UNION ELECTRIC COMPANY

ANNUAL REPORT 1981

American Resources To Meet Our Energy Needs

New Tax Benefits On Reinvested Dividends

The recently enacted federal Economic Recovery Tax Act of 1981 provides special treatment for shareholders participating in dividend reinvestment programs of qualified utilities. The new tax law permits individual shareholders to elect to exclude from taxable income up to an aggregate of $750 annually ($1,500 in the case of joint returns) of reinvested dividends paid by qualified public utilities during the years 1982 through 1985. We expect our Dividend Reinvestment and Stock Purchase Plan to qualify for this special tax treatment.

Our Dividend Reinvestment and Stock Purchase Plan, which is entirely voluntary, permits the purchase of newly issued shares of Union Electric common stock through optional cash payments ranging from $10 to $5,000 monthly. The Plan also permits the automatic reinvestment of cash dividends on the Company's common stock in newly issued shares of such stock at prevailing market prices. All purchases under the Plan are made without payment of any commission or service charge.

Information regarding the Dividend Reinvestment and Stock Purchase Plan may be obtained by writing:
Union Electric Company
Stockholder Services – Code 1035
Post Office Box 149
St. Louis, MO 63166.

Service Area

Union Electric and certain subsidiaries, Missouri Power & Light Company, Missouri Edison Company and Missouri Utilities Company, are primarily engaged in supplying electric service for the strategic center of America – a 24,000 square mile area in Missouri, Illinois and Iowa. The Company is a member of one of the nation's largest power pooling networks. The ability to interchange bulk power provides emergency reserve power and enables each utility system to build new plant capacity in the most efficient and economical manner.

Annual Meeting

The Annual Meeting of Stockholders will convene at 10 a.m. Tuesday, April 27, 1982 at The Chase-Park Plaza Hotel, 212 N. Kingshighway, St. Louis, MO.

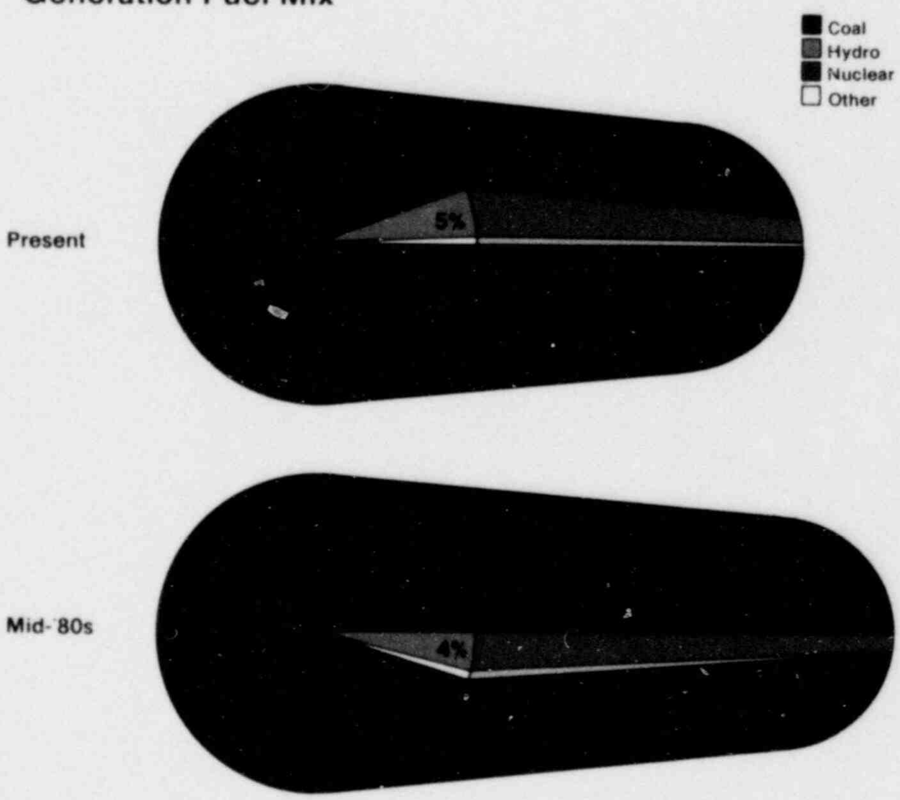
Cover: Coal operations at the Company's 2.4 million kilowatt Labadie Plant.

HIGHLIGHTS

	Year Ended December 31, 1981	Annual Change Current Year	10-Year Average
Earnings per Average Common Share	**$ 1.90**	– 9.5 %	3.1 %
Dividends per Common Share	**$ 1.52**	2.7	1.8
Common Shares Outstanding (Average)	**67,179,275**	12.6	8.8
Average Common Stock Equity	**$ 1,054,019,000**	10.5	9.7
Total Kilowatt-Hour Sales	**24,279,000,000**	– 2.1	2.8
System Capability (Kilowatts)	**7,444,000**	–	3.1
Price per Ton of Coal	**$ 29.15**	8.6	16.9
Coal Burned (Tons)	**11,316,000**	– 3.5	5.2
Interest on Debt	**$ 180,312,000**	36.9	15.7
Total Indebtedness	**$ 1,872,180,000**	15.5	9.1

Contents

Generation Fuel Mix



TO OUR STOCKHOLDERS:

No year, no time, is without challenges and problems. And, while 1981 had its share of both, it was a year that provided a realistic basis for increased optimism about the Company's future.

Of immediate interest is the fact that our common stock earnings were $1.90 per share, which was a decline of 20 cents from the $2.10 we recorded in 1980.

The lower earnings reflect a cooler than normal summer in 1981 (contrasted with the extremely hot summer weather of 1980) and higher operating costs, which were only partly offset by rate increases authorized, for the most part, in the last half of the year.

Total kilowatt-hour sales for the year were down 2 percent from 1980, primarily because of the weather-induced lower utilization of air conditioning equipment in 1981. The effect of weather is particularly noticeable in our residential sales, which declined 8 percent from the prior year. Commercial sales increased 1½ percent while industrial sales were up 2 percent.

"During the year regulatory authorities approved rate increases which will add an aggregate of $125 million to the Company's annual revenues."

During the year regulatory authorities approved rate increases which will add an aggregate of $125 million to the Company's annual revenues. Pending are rate cases totalling $149 million annually, including the request we filed in August for an increase of $128 million in Missouri electric rates. Applicable law requires that the Missouri Public Service Commission render a decision on that request by mid-July 1982.

As detailed in the body of this report, a portion of the dividends paid by the Company during 1981 on both common and preferred stock was considered a return of capital under the Internal Revenue Code and, as such, is not taxable as dividend income.

The Company currently estimates that approximately half the dividends paid on common stock in 1982 will likewise be considered a return of capital and therefore not taxable as dividend income. Preferred dividends in 1982, however, are expected to be fully taxable.

Of considerable significance was the Company's

Charles J. Dougherty *William E. Cornelius*

"...abundantly-available fuel sources – for years our electricity has been 99 percent coal and hydro generated (when Callaway goes into operation it will provide about 20 percent of our generation)."

announcement in October that it was cancelling the second unit of the Callaway Plant, which had been scheduled to go into operation in 1990. That decision was based on our conclusion that the mounting problems and cost of raising capital funds and the ever-deepening regulatory morass brought us to the point where we could not justify exposing our stockholders to the increased financial risks associated with the construction of that nuclear unit. It is estimated that cancellation and other charges applicable to the cancelled unit will amount to approximately $70 million after taxes. The Company will seek to recover such costs in its electric rates.

We continue to believe that nuclear-powered generation is a necessary, safe, and economically-attractive method of producing electricity, and we look forward to operation of the first 1,150,000 kilowatt unit of the Callaway Plant. That unit, which at year-end was 80 percent completed, is scheduled to begin operating in early 1984 instead of April 1983 as previously planned.

Union Electric has long enjoyed certain natural advantages, including:

...our location at the population center of the country, with its hub of communication and transportation facilities to markets in all directions;

...a customer mix which is divided almost equally between industrial, commercial and residential;

...a manufacturing diversity that is probably unmatched anywhere, making for economic stability in the area; and,

...abundantly-available fuel sources – for years our electricity has been 99 percent coal and hydro generated (when Callaway goes into operation it will provide about 20 percent of our generation).

While these advantages provide a firm basis for belief in the future, the look ahead was enhanced

"...ours is the most capital-intensive business...However, following completion of the Callaway Plant in 1984, our expenditures for construction will be substantially less."

appreciably by the improved realism apparent in 1981 on both the federal and state governmental levels. Obviously, sound economic policy is fundamental to the well-being of the nation, and the federal administration is attacking the problem with reason and resolve not seen in years. In Missouri, recent decisions of the Public Service Commission evidence a more realistic understanding of the issues.

Undoubtedly the most tangible improvement that 1981 provides to the Company's assessment of its future is the new dimension of our construction budget. It is, of course, well known that ours is the most capital-intensive business; and our cash requirements will remain high during 1982 and 1983. However, following completion of the Callaway Plant in 1984, our expenditures for construction will be substantially less. Moreover, in 1984 we will have an efficient nuclear power plant in operation; its fueling secured through this century.

Thus do recent developments warrant the confidence with which the Union Electric team – management and employees – views the future. Additionally and importantly, our team has the expertise and dedication necessary to the task.

Charles J. Dougherty

Charles J. Dougherty
Chairman and Chief Executive Officer

W E Cornelius

William E. Cornelius
President

February 22, 1982
St. Louis, Missouri

Energy In Our Time

Society progresses with energy; without it, civilization would regress.

The fundamental truth of that statement has taken on increased importance in recent times as unthinking, shortsighted, or misdirected individuals and groups seek to curtail or prohibit the utilization of a substantial measure of the basic energy sources now known to man. Those basic energy sources are coal, oil, natural gas, and uranium.

The limited availability of two of such fuels – oil and natural gas – has occasioned some concern on the part of those who fear an "energy crisis." Unfortunately, the shortage in the domestic supply of those energy sources was principally the creation and result of governmental policies.

Federal tax laws and environmental regulations have deterred or prohibited the development of domestic oil resources. Witness, for instance, the curtailment of depletion allowances that has discouraged investment, and the opposition to operation of off-shore wells and the Alaskan North Slope resources.

Several decades ago the federal government established a ceiling price on natural gas. By pegging the price at an artificially-low level, that single regulation had the inevitable two-fold effect of (1) encouraging an increased demand (2) while discouraging supply, by making such exploration, prospecting and risk-taking economically unattractive.

Coal has always been our most abundantly available basic fuel. However, by the adoption of restrictions and by the imposition of detailed and costly regulations, the government has severely curtailed the mining of coal. And unrealistic environmental regulations have made it illegal or prohibitively costly to burn much of the coal that could be mined.

Uranium as a basic energy source is relatively new in man's knowledge. But it is no longer novel or untested. In fact, the generating capability of nuclear plants in the United States today exceeds the total electric generating capacity in the country at the time of World War II. Moreover, that nuclear power generation has established a safety record never before equalled by any industry in any country.

Unfortunately, however, a very small minority, which is apparently emotionally opposed to nuclear generation, has succeeded in significantly curbing the development of this great resource. In doing so, they ignore both nuclear power's uncontroverted record and the opinion of an overwhelming majority of individuals who are knowledgeable on the subject.

It is regrettable that although the nuclear art was founded in this country, other nations have far surpassed us in its development. Stated simply, the world knows that nuclear fuel is an important and necessary energy source. If we in this country seek to deny the reality of that fact, it can only be harmful for all of us.

The record is clear that governmental policies over the last few decades have impeded the growth and development of domestic energy resources until today we are dependent on foreign energy sources in a very large measure. Surely, the imprudence of that course should be apparent to everyone. To follow the same path in the case of nuclear energy, to stifle the development of that resource, would be to reject the lessons of history.

Realistically, we have not entered into a period of resource exhaustion and shortage that is different from past history. The energy concern today is basically the domestic shortage in the supply of oil and natural gas, and our increased dependence on foreign sources for petroleum. It is very encouraging that the federal government is now taking concrete steps to deal with that situation.

Electricity, of course, is an energy converted from a basic source. In fact, electricity has been the instrument by which basic energy resources have been utilized to attain our present high standard of living. Electricity today is a necessity of life. Moreover, it is fundamental to our security, our health, our enjoyment. And if we are to have adequate electric energy in the future, we must continue to develop all of our energy resources.

While, as indicated, we are cheered by the action of the federal administration, we continue to be concerned about the ability of the few to curb the many. This ability goes to the root of the long and costly delays in all phases of business. Sadly, the informed majority is often thus ignored while the vociferous and uninformed few impede progress.

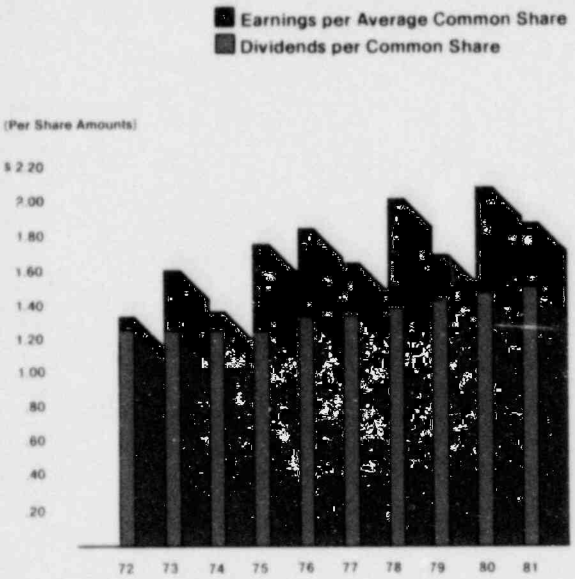
The technical and scientific accomplishments in the United States are tremendous. If we are to reap the full benefit of such advancements, however, knowledge and rationalism must prevail over ignorance and emotion. And government must not prescribe costs which are unjustified by the benefits thereby produced.

