPP during the month of October. Natural gas prices were also higher by 7.8% during 1997 than in 1996.

Total purchased power costs decreased slightly during 1997, due primarily to increased usage of the Company's own generation facilities. Unit No. 2 at the State Line Power Plant was placed in commercial operation on June 18, 1997, and added 152 megawatts of capability. Although Asbury underwent an extended five-week spring outage in 1997, the plant was back on line ahead of schedule and went on to record a new continuous run record of 170 days and a record availability rate of 88.5%.

Other operating expenses increased during 1997, compared to 1996, due primarily to an increase in production expenses related to the extended Asbury Plant outage in the spring of 1997. Maintenance and repairs expense decreased during 1997 as a result of decreased levels of distribution system maintenance. Depreciation and amortization expense increased due to increased levels of plant and equipment placed in service during 1997, particularly Unit No. 2 at the State Line Power Plant. Total income taxes increased due to higher taxable income. Other taxes decreased slightly during the year.

Nonoperating Items. Total allowance for funds used during construction ("AFUDC") amounted to approximately 1.6% of earnings applicable to common stock during 1998, 5.7% during 1997, and 7.2% during 1996. AFUDC decreased significantly during 1998 as well as 1997, reflecting lower levels of construction work in progress, particularly due to the completion of State Line Unit No. 2.

Interest charges on first mortgage bonds increased $1.3 million (7.7%) compared to the prior year due to the issuance of $50 million of the Company's First Mortgage Bonds in April, 1998. These proceeds were used to repay $23 million of the Company's First Mortgage Bonds due May 1, 1998 and to repay short-term indebtedness, including that incurred in connection with the Company's construction program. As a result, commercial paper interest decreased $0.5 million (42.3%) during the year due to decreased usage of short-term debt for financing purposes, while interest income increased, reflecting the higher balances of cash available for investment.

Other-net deductions increased approximately $0.4 million during 1998, compared to 1997, due primarily to one-time startup costs for the Company's non-regulated ventures, such as home security and fiber optics leasing.

Earnings. Basic and diluted earnings per weighted average share of common stock were $1.53 during 1998 compared to $1.29 in 1997. Increased revenue resulted mainly from the unusually warm second and third quarters of 1998. The 1998 Arkansas rate increase and the 1997 Missouri rate increases also favorably impacted the Company's operating results in 1998, as the Missouri jurisdiction accounts for approximately 90% of the on-system retail sales of the Company.

Earnings per share of Common stock were $1.29 during 1997 compared to $1.23 in 1996. Increased revenue, resulting mainly from the increase in Missouri rates in 1997, was partially offset by a cool summer and fairly mild winter as well as increases in fuel costs and decreased levels of AFUDC.

Competition. Federal regulation, such as The National Energy Policy Act of 1992 (the "Energy Act") has promoted and is expected to continue to promote competition in the electric utility industry. The Energy Act, among other things, eases restrictions on independent power producers, delegates authority to the FERC to order wholesale wheeling and grants individual states the power to order retail wheeling. At this time, Oklahoma is the only state in which the Company operates that has taken any such action. In Missouri, the Joint Committee of the Missouri legislature received testimony during 1997 and 1998 but there was no legislative action taken. In Kansas, although different bills were introduced into the House and Senate during 1997, no legislative action was taken in 1997 or in 1998. Discussions regarding deregulation, however, are expected to continue in Missouri and Kansas throughout 1999. In Oklahoma, the Electric Restructuring Act of 1997 was passed by the Legislature and signed into law by the Governor. The bill, with a target date of July 1, 2002, was designed to provide for the orderly restructuring of the electric utility industry in the state and move the state toward open competition for electric generation. In Arkansas, the House and Senate passed a concurrent resolution in 1997 requesting a study of the impact of competition on the electric utility industry. Legislation has been introduced in Arkansas with a target date of 2002.

In April 1996, the FERC issued Order No. 888 (the "Order") which requires all electric utilities that own, operate, or control interstate transmission facilities to file open access tariffs that offer all wholesale buyers and sellers of electricity the same transmission services that they provide themselves. The utility would have to take service under those tariffs for its own wholesale power transactions. The Order requires a functional unbundling of transmission and power marketing services. The Order also provides stranded cost recovery mechanisms for utilities to recover costs that were incurred to serve wholesale customers that would no longer be recoverable as a result of the customer departing the system and obtaining electric service from another supplier.

In accordance with the Order, on July 9, 1996, the Company filed its open access transmission tariff (the "Company Tariff") with the FERC. Following an extensive audit and discussions, the Company, the FERC and intervenors reached a settlement on August 1, 1997. The rates submitted with the settlement, applicable to customers who did not have service agreements in effect, were made effective as of July 9, 1996. For customers with service agreements in effect, the Company Tariff will not be applicable until a rate increase has been filed, which may not be made prior to June 1999.

On December 19, 1997, the SPP filed its own open access transmission tariff (the "Regional Tariff") on behalf of its members to provide pool-wide, short-term transmission services using pricing which is based on distance. As of June 1, 1998, the date the FERC declared the Regional Tariff effective, the SPP began providing short-term firm and non-firm point-to-point transmission services for periods of less than one year under this tariff. The SPP, on December 1, 1998, filed proposed revisions to the Regional Tariff that included the addition of long-term point-to-point transmission service as a service offered under the Regional Tariff (along with a few other minor changes). The FERC accepted the amended tariff, making it effective January 30, 1999 as to minor changes and effective April 1, 1999 as to the inclusion of the long-term transmission services. A transmission customer taking long-term firm point-to-point transmission service through or out of the SPP, will pay one charge for service. That rate, if the load originates outside the SPP, will be a single system-wide rate based on the weighted average rate of each SPP member's zone through which the load passes. The rate for each zone is based on such member's rate for long-term firm service under its individual open access tariffs. In addition, if the load originates in a particular member's zone, then the system-wide rate will be based solely on such member's rate under its own tariff. Rates for short-term transmission services are computed much the same way as for long-term transmission services, except that the rates may be discounted by the SPP or a particular member, as appropriate.

The Regional Tariff, as amended, applies to many of the transmission services for which the Company Tariff was designed. Where that is the case, the Company will have to share revenues received from such transmission services with other members of the SPP based on a megawatt mile method of calculating transmission service charges. However, the Company Tariff will apply instead of the Regional Tariff to, and the Company will receive 100% of the revenues from, (1) all transmission services for which the load originates within the Company's zone and does not pass through the zone of any other member of the SPP and (2) all long-term firm point-to-point transmission services provided by the Company pursuant to contracts entered into prior to April 1, 1999. The availability of purchased power in the bulk power market, generation fuel costs and the requirements of other electric systems are all factors that affect the amount of power purchased and wheeled through the Company's and the SPP's transmission system each year. As a result, the Company cannot predict the effect of these tariffs on its future operations or financial results due to its inability to predict these factors.

Several factors exist which may enhance the Company's ability to compete as deregulation occurs. The Company is able to generate and purchase power relatively inexpensively; during 1998, the Company's retail rates were approximately 30% less than the electric industry average. In addition, less than 5% of the Company's electric operating revenues are derived from sales to on-system wholesale customers, the type of customer for which the FERC is already requiring open access. At the same time, the Company could face increased competitive pressure as a result of its reliance on relatively large amounts of purchased power and its extensive interconnections with neighboring utilities. The Company cannot predict, however, the ultimate effect competition or regulatory change will have on its future operations or financial results, but such effects may be material.

LIQUIDITY AND CAPITAL RESOURCES

The Company's construction-related expenditures totaled approximately $51.9 million, $56.7 million, and $62.3 million in 1998, 1997 and 1996, respectively. Approximately $10.8 million of construction expenditures during 1998 were related to the State line Power Plant including advance payments on the new construction planned in connection with the State Line Project and remaining payments related to the construction of Unit No. 2 at the State Line Power Plant, which was placed in service in mid-1997. Additions to the Company's transmission and distribution systems to accommodate customer growth represented approximately $25.5 million of construction expenditures during 1998. Approximately $3.5 million of the above-mentioned construction expenditures for 1998 is related to the Company's investment in fiber optics cable and equipment which the Company plans to utilize and to lease to other entities. Approximately 65% of construction expenditures and other funds requirements for 1998 were satisfied internally from operations.

The Company estimates that its construction expenditures will total approximately $64.6 million in 1999, $98.8 million in 2000 and $66.5 million in 2001. Of these amounts, the Company anticipates that it will spend $18.0 million, $22.1 million and $22.6 million in 1999, 2000 and 2001, respectively, for additions to the Company's distribution system to meet projected increases in customer demand. These construction expenditure estimates also include approximately $25.7 million, $41.9 million and $21.6 million in 1999, 2000 and 2001 respectively, for the construction of new generating facilities as part of the State Line Project discussed in the following paragraph.

The Company announced on October 2, 1998 its plans for the construction of a 350 megawatt addition to the State Line Power Plant. This State Line Project would consist of an additional combustion turbine, two heat recovery steam generators and a steam turbine and auxiliary equipment. It is estimated that construction would begin in the fall of 1999 and that the State Line Project would be operational by June 2001. The Company announced on February 4, 1999 that it had entered into a Memorandum of Understanding which contemplates entering into a joint ownership agreement under which the Company would own an undivided 60% interest in the State Line Project with Western Resources owning the remainder. The Company would contribute its existing 152-megawatt State Line Unit No. 2 combustion turbine to the State Line Project, and as a result, upon commercial operation, the State Line Project would provide the Company with 150 megawatts of additional capacity. The total cost of the State Line Project is estimated to be $185 million (of which $100 million is expected to be the Company's share).

The Company estimates that internally generated funds will provide approximately 40% of the funds required between 1999 and 2001 for estimated construction expenditures. As in the past, in order to finance the additional amounts needed for such construction, the Company intends to utilize short-term debt and sales of public offerings of long-term debt or equity securities, including the sale of the Company's common stock pursuant to its Dividend Reinvestment Plan and Employee Stock Purchase Plan as well as internally-generated funds. The Company will continue to utilize short-term debt as needed to support normal operations or other temporary requirements. See Note 5 of "Notes to Financial Statements" regarding the Company's line of credit.

