NMC
Committed to Nuclear Excellence

Kewaunee Nuclear Power Plant
Operated by Nuclear Management Company, LLC

NRC-03-046 10 CFR 50.71(b)

April 29, 2003

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

KEWAUNEE NUCLEAR POWER PLANT
DOCKET 50-305
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ANNUAL FINANCIAL REPORTS

Please find enclosed one copy of the 2002 Annual Financial Reports for WPS Resources Corporation and Alliant Energy Corporation. The enclosed reports are submitted in accordance with the requirements of 10 CFR 50.71(b).

Thomas Coutu

Thomas Coutu
Site Vice-President, Kewaunee Plant

SLC

Attachment

cc US NRC - Region III (w/o attach.)
NRC Senior Resident Inspector (w/o attach.)

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THROUGH OUR
REFINED STRATEGIC PLAN,
WE ARE DRAWING ON OUR KEY
STRENGTHS, IMPROVING OUR
FINANCIAL PROFILE
AND INVESTING
PRUDENTLY IN
TARGETED BUSINESSES. WE ARE
FOCUSED ON EXECUTING OUR
PLAN ... WITH DISCIPLINE,
VIGOR AND INTEGRITY.

FOCUS

2002 ALLIANT ENERGY ANNUAL REPORT

ALLIANT ENERGY.

CONTENTS

Surprises, uncertainty and more surprises characterized our industry in 2002. Credit markets tightened and stock prices tumbled. Alliant Energy was certainly not immune to this turbulence. We faced the global challenges ... and we confronted others specific to our company alone. In response to these obstacles, we've increased our collective focus. We've concentrated our attention on operating our businesses even more efficiently, upholding a solid credit profile, strengthening our balance sheet and refining our non-regulated business model. And we're focusing on the potential and possibilities of a very different future, rather than the issues and problems we faced in the past. O

ABOUT US

Alliant Energy Corporation, headquartered in Madison, Wis., is an energy holding company traded on the New York Stock Exchange under the symbol "LNT." The company is focused on three primary business lines: domestic utilities, international utilities in select countries and the non-regulated U.S. generation market.

This annual report contains forward-looking statements. These statements should be considered in light of the disclaimer on page 10

(Dollars in millions, except per share data)	**2002**	2001	Change
Operating revenues	**$2,609**	$2,625	(1%)
Net income:			
Income from continuing operations	**$76**	$126	(40%)
Income from discontinued operations	**$31**	$59	(47%)
Cumulative effect of a change in accounting principle	**$–**	($13)	N/A
Net income under U.S. Generally Accepted Accounting Principles (GAAP)	**$107**	$172	(38%)
Adjustments to GAAP net income (a)	**$14**	$23	N/A
Adjusted net income (b)	**$121**	$195	(38%)
Diluted earnings per average common share:			
Income from continuing operations	**$0.84**	$1.57	(46%)
Income from discontinued operations	**$0.34**	$0.73	(53%)
Cumulative effect of a change in accounting principle	**$–**	($0.16)	N/A
GAAP earnings per share	**$1.18**	$2.14	(45%)
Adjustments to GAAP earnings per share (a)	**$0.15**	$0.28	N/A
Adjusted earnings per share (b)	**$1.33**	$2.42	(45%)
Domestic utility electric sales from ultimate customers (thousands of MWh)	**25,455**	25,277	1%
Total domestic utility electric sales (thousands of MWh)	**30,457**	30,381	–
Utility gas sold and transported (thousands of dekatherms)	**103,038**	101,518	1%
Construction and acquisition expenditures (c)	**$657**	$713	(8%)
Total assets at year-end	**$7,001**	$6,238	12%
Common shares outstanding at year-end (in thousands)	**92,304**	89,682	3%
Dividends declared per common share (d)	**$2.00**	$2.00	–
Market value per share at year-end	**$16.55**	$30.36	(45%)
Book value per share at year-end	**$19.89**	$21.39	(7%)

(a) Details related to adjustments are as follows (in calculating adjusted earnings, positive numbers are added to GAAP earnings and negative numbers are subtracted from GAAP earnings):

	2002		2001	
	Net Income	**EPS**	Net Income	EPS
McLeodUSA asset valuation charge *(excluded as gains from sales of McLeodUSA stock have also been excluded in the past)*	**$17**	**$0.18**	$–	$–
Southern Hydro SFAS 133 impact *(non-cash valuation adjustment excluded)*	**(11)**	**(0.12)**	2	0.02
Senior notes (PHONES) / McLeodUSA trading securities SFAS 133 valuation charge *(non-cash valuation adjustment excluded)*	**3**	**0.03**	21	0.26
Australian tax adjustments (e) *(a U.S. tax provision was recorded on Alliant Energy's Australian earnings, including past unremitted earnings, given Alliant Energy no longer intends to reinvest such earnings indefinitely)*	**8**	**0.09**	–	–
Affordable housing tax adjustments (e) *(charges related to Alliant Energy no longer being able to state that it is more likely than not to utilize past net operating losses from this business for future tax benefits)*	**1**	**0.01**	–	–
Discontinuing depreciation, depletion and amortization of assets held for sale (e) *(under the applicable accounting rules, Alliant Energy discontinued recording these expenses for its oil and gas, affordable housing and Australian businesses effective Dec. 1, 2002)*	**(4)**	**(0.04)**	–	–
	$14	**$0.15**	$23	$0.28

(b) Adjusted net income and earnings per share are non-GAAP measures of accounting and should be evaluated in connection with GAAP information. Alliant Energy believes the presentation of adjusted results provides investors with another measure to consider, in conjunction with the GAAP results, which could provide a meaningful comparison of Alliant Energy's performance by eliminating non-cash/other charges and income that may affect comparability between years and may impact an assessment of Alliant Energy's ongoing performance. The adjustments made to Alliant Energy's GAAP results for 2002 and 2001 all relate to its non-regulated operations (Alliant Energy Resources).

(c) These amounts do not include construction and acquisition expenditures for discontinued operations of $214 million and $105 million for 2002 and 2001, respectively.

(d) Effective with the dividend declared and paid in the first quarter of 2003, Alliant Energy's targeted annual common stock dividend was reduced from $2.00 to $1.00 per share.

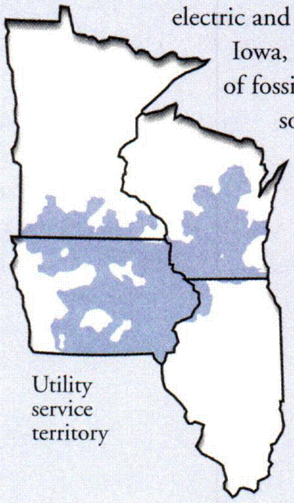
(e) Adjustments resulting from Alliant Energy's November 2002 announcement stating its intent to sell various assets in 2003. These adjustments do not reflect core operating results of the ongoing businesses.

The financial data should be read in conjunction with the audited financial statements and related notes of Alliant Energy. The reported financial data are not necessarily indicative of future operating results or financial position.

ALLIANT ENERGY. AT A GLANCE

Domestic utility operations

Our regulated domestic utility subsidiaries — Interstate Power and Light Company and Wisconsin Power and Light Company — provide reliable electric and natural gas service to 1.4 million customers in Iowa, Wisconsin, Minnesota and Illinois. Using a mix of fossil-fuel, nuclear, wind, hydroelectric and biomass sources, our utilities manufacture and market electric energy from more than 30 generation facilities across the Midwest.

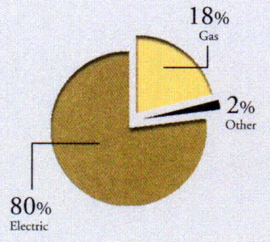


Utility service territory

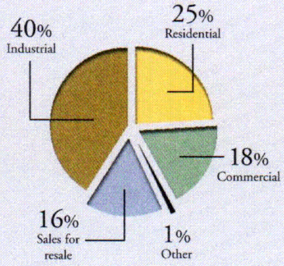
2002 STATISTICS

Maximum peak hour demand	5,729 MW
Number of electric customers	956,690
Number of gas customers	404,976
Total utility electric sales *(thousands of MWh)*	30,457
Utility gas sold and transported *(thousands of Dth)*	103,038

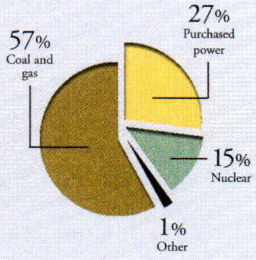
Sources of utility operating revenues



Electric sales mix



Electric power sources



Non-regulated businesses

ALLIANT ENERGY. Resources

Alliant Energy Resources, Inc., the parent company of Alliant Energy's non-regulated businesses, is focused on energy-based investments in key international markets and developing non-regulated generation in targeted areas of the United States. Alliant Energy Resources also holds interests in additional energy-related and other businesses, but is in the process of exiting certain businesses as we continue to narrow our strategic focus.

KEY PLATFORMS

International: We have established partnerships to develop energy generation and delivery systems in targeted areas. We have energy investments in Brazil, China and New Zealand. We also have operations in Australia, but are in the process of exiting this market.

Non-regulated generation: Alliant Energy Generation, Inc. was formed to build or acquire a portfolio of competitive electric generating assets in select areas of the United States. Early in 2003, this subsidiary acquired the Neenah Energy Facility in Wisconsin. The entire output of the plant (309 MW) is sold to Milwaukee-based We Energies under a contract that extends through June 2008.

* In 2002, we exited the electricity-trading business by selling our interest in Cargill-Alliant, LLC.
In early 2003, we announced our intent to sell our interest in SmartEnergy, Inc., an Internet-based energy retailer.

OTHER OPERATIONS*

Integrated Services: Alliant Energy Integrated Services Company provides a wide range of energy and environmental services for commercial, industrial and institutional customers. Services include energy infrastructure, energy procurement, environmental engineering and construction management, energy planning, and gas management.

Investments: We own the Cedar Rapids and Iowa City (CRANDIC) Railway Co. and several other relatively small transportation, telecommunications and real estate investments. In late 2002, we decided to sell our oil and gas company (Whiting Petroleum Corporation), as well as our affordable housing businesses (including Heartland Properties, Inc.).

Energy Technologies: This division helps to develop environmentally sound energy solutions by investing in leading-edge energy technologies, such as microturbines, fuel cells, solar concepts and wind turbines.

Support services

ALLIANT ENERGY. Corporate Services

Alliant Energy Corporate Services, Inc. supports the other areas of the company with traditional administrative functions, including accounting and finance, fuel procurement, supply chain, public relations, information technology, human resources, labor relations, infrastructure security, and environmental and safety management.

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Dear Fellow Shareowners,

Erroll B. Davis, Jr.
Chairman,
President and
CEO

2002 was a difficult and turbulent year. It was turbulent for the general economy, difficult for the energy industry in general and certainly challenging for Alliant Energy in particular.

Our 2002 earnings were significantly lower than we expected. In fact, they were flat-out disappointing. Last year, our net income dropped 38% from 2001 levels. To repair our balance sheet, we even had to make the painful decision to reduce our annual targeted common stock dividend rate.

These are not the results any of us have come to expect from Alliant Energy.

Undoubtedly, many events contributed to our poor financial performance. The economic decline that began in 2001 continued last year and lingers on today. The events of Sept. 11 still haunt our national policies, world politics and the international economy. The energy industry was further hammered by a crisis of confidence, which was driven by the collapse of Enron and worsened by the meltdown of Arthur Andersen and scandals in the energy-trading industry. Eventually, utilities faced the most precarious capital and credit markets I've ever seen.

But while there were problems throughout the industry, at Alliant Energy, we also had issues all our own. Our investment in Brazil again produced dismal results. Several other key non-regulated businesses also didn't live up to our expectations. And we juggled multiple rate cases in our domestic regulated utility jurisdictions.

Obviously, we cannot control everything that affects Alliant Energy's performance. But we are responsible for restoring earnings performance to the levels you expect and deserve. Thus, in November, we announced a plan to strengthen our financial position. Since that time, we have been focused on executing that plan. And, as you'll read, we are making progress.

2002 financial performance

Alliant Energy reported 2002 net income of $106.9 million and earnings per share of $1.18 under generally accepted accounting principles (GAAP), down from $172.4 million and $2.14 per share for 2001. On an adjusted basis, our net income was $121.0 million and earnings per share were $1.33, which is down from $195.1 million and $2.42 per share in 2001.

Our domestic utilities delivered slightly improved results in 2002 over 2001, as GAAP net income was $165.8 million compared to $164.9 million in 2001. Higher electric and gas margins were largely offset by the impacts of increased operating expenses and a higher effective income tax rate.

I note with great pride that, throughout the turbulent energy markets of 2002, the operational performance of our utilities remained very strong. Our employees have proven that they are able to stay focused and committed amid unusual pressure. In fact, our utility customers' satisfaction levels actually increased in 2002 over their already high levels in 2001.

However, there was little positive news on the non-regulated side of the business.

In stark contrast to Alliant Energy Resources' significant contributions to earnings in both 2000 and 2001, our non-regulated businesses reported a net loss in 2002. On a GAAP basis, the net loss was $61.0 million versus net income of $6.1 million in 2001. On an adjusted basis, Alliant Energy Resources had a net loss of $46.9 million in 2002, as opposed to net income of $28.9 million in 2001.

A variety of factors contributed to 2002's disappointing non-regulated results. For example, Whiting Petroleum reported weaker earnings due to reduced oil and gas prices, lower volumes and higher operating expenses. Oil and gas prices were stronger in the latter half of 2002, but not nearly strong enough to make up for the reduction from the record highs of early 2001.

> I note with great pride that, throughout the turbulent energy markets of 2002, the operational performance of our utilities remained very strong.

Our investment in Brazil has clearly been a drag on earnings for the last several years. While I acknowledge these negative results are unacceptable going forward, there are signs of improvement as evidenced by fourth quarter 2002 results. Although our Brazil utilities have yet to turn the corner to profitability, we believe they are headed in the right direction.

Electricity sales volumes throughout Brazil are starting to trend upward as drought-driven rationing programs are now a problem of the past. Additionally, similar to our domestic utility operations, our Brazil utilities have excellent customer service records and are highly regarded for environmental stewardship.

Despite improvement late in 2002, we will not make any capital investments in Brazil in 2003, and will re-evaluate our continued commitment to this market if we have not seen significant improvement in the financial performance of this business by the end of the year.

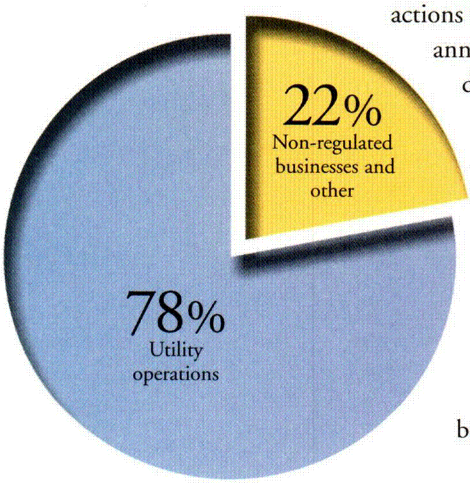
Although our investment in Brazil clearly didn't meet our expectations, our investments in China, Australia and New Zealand did, as they each produced improved results over 2001 results. In fact, together, they generated $19.1 million in GAAP earnings and $15.8 million in adjusted earnings in 2002. Unfortunately, these contributions were more than offset by the losses in Brazil.

Our comprehensive plan

Rather than continuing to reflect on the difficulties of 2002, I want to focus on the actions we're taking to ensure improved performance in 2003 and beyond.

As announced last November, we're implementing a number of necessary – but difficult – actions in order to strengthen our balance sheet and improve our financial position.

The most agonizing of those actions was reducing our annual common stock dividend to shareowners from $2 to $1 per share. While we recognize the importance most shareowners place on the income that our dividends provide, it became painfully obvious that we needed to retain more cash for operations and debt service. Maintaining our dividend at its former rate was simply no longer feasible. And, while you may disagree with some of the decisions we've made in the past, I'm sure we all agree that preserving the company's financial health is in the best interest of all stakeholders.



Total assets

(as of Dec. 31, 2002; excluding assets of discontinued operations)

Another important step in our plan to improve our financial position is refining our strategic plan. In other words, we've made a deliberate decision to narrow our business focus. Our primary objective remains unchanged: to continue providing our domestic regulated customers in the Upper Midwest with the energy they both want and need ... and to do so in the safest, most cost-effective and environmentally sensitive manner possible. We have never wavered from this commitment.

But on the non-regulated side of the business, we are making some visible changes. We're focusing on increasing non-regulated generation capacity in certain regions in the United States and refining our international strategy to energy-based investments in a few select markets.

Toward this end, we are divesting other non-regulated, non-core investments. These businesses include Whiting Petroleum; our affordable housing businesses; our Australian investment; and SmartEnergy, our budding mass marketing business. We are encouraged by the interest potential buyers have shown in these assets, and plan to complete these divestitures by the end of the year.

As noted in my November letter to you, we also plan to issue between $200 and $300 million in additional common equity later this year, subject to market conditions.

While we're taking some steps to raise capital, we're also taking others to conserve it. For example, we reduced our capital expenditure budgets for 2002 and 2003. Some sizable expenditures, including utility infrastructure and reliability investments, are still expected on the domestic regulated side of our business, as we remain steadfast in our commitment to meet the energy needs of our domestic utility customers. However, discretionary expenditures have been minimized or eliminated. Clearly, we must make some investment in our remaining non-regulated operations in order for them to provide long-term earnings growth. However, in recognition of current market conditions and our more focused approach, we will naturally seek to expand our remaining

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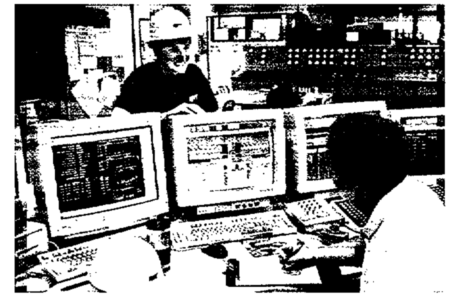
With more than 90% system availability, our coal-burning facilities delivered reliable service and surpassed industry averages in 2002.

In 2002, Plantpeddler, a Cresco, Iowa-based greenhouse business, took advantage of some of our utilities' energy-efficiency programs to keep its business growing.



Our utilities developed a combustion-optimizing program for coal-burning plants that has been proven to reduce nitrogen-oxide emissions by between 50% and 70%. Alliant Energy Resources is now marketing the program, which we've coined SmartBurn℠, to other U.S. companies. *(Pictured: Barbara Robins and Dana Maas)*

non-regulated businesses at a much slower pace than originally anticipated. We will not, for example, borrow significant capital to finance future growth. It will come organically by investing retained earnings.

We also continue to engage in prudent cost control, emphasizing process improvements through both our Six Sigma program and the Enterprise Resource Planning system we placed into service last year.

There's no question that cost cutting has been hard on our employees, as they've been asked to do more with less. But – even in the face of this challenge – our employees have continued to exceed our customers' expectations on a daily basis. I am proud of their flexibility and resilience, and also in their ability to adapt and thrive in an ever-changing market ... in an ever-changing industry.

Looking ahead

As is the case every year, 2003 will certainly present new challenges. As I write these words, war in the Middle East seems inevitable. On the domestic front, great uncertainty remains about the direction of the economy. And, at Alliant Energy, we have issues of our own.

While we have made progress in receiving rate relief in our regulated jurisdictions, there is much more work to be done. We are encouraged by the market interest in the businesses we wish to divest, but still must close the deals. We have made progress in Brazil, but have not yet turned the corner to profitability.

Success rarely comes easily. But we know what must be done. We are focused on effectively executing our plan and – ultimately – improving the value of your investment.

On a personal note, I'd like to thank and bid farewell to long-time Board members Lee Liu and Joyce Hanes, who will retire following our 2003 Annual Meeting of Shareowners. Combined, they have given nearly 70 years of service to this company and have provided impeccable leadership and guidance through both the good times and the challenging times. I offer a special thanks to Mr. Liu for his distinguished service as the first Chairman of the Board and in his most recent role as Vice Chairman of the Board of Alliant Energy.

In closing, I want to express the resolve of your management team to meet the challenges we are facing in 2003. Although I have been displeased with our short-term performance, I have never been discouraged about Alliant Energy's long-term potential. I've never sold any of my LNT shares, nor do I intend to do so in the foreseeable future. I firmly believe in Alliant Energy and the outstanding people who work here.

As we continue through 2003, we'll go about proving our resiliency, strong character and solid earnings potential to you – our shareowners – and to the customers and communities we are privileged to serve.

On behalf of the entire Board of Directors, I thank you for your continued support in these most challenging of times. O

Sincerely,

Erroll B. Davis, Jr.
Chairman, President and CEO
March 18, 2003

Straight talk with Erroll Davis

How would you characterize the financial condition of Alliant Energy?

Our 2002 earnings were not good, but our overall financial condition remains solid.

I could write volumes on the chain of events that contributed to the challenges of 2002. But the highlights at Alliant Energy included multiple rate cases on the domestic regulated side of our business and challenges in our Brazil investments on the non-regulated side. Additionally, the entire industry was tested by economic recession, backlash from corporate scandals and the virtual collapse of credit markets throughout the utility sector. In 2000, one in 20 utilities had junk bond status. Today that number is one in five.

In this volatile environment, even the slightest of bad news can cause market values to fall. And our stock price – as well as those of many other diversified utilities – dropped dramatically during 2002. In 2002, our total return to shareowners was a negative 40.3%, while the total shareowner return from the Standard and Poor's (S&P) Utilities Index was a negative 30%.

But we didn't just sit idly by and wait for things to turn around. In response to weak earnings performance, we developed a comprehensive plan to strengthen our balance sheet and improve our financial fundamentals. The primary steps in our plan include reducing our targeted common stock dividend rate, divesting certain non-core businesses, issuing common equity, reducing our 2002 and 2003 capital expenditure budgets and implementing additional cost-control measures.

> Domestic electric and natural-gas utilities are the foundation of Alliant Energy and a core business platform going forward.

And we have made progress. We continue to maintain investment-grade credit ratings with both Moody's and S&P, and we successfully obtained credit facilities and financings totaling almost $2 billion in the fourth quarter of 2002, thereby strengthening our liquidity position and demonstrating our ability to access capital markets even in the most adverse times.

Looking back, 2002 presented an opportunity for us to sharpen our approach and build on our strong fundamentals. And we seized that opportunity. Today we are a more focused company. We're focused on successfully implementing our refined strategic plan to improve the value of your investment.

In last year's annual report, you talked at length about your strategic plan. How would you characterize that plan today?

Our strategic plan originally called for a narrowing of focus. The difference today is the pace and scope of that refinement have been accelerated. We will continue to be a diversified energy company with domestic utility holdings as the foundation of our business. Because our four-state utility service territory is generally not considered a high- or even modest-growth energy market, prudent diversification simply must continue to be a part of our strategic mix.

However, we are in the process of narrowing our non-regulated business portfolio to primarily include energy-based investments in targeted international markets and competitive generation assets in select regions of the United States. With this change, we're reducing our overall risk profile. We are now seeking to achieve more moderate – but solid and less volatile – growth. Additionally, we continue to be focused on improving cash flow, reducing debt and strengthening our financial profile. Obviously, we also remain committed to maintaining both operational excellence and high levels of customer satisfaction in all of our businesses.

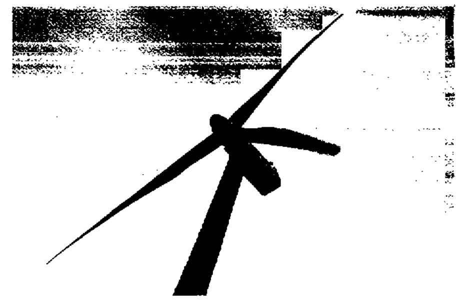
Why did you reduce the dividend?

While our targeted dividend payout ratio had been significantly above the industry average for a number of years, our plan was to maintain that generous dividend and "grow" into a more typical payout ratio over time. Obviously, we understood that we could not sustain a targeted dividend payout ratio of near or even greater than 100% of earnings.

However, early in 2002, we believed that our weak earnings performance was an aberration, and we could continue to be patient and wait for earnings growth from our non-regulated businesses. The reality is that, in 2000 and 2001, it would have been nearly impossible to maintain our previous dividend payout with utility earnings alone. We were able to maintain the dividend, however, because of the growth of our non-regulated earnings. When these earnings declined in 2002, the market sent clear signals to us that it believed we could not sustain our dividend.

In 2002, Alliant Energy employees continued to deliver exceptional customer service. National surveys ranked Alliant Energy's utilities second in the Midwest and eighth among the 74 largest utilities in the nation in terms of overall customer satisfaction. *(Pictured: Ernest White, Customer Service Coordinator)*

In September 2002, Alliant Energy participated in an emergency responders' drill in Tomah, Wis., to practice procedures in the event of a natural or man-made disaster.



Through our Second Nature™ program, utility customers can purchase electricity from renewable energy sources. A 2003 study by the National Renewable Energy Lab ranked Second Nature the seventh-largest renewable energy program in the United States.

In order to maintain solid credit ratings and strengthen our balance sheet, we could no longer afford to take the time to grow into an average targeted dividend payout. We also could not afford for this to be an issue in our 2003 stock offering. Thus, we decided to lower the targeted dividend and retain more cash for debt service and operations.

This was a very difficult, but necessary, decision. We certainly regret the impact this reduction may have on you. However, maintaining the financial health of our company is in the best interest of all stakeholders — you, our shareowners, as well as our customers, communities, vendors and employees.

Will the dividend be restored to its previous level when earnings return to higher levels?

Alliant Energy's Board of Directors reviews the targeted dividend policy on an ongoing basis and assesses a wide range of issues regarding whether or not to change the targeted dividend. While we fully understand how important the dividend is to investors, at this time, we cannot make any commitments about what our dividend will be in the future.

However, we believe our dividend is sustainable at its current targeted annual rate of $1 per common share. And, as our earnings grow in the future, we will again review and consider updating our dividend policy.

How long will it be until you return to the earnings levels of 2000 and 2001?

