

Western Resources

Board Materials

March 28, 2000

Table of Contents

Tab I Separation Transaction

Tab II Dividend Policy

Separation Transaction

Situation Summary

- Significant trading discount exists in WR stock
- Discount is likely to persist
 - P-1 earnings continue to depress consolidated EPS
- If no strategic alternatives are undertaken, WR faces the prospect of significant downward pressure on its stock price
 - Shareholders expect significant value creation from restructuring
- Downgrade to non-investment grade corporate and unsecured ratings is likely whether WR is maintained as one entity or separated into two
 - S&P has said that investment grade senior secured credit rating can be maintained
- Separation of the Utility and Westar Capital will allow the market to more accurately value these separate companies
 - Board retains the option to sell the Utility post separation

Primary Issue: Value Disparity

WR currently trades at a significant discount to both its implied public and private market values

Sum of the Paris Analysts (1)	Public Market		Private Market		Comments
	Low	High	Low	High	
Unregulated / Investments:					
Protection One (2)	\$2.48	\$2.40	\$2.48	\$7.97	Private market low end and Public market: Current market value (5.8x 1999 EBITDA) Private market high end: 8.0x 1999 EBITDA
European Security Operations	3.32	3.32	3.32	3.32	Transaction value of \$225 MM
ONEOK	9.42	9.42	9.42	11.17	Private market low end and Public market: Current market plus preferred premium Private market high end: 40% premium on common share price
Investments	5.00	5.00	5.00	5.00	Comprised of takeover, Guardian, Generation assets, etc.
Subtotal	\$20.21	\$20.21	\$20.21	\$27.46	
Utility (2)	\$16.50	\$20.25	\$28.00	\$32.50	Public market values based on 8.5x to 10.5x 1999 P/E; 6.4x to 6.9x 1999 EBITDA Private market values based on \$4.0 to \$4.3 billion enterprise value (14.4x to 16.7x 1999 P/E; 8.0x to 8.6x 1999 EBITDA)
Less: Unallocated Debt	(\$13.29)	(\$13.29)	(\$13.29)	(\$13.29)	WR holding company debt of \$900 million
Total Value Per WR Share	\$23.42	\$27.17	\$34.92	\$46.67	
Implied (Discount) Per Share (3)	(20.5%)	(38.3%)	(52.0%)	(64.1%)	

(1) All values shown are exclusive of any potential corporate or shareholder taxes resulting from potential transactions, also exclusive of any offering discounts necessary to effect public market valuations

(2) Assumes P-1 debt of \$750 million and Utility debt of \$2.1 billion

(3) Assumes WR share price of \$16.75 as of 3/24/00

Separate the Company: Advantages and Issues

- Advantages**
- Unlocks value by creating a pure play Utility
 - Increased transparency to investors
 - Some net tax recapture is potentially realized
 - Consolidated debt pre-split is \$3.7 billion
 - Utility debt post-split is \$3.0 billion (pre equity issuance)
- Issues**
- Equity issuance at Westar Energy required to potentially maintain S&P senior secured investment grade rating
 - Success of large equity issuance dependent on environment for utility stocks
 - Continued leverage pressures at both entities
 - Asset revaluation required
 - Ongoing relationships between the entities: Timing, value and market perception issues
 - Warrant for Westar Capital to buy stake in Utility
 - PUHCA registration required
 - Holding company discount at Westar Capital

Separate the Company: Assumptions

- **The Utility and Westar Capital are split into two separately publicly traded companies**
 - Utility, renamed Westar Energy, consists of KGE and KPL
 - Westar Capital, to be renamed, will consist of P-1 stake, ONEOK stake and Other Investments
- **The ratings agencies have informed the Company that ratings for Westar Energy will likely be reduced as follows:**
 - Senior Secured = BBB- / Ba1
 - Corporate = BB+ / Ba2/Ba3
 - Senior Unsecured = BB- / Ba2/Ba3
- **Approximately \$300 million of equity is raised at Westar Energy**
- **Westar Capital is granted warrant to purchase 19.9% of Westar Energy shares**
 - Right to “top up” for equity offering(s)
- **Assumes split is achieved through a non pro rata exchange offer**
 - Western shareholders can exchange shares for Westar Capital
 - If exchange is under subscribed, remaining shares will either be distributed pro rata or retained by Westar Capital
- **Westar Capital must register under PUHCA**