Union Electric recognizes and appreciates the value of electricity. We also know our duty to our investors and to our customers. We have a long-standing and proud record of delivering reliable electric service. We are dedicated to continuing that record.

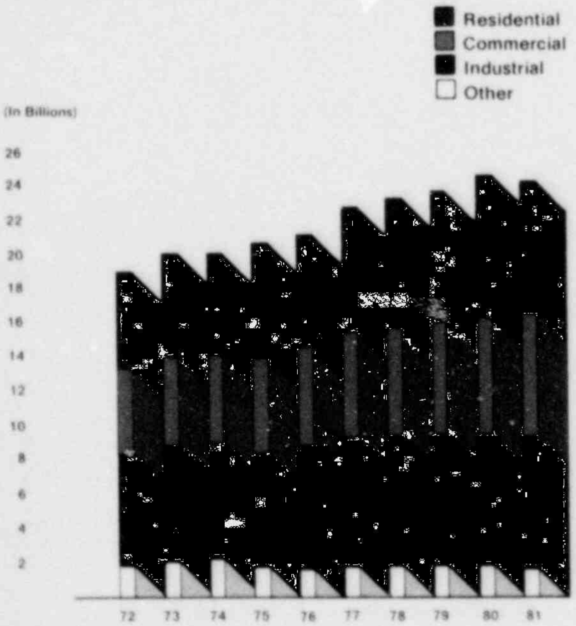
Moreover, we plan to continue to satisfy our customers' needs with American resources: coal and uranium.

THE YEAR 1981

Earnings and Dividends



Kilowatt-Hour Sales



Earnings Decline

Earnings per share of common stock were $1.90 in 1981, down 20 cents from the prior year. Lower sales because of a cooler summer this year and higher costs, which were only partially offset by rate increases, accounted for the drop in earnings.

Sales Comparison Affected by Weather

Total kilowatt-hour sales for the year were down 2 percent from 1980, primarily reflecting the reduced use of electricity for air conditioning in 1981. Residential sales declined 8 percent, while commercial sales and industrial sales increased 1½ percent and 2 percent, respectively.

Electric Heat Advances

During 1981 the electric heating load connected to the Union Electric system increased by 6.8 percent to 2,411,000 kilowatts; electric heat was installed in 48 percent of all new commercial buildings, in 25 percent of all new homes, and in 42 percent of all new apartments in the Company's service area. Rapidly increasing prices for natural gas and oil have created a greater interest in electric heating. At year end, more than 80,000 customers heated their homes electrically – an increase of about 4,500 or 6 percent, over 1980. Also, more than 13,000 commercial structures had electric heat.

The energy-efficient electric heat pump is enjoying the fastest growth rate of all heating systems available to our residential customers because of its lower operating cost. A relatively new type of heat pump can be used in conjunction with the customer's present furnace.

Increased use of electric heat is important because it enables the Company to utilize, during the winter months, facilities which have been built to supply the high demands of the summer air conditioning season.

Dividends Partly Tax-Free

Dividends paid on common stock during the year were $1.52 per share, as compared with $1.48 in 1980. Dividends paid have increased every year since 1975.

A portion of the dividends paid during the year on both common and preferred stock was considered a return of capital under the Internal Revenue Code and, as such, not taxable as dividend income.

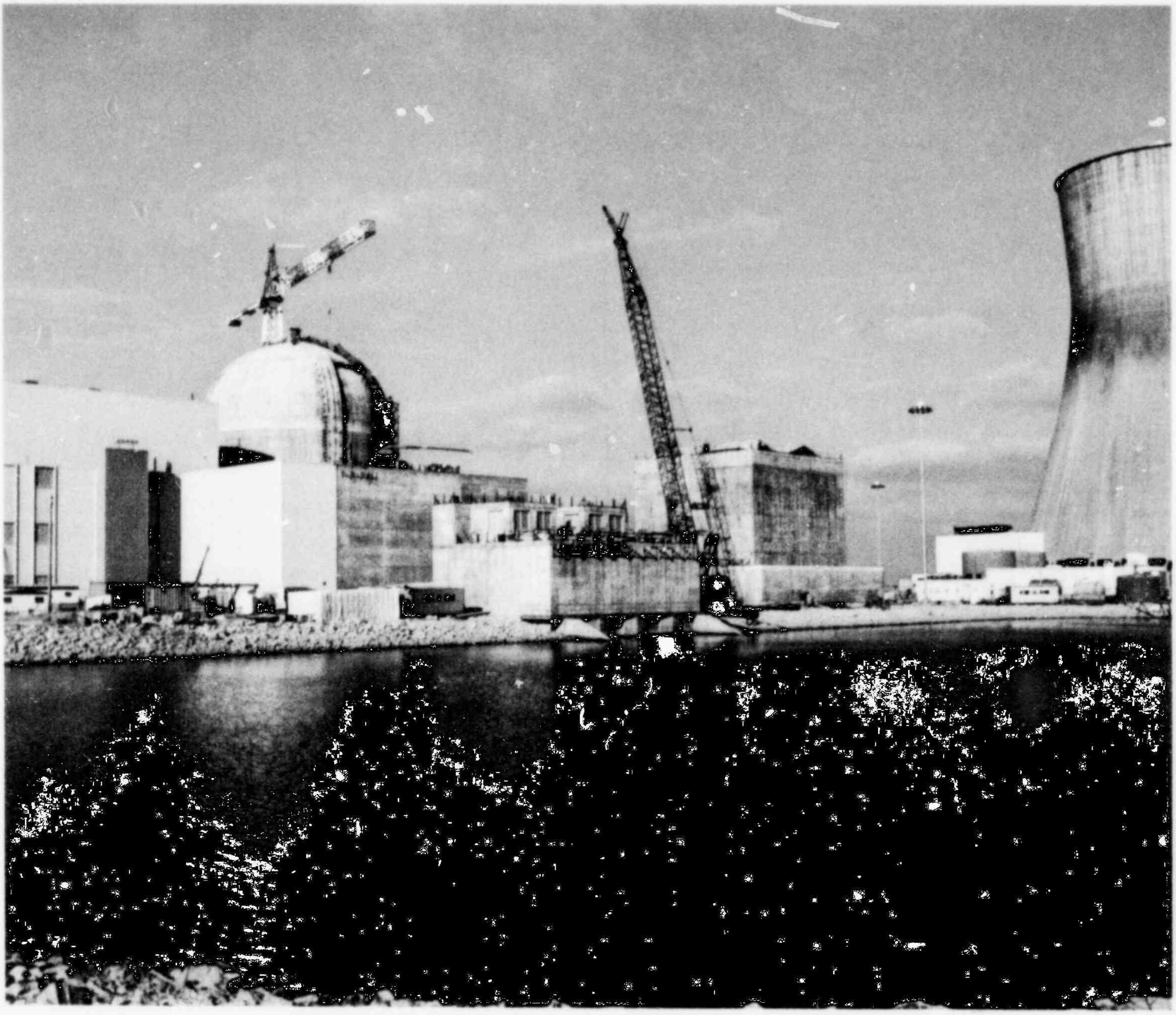
Thirty percent of the 1981 first quarter common dividend and 100 percent of the subsequent common dividends in 1981 were *not* taxable as dividend income. Ninety-three percent of the preferred dividends paid for the second, third and fourth quarters of 1981 were *not* taxable, but the preferred dividends for the 1981 first quarter were fully taxable as dividend income.

The Company currently estimates that approximately one-half of the dividends paid on the common stock in 1982 will be considered a return of capital under the Internal Revenue Code and therefore not taxable as dividend income. Preferred dividends in 1982 are expected to be fully taxable.

Rate Increases Approved

In July and August higher electric rates of approximately $65 million on an annual basis went into effect for Union Electric Missouri customers. An increase in electric rates for Illinois customers, which became effective in April, will add $10.7 million to the Company's annual revenues. Also, in April Union Electric was permitted to place in effect, subject to refund, new electric rates in Iowa which are designed to provide additional annual revenues of $3.6 million.

In March the Federal Energy Regulatory Commission approved increased wholesale electric rates, of $8.8 million annually, for municipal



Construction continues at the Callaway nuclear plant. Activity during 1981 included work on the giant cooling tower, the turbine generator building, the reactor building and several auxiliary structures. The construction of Callaway is 80% complete.

The 1,150,000 kilowatt turbine generator at Callaway Plant, which is scheduled for operation in early 1984, will be the largest unit in the Union Electric system.

THE YEAR 1981

Unit trains deliver coal to the Company's Labadie, Sioux and Rush Island plants. During 1981 the Company burned 11.3 million tons of coal at a cost of approximately $330 million. The price of coal has increased 4½ times over the past ten years making fuel the Company's largest operating expense.

The control room is the command center of the coal-fired Rush Island Plant. Its dials, lights and meters monitor virtually every aspect of the plant's operation.

and utility customers of the Company.

In May the Company filed a new request with the Federal Energy Regulatory Commission to raise wholesale rates $19.1 million annually. The Commission reduced the request to $12.8 million and ordered these revised rates to become effective in July, subject to adjustment upon final determination.

In the aggregate, $125 million of annual rate increases were authorized during the year for Union Electric and subsidiaries, of which about $60 million are reflected in 1981 revenues. Obviously, these increases, as well as other pending rate increase requests, will also increase revenues in 1982.

On August 17 the Company filed a new request with the Missouri Public Service Commission to raise electric rates by $128 million annually. That increase is pending and a decision is required by mid-July 1982.

Still pending in Missouri are rate increases for subsidiary companies totalling $21 million on an annual basis.

Coal Supply Assured

During 1981 an agreement was signed which will provide 40 million tons of low-sulphur coal over 20 years. Long-term coal contracts supply approximately 85 percent of the Company's coal requirements. All of the contracts provide coal at prices lower than prevailing market prices. By blending low-sulphur content coals with Illinois coals, we are able to comply with sulphur dioxide air quality regulations and continue to take advantage of the availability and lower cost of Illinois coals.

Nuclear Fuel Provided Through Lease

The Company has contracts with suppliers which provide for sufficient quantities of uranium for the Callaway Plant through the year 2000. Up to $200 million of nuclear fuel is being financed through a lease arrangement with Gateway Fuel Company, which is purchasing the fuel and leasing it to the Company with payments to begin when the plant begins operating. The lease covers expenditures for the various elements of the nuclear fuel cycle, including acquisition, conversion, enrichment and fabrication of uranium.

Construction Expenditures Reflect Inflationary Costs

During 1981 the Company spent $532 million (including $140 million of allowance for funds used during construction) for new construction, bringing gross investment in property and plant to $4.5 billion. The 1981 expenditures included $357 million for the Callaway Plant, $55 million for particulate emission control facilities and coal blending equipment and $77 million for transmission and distribution facilities.

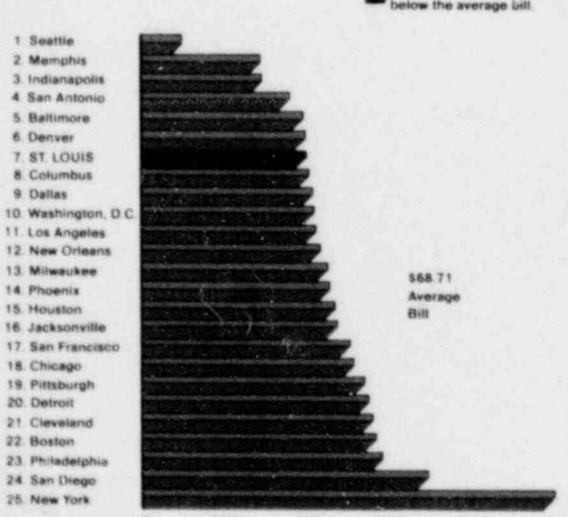
Approximately $1.3 billion has been expended on the Callaway project, which is 80 percent complete. The completion date for the first 1,150,000 kilowatt unit was extended from April 1983 to early 1984. Hearings before the Atomic Safety and Licensing Board relating to the Operating License began in November 1981 and are continuing. The first unit is now expected to cost $2.1 billion, up $500 million from estimates of a year ago.

In October the Company cancelled the second unit of the Callaway Plant, which had been scheduled to go into operation in 1990. That decision was based on our conclusion that the mounting problems and cost of raising capital funds and the ever-deepening regulatory morass have increased the financial risks associated with the construction of nuclear generating facilities to an unacceptable level. Cancellation and other charges applicable to Unit 2 are estimated to be approximately $70 million after taxes. The Company intends to seek recovery of such costs in its electric rates.