Given the state of the present economy, one thing is clear: It will not happen overnight, and we are not yet in a position to make such a prediction. Obviously, issuing new common equity and adopting a more focused approach to our strategic plan will play a role in our performance for 2003. While quarter-to-quarter and year-to-year results are important, our focus will continue to be on long-term, sustainable growth, resulting in increased shareowner value over time.

Are you planning to exit the domestic utility industry?

Absolutely not! Domestic electric and natural-gas utilities are the foundation of Alliant Energy and a core business platform going forward. Today, we provide 1.4 million customers in the Upper Midwest with safe, reliable and environmentally sound energy. We take that responsibility very seriously.

As part of our effort to narrow our strategic focus, we do intend, however, to pursue selling our water utilities as soon as practicable.

How is the company progressing in receiving rate relief across its regulated service territories?

We are very proud of our utilities' record of operational excellence. That does, of course, take money. Therefore, our utility subsidiaries have filed requests for rate increases in both Iowa and Wisconsin to recover these costs and secure a fair rate of return for shareowners.

Our utilities have received fair decisions on interim relief in Iowa and Wisconsin since our utility rate freezes ended in 2002, and reasonable final decisions on two retail cases in Wisconsin. We expect to receive a final decision on our Iowa utility's retail electric and gas cases in the second quarter.

Our utilities expect to file additional cases in various jurisdictions and continue to promote new policies over the coming months. While not always popular, it is necessary. For example, when Interstate Power and Light Company's new, and much needed, natural gas-fired plant comes on-line in Iowa during the summer of 2004, it will immediately begin providing benefits to customers. Under legislation passed in Iowa in 2001, we know in advance what the ratemaking principles for the plant will be, which is a significant positive step. Absent this new legislation, it would have been unlikely we could have made this important investment. In short, investments in reliability that provide benefits to customers go hand-in-hand with the process to recover the cost. This will continue to result in Alliant Energy working to promote policies that encourage investment in utility generation infrastructure and also in filing rate cases.

In general, our experience in the most recent rate cases shows that regulators are very committed to striking the appropriate balance between providing reasonable rates for customers and fair returns for investors.

You've been pointing to problems in Brazil for more than a year. Why don't you simply sell that investment?

We believe selling our investment in Brazil at this time would not produce results that reflect its long-term value. Thus, selling now would not be a prudent or responsible business decision. Further, as evidenced by stronger fourth quarter 2002 results, we have made progress on the operations side of the business. We also have received significant rate relief at one of our utilities there. In short, while the financial results in Brazil have been disappointing to date, there are many reasons to expect improved financial performance in 2003.

Are you eliminating all of your non-regulated businesses?

No. We remain committed to a much narrower scope of diversified businesses primarily centered around two growth platforms: energy-based investments in key international markets and non-regulated generation assets in select regions of the United States. In 2000 and 2001, our non-regulated businesses contributed significantly to earnings, which in turn, contributed significantly to our financial success in those years.

That said, we are working to harvest the value of the non-regulated businesses that are not part of our long-term core strategy or that are subject to significant earnings volatility. The timing of these moves is subject to the marketplace, but we hope to finalize the sale of Whiting Petroleum, our affordable housing businesses, our Australian investment and SmartEnergy by the end of 2003. We are also exploring exits from other non-core investments and subsidiaries.

How would you describe your responsibilities as a corporate citizen?

Our business starts with the customer. Therefore, outstanding customer service is our primary objective. That said, we also recognize our responsibility to provide you, our shareowners, with a fair return on your investment. We also support community events, economic development programs and environmental stewardship efforts. Through the Alliant Energy Foundation, we reach out to customers and communities through innovative and strategic-giving programs. Additionally, we provide competitive salaries and benefits, as well as a safe and diverse work environment for all of our employees.

But any comments on corporate responsibility would certainly not be complete without noting that all publicly traded companies must recognize that truthfulness and transparency are vital not only to their own credibility and stability, but also to the effectiveness of their organizations. And it's not as much about policies and new rules as it is about people. Ultimately, it is the people within corporations – particularly senior management – who must instill ethical philosophies and practices into the organization's very culture. In spite of difficult and trying times, at Alliant Energy, we continue to do just that. O

Financial information

CONTENTS

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

A listing of abbreviations and acronyms used in the text and notes of this report is on page 62.

Forward-Looking Statements

Statements contained in this report that are not of historical fact are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, such statements. Some, but not all, of the risks and uncertainties include: factors listed in "Other Matters - Other Future Considerations;" weather effects on sales and revenues; economic and political conditions in Alliant Energy's domestic and international service territories; federal, state and international regulatory or governmental actions, including the ability to obtain adequate and timely rate relief, including recovery of operating costs and earning reasonable rates of return, and to pay expected levels of dividends; Alliant Energy's proposed asset divestitures at expected values and on expected timelines; unanticipated construction and acquisition expenditures; issues related to the supply of purchased electricity and price thereof including the ability to recover purchased-power and fuel costs through rates; risks related to the operations of Alliant Energy's nuclear facilities; costs associated with Alliant Energy's environmental remediation efforts and with environmental compliance generally, developments that adversely impact Alliant Energy's ability to implement its strategic plan; improved results from Alliant Energy's Brazil investments and no material adverse changes in the rates allowed by the Brazilian regulators; improved performance by Alliant Energy's other non-regulated businesses as a whole; no material permanent declines in the fair market value of, or expected cash flows from, Alliant Energy's investments; continued access to the capital markets; Alliant Energy's ability to continue cost controls and operational efficiencies; Alliant Energy's ability to identify and successfully complete proposed acquisitions and development projects; access to technological developments; employee workforce factors, including changes in key executives, collective bargaining agreements or work stoppages; and changes in the rate of inflation. Alliant Energy assumes no obligation, and disclaims any duty, to update the forward-looking statements in this report.

Strategic Actions

In November 2002, Alliant Energy's Board of Directors approved five strategic actions designed to maintain a strong credit profile for Alliant Energy, strengthen its balance sheet and position Alliant Energy for improved long-term financial performance. The five strategic actions, which signaled a shift to less aggressive growth targets driven primarily by Alliant Energy's utility operations, included:

1. A commitment to pursue the sale of, or other exit strategies for, a number of non-regulated businesses, including Alliant Energy's oil and gas (Whiting), Australian (including Southern Hydro) and affordable housing businesses. For accounting purposes, such businesses have been classified as available for sale, and the operating results of these businesses have been separately classified and reported as discontinued operations, in the Consolidated Financial Statements. Alliant Energy anticipates strengthening its liquidity position by up to $800 million to $1 billion from reductions in consolidated debt and increasing its cash and temporary cash investment balances as a result of these transactions. The amount of proceeds ultimately received from these divestitures, and the timing of the completion of the transactions, are subject to a variety of factors, including the transaction structures Alliant Energy utilizes to exit these businesses. In January 2003, Alliant Energy also decided to sell SmartEnergy which was classified as held and used, and its operating results were included in continuing operations, in the Consolidated Financial Statements. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for further discussion.
2. A reduction in Alliant Energy's targeted annual common stock divided from $2.00 per share to $1.00 per share, effective with the dividend declared and paid in the first quarter of 2003.
3. Reductions in Alliant Energy's aggregated anticipated 2002 and 2003 construction and acquisition expenditures by approximately $400 million.
4. A plan to raise approximately $200 to $300 million of common equity in 2003, dependent on market conditions. Alliant Energy expects to direct the majority of the proceeds towards additional capital investments in its regulated domestic utilities.
5. The implementation of additional cost control measures to be accomplished through Alliant Energy's new Six Sigma program, the operation of its new enterprise resource planning system that was placed in service in October 2002 and by a heightened focus on operating its domestic utility business in a manner that aligns operating expenses with the revenues granted in its various rate filings.

Alliant Energy is continuing in its efforts to implement these strategic actions. Refer to "Other Matters - Other Future Considerations - Asset Sales" for discussion of an agreement Alliant Energy recently entered into related to the sale of its Australian business.

Rates and Regulatory Matters

Overview - Alliant Energy has two primary utility subsidiaries, IP&L and WP&L. IP&L was formed as a result of the merger of IPC with and into IESU effective Jan. 1, 2002. WP&L has one utility subsidiary, South Beloit.

As a public utility holding company with significant utility assets, Alliant Energy competes in an ever-changing utility industry. Electric energy generation, transmission and distribution are in a period of fundamental change resulting from legislative, regulatory, economic and technological changes. These changes impact competition in the electric wholesale and retail markets as customers of electric utilities are being offered alternative suppliers. Such competitive pressures could result in electric utilities losing customers and incurring stranded costs (i.e., assets and other costs rendered unrecoverable as the result of competitive pricing), which would be borne by security holders if the costs cannot be recovered from customers.

Alliant Energy's utility subsidiaries are currently subject to regulation by FERC, and state regulation in Iowa, Wisconsin, Minnesota and Illinois. FERC regulates competition in the electric wholesale power generation market and each state regulates whether to permit retail competition, the terms of such retail competition and the recovery of any portion of stranded costs that are ultimately determined to have resulted from retail competition. Alliant Energy cannot predict the timing of a restructured electric industry or the impact on its financial condition or results of operations but does believe it is well-positioned to compete in a deregulated competitive market. Although Alliant Energy ultimately believes that the electric industry will be deregulated, the pace of deregulation in its primary retail electric service territories has been delayed due to more recent developments in the industry.

Certain Recent Developments - In July 2002, FERC issued a notice of proposed rules intended to standardize the wholesale electric market, which has generated significant industry discussion. Although Alliant Energy believes that standardization of the wholesale electric market is appropriate and would benefit market participants, there may be significant changes to the proposed rules before they are adopted. Therefore, Alliant Energy cannot determine the impact the final rules will have on its results of operations or financial condition.

Alliant Energy's merger-related price freezes expired in April 2002 in all of its primary domestic utility jurisdictions and it is currently addressing the recovery of its utility cost increases through numerous rate filings. WP&L has received final orders in two of its rate cases and IP&L and WP&L currently have four other rate cases pending. Details of these rate cases are as follows (dollars in millions):

Case	Utility Type	Filing Date	Increase Requested	Interim Increase Granted (1)	Interim Effective Date	Final Increase Granted	Final Effective Date	Expected Final Effective Date	Notes
WP&L:									
2002 retail	E/G/W	Aug. 2001	$104	$49	April 2002	$82	Sept. 2002	N/A	(2)
2003 retail	E/G/W	May 2002	101	TBD	TBD	TBD	TBD	April 2003	
2004 retail	E/G/W	March 2003	65	TBD	TBD	TBD	TBD	Jan. 2004	
Wholesale	E	Feb. 2002	6	6	April 2002	3	Jan. 2003	N/A	(3)
IP&L retail	E	March 2002	82	15	July 2002	TBD	TBD	June 2003	(4)
IP&L retail	G	July 2002	20	17	Oct. 2002	TBD	TBD	July 2003	
Total			$378	$87		$85			

(1) Interim rate relief is implemented, subject to refund, pending determination of final rates.

(2) In its September 2002 final order, the PSCW increased the authorized return on common equity from 11.7% to 12.3%.

(3) In the fourth quarter of 2002, WP&L reached a settlement agreement with certain wholesale customers for an annual increase of $3 million and a refund of amounts previously collected in excess of the settlement. The settlement agreement was approved by FERC in January 2003. At Dec. 31, 2002, WP&L had reserved all amounts related to the anticipated refund.

(4) In accordance with the interim rate relief rules in Iowa, IP&L only requested interim rate relief of $22 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

A significant portion of the rate increases included in the previous table reflect the recovery of anticipated increased costs incurred by IP&L and WP&L, or costs they expect to incur, thus the increase in revenues related to these cost increases would not result in a corresponding increase in income. IP&L, WP&L and South Beloit are currently in the process of determining what other rate case filings may be necessary in 2003.

WP&L's retail electric rates are based on annual forecasted fuel and purchased-power costs. Under PSCW rules, WP&L can seek emergency rate increases if the annual costs are more than 3% higher than the estimated costs used to establish rates. For 2001 and 2002, any collections in excess of costs incurred must be refunded, with interest. Accordingly, WP&L has established a reserve due to overcollection of past fuel and purchased-power costs and expects to refund such amount in 2003. The final ruling from the PSCW could result in an increase or decrease to the reserve that has been recorded.

The PSCW has issued new rules relating to the collection of fuel and purchased-power costs by Wisconsin utilities, including WP&L. The new rules and related procedures are intended, among other things, to significantly reduce regulatory lag for the utilities and customers related to the timing of the recovery of increased or decreased fuel and purchased-power costs. Purchased-power capacity costs will now be included in base rates. A process will also exist whereby the utilities can seek deferral treatment of capacity, transmission and emergency costs between base rate cases. The new rules are expected to be implemented for WP&L with its pending 2003 retail rate case.

In 2002, IP&L filed with the IRS for a change in method of accounting for tax purposes for 1987 through 2001 that would allow a current deduction related to mixed service costs. Such costs had previously been capitalized and depreciated for tax purposes over the appropriate tax lives This change would create a significant current tax benefit which has not been reflected in Alliant Energy's results of operations pending a decision from the IUB on the required rate making treatment of the benefit. There would be no material negative impact on Alliant Energy's results of operations or financial position should the IUB and/or IRS reject IP&L's proposal.

Results of Operations

Unless otherwise noted, all "per share" references in the Results of Operations section refer to earnings per diluted share. Refer to Note 1(a) of the "Notes to Consolidated Financial Statements" for discussion of the various components of Alliant Energy's business.

Overview - Alliant Energy's EPS for 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Income from continuing operations	**$0 84**	$1 57	$4 18
Income from discontinued operations	**0 34**	0 73	0 64
Cumulative effect of changes in accounting principle	**—**	(0 16)	0 21
Net income	**$1.18**	$2 14	$5 03

Income from continuing operations in 2002 and 2001 included $0.46 per share and $0.26 per share, respectively, of valuation charges incurred in its non-regulated businesses. Income from continuing operations in 2000 included $2.37 per share of non-cash income related to Alliant Energy's adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." In addition to the higher valuation charges, the lower 2002 income from continuing operations was primarily the result of lower earnings from Alliant Energy's non-regulated businesses. This was primarily due to a net loss of $47 million from Alliant Energy's Brazil investments in 2002, compared to a net loss of $24 million in 2001, lower earnings from Alliant Energy's Mass Marketing business and higher interest expense Improved results from Alliant Energy's China and New Zealand businesses partially offset the lower non-regulated results. Income from Alliant Energy's domestic utility business increased slightly in 2002 as higher electric and gas margins were largely offset by increased operating expenses and a higher effective income tax rate.

Domestic Electric Utility Margins - Electric margins and MWh sales for Alliant Energy were as follows (in thousands):

	Revenues and Costs					MWhs Sold				
	2002	2001	*	2000	**	**2002**	2001	*	2000	**
Residential	**$626,947**	$599,074	5%	$567,283	6%	**7,616**	7,344	4%	7,161	3%
Commercial	**376,365**	373,145	1%	349,019	7%	**5,542**	5,464	1%	5,364	2%
Industrial	**526,804**	543,471	(3%)	501,155	8%	**12,297**	12,469	(1%)	13,092	(5%)
Total from ultimate customers	**1,530,116**	1,515,690	1%	1,417,457	7%	**25,455**	25,277	1%	25,617	(1%)
Sales for resale	**160,335**	184,507	(13%)	173,148	7%	**4,805**	4,936	(3%)	4,906	1%
Other	**62,083**	56,359	10%	57,431	(2%)	**197**	168	17%	174	(3%)
Total revenues/sales	**1,752,534**	1,756,556	—	1,648,036	7%	**30,457**	30,381	—	30,697	(1%)
Electric production fuels expense	**286,474**	292,002	(2%)	271,073	8%					
Purchased-power expense	**362,501**	403,166	(10%)	294,818	37%					
Margin	**$1,103,559**	$1,061,388	4%	$1,082,145	(2%)					

* Reflects the percent change from 2001 to 2002. ** Reflects the percent change from 2000 to 2001.

To comply with FERC regulatory requirements governing transmission systems, WP&L transferred its transmission assets to ATC on Jan. 1, 2001, in exchange for cash and an equity ownership in ATC. The wheeling expenses from ATC included in electric margin in 2002 and 2001 were offset by equity income (WP&L accounts for its investment in ATC under the equity method), reduced other operation and maintenance expenses and lower depreciation expense, resulting in no significant net income impact due to the formation of ATC. On a comparable basis, electric margin increased $42.2 million, or 4%, and $9.6 million, or 1%, for 2002 and 2001, respectively. The 2002 increase was primarily due to the impact of rate increases implemented in 2002, more favorable weather conditions, lower purchased-power and fuel costs and continued modest retail customer growth. These increases were partially offset by reduced energy conservation revenues (which were largely offset by lower energy conservation expense) and the impact of a sluggish economy. The 2001 increase was primarily due to lower purchased-power and fuel costs impacting margin, increased residential and commercial sales due to more favorable weather conditions in 2001 compared to 2000 and continued retail customer growth. These items were partially offset by $10 million of income recorded in 2000 for a change in estimate of WP&L's utility services rendered but unbilled at month-end due to the implementation of a refined estimation process and lower industrial sales, largely due to impacts of a slowing economy.

Gas Utility Margins - Gas margins and Dth sales for Alliant Energy were as follows (in thousands):

	Revenues and Costs					Dths Sold				
	2002	2001	*	2000	**	**2002**	2001	*	2000	**
Residential	**$218,746**	$270,248	(19%)	$245,697	10%	**30,931**	29,580	5%	32,026	(8%)
Commercial	**111,343**	141,121	(21%)	127,104	11%	**19,348**	18,055	7%	19,696	(8%)
Industrial	**25,177**	31,262	(19%)	27,752	13%	**5,373**	5,344	1%	5,350	—
Transportation/other	**38,720**	45,246	(14%)	14,395	214%	**47,386**	48,539	(2%)	43,931	10%
Total revenues/sales	**393,986**	487,877	(19%)	414,948	18%	**103,038**	101,518	1%	101,003	1%
Cost of utility gas sold	**248,994**	360,911	(31%)	278,734	29%					
Margin	**$144,992**	$126,966	14%	$136,214	(7%)					

* Reflects the percent change from 2001 to 2002. ** Reflects the percent change from 2000 to 2001.

Gas revenues and cost of utility gas sold were unusually high in 2001 due to increased natural gas prices in the first half of 2001. Due to Alliant Energy's rate recovery mechanisms for gas costs, these price differences alone had little impact on gas margin. Gas margin increased $18.0 million, or 14%, and decreased $9.2 million, or 7%, for 2002 and 2001, respectively. The 2002 increase was largely due to the impact of several rate increases implemented in 2002, improved results from WP&L's performance-based commodity cost recovery program (which are shared by ratepayers and shareowners), continued modest retail customer growth and the negative impact high gas prices in early 2001 had on gas consumption during that period. These increases were partially offset by reduced energy conservation revenues (which were largely offset by lower energy conservation expenses). The 2001 decrease was largely due to lower retail sales primarily related to the unusually high gas prices in early 2001 as some customers either chose alternative fuel sources or used less natural gas, the impact of the slowing economy and losses associated with performance-based commodity costs at WP&L. Alliant Energy realized pre-tax income of $0, $4 million and $2 million from weather hedges it had in place in 2002, 2001 and 2000, respectively, which is recorded in "Miscellaneous, net" in the Consolidated Statements of Income.

Refer to Note 1(j) of the "Notes to Consolidated Financial Statements" for information relating to utility fuel and natural gas cost recovery. Refer to Note 2 of the "Notes to Consolidated Financial Statements" and "Rates and Regulatory Matters" for discussion of various rate filings.

Non-regulated and Other Revenues - Details regarding Alliant Energy's non-regulated and other revenues are as follows (in millions):

	2002	2001	2000
Integrated Services	**$259**	$242	$172
International	**103**	85	—
Mass Marketing	**47**	7	1
Investments	**26**	27	29
Other (includes eliminations)	**27**	19	15
	$462	$380	$217

The 2002 Integrated Services increase was primarily due to higher natural gas sales, partially offset by decreased gas prices and lower energy services revenues. The increased International revenues for 2002 were primarily due to the 2001 acquisitions of additional combined heat and power facilities in China. Mass Marketing revenues for 2002 increased due to the fourth quarter 2001 acquisition of a controlling interest in SmartEnergy, an energy services company operating in competitive energy markets. The 2001 Integrated Services increase was primarily due to acquisitions in the third and fourth quarters of 2000 of various energy services businesses. The 2001 International increase resulted from the December 2000 change from the equity method of accounting to the consolidation method for an investment in China and the addition of five combined heat and power facilities to Alliant Energy's China portfolio during the fifteen months prior to Dec 31, 2001.

Other Operating Expenses - Other operation and maintenance expenses were as follows (in millions):

	2002	2001	2000
Utility	**$555**	$509	$497
Integrated Services	**242**	229	158
International	**83**	69	4
Mass Marketing	**57**	8	2
Investments	**15**	16	18
Other (includes eliminations)	**5**	(3)	8
	$957	$828	$687

The 2002 utility increase was primarily due to increased fossil and nuclear generation, employee benefit and energy delivery expenses, partially offset by lower energy conservation expenses and decreased uncollectible customer account balances. Alliant Energy is addressing these cost increases in various utility rate proceedings that are currently pending. The 2001 utility increase was primarily due to higher transmission wheeling and other costs in Alliant Energy's energy delivery business unit, increased nuclear operating costs (partially due to a planned refueling outage at Kewaunee in 2001), higher uncollectible customer account balances largely due to the unusually high gas prices earlier in the year and higher costs in the generation business unit. These increases were partially offset by the impact of the formation of ATC earlier in 2001, as discussed in "Domestic Electric Utility Margins."

The Integrated Services, International and Mass Marketing variances were largely driven by the same factors impacting the revenue variances discussed previously. The Mass Marketing 2002 increase was also impacted by increases in the provisions for uncollectible accounts at SmartEnergy in 2002. Charges of $5 million and $2 million are included in "Other" in 2002 and 2001, respectively, for cancelled generation projects in Alliant Energy's Non-regulated Generation business unit. The 2001 Integrated Services increase was partially offset by a one-time charge of $4 million related to a loss on a contract in 2000.

Depreciation and amortization expense increased $8.0 million and $5.9 million in 2002 and 2001, respectively. Contributing to both increases were utility property additions, acquisitions at the non-regulated businesses and increased regulatory and software amortizations. Increased earnings on the WP&L nuclear decommissioning trust fund also contributed to the 2002 increase. The 2002 increase was partially offset by lower expenses due to: a decrease of $14 million from implementation of lower depreciation rates at IP&L on Jan. 1, 2002, resulting from an updated depreciation study; lower decommissioning expense based on reduced retail funding levels at WP&L; and the elimination of $5 million of goodwill amortization expense in compliance with new accounting rules effective in 2002. The 2001 increase was partially offset by the impact of the formation of ATC in 2001, as discussed in "Domestic Electric Utility Margins," and lower earnings on the WP&L nuclear decommissioning trust fund. The accounting for earnings on the nuclear decommissioning trust fund results in no net income impact. Miscellaneous, net income increases for earnings on the trust fund and the corresponding offset is recorded through depreciation expense at WP&L.

Taxes other than income taxes increased $2.1 million and $4.4 million in 2002 and 2001, respectively, primarily due to increased property taxes in 2002 and increased gross receipts and payroll taxes in 2001.

Interest Expense and Other - Interest expense increased $0.9 million and $17.5 million in 2002 and 2001, respectively. Both increases were impacted by higher non-regulated borrowings, partially offset by the impact of lower interest rates on Alliant Energy's variable rate borrowings. The 2002 increase was also partially offset by lower short-term debt borrowings at the Alliant Energy parent level, largely due to the impact of proceeds received in November 2001 from a common equity offering.

Alliant Energy recorded income tax and associated interest income of $0.13 per share in 2001 related to a ruling in a tax refund case. The federal government decided in the fourth quarter of 2001 not to pursue the ruling in favor of Alliant Energy by the U.S. Court of Appeals for the 8th Circuit dealing with capital losses disallowed under audit by the IRS and certain related deductions. An additional potential refund of approximately $14 million, plus interest, remains a contested issue in this case. Alliant Energy cannot offer any assurance it will be successful in obtaining this additional refund and has not recognized any income for the potential additional refund.

Equity income (loss) from Alliant Energy's unconsolidated investments was as follows (in millions):

	2002	2001	2000
ATC (began operations 1/01)	**$14**	$15	$ —
New Zealand	**4**	—	3
China*	**2**	2	1
Cargill-Alliant (sold in 2002)	**1**	7	15
Synfuel (began operations 5/02)	**(13)**	—	—
Brazil	**(23)**	(4)	3
Other	**2**	(1)	(3)
	($13)	$19	$19

* Majority of investments are accounted for under the consolidation method.

Equity income from unconsolidated investments decreased $32 million in 2002. The differences in income from New Zealand during the three years were largely due to the 2001 results being depressed because of drought conditions. The lower earnings in 2002 and 2001 at Cargill-Alliant were impacted by fewer weather-related trading opportunities and less volatile market prices. Refer to "Liquidity and Capital Resources - Sales of Non-strategic Assets" for discussion relating to Alliant Energy's sale of this investment in 2002. In the second quarter of 2002, Synfuel, a direct subsidiary of Resources, purchased an equity interest in a synthetic fuel processing facility. The synthetic fuel project generates operating losses at its fuel processing facility, which are more than offset by tax credits and the tax benefit of the losses the project generates. All tax benefits are included in "Income taxes" in the Consolidated Statements of Income. The lower 2002 results from the Brazil investments were largely due to losses incurred by Alliant Energy's investment in a gas-fired generating plant, charges incurred in 2002 related to the recovery of the impacts of rationing and other prior costs and higher interest expense. The loss from the generating plant was due to the impact of a significant decline in the currency rates associated with the debt issued to finance the plant and a depressed wholesale energy market in 2002. Increased electric sales volumes in 2002 compared to 2001, largely due to the impacts of the drought-driven rationing program that was in place for approximately seven months in 2001 compared to only two months in 2002, partially offset the lower Brazil earnings. The 2001 Brazil results included a charge related to the impacts of a settlement reached between the Brazilian government and the distribution companies on the economic resolution of various cost recovery issues.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Refer to Note 9 of the "Notes to Consolidated Financial Statements" for discussion of the asset valuation charges recorded by Alliant Energy in 2002 related to its McLeod available-for-sale securities.