Separate the Company: Assumptions

- **ONEOK is kept at Westar Capital**
 - ONEOK is not being fully valued at WR
 - 1999 EPS of $\$0.57 \times 9.5 = \5.42 vs. $\$638$ million of value = $\$9.42$
 - ONEOK has right to reacquire stock in Utility sale; Westar Energy would likely be unable to capture any strategic value on ONEOK stake
 - Simplifies relationship with commission
- **Westar Capital warrant in Westar Energy**
 - Important to attract investors to Westar Capital
 - Exercise of warrant will allow Westar Energy to pay down debt
 - Allows Westar Capital shareholders to maintain upside exposure to Westar Energy

Proposed Exchange Offer

- **WR shareholders can elect to exchange shares for Westar Capital shares**
 - Expected 1 : 1 exchange ratio
 - Maximum of approximately 37 million Westar Capital shares offered for exchange
 - WR shares outstanding reduced
- **Requirement for minimum number of shares exchanged**
 - Approximately 78%, or 29 million, of proposed Westar Capital shares
- **For any unsubscribed shares, Westar Capital has option to:**
 - Sell shares in secondary offering
 - Distribute shares *pro rata* to WR shareholders
 - Hold shares for future sale

Governance

We understand that:

- All existing directors will sit on Board of each company
- David C. Wittig is Chairman of Westar Energy and Chairman/CEO/President of Westar Capital
- Other officers will named prior to exchange offer

Separate the Company: Key Execution Mechanics

Pre Separation

- Reorganization of Westar Capital
- Recapitalization occurs
 - Westar Energy grants Westar Capital warrant to purchase Westar Energy shares post-separation
- Partial disposition of P-1 facilitates recapture of taxes paid on ADT gain
 - May require issuance of approximately \$15 million of preferred stock to 3rd party
- Confirmation of post-separation debt ratings

Separation

- Westar Capital distributed to current WR.shareholders in exchange for WR shares
 - Exchange is non-pro rata; shareholders choose whether to participate
 - Shareholders likely will treat as capital gain or loss for tax purposes
 - EPS accretion for Westar Energy shareholders

Post Separation

- Westar Capital
 - New company with P-1, ONEOK and Other Investments
- Westar Energy
 - Remaining Utility assets and previously unallocated debt
 - Issuance of approximately \$300 million of equity required to maintain senior secured investment grade rating
 - Board retains option to sell in future; shareholders would receive merger consideration directly

Terms and Valuation - Warrant

Issuer:	Westar Energy
Warrant Holder:	Westar Capital
Security:	Option to acquire 19.9% of the common stock of Westar Energy - "Top up" rights on any equity issuance(s)
Warrant Expiration:	12 years
Warrant Exercise Price:	Estimated trading value of Westar Energy at time of exchange offer
Miscellaneous:	Non-transferable
Implied Valuation ^(a)	\$30 - \$40 million

(a) Source: Binomial Methodology, assumes a dividend yield of 6.0%, a risk free interest rate of 6% and volatility between 25% and 35%; WFR historical volatility equals approximately 35% and peer group average volatility equals approximately 31%

Selected 1999 Financial Detail

(\$ in millions, except per share values)

	Westar Energy	Westar Capital
1999 Net Income	\$147	\$168
<u>Less:</u>		638
Transfer of Generation Assets to		18
Westar Capital	(8)	35
Interest on Unallocated Debt	<u>(55)</u>	225
Pro Forma Net Income	84	25
<i>Pro Forma Shares Outstanding</i>	38.6	66
<i>(pre equity offering)</i>	-	57
Pro Forma EPS	\$2.18	<u>61</u>
Pro Forma Dividends per Share	\$1.20	\$1,318