On April 28, 1998, the Company sold to the public in an underwritten offering $50 million aggregate principal amount of its First Mortgage Bonds, 6 1/2% Series due 2010. The net proceeds from this sale were added to the Company's general funds and were used to repay $23 million of the Company's First Mortgage Bonds, 5.70% Series due May 1, 1998 and to repay short-term indebtedness, including indebtedness incurred in connection with the Company's construction program.

As of December 31, 1998, the Company's ratings for its first mortgage bonds, preferred stock and commercial paper were as follows:

	Duff & Phelps	*Moody's*	*Standard & Poor's*
First Mortgage Bonds	A+	A2	A-
Preferred Stock	A	a3	BBB
Commercial Paper	D-1	P-1	A-2

YEAR 2000

Year 2000 Background. Many existing computer programs use only two digits to identify a year in the date field. These programs were designed and developed without considering the impact of the upcoming century change. As a result, computer systems may fail completely or produce erroneous results unless corrective measures are taken. The Company is engaged in an on-going project to identify, evaluate and implement changes to both information technology ("IT") and non-IT systems in order to achieve Year 2000 readiness. The Company has also become a member of the Edison Electric Institute's Year 2000 Committee and the Electric Power Research Institute's Y2K Embedded Systems Program in order to assist in the implementation of its Year 2000 Readiness Plan. In addition, the Company is participating in the North American Electric Reliability Council's ("NERC") efforts to prepare mission critical systems for Year 2000 readiness. NERC's target is to have all mission critical electric power production, transmission, and delivery systems Year 2000 ready by June 30, 1999. The Company is working within that framework and plans to participate in two industry-wide Year 2000 drills on April 9, 1999 and September 9, 1999.

The Company is using a multi-step approach in achieving its Year 2000 Readiness Plan. These steps include creating awareness of the Year 2000 problem, forming a Year 2000 task force, developing procedures for documenting Year 2000 readiness, developing a methodology for the Year 2000 Readiness Plan and testing and remediation of Year 2000 affected items pursuant to the Year 2000 Readiness Plan. Developing the methodology for the Year 2000 Readiness Plan includes creating and implementing an ongoing communication program with both internal and external parties, performing an inventory of possible Year 2000 affected items, assessing and prioritizing each such inventory item as to level of criticality, scheduling testing and remediation of such items in order of criticality, and developing contingency planning. The management consulting firm of Sargent & Lundy has reviewed the process involving the implementation of the Year 2000 Readiness Plan as well as the plan itself. Recommendations based on their independent findings will be implemented as a step of the Year 2000 Readiness Plan.

The Company has purchased a new financial management software package from PeopleSoft that is Year 2000 ready. The package includes systems for general ledger, accounts payable and asset management; purchasing and inventory; human resources, benefits, time and labor, and payroll; as well as budgeting and project tracking. In addition, a new customer information system, Centurion, is being developed internally which will be Year 2000 ready. Installation of these systems, which are anticipated to substantially mitigate the Company's Year 2000 exposure, is expected to be completed during the first half of 1999.

State of Readiness. A task force has been appointed and is charged with documenting and testing areas of the Company which may be affected by the Year 2000. The targeted areas include general preparation, power generation, energy management systems, telecommunications, substation controls and system protection and business information systems. Within each of these areas, the task force is examining the status of IT systems, non-IT systems and third parties such as vendors, customers and others with whom the Company does business. The inventory of Year 2000 items was completed in September 1998. Assessing and prioritizing each item within the Year 2000 inventory as to the level of criticality was also completed in September 1998. The ongoing testing and remediation of the highest level of critical items is scheduled to be completed by the end of the second quarter of 1999. The Year 2000 task force will also develop contingency plans in the event that unanticipated problems are encountered. These plans are also scheduled to be completed during the second quarter of 1999. The Company currently plans to substantially complete its Year 2000 testing and compliance projects by the end of the second quarter of 1999.

The status of each of the targeted areas undergoing testing is as follows:

General Preparation. Scheduled upgrades to the telephone switch are 50% complete with the final upgrades scheduled to be completed early in the second quarter of 1999. The testing of other items is scheduled to be completed by the end of the first quarter of 1999.

Power Generation. The Ozark Beach Plant has completed 100% of the testing of affected equipment. The testing of affected equipment at the Riverton Plant is approximately 50% complete and at the Energy Center Plant is 90% complete. Assessment and inventory are complete at all plants. Testing for the Asbury and State Line Plants is underway. All plants intend to have testing of critical items complete by the end of the first quarter of 1999 except for items which can only be tested during scheduled plant shutdowns. All critical items are anticipated to be tested for Year 2000 readiness by the end of the second quarter of 1999.

Energy Management Systems. The Company is in the process of installing major upgrades to its Energy Management System hardware and software as a result of Year 2000 related problems observed during preliminary system testing. These upgrades are anticipated to be completed by the end of the first quarter of 1999. The Company has obtained readiness certifications for most of the other related components and will conduct its own test on components critical to the operations of the Energy Management System and other related systems. Year 2000 related testing of these components is expected to be completed by the end of the second quarter of 1999.

Telecommunications. The Company has worked with suppliers and manufacturers to obtain readiness certifications for its various telecommunications systems and components. The Company plans to complete the testing of critical systems and components by the end of the second quarter of 1999.

Substation Controls and System Protection. Testing of transmission and distribution equipment to date has identified a minor amount of equipment that will require Year 2000 remediation. That equipment will be replaced by the end of the second quarter of 1999.

Business Information Systems. As previously stated, the new financial management software package from PeopleSoft is Year 2000 ready and the new Centurion customer information system, when completed, is expected to be Year 2000 ready. As a result of the implementation of the new software packages, several hardware changes are being required throughout the Company, delaying testing of the remaining systems. Currently, the testing of these systems is 10% complete with the target date for the completion of testing being mid-1999.

Third Parties. The Company is currently in the process of obtaining readiness certifications from third party vendors for all of its core applications and operating systems. The Company expects to complete this process by the end of the first quarter of 1999. All critical applications will be tested, however, regardless of whether a certification of readiness has been obtained. In addition, the Company has begun to contact other third parties with whom the Company does business (such as major customers, power pools, power suppliers, transmission providers and telecommunications providers) in order to assess their states of readiness. This initial contact phase was completed at the end of 1998. The Company is continuing to monitor the progress of these third parties. The Company is conducting face to face meetings with its most critical suppliers and its largest customers and is corresponding in writing with its other suppliers and customers.

Year 2000 Costs. The Company currently estimates that total costs (which include the costs of the new financial management software package and the new customer information system) to update all systems for Year 2000 readiness will be approximately \$3.7 million, of which approximately \$2.8 million have been incurred and capitalized as of December 31, 1998 and \$0.3 million have been incurred and expensed. Of these capitalized costs, \$0.5 million were included in the capital budget. Costs for specific Year 2000 remediation projects will be charged to expense while costs to replace software for business purposes other than addressing Year 2000 issues will be capitalized.

Risk Assessment and Contingency Plans. At this time, the Company believes the most reasonably likely worst case scenario is that key customers could experience significant reductions in their power needs due to their own Year 2000 issues, and there could be a temporary disruption of service to some customers due to cascading disruptions caused by other entities whose systems are connected to the Company's. The Company is assessing the risk of this scenario and will be formulating contingency plans, currently scheduled to be completed during the second quarter of 1999, to mitigate the potential impact. The Company's Year 2000 task force has formed a contingency planning team which will follow guidelines established by the NERC to formalize a plan with respect to the above worst case scenario and other contingencies which may develop by the end of the second quarter of 1999.

The Company's Readiness Plan is designed to provide corrective action with respect to Year 2000 risks. If the Plan is not successfully carried out in a timely manner, or if unforeseen events occur, Year 2000 problems could have a material adverse impact on the Company. Management does not expect such problems to have such an effect on its financial position or results of operations.

FORWARD LOOKING STATEMENTS

Certain matters discussed in this annual report are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations and events or conditions concerning various matters such as capital expenditures (including those planned in connection with the State Line Project), earnings, competition, litigation, rate and other regulatory matters, liquidity and capital resources, Year 2000 readiness (including estimated costs, completion dates, risks and contingency plans) and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as the cost and availability of purchased power and fuel; electric utility restructuring, including ongoing state and federal activities; weather, business and economic conditions; legislation; regulation, including rate relief and environmental regulation (such as NOx regulation); competition, including the impact of deregulation on off-system sales; and other circumstances affecting anticipated rates, revenues and costs.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. The Company is exposed to changes in interest rates as a result of significant financing through its issuance of fixed-rate debt, commercial paper and preferred stock. The Company manages its interest rate exposure by limiting its variable-rate exposure to a certain percentage of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. See Notes 4, 5 and 6 of "Notes to Financial Statements" for further information.

If market interest rates average 1% more in 1999 than in 1998, the Company's interest expense would increase, and income before taxes would decrease, by approximately $150,000. This amount has been determined by considering the impact of the hypothetical interest rates on the Company's commercial paper balances as of December 31, 1998. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. In the event of a significant change in interest rates, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in the Company's financial structure.

Commodity Price Risk. The Company is exposed to the impact of market fluctuations in the price and transportation costs of coal, natural gas, and electricity and employs established policies and procedures to manage its risks associated with these market fluctuations. At this time none of the Company's commodity purchase or sale contracts meet the definition of financial instruments.