On July 1, 2000, Alliant Energy adopted SFAS 133 for its consolidated entities. Related to the adoption, Alliant Energy recorded a $321.3 million pre-tax gain from the designation of a portion of Alliant Energy's McLeod holdings as trading securities. This gain related to the unrealized appreciation in value of approximately 27% of Alliant Energy's McLeod holdings that were designated as trading as of the adoption date.

Miscellaneous, net income decreased $12.7 million and $26.7 million in 2002 and 2001, respectively. The 2002 decrease was due to the recording of pre-tax asset valuation charges of $10 million and $9 million related to Alliant Energy's Energy Technologies and Enermetrix, Inc. investments, respectively, lower interest income (the 2001 results included $10 million from tax settlements), a pre-tax goodwill impairment charge of $7 million at SmartEnergy and gains from asset sales realized in 2001. These decreases were partially offset by lower pre-tax, non-cash SFAS 133 valuation charges of $29 million, related to the net change in the value of the McLeod trading securities and the derivative component of Resources' exchangeable senior notes, and increased earnings on WP&L's nuclear decommissioning trust fund. The 2001 decrease was largely due to higher pre-tax, non-cash SFAS 133 valuation charges of $33 million related to the net change in the value of the McLeod trading securities and the derivative component of Resources' exchangeable senior notes, reduced nuclear decommissioning trust fund earnings and lower gains from asset sales. These decreases were partially offset by higher interest income, including the $10 million from tax settlements in 2001. Alliant Energy realized $0, $4 million and $2 million of income from weather hedges in 2002, 2001 and 2000, respectively.

Refer to Note 10(a) of the "Notes to Consolidated Financial Statements" for additional information related to the exchangeable senior notes embedded derivative, the McLeod trading securities and the cumulative effect of changes in accounting principle.

<u>Income Taxes</u> - The effective income tax rates for Alliant Energy's continuing operations were 30.5%, 27 6% and 40 1% in 2002, 2001 and 2000, respectively. Refer to Note 5 of the "Notes to Consolidated Financial Statements" for additional information.

<u>Income from Discontinued Operations</u> - The 2002 decrease of $28 million in income from discontinued operations was largely due to lower earnings from Alliant Energy's oil and gas (Whiting) business due to lower prices, higher operating expenses and lower gains from dispositions of oil and gas properties in 2002 compared to 2001. Tax adjustments recorded in 2002 related to Alliant Energy's decision to sell its Australian (Southern Hydro) and affordable housing businesses also contributed to the lower income. The 2002 decrease was partially offset by higher oil and gas sales volumes at Whiting and higher earnings from Southern Hydro due to increased generation and sales of renewable energy credits earned through the generation of hydropower. The 2001 increase in income was largely due to non-cash SFAS 133 income in 2001 related to the valuation of electricity derivatives at Southern Hydro and higher earnings from Whiting which resulted from higher gas prices earlier in 2001, increased oil and gas sales volumes and income from a reduction in the estimated dismantlement cost of an offshore oil and gas platform. The 2001 increase was partially offset by approximately $16 million of income from gains on the sale of 1.3 million shares of McLeod in 2000 by Alliant Energy's affordable housing business. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for further discussion of Alliant Energy's discontinued operations

Liquidity and Capital Resources

<u>Overview</u> - Alliant Energy's recent and proposed financing activities have been and will be undertaken against a backdrop of increased market concerns about general economic conditions and corporate governance issues as well as risks associated with particular sectors of the economy, including the energy industry. As a result of these factors, capital markets have become more restrictive. The commercial paper market, for example, has become more limited for many companies in terms of the amounts of available capital and the corresponding maturities. Medium- and long-term debt markets have become sensitive to increased credit ratings volatility and to a

heightened perception of liquidity risk in the energy sector. As a result, investors have become more selective and have differentiated among otherwise comparable issuers in a way that has made the financing process more challenging. In response to these changing market conditions, Alliant Energy is working closely with its financial advisors and others to access the capital it needs to operate its businesses. Based on its strong cash flows coupled with actions Alliant Energy expects to take to strengthen its balance sheet, Alliant Energy currently believes it will be able to secure the capital it requires to implement its refined strategic plan. Alliant Energy believes its ability to secure additional capital will be significantly enhanced by the completion of the actions addressed in "Strategic Actions," including the divestiture of selected businesses.

Alliant Energy's capital requirements are primarily attributable to its utility subsidiaries' construction and acquisition programs, Resources' acquisition and investment opportunities and its debt maturities. Alliant Energy's utility subsidiaries anticipate financing their construction expenditures, including new electric generation facilities, during 2003-2005 through internally generated funds supplemented, when necessary, by outside financing. Funding for Resources' acquisition and investment expenditures over that same period of time is expected to be accomplished with a combination of external financings, sales of assets and internally generated funds.

In 2001, Alliant Energy and Resources received SEC approval for their ongoing program of external financing, credit support arrangements and other related proposals for the period through Dec. 31, 2004. Among other things, the approval authorized Alliant Energy directly or through financing subsidiaries to issue common and preferred stock, unsecured long-term debt securities and other equity-linked securities up to an amount of $1.5 billion; to provide guarantees and credit support for obligations of its subsidiaries up to an amount of $3 billion; to enter into hedging transactions to manage interest rate costs and risk exposure; and to increase its aggregate investment limit in Exempt Wholesale Generators and Foreign Utility Companies to 100% of consolidated retained earnings. The approval, among other things, also authorized Resources to provide guarantees and credit support for obligations of non-utility subsidiaries up to an amount of $600 million outstanding at any one time and to spend up to $800 million to construct or acquire energy assets that are incidental to the energy marketing and oil and gas productions of its subsidiaries. Alliant Energy's ability to undertake any such financings contemplated by the SEC's order is dependent on its ability to access the capital markets as described above.

Cash Flows - Selected information from the Consolidated Statements of Cash Flows was as follows (in thousands):

Cash flows from (used for):	**2002**	2001	2000
Operating activities	**$544,040**	$426,111	$393,090
Financing activities	**84,090**	170,525	513,063
Investing activities	**(632,658)**	(656,262)	(869,253)

In 2002, Alliant Energy's cash flows from operating activities increased primarily due to changes in working capital; cash flows from financing activities decreased primarily due to proceeds from the issuance of common stock in 2001, partially offset by a net increase in the amount of preferred stock outstanding at IP&L; and cash flows used for investing activities decreased primarily due to lower construction and acquisition expenditures partially offset by proceeds received in 2001 from the transfer of WP&L's transmission assets to ATC. In 2001, Alliant Energy's cash flows from financing activities decreased primarily due to net changes in amount of debt issued and retired, partially offset by proceeds from the issuance of common stock in 2001; and cash flows used for investing activities decreased primarily due to lower non-regulated investments.

Common Equity - In November 2002, Alliant Energy announced its intentions to raise approximately $200 million to $300 million of common equity in 2003, dependent on market conditions. The proceeds are expected to be used to fund the Power Iowa initiative and other regulated domestic utility needs. The PSCW has indicated it will require an additional equity infusion by Alliant Energy into WP&L during 2003. Alliant Energy anticipates the final PSCW order, which is expected to be issued in the second quarter of 2003, will also include a customer refund provision if the timing and/or amount of the equity infusion differs from the assumptions included in the WP&L rate case.

Preferred Stock - In September 2002, IP&L redeemed all of its then outstanding shares of preferred stock at an aggregate redemption price of $58.3 million. In December 2002, IP&L issued six million shares of preferred stock at $25.00 per share in a private placement. IP&L used the net proceeds of approximately $145 million to repay its short-term debt and for general corporate purposes, including to fund capital expenditures and to repay other debt.

Debt - In June 2002, Alliant Energy received approval (through Dec. 31, 2004) from the SEC to issue and sell up to an aggregate amount of $1 billion of short-term debt outstanding at any one time and to guarantee borrowings by Resources in an aggregate amount that would not exceed $700 million at any one time in addition to its other guarantee authority. In addition, IP&L received SEC approval to issue short-term debt in a principal amount which would not at any one time exceed $300 million. Alliant Energy discontinued the use of its utility money pool in 2002 and WP&L and IP&L are now meeting any short-term borrowing needs by issuing commercial paper and borrowing on bank lines of credit, respectively.

Alliant Energy and its subsidiaries are party to various credit facilities and other borrowing arrangements, some of which are summarized below. In addition to the specific covenants detailed below under the 364-day revolving credit agreements, Alliant Energy's facilities and borrowing arrangements contain various customary terms and conditions, including required capitalization, net worth and interest coverage requirements, maintenance requirements related to bonded property and cross-default provisions. At Dec. 31, 2002, Alliant Energy and its subsidiaries were in compliance with the financial ratios and covenant requirements under their respective credit facilities and borrowing arrangements The aggregate borrowing capacity under short-term credit agreements of Alliant Energy and its subsidiaries at Dec. 31, 2002 was $845 million. At Dec. 31, 2002, the total amount borrowed under these facilities was $281 million leaving unused capacity of $564 million In addition, Resources had a $250 million standby credit facility at Dec. 31, 2002 as discussed below. There are no borrowings currently outstanding under such facility. Alliant Energy also had $28 million of short-term borrowings outstanding at Dec. 31, 2002 related to various generation projects in China.

In October 2002, Alliant Energy completed the syndication of three 364-day revolving credit facilities totaling $915 million, available for direct borrowing or to support commercial paper, which replaced the former facilities that totaled $900 million in borrowing availability. The three facilities consist of a $565 million facility for Alliant Energy (at the parent company level), which was reduced to $450 million at the end of 2002, a $200 million facility for IP&L and a $150 million facility for WP&L. Availability under the Alliant Energy credit facility will be further reduced by the proceeds of asset sales in excess of 5% of Alliant Energy's consolidated assets in any 12-month period commencing October 2002 and up to $50 million from the proceeds of an issuance of equity securities in excess of $300 million. These new credit facility agreements contain various covenants, including the following:

Covenant Description	Covenant Requirement	Status at Dec. 31, 2002
Alliant Energy		
Consolidated debt-to-capital ratio*	Less than 65%	59.6%
Consolidated net worth*	At least $1.4 billion	$1.8 billion
EBITDA interest coverage ratio*	At least 2.5x	3.6x
IP&L debt-to-capital ratio	Less than 58%	47.9%
WP&L debt-to-capital ratio	Less than 58%	40.7%

* In compliance with the agreements, results of discontinued operations have been included in the covenant calculations

The debt component of the capital ratios includes long- and short-term debt (excluding trade payables), capital lease obligations, letters of credit and guarantees of the foregoing and unfunded vested benefits under pension plans. The equity component excludes accumulated other comprehensive income (loss). Alliant Energy is also subject to a PUHCA requirement whereby Alliant Energy's common equity balance must be at least 30% of its total consolidated capitalization, including short-term debt. Alliant Energy's common equity ratio as of Dec. 31, 2002, as computed under such requirement, was 35.8%.

In December 2002, Resources secured a 364-day $250 million standby credit facility. Designed as a bridge to enhance Alliant Energy's short-term liquidity position until it receives the expected proceeds from the assets it plans to sell in 2003, the availability under the facility is reduced by amounts realized on such asset sales. At Dec. 31, 2002, there were no borrowings outstanding under this credit facility. Also in December 2002, Whiting finalized a secured revolving $200 million credit facility which will mature in December 2005 At Dec. 31, 2002, Whiting had $185 million of borrowings outstanding under this facility at an interest rate of 3.63%, which was included in "Long-term debt" on the Consolidated Balance Sheet.

Information regarding commercial paper and bank facility borrowings at Dec. 31, 2002 was as follows (dollars in millions):

	Alliant Energy (Parent)	WP&L
Commercial paper outstanding	$135.5	$60.0
Weighted average maturity of commercial paper	2 days	34 days
Discount rates on commercial paper	1.95%	1.6%
Bank facility borrowings	$85.0	—
Interest rates on bank facility borrowings	2.3-2.4%	—

As a result of the Moody's Investors Service (Moody's) downgrade of Alliant Energy's commercial paper in January 2003 to P-3, Alliant Energy's ability to issue commercial paper at the parent company level has been reduced, requiring greater reliance on bank lines. In addition to funding working capital needs, the availability of short-term financing provides the companies flexibility in the issuance of long-term securities. The level of short-term borrowing fluctuates based on seasonal corporate needs, the timing of long-term financing and capital market conditions. At Dec. 31, 2002, IP&L and WP&L were authorized by the applicable federal or state regulatory agencies to issue short-term debt of $180 million and $240 million, respectively. The $240 million borrowing authority for WP&L includes $85 million for general corporate purposes, an additional $100 million should WP&L no longer sell its utility receivables and an additional $55 million should WP&L need to repurchase its variable rate demand bonds.

In December 2002, Resources issued $300 million of 9.75% senior notes due 2013 in a private placement. The notes are unconditionally guaranteed by Alliant Energy. Resources used the proceeds to repay short-term debt.

At Dec. 31, 2002, Alliant Energy had $783 million of long-term debt that will mature prior to Dec. 31, 2007, which represents maturities of $47 million in 2003, $106 million in 2004, $337 million in 2005, $68 million in 2006 and $225 million in 2007. Depending upon market conditions, it is currently anticipated that a majority of the maturing debt will be refinanced with the issuance of long-term securities.

Refer to "Construction and Acquisition Expenditures" for information regarding a credit facility Resources entered into in February 2003 relating to the purchase of a non-regulated power plant. Refer to Note 8 of the "Notes to Consolidated Financial Statements" for additional information on short- and long-term debt.

Credit Ratings and Balance Sheet - Access to the long- and short-term capital and credit markets, and costs of external financing, are dependent on creditworthiness. Alliant Energy is committed to taking the necessary steps required to maintain strong credit ratings and to strengthen its balance sheet. Refer to "Strategic Actions" for a discussion of specific actions being taken in this regard. Although Alliant Energy believes such actions will enable it to strengthen its balance sheet and maintain strong credit ratings, no assurance can be given that it will be able to maintain its existing credit ratings. If Alliant Energy's credit ratings are downgraded in the future, then Alliant Energy's borrowing costs may increase and its access to capital markets may be limited. If access to capital markets becomes significantly constrained, then Alliant Energy's results of operations and financial condition could be materially adversely affected.

In December 2002 and January 2003, Standard & Poor's and Moody's, respectively, issued revised credit ratings as follows (long-term debt ratings only apply to senior debt):

		Standard & Poor's	Moody's
IP&L	Secured long-term debt	A-	A3
	Unsecured long-term debt	BBB	Baa1
	Commercial paper	A-2	P-2
	Corporate	BBB+	Baa1
WP&L	Secured long-term debt	A	A1
	Unsecured long-term debt	BBB+	A2
	Commercial paper	A-2	P-1
	Corporate	A-	A2
Resources (a)	Unsecured long-term debt	BBB	Baa3
	Commercial paper	A-2	P-3
	Corporate	BBB+	Baa3
Alliant Energy	Unsecured long-term debt	BBB	Not rated
	Commercial paper	A-2	P-3
	Corporate	BBB+	Not rated
All Entities	Outlook	Negative	Stable

(a) Resources' debt is fully and unconditionally guaranteed by Alliant Energy

Ratings Triggers - The long-term debt of Alliant Energy and its subsidiaries is not subject to any repayment requirements as a result of credit rating downgrades or so-called "ratings triggers." However, certain lease agreements do contain such ratings triggers. The threshold for these triggers varies among the applicable leases. If the payments were accelerated under all the affected leases it would result in accelerated payments of approximately $45 million In addition, the amount of proceeds available to IP&L and WP&L from their sale of utility customer accounts receivable programs could be reduced in the aggregate by approximately $20 million in the event of certain credit rating downgrades at the Alliant Energy parent company level Alliant Energy and its subsidiaries are also parties to various agreements, including purchased-power agreements, fuel contracts and corporate guarantees that may be deemed to be in default in the event of certain credit rating downgrades. In the event of such a default, Alliant Energy or its subsidiaries may be able to cure the default in a number of ways, including posting letters of credit equal to the amount of the exposure, unwinding the contract or paying the obligation.

Sale of Accounts Receivable - Refer to Note 4 of the "Notes to Consolidated Financial Statements" for information on Alliant Energy's sale of accounts receivable program.

Off-Balance Sheet Arrangements - Alliant Energy utilizes synthetic leases to finance its corporate headquarters, corporate aircraft, certain utility railcars and a utility radio dispatch system. Synthetic leases provide favorable financing rates to Alliant Energy while allowing it to maintain operating control of its leased assets Several of Alliant Energy's synthetic leases involve the use of unconsolidated structured finance or variable interest entities. Alliant Energy has guarantees outstanding related to the residual value of these synthetic leases. Alliant Energy does not currently anticipate entering into any additional synthetic leases. Alliant Energy also uses variable interest entities for its utility sale of accounts receivable program whereby IP&L and WP&L use proceeds from the sale of the accounts receivable and unbilled revenues to maintain flexibility in their capital structures, take advantage of favorable short-term interest rates and finance a portion of their long-term cash needs. The sale of accounts receivables generates a significant amount of short-term financing for IP&L and WP&L. If this financing alternative were not available, IP&L and WP&L anticipate they would have enough short-term borrowing capacity to compensate Refer to "Ratings Triggers" for the impact of credit rating downgrades on Alliant Energy and its subsidiaries related to these synthetic leases and accounts receivable sales program

Beginning in the third quarter of 2003, under FIN 46, "Consolidation of Variable Interest Entities," it is reasonably possible that Alliant Energy could be considered the primary beneficiary of certain variable interest entities utilized for its synthetic lease financings and receivable sales program and could be required to consolidate the operating results and associated assets and liabilities of the variable interest entities in its financial statements. Alliant Energy is in the process of evaluating the potential impacts of FIN 46 Alliant Energy is also currently evaluating the structure of its synthetic leases and receivable sales program to determine if these structures can be modified to qualify for off-balance sheet treatment under FIN 46.

Contractual Obligations - Alliant Energy's long-term contractual cash obligations as of Dec. 31, 2002 were as follows (in millions):

	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt (Note 8) and capital lease obligations (Note 3)	$62	$122	$347	$104	$227	$2,303	$3,165
Operating leases (Note 3)	45	76	95	99	123	384	822
Purchase obligations (Note 11(b))	286	110	68	30	18	27	539
	$393	$308	$510	$233	$368	$2,714	$4,526

At Dec. 31, 2002, long-term debt and capital lease obligations as noted in the previous table were included on the Consolidated Balance Sheets. In addition, at Dec. 31, 2002, there were various other long-term liabilities and deferred credits included on the Consolidated Balance Sheets that, due to the nature of the liabilities, the timing of payments cannot be estimated and are therefore excluded from the tables. Operating leases and purchase obligations are amounts committed under contract which were not recorded on the Consolidated Balance Sheets at Dec. 31, 2002, in accordance with GAAP. Purchase obligations represent normal business contracts used to ensure adequate purchased-power, coal and natural gas supplies and to minimize exposure to market price fluctuations. In connection with Alliant Energy's construction and acquisition programs, it also enters into commitments related to such programs on an ongoing basis.

Sales of Non-strategic Assets - In the third quarter of 2002, Alliant Energy completed the sale of its 50% ownership interest in its Cargill-Alliant electricity-trading joint venture to Cargill. The sale proceeds were approximately $19.3 million, the book value of Alliant Energy's share of the joint venture. As noted earlier, the strategic actions currently being executed by Alliant Energy will focus on additional potential sales of non-strategic assets, among other items. Refer to "Strategic Actions," "Other Matters - Other Future Considerations" and Note 16 of the "Notes to Consolidated Financial Statements" for additional discussion on the potential impact of future asset sales.

Credit Risk - Credit risk is inherent in Alliant Energy's operations and relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. Alliant Energy maintains credit risk oversight and sets limits and policies with regards to its counterparties, which management believes minimizes its overall credit risk exposure. However, there is no assurance that such policies will protect Alliant Energy against all losses from non-performance by counterparties.

Environmental - Alliant Energy's pollution abatement programs are subject to continuing review and are periodically revised due to changes in environmental regulations, construction plans and escalation of construction costs. While management cannot precisely forecast the effect of future environmental regulations on operations, it has taken steps to anticipate the future while also meeting the requirements of current environmental regulations.

Alliant Energy's facilities are subject to state and federal requirements of the Clean Air Act, including meeting ambient air quality standards. As a result of a new rate-of-progress rule developed by the Wisconsin DNR, and based on existing technology, Alliant Energy estimates the total aggregate capital investments necessary by WP&L to comply with the new rules will be approximately $19 million in 2003 through 2007. Alliant Energy is also currently addressing various other potential federal and state environmental rulemakings and activities, including: 1) proposed revisions to the Wisconsin Administrative Code concerning the amount of heat that WP&L's generating stations can discharge into Wisconsin waters which could have a significant impact on WP&L's operation of its Wisconsin generating facilities; 2) potential new rules that may be pursued by the EPA and the states in the Alliant Energy service territory related to various air emissions; 3) the multiple requests WP&L has received from the EPA related to the historical operation of WP&L's major coal-fired generating units, which requests have been the precursor to penalties and additional capital requirements in some cases involving similar requests to other electric generating facilities; 4) the New Source Review reforms published by the EPA in December 2002; 5) several other legislative and regulatory proposals regarding the control of emissions of air pollutants and greenhouse gases from a variety of sources, including generating facilities; and 6) the July 2002 request from the Wisconsin DNR that WP&L submit a written plan for facility closure of the Rock River Generating Station landfill and clean-up of its support ponds and all areas where coal combustion waste is present. Alliant Energy cannot presently predict the final outcome of these proposals or actions, but believes that required capital investments and/or modifications resulting from them could be significant. Alliant Energy believes that prudent expenses incurred by IP&L and WP&L likely would be recovered in rates from its customers.

Refer to Note 11(e) of the "Notes to Consolidated Financial Statements" for further discussion of environmental matters.

Construction and Acquisition Expenditures - Capital expenditures, investments and financing plans are continually reviewed, approved and updated as part of Alliant Energy's ongoing strategic planning and annual budgeting processes. In addition, material capital expenditures and investments are subject to a rigorous cross-functional review prior to approval. Changes in Alliant Energy's anticipated construction and acquisition expenditures may result from a number of reasons including economic conditions, regulatory requirements, ability to obtain adequate and timely rate relief, the level of Alliant Energy's profitability, Alliant Energy's desire to maintain strong credit ratings and reasonable capitalization ratios, variations in sales, changing market conditions and new opportunities. As noted in "Strategic Actions," Alliant Energy recently reduced its anticipated construction and acquisition expenditure levels in order to strengthen its balance sheet. Alliant Energy believes its capital control processes adequately reduce the risks associated with large capital expenditures and investments. Alliant Energy currently anticipates construction and acquisition expenditures as follows (in millions):

	2003	2004-2005
Domestic utility		
IP&L utility infrastructure and reliability investments	$230	$560
IP&L Power Iowa program*	220	80
WP&L utility infrastructure and reliability investments	160	410
Non-regulated domestic generation	130	10
Other non-regulated business development	80	70
Total from continuing operations	820	1,130
Discontinued operations	80	—
Total	$900	$1,130

* Excludes approximately $109 million in 2003 for potential purchase of turbines and related equipment from affiliates

Alliant Energy has not entered into contractual commitments relating to the majority of its anticipated capital expenditures As a result, Alliant Energy does have discretion as to the eventual level of capital expenditures incurred and it closely monitors and updates such estimates on an ongoing basis based on numerous economic and other factors.

In September 2002, the IUB approved a settlement agreement establishing advance rate making principles for the proposed 500 MW natural gas-fired plant IP&L plans to construct in Mason City, Iowa as part of its Power Iowa initiative to develop new electric generation capacity in Iowa. The settlement establishes, among other things, a set depreciation period whereby IP&L is ensured of recovering the estimated $400 million cost of its investment over 28 years based on a fixed 12 23% return on the common equity component In January 2003, the IUB approved IP&L's siting certificate for the Mason City plant and construction began. The plant is scheduled to be in service prior to the 2004 summer peak demand.

Given the status of the current non-regulated generation market, Alliant Energy's initial investments in this market will focus on facilities with underlying long-term purchased-power agreements. While Alliant Energy believes there are excellent acquisition opportunities in the existing non-regulated generation market, it will continue to be patient, prudent and diligent in its pursuit of such opportunities Consistent with this approach, in February 2003, Resources announced the purchase of a 309 MW, non-regulated, natural gas-fired power plant in Wisconsin for $109 million, which Resources financed with a $73 million 8-year secured credit facility, which is non-recourse to Alliant Energy. At Feb. 28, 2003, Resources had $60 million of borrowings outstanding under this facility, at an interest rate of approximately 5%, and an $11 million letter of credit related to a purchased-power agreement. The entire power output of the facility is sold under contract to Milwaukee-based We Energies through June 2008.

Other Matters

Market Risk Sensitive Instruments and Positions - Alliant Energy's primary market risk exposures are associated with interest rates, commodity prices, equity prices and currency exchange rates. Alliant Energy has risk management policies to monitor and assist in controlling these market risks and uses derivative instruments to manage some of the exposures.

Interest Rate Risk - Alliant Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, utility customer accounts receivable sale program and variable-rate leasing agreements. Alliant Energy manages its interest rate risk by limiting its variable interest rate exposure and by continuously monitoring the effects of market changes on interest rates. Alliant Energy also uses interest rate swap and interest rate forward agreements to assist in the management of its interest exposure. In the event of significant interest rate fluctuations, management would take actions to minimize the effect of such changes on Alliant Energy's results of operations and financial condition. Assuming no change in Alliant Energy's consolidated financial structure, if variable interest rates were to average 100 basis points higher (lower) in 2003 than in 2002, interest expense and pre-tax earnings would increase (decrease) by approximately $9.4 million. This amount was determined by considering the impact of a hypothetical 100 basis point increase (decrease) in interest rates on Alliant Energy's consolidated variable-rate debt held, the amount outstanding under the utility customer accounts receivable sale program and variable-rate lease balances at Dec. 31, 2002.