Separate the Company: Implied Pro Forma Overview

	Westar Energy	Westar Capital
(\$ in millions)		
Pro Forma 2000E ⁽¹⁾		
Enterprise Value	\$3,692	\$1,561
Equity Value	\$977	\$780
Warrant Value	(\$35)	\$35
Shares Outstanding	50.4	37.0
EPS	\$2.11	NM
Premium to Status Quo	69%	NM
P/E Multiple	10.0x	NM
EBITDA Multiple ⁽²⁾	7.9x	2.6x
EBITDA ⁽²⁾	\$468	\$245
Estimated Share Price	\$21.08	\$21.08
Premium to Current Price	26%	26%
Dividends per share	\$1.20	---
Accretion vs. Status Quo	71%	---
Yield	5.7%	---
Senior Secured S&P Debt Rating ⁽³⁾	BBB-	B

(1) Values are based on midpoints of public market analysis

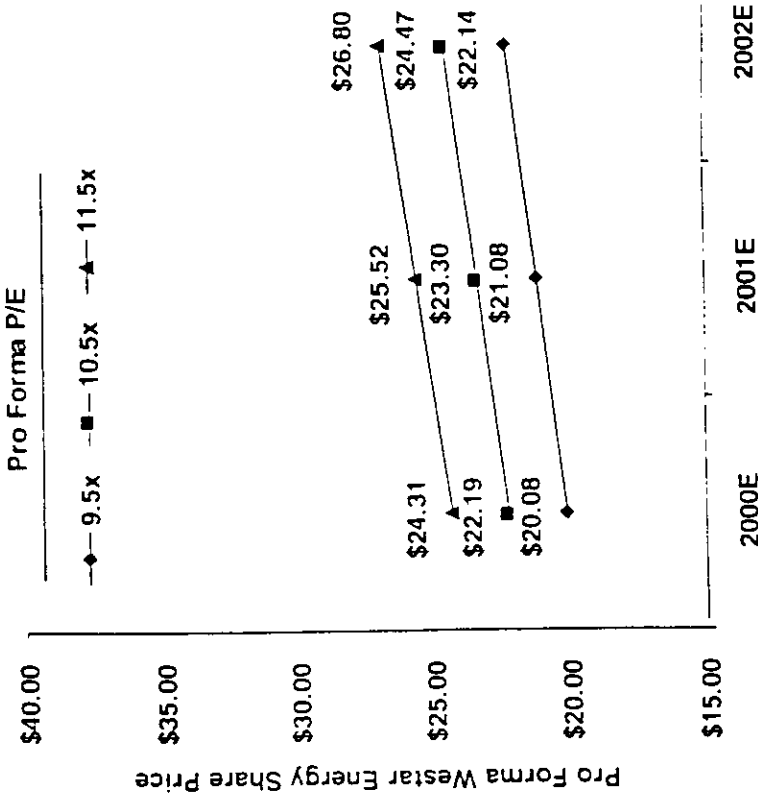
(2) Westar Capital EBITDA includes P-1, European Security Operations, ONEOK dividends, and generation assets; Westar Capital EBITDA multiple represents P-1 only