Report of Independent Accountants

January 26, 1999

To the Board of Directors and Stockholders of
The Empire District Electric Company

In our opinion, the accompanying balance sheet and the related statements of income, common stockholders' equity and cash flows present fairly, in all material respects, the financial position of The Empire District Electric Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

St. Louis, Missouri

Balance Sheet

December 31,	1998	1997
ASSETS		
Utility plant, at original cost:		
Electric	$ 832,484,754	$ 795,880,240
Water	6,398,086	5,824,165
Construction work in progress	16,701,068	8,114,680
	855,583,908	809,819,085
Accumulated depreciation	283,337,538	262,834,707
	572,246,370	546,984,378
Current assets:		
Cash and cash equivalents	2,492,716	2,545,282
Accounts receivable - trade, net	13,645,641	13,270,329
Accrued unbilled revenues	6,218,889	6,047,739
Accounts receivable - other	1,590,536	1,552,998
Fuel, materials and supplies	15,704,678	13,215,068
Prepaid expenses	929,447	1,001,468
	40,581,907	37,632,884
Deferred charges:		
Regulatory assets	35,999,139	37,472,225
Unamortized debt issuance costs	3,660,800	3,374,780
Other	805,568	1,000,700
	40,465,507	41,847,705
Total Assets	$ 653,293,784	$ 626,464,967
CAPITALIZATION AND LIABILITIES		
Common stock, $1 par value, 20,000,000 shares authorized, 17,108,799 and 16,776,654 shares issued and outstanding, respectively	$ 17,108,799	$ 16,776,654
Capital in excess of par value	156,975,596	150,784,239
Retained earnings	55,706,779	51,472,897
Total common stockholders' equity	229,791,174	219,033,790
Preferred stock	32,634,263	32,901,800
Long-term debt	246,092,905	196,384,541
	508,518,342	448,320,131
Current liabilities:		
Accounts payable and accrued liabilities	17,096,272	14,862,581
Commercial paper	14,500,000	28,000,000
Customer deposits	3,438,987	3,140,621
Interest accrued	4,113,300	3,509,680
Taxes accrued, including income taxes	—	817,045
Current maturities of long-term debt	—	23,000,000
	39,148,559	73,329,927
Commitments and Contingencies (Note 10)		
Noncurrent liabilities and deferred credits:		
Regulatory liability	16,400,125	17,540,757
Deferred income taxes	73,760,362	69,344,653
Unamortized investment tax credits	8,391,000	8,971,000
Postretirement benefits other than pensions	4,463,883	4,463,488
Other	2,611,513	4,495,011
	105,626,883	104,814,909
Total Capitalization and Liabilities	$ 653,293,784	$ 626,464,967

The accompanying notes are an integral part of these financial statements.

Statement of Income

Year ended December 31,	*1998*	*1997*	*1996*
OPERATING REVENUES:			
Electric	$ 238,800,831	$ 214,306,599	$ 204,933,622
Water	1,057,460	1,004,245	1,050,337
	239,858,291	215,310,844	205,983,959
Operating revenue deductions:			
Operating expenses:			
Fuel	41,876,064	36,110,575	33,574,335
Purchased power	47,572,541	47,132,885	47,393,029
Other	31,972,081	30,646,485	30,046,147
	121,420,686	113,889,945	111,013,511
Maintenance and repairs	17,522,871	12,843,508	13,672,084
Depreciation and amortization	24,980,637	23,395,291	21,589,511
Provision for income taxes	16,190,000	13,000,000	11,800,000
Other taxes	12,372,321	11,219,730	11,256,486
	192,486,515	174,348,474	169,331,592
Operating income	47,371,776	40,962,370	36,652,367
Other income and deductions:			
Allowance for equity funds used during construction	8,938	150,524	538,844
Interest income	263,801	130,685	158,369
Other - net	(840,557)	(453,127)	(344,525)
	(567,818)	(171,918)	352,688
Income before interest charges	$ 46,803,958	$ 40,790,452	$ 37,005,055
Interest charges:			
Long-term debt	17,873,833	16,593,042	14,881,564
Allowance for borrowed funds used during construction	(400,044)	(1,075,465)	(881,485)
Other	1,006,831	1,479,896	955,769
	18,480,620	16,997,473	14,955,848
Net income	28,323,338	23,792,979	22,049,207
Preferred stock dividend requirements	2,411,784	2,416,340	2,416,340
Net income applicable to common stock	$ 25,911,554	$ 21,376,639	$ 19,632,867
Weighted average number of common shares outstanding	16,932,704	16,599,269	16,015,858
Basic and diluted earnings per weighted average share of common stock	$1.53	$1.29	$1.23
Dividends per share of common stock	$1.28	$1.28	$1.28

The accompanying notes are an integral part of these financial statements.

Statement of Common Stockholders' Equity

Year ended December 31,	1998	1997	1996
Common stock, $1 par value:			
Balance, beginning of year	$ 16,776,654	$ 16,436,559	$ 15,215,933
Stock/stock units issued through:			
Public offering	—	—	880,000
Dividend reinvestment and stock purchase plan	259,267	299,134	301,500
Employee benefit plans	35,915	40,961	39,126
Director retirement plan	36,963	—	—
Balance, end of year	$ 17,108,799	$ 16,776,654	$ 16,436,559
Capital in excess of par value:			
Balance, beginning of year	$ 150,784,239	$ 145,313,610	$ 125,690,842
Excess of net proceeds over par value of stock issued:			
Public offering	—	—	14,850,000
Stock plans	6,188,030	5,470,404	5,494,007
Expenses related to common stock issuance	—	—	(787,580)
Installments received on common stock/stock purchase, net	3,327	225	66,341
Balance, end of year	$ 156,975,596	$ 150,784,239	$ 145,313,610
Retained earnings:			
Balance, beginning of year	$ 51,472,897	$ 51,340,554	$ 52,230,584
Net income	28,323,338	23,792,979	22,049,207
	79,796,235	75,133,533	74,279,791
Less dividends paid:			
8 1/8% preferred stock	2,027,390	2,031,250	2,031,250
5% preferred stock	195,090	195,090	195,090
4 3/4% preferred stock	190,000	190,000	190,000
Common stock	21,676,976	21,244,296	20,522,897
	24,089,456	23,660,636	22,939,237
Balance, end of year	$ 55,706,779	$ 51,472,897	$ 51,340,554

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year ended December 31,	*1998*	*1997*	*1996*
OPERATING ACTIVITIES			
Net income	$ 28,323,338	$ 23,792,979	$ 22,049,207
Adjustments to reconcile net income to cash flows:			
Depreciation and amortization	28,323,595	26,510,851	24,314,157
Pension income	(2,239,850)	(725,198)	(1,074,130)
Deferred income taxes, net	3,390,000	2,800,000	3,760,000
Investment tax credit, net	(580,000)	(590,000)	(580,000)
Allowance for equity funds used during construction	(8,938)	(150,524)	(538,844)
Issuance of common stock for 401(k) plan	702,801	660,162	648,535
Issuance of common stock units for director retirement plan	711,000	—	—
Other	66,955	129,259	141,882
Cash flows impacted by changes in:			
Accounts receivable and accrued unbilled revenues	(584,001)	1,132,283	(1,164,692)
Fuel, materials and supplies	(2,489,610)	1,220,673	76,157
Prepaid expenses and deferred charges	191,956	(1,049,440)	(2,077,625)
Accounts payable and accrued liabilities	2,233,691	255,402	298,682
Customer deposits, interest and taxes accrued	84,941	741,425	(631,954)
Other liabilities and other deferred credits	356,750	265,966	(149,401)
Net cash provided by operating activities	58,482,628	54,993,838	45,071,974
INVESTING ACTIVITIES			
Construction expenditures	(51,917,153)	(56,673,275)	(62,277,486)
Allowance for equity funds used during construction	8,938	150,524	538,844
Net cash used in investing activities	(51,908,215)	(56,522,751)	(61,738,642)
FINANCING ACTIVITIES			
Proceeds from issuance of first mortgage bonds	$ 49,672,000	$ —	$ 25,000,000
Proceeds from issuance of common stock	5,109,701	5,150,561	20,194,860
Reacquired preferred stock	(267,537)	—	—
Dividends	(24,089,456)	(23,660,636)	(22,939,237)
Repayment of first mortgage bonds	(23,000,000)	(165,000)	(187,000)
Net proceeds (repayments) from short-term borrowings	(13,500,000)	20,500,000	(6,500,000)
Payment of debt issue costs	(551,687)	3,134	(472,595)
Net cash (used in)/provided by financing activities	(6,626,979)	1,828,059	15,096,028
Net increase (decrease) in cash and cash equivalents	(52,566)	299,146	(1,570,640)
Cash and cash equivalents, beginning of year	2,545,282	2,246,136	3,816,776
Cash and cash equivalents, end of year	$ 2,492,716	$ 2,545,282	$ 2,246,136

Cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less. Interest paid was $17,439,000, $17,123,000, $14,786,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Income taxes paid were $14,088,000, $10,250,000 and $9,479,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

The Company is subject to regulation by the Missouri Public Service Commission (MoPSC), the State Corporation Commission of the State of Kansas (KCC), the Corporation Commission of Oklahoma (OCC), the Arkansas Public Service Commission (APSC) and the Federal Energy Regulatory Commission (FERC). The accounting policies of the Company are in accordance with the rate-making practices of the regulatory authorities and, as such, conform to generally accepted accounting principles as applied to regulated public utilities. The Company's electric revenues in 1998 were derived as follows: residential 42%, commercial 30%, industrial 17%, wholesale 7% and other 4%. Following is a description of the Company's significant accounting policies:

Property and plant. The costs of additions to property and plant and replacements for retired property units are capitalized. Costs include labor, material and an allocation of general and administrative costs plus an allowance for funds used during construction. Maintenance expenditures and the renewal of items not considered units of property are charged to income as incurred. The cost of units retired is charged to accumulated depreciation, which is credited with salvage and charged with removal costs.

Depreciation. Provisions for depreciation are computed at straight-line rates as approved by regulatory authorities. Such provisions approximated 3.2%, 3.1% and 3.2% of depreciable property for 1998, 1997 and 1996, respectively.

Computations of earnings per share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding under the assumed exercise of dilutive stock options and their equivalents. The weighted average number of common shares outstanding used to compute basic earnings per share for the 1998, 1997 and 1996 periods was 16,932,704, 16,599,269 and 16,015,858, respectively. Dilutive stock options for the 1998, 1997 and 1996 periods were 7,775, 9,844 and 7,917, respectively.