Commodity Risk - Non-trading - Alliant Energy is exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity and natural gas products it markets. Alliant Energy employs established policies and procedures to manage its risks associated with these market fluctuations including the use of various commodity derivatives. Alliant Energy's exposure to commodity price risks in its utility business is significantly mitigated by the current rate making structures in place for the recovery of its electric fuel and purchased energy costs as well as its cost of natural gas purchased for resale. Refer to Note 1(j) of the "Notes to Consolidated Financial Statements" for further discussion.

WP&L periodically utilizes gas commodity derivative instruments to reduce the impact of price fluctuations on gas purchased and injected into storage during the summer months and withdrawn and sold at current market prices during the winter months. The gas commodity swaps in place approximate the forecasted storage withdrawal plan during this period. Therefore, market price fluctuations that result in an increase or decrease in the value of the physical commodity are substantially offset by changes in the value of the gas commodity swaps. To the extent actual storage withdrawals vary from forecasted withdrawals, WP&L has physical commodity price exposure. A 10% increase (decrease) in the price of gas would not have a significant impact on the combined fair market value of the gas in storage and related swap arrangements in place at Dec. 31, 2002. IP&L also utilizes natural gas commodity derivative instruments to mitigate the risk of rising prices. Since the IUB allows for the prudently incurred costs associated with these instruments and the underlying supply of natural gas to be recovered from ratepayers, IP&L does not have significant natural gas commodity risk exposure.

Whiting, currently accounted for as a discontinued operation, is exposed to market risk in the pricing of its oil and gas production. Historically, prices received for oil and gas production have been volatile because of seasonal weather patterns, supply and demand factors, transportation availability and price, and general economic conditions. Worldwide political developments have historically also had an impact on oil prices. Whiting periodically utilizes oil and gas swaps, costless collars and long-term delivery contracts to mitigate the impact of oil and gas price fluctuations. Historically, Alliant Energy has hedged or contracted approximately 50% of its oil and gas volumes. The actual level of hedging or contracting utilized is based on management's assessment of the prudency of hedging given current market conditions and other factors and is reviewed on an ongoing basis. Based on Whiting's estimated oil and gas sales in 2003, and the hedging and delivery contracts outstanding for such period, a sustained 10% increase (decrease) in oil and gas prices would impact Alliant Energy's pre-tax 2003 earnings by approximately $9.9 million.

Southern Hydro, currently accounted for as a discontinued operation, owns and operates hydroelectric generation facilities in the state of Victoria in Australia. These generation facilities operate as peaking units. Under the rules of the Australian market, Southern Hydro must sell all of its production into a spot market in which the price changes every five minutes and is set on the average of each half hour. Electricity prices in this market can and have been very volatile. In order to manage the electricity commodity price risk associated with anticipated sales into the spot market, Southern Hydro enters into a variety of electricity derivative contracts with terms of up to five years. The value of these derivative instruments can change significantly as a result of changes in forward electricity prices. These instruments do not qualify for hedge accounting under SFAS 133. Accordingly, per GAAP, changes in the fair value of these derivatives, which are non-cash valuation adjustments, must be reported in Southern Hydro's earnings. Alliant Energy believes Southern Hydro's ownership of the physical generating facilities that are not marked-to-market, combined with the electricity derivative contracts, act as an economic hedge to volatile electricity prices, such that Southern Hydro's net economic exposure to volatile electricity prices over the next five years is managed within reasonable limits. Southern Hydro manages market risks inherent in its business through established derivative trading and risk management policies and tools. The principal tool utilized in managing the risks associated with volatile prices is a five to 40-day Earnings-at-Risk (EAR) model which calculates EAR to a 95% confidence level At December 31, 2002, the estimated EAR for Southern Hydro for expected earnings in 2003 was approximately $0.9 million.

Equity Price Risk - IP&L and WP&L maintain trust funds to fund their anticipated nuclear decommissioning costs. At Dec. 31, 2002 and 2001, these funds were invested primarily in domestic equity and debt instruments. Fluctuations in equity prices or interest rates will not affect Alliant Energy's consolidated results of operations as such fluctuations are recorded in equally offsetting amounts of investment income and depreciation (WP&L) or interest (IP&L) expense when they are realized. In 2001, WP&L entered into a four-year hedge on equity assets in its nuclear decommissioning trust fund. Refer to Note 10(c) of the "Notes to Consolidated Financial Statements" for further discussion.

Currency Risk - Alliant Energy has investments in various countries where the net investments are not hedged, including Australia, Brazil, China and New Zealand. As a result, these investments are subject to currency exchange risk with fluctuations in currency exchange rates. At Dec. 31, 2002, Alliant Energy had a cumulative foreign currency translation loss, net of any tax benefits realized, of $165 million, which related to decreases in value of the Brazil real of $152 million, New Zealand dollar of $11 million and Australian dollar of $2 million in relation to the U.S. dollar. This loss is recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheets. Based on Alliant Energy's investments at Dec. 31, 2002, a 10% sustained increase/decrease over the next 12 months in the foreign exchange rates of Australia, Brazil, China and New Zealand would result in a corresponding increase/decrease in the cumulative foreign currency translation loss of $57 million. Alliant Energy's equity income (loss) from its foreign investments is also impacted by fluctuations in currency exchange rates In addition, Alliant Energy has currency exchange risk associated with the debt issued to finance a thermal plant constructed by Alliant Energy and its Brazilian partners. In 2002, Alliant Energy recorded pre-tax charges of $6 5 million related to its share of the foreign currency transaction losses on such debt. Based on the loan balance and currency rates at Dec. 31, 2002, a 10% change in the currency rates would result in a $1.9 million after-tax increase (decrease) in net income.

Refer to Notes 1(n) and 10 of the "Notes to Consolidated Financial Statements" for further discussion of Alliant Energy's derivative financial instruments.

Accounting Pronouncements - On Oct. 25, 2002, the EITF reached a consensus on EITF Issue 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Alliant Energy's natural gas trading business, NG Energy Trading, LLC (NG), is impacted by EITF Issue 02-3, which requires that all sales of energy and the related cost of energy purchased under contracts that meet the definition of energy trading contracts under EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," and that are derivatives under SFAS 133 must be reflected on a net basis in the income statement for all periods presented. Under the guidance of EITF Issue 98-10, Alliant Energy reported its energy trading contracts and related gas in storage at fair market value, and reported related revenues and expenses on a gross basis in the income statement. EITF Issue 02-3 also rescinded EITF Issue 98-10 on a prospective basis. Accordingly, any new contracts entered into after Oct. 25, 2002 must be reported on a historical cost basis rather than at fair market value unless the contract meets the definition of a derivative under SFAS 133. Alliant Energy adopted EITF Issue 02-3 on Jan. 1, 2003 for all contracts that were in place and storage gas acquired prior to Oct. 25, 2002, and will reclassify prior period trading contracts on a net basis in the income statement for 2003. The impact of transitioning from reporting inventory and existing contracts that are not derivatives under SFAS 133 at fair value to historical cost will be reported in net income in the first quarter of 2003 and is not expected to be material due to the relatively small size of the NG business Had Alliant Energy presented its trading activities in the income statement on a net basis rather than a gross basis, for 2002, 2001 and 2000, "Non-regulated and other" revenues and "Other operation and maintenance" expenses would have both decreased $125 million, $49 million and $9 million, respectively, with no impact on net income.

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," which requires disclosures by a guarantor about its obligations under certain guarantees that it has issued. FIN 45 also requires recognizing, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The recognition and measurement provisions of FIN 45 are effective on a prospective basis for guarantees issued or modified after Dec. 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after Dec. 15, 2002. Alliant Energy does not anticipate FIN 45 will have a material impact on its financial condition or results of operations. Refer to Note 11(d) of the "Notes to Consolidated Financial Statements" for additional information on guarantees.

In January 2003, the FASB issued FIN 46 which addresses consolidation by business enterprises of variable interest entities. FIN 46 requires consolidation where there is a controlling financial interest in a variable interest entity or where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. Alliant Energy will apply the provisions of FIN 46 prospectively for all variable interest entities created after Jan. 31, 2003. For variable interest entities created before Jan. 31, 2003, Alliant Energy will be required to consolidate all entities in which it is a primary beneficiary beginning in the third quarter of 2003. It is reasonably possible the implementation of FIN 46 will require that certain variable interest entities be included on the Consolidated Balance Sheets. Refer to Notes 3 and 4 of the "Notes to Consolidated Financial Statements" for additional information on variable interest entities related to synthetic leases and the utility customer accounts receivable sale program, respectively.

SFAS 143, "Accounting for Asset Retirement Obligations," which provides accounting and disclosure requirements for retirement obligations associated with long-lived assets, was effective Jan. 1, 2003. SFAS 143 requires that the present value of retirement costs for which Alliant Energy has a legal obligation be recorded as liabilities with an equivalent amount added to the asset cost. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss. The adoption of SFAS 143 will have no impact on IP&L's and WP&L's earnings, as the effects will be offset by the establishment of regulatory assets or liabilities pursuant to SFAS 71, "Accounting for the Effects of Certain Types of Regulation."

Alliant Energy has completed a detailed assessment of the specific applicability and implications of SFAS 143. The scope of SFAS 143 as it relates to Alliant Energy primarily includes decommissioning costs for DAEC and Kewaunee. It also applies to a smaller extent to several other regulated and non-regulated assets including, but not limited to, active ash landfills, water intake facilities, underground storage tanks, groundwater wells, transmission and distribution equipment, easements, leases and the dismantlement of certain hydro facilities. Other than DAEC and Kewaunee, Alliant Energy's asset retirement obligations as of Jan. 1, 2003 are not significant.

Prior to January 2003, IP&L and WP&L recorded nuclear decommissioning charges in accumulated depreciation on their Consolidated Balance Sheets. Upon adoption of SFAS 143, IP&L and WP&L will reverse approximately $125 million and $175 million, respectively, previously recorded in accumulated depreciation and will record liabilities of approximately $250 million and $175 million, respectively. The difference between amounts previously recorded and the net SFAS 143 liability will be deferred as a regulatory asset and is expected to approximate $125 million and $0 for IP&L and WP&L, respectively.

IP&L and WP&L have previously recognized removal costs as a component of depreciation expense and accumulated depreciation for other non-nuclear assets in accordance with regulatory rate recovery. As of Dec. 31, 2002, IP&L and WP&L estimate that they have approximately $250 million and $150 million, respectively, of such regulatory liabilities recorded in "Accumulated depreciation" on their Consolidated Balance Sheets.

In 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which replaced SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 also applies to discontinued operations. SFAS 144 requires that those long-lived assets classified as held for sale be measured at the lower of their carrying amount or the fair value less cost to sell, and that no depreciation, depletion and amortization shall be recorded while an asset is classified as held for sale. Discontinued operations are no longer measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a planned disposal transaction that is probable of being completed within one year. If the criteria to classify operations as held for sale are subsequently no longer met, the assets classified as held for sale shall be reclassified as held and used in the period the held for sale criteria are no longer met. Alliant Energy adopted SFAS 144 on January 1, 2002. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for additional information about Alliant Energy's application of SFAS 144 in the fourth quarter of 2002 as relates to various assets it is planning to sell.

Alliant Energy does not expect the various other new accounting pronouncements not mentioned above that were effective in 2002 to have a material impact on its results of operations or financial condition.

Critical Accounting Policies - Based on historical experience and various other factors, Alliant Energy believes the policies identified below are critical to its business and the understanding of its results of operations as they require critical estimates be made based on the assumptions and judgment of management. The preparation of consolidated financial statements requires management to make various estimates and assumptions that affect revenues, expenses, assets, liabilities and the disclosure of contingencies. The results of these estimates and judgments form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgments. Alliant Energy's management has discussed these critical accounting policies with the Audit Committee of its Board of Directors. Refer to Note 1 of the "Notes to Consolidated Financial Statements" for a discussion of Alliant Energy's accounting policies and the estimates and assumptions used in the preparation of the consolidated financial statements.

Regulatory Assets and Liabilities - Alliant Energy's domestic utility business is regulated by various federal and state regulatory agencies. As a result, the regulated utilities qualify for the application of SFAS 71. SFAS 71 recognizes that the actions of a regulator can provide reasonable assurance of the existence of an asset or liability. Regulatory assets or liabilities arise as a result of a difference between GAAP and the accounting principles imposed by the regulatory agencies. Regulatory assets generally represent incurred costs that have been deferred as they are probable of recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for various reasons.

Alliant Energy's utility subsidiaries recognize regulatory assets and liabilities in accordance with the rulings of their federal and state regulators and future regulatory rulings may impact the carrying value and accounting treatment of Alliant Energy's regulatory assets and liabilities. Alliant Energy periodically assesses whether the regulatory assets are probable of future recovery by considering factors such as regulatory environment changes, recent rate orders issued by the applicable regulatory agencies and the status of any pending or potential deregulation legislation. The assumptions and judgments used by regulatory authorities continue to have an impact on the recovery of costs, the rate of return on invested capital and the timing and amount of assets to be recovered by rates. A change in these assumptions may result in a material impact on Alliant Energy's results of operations. Refer to Note 1(c) of the "Notes to Consolidated Financial Statements" for further discussion

Asset Valuations -
Long-Lived Assets - The Consolidated Balance Sheets include significant long-lived assets, which are not subject to recovery under SFAS 71. As a result, Alliant Energy must generate future cash flows from such assets in a non-regulated environment to ensure the carrying value is not impaired. Many of these assets are the result of capital investments which have been made in recent years and have not yet reached a mature life cycle Alliant Energy assesses the carrying amount and potential impairment of these assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable Factors Alliant Energy considers in determining if an impairment review is necessary include a significant underperformance of the assets relative to historical or projected future operating results, a significant change in Alliant Energy's use of the acquired assets or business strategy related to such assets, and significant negative industry or economic trends. When Alliant Energy determines an impairment review is necessary, a comparison is made between the expected undiscounted future cash flows and the carrying amount of the asset. If the carrying amount of the asset is the larger of the two balances, an impairment loss is recognized equal to the amount the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by the use of quoted market prices, appraisals, or the use of valuation techniques such as expected discounted future cash flows. Alliant Energy must make assumptions regarding these estimated future cash flows and other factors to determine the fair value of the respective assets.

Alliant Energy has made payments of $156 million for turbines and related generation equipment at Dec. 31, 2002 and has also entered into commitments for an additional $84 million. Alliant Energy expects to utilize approximately $124 million of such equipment in its first Power Iowa generation project and is currently reviewing various other potential generation projects to utilize the remaining $116 million of equipment. As a result, Alliant Energy has assessed the recoverability of the $116 million equipment cost compared to the future anticipated cash flows from the generation projects under review. The future anticipated cash flows is a significant estimate. Alliant Energy has no current intentions to sell any of this equipment. If a decision was made to sell such equipment, the recoverability of the equipment cost would be assessed by comparing the future anticipated sales proceeds to the carrying value of the equipment.

Investments - The Consolidated Balance Sheets include investments in several available-for-sale securities accounted for in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Alliant Energy monitors any unrealized losses from such investments to determine if the loss is considered to be a temporary or permanent decline. The determination as to whether the investment is temporarily versus permanently impaired requires considerable judgment. When the investment is considered permanently impaired, the previously recorded unrealized loss would be recorded directly to the income statement as a realized loss. Alliant Energy incurred pre-tax valuation charges under the provisions of SFAS 115 of $27 million and $10 million related to its McLeod and Energy Technologies investments, respectively, in 2002. The Consolidated Balance Sheets also contain various other investments that are evaluated for recoverability when indicators of impairment may exist.

Resources holds a non-controlling interest in five Brazilian electric utility companies accounted for under the equity method of accounting. The recoverability of these equity method investments is assessed by comparing the future anticipated local currency cash flows from these investments and the carrying value of these investments. The future anticipated cash flows currently include anticipated periodic distributions that, when aggregated, exceed the carrying value of these investments. The future anticipated cash flows represents a significant estimate. The $214 million carrying value of Alliant Energy's Brazil investments has been reduced by $210 million of pre-tax cumulative foreign currency translation losses. The net of tax balance of $152 million has been recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheet at Dec. 31, 2002. Cumulative foreign currency translation losses are reflected in Alliant Energy's results of operations only if the related investment is sold or substantially liquidated. If Alliant Energy would decide to exit these Brazil investments in the future, the recoverability of these equity method investments would be assessed by comparing the future anticipated sales proceeds to the carrying value. Alliant Energy has no current intention of exiting these Brazil investments.

Resources' investment in Mexico consists of a loan receivable (including accrued interest income) from a Mexican development company. The loan accrues interest at 8.75% and is secured by the undeveloped land of the resort community Repayment of the loan principal and interest will be based on a portion of the proceeds from the sales of real estate in the resort community and therefore is dependent on the successful development of the project and the ability to sell real estate. The recoverability of this loan receivable is currently assessed by comparing the fair value of the undeveloped land of the resort community used to secure the loan and the carrying value of the loan including accrued interest income. Based on an independent appraisal that indicated the fair value of the collateral was less than the loan balance plus accrued interest, Alliant Energy recorded a valuation allowance of approximately $7 million in the second quarter of 2002 and ceased accruing interest income on the loan. Based on an updated independent appraisal, Alliant Energy reversed the valuation allowance in the fourth quarter of 2002 and resumed accruing interest income on the loan. The fair value of such collateral is a significant estimate. Refer to Note 9 of the "Notes to Consolidated Financial Statements" for additional information concerning Alliant Energy's investments in Brazil and Mexico.

Alliant Energy announced its intentions to sell various businesses in November 2002 and is currently accounting for them as assets held for sale and discontinued operations. The estimated sales proceeds, less costs to sell, for each business exceeded the carrying value of each business as of Dec. 31, 2002. Alliant Energy will continue to monitor the estimated sales proceeds of its assets held for sale as they relate to the respective carrying values. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for additional information.

Goodwill - As a result of the adoption of SFAS 142, "Goodwill and Other Intangible Assets," on Jan. 1, 2002, Alliant Energy is required to evaluate its goodwill for impairment at least annually and more frequently when indicators of impairment may exist. At Dec. 31, 2002, Alliant Energy had $66 million of net goodwill (including $41 million, $10 million and $9 million within its Cogenex, China and SmartEnergy reporting units, respectively) on its Consolidated Balance Sheet. If the fair value of a reporting unit is less than its carrying value, including goodwill, a goodwill impairment charge may be necessary. Alliant Energy estimates the fair value of its reporting units utilizing a combination of market value indicators and the expected discounted future cash flows. This process requires the use of significant management estimates and judgments regarding cash flow assumptions from future sales, operating costs and discount rates over an indefinite life. Alliant Energy's cash flow assumptions are derived using a combination of historical trends, internal budgets, strategic plans and other market information. Each reporting unit is evaluated separately based on the nature of its operations and therefore the assumptions vary by reporting unit relative to its applicable circumstances. To determine its discount rates, Alliant Energy utilizes the capital asset pricing model which is based upon market comparables adjusted for company-specific risk. In the event market comparables are not available, Alliant Energy utilizes expected industry returns based upon published information. In the fourth quarter of 2002, Alliant Energy recorded a pre-tax goodwill impairment charge related to SmartEnergy of $7 million.

Derivative Financial Instruments - Alliant Energy uses derivative financial instruments to hedge exposures to fluctuations in interest rates, certain commodity prices, volatility in a portion of natural gas sales volumes due to weather and to mitigate the equity price volatility associated with certain investments in equity securities. Alliant Energy does not use such instruments for speculative purposes. To account for these derivative instruments in accordance with the applicable accounting rules, Alliant Energy must determine the fair value of its derivatives. In accordance with SFAS 133, the fair value of all derivative instruments are recognized as either assets or liabilities in the balance sheet with the changes in their value recognized in earnings for the non-regulated businesses, unless specific hedge accounting criteria are met. For IP&L and WP&L, changes in the derivatives fair values are generally recorded as regulatory assets or liabilities. If an established, quoted market exists for the underlying commodity of the derivative instrument, Alliant Energy uses the quoted market price to value the derivative instrument. For other derivatives, Alliant Energy estimates the value based upon other quoted prices or acceptable valuation methods. Alliant Energy also reviews the nature of its contracts for the purchase and sale of non-financial assets to assess whether the contracts meet the definition of a derivative and the requirements to follow hedge accounting as allowed by the applicable accounting rules. The determination of derivative status and valuations involves considerable judgment.

The majority of Alliant Energy's derivative transactions are in its regulated domestic utility business and based on the fuel and natural gas cost recovery mechanisms in place, as well as other specific regulatory authorizations, changes in fair market values of such derivatives generally have no impact on Alliant Energy's results of operations. Alliant Energy does have an embedded derivative within its exchangeable senior notes that is impacted by the value of McLeod stock. Changes in the fair value of this derivative impact Alliant Energy's results of operations and the changes did have a material impact on Alliant Energy's 2001 results of operations. However, given a significant decline in the value of the McLeod stock, Alliant Energy does not expect changes in the fair value of this derivative to have a material impact on Alliant Energy's results of operations in the foreseeable future. In addition, Alliant Energy has a small investment in a gas trading business. Such business accounted for all of its trading transactions under EITF Issue 98-10 through 2002 and adopted the provisions of EITF Issue 02-3 on Jan. 1, 2003 (and for new transactions after Oct. 25, 2002). However, due to the insignificant size of this business, Alliant Energy does not expect this accounting change to have a material impact on Alliant Energy's results of operations in the future.

Unbilled Revenues - Unbilled revenues are primarily associated with Alliant Energy's utility operations. Energy sales to individual customers are based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding estimated unbilled revenue is recorded. The unbilled revenue estimate is based on daily generation volumes, estimated customer usage by class, weather impacts, line losses and the most recent customer rates Such process involves the use of various estimates, thus significant changes in the estimates could have a material impact on Alliant Energy's results of operations.

Accounting for Pensions - Alliant Energy accounts for pensions under SFAS 87, "Employers' Accounting for Pensions." Under these rules, certain assumptions are made which represent significant estimates. There are many factors involved in determining an entity's pension liabilities and costs each period including assumptions regarding employee demographics (including age, life expectancies, compensation levels), discount rates, assumed rate of returns and funding. Changes made to the plan provisions may also impact current and future pension costs. Alliant Energy's assumptions are supported by historical data and reasonable projections and are reviewed annually with an outside actuary firm and an investment consulting firm. As of Dec. 31, 2002, Alliant Energy was using a 6.75% discount rate and a 9% annual rate of return on investments In selecting an assumed discount rate, Alliant Energy reviews various corporate Aa bond indices The 9% annual rate of return is consistent with Alliant Energy's historical returns and is based on projected long-term equity and bond returns, maturities and asset allocations. A 100 basis point change in the discount rate would result in approximate changes of $79 million and $7 million in Alliant Energy's qualified pension benefit obligation and pension expense, respectively. A 100 basis point change in the rate of return would result in an approximate change of $4 million in qualified pension expense.

Other Future Considerations - In addition to items discussed earlier in MD&A, the following items could impact Alliant Energy's future financial condition or results of operations:

Asset Sales - It is possible Alliant Energy could record material gains, losses, accounting adjustments or other charges and/or income related to its planned asset divestitures discussed in "Strategic Actions." Alliant Energy is not able to predict or estimate what such items may be at this time. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for additional information.

Alliant Energy announced in March 2003 that it entered into an agreement with New Zealand-based Meridian Energy Limited for the sale of Alliant Energy's Australian investment, primarily made up of Alliant Energy's ownership of Southern Hydro. The sale price will be approximately $350 million. This amount includes the repayment of approximately $145 million in debt in Australia. On an after-tax basis, the sale will result in net cash proceeds to Alliant Energy of approximately $165 million. The transaction is expected to close by the end of April 2003 and is subject to customary closing conditions.

Retirement Benefits - Alliant Energy's qualified pension and other postretirement benefit expenses for 2003 are currently expected to be approximately $18 million higher than in 2002, primarily due to unfavorable asset returns, a reduction in the discount rate used to value plan benefit obligations and expected increases in retiree medical costs. Alliant Energy will pursue the possible recovery of the utility portion of these cost increases, which represents a significant majority of the increase, in any rate filings it has in its various jurisdictions.

Exchangeable Senior Notes - At Dec. 31, 2002, the carrying amount of the debt component of Resources' exchangeable senior notes was $40.1 million, consisting of the par value of $402.5 million, less unamortized debt discount of $362 4 million. The terms of the exchangeable senior notes require Resources to pay interest on the par value of the notes at 7.25% from February 2000 to February 2003, and at 2.5% thereafter until maturity in February 2030. As explained in Note 10(a) of the "Notes to Consolidated Financial Statements," Resources accounted for the net proceeds from the issuance of the notes as two separate components, a debt component and an embedded derivative component. In accordance with SFAS 133, Alliant Energy determined the initial carrying value of the debt component by subtracting the fair value of the derivative component from the net proceeds realized from the issuance of the exchangeable senior notes. This resulted in a very low initial carrying amount of the debt component which results in the recording of interest expense at an effective rate of 26.8% of the carrying amount of the debt component. For 2002, interest expense on the notes was $13.2 million. Interest payments in excess of interest expense are recorded as a reduction of the carrying amount of the debt component. As a result of the higher interest payments for the first three years, the carrying amount of the debt component declined until it reached $37.8 million in February 2003, and then gradually increases over the next 27 years to the ultimate repayment amount of $402.5 million in 2030. Interest expense on the debt component of the notes will be $10.2 million in 2003, 2004 and 2005 If the existing McLeod shares would ever be cancelled, the notes would remain outstanding until maturity

Enterprise Resource Planning (ERP) System - Alliant Energy implemented a new ERP system in October 2002 which will result in annual amortization expense of approximately $11 million for five years. Alliant Energy is seeking rate recovery of the utility portion of the amortized expenses which represents a significant majority of the amortized expenses.