(3) Westar Capital rating is for P-1 only

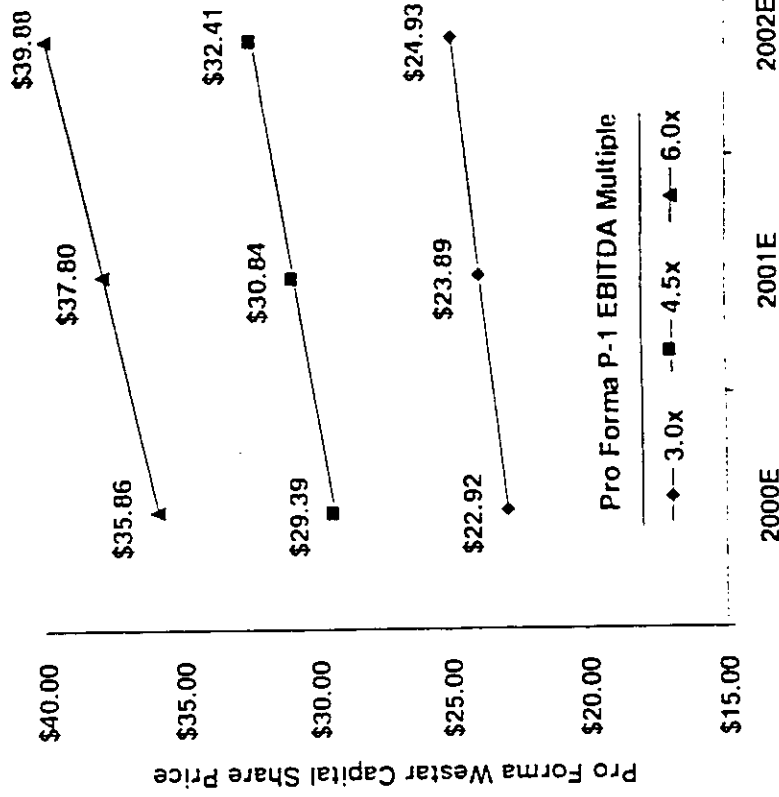
Potential Future Share Price Sensitivity

Westar Capital has greater