Allowance for funds used during construction. As provided in the regulatory Uniform System of Accounts, utility plant is recorded at original cost, including an allowance for funds used during construction (AFUDC) when first placed in service. The AFUDC is a utility industry accounting practice whereby the cost of borrowed funds and the cost of equity funds (preferred and common stockholders' equity) applicable to the Company's construction program are capitalized as a cost of construction. This accounting practice offsets the effect on earnings of the cost of financing current construction, and treats such financing costs in the same manner as construction charges for labor and materials.

AFUDC does not represent current cash income. Recognition of this item as a cost of utility plant is in accordance with regulatory rate practice under which such plant costs are permitted as a component of rate base and the provision for depreciation.

In accordance with the methodology prescribed by FERC, the Company utilized aggregate rates of 5.9% for 1998, 6.4% for 1997 and 7.5% for 1996 (on a before-tax basis) compounded semiannually.

Income taxes. Deferred tax assets and liabilities are recognized for the tax consequences of transactions that have been treated differently for financial reporting and tax return purposes, measured using statutory tax rates.

Investment tax credits utilized in prior years were deferred and are being amortized over the useful lives of the properties to which they relate.

Unamortized debt discount, premium and expense. Discount, premium and expense associated with long-term debt are amortized over the lives of the related issues. Costs, including gains and losses, related to refunded long-term debt are amortized over the lives of the related new debt issues.

Accrued unbilled revenue. The Company accrues on its books estimated, but unbilled, revenue and also a liability for the related taxes.

Accumulated provision for uncollectible accounts. The accumulated provision for uncollectible accounts was $276,000 at December 31, 1998 and $279,000 at December 31, 1997.

Franchise taxes. Franchise taxes are collected for and remitted to their respective cities. Operating revenues include franchise taxes of $4,400,000, $3,900,000 and $3,800,000 for each of the years ended December 31, 1998, 1997 and 1996, respectively.

Liability insurance. The Company carries excess liability insurance for workers' compensation and public liability claims. In order to provide for the cost of losses not covered by insurance, an allowance for injuries and damages is maintained based on loss experience of the Company.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the report period. Actual amounts could differ from those estimates.

Reclassification. Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications have no effect on previously reported net income or stockholders' equity.

NOTE 2. REGULATORY MATTERS

During the three years ending December 31, 1998, the following rate changes were requested or in effect:

Arkansas. On February 19, 1998, the Company filed a request with the Arkansas Public Service Commission to increase rates in Arkansas by $618,000 annually. An agreement was reached to stipulate an increase of $359,000 on June 16, and the Company received an order from the Arkansas Commission on July 21, approving the stipulated rate increase.

Missouri. On August 30, 1996, the Company filed a request with the Missouri Public Service Commission for a general annual increase in rates for its Missouri electric customers of approximately $23,400,000, or 13.8%. A stipulated agreement was filed by the parties for approximately $13,950,000, and on July 17, 1997, the Missouri Commission issued an order approving an annual increase in rates in the amount of approximately $10,600,000, or 6.43% effective July 28, 1997. The amount did not include the Company's investment in Unit No. 2 at the Company's State Line Plant because the Commission deemed that Unit No. 2 did not meet all the specified in-service criteria. On July 25, 1997, the Company filed an Application for Rehearing regarding the status of Unit No. 2, seeking to recover the remaining $3,350,000 of the stipulated agreement. On September 11, 1997, the Missouri Commission issued an order approving an additional annual increase in rates in the amount of $3,000,000, or 1.7% effective September 19, 1997, making the total increase in annual revenue from this proceeding approximately $13,600,000, or 8.25%.

FERC. In July 1996, the Company filed with the FERC an open access non-discriminatory transmission tariff (the Company tariff) in compliance with FERC Order 888 issued in April 1996. In January 1997, the FERC staff and intervenors reached a settlement in principal to base rates on traditional cost of service methodology. After extensive review by the FERC and discussion with all parties involved, an agreement was reached and approved by the FERC on August 1, 1997 with rates made effective July 9, 1996. For customers with service agreements in effect, the Company Tariff will not be applicable until a rate increase has been filed which may not be made prior to June 1999.

On December 19, 1997, the Southwest Power Pool (SPP), a power pool with whom the Company is a member, filed an open access transmission tariff (the Regional Tariff) on behalf of its members to provide pool-wide, short-term transmission services using pricing which is based on distance. As of June 1, 1998 the date the FERC declared the Regional Tariff effective, the SPP began providing short-term firm and non-firm point-to-point transmission service for periods of less than one year under this tariff. The SPP filed an amended open access tariff on December 1, 1998 to include long-term firm point-to-point transmission service. The FERC accepted the amended tariff making it effective April 1, 1999. The rate charged will be a single system-wide rate based on the weighted average cost of each SPP member's zone through which the load passes. The rates for each zone are based on such member's rates for long-term firm service based on its individual open access tariff. In addition, if the load originates in a particular member's zone, then the system-wide rate will be based solely on such member's rate under its own tariff.

The Regional Tariff as amended will apply to many of the transmission services for which the Company Tariff was designed. However, the Company Tariff would still apply instead of the Regional Tariff for (1) all transmission services for which the load originates within the Company's zone and does not pass through the zone of any members of the SPP and (2) for all long-term firm point-to-point transmission services provided by the Company pursuant to contracts entered into prior to April 1, 1999. The availability of purchased power in the bulk power market, generation fuel costs and the requirements of other electric systems are all factors that affect the amount of power purchased and wheeled through the Company's and the SPP's transmission system each year. As a result the Company cannot predict the effect of these tariffs on its future operation or financial result due to its inability to predict these factors.

Effects of Regulation. In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), the Company's financial statements reflect ratemaking policies prescribed by the regulatory commissions having jurisdiction over the Company (the MoPSC, the KCC, the OCC, the APSC and the FERC).

Certain expenses and credits, normally reflected in income as incurred, are recognized when included in rates and recovered from or refunded to customers. As such, the Company has recorded the following regulatory assets which are expected to result in future revenues as these costs are recovered through the ratemaking process. Historically, all costs of this nature which are determined by the Company's regulators to have been prudently incurred have been recoverable through rates in the course of normal ratemaking procedures and the Company believes that the items detailed below will be afforded similar treatment.

The Company recorded the following regulatory assets and regulatory liability:

December 31,	*1998*	*1997*
Regulatory Assets		
Income taxes	$24,666,959	$24,781,882
Unamortized loss on reacquired debt	9,352,691	9,912,255
Asbury five year maintenance	1,526,029	2,157,493
Other postretirement benefits	453,460	467,062
Deferred 1993 flood losses	—	74,837
Incremental purchased power - 1993 flood	—	78,696
Total Regulatory Assets	$35,999,139	$37,472,225
Regulatory Liability		
Income taxes	$16,400,125	$17,540,757

The Company continually assesses the recoverability of its regulatory assets. Under current accounting standards, regulatory assets and liabilities are eliminated through a charge or credit, respectively, to earnings if and when it is no longer probable that such amounts will be recovered through future revenues.

On May 23, 1997, the Missouri Public Service Commission appointed a Retail Electric Competition Task Force (the Task Force) to prepare reports making recommendations as to how Missouri should implement retail electric competition in the event that legislation is enacted that authorizes it. The Task Force filed a report May 1, 1998 and the Joint Committee of the State Legislature conducted hearings during 1998. No final conclusions have been reached as to the timing or content of the legislative action. There can be no assurance that legislation deregulating the retail electric industry in Missouri and/or other states in which the Company operates will not be passed in the future. In the event such legislation is passed, the Company may determine that it no longer meets the criteria set forth in SFAS 71 with respect to some or all of the regulatory assets and liabilities. Any regulatory changes that would require the Company to discontinue SFAS 71 based upon competitive or other events may impact the valuation of the Company's regulatory assets and certain utility plant investments and require write-offs which could have a material adverse effect on the Company's financial condition and results of operations, depending on how the treatment of regulatory and plant assets and liabilities are considered for recovery by the regulators.

NOTE 3. COMMON STOCK

On April 9, 1996, the Company issued and sold 880,000 shares of its common stock to the public with aggregate proceeds, net of expenses and fees, of $15,044,000. The proceeds from the offering were used to repay short-term indebtedness or for expenses incurred in connection with the Company's construction program.

On August 1, 1998, the Company implemented a new stock unit plan for directors (the Director Retirement Plan) to provide directors the opportunity to accumulate retirement benefits in the form of common stock units in lieu of cash which was how benefits accumulated under the previous cash retirement plan for directors. The new Director Retirement Plan also provided directors the opportunity to convert previously earned cash retirement benefits to common stock units. 100,000 shares are authorized under this new plan. Each common stock unit earns dividends in the form of common stock units and can be redeemed for one share of common stock upon retirement by the director. The number of units granted annually is computed by dividing the director's retainer fee by the fair market value of the Company's common stock on January 1 of the year the units are granted. Common stock unit dividends are computed based on the fair market value of the Company's stock on the dividend's record date. During 1998, 34,214 units were granted upon conversion of previously earned retirement benefits, 1,681 units were granted for services provided in 1998 and 1,068 units were granted pursuant to the reinvestment plan described below.

The Company's Dividend Reinvestment and Stock Purchase Plan (the Reinvestment Plan) allows common and preferred stockholders to reinvest dividends paid by the Company into newly issued shares of the Company's common stock at 95% of the market price average. Stockholders may also purchase, for cash and within specified limits, additional stock at 100% of the market price average. The Company may elect to make shares purchased in the open market rather than newly issued shares available for purchase under the Reinvestment Plan. If the Company so elects, the purchase price to be paid by Reinvestment Plan participants will be 100% of the cost to the Company of such shares. Participants in the Reinvestment Plan do not pay commissions or service charges in connection with purchases under the Reinvestment Plan.