Report on the Financial Information

Alliant Energy Corporation management is responsible for the information and representations contained in the financial statements and in other sections of this Annual Report. The consolidated financial statements that follow have been prepared in accordance with accounting principles generally accepted in the United States. In addition to selecting appropriate accounting principles, management is responsible for the manner of presentation and for the reliability of the financial information. In fulfilling that responsibility, it is necessary for management to make estimates based on currently available information and judgments of current conditions and circumstances.

Through a well-developed system of internal controls, management seeks to ensure the integrity and objectivity of the financial information presented in this report. This system of internal controls is designed to provide reasonable assurance that the assets of the company are safeguarded and that the transactions are executed according to management's authorizations and are recorded in accordance with the appropriate accounting principles.

The Board of Directors participates in the financial information reporting process through its Audit Committee.

Erroll B. Davis, Jr.
Chairman, President and Chief Executive Officer

Thomas M. Walker
Executive Vice President and Chief Financial Officer

John E. Kratchmer
Vice President-Controller and Chief Accounting Officer

March 18, 2003

Independent Auditors' Report

To the Board of Directors and Shareowners of Alliant Energy Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Alliant Energy Corporation and subsidiaries (the "Company") as of December 31, 2002 and 2001, and related consolidated statements of income, cash flows and changes in common equity for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, on July 1, 2000, the Company changed its method of accounting for derivative instruments to adopt Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), and on January 1, 2001, the Company's equity method investees changed their method of accounting for derivative instruments to adopt SFAS 133.

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 18, 2003

Consolidated Financial Statements

Consolidated Statements of Income

	Year Ended December 31,		
	2002	2001	2000
	(in thousands, except per share amounts)		
Operating revenues:			
Electric utility	**$1,752,534**	$1,756,556	$1,648,036
Gas utility	**393,986**	487,877	414,948
Non-regulated and other	**462,292**	380,243	216,690
	2,608,812	2,624,676	2,279,674
Operating expenses:			
Electric and steam production fuels	**303,625**	310,689	288,621
Purchased power	**362,501**	403,166	294,818
Cost of utility gas sold	**248,994**	360,911	278,734
Other operation and maintenance	**957,144**	828,125	686,976
Depreciation and amortization	**310,617**	302,643	296,732
Taxes other than income taxes	**104,236**	102,184	97,823
	2,287,117	2,307,718	1,943,704
Operating income	**321,695**	316,958	335,970
Interest expense and other:			
Interest expense	**186,538**	185,604	168,149
Interest income from loans to discontinued operations, net	**(15,959)**	(9,938)	(7,195)
Equity (income) loss from unconsolidated investments	**12,825**	(18,799)	(19,468)
Allowance for funds used during construction	**(7,696)**	(11,144)	(8,761)
Preferred dividend requirements of subsidiaries	**6,172**	6,720	6,713
Impairment of available-for-sale securities of McLeodUSA Inc	**27,218**	—	—
Gain on reclassification of investment	—	—	(321,349)
Miscellaneous, net	**220**	(12,497)	(39,214)
	209,318	139,946	(221,125)
Income from continuing operations before income taxes	**112,377**	177,012	557,095
Income taxes	**36,108**	50,767	226,180
Income from continuing operations	**76,269**	126,245	330,915
Income from discontinued operations, net of tax (Note 16)	**30,612**	58,985	51,039
Income before cumulative effect of changes in accounting principle, net of tax	**106,881**	185,230	381,954
Cumulative effect of changes in accounting principle, net of tax	—	(12,868)	16,708
Net income	**$106,881**	$172,362	$398,662
Average number of common shares outstanding (basic)	**90,897**	80,498	79,003
Earnings per average common share (basic):			
Income from continuing operations	**$0 84**	$1 57	$4 19
Income from discontinued operations	**0 34**	0 73	0 65
Cumulative effect of changes in accounting principle	—	(0 16)	0 21
Net income	**$1.18**	$2 14	$5 05
Average number of common shares outstanding (diluted)	**90,959**	80,636	79,193
Earnings per average common share (diluted).			
Income from continuing operations	**$0 84**	$1 57	$4 18
Income from discontinued operations	**0.34**	0 73	0 64
Cumulative effect of changes in accounting principle	—	(0 16)	0 21
Net income	**$1.18**	$2 14	$5 03
Dividends declared per common share	**$2 00**	$2 00	$2 00

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

Consolidated Balance Sheets

ASSETS	December 31, 2002	2001
	(in thousands)	
Property, plant and equipment:		
Utility:		
Electric plant in service	**$5,295,381**	$5,123,781
Gas plant in service	**613,122**	597,494
Other plant in service	**530,456**	517,938
Accumulated depreciation	**(3,573,407)**	(3,374,867)
Net plant	**2,865,552**	2,864,346
Construction work in progress	**263,096**	111,069
Other, net	**68,340**	62,194
Total utility	**3,196,988**	3,037,609
Non-regulated and other, net:		
International	**171,179**	157,743
Non-regulated generation	**156,699**	60,411
Integrated Services	**73,983**	79,202
Investments	**54,303**	56,647
Corporate Services and other	**76,055**	50,566
Total non-regulated and other	**532,219**	404,569
	3,729,207	3,442,178
Current assets:		
Cash and temporary cash investments	**63,872**	68,400
Restricted cash	**9,686**	34,421
Accounts receivable:		
Customer, less allowance for doubtful accounts of $12,721 and $8,340	**81,277**	43,411
Unbilled utility revenues	**50,624**	71,388
Other, less allowance for doubtful accounts of $845 and $319	**60,107**	72,912
Income tax refunds receivable	**97,469**	25,401
Production fuel, at average cost	**63,126**	54,707
Materials and supplies, at average cost	**58,603**	54,401
Gas stored underground, at average cost	**62,797**	57,114
Regulatory assets	**46,076**	19,632
Assets of discontinued operations (Note 16)	**944,328**	540,187
Other	**76,183**	66,882
	1,614,148	1,108,856
Investments:		
Investments in unconsolidated foreign entities	**373,816**	508,145
Nuclear decommissioning trust funds	**344,892**	332,953
Investment in ATC and other	**217,992**	243,804
	936,700	1,084,902
Other assets:		
Regulatory assets	**302,365**	241,973
Deferred charges and other	**418,975**	360,016
	721,340	601,989
Total assets	**$7,001,395**	$6,237,925

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

Consolidated Financial Statements (continued)

Consolidated Balance Sheets (continued)

CAPITALIZATION AND LIABILITIES	December 31, 2002	2001
	(in thousands, except share amounts)	
Capitalization (See Consolidated Statements of Capitalization):		
Common stock - $0.01 par value - authorized 200,000,000 shares, outstanding 92,304,220 and 89,682,334 shares, respectively	**$923**	$897
Additional paid-in capital	**1,293,919**	1,239,793
Retained earnings	**758,187**	832,293
Accumulated other comprehensive loss	**(209,943)**	(152,434)
Shares in deferred compensation trust - 239,467 and 71,958 shares at an average cost of $28.80 and $30.68 per share, respectively	**(6,896)**	(2,208)
Total common equity	**1,836,190**	1,918,341
Cumulative preferred stock of subsidiaries, net	**205,063**	113,953
Long-term debt (excluding current portion)	**2,637,803**	2,457,941
	4,679,056	4,490,235
Current liabilities:		
Current maturities and sinking funds	**46,591**	10,506
Variable rate demand bonds	**55,100**	55,100
Commercial paper	**195,500**	68,389
Other short-term borrowings	**113,721**	84,318
Accounts payable	**286,690**	221,823
Accrued taxes	**106,015**	87,099
Liabilities of discontinued operations (Note 16)	**134,999**	60,913
Other	**187,902**	174,224
	1,126,518	762,372
Other long-term liabilities and deferred credits:		
Accumulated deferred income taxes	**626,417**	607,552
Accumulated deferred investment tax credits	**54,375**	59,398
Pension and other benefit obligations	**181,010**	96,496
Environmental liabilities	**48,730**	45,144
Other	**241,864**	133,617
	1,152,396	942,207
Minority interest	**43,425**	43,111
Commitments and contingencies (Note 11)		
Total capitalization and liabilities	**$7,001,395**	$6,237,925

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

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2002	2001	2000
		(in thousands)	
Cash flows from operating activities:			
Net income	**$106,881**	$172,362	$398,662
Adjustments to reconcile net income to net cash flows from operating activities:			
Income from discontinued operations, net of tax	**(30,612)**	(58,985)	(51,039)
Depreciation and amortization	**310,617**	302,643	296,732
Other amortizations	**51,567**	52,724	63,214
Deferred tax expense (benefit) and investment tax (credit)	**9,145**	(20,099)	111,103
Losses (gains) on dispositions of assets, net	**123**	(4,446)	(11,780)
Equity loss (income) from unconsolidated investments, net	**12,825**	(18,799)	(19,468)
Distributions from equity method investments	**21,671**	16,961	7,389
Non-cash valuation charges	**66,379**	33,706	2,897
Cumulative effect of changes in accounting principle, net of tax	—	12,868	(16,708)
Gain on reclassification of investment	—	—	(321,349)
Other	**(29,594)**	(5,297)	(2,922)
Other changes in assets and liabilities:			
Accounts receivable	**3,010**	79,470	(133,776)
Income tax refunds receivable	**(72,067)**	(6,485)	(5,917)
Gas stored underground	**(5,683)**	(15,755)	(18,208)
Accounts payable	**38,788**	(52,827)	96,012
Accrued taxes	**18,915**	11,734	3,392
Manufactured gas plants insurance refunds	—	(21,541)	—
Other	**42,075**	(52,123)	(5,144)
Net cash flows from operating activities	**544,040**	426,111	393,090
Cash flows from financing activities:			
Common stock dividends	**(180,987)**	(158,231)	(157,964)
Proceeds from issuance of common stock	**56,066**	288,553	1,069
Proceeds from issuance of preferred stock of subsidiary	**144,602**	—	—
Redemption of preferred stock of subsidiary	**(56,389)**	—	—
Net change in Resources' credit facility	**(383,610)**	63,110	181,652
Proceeds from issuance of exchangeable senior notes	—	—	402,500
Proceeds from issuance of other long-term debt	**300,023**	513,530	107,747
Reductions in other long-term debt	**(20,818)**	(145,359)	(53,572)
Net change in commercial paper and other short-term borrowings	**200,145**	(320,449)	147,277
Net change in loans to discontinued operations	**49,320**	(39,556)	(87,112)
Other	**(24,262)**	(31,073)	(28,534)
Net cash flows from financing activities	**84,090**	170,525	513,063
Cash flows used for investing activities:			
Construction and acquisition expenditures:			
Regulated domestic utilities	**(404,736)**	(340,789)	(304,656)
Non-regulated businesses	**(218,282)**	(332,253)	(529,675)
Corporate Services and other	**(33,774)**	(40,019)	(11,123)
Nuclear decommissioning trust funds	**(22,923)**	(22,100)	(22,100)
Proceeds from formation of ATC and other asset dispositions	**27,644**	107,934	30,890
Other	**19,413**	(29,035)	(32,589)
Net cash flows used for investing activities	**(632,658)**	(656,262)	(869,253)
Net increase (decrease) in cash and temporary cash investments	**(4,528)**	(59,626)	36,900
Cash and temporary cash investments at beginning of period	**68,400**	128,026	91,126
Cash and temporary cash investments at end of period	**$63,872**	$68,400	$128,026
Supplemental cash flows information:			
Cash paid during the period for:			
Interest	**$184,146**	$180,356	$158,850
Income taxes, net of refunds	**$29,359**	$70,895	$117,226
Noncash investing and financing activities:			
Capital lease obligations incurred and other	**$19,101**	$19,967	$20,419

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

Consolidated Financial Statements (continued)

Consolidated Statements of Capitalization

	December 31,	
	2002	2001
	(in thousands)	
Common equity	**$1,836,190**	$1,918,341
Cumulative preferred stock of subsidiaries, net (Note 7(b))	**205,063**	113,953
Long-term debt:		
First Mortgage Bonds		
7.75%, due 2004	**62,000**	62,000
1.85% variable rate at December 31, 2002 to 7.6% fixed rate, due 2005	**88,000**	88,000
7-1/4% to 8%, due 2007	**52,450**	52,450
1.6% variable rate at December 31, 2002, due 2014	**8,500**	8,500
1.85% to 2.1% variable rate at December 31, 2002, due 2015	**30,600**	30,600
8-5/8%, due 2021	**20,000**	20,000
7-5/8%, due 2023	**94,000**	94,000
8.6%, due 2027	**70,000**	70,000
	425,550	425,550
Collateral Trust Bonds		
7.25%, due 2006	**60,000**	60,000
6-7/8%, due 2007	**55,000**	55,000
6%, due 2008	**50,000**	50,000
5.5% to 7%, due 2023	**69,400**	69,400
	234,400	234,400
Pollution Control Revenue Bonds		
5.75% to 6.35%, partially retired in 2002, due 2003 to 2012	**14,930**	15,490
2.8% variable rate at December 31, 2002 to 6.35% fixed rate, due 2003 to 2023	**10,100**	10,100
4.05% to 4.30% through 2004 fixed/variable rate, due 2005 to 2023	**25,900**	25,900
	50,930	51,490
Other long-term debt		
Senior notes, 9.75%, due 2013	**300,000**	—
Senior notes, 7%, due 2011	**300,000**	300,000
Senior notes, 7.375%, due 2009	**250,000**	250,000
Senior notes, 8.59%, due 2004	**24,000**	24,000
Exchangeable senior notes, 7.25% through February 2003, 2.5% thereafter, due 2030	**402,500**	402,500
Senior debentures, 6-5/8% to 6-3/4%, due 2009 to 2011	**335,000**	335,000
Debentures, 5.7% to 7-5/8%, due 2007 to 2010	**265,000**	265,000
Whiting credit facility, 3.63% at December 31, 2002, due 2005	**185,000**	—
Subordinated deferrable interest debentures, 7-7/8%, due 2025	**50,000**	50,000
Multifamily housing revenue bonds, 1.75% variable rate at December 31, 2002, due 2036	**34,075**	34,075
Multifamily housing revenue bonds, 7% to 7.55%, due 2003 to 2024	**4,755**	4,841
Resources' credit facility, 3% to 3.45% at December 31, 2001, retired in 2002	—	383,610
Other, 1% to 11.34%, due 2003 to 2045	**251,841**	116,814
	3,113,051	2,877,280
Less		
Current maturities	**(46,591)**	(10,506)
Variable rate demand bonds	**(55,100)**	(55,100)
Unamortized debt discount, net	**(373,557)**	(353,733)
Total long-term debt (excluding current portion)	**2,637,803**	2,457,941
Total capitalization	**$4,679,056**	$4,490,235

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

Consolidated Statements of Changes in Common Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shares in Deferred Compensation Trust	Total Common Equity
			(in thousands)			
2000:						
Beginning balance (a)	$790	$942,408	$577,464	$634,903	$ —	$2,155,565
Net income			398,662			398,662
Unrealized holding losses on securities, net of tax of ($77,853)				(105,292)		(105,292)
Less: adjustment for gain on reclassification of investments included in net income, net of tax of $134,053				187,296		187,296
Less: reclassification adjustment for other gains included in net income, net of tax of $8,426				16,370		16,370
Net unrealized losses on securities				(308,958)		(308,958)
Foreign currency translation adjustments				(50,400)		(50,400)
Unrealized holding losses on derivatives due to cumulative effect of a change in accounting principle, net of tax of ($4,693)				(6,582)		(6,582)
Other unrealized holding losses on derivatives, net of tax of ($2,560)				(3,427)		(3,427)
Less: reclassification adjustment for losses included in net income, net of tax of ($4,502)				(6,331)		(6,331)
Net unrealized losses on qualifying derivatives				(3,678)		(3,678)
Total comprehensive income						35,626
Common stock dividends			(157,964)			(157,964)
Common stock issued		5,096			(851)	4,245
Ending balance	790	947,504	818,162	271,867	(851)	2,037,472
2001:						
Net income			172,362			172,362
Unrealized holding losses on securities, net of tax of ($240,579)				(343,285)		(343,285)
Less: reclassification adjustment for gains included in net income, net of tax of $—				259		259
Net unrealized losses on securities				(343,544)		(343,544)
Foreign currency translation adjustments				(66,830)		(66,830)
Minimum pension liability adjustments, net of tax of ($11,022)				(16,378)		(16,378)
Unrealized holding losses on derivatives, net of tax of ($1,569)				(1,003)		(1,003)
Less: reclassification adjustment for losses included in net income, net of tax of ($2,078)				(3,454)		(3,454)
Net unrealized gains on qualifying derivatives				2,451		2,451
Total comprehensive loss						(251,939)
Common stock dividends			(158,231)			(158,231)
Common stock issued	107	292,289			(1,357)	291,039
Ending balance	897	1,239,793	832,293	(152,434)	(2,208)	1,918,341
2002:						
Net income			**106,881**			**106,881**
Unrealized holding losses on securities, net of tax of ($8,544)				**(11,069)**		**(11,069)**
Less: reclassification adjustment for losses included in net income, net of tax of ($14,393)				**(23,146)**		**(23,146)**
Net unrealized gains on securities				**12,077**		**12,077**
Foreign currency translation adjustments, net of tax				**(37,785)**		**(37,785)**
Minimum pension liability adjustments, net of tax of ($18,874)				**(27,226)**		**(27,226)**
Unrealized holding losses on derivatives, net of tax of ($2,765)				**(2,671)**		**(2,671)**
Less: reclassification adjustment for gains included in net income, net of tax of $1,658				**1,904**		**1,904**
Net unrealized losses on qualifying derivatives				**(4,575)**		**(4,575)**
Total comprehensive income						**49,372**
Common stock dividends			**(180,987)**			**(180,987)**
Common stock issued	**26**	**58,338**			**(4,688)**	**53,676**
Redemption of preferred stock of subsidiary		**(4,212)**				**(4,212)**
Ending balance	**$923**	**$1,293,919**	**$758,187**	**($209,943)**	**($6,896)**	**$1,836,190**

(a) Accumulated other comprehensive income (loss) at December 31, 1999 consisted of $644,481 of net unrealized gains on securities and ($9,578) of foreign currency translation adjustments.

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

(1) Summary of Significant Accounting Policies

(a) General - The consolidated financial statements include the accounts of Alliant Energy and its consolidated subsidiaries Alliant Energy is an investor-owned public utility holding company, whose primary subsidiaries are IP&L, WP&L, Resources and Corporate Services On Jan. 1, 2002, IPC merged with and into IESU and IESU changed its name to IP&L Since IPC and IESU were both wholly-owned operating subsidiaries of Alliant Energy, the transaction had no impact on the consolidated financial statements IP&L and WP&L are utility subsidiaries that are engaged principally in the generation, transmission, distribution and sale of electric energy; the purchase, distribution, transportation and sale of natural gas, and the provision of steam and water services in Iowa, Wisconsin, Minnesota and Illinois Resources (through its numerous direct and indirect subsidiaries) is comprised of various business units: International, Non-regulated Generation, Integrated Services, Investments and Energy Technologies International holds interests in global partnerships to develop energy generation, delivery and infrastructure in growing international markets, including Australia, Brazil, China and New Zealand. Alliant Energy is, however, currently in the process of selling its investments in Australia. Non-regulated Generation intends to build or acquire a portfolio of competitive electric generating assets in select business areas of the U.S. Integrated Services provides a wide range of energy and environmental services for commercial, industrial, institutional, educational and governmental customers Investments includes ownership of an oil and gas production company, transportation companies, affordable-housing properties and various other investments. Alliant Energy is, however, currently in the process of selling its oil and gas and affordable housing businesses. Energy Technologies invests in leading-edge energy technologies, such as microturbines, fuel cells, solar concepts and wind turbines Mass Marketing has interests in energy marketing businesses. In January 2003, Alliant Energy committed to a plan to sell SmartEnergy, an internet-based energy retailer, and Alliant Energy is in the process of disbanding its Mass Marketing business unit. Corporate Services is the subsidiary formed to provide administrative services to Alliant Energy and its subsidiaries as required under PUHCA

At Dec. 31, 2002, the assets and liabilities of Alliant Energy's oil and gas (Whiting), Australian (including Southern Hydro) and affordable housing businesses were classified as held for sale. The operating results for these non-regulated businesses for all periods presented have been separately classified and reported as discontinued operations in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. Refer to Note 16 for additional information

The consolidated financial statements reflect investments in controlled subsidiaries on a consolidated basis All significant intercompany balances and transactions, other than certain energy-related transactions affecting the utility subsidiaries, have been eliminated from the consolidated financial statements. Such energy-related transactions not eliminated are made at prices that approximate market value and the associated costs are recoverable from customers through the rate making process. The consolidated financial statements are prepared in conformity with GAAP, which give recognition to the rate making and accounting practices of FERC and state commissions having regulatory jurisdiction. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect: a) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and b) the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates. Certain prior period amounts have been reclassified on a basis consistent with the current year presentation

Unconsolidated investments for which Alliant Energy has at least a 20% non-controlling voting interest are generally accounted for under the equity method of accounting. These investments are stated at acquisition cost, increased or decreased for Alliant Energy's equity in net income or loss, which is included in "Equity (income) loss from unconsolidated investments" in the Consolidated Statements of Income and decreased for any dividends received. These investments are also increased or decreased for Alliant Energy's proportionate share of the investee's other comprehensive income (loss), which is included in "Accumulated other comprehensive loss" on the Consolidated Balance Sheets. Investments that do not meet the criteria for consolidation or the equity method of accounting are accounted for under the cost method. Refer to Note 9 for discussion of Alliant Energy's cost method investments that are marked-to-market in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities "

(b) Regulation - Alliant Energy is a registered public utility holding company subject to regulation by the SEC under PUHCA. The utility subsidiaries are subject to regulation under PUHCA, FERC and their respective state regulatory commissions.

(c) Regulatory Assets and Liabilities - Alliant Energy is subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation," which provides that rate-regulated public utilities record certain costs and credits allowed in the rate making process in different periods than for non-regulated entities. These are deferred as regulatory assets or accrued as regulatory liabilities and are recognized in the Consolidated Statements of Income at the time they are reflected in rates. As of Dec. 31, 2002, IP&L and WP&L had approximately $7 million and $6 million, respectively, of regulatory assets that were not earning returns. At Dec. 31, 2002 and 2001, regulatory assets and liabilities were comprised of the following items (in millions):

	Regulatory Assets		Regulatory Liabilities	
	2002	2001	**2002**	2001
Tax-related (Note 1(d))	**$177.6**	$115.3	**$83.8**	$15.1
Environmental-related	**64.9**	63.1	**5.1**	5.2
Energy efficiency program costs	**46.7**	39.9	—	—
Other	**59.2**	43.3	**22.3**	11.4
	$348.4	$261.6	**$111.2**	$31.7

If a portion of the utility subsidiaries' operations becomes no longer subject to the provisions of SFAS 71 as a result of competitive restructuring or otherwise, a write-down of related regulatory assets would be required, unless some form of transition cost recovery is established by the appropriate regulatory body that would meet the requirements under GAAP for continued accounting as regulatory assets during such recovery period. In addition, each utility subsidiary would be required to determine any impairment of other assets and write-down such assets to their fair value.

(d) Income Taxes - Alliant Energy is subject to the provisions of SFAS 109, "Accounting for Income Taxes," and follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements. Deferred taxes are recorded using currently enacted tax rates.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits have been deferred and are subsequently credited to income over the average lives of the related property. Other tax credits reduce income tax expense in the year claimed and are generally related to nonconventional fuel and research and development.

Consistent with Iowa rate making practices for IP&L, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). As the deferred taxes become payable (over periods exceeding 30 years for some generating plant differences) they are recovered through rates. Accordingly, IP&L has recorded deferred tax liabilities and regulatory assets for certain temporary differences, as identified in Note 1(c). In Wisconsin, the PSCW has allowed rate recovery of deferred taxes on all temporary differences since August 1991. WP&L established a regulatory asset associated with those temporary differences occurring prior to August 1991 that will be recovered in future rates through 2007.

(e) Common Shares Outstanding - A reconciliation of the weighted average common shares outstanding used in the basic and diluted earnings per share calculation was as follows:

Weighted average common shares outstanding:	**2002**	2001	2000
Basic earnings per share calculation	**90,896,885**	80,497,823	79,002,643
Effect of dilutive securities	**62,177**	138,006	190,134
Diluted earnings per share calculation	**90,959,062**	80,635,829	79,192,777

In 2002, 2001 and 2000, 3,338,978, 1,501,854, and 1,358,597 options, respectively, to purchase shares of common stock, with average exercise prices of $29 67, $31.08, and $30 27, respectively, were excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price

(f) Temporary Cash Investments and Restricted Cash - Temporary cash investments are stated at cost, which approximates market value, and are considered cash equivalents for the Consolidated Balance Sheets and the Consolidated Statements of Cash Flows. These investments consist of short-term liquid investments that have maturities of less than 90 days from the date of acquisition. At Dec. 31, 2002 and 2001, restricted cash was primarily related to borrowing requirements for the construction of various power plants in China.

(g) Depreciation of Utility Property, Plant and Equipment - The utility subsidiaries use a combination of remaining life, straight-line and sum-of-the-years-digits depreciation methods as approved by their respective regulatory commissions. The remaining life of DAEC, of which IP&L is a co-owner, is based on the Nuclear Regulatory Commission license end-of-life of 2014. The remaining depreciable life of Kewaunee, of which WP&L is a co-owner, is based on the PSCW approved revised end-of-life of 2010. Depreciation expense related to the decommissioning of DAEC and Kewaunee is discussed in Note 11(f). The average rates of depreciation for electric and gas properties, consistent with current rate making practices, were as follows

	IP&L			WP&L		
	2002	2001	2000	**2002**	2001	2000
Electric	**3.4%**	3 5%	3 5%	**3 6%**	3 7%	3 6%
Gas	**2.9%**	3 6%	3 5%	**4.1%**	4 1%	4 1%

(h) Property, Plant and Equipment - Utility plant (other than acquisition adjustments) is recorded at original cost, which includes overhead, administrative costs and AFUDC At Dec. 31, 2002 and 2001, IP&L had $22.0 million and $23.2 million, respectively, of acquisition adjustments, net of accumulated amortization, included in utility plant ($4.9 million and $5 2 million, respectively, of such balances are currently being recovered in IP&L's rates). The aggregate gross AFUDC recovery rates, computed in accordance with the prescribed regulatory formula, were as follows.