future share price upside than Westar Energy

Pro Forma Westar Energy (1)



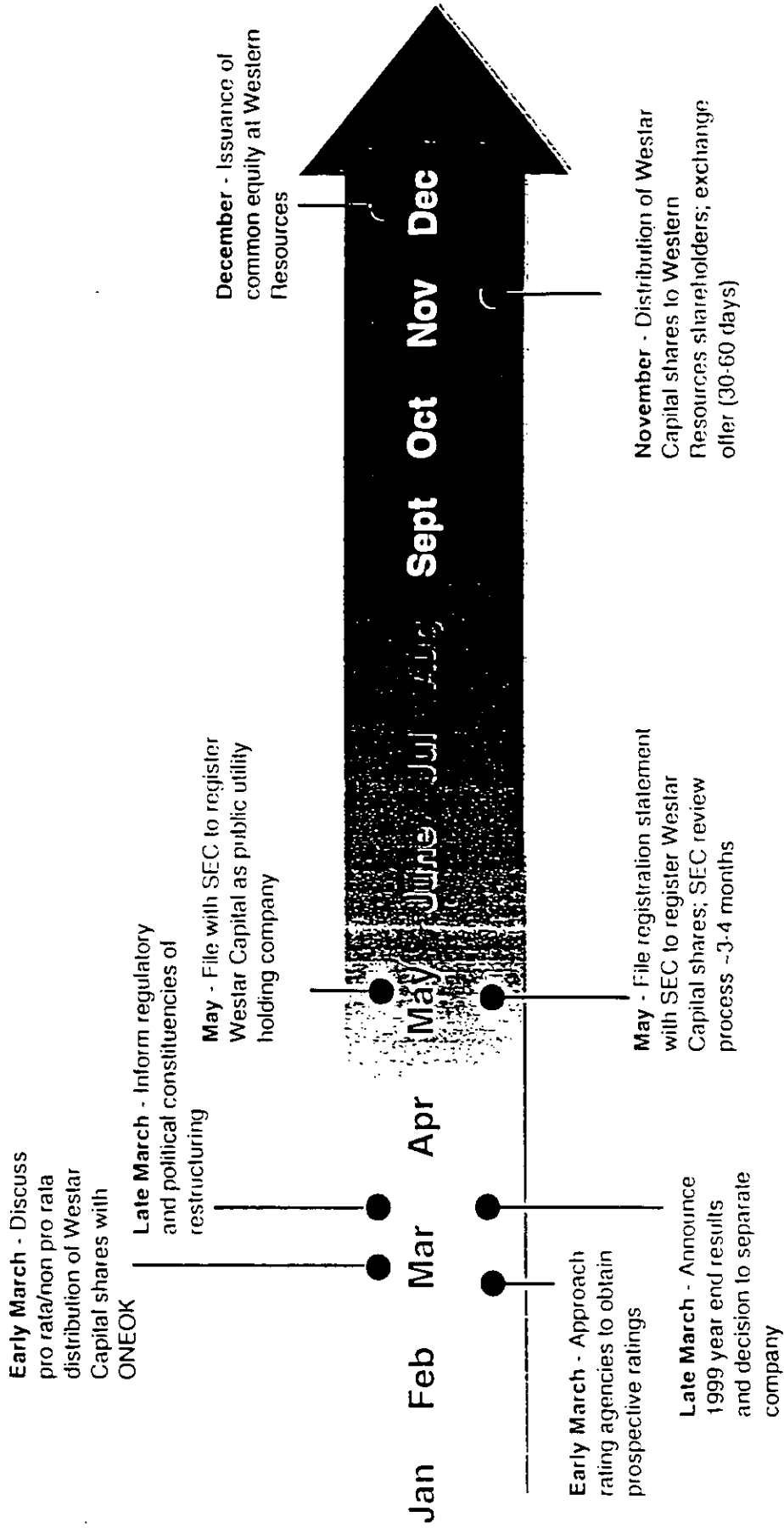
Pro Forma Westar Capital (2)