The Company's Employee Stock Purchase Plan, which terminates on May 31, 2000, permits the grant to eligible employees of options to purchase common stock at 90% of the lower of market value at date of grant or at date of exercise. Contingent employee stock purchase subscriptions outstanding and the maximum prices per share were 50,268 shares at $18.34, 58,972 shares at $15.53 and 54,706 shares at $16.31 on December 31, 1998, 1997 and 1996, respectively. Shares were issued at $15.53 per share in 1998, $15.64 per share in 1997 and $15.42 per share in 1996.

The Company's 1996 Incentive Plan (the Stock Incentive Plan) provides for the grant of up to 650,000 shares of common stock through January 2006. The terms and conditions of any option or stock grant are determined by the Board of Directors' Compensation Committee, within the provisions of the Stock Incentive Plan. The Stock Incentive Plan permits grants of stock options and restricted stock to qualified employees and permits Directors to receive common stock in lieu of cash compensation for service as a Director.

During January 1998, 1997 and 1996, grants for 1,535, 1,414 and 2,289, respectively, of restricted stock were made to qualified employees under the Stock Incentive Plan. For grants made to date, the restrictions typically lapse and the shares are issuable to employees who continue service with the Company three years from the date of grant. For employees whose service is terminated by death, retirement, disability, or under certain circumstances following a change in control of the Company prior to the restrictions lapsing, the shares are issuable immediately. For other terminations, the grant is forfeited. During 1998, 1997 and 1996, 2,641, 3,983 and 3,033 shares, respectively, were issued under the Stock Incentive Plan. No options have been granted under the Stock Incentive Plan. In 1996, the Company adopted the disclosure-only method under SFAS 123, "Accounting for Stock-Based Compensation." If the fair value based accounting method under this statement had been used to account for stock-based compensation costs, the effect on 1998 and 1997 net income and earnings per share would have been immaterial.

The Company's Employee 401(k) Retirement Plan (the 401(k) Plan) allows participating employees to defer up to 15% of their annual compensation up to a specified limit. The Company matches 50% of each employee's deferrals by contributing shares of the Company's common stock, such matching contributions not to exceed 3% of the employee's annual compensation. The Company contributed 33,274, 36,978 and 36,093 shares of common stock in 1998, 1997 and 1996, respectively, valued at market prices on the dates of contributions. The stock issuances to effect the contributions were not cash transactions and are not reflected as a source of cash in the Statement of Cash Flows.

At December 31, 1998, 1,549,552 shares remain available for issuance under the foregoing plans.

NOTE 4. PREFERRED STOCK

The Company has 5,000,000 shares of $10.00 par value cumulative preferred stock authorized. At December 31, 1998 and 1997, these shares were designated as follows:

Shares	*1998*	*1997*
Series without mandatory redemption provisions	3,300,000	3,300,000
Undesignated	1,700,000	1,700,000

In the event of involuntary liquidation, holders of all outstanding series of preferred stock will be entitled to be paid the $10.00 par value of their shares plus accumulated and unpaid dividends before any distribution of assets to holders of common stock.

The Company also has 2,500,000 shares of preference stock authorized, including 500,000 shares of Series A Participating Preference Stock, none of which have been issued.

Preferred stock without mandatory redemption provisions. Preferred stock without mandatory redemption provisions issued and outstanding at December 31, 1998 and 1997 is as follows:

Shares	*1998*	*1997*
5% cumulative (400,000 shares authorized)	381,820	390,180
4 3/4% cumulative (400,000 shares authorized)	400,000	400,000
8 1/8% cumulative (2,500,000 shares authorized)	2,480,998	2,500,000
	3,262,818	3,290,180

In the event of voluntary liquidation or redemption of the 5%, 4 3/4%, and 8 1/8% series of cumulative preferred stock, holders will be entitled to the following amounts per share plus accumulated and unpaid dividends: 5% cumulative - $10.50 (aggregate amount $4,009,110); 4 3/4% cumulative - $10.20 (aggregate amount $4,080,000); and 8 1/8% cumulative - $10 (aggregate amount $24,809,980). The 8 1/8% series of cumulative preferred stock is not redeemable, however, until on or after June 2, 1999.

On October 15, 1998 and November 16, 1998, the Company repurchased 19,002 shares of 8 1/8% cumulative preferred stock and 8,360 shares of 5% cumulative preferred stock at a price of $10.38 and $8.42 per share, respectively. These shares are carried at cost and are classified as treasury stock.

Preference Stock Purchase Rights. The Company had 8,535,918 and 8,388,327 Preference Stock Purchase Rights (Rights) outstanding at December 31, 1998 and 1997, respectively. Each Right enables the holder to acquire one one-hundredth of a share of Series A Participating Preference Stock (or, under certain circumstances, other securities) at a price of $75 per one one-hundredth share, subject to adjustment. Each share of common stock currently has one-half of one Right. The Rights (other than those held by an acquiring person or group (Acquiring Person)), which expire July 25, 2000, will be exercisable only if an Acquiring Person acquires 10% or more of the Company's common stock or announces an intention to make a tender offer or exchange offer which would result in the Acquiring Person owning 10% or more of the common stock. The Rights may be redeemed by the Company in whole, but not in part, for $0.01 per Right, prior to 10 days after the first public announcement of the acquisition of 10% or more of the Company's common stock by an Acquiring Person.

In addition, upon the occurrence of a merger or other business combination, or an event of the type described in the preceding paragraph, holders of the Rights, other than an Acquiring Person, will be entitled, upon exercise of a Right, to receive either common stock of the Company or common stock of the Acquiring Person having a value equal to two times the exercise price of the Right. Any time after an Acquiring Person acquires 10% or more (but less than 50%) of the Company's outstanding common stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the Acquiring Person) for common stock of the Company on a one-for-two basis.

NOTE 5. LONG-TERM DEBT

The principal amount of all series of first mortgage bonds outstanding at any one time is limited by terms of the mortgage to $1,000,000,000. Substantially all property, plant and equipment is subject to the lien of the mortgage. At December 31 the long-term debt outstanding was as follows:

	1998	1997
First mortgage bonds:		
5.70% Series due 1998	$ —	$ 23,000,000
7 1/2% Series due 2002	37,500,000	37,500,000
7.60% Series due 2005	10,000,000	10,000,000
8 1/8% Series due 2009 (1)	20,000,000	20,000,000
6 1/2% Series due 2010	50,000,000	—
7.20% Series due 2016	25,000,000	25,000,000
9 3/4% Series due 2020	2,250,000	2,250,000
7% Series due 2023	45,000,000	45,000,000
7 3/4% Series due 2025	30,000,000	30,000,000
7 1/4% Series due 2028	13,726,000	13,726,000
5.3% Pollution Control Series due 2013	8,000,000	8,000,000
5.2% Pollution Control Series due 2013	5,200,000	5,200,000
	246,676,000	219,676,000
Less current maturities	—	(23,000,000)
Less unamortized net discount	(583,095)	(291,459)
	$ 246,092,905	$ 196,384,541

(1)Holders of this series have the right to require the Company to repurchase all or any portion of the bonds at a price of 100% of the principal amount plus accrued interest, if any, on November 1, 2001.

The carrying amount of the Company's long-term debt was $246,676,000 and $219,676,000 at December 31, 1998 and 1997, respectively, and its fair market value was estimated to be approximately $252,155,000 and $226,115,000, respectively. This estimate was based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturation. The estimated fair market value may not represent the actual value that could have been realized as of year-end or that will be realizable in the future.

At December 31, 1998, the Company had a $15,000,000 unsecured line of credit. Borrowings are at the bank's prime commercial rate and are due 370 days from the date of each loan. In connection with the Company's line of credit, there is an informal compensating balance arrangement under which the Company maintains deposits averaging 5% of the line of credit. This arrangement does not serve to legally restrict the use of the Company's cash. The line of credit is also utilized to support the Company's issuance of commercial paper although it is not assigned specifically to such support. There were no outstanding borrowings under this agreement at December 31, 1998 or 1997.

On April 28, 1998, the Company sold to the public in an underwritten offering $50 million aggregate principal amount of its First Mortgage Bonds, 6.50% Series due 2010. The net proceeds from this sale were added to the Company's general funds and were used to repay $23 million of the Company's First Mortgage Bonds, 5.70% Series due May 1, 1998 and to repay short-term indebtedness, including indebtedness incurred in connection with the Company's construction program.

On December 10, 1996, the Company sold to the public in an underwritten offering $25,000,000 aggregate principal amount of its First Mortgage Bonds, 7.20% Series due 2016, the proceeds of which were added to the Company's general funds and used to repay short-term indebtedness or for expenses incurred in connection with the Company's construction program.

NOTE 6. SHORT-TERM BORROWINGS

Short-term commercial paper outstanding and notes payable averaged $11,274,000 and $19,556,000 daily during 1998 and 1997, respectively, with the highest month-end balances being $28,500,000 and $34,000,000, respectively. The weighted daily average interest rates during 1998, 1997 and 1996 were 5.9%, 5.9% and 5.6%, respectively. The weighted average interest rates of borrowings outstanding at December 31, 1998, 1997 and 1996 were 6.2%, 6.1% and 5.8%, respectively.

NOTE 7. RETIREMENT BENEFITS

Pensions. The Company's noncontributory defined benefit pension plan includes all employees meeting minimum age and service requirements. The benefits are based on years of service and the employee's average annual basic earnings. Annual contributions to the plan are at least equal to the minimum funding requirements of ERISA. Plan assets consist of common stocks, United States government obligations, federal agency bonds, corporate bonds and commingled trust funds.

