Aquila

Shareholder Update

May 2, 2003

Dear Fellow Shareholder:

The events of the past year have been difficult for all Aquila shareholders, and I fully appreciate that your trust in the company may have been shaken by our recent performance. We are confident and clear about the road ahead, yet also understand that significant challenges remain.

During the past several months, we have been talking to investors about the company's financial situation – how it came about, and our plan to restore the health and stability of our business. Through our year-end results announcement, postings on our website and a series of shareholder meetings, we have been communicating about Aquila's restructuring efforts and listening to your feedback. In my conversations with investors, several issues and tough questions are consistently raised. This letter addresses those topics and provides answers to the most commonly heard shareholder concerns.

Recently our efforts were focused on the completion of our new $630 million financing agreement on April 11. This achievement was a critical milestone that removed much of the uncertainty about our ability to continue operating. Today, we are still largely focused on activities that will improve service to our customers as well as further restore liquidity and strengthen the balance sheet. We will continue work to restore Aquila's financial footing throughout 2003 and 2004. Upon successful completion, we are confident that earnings will follow.

Along the way, we plan to keep you apprised of our progress. In addition to our quarterly financial updates, we are fully committed to openly sharing news and developments and discussing the challenges ahead. Our efforts will focus on three key areas:

1) Openness with shareholders

While meeting and talking with shareholders have always been among the more enjoyable aspects of my role as chairman, lately those conversations have been understandably difficult. Last month, I spoke with hundreds of individuals during a series of shareholder meetings and heard firsthand how Aquila's declining performance has affected them personally. Many expressed anger, resentment and exasperation.

These meetings allowed me to address questions on our decision to exit the Merchant business, which for 16 years had made significant contributions to Aquila's growth and profitability. I also responded to questions on executive compensation, our strengthened governance policies and the role of the board in guiding our business, and the tough but necessary decision to suspend our dividend (see the enclosed *Frequently Asked Shareholder Questions*).

While I'd prefer to have a personal dialogue with each of you, that obviously is not possible. I encourage you to check our website frequently at www.aquila.com to learn about recent developments, stock information, financial presentations and much more. As always, you can call Aquila's toll-free Shareholder Information line at 888-828-2000 to get the current stock price, earnings reports and other company information. We will do all we can to keep you continually updated.

2) Restructuring plan

Refinancing: We recently completed a $630 million financing package, which consists of two parts – a 364-day $100 million loan, with a 30-day option to increase the loan to $200 million, and a $430 million three-year term loan. The financing removes the pressure on our short-term liquidity. However, work must continue to reduce our liabilities and repair our balance sheet.

To fulfill a condition of our financing, we filed applications with five state regulatory commissions on April 30 requesting approval to use Aquila utility assets as collateral for the working capital requirements of our utility operations. This working capital will be used for utility operations, including the purchase of natural gas and electricity supplies, the upgrade of the distribution systems and maintenance of power plants, and other activities that enhance Aquila's ability to provide safe, reliable energy service.

Asset sales: On April 22, we announced our agreement to sell all of Aquila's Australian interests for $589 million, which after fees, expenses and taxes is projected to yield net cash proceeds of approximately $445 million at closing. There are substantial closing conditions related to the agreement and a possibility that the proceeds will not meet expectations. However, if the transaction is completed, proceeds will be used to repay borrowings under the 364-day loan portion of our recent financing package. Remaining proceeds will be used to carry out our restructuring plan. Additional asset sales are being considered and will proceed only if the transactions make sense for the company.

Contractual agreements: Discussions to renegotiate our tolling agreements on the Acadia and Elwood generation plants continue. Those agreements were entered into when the demand for electricity across the country was expected to rise markedly. In exchange for "lease" payments to the plant owners, the agreements give Aquila control of the energy produced by the plants. Plans to resell the energy on the open market have been hampered given today's low-growth and investment-poor economy. Our intent is to reach a settlement to exit these agreements to avoid the ongoing cost of "lease" payments. Although a successful resolution of these commitments likely would require Aquila to make an upfront payment, it would eliminate a significant long-term pressure on the balance sheet.

Merchant business: This past summer we began our exit from the Merchant business, and those efforts to wind down our trading obligations continue. The dedicated employees who continue to support this business have worked tirelessly to reduce our exposure to trading risk while preserving value for the company. Our recent progress toward unwinding the Merchant business resulted in a net return of $150 million in collateral that was posted with counterparties. Combined with our recent financing package and asset sales, this cash has improved our liquidity position, but there is more to do in this area.

3) Ongoing utility operations

While considerable energy is being devoted to Aquila's restructuring efforts, the vast majority of our dedicated and hard-working employees are working day to day to strengthen our U.S. utility operations and serve our customers. Our electric and natural gas operations are solid businesses that produce predictable growth and reliable cash flows. During this period of transition, we are increasing communications with state regulatory commissions. It is critical that state commissions understand our commitment to servicing the needs of our customers as well as the path we are taking to restore financial stability.