	2002	2001	2000
IP&L	**6 9%**	7 7%	6 6%
WP&L	**2.6%**	7 9%	10 8%

Non-regulated property, plant and equipment is recorded at original cost. The majority of the non-regulated property, plant and equipment is depreciated using the straight-line method over periods ranging from five to 20 years. Upon retirement or sale of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in "Miscellaneous, net" in the Consolidated Statements of Income. Ordinary retirements of utility plant, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts and no gain or loss is recognized.

(i) Operating Revenues - Revenues from IP&L and WP&L are primarily from the sale and delivery of electricity and natural gas and are recorded under the accrual method of accounting and recognized upon delivery. Revenues from Alliant Energy's non-regulated businesses are primarily from the sale of energy or services and are recognized based on output delivered or services provided as specified under contract terms. Alliant Energy accrues revenues for services rendered but unbilled at month-end. In 2000, Alliant Energy recorded an increase of $10 million at WP&L in the estimate of utility services rendered but unbilled at month-end due to the implementation of refined estimation processes.

(j) Utility Fuel Cost Recovery - IP&L's retail tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel, purchased energy and natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in "Electric and steam production fuels" and "Cost of utility gas sold" in the Consolidated Statements of Income The cumulative effects are reflected on the Consolidated Balance Sheets as a current regulatory asset or liability, pending automatic reflection in future billings to customers At IP&L, purchased-power capacity costs are not recovered from electric customers through EACs. Recovery of these costs must be addressed in base rates in a formal rate proceeding

WP&L's retail electric rates are based on annual forecasted fuel and purchased-power costs. Under PSCW rules, WP&L can seek emergency rate increases if the annual costs are more than 3% higher than the estimated costs used to establish rates. Any collections in excess of costs incurred will be refunded, with interest. Accordingly, WP&L has established a reserve due to overcollection of past fuel and purchased-power costs and expects to refund such amount in 2003. WP&L has a gas performance incentive which includes a sharing mechanism whereby 50% of all gains and losses relative to current commodity prices, as well as other benchmarks, are retained by WP&L, with the remainder refunded to or recovered from customers.

(k) Nuclear Refueling Outage Costs - The IUB allows IP&L to collect, as part of its base revenues, funds to offset other operation and maintenance expenditures incurred during refueling outages at DAEC. As these revenues are collected, an equivalent amount is charged to other operation and maintenance expense with a corresponding credit to a reserve. During a refueling outage, the reserve is reversed to offset the refueling outage expenditures. Operating expenses incurred during refueling outages at Kewaunee are expensed by WP&L as incurred. Scheduled refueling outages occurred most recently at DAEC and Kewaunee in Spring and late 2001, respectively. The next scheduled refueling outages at DAEC and Kewaunee are anticipated to commence in Spring 2003.

(l) Nuclear Fuel - Nuclear fuel for DAEC is leased. Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electricity, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. Nuclear fuel for Kewaunee is recorded at its original cost and is amortized to expense based upon the quantity of heat produced for the generation of electricity. This accumulated amortization assumes spent nuclear fuel will have no residual value. Estimated future disposal costs of such fuel are expensed based on KWhs generated. Refer to Note 3 for additional information on DAEC's nuclear fuel lease.

(m) Translation of Foreign Currency - Assets and liabilities of international investments, where the local currency is the functional currency, have been translated at year-end exchange rates and related income statement results have been translated using average exchange rates prevailing during the year. Adjustments resulting from translation, including gains and losses on intercompany foreign currency transactions which are long-term in nature, and which Alliant Energy does not intend to settle in the foreseeable future, have been recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheets.

(n) Derivative Financial Instruments - Alliant Energy uses derivative financial instruments to hedge exposures to fluctuations in interest rates, certain electric and gas commodity prices and volatility in a portion of natural gas sales volumes due to weather. Alliant Energy also utilizes derivatives to mitigate the equity price volatility associated with certain investments in equity securities. Alliant Energy does not use such instruments for speculative purposes. The fair value of all derivatives are recorded as assets or liabilities on the Consolidated Balance Sheets and gains and losses related to derivatives that are designated as, and qualify as hedges, are recognized in earnings when the underlying hedged item or physical transaction is recognized in income. Gains and losses related to derivatives that do not qualify for, or are not designated in hedge relationships, are recognized in earnings immediately. The majority of Alliant Energy's derivative transactions are in its regulated domestic utility business and based on the fuel and natural gas cost recovery mechanisms in place, as well as other specific regulatory authorizations, changes in fair market values of such derivatives generally have no impact on Alliant Energy's results of operations. Alliant Energy has a number of commodity purchase and sales contracts that have been designated, and qualify for, the normal purchase and sale exception in SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of SFAS 133." Based on this designation, these contracts are not accounted for as derivative instruments.

Alliant Energy is exposed to losses related to financial instruments in the event of counterparties' non-performance. Alliant Energy has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate its exposure to counterparty credit risk. Alliant Energy is not aware of any material exposure to counterparty credit risk. Refer to Note 10 for further discussion of Alliant Energy's derivative financial instruments.

(o) Accounting for Stock Options - At Dec. 31, 2002, Alliant Energy had two stock-based incentive compensation plans, which are described more fully in Note 6(b). Alliant Energy accounts for stock options issued under these plans under the recognition and measurement principles of APB 25, "Accounting for Stock Issued to Employees." No stock-based compensation cost is reflected in net income in the Consolidated Statements of Income, as all options granted under those plans had an exercise price equal to the quoted market price of the underlying common stock on the date of grant. Alliant Energy adopted the disclosure provisions of

SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS 123," effective for financial statements for fiscal years ending after Dec. 15, 2002. The effect on net income and EPS if Alliant Energy had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to the stock options issued under these plans was as follows (in thousands):

	2002	2001	2000
Net income, as reported	**$106,881**	$172,362	$398,662
Less stock-based compensation expense, net of tax	**2,541**	2,446	1,284
Pro forma net income	**$104,340**	$169,916	$397,378
EPS (basic)			
As reported	**$1.18**	$2 14	$5 05
Pro forma	**$1.15**	$2 11	$5 03
EPS (diluted)			
As reported	**$1.18**	$2 14	$5 03
Pro forma	**$1 15**	$2 11	$5 02

(p) Pension Plan - For the defined benefit pension plan sponsored by Corporate Services, Alliant Energy allocates pension costs and contributions to IP&L, WP&L, Resources and the parent company based on labor costs of plan participants and any additional minimum pension liability based on each group's funded status.

(q) Asset Valuations - Long-lived assets, excluding goodwill and regulatory assets, are reviewed for possible impairment whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Impairment is indicated if the carrying value of an asset exceeds its undiscounted future cash flows An impairment charge is recognized equal to the amount the carrying value exceeds the asset's fair value. The fair value is determined by the use of quoted market prices, appraisals, or the use of other valuation techniques such as expected discounted future cash flows.

Goodwill represents the excess of the purchase price over the fair value of the identifiable net tangible and intangible assets acquired in a business combination. Effective January 1, 2002 with the adoption of SFAS 142, "Goodwill and Other Intangible Assets," goodwill is required to be evaluated for impairment at least annually and more frequently if indicators of impairment exist. If the fair value of a reporting unit is less than its carrying value, including goodwill, an impairment charge may be necessary. The fair value of reporting units is determined by utilizing a combination of market value indicators and expected discounted future cash flows Refer to Note 14 for additional information

If events or circumstances indicate the carrying value of investments accounted for under the equity method of accounting may not be recoverable, potential impairment is assessed by comparing the future anticipated cash flows from these investments to their carrying values The estimated fair value less cost to sell of assets held for sale are compared each reporting period to their carrying values. Impairment charges are recorded for equity method investments and assets held for sale if the carrying value of such asset exceeds the future anticipated cash flows or the estimated fair value less cost to sell, respectively.

(2) Utility Rate Matters

In 2002, IP&L filed electric and gas rate cases in Iowa Interim rates, subject to refund, were granted for $15 million and $17 million for electric and gas, respectively. IP&L expects final rates to be in place in June 2003 for the electric case and July 2003 for the gas case. Although it is possible that final rates could be lower than interim rates, IP&L does not believe this to be probable and therefore has not recorded any reserves related to potential refund obligations.

In 2002 and 2001, WP&L had an electric fuel cost recovery mechanism that required WP&L to refund any overcollection of fuel and purchased-power costs. WP&L has recorded the necessary reserve for refunds at Dec. 31, 2002 and 2001. In 2002, WP&L filed a rate case with FERC related to its electric wholesale customers. An interim rate increase, subject to refund, of $6 million annually was granted effective April 2002. The case was subsequently settled with final rates of $3 million annually. At Dec. 31, 2002, WP&L recorded a reserve for the difference between interim and final rates

(3) Leases

IP&L has a capital lease covering its 70% undivided interest in nuclear fuel purchased for DAEC. Annual nuclear fuel lease expenses (included in "Electric and steam production fuels" in the Consolidated Statements of Income) for 2002, 2001 and 2000 were $15.5 million, $14.1 million and $16.0 million, respectively. Alliant Energy's operating lease rental expenses, which include certain purchased-power agreements, for 2002, 2001 and 2000 were $45.1 million, $40.4 million and $24.5 million, respectively. The purchased-power agreements total below includes $463 million and $78 million, respectively, related to a new plant (Riverside) currently under development and the RockGen plant, both in Wisconsin. The Riverside plant is expected to be placed in-service in 2004. The synthetic leases relate to the financing of the corporate headquarters, corporate aircraft, utility railcars and a utility radio dispatch system that were not included on the Consolidated Balance Sheets. Alliant Energy has guaranteed the residual value of its synthetic leases totaling $76 million in the aggregate. The guarantees extend through the maturity of each respective underlying lease with remaining terms up to 13 years. Residual value guarantees have been included in the future minimum lease payments noted in the table below (in millions):

	2003	2004	2005	2006	2007	Thereafter	Total
Operating leases:							
Certain purchased-power agreements	$18.7	$51.8	$66.3	$67.6	$69.0	$308.6	$582.0
Synthetic leases	10.0	12.1	19.3	24.6	49.0	31.0	146.0
Other	16.3	12.2	9.3	6.3	5.2	44.2	93.5
Total operating leases	$45.0	$76.1	$94.9	$98.5	$123.2	$383.8	$821.5

	2003	2004	2005	2006	2007	Thereafter	Total	Less: amount representing interest	Present value of net minimum capital lease payments
Capital leases	$15.1	$15.8	$9.8	$35.5	$1.7	$1.2	$79.1	$9.3	$69.8

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which addresses consolidation by business enterprises of variable interest entities, commonly referred to as "special purpose entities." FIN 46 requires consolidation where there is a controlling financial interest in a variable interest entity or where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. Alliant Energy will apply the provisions of FIN 46 prospectively for all variable interest entities created after Jan. 31, 2003. For variable interest entities created before Jan. 31, 2003, Alliant Energy will be required to consolidate all variable interest entities in which it is the primary beneficiary beginning in the third quarter of 2003. It is reasonably possible the implementation of FIN 46 will require that certain variable interest entities associated with these synthetic leases be included on the Consolidated Balance Sheets. Alliant Energy is in the process of analyzing each synthetic lease in accordance with FIN 46. Alliant Energy does not anticipate the adoption of FIN 46 will have a material impact on its results of operations given it estimates the fair market value of the underlying assets is not materially less than the remaining lease obligations at Dec. 31, 2002.

(4) Utility Accounts Receivable

Utility customer accounts receivable, including unbilled revenues, arise primarily from the sale of electricity and natural gas. At Dec. 31, 2002 and 2001, the utility subsidiaries were serving a diversified base of residential, commercial and industrial customers and did not have any significant concentrations of credit risk.

Alliant Energy's utility subsidiaries participate in a combined utility customer accounts receivable sale program whereby IP&L and WP&L may sell up to a combined maximum amount of $250 million of their respective accounts receivable to a third-party financial institution on a limited recourse basis through wholly-owned and consolidated variable interest entities. Corporate Services acts as a collection agent for the buyer and receives a fee for collection services that approximates fair value. The agreement expires in April 2006 and is subject to annual renewal or renegotiation for a longer period thereafter. Under terms of the agreement, the third-party financial institution purchases the receivables initially for the face amount. On a monthly basis, this sales price is adjusted, resulting in payments to the third-party financial institution of an amount that varies based on interest rates and length of time the sold receivables remain outstanding. Collections on sold receivables are used to purchase additional receivables from the utility subsidiaries.

At Dec. 31, 2002 and 2001, Alliant Energy had sold $202 million and $178 million of receivables, respectively. In 2002, 2001 and 2000, Alliant Energy received $2.3 billion, $2.2 billion and $1.6 billion, respectively, in aggregate proceeds from the sale of accounts receivable. The utility subsidiaries use proceeds from the sale of accounts receivable and unbilled revenues to maintain flexibility in their capital structures, take advantage of favorable short-term rates and finance a portion of their long-term cash needs. Alliant Energy paid fees associated with these sales of $4.2 million, $7.9 million and $9.0 million in 2002, 2001 and 2000, respectively.

Alliant Energy and its utility subsidiaries account for the sale of accounts receivable to the third-party financial institution as sales under SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Retained receivables are available to the third-party financial institution to pay any fees or expenses due it, and to absorb all credit losses incurred on any of the sold receivables. Beginning in the third quarter of 2003 under FIN 46, it is reasonably possible that Alliant Energy could be considered the primary beneficiary given the current structure of the variable interest entities related to the program, and could be required to consolidate the operating results and associated assets and liabilities of the variable interest entities in its financial statements. Based on the receivables sold at Dec. 31, 2002, consolidation of the variable interest entities would have resulted in an additional $202 million in accounts receivable and related debt recorded on the Consolidated Balance Sheet. Alliant Energy is currently evaluating the structure of its receivable sales program to determine if this structure can be modified to qualify for off-balance sheet treatment under FIN 46.

(5) Income Taxes

The components of income taxes for Alliant Energy were as follows (in millions):

	2002	2001	2000
Current tax expense			
Federal	**$19.4**	$51.3	$92.1
State	**21.6**	16.2	24.0
Deferred tax expense (benefit)			
Federal	**16.8**	(9.3)	97.6
State	**(2.5)**	(5.6)	18.0
Foreign tax expense	**5.5**	4.2	0.2
Amortization of investment tax credits	**(5.2)**	(5.2)	(4.5)
Research and development tax credits	**(4.5)**	—	—
Nonconventional fuel credits	**(14.9)**	(0.5)	(0.9)
Other tax credits	**(0.1)**	(0.3)	(0.3)
	$36.1	$50.8	$226.2

Included in "Cumulative effect of changes in accounting principle, net of tax" in the Consolidated Statements of Income for 2001 and 2000 was income tax (benefit) expense of ($5.5) million and $9.8 million, respectively, related to the adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" by an equity method foreign affiliate of Alliant Energy on Jan. 1, 2001 and by Alliant Energy's consolidated subsidiaries on July 1, 2000, respectively.

The overall effective income tax rates shown in the following table were computed by dividing total income tax expense by income from continuing operations before income taxes and preferred dividend requirements of subsidiaries.

	2002	2001	2000
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefits	**9.7**	5.6	6.6
Foreign operations	**7.4**	(0.8)	—
Adjustment of prior period taxes	**1.0**	(11.6)	(0.6)
Effect of rate making on property related differences	**0.1**	2.3	0.9
Research and development tax credits	**(3.8)**	—	—
Amortization of investment tax credits	**(4.4)**	(3.1)	(1.0)
Nonconventional fuel credits	**(12.6)**	(0.3)	(0.2)
Other items, net	**(1.9)**	0.5	(0.6)
Overall effective income tax rate	**30.5%**	27.6%	40.1%

The accumulated deferred income tax (assets) and liabilities included on the Consolidated Balance Sheets at Dec. 31 arise from the following temporary differences (in millions):

	2002	2001
Property related	**$647.2**	$548.8
Exchangeable senior notes	**140.8**	129.7
Decommissioning	**(33.1)**	(28.6)
Other	**(128.5)**	(42.3)
	$626.4	$607.6

At Dec. 31, 2002, 2001 and 2000, Alliant Energy had not recorded U.S. tax provisions of approximately $16.3 million, $6.8 million and $3.8 million, respectively, relating to approximately $46.6 million, $19.5 million and $10.9 million, respectively, of unremitted earnings from foreign investments as these earnings are expected to be reinvested indefinitely.

U.S. and foreign sources of income (loss) from continuing operations before income taxes were as follows (in millions):

	2002	2001	2000
U.S. sources	**$115.3**	$156.0	$543.7
Foreign sources	**(2.9)**	21.0	13.4
Income from continuing operations before income taxes	**$112.4**	$177.0	$557.1

(6) Benefit Plans

(a) *Pension Plans and Other Postretirement Benefits* - Alliant Energy has several non-contributory defined benefit pension plans that cover a significant number of its employees. Benefits are based on the employees' years of service and compensation. Alliant Energy also provides certain postretirement health care and life benefits to eligible retirees. In general, the health care plans are contributory with participants' contributions adjusted regularly and the life insurance plans are non-contributory. The weighted-average assumptions at the measurement date of Sept. 30 were as follows:

	Qualified Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	**2002**	2001	2000
Discount rate	**6.75%**	7.25%	8.00%	**6.75%**	7.25%	8.00%
Expected return on plan assets	**9%**	9%	9%	**9%**	9%	9%
Rate of compensation increase	**3.5-4.5%**	3.5-4.5%	3.5-4.5%	**3.5%**	3.5%	3.5%
Medical cost trend on covered charges:						
Initial trend rate	**N/A**	N/A	N/A	**10.8%**	12.0%	9.0%
Ultimate trend rate	**N/A**	N/A	N/A	**5%**	5%	5%

The components of Alliant Energy's qualified pension benefits and other postretirement benefits costs were as follows (in millions):

	Qualified Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	**2002**	2001	2000
Service cost	**$12.9**	$11.0	$11.1	**$5.5**	$4.0	$3.7
Interest cost	**39.7**	38.2	36.7	**12.7**	10.6	9.8
Expected return on plan assets	**(41.8)**	(48.5)	(45.7)	**(5.5)**	(6.1)	(5.3)
Amortization of:						
Transition obligation (asset)	**(2.0)**	(2.4)	(2.4)	**3.7**	3.7	3.9
Prior service cost	**2.7**	2.7	2.6	**(0.3)**	(0.3)	(0.3)
Actuarial loss (gain)	**2.1**	(1.5)	(1.0)	**0.5**	(1.5)	(1.9)
	$13.6	($0.5)	$1.3	**$16.6**	$10.4	$9.9

The assumed medical trend rates are critical assumptions in determining the service and interest cost and accumulated postretirement benefit obligation related to postretirement benefit costs. A 1% change in the medical trend rates for 2002, holding all other assumptions constant, would have the following effects (in millions):

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$1.9	($1.7)
Effect on postretirement benefit obligation	$19.4	($17.3)

A reconciliation of the funded status of Alliant Energy's plans to the amounts recognized on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	Qualified Pension Benefits		Other Postretirement Benefits	
	2002	2001	**2002**	2001
Change in benefit obligation				
Net benefit obligation at beginning of year	**$553.3**	$483.6	**$174.5**	$130.7
Service cost	**12.9**	11.0	**5.5**	4.0
Interest cost	**39.7**	38.2	**12.7**	10.6
Plan participants' contributions	—	—	**1.8**	1.9
Plan amendments	**1.1**	—	**(0.9)**	—
Actuarial loss	**33.0**	56.6	**34.3**	40.7
Gross benefits paid	**(31.5)**	(36.1)	**(12.2)**	(13.4)
Net benefit obligation at end of year	**608.5**	553.3	**215.7**	174.5
Change in plan assets				
Fair value of plan assets at beginning of year	**483.3**	556.3	**73.8**	83.0
Actual return on plan assets	**(25.1)**	(36.9)	**(7.2)**	(6.8)
Employer contributions	**40.0**	—	**11.1**	9.1
Plan participants' contributions	—	—	**1.8**	1.9
Gross benefits paid	**(31.5)**	(36.1)	**(12.2)**	(13.4)
Fair value of plan assets at end of year	**466.7**	483.3	**67.3**	73.8
Funded status at end of year	**(141.8)**	(70.0)	**(148.4)**	(100.7)
Unrecognized net actuarial loss	**172.1**	74.2	**63.4**	16.8
Unrecognized prior service cost	**19.9**	21.5	**(0.9)**	(0.9)
Unrecognized net transition obligation (asset)	**(1.4)**	(3.3)	**36.7**	41.1
Net amount recognized at end of year	**$48.8**	$22.4	**($49.2)**	($43.7)
Amounts recognized on the Consolidated Balance Sheets consist of				
Prepaid benefit cost	**$70.4**	$45.5	**$2.3**	$2.1
Accrued benefit cost	**(21.6)**	(23.1)	**(51.5)**	(45.8)
Additional minimum liability	**(90.0)**	(36.1)	—	—
Intangible asset	**16.5**	8.7	—	—
Accumulated other comprehensive loss	**73.5**	27.4	—	—
Net amount recognized at measurement date	**48.8**	22.4	**(49.2)**	(43.7)
Contributions paid after 9/30 and prior to 12/31	—	—	**4.0**	2.5
Net amount recognized at 12/31	**$48.8**	$22.4	**($45.2)**	($41.2)

The benefit obligation and fair value of plan assets for the postretirement welfare plans with benefit obligations in excess of plan assets were $213.9 million and $64.3 million, respectively, at Sept. 30, 2002 and $167.8 million and $64.5 million, respectively, at Sept. 30, 2001. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the qualified pension plans with accumulated benefit obligations in excess of plan assets were $452.4 million, $418.8 million and $313.2 million, respectively, at Sept. 30, 2002 and $293.9 million, $283.7 million and $225.7 million, respectively, at Sept. 30, 2001. Alliant Energy's net periodic benefit cost is primarily included in "Other operation and maintenance" in the Consolidated Statements of Income. For the various Alliant Energy pension and postretirement plans, Alliant Energy common stock represented less than 1% of total plan investments at Dec. 31, 2002 and 2001.

Alliant Energy sponsors several non-qualified pension plans that cover certain current and former key employees. At both Dec. 31, 2002 and 2001, the funded balances of such plans totaled approximately $4 million, none of which consisted of Alliant Energy common stock. Alliant Energy's pension benefit obligation under these plans was $38.2 million and $34.4 million at Dec. 31, 2002 and 2001, respectively. Alliant Energy's pension expense under these plans was $4.3 million, $3.4 million, and $3.6 million in 2002, 2001 and 2000, respectively.

Alliant Energy has various life insurance policies that cover certain key employees and directors. At Dec. 31, 2002 and 2001, the cash surrender value of these investments was $32 million and $30 million, respectively. Under Alliant Energy's deferred compensation plans, certain key employees and directors can defer part or all of their current compensation in company stock or interest accounts, which are held in grantor trusts. At Dec. 31, 2002 and 2001, the fair market value of the trusts totaled approximately $4.9 million and $2.2 million, respectively, the majority of which consisted of Alliant Energy common stock. A significant number of Alliant Energy employees also participate in defined contribution pension plans (401(k) and Employee Stock Ownership plans). Alliant Energy's contributions to the plans, which are based on the participants' level of contribution, were $9.2 million, $8.2 million, and $8.1 million in 2002, 2001 and 2000, respectively.

(b) Equity Incentive Plans - In 2002, Alliant Energy shareowners approved the 2002 Equity Incentive Plan (EIP) that permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units to key employees. At Dec. 31, 2002, non-qualified stock options were outstanding under this plan. The maximum number of shares of Alliant Energy common stock that may be issued under the plan is 4 million.

Alliant Energy also has a Long-Term Equity Incentive Plan (LTEIP) that permits the grant of incentive stock options, non-qualified stock options, restricted stock, performance shares and performance units to key employees. At Dec. 31, 2002, non-qualified stock options, restricted stock and performance shares were outstanding. The maximum number of shares of Alliant Energy common stock that may be issued under the plan is 3.8 million. This plan expires January 2004, at which time no further grants may be made under this plan.

Options granted to date under the plans were granted at the quoted market price of the shares on the date of grant, vest over three years and expire no later than 10 years after the grant date. Options become fully vested upon retirement and remain exercisable at any time prior to their expiration date, or for three years after the effective date of the retirement, whichever period is shorter. Participants' options that are not vested become forfeited when participants leave Alliant Energy and their vested options expire after three months. A summary of the stock option activity was as follows:

	2002		2001		2000	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**2,917,229**	**$30.03**	2,265,862	$29.67	1,543,028	$30.32
Options granted	**945,863**	**27.79**	721,072	31.14	899,094	28.59
Options exercised	—	—	(42,432)	29.87	(15,486)	30.03
Options forfeited	**(20,956)**	**29.41**	(27,273)	30.07	(160,774)	29.90
Outstanding at end of year	**3,842,136**	**29.48**	2,917,229	30.03	2,265,862	29.67
Exercisable at end of year	**2,242,187**	**29.93**	1,593,047	29.94	962,073	30.12

The range of exercise prices for the options outstanding at Dec. 31, 2002 was $27 50 to $31.56 The weighted-average remaining contractual life of outstanding options at Dec. 31, 2002, 2001 and 2000 was 7.4 years, 7.7 years and 8 3 years, respectively. The value of the options granted during the year using the Black-Scholes pricing method was as follows:

	2002	2001	2000
Value of options	**$9.14**	$4 30	$7 71
Volatility	**40.6%**	18 9%	32 7%
Risk free interest rate	**5 0%**	5 0%	5 7%
Expected life	**10 years**	10 years	10 years
Expected dividend yield	**6 0%**	6 6%	6 3%

At Dec. 31, 2002 and 2001, Alliant Energy had 1,745 and 61,137 shares of restricted stock outstanding, respectively. Any unvested shares of restricted stock become fully vested upon retirement. Participants' unvested restricted stock is forfeited when the participant leaves Alliant Energy. Compensation cost, which is recognized over the three-year restriction period, was $0 2 million, $0 6 million and $0.6 million in 2002, 2001 and 2000, respectively.