The following table sets forth the plan's projected benefit obligation, the fair value of the plan's assets and its funded status:

	1998	1997	1996
Benefit obligation at beginning of year	$78,360,097	$66,805,630	$67,083,122
Service cost	2,400,303	2,095,442	1,987,057
Interest cost	5,046,012	4,956,356	4,695,105
Amendments	—	(277,808)	—
Actuarial (gain)/loss	(4,065,095)	9,251,195	(2,494,118)
Benefits paid	(4,455,719)	(4,470,718)	(4,465,536)
Benefit obligation at end of year	$77,285,598	$78,360,097	$66,805,630
Fair value of plan assets at beginning of year	$82,106,242	$70,970,880	$69,225,616
Actual return on plan assets	15,503,378	15,606,080	6,210,800
Benefits paid	(4,455,719)	(4,470,718)	(4,465,536)
Fair value of plan assets at end of year	$93,153,901	$82,106,242	$70,970,880
Funded status	15,868,303	3,746,145	4,165,250
Unrecognized net assets at January 1, 1986 being amortized over 17 years	(1,964,623)	(2,455,778)	(2,946,933)
Unrecognized prior service cost	3,560,847	3,964,146	4,645,253
Unrecognized net gain	(18,028,407)	(8,058,243)	(9,392,499)
Accrued pension cost	$(563,880)	$(2,803,730)	$(3,528,929)

Assumptions used in calculating the projected benefit obligation for 1998 and 1997 include the following:

	1998	1997	1996
Weighted average discount rate	7.00%	6.75%	7.50%
Rate of increase in compensation levels	5.50%	5.50%	5.50%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%

Net pension benefit for 1998, 1997 and 1996 is comprised of the following components:

	1998	1997	1996
Service cost - benefits earned during the period	$2,400,303	$2,095,442	$1,987,057
Interest cost on projected benefit obligation	5,046,012	4,956,356	4,695,105
Expected return on plan assets	(7,173,641)	(6,169,097)	(6,009,653)
Net amortization and deferral	(2,512,524)	(1,607,900)	(1,746,639)
Net pension benefit	$(2,239,850)	$(725,199)	$(1,074,130)

Other Postretirement Benefits. The Company provides certain healthcare and life insurance benefits to eligible retired employees, their dependents and survivors. Participants generally become eligible for retiree healthcare benefits after reaching age 55 with 5 years of service.

Effective January 1, 1993, the Company adopted SFAS 106, which requires recognition of these benefits on an accrual basis during the active service period of the employees. The Company elected to amortize its transition obligation (approximately $21.7 million) related to SFAS 106 over a twenty year period. Prior to adoption of SFAS 106, the Company recognized the cost of such postretirement benefits on a pay-as-you-go (i.e., cash) basis. The states of Missouri, Kansas, Oklahoma, and Arkansas authorize the recovery of SFAS 106 costs through rates.

In accordance with the above rate orders, the Company established two separate trusts in 1994, one for those retirees who were subject to a collectively bargained agreement and the other for all other retirees, to fund retiree healthcare and life insurance benefits. The Company's funding policy is to contribute annually an amount at least equal to the revenues collected for the amount of postretirement benefits costs allowed in rates. Assets in these trusts amounted to approximately $6,800,000 at December 31, 1998 and $5,700,000 at December 31, 1997.

Postretirement benefits, a portion of which have been capitalized and/or deferred, for 1998, 1997 and 1996 included the following components:

	1998	1997	1996
Service cost on benefits earned during the year	$558,983	$434,397	$472,943
Interest cost on projected benefit obligation	1,593,181	1,559,110	1,679,461
Return on assets	(375,581)	(290,079)	(142,462)
Amortization of unrecognized transition obligation	1,084,017	1,084,017	1,084,017
Unrecognized net (gain)/loss	(720,744)	(1,111,795)	(486,691)
Other	—	(92,890)	—
Net periodic postretirement benefit cost	$2,139,856	$1,582,760	$2,607,268

The estimated funded status of the Company's obligations under SFAS 106 at December 31, 1998, 1997 and 1996 using a weighted average discount rate of 7.0%, 6.75% and 7.5%, respectively, is as follows:

	1998	1997	1996
Benefit obligation at beginning of year	$23,978,240	$20,850,702	$23,215,798
Service cost	558,983	434,397	472,943
Interest cost	1,593,181	1,559,110	1,679,461
Actuarial (gain)/loss	(353,055)	2,080,611	(3,939,393)
Benefits paid	(1,196,552)	(946,580)	(578,107)
Benefit obligation at end of year	$24,580,797	$23,978,240	$20,850,702
Fair value of plan assets at beginning of year	$5,691,142	$4,829,610	$2,963,556
Employer contributions	2,102,087	1,518,033	2,231,009
Actual return on plan assets	206,625	290,079	213,152
Benefits paid	(1,196,552)	(946,580)	(578,107)
Fair value of plan assets at end of year	$6,803,302	$5,691,142	$4,829,610
Funded Status	$(17,777,495)	$(18,287,098)	$(16,021,092)
Unrecognized transition obligation	15,176,225	16,260,242	17,344,259
Unrecognized net gain	(1,787,030)	(2,323,675)	(5,649,391)
Accrued postretirement benefit cost	$(4,388,300)	$(4,350,531)	$(4,326,224)

The assumed 1999 cost trend rate used to measure the expected cost of healthcare benefits is 7.5%. The trend rate decreases through 2026 to an ultimate rate of 6% for 2027 and subsequent years. The effect of a 1% increase in each future year's assumed healthcare cost trend rate would increase the current service and interest cost from $2.2 million to $2.8 million and the accumulated postretirement benefit obligation from $24.6 million to $30.5 million.

NOTE 8. INCOME TAXES

The provision for income taxes is different from the amount of income tax determined by applying the statutory income tax rate to income before income taxes as a result of the following differences:

	1998	1997	1996
Computed "expected" federal provision	$15,480,000	$12,825,000	$11,810,000
State taxes, net of federal effect	1,370,000	930,000	1,100,000
Adjustment to taxes resulting from:			
Investment tax credit amortization	(580,000)	(590,000)	(580,000)
Other	(370,000)	(315,000)	(630,000)
Actual provision	$15,900,000	$12,850,000	$11,700,000

Income tax expense components for the years shown are as follows:

	1998	1997	1996
Taxes currently payable			
Included in operating revenue deductions:			
Federal	$12,110,000	$9,830,000	$7,500,000
State	1,430,000	960,000	1,120,000
Included in "other - net"	(450,000)	(150,000)	(100,000)
	13,090,000	10,640,000	8,520,000
Deferred taxes			
Depreciation and amortization differences	3,237,000	3,210,000	3,283,000
Loss on reacquired debt	(213,000)	(227,000)	(249,000)
Postretirement benefits	528,000	159,000	251,000
Other	79,000	(542,000)	(344,000)
Asbury five year maintenance	(241,000)	200,000	819,000
Deferred investment tax credits, net	(580,000)	(590,000)	(580,000)
Total income tax expense	$15,900,000	$12,850,000	$11,700,000

Under SFAS 109, temporary differences gave rise to deferred tax assets and deferred tax liabilities at year end 1998 and 1997 as follows:

	1998		1997	
Balances as of December 31,	*Deferred Tax Assets*	*Deferred Tax Liabilities*	*Deferred Tax Assets*	*Deferred Tax Liabilities*
Noncurrent				
Depreciation and other property related	$11,296,127	$88,422,060	$11,877,844	$85,111,843
Unamortized investment tax credits	5,275,124	—	5,639,749	—
Miscellaneous book/tax recognition differences	4,471,137	6,380,690	4,557,129	6,307,532
Total deferred taxes	$21,042,388	$94,802,750	$22,074,722	$91,419,375

NOTE 9. IATAN PLANT

The Company owns a 12% undivided interest in a coal-fired 670 megawatt generating unit near Weston, Missouri. The Company is entitled to 12% of the available capacity and is obligated for that percentage of costs which are included in corresponding operating expense classifications in the Statement of Income. At December 31, 1998 and 1997, the Company's property, plant and equipment accounts include the cost of its ownership interest in the unit of $44,628,000 and $44,489,000, respectively, and accumulated depreciation of $27,045,000 and $25,418,000, respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Company's 1999 construction budget is $64,600,000. The Company's three-year construction program for 1999 through 2001 is estimated to be approximately $229,900,000. The Company has announced plans to build a 350 megawatt addition to the State Line Power Plant which, when combined with the existing State Line Unit No. 2 combustion turbine, will result in a nominal 500 megawatt combined cycle unit. On February 4, 1999, the Company announced that it entered into a Memorandum of Understanding with another utility and expects to enter a joint ownership agreement resulting in the Company owning a 60% undivided interest in the plant. Expenditures relating to the combined cycle unit totaling approximately $100,000,000 are included in the 1999 through 2001 estimated construction budget. The construction budget above does not include approximately $16,000,000 for nitrogen oxide control equipment expenditures potentially required as a result of a September 1998 Environmental Protection Agency ruling.

The Company has entered into long-term agreements to purchase capacity and energy, to obtain supplies of coal and to provide natural gas transportation. Under such contracts, the Company incurred purchased power and fuel costs of approximately $64,000,000, $55,000,000 and $52,000,000 in 1998, 1997 and 1996, respectively. Certain of these contracts provide for minimum and maximum annual amounts to be purchased and further provide, in part, for cash settlements to be made when minimum amounts are not purchased. In the event that no purchases of coal, energy and transportation services are made, an event considered unlikely by management, minimum annual cash settlements would approximate $31,000,000 in 1999, $33,000,000 in 2000, $31,000,000 in 2001 and $27,000,000 in 2002 and reducing to lesser amounts thereafter through 2012.

NOTE 11. SELECTED QUARTERLY INFORMATION *(UNAUDITED)*

A summary of operations for the quarterly periods of 1998 and 1997 is as follows:

Quarters *(Dollars in thousands, except per share amounts)*	*First*	*Second*	*Third*	*Fourth*
1998:				
Operating revenues	$51,388	$56,269	$77,860	$54,341
Operating income	8,060	11,032	19,024	9,256
Net income	3,340	6,211	14,105	4,667
Net income applicable to common stock	2,736	5,607	13,501	4,068
Basic and diluted earnings per average share of common stock	$.16	$.33	$.80	$.24

Quarters *(Dollars in thousands, except per share amounts)*	*First*	*Second*	*Third*	*Fourth*
1997:				
Operating revenues	$47,305	$45,980	$68,636	$53,390
Operating income	7,073	6,692	17,375	9,822
Net income	3,125	2,649	12,692	5,327
Net income applicable to common stock	2,521	2,045	12,088	4,723
Basic and diluted earnings per average share of common stock	$.15	$.12	$.73	$.28

The sum of the quarterly earnings per average share of common stock may not equal the earnings per average share of common stock as computed on an annual basis due to rounding.