In 1982 the Company plans to spend $553 million for construction and in the five-year period 1982-1986, expenditures are expected to aggregate

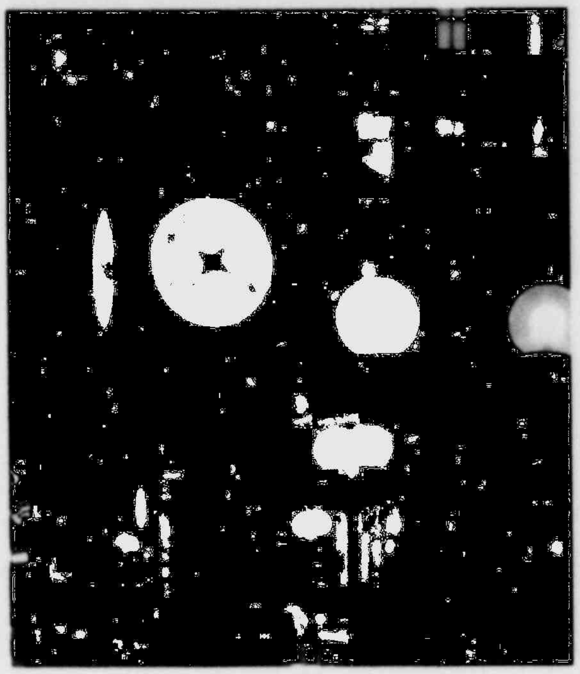
Typical Monthly Electric Bills

Residential—1,000 KWH



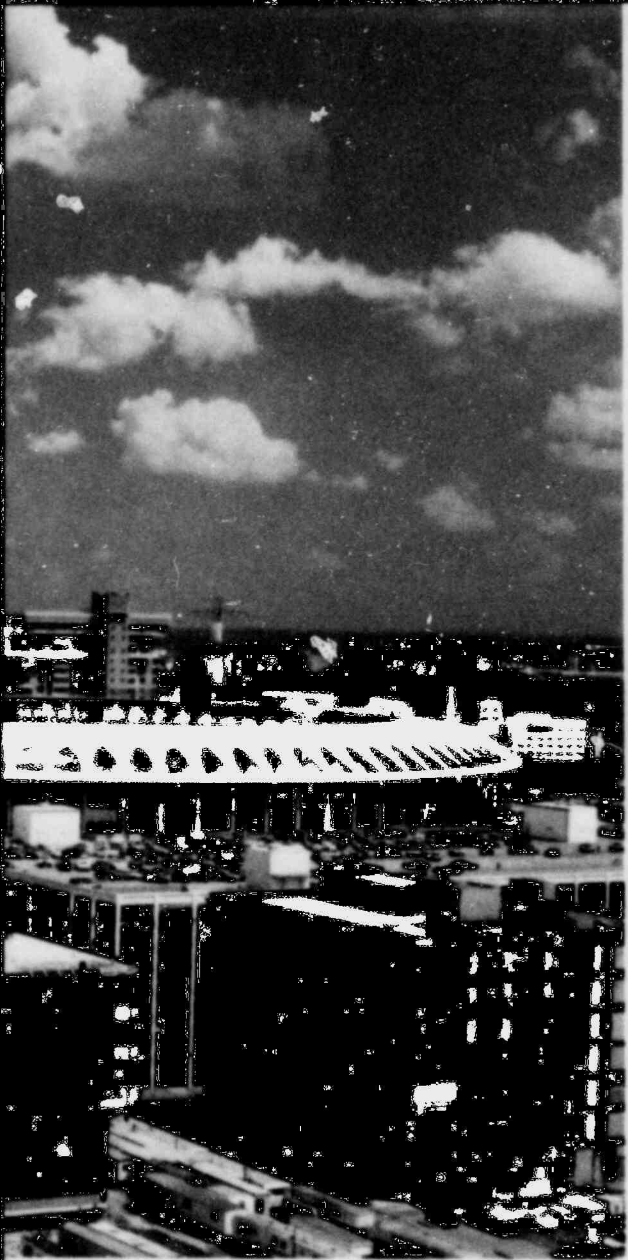
THE YEAR 1981

The metropolitan St. Louis area is experiencing a building boom with some $2.5 billion in new construction underway and another $1 billion in the planning stage.



A resurgence of historic Laclede's Landing has been taking place during the past several years with developments that include restaurants, entertainment facilities and new offices in renovated buildings along the original riverfront.

Electric heat has continued to grow in popularity. At year-end 1981 more than 80,000 Union Electric customers heated their homes electrically, an increase of 6% over the previous year.



$1.6 billion, as compared with last year's estimate of $2.4 billion for the same period.

Capital Requirements Provided By Many Sources

The Company's construction program in 1981 was largely financed through the sale of $340 million of securities. In fact, 87 percent of the Company's cash requirements for construction in 1981 were generated by such sales, and it is estimated that 80 to 85 percent of such requirements in 1982 and 1983 will be provided from sales of securities (see page 28).

Interest rates reached all-time highs in 1981 and the Company's total indebtedness at year-end reached about $1.9 billion, or $250 million greater than a year earlier. Consequently, 1981 interest on debt increased by $49 million, or 37 percent, as compared with the year 1980.

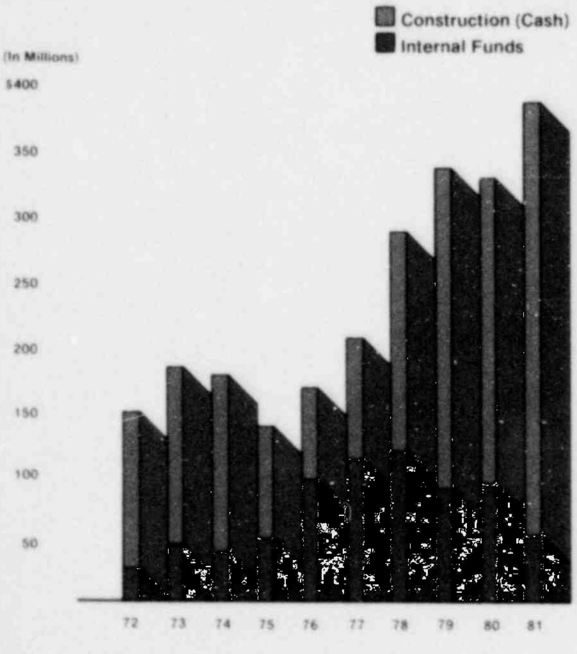
In February 1981 the Company sold $150 million of 15⅝ percent first mortgage bonds, $30 million of which was issued in July. In October the Missouri State Environmental Authority sold $45 million of tax-exempt five-year 10 percent Environmental Improvement Revenue Notes, backed by the Company and supported by a bank letter of credit. The proceeds will be used to finance additional air pollution control equipment at the Meramec and Labadie coal-fired generating plants.

In December the Company issued 6.5 million new shares of common stock which provided $71 million of additional capital. Also, in December the Company received $40 million from a three-year revolving credit with foreign banks. The effective interest rate on the credit agreement was 14⅝ percent on December 31, 1981.

During the year, $19.1 million was invested by stockholders and employees through the Company's Dividend Reinvestment and Stock Purchase Plan. At year-end 29,700 common shareholders, or about 17 percent of common shareholders, were participating in the Plan. Since the Plan was introduced in July 1976 it has provided the Company with more than $75 million of additional capital.

In February 1982 the Company sold $75 million of preferred stock. The annual dividend on this new $25 preferred stock is $4.00.

Construction Expenditures and Internal Generation of Funds



Environmental Improvements Continue

The Company is meeting all air quality requirements, either by complying with applicable standards or by making necessary modifications under schedules approved by regulatory agencies. Major improvements to the existing particulate control equipment have been completed at the Meramec Plant and work on similar improvements at the Labadie Plant will continue until early 1984.

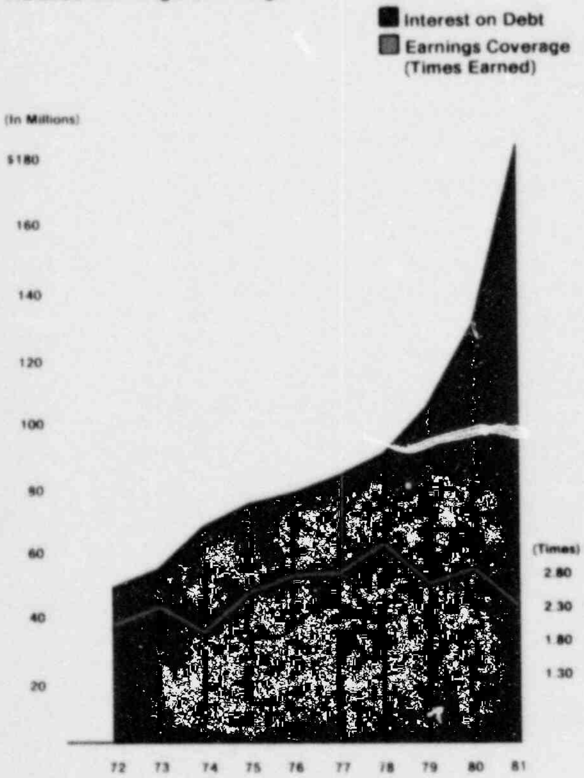
As part of a continuing effort to solve environmental problems in a cost-efficient manner, the Company constructed facilities at its Labadie Plant to burn oil with low levels of polychlorinated biphenyls (PCB), a fluid used in some of the Company's electrical equipment as an insulating medium. This process was designed to destroy the PCB compounds while recovering heat from the oil to generate electricity. After extensive testing and review by state and federal agencies, the process was formally approved, enabling the Company to dispose of this material in a safe and efficient manner.

In the five-year period 1977 through 1981 the Company spent $142 million for environmental improvement; and, in the five-year period 1982-1986, expects to spend another $100 million on projects relating to environmental protection.

In addition, the Company estimates that approximately $235 million will be expended on environmental control at the Callaway Plant, of which $36 million is anticipated during the 1982-1986 period.

When Union Electric completed Bagnell Dam and Osage Power Plant, the impoundment of water created Lake of the Ozarks, one of the largest man-made lakes in the world. The 50th anniversary of the project was celebrated during 1981.

Interest on Debt and Related Earnings Coverage



Research and Development Advances

The Company is participating in a demonstration coal gasification plant which is now under construction in East Alton, Illinois. The plant is scheduled to be in operation in 1983, converting high-sulphur Illinois coal into environmentally-acceptable, low-Btu gaseous fuel suitable for power plant use. Firing rate will be 600 tons per day, equivalent to about 50,000 kilowatts of electric generation. This project is being financed by Allis-Chalmers, the State of Illinois, Electric Power Research Institute and a group of electric utilities.

In addition, since 1972 Union Electric has been a participant in the Electric Power Research Institute, which sponsors research projects for improving electric power production and distribution. The range of work includes fossil and nuclear plants, transmission and distribution technology, new forms of clean fuels and other energy sources such as solar and fusion.

Summer Storms Worst in History

Severe storms in July were the worst in Union Electric's history. Strong winds, lightning and falling tree limbs caused extensive damage to power lines. Customer service personnel, dispatchers and line crews worked around the clock until all service was restored. The Company and its employees received praise from news media and customers for their efforts in restoring service.

Bagnell Dam Celebrates 50th Anniversary

A celebration of Bagnell Dam and Osage Power Plant's 50th Anniversary culminated with an Open House for Lake Ozark area customers on October 18, 1981. The 212,000 kilowatt Osage Plant initially provided approximately 20 percent of the electricity sold by the Company, but it now serves as a peaking plant.

When Union Electric completed the dam and power plant in 1931, the impoundment of water created the Lake of the Ozarks, one of the largest man-made lakes in the world. The area's thriving tourist business generates more than $160 million in annual retail sales. The area has grown to include hundreds of lakeside resorts, campgrounds, and picnic and amusement areas, as well as vacation and permanent homes.

Labor Agreements Signed

Labor agreements which extend through June 30, 1983 were negotiated with the unions representing Union Electric employees. The amended agreements provided for general wage increases of approximately 9.5 percent in April, 1981 and 9 percent July 1, 1982, plus improvements in other benefits.