(1) Assumes i) annual Westar Energy EPS growth of 5% from \$2.11 in 2000 (adjusted for exchange offer and equity issuance)

(2) Assumes i) annual P-1 EBITDA growth of 7.5% from \$160 million in 2000, ii) flat annual European Security Operations growth from \$225 million in 2000, iii) ONEOK value of \$638 million, Other Investments value of \$288 million, total debt and minority interest of \$781 million, and pro forma shares outstanding at Westar Capital of 37.0 million.

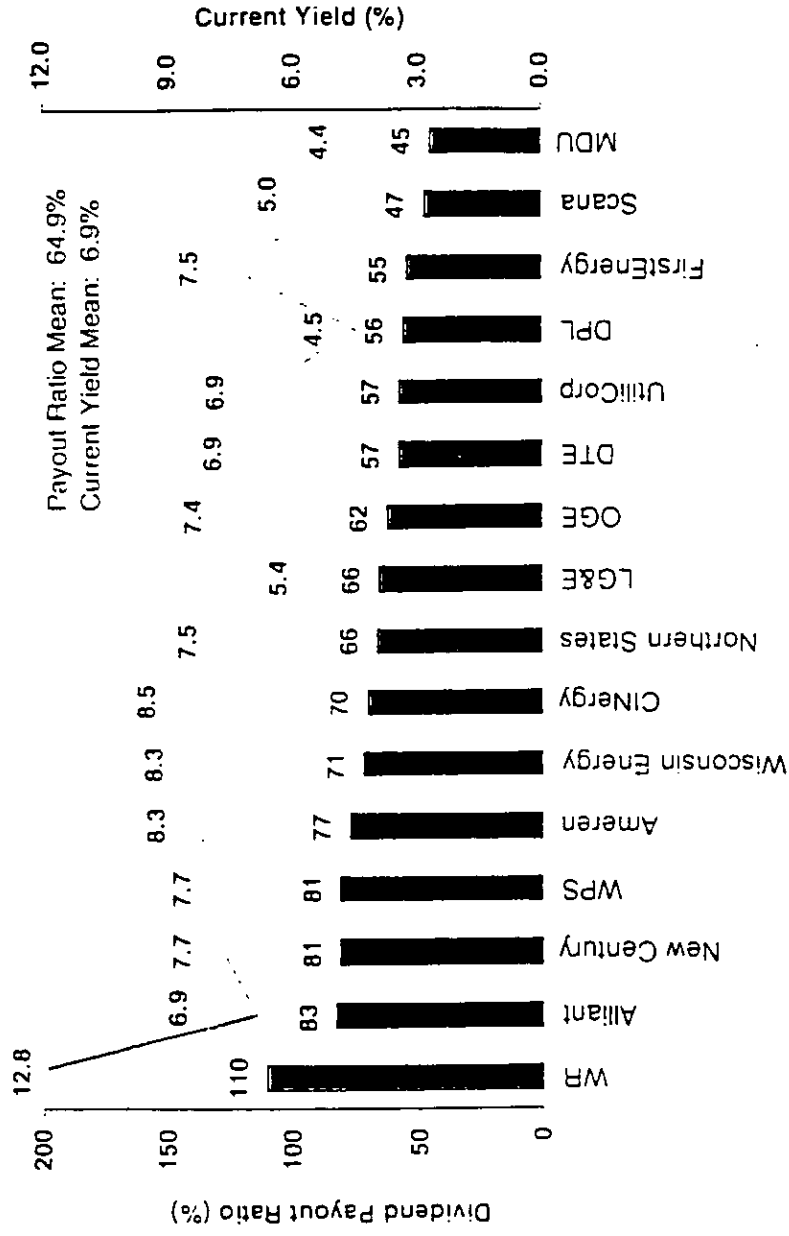
Suggested Timing Considerations



Dividend Policy

Recommended Dividend Policy

Comparison of Utility Industry Payout Ratios and Current Yields (1)



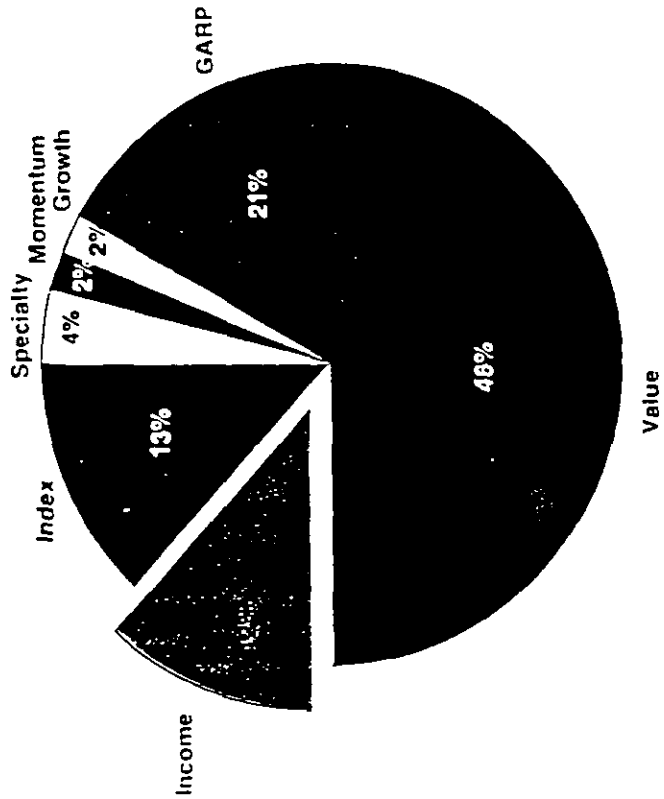
Recommendation: WR should reduce its cash dividend to approximately a 55% payout ratio (i.e., \$1.20 if separation transaction is executed)

(1) Based on I/B/E/S consensus EPS estimates and 3/24/00 share prices; Payout Ratio and Current Yield means exclude WR

Dividend Policy Considerations

Western Resources' institutional shareholder base is only 12% income oriented and a significant number of investors have accepted utility dividend cuts and stock dividends in the past