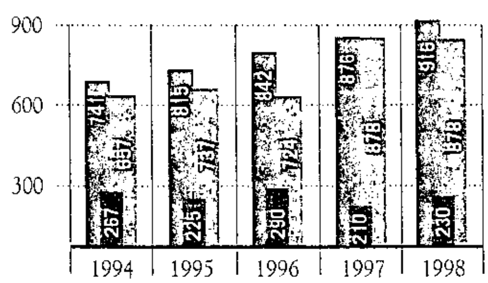
Selected Financial Data

(Dollars in thousands, except per share amounts)	1998	1997	1996	1995
Operating revenues	$ 239,858	$ 215,311	$ 205,984	$ 192,838
Operating income	$ 47,372	$ 40,962	$ 36,652	$ 33,151
Total allowance for funds used during construction	$ 409	$ 1,226	$ 1,420	$ 2,239
Net income	$ 28,323	$ 23,793	$ 22,049	$ 19,798(1)
Earnings applicable to common stock	$ 25,912	$ 21,377	$ 19,633	$ 17,381(1)
Weighted average number of common shares outstanding (3)	16,932,704	16,599,269	16,015,858	14,730,902
Basic and diluted earnings per weighted average shares outstanding (3)	$ 1.53	$ 1.29	$ 1.23	$ 1.18(1)
Cash dividends per common share (3)	$ 1.28	$ 1.28	$ 1.28	$ 1.28
Common dividends paid as a percentage of earnings applicable to common stock	83.7%	99.4%	104.5%	108.9%
Allowance for funds used during construction as a percentage of earnings applicable to common stock	1.6%	5.7%	7.2%	12.9%
Book value per common share outstanding at end of year	$ 13.40	$ 13.03	$ 12.93	$ 12.67
Capitalization:				
Common equity	$ 229,791	$ 219,034	$ 213,091	$ 193,137
Preferred stock without mandatory redemption provisions	$ 32,634	$ 32,902	$ 32,902	$ 32,902
First mortgage bonds	$ 246,093	$ 196,385	$ 219,533	$ 194,705
Ratio of earnings to fixed charges	3.32	3.01	3.11	2.90
Ratio of earnings to combined fixed charges and preferred stock dividend requirements	2.78	2.66	2.53	2.36
Total assets	$ 653,294	$ 626,465	$ 596,980	$ 557,368
Utility plant in service at original cost	$ 831,496	$ 797,839	$ 717,890	$ 682,609
Utility plant expenditures during the year	$ 47,366	$ 53,280	$ 59,373	$ 49,217

Note (1): Reflects a pre-tax charge of $4,583,000 for certain one-time costs associated with the Company's Voluntary Early Retirement Program.

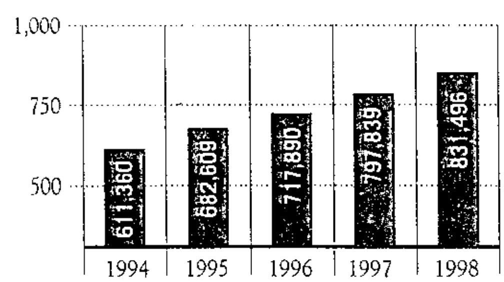
Note (2): Reflects the cumulative effect for a change in accounting principle during 1990 for the Company's unbilled revenues. This change in accounting had the effect of increasing net income $3,335,000 or $0.28 per share. Data for years prior to 1990 do not reflect this change in accounting principle.

Note (3): Amounts shown for periods prior to 1992 have been restated to reflect the two-for-one stock split effective January 29, 1992.



SYSTEM CAPABILITY
AND PEAK DEMAND

(Megawatts)



UTILITY PLANT
IN SERVICE

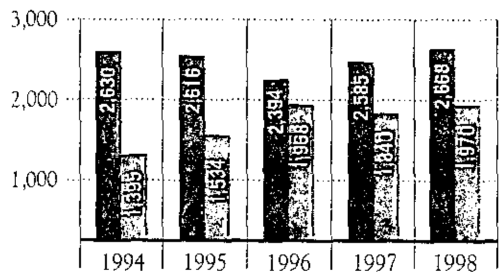
(Dollars in Thousands)

Generating Capacity

Peak Demand

Purchase Capacity

1994	1993	1992	1991	1990	1989	1988
$ 177,757	$ 168,439	$ 150,302	$ 150,442	$ 141,612	$ 133,361	$ 153,805
$ 32,005	$ 29,291	$ 30,090	$ 31,761	$ 27,071	$ 26,678	$ 25,553
$ 1,715	$ 229	$ 119	$ 275	$ 1,419	$ 895	$ 851
$ 19,683	$ 15,936	$ 16,905	$ 18,768	$ 18,808[2]	$ 17,347	$ 17,656
$ 18,120	$ 15,551	$ 16,513	$ 18,328	$ 18,296	$ 16,771	$ 16,990
13,734,231	13,415,539	13,119,515	12,812,166	11,740,278	11,419,846	11,154,600
$ 1.32	$ 1.16	$ 1.26	$ 1.43	$ 1.56[2]	$ 1.47	$ 1.52
$ 1.28	$ 1.28	$ 1.26	$ 1.22	$ 1.17	$ 1.12	$ 1.07
97.0%	110.4%	99.9%	85.3%	75.1%	76.4%	70.4%
9.5%	1.5%	0.7%	1.5%	7.8%	5.3%	5.0%
$ 12.42	$ 12.33	$ 12.26	$ 12.06	$ 11.73	$ 11.13	$ 10.71
$ 173,780	$ 167,861	$ 163,293	$ 156,910	$ 148,847	$ 129,340	$ 121,354
$ 32,902	$ 7,902	$ 7,902	$ 7,902	$ 7,902	$ 7,902	$ 7,902
$ 184,977	$ 165,227	$ 143,619	$ 142,214	$ 142,310	$ 127,483	$ 113,481
3.16	2.73	2.91	3.13	2.77	3.36	3.97
2.70	2.63	2.80	2.99	2.63	3.13	3.59
$ 520,213	$ 463,617	$ 406,731	$ 387,363	$ 378,562	$ 345,047	$ 319,831
$ 611,360	$ 576,083	$ 543,323	$ 515,119	$ 493,543	$ 444,240	$ 414,498
$ 71,649	$ 42,648	$ 29,500	$ 21,991	$ 45,926	$ 39,967	$ 33,302

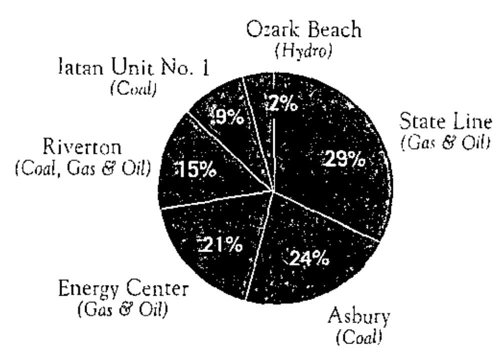


TOTAL SYSTEM INPUT
BY SOURCE

(Billions of Kilowatt-hours)

Purchase and Interchange

Generated



EMPIRE POWER PLANTS

(Percent of Capacity)

Electric Operating Statistics (1)

	1998	1997	1996	1995
Electric Operating Revenues (000s):				
Residential	$ 100,567	$ 88,636	$ 86,014	$ 81,331
Commercial	71,810	64,940	61,811	58,430
Industrial	39,805	37,192	35,213	32,637
Public authorities	5,559	4,995	4,180	3,745
Wholesale on-system	10,928	9,730	9,482	8,360
Miscellaneous	4,006	3,341	3,639	3,345
Total system	232,675	208,834	200,339	187,848
Wholesale off-system	6,126	5,473	4,595	4,000
Total electric operating revenues	$ 238,801	$ 214,307	$ 204,934	$ 191,848
Electricity generated and purchased (000s of Kwh):				
Steam	2,228,103	2,372,914	2,231,062	2,374,021
Hydro	70,631	77,578	62,860	71,302
Combustion turbine	439,517	211,872	162,679	170,479
Total generated	2,738,251	2,662,364	2,456,601	2,615,802
Purchased	1,970,348	1,839,833	1,968,898	1,540,816
Total generated and purchased	4,708,599	4,502,197	4,425,499	4,156,618
Interchange (net)	(1,894)	1,018	(1,087)	(5,851)
Total system input	4,706,705	4,503,215	4,424,412	4,150,767
Maximum hourly system demand (Kw)	916,000	876,000	842,000	815,000
Owned capacity (end of period) (Kw)	878,000	878,000	724,000	737,000
Annual load factor (%)	55.72	55.38	56.85	55.15
Electric sales (000s of Kwh):				
Residential	1,548,630	1,429,787	1,440,512	1,350,340
Commercial	1,246,323	1,171,848	1,154,879	1,086,894
Industrial	960,783	943,287	923,730	859,017
Public authorities	98,675	101,122	95,652	90,543
Wholesale on-system	299,256	273,035	262,330	243,869
Total system	4,153,667	3,919,079	3,877,103	3,630,663
Wholesale off-system	235,391	253,060	219,814	213,590
Total electric sales	4,389,058	4,172,139	4,096,917	3,844,253
Company use (000s of Kwh)	8,940	9,688	9,584	9,559
Lost and unaccounted for (000s of Kwh)	308,707	321,388	317,911	296,955
Total system input	4,706,705	4,503,215	4,424,412	4,150,767
Customers (average number of monthly bills rendered):				
Residential	119,265	117,271	115,116	112,605
Commercial	21,774	21,323	20,758	20,098
Industrial	354	346	346	339
Public authorities	1,739	1,720	1,696	1,637
Wholesale on-system	7	7	7	7
Total system	143,139	140,667	137,923	134,686
Wholesale off-system	6	7	9	6
Total	143,145	140,674	137,932	134,692
Average annual sales per residential customer (Kwh)	12,985	12,192	12,514	11,992
Average annual revenue per residential customer	$ 843.22	$ 755.82	$ 747.19	$ 722.27
Average residential revenue per Kwh	6.49¢	6.20¢	5.97¢	6.02¢
Average commercial revenue per Kwh	5.76¢	5.54¢	5.35¢	5.38¢
Average industrial revenue per Kwh	4.14¢	3.94¢	3.81¢	3.80¢

(1) See Selected Financial Data for additional financial information regarding the Company.