The payout to key employees of Corporate Services for performance shares is contingent upon achievement over a three-year period of specified earnings per share growth and total return to shareowners of Alliant Energy compared with an investor-owned utility peer group The payout to key employees of Resources is contingent upon achievement over a three-year period of specified Resources earnings per share growth. Performance shares are paid out in shares of Alliant Energy's common stock or a combination of cash and stock and are modified by a performance multiplier, which ranges from zero to two, based on the performance criteria. Performance shares have an intrinsic value equal to the quoted market price of a share on the date of grant. Pursuant to APB 25, Alliant Energy accrues the plan expense over the three-year period the services are performed and recognized (income) expense of ($1.6) million, $2 4 million and $0.4 million in 2002, 2001 and 2000, respectively.

(7) Common and Preferred Stock

(a) Common Stock - The number of shares of common stock issued by Alliant Energy under its various stock plans was as follows:

	2002	2001	2000
Beginning balance	**89,682,334**	79,010,114	78,984,014
Shares issued			
Public offering	**—**	9,775,000	—
Shareowner Direct Plan	**1,877,032**	668,379	5,666
401(k) Savings Plan	**689,336**	161,239	—
Equity incentive plans	**55,518**	67,602	20,434
Ending balance	**92,304,220**	89,682,334	79,010,114

In November 2001, Alliant Energy completed a public offering of its common stock generating net proceeds of approximately $263 million which were used to repay short-term debt. From January 2000 to June 2001, Alliant Energy satisfied its requirements under the Shareowner Direct Plan (dividend reinvestment and stock purchase plan) by acquiring Alliant Energy common stock on the open market, rather than through original issue. In 2000, 5,666 shares of common stock were issued related to an adjustment of a prior acquisition of oil and gas properties. At Dec 31, 2002 and 2001, Alliant Energy had a total of 6 8 million and 2.6 million shares, respectively, available for issuance in the aggregate, pursuant to its Shareowner Direct Plan, LTEIP, EIP and 401(k) Savings Plan.

Alliant Energy has a Shareowner Rights Plan whereby rights will be exercisable only if a person or group acquires, or announces a tender offer to acquire, 15% or more of Alliant Energy's common stock. Each right will initially entitle shareowners to buy one-half of one share of Alliant Energy's common stock. The rights will only be exercisable in multiples of two at an initial price of $95 00 per full share, subject to adjustment. If any shareowner acquires 15% or more of the outstanding common stock of Alliant Energy, each right (subject to limitations) will entitle its holder to purchase, at the right's then current exercise price, a number of common shares of Alliant Energy or of the acquirer having a market value at the time of twice the right's per full share exercise price. The Board of Directors is also authorized to reduce the 15% ownership threshold to not less than 10%

Alliant Energy's utility subsidiaries each have dividend payment restrictions based on their respective bond indentures, the terms of their outstanding preferred stock and state regulatory limitations applicable to them. WP&L's preferred stock restricts dividends to the extent that such dividend would reduce the common stock equity ratio to less than 25%. In its September 2002 rate order, the PSCW stated it must approve the payment of dividends by WP&L to Alliant Energy in excess of the level forecasted in the order ($62 million annually) if such dividends would reduce WP&L's common equity ratio below 44.67% of total capitalization. In accordance with the IUB order authorizing the IP&L merger, IP&L must inform the IUB if its common equity ratio falls below 42% of total capitalization. As of Dec. 31, 2002, Alliant Energy's utility subsidiaries were in compliance with all such dividend restrictions.

In 2002, 11 non-employee directors received 1,000 shares each of Alliant Energy common stock through the Shareowner Direct Plan as part of the directors' compensation program, for a total of approximately $337,000. In 2001, 14 non-employee directors received up to 1,000 shares each of Alliant Energy common stock through the Shareowner Direct Plan, for a total of approximately $338,000. In 2000, 12 non-employee directors received up to $20,000 each in Alliant Energy common stock, for a total of approximately $222,000.

(b) Preferred Stock - In September 2002, IP&L redeemed all of its then outstanding shares of preferred stock. In December 2002, IP&L issued six million shares of preferred stock at $25.00 per share in a private placement. IP&L used the net proceeds of approximately $145 million to repay its short-term debt and for general corporate purposes, including to fund capital expenditures and to repay other debt. The fair market value of Alliant Energy's cumulative preferred stock of subsidiaries, based upon the market yield of similar securities and quoted market prices, at Dec. 31, 2002 and 2001 was $198 million and $99 million, respectively. Information related to the carrying value of Alliant Energy's cumulative preferred stock of subsidiaries, net at Dec. 31 was as follows (in millions):

Par/Stated Value	Authorized Shares	Shares Outstanding	Series	Mandatory Redemption	**2002**	2001
$25	16,000,000	6,000,000	8.375%	No	**$150.0**	$ —
$100	*	449,765	4.40% - 6.20%	No	**45.0**	45.0
$25	*	599,460	6.50%	No	**15.0**	15.0
$50	466,406 **	366,406	4.30% - 6.10%	No	—	18.3
$50	***	216,381	4.36% - 7.76%	No	—	10.8
$50	***	545,000	6.40%	$50 / share	—	27.3
					210.0	116.4
Less: unamortized expenses					**(4.9)**	(2.4)
					$205.1	$114.0

* 3,750,000 authorized shares in total. ** Fully retired in 2002. *** 2,000,000 authorized shares in total, fully retired in 2002.

(8) Debt

(a) Short-Term Debt - To provide short-term borrowing flexibility and security for commercial paper outstanding, Alliant Energy and its subsidiaries maintain bank lines of credit, of which most require a fee. Alliant Energy discontinued the use of its utility money pool in 2002 and WP&L and IP&L are now meeting any short-term borrowing needs they have by issuing commercial paper and borrowing on its bank lines of credit, respectively. At Dec. 31, 2001, IP&L and WP&L had money pool borrowings of $38.0 million and $90.8 million, respectively. Information regarding short-term debt was as follows (dollars in millions):

	2002	2001
At Dec. 31:		
Commercial paper outstanding	**$195.5**	$68.4
Discount rates on commercial paper	**1.6-1.9%**	2.4-3.2%
Bank facility borrowings	**$85.0**	$ —
Interest rates on bank facility borrowings	**2.3-2.4%**	N/A
Short-term borrowings at foreign subsidiaries	**$28.7**	$84.3
Interest rates on foreign short-term borrowings	**5.3-6.9%**	5.6-6.9%
For the year ended:		
Average amount of short-term debt (based on daily outstanding balances)	**$337.9**	$274.1
Average interest rates on short-term debt	**2.7%**	4.8%

(b) Long-Term Debt - The former IESU indentures securing its First Mortgage and Collateral Trust Bonds constitute direct first mortgage liens and a second lien while First Mortgage Bonds remain outstanding, respectively, upon substantially all tangible public utility property of IP&L (excluding those of the former IPC). WP&L's and the former IPC's First Mortgage Bonds are secured by substantially all of their utility plant IP&L, WP&L and Resources also maintain indentures relating to the issuance of unsecured debt securities.

In December 2002, Resources issued $300 million of 9.75% senior notes due 2013 in a private placement. The notes are unconditionally guaranteed by Alliant Energy Resources used the proceeds to repay short-term debt. In November 2001, Resources issued $300 million of senior notes at a fixed interest rate of 7%, due 2011. The notes are fully and unconditionally guaranteed by Alliant Energy. Resources used the proceeds to repay other Resources' debt In March 2001, IP&L issued $200 million of senior unsecured debentures at a fixed interest rate of 6-3/4%, due 2011. IP&L used the proceeds to repay short- and long-term debt.

Debt maturities for 2003 to 2007 are $47 million, $106 million, $337 million, $68 million and $225 million, respectively. Depending upon market conditions, it is currently anticipated that a majority of the maturing debt will be refinanced with the issuance of long-term securities.

The carrying value of Alliant Energy's long-term debt (including current maturities and variable rate demand bonds) at Dec. 31, 2002 and 2001 was $2.7 billion and $2.5 billion, respectively. The fair market value, based upon the market yield of similar securities and quoted market prices, at Dec. 31, 2002 and 2001 was $2.9 billion and $2 6 billion, respectively.

(9) Investments and Estimated Fair Value of Financial Instruments

The carrying amount of Alliant Energy's current assets and current liabilities approximates fair value because of the short maturity of such financial instruments. Since IP&L and WP&L are subject to regulation, any gains or losses related to the difference between the carrying amount and the fair value of their financial instruments may not be realized by Alliant Energy's shareowners. Information relating to various investments held by Alliant Energy at Dec. 31 that are marked-to-market as a result of SFAS 115 were as follows (in millions):

	2002		2001	
	Carrying/Fair Value	**Unrealized Gains, Net of Tax**	Carrying/Fair Value	Unrealized Gains/(Losses), Net of Tax
Available-for-sale securities				
Nuclear decommissioning trust funds				
Debt securities	**$206**	**$9**	$191	$3
Equity securities	**139**	**13**	142	42
Total	**345**	**22**	333	45
Investment in McLeod	**2**	**—**	14	(9)
Various other investments	**19**	**3**	23	1
Trading securities				
Investment in McLeod	**1**	**(a)**	6	(a)

(a) Adjustments to the trading securities are reflected in earnings in the "Miscellaneous, net" line in the Consolidated Statements of Income

Nuclear Decommissioning Trust Funds - At Dec 31, 2002, $114 million, $43 million and $49 million of the debt securities mature in 2003-2010, 2011-2020 and 2021-2049, respectively. The fair value of the nuclear decommissioning trust funds was, as reported by the trustee, adjusted for the tax effect of unrealized gains and losses Net unrealized holding gains were recorded as part of accumulated provision for depreciation of related plant assets The funds realized gains from the sales of securities of $10.4 million, $2 0 million and $5 0 million in 2002, 2001 and 2000, respectively (cost of the investments based on specific identification was $111.1 million, $169 8 million and $213 4 million, respectively, and proceeds from the sales were $121.5 million, $171 8 million and $218.4 million, respectively)

Investment in McLeod - Alliant Energy has investments in the common stock of McLeod, a telecommunications company. In accordance with SFAS 115, the carrying values of the investments are adjusted to estimated fair value based upon McLeod's closing price at the end of each quarter. Changes in fair value of investments designated as available-for-sale securities are reported in other comprehensive income, and impact current earnings when gains or losses are realized through sale or if a decline in value is determined to be "other-than-temporary." Changes in fair value of investments designated as trading securities are reflected in earnings in the "Miscellaneous, net" line in the Consolidated Statements of Income.

Upon the adoption of SFAS 133 in 2000 for the embedded derivative related to McLeod stock in Resources' exchangeable senior notes (refer to Note 10(a) for additional information), Alliant Energy designated a portion of its McLeod investments as trading securities. As result of this change in designation to trading securities, in 2000, Alliant Energy reclassified $321.3 million of unrealized appreciation ($187.3 million after-tax) from accumulated other comprehensive income to net income. In 2000, Alliant Energy recognized miscellaneous income of $23.8 million for pre-tax gains realized upon sales of McLeod available-for-sale securities, for which the appreciation was previously reflected in accumulated other comprehensive income.

On Jan. 31, 2002, McLeod filed a pre-negotiated plan of reorganization in a Chapter 11 bankruptcy proceeding and the trading of McLeod's common stock was suspended by Nasdaq. Consequently, Alliant Energy discontinued accounting for its investment in McLeod under the provisions of SFAS 115 and reduced the cost basis of its investments to the last quoted market price on Jan. 30, 2002. In June 2002, Alliant Energy received from McLeod under its plan of reorganization an initial distribution of approximately 3.3 million shares of new common stock and classified 0.9 million and 2.4 million shares (0.1 million shares were received by discontinued operations) as trading and available-for-sale securities, respectively. With the receipt of the new McLeod common shares and the resumption of trading on Nasdaq, Alliant Energy resumed accounting for its McLeod investments under SFAS 115 and adjusted its cost basis to the quoted market price on the date the shares were received. As a result of these events, Alliant Energy recognized pre-tax impairment charges in 2002 for available-for-sale securities totaling $27.2 million.

Investments in Foreign Entities - The geographic concentration of Alliant Energy's significant continuing foreign investments at Dec. 31 was as follows (in millions):

	Brazil	China	New Zealand	Mexico	Total
2002					
Unconsolidated	**$214**	**$19**	**$86**	**$55**	**$374**
Consolidated	—	**161**	—	—	**161**
Total	**$214**	**$180**	**$86**	**$55**	**$535**
2001					
Unconsolidated	$378	$21	$68	$41	$508
Consolidated	—	146	—	—	146
Total	$378	$167	$68	$41	$654

Brazil - Resources holds a non-controlling interest in five Brazilian electric utility companies through several direct investments accounted for under the equity method of accounting. At Dec. 31, 2002 and 2001, Resources' direct investments included a 49.9% direct ownership interest in GIPAR, S.A., an electric utility holding company; a 39.4% direct ownership interest in Companhia Forca e Luz Cataguazes - Leopoldina, S.A. (Cataguazes), an electric utility; a 45.6% direct ownership interest in Energisa, S.A., an energy development company; a 49.9% direct ownership interest in Pbpart - SE 1 Ltda., an electric utility holding company; and a 50.0% (49.7% at Dec. 31, 2001) direct ownership interest in Usina Termeletrica de Juiz de Fora S.A., a thermal power plant.

China - Resources' consolidated investments included a controlling interest in Peak Pacific Investment Company, Ltd., a company that develops investment opportunities in generation infrastructure projects in China, and Anhui New Energy Heat & Power Co., Ltd., a combined heat and power facility. Resources' unconsolidated investments included a 50.0% ownership interest in Jiaxing JIES Power & Heat Co., Ltd. and a 30.0% ownership interest in Tongxiang TIES Power & Heat Co., Ltd. Both of these combined heat and power facilities are accounted for under the equity method.

New Zealand - Resources' investments included a 20 4% ownership interest in TrustPower Ltd., a New Zealand hydro and wind generation utility company, which is accounted for under the equity method and several other smaller investments accounted for under the cost method.

Mexico - Resources' investment in Mexico consisted of a loan receivable (including accrued interest income) from a Mexican development company. Under provisions of the loan, Resources has agreed to lend up to $65 million to support the development of a resort community near the Baja peninsula. The loan accrues interest at 8.75% and is secured by the undeveloped land of the resort community. Repayment of the loan principal and interest will be based on a portion of the proceeds from the sales of real estate in the resort community and therefore is dependent on the successful development of the project and the ability to sell real estate. Alliant Energy may also realize royalty income on the real estate sales once the loan is repaid

Investment in ATC - At Dec. 31, 2002 and 2001, WP&L had ownership interests in ATC of approximately 26 6% and 26.5%, respectively, and accounts for this investment under the equity method. Pursuant to various agreements, WP&L receives a range of transmission services from ATC. WP&L provides operation, maintenance, and various transitional and construction services to ATC. WP&L and ATC also bill each other for use of shared facilities owned by each party. ATC billed WP&L $38 7 million and $36 4 million in 2002 and 2001, respectively. WP&L billed ATC $18.1 million and $18 4 million in 2002 and 2001, respectively, and recorded equity earnings of $14.3 million and $14 6 million in 2002 and 2001, respectively.

Unconsolidated Equity Investments - Summary financial information from Alliant Energy's unconsolidated equity investments' financial statements is as follows (in millions):

	2002 *	2001	2000
Operating revenues	**$1,440 6**	$2,214 1	$1,194 3
Operating income	**159 8**	138 2	42 5
Net income (loss)	**36 6**	52 1	69 7
As of Dec 31			
Current assets	**383 0**	454 5	
Non-current assets	**1,976 4**	2,117 0	
Current liabilities	**435 9**	519 3	
Non-current liabilities	**505.1**	557 0	
Minority interest	**133 4**	213 5	

* Alliant Energy's investment in Cargill-Alliant was sold in 2002

(10) Derivative Financial Instruments

(a) Accounting for Derivative Instruments and Hedging Activities - Alliant Energy records derivative instruments at fair value on the balance sheet as assets or liabilities and changes in the derivatives' fair values for non-regulated entities in earnings unless specific hedge accounting criteria are met. For IP&L and WP&L, changes in the derivatives' fair values are generally recorded as regulatory assets or liabilities The PSCW issued a letter to WP&L in August 2002 authorizing accounting for its derivatives in such manner.

At Dec. 31, 2002 and 2001, Alliant Energy had $6.4 million and $6.5 million, respectively, of derivative assets included in "Other current assets" on its Consolidated Balance Sheets and $9.1 million and $3 6 million, respectively, of derivative liabilities included in "Other current liabilities" on its Consolidated Balance Sheets. At Dec. 31, 2001, Alliant Energy also had $0.4 million of derivative liabilities included in "Other long-term liabilities and deferred credits" on its Consolidated Balance Sheets.

In the first quarter of 2001, Alliant Energy recorded a net loss of $12.9 million (all related to discontinued operations) for a cumulative effect of a change in accounting principle representing the impact of adopting SFAS 133 as of Jan. 1, 2001 at Alliant Energy's equity method investees. This transition adjustment represents Alliant Energy's share of the difference between the carrying amount of Southern Hydro's electricity derivative contracts under the applicable accounting principles in effect at Dec. 31, 2000, and the carrying values of these electricity derivative contracts as determined in accordance with SFAS 133 as of Jan. 1, 2001.

In the third quarter of 2000, Alliant Energy recorded net income of $16 7 million for a cumulative effect of a change in accounting principle representing the impact of adopting SFAS 133 as of July 1, 2000 at Alliant Energy's consolidated subsidiaries. This transition adjustment was primarily the result of the difference between the carrying amount of Resources' exchangeable senior notes issued in February 2000 (due in 2030) under the applicable accounting principles in effect at June 30, 2000, and the carrying values of the debt and embedded derivative components of the notes as determined in accordance with SFAS 133 as of July 1, 2000. Transition adjustments relating to Alliant Energy's other derivative instruments had no material impact on net income.

During 2001 and 2000, $0.1 million of net gains (includes $0.1 million of net losses from discontinued operations) and $6.7 million of net losses (includes $1.3 million of net losses from discontinued operations), respectively, included in the cumulative effect of a change in accounting principle component of accumulated other comprehensive income (loss) were reclassified into earnings, resulting in remaining balances of $0 and $0.1 million at Dec. 31, 2001 and 2000, respectively.

Cash Flow Hedging Instruments - During 2002 and 2001, Alliant Energy held various derivative instruments designated as cash flow hedging instruments. WP&L utilized gas commodity financial swap arrangements to reduce the impact of price fluctuations on gas purchased and injected into storage during the summer months and withdrawn and sold at current market prices during the winter months pursuant to the natural gas cost incentive sharing mechanism with customers in Wisconsin. IP&L and WP&L utilized physical coal purchase contracts, which did not qualify for the normal purchase and sale exception, to manage the price of anticipated coal purchases and sales.

In 2002 and 2001, a net loss of $0.1 million (includes a net gain of $0.1 million from discontinued operations) and a net gain of $2.0 million (includes a net gain of $2.1 million from discontinued operations), respectively, were recognized relating to the amount of hedge ineffectiveness in accordance with SFAS 133. In 2002 and 2001, Alliant Energy did not exclude any components of the derivative instruments' gain or loss from the assessment of hedge effectiveness and in 2001 reclassified a loss of $0.9 million (all continuing operations) into earnings as a result of the discontinuance of hedges. At Dec. 31, 2002, the maximum length of time over which Alliant Energy hedged its exposure to the variability in future cash flows for forecasted transactions was six months (three months for continuing operations) and Alliant Energy estimated that losses of $3.3 million (includes losses of $3.5 million for discontinued operations) will be reclassified from accumulated other comprehensive income (loss) into earnings in 2003 as the hedged transactions affect earnings.

Other Derivatives Not Designated in Hedge Relationships - Alliant Energy's derivatives that were not designated in hedge relationships during 2002 and/or 2001 included the embedded derivative component of Resources' exchangeable senior notes, electricity price collars, and physical coal and gas contracts not designated in hedge relationships.

At maturity, the holders of Resources' exchangeable senior notes are paid the higher of the principal amount of the notes or an amount based on the value of McLeod common stock. SFAS 133 requires that Alliant Energy split the initial value of the notes into debt and derivative components. The payment feature tied to McLeod stock is considered an embedded derivative under SFAS 133 that must be accounted for as a separate derivative instrument. This component is classified as a derivative liability on the Consolidated Balance Sheets. Subsequent changes in the fair value of the option are reflected as increases or decreases in Alliant Energy's reported net income. The carrying amount of the host debt security, classified as long-term debt, is adjusted for amortization of the debt discount in accordance with the interest method as prescribed by APB 21, "Interest on Receivables and Payables."

Changes in the fair value of the McLeod shares designated as trading are reflected as increases or decreases in Alliant Energy's net income. These trading gains or losses are expected to correspond with, and partially offset, changes in the intrinsic value of the embedded derivative component of Resources' exchangeable senior notes. Changes in the time value portion of the derivative component will result in non-cash increases or decreases to Alliant Energy's net income. Included in "Miscellaneous, net" in the Consolidated Statements of Income for 2002, 2001 and 2000 was expense of $5.0 million, $215.1 million and $102.5 million, respectively, related to the change in value of the McLeod trading securities, partially offset by income of $0.4 million, $181.6 million and $101.8 million, respectively, related to the change in value of the derivative component of the exchangeable senior notes.

Electricity price collars were used to manage utility energy costs during supply/demand imbalances. Physical coal and gas contracts that do not qualify for the normal purchase and sale exception were used to manage the price of anticipated coal and gas purchases and sales.

(b) Weather Derivatives - Alliant Energy uses weather derivatives to reduce the impact of weather volatility on its natural gas sales volumes. In 2002 and 2001, Corporate Services, as agent for IP&L and WP&L, entered into non-exchange traded options based on heating degree days in which Corporate Services receives payment from the counterparty if actual heating degree days are less than the strike price in the contract. Corporate Services paid premiums to enter into these contracts, which are amortized to expense over the contract period. Alliant Energy has used the intrinsic value method to account for these weather derivatives.

(c) Nuclear Decommissioning Trust Fund Investments - Historically, WP&L has entered into combinations of options to mitigate the effect of significant market fluctuations on its common stock investments in its nuclear decommissioning trust funds The derivative transactions are designed to protect the portfolio's value while allowing the funds to earn a total return modestly in excess of long-term expectations over the hedge period. Fair value changes of these instruments do not impact net income as they are recorded as equally offsetting changes in the investment in nuclear decommissioning trust funds and accumulated depreciation

(d) Energy-trading Contracts - Resources is the majority owner of a natural gas marketing operation, NG Energy Trading, LLC (NG) NG enters into financial and physical contracts for the sale, purchase, storage, transportation and loan of natural gas. NG accounts for all its positions, including gas in storage, at estimated fair value, with changes in fair value reported in earnings. Alliant Energy adopted EITF Issue 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," effective Jan. 1, 2003 for all contracts that were in place and storage gas acquired prior to Oct. 25, 2002, and will reclassify prior period trading contracts on a net basis in its Consolidated Statements of Income commencing in January 2003.

(11) Commitments and Contingencies

(a) Construction and Acquisition Expenditures - Certain commitments have been made in connection with 2003 capital expenditures. During 2003, total construction and acquisition expenditures relating to continuing operations are estimated to be approximately $820 million.

(b) Purchased-Power, Coal and Natural Gas Contracts - Alliant Energy, through its subsidiaries Corporate Services, IP&L and WP&L, has entered into purchased-power, coal and natural gas supply, transportation and storage contracts Certain purchased-power commitments are considered operating leases and are therefore not included here, but are included in Note 3 The natural gas supply commitments are all index-based Alliant Energy expects to supplement its coal and natural gas supplies with spot market purchases as needed The table includes commitments for "take-or-pay" contracts which result in dollar commitments with no associated tons or Dths. At Dec. 31, 2002, Alliant Energy's minimum commitments were as follows (dollars and Dths in millions; MWhs and tons in thousands):

	Purchased-power		Coal		Natural gas	
	Dollars	MWhs	Dollars	Tons	Dollars	Dths
2003	$114.5	2,752	$81.1	9,889	$90.7	6
2004	15.5	361	57.6	9,301	36.5	—
2005	2.0	—	40.2	6,130	26.0	—
2006	2.0	—	12.7	898	15.0	—
2007	0.1	—	3.6	—	14.7	—
Thereafter	0.4	—	—	—	26.4	—

(c) Legal Proceedings - Alliant Energy is involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although unable to predict the outcome of these matters, Alliant Energy believes that appropriate reserves have been established and final disposition of these actions will not have a material adverse effect on its financial condition or results of operations.

(d) Guarantees and Commitments - At Dec. 31, 2002 and 2001, Alliant Energy had guarantees outstanding to support unconsolidated affiliate and third-party financing arrangements of approximately $4 million and $14 million, respectively. Such guarantees are not included on the Consolidated Balance Sheets At Dec 31, 2002, the remaining term of the guarantees and the underlying debt was five years. Refer to Note 3 for discussion of Alliant Energy's residual value guarantees of its synthetic leases.

In the third quarter of 2002, Alliant Energy sold its 50% ownership interest in its Cargill-Alliant electricity-trading joint venture to Cargill. Under the purchase and sale agreement ("Agreement"), Alliant Energy agreed to indemnify Cargill from expenses resulting from the breach of the representations and warranties made by Alliant Energy as of the closing date, and for the breach of its obligations under the Agreement. While the indemnification does not include a maximum limit, Alliant Energy believes the likelihood of having to make any material cash payments under this indemnification is remote. At Dec. 31, 2002, there were no claims related to the indemnification

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," which requires disclosures by a guarantor about its obligations under certain guarantees that it has issued. FIN 45 also requires recognizing, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The recognition and measurement provisions of FIN 45 are effective on a prospective basis for guarantees issued or modified after Dec. 31, 2002. Alliant Energy does not anticipate FIN 45 will have a material impact on its financial condition or results of operations.