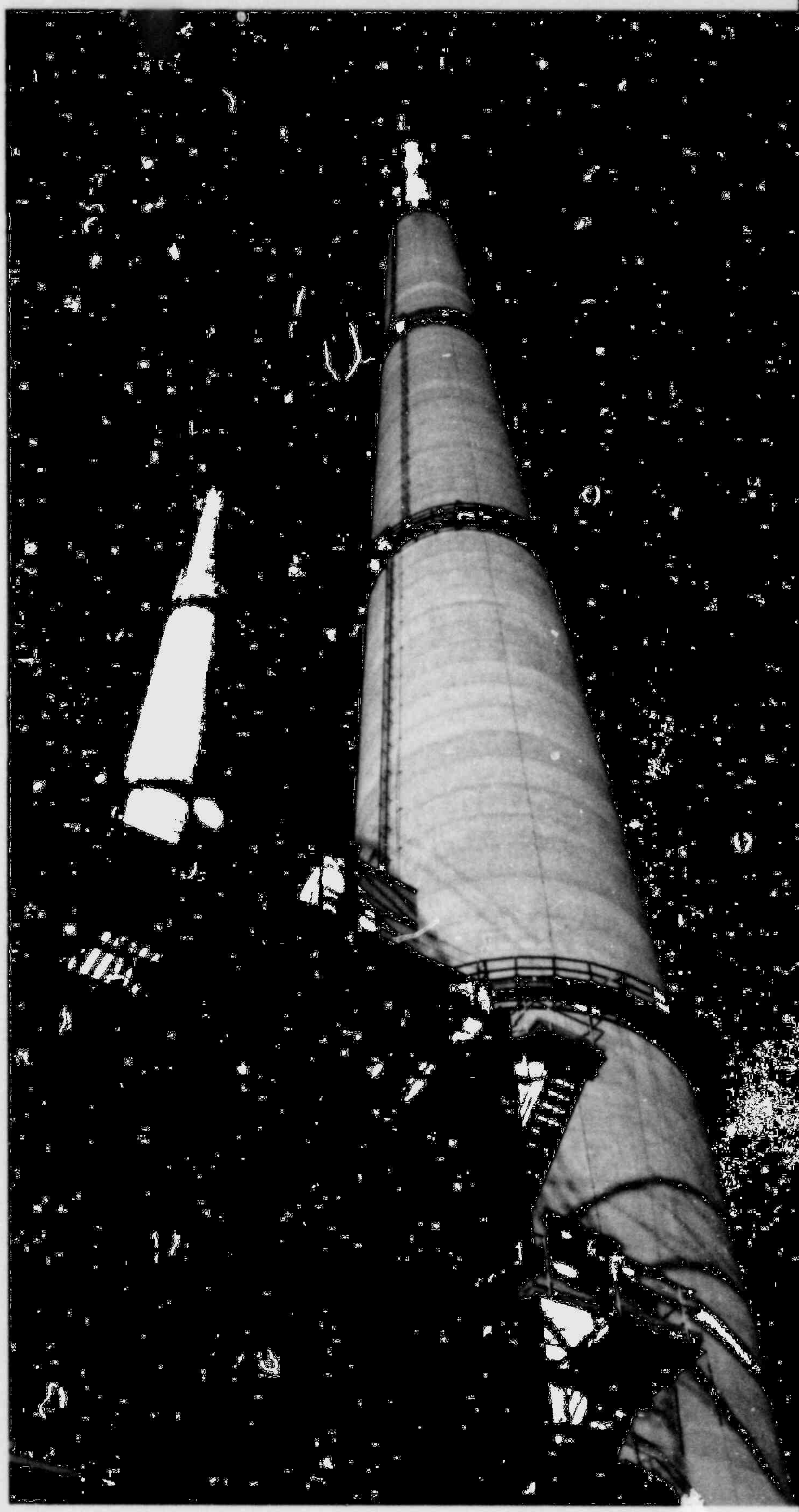
Management Changes

In April the Board of Directors elected Robert O. Piening a Vice President. He had been Director of Employee Relations.

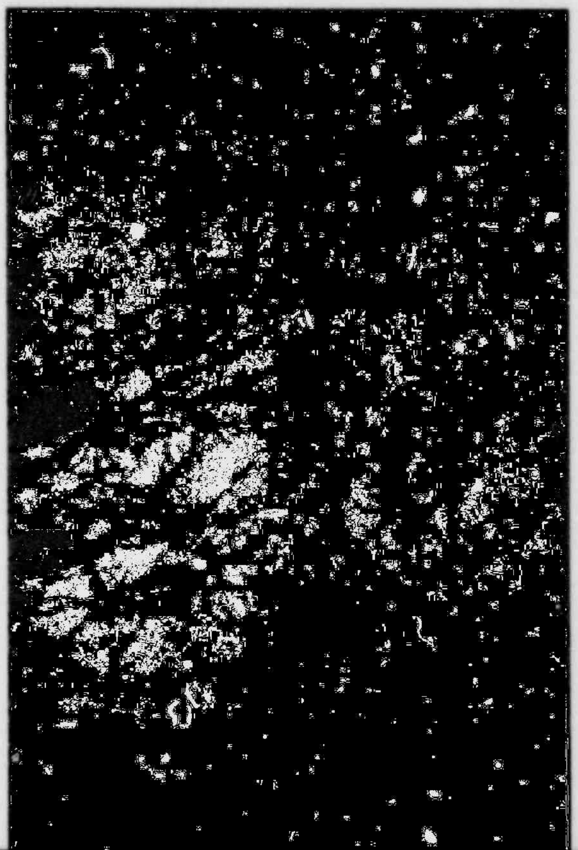
The Board also elected Donald F. Schnell a Vice President, effective October 1. On that date he became head of the Nuclear Function, succeeding Vice President John K. Bryan who retired after more than 41 years with the Company.

Effective August 1 Vice President H. Clyde Allen, who had been in charge of the Rates Function, assumed responsibility for Research and Development. Vice President Robert O. Piening, who had headed Employee Relations, was put in charge of the Rates Function, and Herbert W. Loeh was named Director of Employee Relations.

New electrostatic precipitators, which will capture 99.7% of the smoke particles passing through them, are being added at Labadie Plant to comply with more stringent air quality standards. The work is expected to be completed in early 1984.



Transmission lines carry power at very high voltages from the Company's power plants over long distances to a series of substations that step down the voltages for distribution to ultimate consumers.



RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Union Electric Company is responsible for the information and representations contained in the financial statements and in other sections of this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles consistently applied. Other information included in this report is consistent, where applicable, with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity of the financial records and the protection of assets. Qualified personnel are selected and an organization structure is maintained that provides for appropriate functional responsibility. Written policies and procedures have been developed and are revised as necessary. The Company maintains and supports an extensive program of internal audits with appropriate management follow up.

The financial statements have been examined by Price Waterhouse, independent accountants, and their report appears below.

The Board of Directors, through its Auditing Committee comprised of outside directors, is responsible for ensuring that both management and the independent accountants fulfill their respective responsibilities relative to the financial statements. Moreover, the independent accountants have full and free access to meet with the Auditing Committee, with or without management present, to discuss auditing or financial reporting matters.

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse

ONE MEMORIAL DRIVE
ST LOUIS, MO 63102
314 425-0500

February 15, 1982

To the Stockholders and Board of
Directors of Union Electric Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, preferred stock, long-term debt, retained earnings, other paid-in capital and changes in financial position present fairly the financial position of Union Electric Company and its subsidiaries at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

CONSOLIDATED STATEMENT OF INCOME (Thousands of Dollars)

Union Electric and Subsidiaries		Year 1981	Year 1980	Year 1979
Operating Revenues (*):	Electric	**$1,019,671**	$ 996,893	$874,719
	Gas	**72,861**	67,577	60,537
	Steam	**11,033**	11,486	10,172
	Water	**1,971**	1,920	1,369
	Total operating revenues	**1,105,536**	1,077,876	946,797
Operating Expenses:	Operations			
	Fuel and purchased power	**356,887**	334,428	302,182
	Other	**200,506**	185,071	165,493
		557,393	519,499	467,675
	Maintenance	**87,435**	80,632	71,184
	Depreciation	**81,310**	78,819	76,300
	Income taxes	**79,381**	91,925	56,181
	Other taxes (*)	**117,128**	115,845	108,991
	Total operating expenses	**922,647**	886,720	780,331
Operating Income		**182,889**	191,156	166,466
Other Income:	Allowance for equity funds used during construction	**64,600**	45,357	31,245
	Miscellaneous, net	**(734)**	3,638	879
	Total other income	**63,866**	48,995	32,124
Income Before Interest and Other Items		**246,755**	240,151	198,590
Interest and Other Items:	Interest on debt	**180,312**	131,725	106,995
	Allowance for borrowed funds used during construction	**(91,025)**	(46,698)	(26,848)
	Preferred dividends of subsidiaries	**385**	387	388
	Total interest and other items	**89,672**	85,414	80,535
Net Income		**157,083**	154,737	118,055
Preferred Dividend Requirements of Company		**29,478**	29,695	26,948
Earnings on Common Stock		**$ 127,605**	$ 125,042	$ 91,107

(*) Includes license and franchise taxes of $54,664,000, $54,068,000 and $49,467,000 for the years 1981, 1980 and 1979, respectively.

	Year 1981	Year 1980	Year 1979
Earnings per Share of Common Stock (based on average shares outstanding)	**$1.90**	$2.10	$1.73
Dividends Declared per Share of Common Stock	**$1.52**	$1.48	$1.44
Average Number of Common Shares Outstanding	**67,179,275**	59,675,995	52,577,432

See Notes to Financial Statements on pages 24, 25, 26 and 27.

CONSOLIDATED BALANCE SHEET (Thousands of Dollars)

Union Electric and Subsidiaries		December 31, 1981	December 31, 1980
Assets			
Property and Plant, at original cost:	Electric	$2,936,616	$2,813,585
	Gas	70,002	66,446
	Steam	9,581	9,653
	Water	7,914	7,533
	Other	19,467	19,621
		3,043,580	2,916,838
	Less accumulated depreciation	915,996	848,826
		2,127,584	2,068,012
	Construction work in progress:		
	Callaway nuclear plant	1,343,886	1,008,909
	Nuclear fuel	131,491	99,085
	Settlement of uranium litigation	(76,528)	(62,624)
	Other	112,138	88,916
	Total property and plant, net	3,638,571	3,202,298
Investments, at cost		5,871	4,263
Deferred Charges:	Callaway unit 2 construction abandonment	83,363	–
	Unamortized bond defeasance cost	4,652	4,847
	Unamortized debt expense	4,035	3,226
	Other	3,820	5,896
	Total deferred charges	95,870	13,969
Current Assets:	Cash	5,333	4,196
	Deposits for payment of interest, and other deposits	39,567	49,620
	Accounts receivable – trade (less allowance for doubtful accounts of $1,498 and $1,080, at respective dates)	77,792	79,224
	Unbilled revenue	49,995	42,942
	Other accounts and notes receivable	7,709	3,909
	Materials and supplies, at average cost –		
	Fuel	82,310	109,908
	Construction and maintenance	38,040	35,486
	Prepayments and other assets	6,219	6,289
	Total current assets	306,965	331,574
		$4,047,277	$3,552,104

See Notes to Financial Statements on pages 24, 25, 26 and 27.

Union Electric and Subsidiaries		December 31, 1981	December 31, 1980

Capital and Liabilities

		December 31, 1981	December 31, 1980
Capitalization:			
Common stock and retained earnings	Common stock, $5 par value, authorized 100,000,000 shares; outstanding 74,755,885 and 66,125,317 shares, at respective dates (excluding 42,990 shares at par value in treasury)	$ 373,780	$ 330,627
	Other paid-in capital, principally premium on common stock (see accompanying statement)	464,450	414,020
	Retained earnings (see accompanying statement)	324,547	298,902
	Total common stock and retained earnings	1,162,777	1,043,549
Preference stock	Preference stock, $1 par value (entitled to cumulative dividends), authorized 7,500,000 shares – none outstanding		
Preferred stock	Preferred stock not subject to mandatory redemption, including premium of $1,571 (see accompanying statement)	281,355	281,355
	Preferred stock subject to mandatory redemption (see accompanying statement)	110,014	112,040
Long-term debt	Long-term debt (see accompanying statement)	1,724,236	1,479,746
	Unamortized discount and premium on debt	(4,309)	(517)
	Total capitalization	3,274,073	2,916,173
Accumulated Deferred Taxes on Income		238,153	166,167
Accumulated Deferred Investment Tax Credits		125,290	113,474
Construction Commitments and Contingencies (Notes 8 and 9)			
Current Liabilities:	Current maturity of long-term debt	31,903	1,010
	Accounts payable	73,969	83,459
	Wages payable	17,598	14,765
	Callaway unit 2 cancellation charges	52,000	–
	Bank loans	66,350	41,425
	Commercial paper	54,000	99,460
	Income taxes accrued	18,810	32,199
	Other taxes accrued	13,161	12,566
	Interest accrued	43,662	32,825
	Dividends declared	7,382	7,376
	Other current liabilities	30,926	31,205
	Total current liabilities	409,761	356,290
		$4,047,277	$3,552,104

PREFERRED STOCK (Thousands of Dollars)

Union Electric and Subsidiaries		December 31, 1981	December 31, 1980
Preferred Stock not subject to mandatory redemption:			
Union Electric Company			
Preferred stock, without par value (entitled to cumulative dividends) – note (a)	Stated value of shares outstanding, $100 per share –		
	$7.44 Series – 550,000 shares	**$ 55,000**	$ 55,000
	$6.40 Series – 300,000 shares	**30,000**	30,000
	$4.56 Series – 200,000 shares	**20,000**	20,000
	$4.50 Series – 213,595 shares	**21,359**	21,359
	$4.00 Series – 150,000 shares	**15,000**	15,000
	$3.70 Series – 40,000 shares	**4,000**	4,000
	$3.50 Series – 130,000 shares	**13,000**	13,000
	Stated value of shares outstanding, $97.50 per share –		
	$8.00 Series of 1971 – 425,000 shares	**41,437**	41,437
	Stated value of shares outstanding, $92.25 per share –		
	$8.00 Series (1969) – 350,000 shares	**32,288**	32,288
	Stated value of shares outstanding, $25.00 per share –		
	$2.125 Series – 1,600,000 shares	**40,000**	40,000
Total Union Electric Company		**272,084**	272,084
Missouri Power & Light Company			
Preferred stock, $100 par value (entitled to cumulative dividends), authorized 75,000 shares	4.30% Series – 20,000 shares	**2,000**	2,000
	3.90% Series – 40,000 shares	**4,000**	4,000
Preferred stock, $25 par value (entitled to cumulative dividends), authorized 400,000 shares – none outstanding			
Total Missouri Power & Light Company		**$ 6,000**	$ 6,000

(a) Authorized Union Electric Company total preferred stock – 15,000,000 shares.

(b) Authorized Missouri Utilities Company total preferred stock – 50,000 shares.

(c) To be retired by sinking fund.

(d) The Company is required to retire 80,000 shares and has an option to redeem an additional 80,000 shares, at $25 per share on November 15 of each year.

(e) In February 1982, Union Electric Company issued 3,000,000 shares of $4.00 Series preferred stock at $25 stated value per share.

See Notes to Financial Statements on pages 24, 25, 26 and 27.