1994	1993	1992	1991	1990	1989	1988
$ 71,977	$ 68,477	$ 59,645	$ 62,682	$ 56,718	$ 53,059	$ 53,228
54,052	50,264	45,264	43,841	39,892	38,437	36,925
31,317	28,880	26,596	26,289	24,647	22,909	23,140
3,509	3,419	3,177	3,069	2,856	2,704	2,648
8,173	8,038	6,837	6,745	6,661	6,123	6,140
2,393	2,302	1,975	2,052	2,174	1,868	1,477
171,421	161,380	143,494	144,678	132,948	125,100	123,558
5,391	6,244	5,997	4,938	7,904	7,618	29,609
$ 176,812	$ 167,624	$ 149,491	$ 149,616	$ 140,852	$ 132,718	$ 153,167
2,495,055	2,322,749	2,307,854	2,243,083	2,253,848	2,367,542	2,152,488
83,556	102,673	77,644	79,865	59,551	64,144	76,894
51,358	39,532	5,048	63,387	24,407	8,968	5,196
2,629,969	2,464,954	2,390,546	2,386,335	2,337,806	2,440,654	2,234,578
1,394,470	1,443,410	1,119,025	1,096,056	1,138,202	956,007	1,641,392
4,024,439	3,908,364	3,509,571	3,482,391	3,476,008	3, 396,661	3,875,970
630	11,266	2,657	(2,917)	6,728	(11,388)	(13,066)
4,025,069	3,919,630	3,512,228	3,479,474	3,482,736	3,385,273	3,862,904
741,000	739,000	680,000	678,000	668,000	638,000	623,600
656,500	657,300	657,300	657,300	657,300	678,300	678,300
57.32	54.88	52.77	54.02	51.77	52.53	52.64
1,264,721	1,248,482	1,068,595	1,142,752	1,057,656	1,005,670	1,006,264
1,018,052	950,906	850,829	826,774	774,868	761,802	728,669
827,067	760,737	695,271	689,377	668,797	630,491	632,485
86,463	83,239	78,050	77,068	74,205	71,548	69,725
234,228	232,815	220,916	227,087	216,033	202,125	195,786
3,430,531	3,276,179	2,913,661	2,963,058	2,791,559	2,671,636	2,632,929
304,554	366,729	360,251	270,920	453,311	449,202	979,626
3,735,085	3,642,908	3,273,912	3,233,978	3,244,870	3,120,838	3,612,555
9,260	9,117	8,924	9,222	9,419	8,893	8,588
280,724	267,605	229,392	236,274	228,447	255,542	241,761
4,025,069	3,919,630	3,512,228	3,479,474	3,482,736	3,385,273	3,862,904
109,032	105,079	101,943	99,916	98,437	96,710	95,174
19,175	18,447	17,796	17,276	16,938	16,459	15,901
318	283	267	264	262	259	267
1,558	1,517	1,467	1,427	1,388	1,336	1,303
7	7	7	7	7	7	7
130,090	125,333	121,480	118,890	117,032	114,771	112,652
6	5	5	4	5	5	4
130,096	125,338	121,485	118,894	117,037	114,776	112,656
11,600	11,881	10,482	11,437	10,744	10,399	10,573
660.14	$ 651.67	$ 585.08	$ 627.34	$ 576.18	$ 548.64	$ 559.27
5.69¢	5.48¢	5.58¢	5.49¢	5.36¢	5.28¢	5.29¢
5.31¢	5.29¢	5.32¢	5.30¢	5.15¢	5.05¢	5.07¢
3.79¢	3.80¢	3.83¢	3.81¢	3.69¢	3.63¢	3.66¢

Glossary

capacity: The ability of a generating unit to produce power, typically expressed in kilowatts or megawatts.

combined cycle: The combination of one or more gas turbines and steam turbines in an electric generation plant. An electric generating technology in which electricity is produced from otherwise lost waste heat exiting from one or more gas (combustion) turbines. The exiting heat is routed to a heat recovery steam generator for utilization by a steam turbine in the production of electricity. This process increases the efficiency of the electric generating unit.

combustion turbine (CT): A fuel-fired turbine engine used to drive an electric generator.

Edison Electric Institute (EEI): The association of United States investor-owned electric utilities and industry affiliates and associates worldwide. Its U.S. members serve over 90 percent of all customers served by the investor-owned segment of the industry. They generate approximately three-quarters of all the electricity generated by electric utilities in the country and service about 70 percent of all ultimate customers in the nation.

Federal Energy Regulatory Commission (FERC): The United States agency that regulates interstate electricity and natural gas transactions.

independent power producers (IPP): Non-utility companies that generate and market power at the wholesale level.

kilovolt (kv): One thousand volts.

kilowatt (kw): One thousand watts.

kilowatt-hour (kwh): The amount of electrical energy consumed when one thousand watts are used for one hour.

megawatt (mw): One thousand kilowatts or one million watts.

peak demand: The greatest amount of electricity supplied at a specific time.

purchased power: Electricity bought by one utility from another producer instead of, or in addition to, generating power on its own.

remediation: An emerging term in IT parlance, referring to the remedy of actual and potential hardware/software problems related to the Y2K date conflict.

restructuring: Any of a number of changes made to the utility industry structure to increase competition.

stranded investment: Assets no longer needed when previously serviced customers choose other power suppliers.

substation: The place where high voltage power is received and reduced to a voltage level that can be distributed to neighborhoods or other end users.

transmission line: The network or system of cables used to move bulk or high voltage electricity from one point to another.

volt: A measure of the force used to transmit electric power.

watt: A measure of the amount of electrical power that is generated or consumed.

wheeling: The use, for a fee, of transmission facilities owned by one company or system to move electrical power for another company or system.

wholesale customer: An entity, such as a municipality or rural electric cooperative, that buys electricity from Empire for the purpose of reselling it to the ultimate customer.

Corporate Data

Annual Meeting
The annual meeting of shareholders will be held Thursday, April 22, 1999, at 10:30 a.m., at the Holiday Inn, 3615 South Range Line (intersection of Highway 71 and Interstate 44), Joplin, Missouri.

Company Headquarters
The Empire District Electric Company
602 Joplin Street
P.O. Box 127
Joplin, Missouri 64802-0127
Telephone: (417) 625-5100

Auditors
PricewaterhouseCoopers LLP
St. Louis, Missouri

Registrar, Transfer Agent and Dividend Agent
Common and Preferred Stock
ChaseMellon Shareholder Services, LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(888) 261-6784
For hearing impaired: (800) 231-5469
Foreign Shareholder Questions: (201) 329-8660
www.chasemellon.com

Stock Trading
Empire stock is listed on the New York Stock Exchange under the following ticker symbols:

EDE	Common Stock
EDEPrA	4 3/4% Cumulative Preferred Stock
EDEPrB	5% Cumulative Preferred Stock
EDEPrC	8 1/8% Cumulative Preferred Stock

Common Stock Prices and Dividends

1998			*Dividend*
Quarter	High	Low	Paid
First	22 1/2	18 3/8	$0.32
Second	22 1/2	20	$0.32
Third	23 3/8	19 5/16	$0.32
Fourth	26 1/8	20 7/8	$0.32

1997			*Dividend*
Quarter	High	Low	Paid
First	19 1/4	17 3/4	$0.32
Second	18 3/8	16	$0.32
Third	18 1/4	16 1/4	$0.32
Fourth	19 15/16	17 5/16	$0.32

Credit Rating

	Duff & Phelps	*Moody's*	*Standard & Poor's*
First Mortgage Bonds	A+	A2	A-
PCRB-AMBAC	AAA	Aaa	AAA
Preferred Stock	A	a3	BBB
Commercial Paper	D-1	P-1	A-2

Dividend Reinvestment and Stock Purchase Plan
Any holder of Empire Common or Preferred Stock is eligible to enroll in the Company's Dividend Reinvestment and Stock Purchase Plan. Under the Plan, participants may presently acquire, at a 5 percent discount, newly issued common shares with reinvested dividends. Participants may also purchase, at market value, newly issued common shares with optional cash payments of $50 - $3,000 per quarter. A prospectus describing the Plan and enrollment forms are available upon written request from the Plan Administrator:

ChaseMellon Shareholder Services, LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(888) 261-6784
For hearing impaired: (800) 231-5469
Foreign Shareholder Questions: (201) 329-8660
www.chasemellon.com

Financial Report - Form 10-K
Copies of this report and the Form 10-K, including financial statements as filed with the Securities and Exchange Commission, are available without charge upon written request to Janet S. Watson, Secretary - Treasurer, The Empire District Electric Company, P.O. Box 127, Joplin, Missouri 64802-0127. This report is not intended to induce any securities' sale or purchase.

Inquiries
Investor, shareholder and financial information is available from:

The Empire District Electric Company
Janet S. Watson, Secretary – Treasurer
P.O. Box 127
Joplin, Missouri 64802–0127
or telephone: (417) 625–5100

Internet
We invite you to learn more about our Company by connecting with us at:

www.empiredistrict.com

EMPIRE

SERVICES YOU COUNT ON

www.empiredistrict.com

602 JOPLIN STREET, P.O. BOX 127
JOPLIN, MISSOURI 64802-0127
TELEPHONE (417) 625-5100