WR Institutional Shareholder Profile



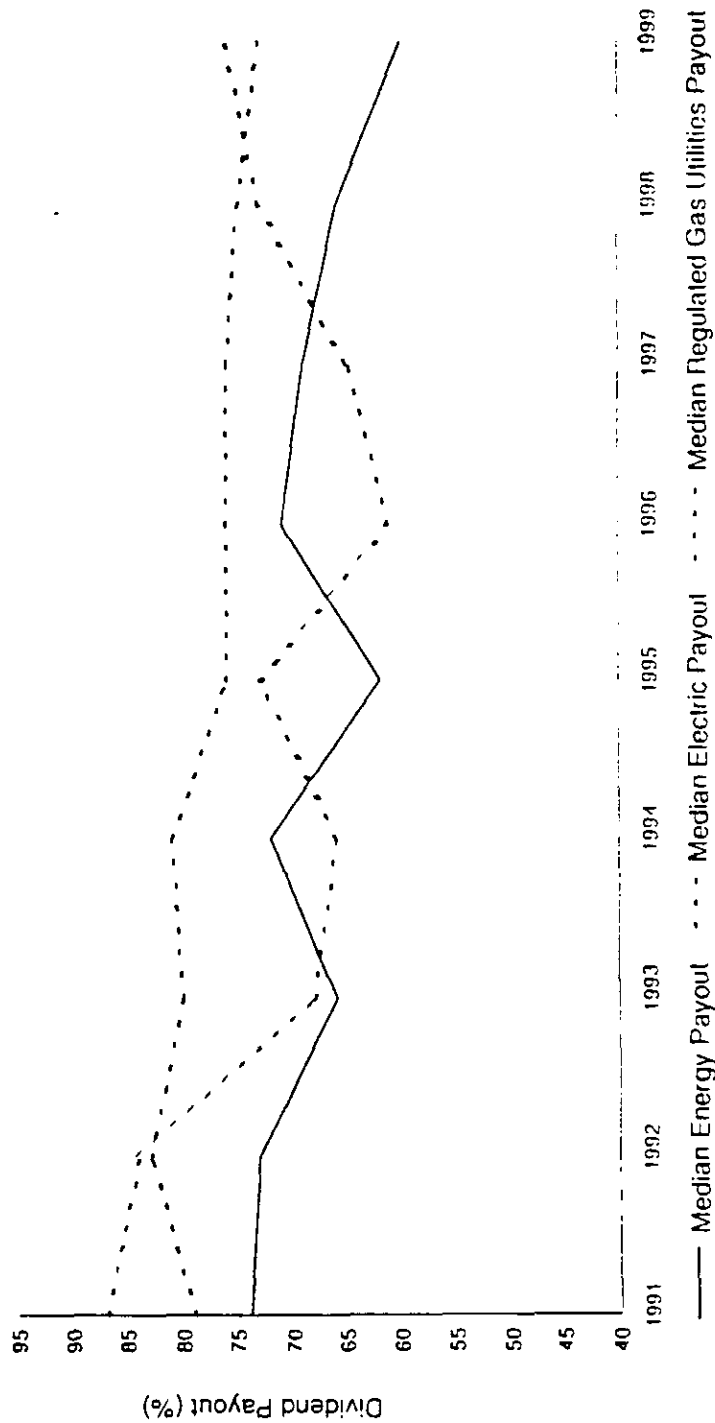
Dividend Reductions / Stock Dividends

	Currently Invested In:		
	Utilities with Prior Dividend Cuts	Companies with No Cash Dividend	Utilities with Stock Dividend
Shares of Top 10 WR Institutional Holders	78%	67%	74%
Shares of Top 100 WR Institutional Holders	84%	75%	70%

- Top 10 institutional holders have 21% of total WR stock
- Top 100 institutional holders have 35% of total WR stock

Dividend Policy Considerations

Payout trends in all segments of the energy industry have declined in the last decade



Dividend Cuts - Utility Precedents

Date	Company	Previous		New		Percentage Cut
		Dividend	Payout	Dividend	Payout	
2/01/00	CMS Energy	\$1.46	51.0%	\$0.40	14.0%	72.6%
1/26/00	Sempra Energy	1.56	91.0	1.00	58.0	35.9
6/09/99	Conectiv	1.54	85.0	0.88	45.0	42.9
2/17/99	SCANA	1.54	75.0	1.15	52.0	25.3
8/31/98	PP&L Resources	1.67	103.0	1.00	62.0	40.1
8/17/98	Avista	1.24	86.0	0.48	33.0	61.3
8/03/98	Entergy Corp	1.80	81.0	1.20	54.0	33.3
1/26/98	PECO Energy	1.80	124.0	1.00	69.0	44.4
2/25/97	IPALCO	0.74	80.0	0.50	50.0	32.4

Mean: 86.2%
Median: 85.0%

48.6%
52.0%
43.1%
40.1%