Union Electric and Subsidiaries			December 31, 1981	December 31, 1980
Preferred Stock not subject to mandatory redemption (continued):				
Missouri Utilities Company				
Preferred stock, $100 par value (entitled to cumulative dividends) – note (b)	5%	Series – 14,000 shares	**$ 1,400**	$ 1,400
	5%	Series of June 1950 – 1,500 shares	**150**	150
	5%	Series of September 1950 – 1,500 shares	**150**	150
Total Missouri Utilities Company			**1,700**	1,700
Missouri Edison Company				
Preferred stock, $100 par value (entitled to cumulative dividends), authorized 5,000 shares – none outstanding				
Total preferred stock not subject to mandatory redemption			**$279,784**	$279,784
Preferred Stock subject to mandatory redemption:				
Union Electric Company				
Preferred stock, without par value (entitled to cumulative dividends) – note (a)		Stated value of shares outstanding, $25.00 per share –		
	$2.72	Series – 1,360,000 and 1,440,000 shares at respective dates, due to 1998 – notes (c) and (d)	**$ 34,000**	$ 36,000
		Stated value of shares outstanding, $50.00 per share –		
	$4.60	Series – 1,500,000 shares due 1985 to 2004 – note (c)	**75,000**	75,000
Total Union Electric Company			**109,000**	111,000
Missouri Utilities Company				
Preferred stock, $100 par value (entitled to cumulative dividends) – note (b)	5.70%	Series – 10,140 and 10,400 shares at respective dates, due to 2020 – note (c)	**1,014**	1,040
Total preferred stock subject to mandatory redemption			**$110,014**	$112,040

LONG-TERM DEBT (Thousands of Dollars)

Union Electric and Subsidiaries		December 31, 1981	December 31, 1980
Union Electric Company			
First mortgage bonds – note (a)	3¼% Series due 1982	**$ –**	$ 30,000
	3¾% Series due 1986	**40,000**	40,000
	4⅜% Series due 1988	**35,000**	35,000
	4¾% Series due 1990	**50,000**	50,000
	4¾% Series due 1991	**30,000**	30,000
	15⅝% Series due 1991	**150,000**	–
	4½% Series due 1993	**30,000**	30,000
	4½% Series due 1995	**35,000**	35,000
	5½% Series due 1996	**30,000**	30,000
	5½% Series due 1997	**40,000**	40,000
	7% Series due 1998	**50,000**	50,000
	7⅜% Series due 1999	**35,000**	35,000
	8¼% Series due 1999	**40,000**	40,000
	9.95% Series due 1999 – note (b)	**100,000**	100,000
	9% Series due 2000	**60,000**	60,000
	7⅞% Series due 2001	**50,000**	50,000
	7⅝% Series due 2001	**50,000**	50,000
	8⅛% Series due 2001	**60,000**	60,000
	8⅜% Series due 2004	**70,000**	70,000
	10½% Series due 2005	**70,000**	70,000
	5.80% Series due 1992 to 2005 – note (c)	**27,085**	27,085
	8⅞% Series due 2006	**70,000**	70,000
	8⅝% Series due 2007	**60,000**	60,000
	9.35% Series due 2008 – note (b)	**55,000**	55,000
	9.25-9.625% Series due 2000 to 2010 – note (c)	**60,000**	60,000
Unsecured loans			
Foreign bank agreement – note (d)	Due 1984	**40,000**	–
Domestic bank notes – note (e)	Due 1985	**75,000**	75,000
Missouri environmental improvement –			
Revenue notes	10% Series due 1986	**45,000**	–
Revenue bonds	5.60-6.20% Series due 1989 to 2004	**16,500**	16,500
Nuclear fuel lease		**131,427**	99,035
Total Union Electric Company		**$1,605,012**	$1,367,620

(a) At December 31, 1981, substantially all of the property and plant was mortgaged under, and subject to liens of, the respective indentures pursuant to which the bonds were issued.

(b) To be retired by sinking fund – Union Electric Company, 9.95% Series from 1986 to 1998; 9.35% Series from 1989 to 2007; Missouri Power & Light Company, 10¾% Series to 1993; 9⅝% Series from 1982 to 2000; 10% Series from 1985 to 2003; Missouri Utilities Company, 9¼% Series from 1982 to 2000; and Missouri Edison Company, 11¾% Series to 1989; 9⅜% Series to 2000; 8½% Series from 1983 to 2001.

(c) Environmental Improvement Series.

See Notes to Financial Statements on pages 24, 25, 26 and 27.

Union Electric and Subsidiaries			December 31, 1981	December 31, 1980
Missouri Power & Light Company				
First mortgage bonds – note (a)	3¾%	Series due 1984	$ 7,500	$ 7,500
	4½%	Series due 1992	6,000	6,000
	10¾%	Series due 1994 – note (b)	5,740	6,160
	5⅝%	Series due 1996	5,000	5,000
	5⅝%	Series due 1997	5,000	5,000
	8%	Series due 1999	5,000	5,000
	9⅜%	Series due 2001 – note (b)	11,400	12,000
	7¾%	Series due 2003	7,000	7,000
	10%	Series due 2004 – note (b)	10,000	10,000
Total Missouri Power & Light Company			62,640	63,660
Missouri Utilities Company				
First mortgage bonds – note (a)	5¾%	Series due 1984	1,000	1,000
	4½%	Series due 1988	3,000	3,000
	5⅝%	Series due 1991	3,500	3,500
	8¼%	Series due 1996	10,000	10,000
	7.95%	Series due 1998	4,000	4,000
	9¼%	Series due 2001 – note (b)	5,700	6,000
Unsecured notes	18%	Due 1985	5,000	–
	6%	Due 1992 – note (f)	2,135	2,240
Total Missouri Utilities Company			34,335	29,740
Missouri Edison Company				
First mortgage bonds – note (a)	14⅞%	Series due 1986	4,000	–
	11¼%	Series due 1990 – note (b)	3,800	4,100
	5%	Series due 1991	2,000	2,000
	4¾%	Series due 1995	3,000	3,000
	9⅜%	Series due 2001 – note (b)	3,304	3,478
	8½%	Series due 2002 – note (b)	6,000	6,000
Total Missouri Edison Company			22,104	18,578
Union Colliery Company				
Secured note – note (g)	9%	Due 1999	145	148
Long-term debt			**$1,724,236**	$1,479,746

(d) Interest rate was 14⅝% on December 31, 1981 based on a 30-day London InterBank Offered Rate (LIBOR); subsequent rates will vary depending on the Company's selection of various options under the agreement.

(e) Interest rate was 16% on December 31, 1981 based on ¼% above the current bank prime interest rate, and the rate will vary based on the prime rate through 1985.

(f) Notes due in equal annual installments.

(g) Note due in equal monthly installments.

(h) In 1981, Union Electric Company entered into a four-year revolving credit agreement with certain domestic commercial banks which permits the Company to borrow up to $100 million, at an interest rate based on bank floating prime rates or, at the Company's option, the LIBOR rate. At December 31, 1981, none of such long-term debt was outstanding; however, the Company plans to borrow $50 million under this agreement in late February, 1982.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Thousands of Dollars)

Union Electric and Subsidiaries		Year 1981	Year 1980	Year 1979
Balance at Beginning of Period		**$298,902**	$262,202	$247,901
Add:	Net income	**157,083**	154,737	118,055
		455,985	416,939	365,956
Deduct:	Preferred stock dividends	**29,451**	29,668	27,783 *
	Common stock cash dividends – $1.52, $1.48 and $1.44 per share, respectively	**101,735**	88,105	75,507
	Write-off of capital stock expense	**252**	264	464
		131,438	118,037	103,754
Balance at Close of Period	(Under the mortgage indenture of Union Electric Company as amended, free and unrestricted retained earnings at December 31, 1981 amounted to $270,750) * *	**$324,547**	$298,902	$262,202

* Includes dividends declared, applicable to subsequent periods.

* * At December 31, 1981 the aggregate retained earnings of the consolidated subsidiaries totalled $40,465,000; under the mortgage indentures of the consolidated subsidiaries, free and unrestricted retained earnings of such subsidiaries at December 31, 1981, amounted to $17,973,000.

CONSOLIDATED STATEMENT OF OTHER PAID-IN CAPITAL (Thousands of Dollars)

Union Electric and Subsidiaries		Year 1981	Year 1980	Year 1979
Balance at Beginning of Period		**$414,020**	$374,189	$328,573
Add:	Excess of sales price over par value of 6,500,000, 5,500,000 and 5,500,000 shares of common stock issued in 1981, 1980 and 1979, respectively	**38,058**	28,243	34,017
	Excess of sales price over par value of 1,780,268, 1,522,384 and 1,014,971 shares of common stock issued during 1981, 1980 and 1979, respectively, for dividend reinvestment and stock purchase plan	**10,244**	9,520	8,441
	Excess of sales price over par value of 350,300, 306,024 and 372,668 shares of common stock issued for tax reduction act stock ownership plan in 1981, 1980 and 1979, respectively	**1,811**	2,016	3,158
	Excess of stated value over purchase price of 80,000 shares of preferred stock redeemed during 1981 and 1980	**317**	52	–
Balance at Close of Period		**$464,450**	$414,020	$374,189

See Notes to Financial Statements on pages 24, 25, 26 and 27.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (Thousands of Dollars)

Union Electric and Subsidiaries		Year 1981	Year 1980	Year 1979
Source of Funds:	From operations –			
	Net income	**$157,083**	$154,737	$118,055
	Provision for depreciation	**83,745**	81,027	78,354
	Provision for deferred taxes on income (net)	**71,986**	42,876	27,784
	Provision for deferred investment tax credits (net)	**11,816**	25,918	31,909
	Allowance for all funds used during construction	**(155,625)**	(92,055)	(58,093)
		169,005	212,503	198,009
	Dividend reinvestment and stock purchase plans	**22,708**	20,678	18,537
	Issue of mortgage bonds	**154,000**	115,000	55,000
	Issue of preferred stock	–	–	75,000
	Issue of common stock	**70,558**	55,743	61,517
	Issue of long-term unsecured debt	**90,000**	75,000	–
	Settlement of uranium litigation	**13,904**	62,624	–
	Nuclear fuel lease	**32,392**	58,896	40,139
	Transfer of Callaway unit 2 costs to deferred charges	**31,363**	–	–
	Net decrease in working capital (excluding short-term loans and current maturity of long-term debt)	**67,722**	–	–
	Additional short-term bank loans and commercial paper	–	43,985	67,300
	Total funds provided	**$651,652**	$644,429	$515,502
Application of Funds:	Gross plant expenditures	**$532,650**	$421,275	$394,984
	Nuclear fuel	**32,406**	58,872	4,998
	Allowance for all funds used during construction	**(155,625)**	(92,055)	(58,093)
	Union Electric dividends on preferred stock and common stock	**131,186**	117,773	103,290
	Maturity of mortgage bonds	**894**	25,894	4,974
	Reduced short-term bank loans and commercial paper	**20,535**	–	–
	Redemption of preferred stock	**2,026**	2,026	2,026
	Restructured long-term unsecured debt	–	75,000	–
	Net change in deferred charges	**81,901**	199	(1,815)
	Net increase in working capital (excluding short-term loans and current maturity of long-term debt)	–	30,964	63,380
	Net change in other funds	**5,679**	4,481	1,758
	Total funds applied	**$651,652**	$644,429	$515,502
Increases (Decreases) in Working Capital:	Cash and deposits	**$ (8,916)**	$ 37,472	$ 3,814
	Receivables, net	**9,421**	(22,407)	31,544
	Fuel	**(27,598)**	24,801	15,909
	Other materials and supplies	**2,554**	3,447	6,151
	Accounts and wages payable	**6,657**	2,086	(7,989)
	Cancellation charges	**(52,000)**	–	–
	Taxes accrued	**12,794**	(8,654)	31,172
	Interest and dividends accrued or declared	**(10,843)**	(3,892)	(3,740)
	Other	**209**	(1,889)	(13,481)
		$(67,722)	$ 30,964	$ 63,380

See Notes to Financial Statements on pages 24, 25, 26 and 27.

NOTES TO FINANCIAL STATEMENTS

Union Electric and Subsidiaries

Note 1—Summary of Accounting Policies

The Company and its utility subsidiaries are subject to regulation by the Missouri Public Service Commission, Illinois Commerce Commission, Iowa State Commerce Commission and the Federal Energy Regulatory Commission. The accounting policies of the companies are in accordance with the rate-making practices of the regulatory authorities having jurisdiction and, as such, conform to generally accepted accounting principles as applied to regulated public utilities. A description of the Company's significant accounting policies follows.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. In the process of consolidation, all intercompany investments and accounts and all intercompany sales and profits are eliminated.

Property and Plant

The cost of additions to and betterments of units of property and plant is capitalized. Cost includes labor, material, applicable taxes, pensions and certain other items, plus an allowance for funds used during construction. Maintenance expenditures and renewals of items not considered to be units of property are charged to income as incurred. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation.

Depreciation

For financial statement purposes, depreciation is provided over the estimated lives of the various classes of depreciable property by applying composite rates on a straight-line basis. The provisions for depreciation in 1981, 1980 and 1979 were equivalent to approximately 2.8% of the average depreciable cost.

Income Taxes

Deferred income taxes are provided for substantially all timing differences between book and taxable income as permitted for rate-making purposes. Substantially all investment tax credits utilized are deferred and amortized over the useful lives of the properties to which they relate.