Despite the challenging environment, Aquila's employees have not been distracted from what they do best – delivering safe, reliable energy to our valued customers. In our seven-state service territory, ongoing process improvement efforts will further enhance the performance of our call centers, the reliability and safety of our delivery system, and the accuracy of our bills. We also continue to value our community partnerships. Our tradition of service extends well beyond the meter and includes programs that provide computers, energy assistance and scholarships to the very customers we serve.

Aquila's future is clearly rooted in electric and natural gas regulated utility operations. It's a business we know well and one that's been the foundation of our financial growth for more than 85 years. We believe in its inherent ability to deliver real value to our shareholders following the successful completion of our restructuring plan.

The Aquila executive management team is united in our resolve to restore your confidence in the company. It's our obligation and privilege to work on your behalf to ensure solid performance by our respected utility operations.

Our annual meeting of shareholders is scheduled for June 4 at Starlight Theater in Kansas City, Missouri. My message that day will be clear: We have made the tough decisions and have set in motion a plan to return Aquila to profitability over time. Our core business is strong; our vision is clear; our determination is unwavering.

I look forward to updating you on our progress.

Sincerely,

Richard C. Green, Jr.
Chairman and Chief Executive Officer

Aquila

Frequently Asked Shareholder Questions

May 2, 2003

Why did the board of directors eliminate the dividend?

As the energy trading markets deteriorated and it became evident that Aquila would face a liquidity crisis, the board evaluated the available alternatives that could best preserve cash. The directors reached the necessary but difficult conclusion that suspension of the dividend was in the immediate best interest of the company.

Will the dividend be restored?

Aquila remains focused on improving its liquidity and, as a result, the board is not currently considering a plan to restore the dividend in the near term. Over the long term, Aquila's restructuring plan will return the company to its regulated utility roots. One characteristic of that business model is the payment of a dividend. Once the company completes its transition and the board is comfortable with the health and financial outlook of Aquila's operations, the directors will consider restoring a dividend.

It also is important to note that upon completion of the restructuring process, Aquila's regulated utility operations will be the company's principal revenue source. For 16 years, the company's energy marketing and trading business contributed to earnings, cash generation and ultimately the dividend payment. With the elimination of these operations, it will be difficult to restore a dividend to previous levels.

How can the company justify Rick Green's 2001 compensation?

Aquila's management and board of directors believe it is especially important that executive compensation has a strong connection to shareholders. More than five years ago, Rick Green made a decision to take the vast majority of his compensation in stock – effectively linking his success to all other shareholders. In 2001, the company recorded the best performance in its history (producing a five-year total return to shareholders of 81 percent, while the S&P produced a 51 percent return). In accordance with the company's compensation design, Rick Green's compensation reflected the company's record earnings that year. However, as shareholders experienced the recent dramatic decline in the stock's value, Rick Green's past compensation – the majority of which was in stock – was proportionally reduced.

Today, given the company's performance, the board has acted to suspend all of Rick Green's incentive and bonus compensation. Additionally, until the company's performance and stock price markedly improve, his base pay will remain frozen.

Your March 2002 letter to shareholders said the company was strong. What happened?

Everything in the March shareholder letter was true. However, by mid-year the depressed economy, dramatic tightening of the credit markets, increased credit agency metrics, and the rapidly deteriorating energy market made it very clear that Aquila had to exit the energy marketing and trading business. This has been a very difficult task as Aquila was one of the leading and most innovative firms in the industry for the past 16 years. It is of little consolation, but it should be noted that nine of the top 10 energy marketing and trading firms have announced plans to exit the business. Aquila was the first to do so. The benefit of this early move is that the company is well on its way to getting the job done. There is still much work to do, but significant progress continues to be made.

How did Aquila manage to lose $2.1 billion in 2002?

The financial results for 2002 were clearly disappointing, and everyone at the company is working to return Aquila to financial health. The majority of the $2.1 billion net loss was made up of restructuring and impairment charges, net losses on asset sales, losses within discontinued operations, and margin losses incurred during the wind-down of Aquila's Merchant trading portfolio. Most of these charges were related to the implementation of Aquila's restructuring plan, which focuses on Aquila's return to its regulated utility roots.

How can shareholders be assured that the board is acting in their best interests?

Aquila exceeds the New York Stock Exchange and Sarbanes-Oxley requirements for board independence. Aquila's commitment to board independence preceded the enactment of legislation. Historically, retiring Aquila directors have been replaced by new, independent board members. In this year's proxy election, an additional independent director has been nominated to the board. If elected, seven of Aquila's eight-member board of directors will be independent. This independence allows board members to act purely in the interests of shareholders without conflict. Last year, the board elected Herman Cain as the lead independent director. Under Mr. Cain's direction, the board meets without the chairman present to discuss company and performance issues.

Is the current management team capable of turning the company around and operating the company's core utility business?

The Aquila management team, with the support of the company's 4,500 employees, has the determination and ability to return the company to financial stability. They have established a plan for the company's turnaround and made significant progress toward implementation. The current leadership team has a solid mix of energy industry and business experience and a successful track record of achieving results. Together they understand the challenges ahead and, more importantly, they are in the best position to restore Aquila's financial health.