Allowance for Funds Used During Construction

The Federal Energy Regulatory Commission Uniform System of Accounts defines allowance for funds used during construction (AFC), which is a non-cash item, as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

During the three years ended December 31, 1981, the Company recorded AFC at various rates, compounded semi-annually. The net rates reflect the Company's policy of deferring the income tax effect applicable to the borrowed funds portion of the AFC rate. The average annual AFC rates were 11.42% (8.73% net) in 1981, 9.75% (7.65% net) in 1980 and 9.45% (7.38% net) in 1979.

Unbilled Revenue

The Company records on its books the estimated amount of accrued, but unbilled, revenue and also the accrued liability for the related taxes.

Note 2—Income Taxes

Total income tax expense was less than the amount computed by multiplying the income-before-tax by the statutory Federal income tax rate. The reasons for this difference for the years in which shown are as follows (in thousands):

	1981	1980	1979
Tax computed at statutory rate on book income-before-tax	**$108,078**	$113,024	$ 80,221
Increase (Decreases) in tax from:			
Additional depreciation	**3,451**	1,901	100
Allowance for equity funds used during construction	**(30,347)**	(21,668)	(14,570)
Investment tax credits	**(2,007)**	(1,940)	(2,410)
Miscellaneous, net	**(1,305)**	(350)	(7,002)
Total	**$ 77,870**	$ 90,967	$ 56,339

Income tax expense components (in thousands):

	1981	1980	1979
Included in operating expenses – Taxes currently payable:			
Federal	**$ (3,706)**	$ 14,008	$(12,406)
State	**(841)**	4,841	3,691
Deferred taxes (principally Federal):			
Liberalized depreciation	**14,177**	12,178	13,307
Repair allowance	**–**	6,742	2,913
Allowance for borrowed funds used during construction	**44,107**	22,160	12,997
Construction abandonment	**14,000**	–	–
Other (principally capitalized costs)	**6,553**	4,838	1,598
Provisions deferred in prior years	**(6,851)**	(3,120)	(3,031)
Deferred investment tax credits, net	**11,942**	30,278	37,112
	79,381	91,925	56,181
Current provision included in other income	**(1,511)**	(958)	158
Total	**$ 77,870**	$ 90,967	$ 56,339

Note 3 – Capital Stock

During the three years ended December 31, 1981, common stock, $5 par value, was issued as follows: 6,500,000, 5,500,000 and 5,500,000 shares were issued in 1981, 1980 and 1979, respectively. In addition, of the 10,000,000 shares reserved for the Union Electric Company Dividend Reinvestment and Stock Purchase Plan, 1,780,268, 1,522,384 and 1,014,971 shares were issued in 1981, 1980 and 1979, respectively; and of the 2,500,000 shares reserved for the Union Electric Company Tax Reduction Act Stock Ownership Plan, 350,300, 306,024 and 372,668 shares were issued in 1981, 1980 and 1979, respectively.

During the same period, preferred stock, without par value, was issued and redeemed as follows: Union Electric Company issued 1,500,000 shares, $4.60 Series in 1979; Union Electric Company redeemed 80,000 shares, $2.72 Series in each of the years 1981, 1980 and 1979; and, Missouri Utilities Company redeemed 260 shares, 5.70% Series in each of the years 1981, 1980 and 1979.

Preferred Stock Redemption Prices	Current	Eventual Minimum
	(Per Share)	
Union Electric Company		
$6.40 Series	$101.50	$101.50
$4.56 Series	102.47	102.47
$4.50 Series	110.00	110.00(a)
$4.00 Series	105.625	105.625
$3.70 Series	104.75	104.75
$3.50 Series	110.00	110.00
$8.00 Series (1969)	99.25	93.25
$8.00 Series of 1971	101.50	98.50
$7.44 Series	105.00	101.00
$2.72 Series (c)	27.75(b)	25.25
$2.125 Series	27.15(b)	25.25
$4.60 Series (d)	54.60(b)	50.50
Missouri Power & Light Company		
4.30% Series	102.176	102.176
3.90% Series	105.00	105.00
Missouri Utilities Company		
5.00% Series	110.00	110.00
5.00% Series of June 1950	103.50	103.50
5.00% Series of September 1950	103.50	103.50
5.70% Series (e)	103.00	100.00

(a) In the event of voluntary liquidation, $105.50.
(b) Redemption subject to certain restrictions regarding refunding operations.
(c) The Company is required to retire 80,000 shares, and has an option to redeem an additional 80,000 shares, at $25 per share on November 15 of each year.
(d) The Company is required to redeem 75,000 shares at $50 per share on August 15 of each year, commencing in 1985.
(e) Missouri Utilities Company is required to redeem 260 shares at $100 per share, plus accrued dividends, on June 1 of each year.

Note 4 – Preferred Stock Subject to Mandatory Redemption

During the five years from December 31, 1981, the amounts of preferred stock to be redeemed at par or stated value are: \$2,026,000 in 1982; \$2,026,000 in 1983; \$2,026,000 in 1984; \$5,776,000 in 1985; and \$5,776,000 in 1986.

Note 5 – Debt Retirement Provisions

During the five years from December 31, 1981, the amounts of debt maturities are: \$31,903,000 in 1982; \$2,203,000 in 1983; \$50,703,000 in 1984; \$82,704,000 in 1985; and \$98,844,000 in 1986. (Amounts do not include nuclear fuel lease payments since the timing and the amounts of such payments are not currently determinable – see Note 10).

Debt retirement provisions contained in the mortgage bond indentures of the Company and its subsidiaries require, subject to certain alternatives, the redemption annually of 1% of the principal amount (as defined) of each series of bonds. In lieu of such redemptions, except in one instance, the Company and its subsidiaries have been following the practice of utilizing property additions as permitted by the indentures.

Note 6 – Retirement Plans

The retirement plans covering employees of the Company and its subsidiaries are financed through irrevocable pension trusts and group annuity contracts. The policy is to fund pension costs accrued. Some plans were amended during 1981, 1980 and 1979 to provide increased benefits. Costs of the retirement plans for the years 1981, 1980 and 1979 were \$12,515,000, \$11,417,000 and \$9,490,000, respectively, of which approximately 22% was charged to construction accounts. The aforementioned amounts include current service costs plus prior service costs which are being amortized over twenty years.

A comparison of estimated actuarial present value of accumulated plan benefits and plan net assets follows (in millions):

	At December 31,		
	1981	1980	1979
Vested	**\$246**	\$225	\$203
Nonvested	**4**	3	3
	\$250	\$228	\$206
Net assets available for benefits	**\$179**	\$172	\$152

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for the years 1981, 1980 and 1979.

Note 7 – Compensating Balances and Short-Term Borrowings

Short-term borrowings of the Company and its subsidiaries consist of bank loans (maturities not in excess of 270 days) and commercial paper (maturities generally within 30-45 days). Information regarding such consolidated short-term borrowings is as follows (in thousands except rates):

	1981	1980	1979
Amounts outstanding at year end –			
Bank loans	**\$66,350**	\$41,425	\$36,600
Commercial paper	**\$54,000**	\$99,460	\$60,300
Composite interest rates at year end –			
Bank loans	**13.8%**	21.0%	15.0%
Commercial paper	**13.6%**	19.4%	14.0%
Maximum aggregate amount outstanding at any month end during the year	**\$167,275**	\$140,885	\$148,555
Average daily short-term borrowings outstanding during the year –			
Aggregate amount	**\$136,116**	\$90,425	\$93,545
Weighted composite interest rate	**17.8%**	13.4%	11.7%

The above weighted composite interest rates were calculated by dividing the applicable interest expense for the year by the average daily short-term borrowings shown above.

At December 31, 1981, the Company and its subsidiaries had bank lines of credit aggregating \$124,220,000 which make available interim financing at the prime rate of interest. In support of such lines of credit, the Company has unwritten agreements with the majority of its lending banks to maintain average compensating balances equivalent to 8% of the line of credit as determined from the bank records. In addition, at December 31, 1981, the Company had commitments from banks aggregating \$70,000,000 (\$30,000,000 to expire August 31, 1982; \$10,000,000 to expire September 12, 1982; \$5,000,000 to expire September 30, 1982; \$10,000,000 to expire October 31, 1982; \$5,000,000 to expire November 25, 1982; and \$10,000,000 to expire December 31, 1982). For these commitments the Company pays an annual fee of 0.25% on the unused portions of the commitments.

Note 8 – Construction Commitments

The Company and its subsidiaries are engaged in a construction program under which expenditures of approximately $1.6 billion are anticipated during the next five years, of which expenditures of $553,000,000 and $442,000,000 are estimated to be made in 1982 and 1983, respectively.

Note 9 – Contingencies

On October 9, 1981, the Company cancelled construction of Unit No. 2 at its Callaway nuclear plant which unit had been scheduled to be placed in service in 1990. At December 31, 1981, $70 million, representing construction costs accumulated to that date plus estimated cancellation charges (net of taxes), has been deferred. As soon as practicable the Company will request from regulatory agencies having jurisdiction approval to amortize and recover such costs in its electric rates. All costs which are denied recovery in rates by any agency will be written off and charged against income during the period the denial becomes final. In the opinion of management, the effect of such unrecovered costs, if any, would not be material to the financial position of the Company.

Note 10 – Nuclear Fuel Lease – Capitalized

The Company has entered into a lease agreement which provides for the financing of the costs of up to $200,000,000 of the Company's nuclear fuel. Pursuant to the terms of the lease, the Company has assigned to the lessor certain contracts for purchase of nuclear fuel. The lessor will obtain through the issuance of commercial paper backed by letters of credit from commercial banks, or from direct loans from commercial banks, the necessary funds to purchase the fuel and make interest payments when due.

The Company is unconditionally obligated to reimburse the lessor for all expenditures for nuclear fuel, interest and related costs. Obligations under this lease will become current at such time as the nuclear fuel is engaged in heat production at the Company's Callaway nuclear plant, which is scheduled for completion in early 1984.

In accordance with state regulatory commissions' policies, the Company is capitalizing the cost, including interest costs, of the leased nuclear fuel and is recording the related lease obligation. During the years 1981 and 1980, the Company capitalized related interest costs of $19,753,000 and $9,518,000 based on an average interest rate of 17.6% and 14.7%, respectively. Related interest costs capitalized during the year 1979 were immaterial.

Note 11 – Supplementary Income Statement Information

	1981	1980	1979
	(Thousands of Dollars)		
Maintenance and repairs, charged directly to:			
Operating expenses	**$87,435**	$80,632	$71,184
Other accounts (a)	**4,768**	4,805	4,074
	$92,203	$85,437	$75,258
Depreciation, depletion and amortization of fixed and intangible assets, charged directly to:			
Operating expenses	**$81,310**	$78,819	$76,300
Other accounts (a)	**2,435**	2,208	2,054
	$83,745	$81,027	$78,354
Taxes, other than payroll and income taxes, charged directly to:			
Operating expenses –			
Real estate and personal property	**$ 51,977**	$ 53,128	$ 50,654
License and franchise	**54,664**	54,068	49,467
Other	**1,338**	1,389	1,137
	107,979	108,585	101,258
Other accounts	**7,907**	5,442	3,584
	$115,886	$114,027	$104,842

(a) A substantial portion of amounts charged to other accounts is allocated to operating expenses through clearing accounts.
(b) The amounts of payroll taxes for the years 1981, 1980 and 1979 were $9,149,000, $7,260,000 and $7,733,000, respectively.
(c) The amounts of royalties and advertising costs were not material.

This report and the financial statements contained herein are submitted for the information of the stockholders of the Company and are not intended to induce, or for use in connection with, any sale or purchase of any securities of the Company, or any of its subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS— LIQUIDITY AND CAPITAL RESOURCES

Union Electric and Subsidiaries

Consolidated capital expenditures for the construction program totalled $1.9 billion during the five years ended December 31, 1981 (see "Capital Requirements Provided By Many Sources" on page 11). Such expenditures are estimated to aggregate $1.6 billion over the next five years, 1982 through 1986, including $553 million in 1982 and $442 million in 1983. The estimated cash requirements for this construction program, excluding amounts for allowance for funds used during construction and nuclear fuel which is being leased, are $372 million for 1982 and $229 million for 1983. The Company presently anticipates that 15 to 20% of such cash requirements in the years 1982 and 1983 will be obtained from internally generated funds, assuming a major portion of the $128 million rate increase request pending in Missouri is authorized to become effective in 1982. In 1984 and thereafter, the internal generation of cash is expected to improve dramatically when Callaway Unit No. 1 is completed at a cost of approximately $2.1 billion and is included in rate base.

In addition to the funds required for construction during the 1982-1986 period, $284 million will be required to retire long-term debt maturing during the period and for sinking fund payments on first mortgage bonds and preferred stock (see Notes 4 and 5 under Notes to Financial Statements).

During 1981, $19.1 million was invested by shareholders and employees through the Company's Dividend Reinvestment and Stock Purchase Plan. At year-end 29,700 common shareholders, or about 17 percent of common shareholders, were participating in the Plan. The Company is in the process of expanding the Plan to include customers and taking the necessary steps to make preferred shareholders' dividends eligible for reinvestment in its common stock. The Company cannot estimate what effect these changes or tax exemptions included under the Economic Recovery Tax Act of 1981 may have on the Plan.

At December 31, 1981 there was more than $31 million of unused proceeds on deposit with a Trustee under a 1981 Environmental Improvement financing, which will be utilized to finance new pollution control facilities ($56 million was expended from Environmental Improvement financing in the year 1981 alone).

In February, 1982, the Company sold $75 million of preferred stock. The annual dividend on this new $25 preferred stock is $4.00. In 1981, the Company entered into a four-year revolving credit agreement with certain domestic commercial banks which permits the Company to borrow up to $100 million, at an interest rate based on bank floating prime rates or, at the Company's option, the London InterBank Offered Rate. At December 31, 1981, none of such long-term debt was outstanding; however, the Company borrowed $50 million under this agreement on February 22, 1982 and such amount is required to be retired in 1985.

The types, amounts and timing of future financings will depend upon market conditions, regulatory actions, law, rate levels and other factors. The Company's objective is to maintain, approximately, the consolidated capitalization ratios, as presently established (see Capitalization Ratios under Financial Position on page 31).

The Company and its subsidiaries plan to continue to utilize short-term debt as interim support between long-term financing. Consolidated average daily short-term borrowings outstanding during 1981 aggregated $136.1 million with a weighted composite interest rate of 17.8%. At December 31, 1981, bank lines of credit and credit commitments from banks aggregated $194.2 million, not including the revolving credit agreement mentioned above; and, at such date $120.4 million of short-term bank loans and commercial paper was outstanding, including $66.4 million in bank loans (see Note 7 under Notes to Financial Statements). The Company and its subsidiaries are authorized by the Federal Energy Regulatory Commission to incur up to $347 million of short-term unsecured indebtedness; however, short-term debt is not expected to exceed $200 million.

The Company has entered into a nuclear fuel lease providing for the financing of up to $200 million of nuclear fuel. At December 31, 1981, $131 million of nuclear fuel had been financed under the lease.

Legislation which became effective in the State of Missouri in late 1981 may have the unintended effect of preventing or limiting companies from issuing additional securities under certain instruments secured by real property such as the mortgage pursuant to which the Company's first mortgage bonds are issued. The Company believes that it has sufficient flexibility to permit it to issue unsecured long-term debt instead of the first mortgage bonds it plans to issue (although possibly at a higher cost) to finance the above described construction expenditures. Remedial legislation has been introduced in the Missouri legislature which the Company believes can be enacted by the time the Company would ultimately need to sell additional bonds.

The mortgage indenture of the Company requires a minimum level of earnings for the issuance of additional bonds. Such requirement may restrict the issuance of additional mortgage bonds, unless substantial rate relief is received in 1982.

For data relative to Supplementary Information on Inflation and Changing Prices, see pages 32 and 33.

MANAGEMENT'S DISCUSSION AND ANALYSIS– RESULTS OF OPERATIONS
Union Electric and Subsidiaries

Earnings and earnings per share fluctuated due to conditions unique to this industry in general and this company in particular: weather, untimely and inadequate rate increases, dilution from additonal shares issued, unrecovered fuel cost increases, and the substitution of the allowance for funds used during construction (a non-cash item) for the ability to recover in cash the cost of funds invested in facilities under construction. The impact of the more significant of these items is discussed below.

Electric Operating Revenues

	Variation from Prior Year		
	1981	1980	1979
	(Millions of Dollars)		
Tariffs and fuel clauses	**$ 48.2**	$ 70.3	$26.9
Kilowatt-hour sales	**(25.4)**	47.3	2.2
License/franchise taxes	**—**	4.6	1.1
	$ 22.8	$122.2	$30.2

Variations in electric operating revenues were the result of general rate increases, fuel adjustment clauses, weather, growth and economic conditions.

Significant electric rate increases were granted by the Missouri Public Service Commission in mid-1980 (approximately $22 million annually) and mid-1981 (approximately $65 million annually). In addition, effective May 30, 1980 the Missouri Commission restructured rates applicable to all classifications of customers to increase rates June through October and decrease rates November through May. Approximately $20 million was added to 1980 revenues (offset in 1981 revenues) as a result of that restructuring.

In 1979, following a Missouri Supreme Court decision declaring electric fuel clauses unlawful, a $7 million fuel clause surcharge collected earlier was refunded to Missouri customers.

The unusually hot 1980 weather added about $33 million to normal revenues while the cooler than normal 1981 summer reduced normal revenues about $13 million.

Operating Expenses

The changes in operating expenses were as follows:

Fuel and Purchased Power	Variation from Prior Year		
	1981	1980	1979
Fuel:	(Millions of Dollars)		
Variation in generation	**$(17.6)**	$ (6.0)	$ .9
Price increases	**31.6**	20.7	25.3
*Deferred fuel termination	**—**	(14.0)	14.0
Efficiencies	**.8**	(7.5)	(10.8)
Purchased and interchange power	**7.7**	39.0	15.9
	$ 22.5	$ 32.2	$ 45.3

*Following the Missouri Supreme Court decision in 1979 declaring fuel adjustment clauses unlawful in Missouri, the Company discontinued deferring such fuel costs collectible under the clause.

Other Operations

The cost of operations, other than fuel and purchased power, increased annually due almost entirely to recurring conditions, such as growth, inflation and wage increases.

Maintenance

The variations in maintenance reflected normal increases principally due to higher costs of repair parts and wage increases and two major storms in the summer of 1981.

Depreciation

The variations in depreciation resulted from increases in depreciable property. No changes were made in depreciation rates during the periods.

Income Taxes

Income taxes fluctuated in response to pretax income and were also reduced in 1979 when the federal income tax rate was reduced from 48% to 46%. For additional details see Notes 1 and 2 under Notes to Financial Statements.

Other Taxes

These increases generally reflect increased gross receipts taxes on greater revenues and higher payroll taxes due to increases in social security taxable wage bases and rates.

Other Items

Interest and Preferred Dividends

The increases in interest and preferred dividends were due to the issuance of additional securities to finance the construction program at higher rates.

The increase in 1981 reflects the annual interest requirement on the $150 million sale in early 1981 of Union Electric Company 15⅜% Series first mortgage bonds, and higher interest rates and the greater amount of short-term debt outstanding during 1981.

Allowance For Funds Used During Construction (AFC)

AFC increased due to an increased amount of Construction Work in Progress and to increased AFC rates. The amount of AFC will continue to increase significantly and constitute a substantial portion of earnings, until such time as the Callaway nuclear plant goes into commercial operation and is included in rate base and its costs reflected in electric rates. This plant is presently scheduled for completion in early 1984.

SELECTED FINANCIAL INFORMATION

Union Electric and Subsidiaries	Year Ended December 31,				
	1981	1980	1979	1978	1977
	(Thousands of dollars except share and per share amounts and ratios)				
Operating revenues	**$1,105,536**	$1,077,876	$946,797	$903,988	$765,102
Operating expenses	**922,647**	886,720	780,331	727,756	605,963
Operating income	**182,889**	191,156	166,466	176,232	159,139
Allowance for equity funds used during construction	**64,600**	45,357	31,245	15,980	8,301
Other income – miscellaneous	**(734)**	3,638	879	2,896	1,389
Interest on debt and other items	**180,697**	132,112	107,383	90,699	84,015
Allowance for borrowed funds used during construction	**91,025**	46,698	26,848	15,489	10,721
Net income	**157,083**	154,737	118,055	119,898	95,535
Preferred dividend requirements of Company	**29,478**	29,695	26,948	23,040	20,367
Earnings on common stock	**127,605**	125,042	91,107	96,858	75,168
Earnings per share of common stock (based on average shares outstanding)	**$1.90**	$2.10	$1.73	$2.01	$1.67
Cash dividends declared per share of common stock	**$1.52**	$1.48	$1.44	$1.40	$1.36
Average number of common shares outstanding	**67,179,275**	59,675,995	52,577,432	48,260,596	45,110,245
Return on average common stock equity	**12.11%**	13.11%	10.71%	12.61%	10.68%
Ratio of earnings to fixed charges (a)	**2.29**	2.85	2.61	3.18	2.81
Total assets	**$4,047,277**	$3,552,104	$3,168,998	$2,800,209	$2,521,181
Long-term debt obligations	**1,719,927**	1,479,229	1,307,990	1,238,860	1,189,080
Redeemable preferred stock	**110,014**	112,040	114,066	41,092	41,118

(a) Earnings used in computing the ratio of earnings to fixed charges consist of net income plus fixed charges (interest on debt, preferred dividends of subsidiaries and an appropriate amount of rentals charged to operating expenses) and income taxes.

FINANCIAL POSITION

Union Electric and Subsidiaries	December 31,				
	1981	1980	1979	1978	1977
	(Thousands of dollars except share and per share amounts and ratios)				
Assets					
Properties (at original cost)	**$4,554,567**	$4,051,124	$3,649,728	$3,266,522	$2,953,845
Less accumulated depreciation	**915,996**	848,826	786,147	725,448	662,516
	3,638,571	3,202,298	2,863,581	2,541,074	2,291,329
Receivables, net	**135,496**	126,075	148,482	116,938	94,312
Fuel supplies	**82,310**	109,908	85,107	69,198	59,426
Other assets	**190,900**	113,823	71,828	72,999	76,114
Total Assets	**$4,047,277**	$3,552,104	$3,168,998	$2,800,209	$2,521,181
Capital and Liabilities					
Capitalization:					
Common stock and retained earnings –					
Common stock	**$ 373,780**	$ 330,627	$ 293,984	$ 259,546	$ 234,059
Other paid-in capital	**464,450**	414,020	374,189	328,573	280,187
Retained earnings	**324,547**	298,902	262,202	247,901	218,865
Common equity	**1,162,777**	1,043,549	930,375	836,020	733,111
Preferred stock not subject to mandatory redemption	**281,355**	281,355	281,355	281,355	281,355
Preferred stock subject to mandatory redemption	**110,014**	112,040	114,066	41,092	41,118
Long-term debt obligations	**1,719,927**	1,479,229	1,307,990	1,238,860	1,189,080
Total capitalization	**3,274,073**	2,916,173	2,633,786	2,397,327	2,244,664
Accumulated deferred taxes on income	**238,153**	166,167	123,291	95,507	69,410
Accumulated deferred investment tax credits	**125,290**	113,474	87,556	55,647	33,612
Accounts and wages payable	**91,567**	98,224	100,310	92,321	57,745
Short-term debt including current maturities	**152,253**	141,895	122,909	34,692	23,155
Other liabilities	**165,941**	116,171	101,146	124,715	92,595
Total Capital and Liabilities	**$4,047,277**	$3,552,104	$3,168,998	$2,800,209	$2,521,181
Common Stock Data					
Number of shares outstanding	**74,755,885**	66,125,317	58,796,909	51,909,270	46,811,805
Book value per share	**$15.55**	$15.78	$15.82	$16.11	$15.66
Capitalization Ratios					
Common equity	**35.5%**	35.8%	35.3%	34.9%	32.7%
Preferred stock not subject to mandatory redemption	**8.6**	9.7	10.7	11.7	12.5
Preferred stock subject to mandatory redemption	**3.4**	3.8	4.3	1.7	1.8
Long-term debt	**52.5**	50.7	49.7	51.7	53.0
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)

Union Electric and Subsidiaries

Estimates of the effects of inflation and changing prices on the operations of the Company for the year ended December 31, 1981, are presented in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices." Statement No. 33 requires that historical costs be adjusted to reflect the effects that general inflation (constant dollar) and changes in specific prices (current cost) have had on the Company's operations. The adjusted data is not intended as a substitute for earnings reported on an historical cost basis, but rather to give some perspective as to the approximate effects of changes in the purchasing power of the dollar.

Property, Plant and Equipment

The estimated value in average 1981 dollars of property, plant and equipment, including construction work in progress, was determined by applying the Consumer Price Index for All Urban Consumers to the historical cost of plant. The current cost estimates were primarily measured by applying the Handy-Whitman Index of Public Utility Construction Cost to each major class of plant. Current cost approximates the cost of currently replacing existing plant. The adjusted plant data under either the constant dollar or current cost methods does not indicate the Company's future capital requirements because actual replacement of existing plant will occur over many years and will not identically replace existing plant.

At December 31, 1981, the constant dollar and current cost of property, plant and equipment, net of accumulated depreciation, were $7,042,985,000 and $8,095,614,000, respectively, while historical or net recoverable cost was $3,638,571,000. The current cost and constant dollar values differ because specific prices of plant have increased at a rate different from that of general inflation.

Accumulated Depreciation

The accumulated provision for depreciation for both constant dollar and current cost was determined by applying to the adjusted amounts for each functional class of plant, the same percentage relationship that existed between gross plant and the associated accumulated provision for depreciation on an historical basis.

Depreciation Expense

Depreciation expense for the year 1981 applicable to constant dollar and current cost property was $194,076,000 and $218,469,000, respectively. The actual 1981 depreciation expense was $81,310,000.

The adjusted amounts were determined by applying to the indexed property and plant values the same straight-line book rates used for historical purposes.

Reduction of Property, Plant and Equipment to Net Recoverable Cost

The regulatory process limits the Company to the recovery of the historical cost of property and plant through depreciation. Therefore, any excess of property and plant in constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. While the rate-making process does not reflect the current cost of replacing utility plant, past practice indicates the Company will be allowed to earn on the increased cost of its net investment after these facilities are replaced. The excess of constant dollar and current cost over historical cost property and plant occurring in 1981 was $178,359,000 and $167,315,000, respectively.

Gain From Decline in Purchasing Power of Net Amounts Owed

The Company, by having assets such as receivables, fuel and materials inventory and deferred charges, suffers a loss of purchasing power during periods of inflation because after

Consolidated Statement of Income Adjusted for Changing Prices For the Year Ended December 31, 1981

	Constant Dollar	Current Cost
	(In Thousands of Average 1981 Dollars)	
Earnings on common stock as reported	$ 127,605	$ 127,605
Additional depreciation expense	(112,766)	(137,159)
Earnings (loss) on common stock, as adjusted (excluding reduction to net recoverable cost)	14,839*	(9,554)
Reduction to net recoverable cost	(178,359)	(167,315)
Relative price changes	–	13,349**
Gain from decline in purchasing power of net amounts owed	162,879	162,879
Net erosion of common shareholders' equity	$ (641)	$ (641)

*Earnings on common stock on a constant dollar basis would have been a loss of $163,520,000 if it reflected the reduction of $178,359,000 to net recoverable cost.

**Represents the excess of specific price changes, $661,624,000, in 1981 over the increase for 1981 in general prices of property and plant, $648,275,000.

conversion, the cash received for these items will purchase less. More than offsetting these assets, however, are significant amounts of long-term debt, refundable preferred stock, deferred income taxes and current liabilities which will be repaid with "cheaper" dollars. Thus, for 1981, the Company experienced a net "gain" of $162,879,000 from having an excess of monetary liabilities over monetary assets. (Investments and unamortized investment tax credits were considered as nonmonetary items; nonrefundable preferred stock was included in shareholders equity).

General

As allowed by Statement No. 33, other than depreciation expense, none of the other income statement items, including income taxes, were adjusted.

For rate-making purposes, the amount of depreciation expense included in the Company's allowed revenues is based on historical or original cost. The Company's inability to reflect the effects of inflation and changing prices resulted in 1981 reported earnings of $127,605,000 or $1.90 per share rather than the more realistic earnings of $14,839,000 or 22¢ per share on a constant dollar basis, or a loss of $9,554,000 or 14¢ per share on a current cost basis reported on the Five Year Comparison of Selected Supplementary Financial Data.

The net erosion on common shareholders' equity, in 1981, including the effect from changing prices, amounted to a loss of $641,000 or 1¢ per share. Also, because Federal income tax policy prohibits the deduction of inflation-adjusted depreciation expense for income taxes, the Company's 1981 effective income tax rate was 62 percent for constant dollar and 78 percent under current cost, each of which is greater than the Federal statutory rate of 46 percent. Failure of regulatory and taxing authorities to recognize in allowable depreciation the current cost of plant, has serious implications. It severely limits the amount of funds that are generated internally for use in replacing or modernizing aging and obsolete assets.

Rates authorized by regulatory agencies must be sufficient to permit the replacing of plant and equipment when necessary as well as preserve the purchasing power of common equity capital. As shown on the Five Year Comparison of Selected Supplementary Financial Data, to have retained the same purchasing power as they had in 1977, the Company's common shareholders should have received 1981 common dividends of $2.04 per share and the realized returns on common equity should have been sufficient to permit the common stock to sell at about $22.00 per share or more than twice the actual year-end price.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	Year Ended December 31,				
	1981	1980	1979	1978	1977
	(In Thousands of Average 1981 Dollars Except Per Share and "As Reported" Amounts)				
Operating revenues:					
As reported	$1,105,536	$1,077,876	$ 946,797	$ 903,988	$ 765,102
Adjusted for general inflation	1,105,536	1,190,000	1,186,000	1,260,000	1,148,000
Earnings (loss) on common stock (excluding reduction to net recoverable cost):					
As reported	$ 127,605	$ 125,042	$ 91,107		
Adjusted for general inflation	14,839	33,928	18,469		
Based on current cost	(9,554)	7,036	(16,202)		
Earnings (loss) per share of common stock (excluding reduction to net recoverable cost):					
As reported	$1.90	$2.10	$1.73		
Adjusted for general inflation	.22	.57	.35		
Based on current cost	(.14)	.12	(.31)		
Shareholders equity (net assets), at year end:					
Historical cost (as reported)	$1,444,132	$1,324,904	$1,211,730		
Adjusted for both general inflation and current cost	1,397,447	1,396,686	1,435,735		
Excess (deficiency) of general price changes over increase in the specific level of prices	$ (13,349)	$ 125,608	$ 206,376		
Gain from decline in purchasing power of net amounts owed	$ 162,879	$ 214,853	$ 229,671		
Cash dividends declared per common share:					
Actual	$1.52	$1.48	$1.44	$1.40	$1.36
Adjusted for general inflation	1.52	1.63	1.80	1.95	2.04
Market price per share, at year end:					
Actual	$10⅞	$10⅞	$12	$13⅜	$15
Adjusted for general inflation	10½	11½	14¼	18	22
Average consumer price index	272.4	246.8	217.4	195.4	181.5

SUPPLEMENTARY SELECTED QUARTERLY INFORMATION

Union Electric and Subsidiaries

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings on Common Stock	Earnings Per Average Share of Common Stock Outstanding
	(Thousands of Dollars)				(Dollars)
March 31, 1981	**$240,450**	**$28,198**	**$19,432**	**$12,056**	**$0.18**
March 31, 1980	249,892	37,758	27,825	20,394	0.35
June 30, 1981	**258,206**	**42,916**	**33,314**	**25,938**	**0.39**
June 30, 1980	244,501	46,753	37,338	29,908	0.50
September 30, 1981	**343,048**	**79,192**	**71,754**	**64,378**	**0.96**
September 30, 1980	353,434	78,447	69,300	61,869	1.04
December 31, 1981	**263,832**	**32,583**	**32,583**	**25,233**	**0.37**
December 31, 1980	230,049	28,198	20,274	12,871	0.21

QUARTERLY COMMON STOCK DATA (1)

Union Electric Company

1981 Price Range (2)		**1981**		1980 Price Range (2)		1980
High	**Low**	**Dividends (3)**	Quarter Ended:	High	Low	Dividends
$11½	**$10**	**38¢**	March 31	$12¼	$ 9¾	36¢
11½	**10¼**	**38**	June 30	12⅞	10	36
11⅜	**10**	**38**	September 30	12¾	11⅛	38
11⅞	**9⅞**	**38**	December 31	12	10¼	38

(1) At December 31, 1981, Union Electric Company common stock shareholders totalled 173,283.

(2) Based on transactions recorded on the New York Stock Exchange.

(3) Restriction on the payment of common stock dividends at December 31, 1981: Consolidated Retained Earnings amounted to $324,547,000 as of December 31, 1981; however, under the mortgage indenture of Union Electric Company, as amended, $53,797,000 of such retained earnings was restricted against payment of common dividends – except those payable in common stock.

CONSTRUCTION FORECAST (Thousands of Dollars)

Union Electric and Subsidiaries	1982	1983	1984	1985	1986
Construction Expenditures:					
Callaway nuclear plant	$369,800	$303,300	$ 83,000	$ –	$ –
All other facilities	182,700	138,500	171,100	167,700	231,300
Total	$552,500	$441,800	$254,100	$167,700	$231,300

OPERATING STATISTICS

Union Electric and Subsidiaries	1981	1980	1979	1978	1977	1971
Electric Operating Revenues (000):						
Residential	**$ 389,182**	$402,160	$333,251	$331,128	$283,124	$131,438
Commercial	**321,400**	306,486	265,278	253,279	219,806	95,316
Industrial	**250,842**	233,854	221,617	209,440	169,834	76,897
Other electric utilities	**39,789**	35,619	34,185	31,565	24,040	14,601
Miscellaneous	**18,458**	18,774	20,388	19,061	16,232	7,712
Total	**$1,019,671**	$996,893	$874,719	$844,473	$713,036	$325,964
Kilowatt-Hour Sales (000,000):						
Residential	**7,756**	8,446	7,546	7,670	7,389	5,453
Commercial	**7,024**	6,913	6,463	6,332	6,331	4,957
Industrial	**7,767**	7,616	7,858	7,738	7,656	6,333
Other electric utilities	**1,420**	1,435	1,341	1,317	1,263	1,338
Miscellaneous	**312**	385	481	460	442	393
Total	**24,279**	24,795	23,689	23,517	23,081	18,474
Electric Customers (End of year):						
Residential	**870,066**	862,406	853,908	845,074	832,251	735,115
Commercial	**108,561**	106,428	101,355	99,751	99,105	79,484
Industrial	**5,207**	5,328	5,334	5,348	5,225	5,075
Electric utilities	**24**	24	24	24	24	20
Other	**3,065**	2,950	2,917	2,753	2,312	1,094
Total	**986,923**	977,136	963,538	952,950	938,917	820,788
Residential Customer Data (Average):						
Kilowatt hours used	**8,955**	9,848	8,893	9,167	8,956	7,494
Annual electric bill	**$449.35**	$468.92	$392.74	$395.74	$343.16	$180.63
Revenue per kilowatt hour	**5.02¢**	4.76¢	4.42¢	4.32¢	3.83¢	2.41¢
System Gross Instantaneous Peak Demand (Kilowatts)	**6,296,000**	6,404,000	5,846,000	5,813,000	5,837,000	4,503,000
System Capability at Time of Peak, Including Net of Firm Purchase and Sale of Capacity (Kilowatts)	**7,444,000**	7,468,000	7,739,000	6,873,000	6,891,000	5,682,000
Generating Capability at Time of Peak (Kilowatts)	**6,879,000**	6,824,000	6,947,000	6,718,000	6,607,000	4,957,000
System Net Integrated Hour Peak Demand (Kilowatts)	**6,014,000**	6,107,000	5,609,000	5,528,000	5,525,000	4,280,000
Load Factor (Net Integrated Hour)	**49.7%**	50.1%	52.4%	52.7%	51.8%	52.8%
Coal Burned (Tons)	**11,316,000**	11,730,000	12,037,000	11,866,000	11,915,000	6,966,000
Price per Ton of Coal	**$29.15**	$26.85	$26.02	$24.15	$17.86	$6.38

OFFICERS AND DIRECTORS

Officers

Charles J. Dougherty
Chairman and Chief Executive Officer

William E. Cornelius
President

Earl K. Dille
Executive Vice President

Stewart W. Smith, Jr.
Executive Vice President

H. Clyde Allen
Vice President – Research and Development

J. T. Friel
Vice President and Controller

M. E. Gatewood
Vice President – Supply Service

G. J. Haven
Vice President – Transmission and Distribution

Robert O. Piening
Vice President – Rates

William A. Sanford
Vice President – Industrial Relations

Donald F. Schnell
Vice President – Nuclear

Edgar J. Telthorst
Vice President – Power Operations

Merle T. Welshans
Vice President – Finance

H. E. Wuertenbaecher, Jr.
Vice President – Customer Service

William E. Jaudes
General Counsel

C. W. Mueller
Treasurer

G. R. Murray
Secretary

Board of Directors

J. A. Baer II
Business Consultant; Former Chairman and Chief Executive Officer – Stix, Baer & Fuller , which operates department stores.

* W. L. Behan, Jr.
Chairman of the Board and Chief Executive Officer – Hill-Behan Lumber Company, wholesaler & retailer of lumber and allied building products.

Sam B. Cook
Chairman – Central Bancompany and its subsidiary, Central Bank, which conducts a general banking business.

* William E. Cornelius
President

* Earl K. Dille
Executive Vice President

* Charles J. Dougherty
Chairman and Chief Executive Officer

* ** Edwin S. Jones
Former Chairman of the Board – Centerre Bancorporation, a multibank holding company.

* ** Richard A. Meyer
Retired, former President – Anheuser-Busch, Inc.

John K. Riedy
Chairman of the Board and Chief Executive Officer – INTERCO, a manufacturer and retailer of consumer products and services.

* Stewart W. Smith, Jr.
Executive Vice President

** Howard L. Young
Former President and Chairman – American Zinc Company, engaged in mining and marketing of nonferrous metals.

Advisers to the Board

Isaac B. Grainger
Former President – Chemical Bank

J. W. McAfee
Former Chairman of the Board

* *Member of Executive Committee*
** *Member of Auditing Committee*

Office

1901 Gratiot Street
St. Louis, MO
(314) 621-3222

Mailing Address
P.O. Box 149
St. Louis, MO 63166

Transfer Agents

For Preferred Stock

Mercantile Trust Company
National Association
St. Louis, MO 63166

Manufacturers Hanover
Trust Company
New York, NY 10015

For Common Stock

Centerre Trust Company
of St. Louis
St. Louis, MO 63101

Manufacturers Hanover
Trust Company
New York, NY 10015

Registrars

For Preferred Stock

The Boatmen's National Bank
of St. Louis
St. Louis, MO 63166

The Chase Manhattan Bank
(National Association)
New York, NY 10015

For Common Stock

The Boatmen's National Bank
of St. Louis
St. Louis, MO 63166

Manufacturers Hanover
Trust Company
New York, NY 10015

Trustee, Transfer Agents, Registrars, and Paying Agents

For First Mortgage Bonds

Centerre Trust Company
of St. Louis, *Trustee*
St. Louis, MO 63101

Bankers Trust Company
New York, NY 10015

Statement of Policy

We are a business enterprise – dependent for success on the high quality and fair price of our service; on the skill, courtesy, and loyalty of our employees; on the confidence of our investors; and on the ability of our management to forecast and provide for the electric power requirements of our area.

In the conduct of our business, we will render service of the highest quality to our customers – promptly, courteously, and efficiently – at the lowest prices consistent with paying fair wages and affording job satisfaction and security to our employees; providing modern facilities for our customers' expanding needs for electric service; and paying a fair return to our investors who have provided the funds to make such service possible.

As a private enterprise entrusted with an essential public service, we recognize our civic responsibility in the communities we serve. We shall strive to advance the growth and welfare of these communities and shall participate in civic activities which fulfill that goal…for we believe this is both good citizenship and good business.

Union Electric Company
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