(e) **Environmental Liabilities** - Alliant Energy had recorded the following environmental liabilities, and regulatory assets associated with certain of these liabilities, at Dec. 31 (in millions):

Environmental liabilities	**2002**	2001	**Regulatory assets**	**2002**	2001
MGP sites	**$49.3**	$43.9	MGP sites	**$54.1**	$50.2
NEPA	**6.6**	8.2	NEPA	**7.9**	9.7
Other	**0.2**	0.4	Other	**2.9**	3.2
	$56.1	$52.5		**$64.9**	$63.1

<u>**MGP Sites**</u> - IP&L and WP&L have current or previous ownership interests in 43 and 14 sites, respectively, previously associated with the production of gas for which they may be liable for investigation, remediation and monitoring costs relating to the sites. IP&L and WP&L have received letters from state environmental agencies requiring no further action at eight and five sites, respectively. IP&L and WP&L are working pursuant to the requirements of various federal and state agencies to investigate, mitigate, prevent and remediate, where necessary, the environmental impacts to property, including natural resources, at and around the sites in order to protect public health and the environment.

IP&L and WP&L record environmental liabilities based upon periodic studies, most recently updated in the third quarter of 2002, related to the MGP sites. Such amounts are based on the best current estimate of the remaining amount to be incurred for investigation, remediation and monitoring costs for those sites where the investigation process has been or is substantially completed, and the minimum of the estimated cost range for those sites where the investigation is in its earlier stages. It is possible that future cost estimates will be greater than current estimates as the investigation process proceeds and as additional facts become known. The amounts recognized as liabilities are reduced for expenditures made and are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their fair value. Management currently estimates the range of remaining costs to be incurred for the investigation, remediation and monitoring of all utility subsidiary sites to be approximately $37 million to $64 million.

Under the current rate making treatment approved by the PSCW, the MGP expenditures of WP&L, net of any insurance proceeds, are deferred and collected from gas customers over a five-year period after new rates are implemented. The MPUC also allows the deferral of MGP-related costs applicable to the Minnesota sites and IP&L has been successful in obtaining approval to recover such costs in rates in Minnesota. The IUB has permitted utilities to recover prudently incurred costs. Regulatory assets have been recorded by IP&L and WP&L, which reflect the probable future rate recovery, where applicable. Considering the current rate treatment, and assuming no material change therein, IP&L and WP&L believe that the clean-up costs incurred for these MGP sites will not have a material adverse effect on their respective financial conditions or results of operations.

Settlement has been reached with all of IP&L's and WP&L's insurance carriers regarding reimbursement for their MGP-related costs. Insurance recoveries available at Dec. 31, 2002 for IP&L and WP&L were $4.5 million and $2.1 million, respectively. Pursuant to their applicable rate making treatment, IP&L has recorded its recoveries in "Other long-term liabilities and deferred credits" and WP&L has recorded its recoveries as an offset against its regulatory assets. In February 2001, the IUB issued an order directing IP&L to refund its insurance recoveries related to former IESU MGP sites. Under the refund plan, IP&L returned 90% of the recoveries to customers of the former IESU in 2001 and retained 10%.

NEPA - NEPA requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases. IP&L and WP&L recover the costs associated with this assessment through EACs and fuel costs, respectively, over the period the costs are assessed. Alliant Energy continues to pursue relief from this assessment through litigation.

(f) Decommissioning of DAEC and Kewaunee - The IUB, in its interim electric rate order effective July 2002, allows IP&L to recover $11 million annually for its share of the cost to decommission DAEC. FERC, in its most recent interim wholesale rate order effective April 2002, allows WP&L to recover $3 million annually for its share of the cost to decommission Kewaunee. Both interim orders are subject to refund, pending determination of final rates. The PSCW, in an order effective Jan. 1, 2002, eliminated WP&L's recovery from retail customers for the cost to decommission Kewaunee, due to the trust fund being adequately funded. Decommissioning expense is included in "Depreciation and amortization" in the Consolidated Statements of Income and the cumulative amount is included in "Accumulated depreciation" on the Consolidated Balance Sheets to the extent recovered through rates.

Additional information relating to the decommissioning of DAEC and Kewaunee was as follows (dollars in millions):

	DAEC	Kewaunee
Assumptions relating to current rate recovery amounts		
Alliant Energy's share of estimated decommissioning cost	$374.3	$263.2
Year dollars in	2002	2002
Method to develop estimate	Site-specific study	Site-specific study
Annual inflation rate	4.20%	6.50%
Decommissioning method	Prompt dismantling and removal	Prompt dismantling and removal
Year decommissioning to commence	2014	2013
After-tax return on external investments		
Qualified	7.10%	6.12%
Non-qualified	4.70%	5.14%
External trust fund balance at Dec. 31, 2002	$121.2	$223.7
Internal reserve at Dec. 31, 2002	$21.7	$—
After-tax earnings on external trust funds in 2002	$3.8	$19.7

The interim rate recovery amounts for DAEC only include an inflation estimate through 2005. Both IP&L and WP&L are funding all rate recoveries for decommissioning into external trust funds and funding on a tax-qualified basis to the extent possible. In accordance with their respective regulatory requirements, IP&L and WP&L record the earnings on the external trust funds as interest income with a corresponding entry to interest expense at IP&L and to depreciation expense at WP&L. The earnings accumulate in the external trust fund balances and in accumulated depreciation on utility plant.

SFAS 143, "Accounting for Asset Retirement Obligations," which provides accounting and disclosure requirements for retirement obligations associated with long-lived assets, was adopted by Alliant Energy on Jan. 1, 2003. SFAS 143 requires that the present value of retirement costs for which Alliant Energy has a legal obligation be recorded as liabilities with an equivalent amount added to the asset cost. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity settles the obligation for its recorded amount or incurs a gain or loss. The adoption of SFAS 143 will have no impact on IP&L's and WP&L's earnings, as the effects will be offset by the establishment of regulatory assets or liabilities pursuant to SFAS 71.

Alliant Energy has completed a detailed assessment of the specific applicability and implications of SFAS 143. The scope of SFAS 143 as it relates to Alliant Energy primarily includes decommissioning costs for DAEC and Kewaunee. It also applies to a smaller extent to several other regulated and non-regulated assets including, but not limited to, active ash landfills, water intake facilities, underground storage tanks, groundwater wells, transmission and distribution equipment, easements, leases and the dismantlement of certain hydro facilities. Other than DAEC and Kewaunee, Alliant Energy's asset retirement obligations as of Jan. 1, 2003 are not significant.

Prior to January 2003, IP&L and WP&L recorded nuclear decommissioning charges in accumulated depreciation on their Consolidated Balance Sheets. Upon adoption of SFAS 143, IP&L and WP&L will reverse approximately $125 million and $175 million, respectively, previously recorded in accumulated depreciation and will record liabilities of approximately $250 million and $175 million, respectively. The difference between amounts previously recorded and the net SFAS 143 liability will be deferred as a regulatory asset and is expected to approximate $125 million and $0 for IP&L and WP&L, respectively.

IP&L and WP&L have previously recognized removal costs as a component of depreciation expense and accumulated depreciation for other non-nuclear assets in accordance with regulatory rate recovery. As of Dec. 31, 2002, IP&L and WP&L estimate that they have approximately $250 million and $150 million, respectively, of such regulatory liabilities recorded in "Accumulated depreciation" on their Consolidated Balance Sheets.

(12) Jointly-Owned Electric Utility Plant

Under joint ownership agreements with other Iowa and Wisconsin utilities, the utility subsidiaries have undivided ownership interests in jointly-owned electric generating stations. IP&L also has joint ownership agreements related to transmission facilities. Each of the respective owners is responsible for the financing of its portion of the construction costs. KWh generation and operating expenses are divided on the same basis as ownership with each owner reflecting its respective costs in its Consolidated Statements of Income. Information relative to the utility subsidiaries' ownership interest in these facilities at Dec. 31, 2002 was as follows (dollars in millions):

	Fuel Type	Ownership Interest %	Plant in Service	Accumulated Provision for Depreciation	Construction Work-In-Progress
IP&L					
DAEC	Nuclear	70.0	$543.3	$318.5	$25.2
Ottumwa	Coal	48.0	190.9	118.2	0.7
Neal Unit 4	Coal	21.5	85.3	59.4	0.2
Neal Unit 3	Coal	28.0	59.9	36.9	1.9
Louisa Unit 1	Coal	4.0	25.0	14.9	0.1
			904.4	547.9	28.1
WP&L					
Edgewater Unit 5	Coal	75.0	234.8	112.9	0.4
Columbia Energy Center	Coal	46.2	187.5	110.3	1.6
Kewaunee	Nuclear	41.0	172.6	120.9	6.8
Edgewater Unit 4	Coal	68.2	60.0	36.1	1.6
			654.9	380.2	10.4
			$1,559.3	$928.1	$38.5

(13) Segments of Business

Alliant Energy's principal business segments are:

- **Regulated domestic utilities** - consists of IP&L and WP&L, serving customers in Iowa, Wisconsin, Minnesota and Illinois, and includes three segments: a) electric operations; b) gas operations; and c) other, which includes the steam and water businesses and the unallocated portions of the utility business. Various line items in the following tables are not allocated to the electric and gas segments for management reporting purposes and therefore are included in "Total Regulated Domestic Utilities."
- **Non-regulated businesses** - represents the operations of Resources, its subsidiaries and Alliant Energy's investment in Cargill-Alliant (sold in 2002), and is broken down into two segments: a) International (Int'l) and b) other, which includes the operations of the Integrated Services, Investments, Non-regulated Generation, Energy Technologies and Mass Marketing business units described in Note 1(a); the operations of Resources (the non-regulated holding company); and any non-regulated reconciling/eliminating entries.
- **Other** - includes the operations of Alliant Energy (the parent company) and Corporate Services, as well as any Alliant Energy parent company reconciling/eliminating entries.

Intersegment revenues were not material to Alliant Energy's operations and there was no single customer whose revenues were 10% or more of Alliant Energy's consolidated revenues. Refer to Note 9 for a breakdown of Alliant Energy's international investments by country. Certain financial information relating to Alliant Energy's significant business segments and products and services was as follows (in millions):

	Regulated Domestic Utilities				Non-regulated Businesses				Alliant Energy
	Electric	Gas	Other	Total	Int'l	Other	Total	Other	Consolidated
2002									
Operating revenues	**$1,752.5**	**$394.0**	**$37.2**	**$2,183.7**	**$103.2**	**$328.6**	**$431.8**	**($6.7)**	**$2,608.8**
Depreciation and amortization	**250.6**	**27.9**	**3.9**	**282.4**	**11.2**	**17.0**	**28.2**	**—**	**310.6**
Operating income (loss)	**299.2**	**26.2**	**8.2**	**333.6**	**9.7**	**(21.1)**	**(11.4)**	**(0.5)**	**321.7**
Interest expense, net of AFUDC				**100.0**	**44.9**	**31.6**	**76.5**	**2.3**	**178.8**
Interest income from loans to discontinued operations, net				**—**	**(6.0)**	**(10.0)**	**(16.0)**	**—**	**(16.0)**
Equity (income) loss from unconsolidated investments				**(17.6)**	**17.1**	**13.3**	**30.4**	**—**	**12.8**
Preferred dividends				**6.2**	**—**	**—**	**—**	**—**	**6.2**
Impairment of available-for-sale securities of McLeodUSA Inc.				**—**	**—**	**27.2**	**27.2**	**—**	**27.2**
Miscellaneous, net				**(27.9)**	**3.4**	**25.4**	**28.8**	**(0.6)**	**0.3**
Income tax expense (benefit)				**107.1**	**(12.1)**	**(54.6)**	**(66.7)**	**(4.3)**	**36.1**
Income from continuing operations				**165.8**	**(37.6)**	**(54.0)**	**(91.6)**	**2.1**	**76.3**
Income from discontinued operations, net of tax				**—**	**10.5**	**20.1**	**30.6**	**—**	**30.6**
Net income (loss)				**165.8**	**(27.1)**	**(33.9)**	**(61.0)**	**2.1**	**106.9**
Total assets	**3,676.5**	**574.9**	**474.8**	**4,726.2**	**1,009.6**	**1,250.8**	**2,260.4**	**14.8**	**7,001.4**
Investments in equity method subsidiaries	**125.1**	**—**	**—**	**125.1**	**297.1**	**29.1**	**326.2**	**0.3**	**451.6**
Construction and acquisition expenditures	**371.3**	**28.6**	**4.8**	**404.7**	**65.5**	**152.8**	**218.3**	**33.8**	**656.8**

	Regulated Domestic Utilities				Non-regulated Businesses				Alliant Energy
	Electric	Gas	Other	Total	Int'l	Other	Total	Other	Consolidated
2001									
Operating revenues	$1,756.6	$487.9	$37.1	$2,281.6	$85.4	$263.3	$348.7	($5.6)	$2,624.7
Depreciation and amortization	245.6	28.8	3.2	277.6	8.3	16.7	25.0	—	302.6
Operating income (loss)	306.1	11.2	7.5	324.8	7.4	(13.3)	(5.9)	(1.9)	317.0
Interest expense, net of AFUDC				100.5	54.6	9.6	64.2	9.8	174.5
Interest income from loans to discontinued operations, net				—	(0.1)	(9.8)	(9.9)	—	(9.9)
Equity (income) loss from unconsolidated investments				(15.6)	4.1	(7.2)	(3.1)	(0.1)	(18.8)
Preferred dividends				6.7	—	—	—	—	6.7
Miscellaneous, net				(25.9)	(2.8)	20.7	17.9	(4.6)	(12.6)
Income tax expense (benefit)				94.2	(22.7)	(12.3)	(35.0)	(8.4)	50.8
Income from continuing operations				164.9	(25.7)	(14.3)	(40.0)	1.4	126.3
Income from discontinued operations, net of tax				—	11.3	47.7	59.0	—	59.0
Cumulative effect of a change in accounting principle, net of tax				—	(12.9)	—	(12.9)	—	(12.9)
Net income (loss)				164.9	(27.3)	33.4	6.1	1.4	172.4
Total assets	3,336.6	506.4	465.0	4,308.0	858.6	995.9	1,854.5	75.4	6,237.9
Investments in equity method subsidiaries	119.2	—	—	119.2	448.3	32.6	480.9	—	600.1
Construction and acquisition expenditures	298.7	36.9	5.2	340.8	173.0	159.3	332.3	40.0	713.1

	Regulated Domestic Utilities				Non-regulated Businesses				Alliant Energy
	Electric	Gas	Other	Total	Int'l	Other	Total	Other	Consolidated
2000									
Operating revenues	$1,648.0	$415.0	$33.4	$2,096.4	$ —	$186.0	$186.0	($2.7)	$2,279.7
Depreciation and amortization	252.6	27.7	3.1	283.4	3.7	9.6	13.3	—	296.7
Operating income (loss)	330.6	26.6	4.5	361.7	(7.8)	(18.1)	(25.9)	0.2	336.0
Interest expense, net of AFUDC				103.1	38.8	9.0	47.8	8.5	159.4
Interest income from loans to discontinued operations, net				—	—	(7.2)	(7.2)	—	(7.2)
Equity income from unconsolidated investments				(0.5)	(5.8)	(13.2)	(19.0)	—	(19.5)
Preferred dividends				6.7	—	—	—	—	6.7
Gain on reclassification of investments				—	—	(321.3)	(321.3)	—	(321.3)
Miscellaneous, net				(23.3)	(8.9)	(4.3)	(13.2)	(2.7)	(39.2)
Income tax expense				107.9	(14.2)	132.2	118.0	0.3	226.2
Income from continuing operations				167.8	(17.7)	186.7	169.0	(5.9)	330.9
Income from discontinued operations, net of tax				—	(0.5)	51.6	51.1	—	51.1
Cumulative effect of a change in accounting principle, net of tax				—	—	16.7	16.7	—	16.7
Net income (loss)				167.8	(18.2)	255.0	236.8	(5.9)	398.7
Total assets	3,402.2	554.4	427.2	4,383.8	631.0	1,702.3	2,333.3	16.7	6,733.8
Investments in equity method subsidiaries	6.5	—	—	6.5	389.0	29.5	418.5	—	425.0
Construction and acquisition expenditures	265.9	35.8	3.0	304.7	395.6	134.1	529.7	11.1	845.5

Products and Services

Non-regulated and Other Revenues

Year	Integrated Services	International	Mass Marketing	Investments	Other	Total
			(in millions)			
2002	**$258.8**	**$103.2**	**$46.9**	**$26.1**	**$27.3**	**$462.3**
2001	241.9	85.4	6.8	26.6	19.5	380.2
2000	172.3	—	0.7	28.5	15.2	216.7

(14) Goodwill and Other Intangible Assets

Alliant Energy adopted SFAS 142 on Jan. 1, 2002, which resulted in goodwill no longer being subject to amortization. Had SFAS 142 been adopted Jan. 1, 2000, net income for 2001 and 2000 would have increased $4 million and $1 million, respectively, and basic and diluted EPS would have increased $0.05 and $0.02 per share, respectively. Certain information regarding net goodwill and other intangible assets included on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	2002	2001
Net goodwill		
Deferred charges and other (consolidated investments)	**$66**	$66
Investments in unconsolidated foreign entities (equity method investments)	**9**	7
Net other intangible assets		
Deferred charges and other (consolidated investments)	**19**	20
Investments in unconsolidated foreign entities (equity method investments)	**22**	35
Investment in ATC and other (equity method investments)	**25**	—

In January 2003, Alliant Energy committed to a plan to sell its interest in SmartEnergy by year-end In the fourth quarter of 2002, Alliant Energy recorded a SFAS 142 after-tax non-cash goodwill impairment charge related to SmartEnergy of $4 5 million primarily due to less favorable market conditions. The fair value of SmartEnergy's goodwill was estimated using a combination of the expected discounted future cash flows and market value indicators. The impairment charge was recorded in continuing operations, "Miscellaneous, net," in Alliant Energy's Consolidated Statement of Income for 2002.

(15) Selected Consolidated Quarterly Financial Data (Unaudited)

All "per share" references refer to earnings per diluted share. Summation of the individual quarters may not equal annual totals due to rounding.

	2002				2001			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**	March 31	June 30	Sept 30	Dec 31
	(in millions, except per share data)							
Operating revenues	**$608 6**	**$570 9**	**$709 4**	**$719 9**	$805 6	$571 0	$631 1	$617 0
Operating income	**63 1**	**58 7**	**128 3**	**71 6**	69 4	54 3	125 2	68 1
Income (loss) from continuing operations	**(8.4)**	**(6 7)**	**43 9**	**47.5**	18 6	8 6	53 2	45 8
Income (loss) from discontinued operations, net of tax	**18.1**	**13.1**	**0 8**	**(1.4)**	3 5	29 1	16 1	10 3
Cumulative effect of a change in accounting principle, net of tax	—	—	—	—	(12 9)	—	—	—
Net income	**9 7**	**6 3**	**44 7**	**46.1**	9 2	37 7	69 3	56 1
EPS								
Income (loss) from continuing operations	**(0 09)**	**(0 07)**	**0 48**	**0 52**	0 23	0 11	0 67	0 54
Income (loss) from discontinued operations	**0 20**	**0.14**	**0 01**	**(0 01)**	0 05	0 37	0 20	0 12
Cumulative effect of a change in accounting principle	—	—	—	—	(0 16)	—	—	—
Net income	**0.11**	**0 07**	**0 49**	**0 51**	0 12	0 48	0 87	0 66

(16) Discontinued Operations and Assets Held for Sale

Alliant Energy announced in November 2002 its commitment to pursue the sale of, or other exit strategies for, certain non-regulated businesses in 2003 In the fourth quarter of 2002, Alliant Energy applied the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to certain of its assets which were held for sale. SFAS 144 requires that a long-lived asset classified as held for sale be measured at the lower of its carrying amount or fair value, less costs to sell, and to cease depreciation, depletion and amortization At Dec 31, 2002, Alliant Energy's oil and gas (Whiting), Australian (including Southern Hydro) and affordable housing businesses have been classified as held for sale Alliant Energy currently plans to complete the sales by year-end. The operating results for these businesses have been separately classified and reported as discontinued operations in the Consolidated Financial Statements. A summary of the components of discontinued operations in the Consolidated Statements of Income was as follows (in thousands):

	2002	2001	2000
Operating revenues	**$185,576**	$152,664	$125,310
Operating expenses	**140,037**	99,598	80,224
Interest expense and other	**15,466**	(14,992)	(18,589)
Income before income taxes	**30,073**	68,058	63,675
Income tax expense (benefit)	**(539)**	9,073	12,636
Income from discontinued operations, net of tax	**$30,612**	$58,985	$51,039

Alliant Energy's Australian business enters into electricity derivative contracts that have not been designated as hedges (as defined by SFAS 133) to manage the electricity commodity price risk associated with anticipated sales into the spot market. Approximately $16 million of income is included in "Interest expense and other" for both 2002 and 2001 in the previous table related to the change in the fair value of these electricity derivative contracts during these respective periods. In 2000, Alliant Energy's affordable housing business sold a portion of its investment in McLeod, resulting in a pre-tax gain of approximately $24 million included in "Interest expense and other" in the previous table. At Dec. 31, 2002, Alliant Energy's affordable housing business owned approximately 0.1 million shares of McLeod. "Income tax expense (benefit)" in the previous table includes approximately $10 million, $10 million and $7 million of affordable housing tax credits earned by Alliant Energy's affordable housing business during 2002, 2001 and 2000, respectively. These tax credits had a significant impact on the effective tax rate of Alliant Energy's discontinued operations.

A summary of the components of assets and liabilities of discontinued operations on the Consolidated Balance Sheets at Dec. 31 was as follows (in thousands):

	2002	2001
Assets of discontinued operations:		
Property, plant and equipment, net	**$644,137**	$420,619
Current assets	**99,044**	45,217
Investments	**6,824**	60,442
Deferred charges and other	**194,323**	13,909
Total assets of discontinued operations	**$944,328**	$540,187
Liabilities of discontinued operations:		
Current liabilities	**$65,885**	$28,521
Other long-term liabilities and deferred credits	**68,990**	32,125
Minority interest	**124**	267
Total liabilities of discontinued operations	**134,999**	60,913
Net assets of discontinued operations	**$809,329**	$479,274

In March 2002, Alliant Energy acquired a controlling interest in Southern Hydro and therefore changed from the equity method of accounting to the consolidation method at such time.

A summary of the components of cash flows for discontinued operations for the years ended Dec. 31 was as follows (in thousands):

	2002	2001	2000
Net cash flows from operating activities	**$84,118**	$51,562	$44,844
Net cash flows from financing activities	**141,234**	32,079	99,338
Net cash flows used for investing activities	**(215,583)**	(87,051)	(145,573)
Net increase (decrease) in cash and temporary cash investments	**9,769**	(3,410)	(1,391)
Cash and temporary cash investments at beginning of period	**5,261**	8,671	10,062
Cash and temporary cash investments at end of period	**$15,030**	$5,261	$8,671
Supplemental cash flows information:			
Cash paid during the period for:			
Interest	**$14,693**	$6,350	$4,878
Income taxes, net of refunds	**($7,712)**	($3,331)	($331)

Selected Financial and Operating Statistics

FINANCIAL INFORMATION	2002 (1)	2001 (1)	2000 (1)	1999 (2)	1998 (3)
	(dollars in thousands, except per share data)				
Income Statement Data:					
Operating revenues	**$2,608,812**	$2,624,676	$2,279,674	$2,048,158	$2,053,318
Income from continuing operations	**76,269**	126,245	330,915	154,334	95,437
Income from discontinued operations, net of tax	**30,612**	58,985	51,039	42,247	1,238
Income before cumulative effect of changes in accounting principle, net of tax	**106,881**	185,230	381,954	196,581	96,675
Cumulative effect of changes in accounting principle, net of tax	—	(12,868)	16,708	—	—
Net income	**106,881**	172,362	398,662	196,581	96,675
Common Stock Data:					
Earnings per average common share (diluted)					
Income from continuing operations	**$0 84**	$1 57	$4 18	$1 98	$1 24
Income from discontinued operations	**$0 34**	$0 73	$0 64	$0 53	$0 02
Cumulative effect of changes in accounting principle	—	($0 16)	$0 21	—	—
Net income	**$1.18**	$2 14	$5 03	$2 51	$1 26
Common shares outstanding at year-end (000s)	**92,304**	89,682	79,010	78,984	77,630
Dividends declared per common share	**$2 00**	$2 00	$2 00	$2 00	$2 00
Market value per share at year-end	**$16.55**	$30 36	$31 88	$27 50	$32 25
Book value per share at year-end (4)	**$19 89**	$21 39	$25 79	$27 29	$20 69
Other Selected Financial Data:					
Construction and acquisition expenditures	**$656,792**	$713,061	$845,454	$418,371	$313,033
Total assets at year-end (4)	**$7,001,395**	$6,237,925	$6,733,766	$6,075,683	$4,959,337
Long-term obligations, net	**$2,784,216**	$2,586,044	$2,128,496	$1,660,558	$1,713,649
Times interest earned before income taxes (5)	**1 64X**	1 99X	4 35X	3 05X	2 40X
Capitalization ratios					
Common equity (4)	**39%**	43%	50%	57%	49%
Preferred stock	**5%**	2%	3%	3%	4%
Long-term debt, excluding current portion	**56%**	55%	47%	40%	47%
Total	**100%**	100%	100%	100%	100%

(1) Refer to "MD&A - Results of Operations" for a discussion of the 2002, 2001 and 2000 results of operations

(2) Includes $25 million ($0 32 per diluted share) of net income from gains on sales of McLeod stock

(3) Results reflect the recording of $54 million of pre-tax merger-related charges

(4) Alliant Energy adjusts the carrying value of its investments in McLeod to its estimated fair value, pursuant to the applicable accounting rules At December 31, 2002, 2001, 2000, 1999 and 1998, the carrying amount reflected an unrealized gain (loss) of approximately $1 million, ($13) million, $543 million, $1 1 billion and $291 million, respectively, with a net of tax increase (decrease) to common equity of $0 4 million, ($9) million, $317 million, $640 million and $170 million, respectively

(5) Represents income from continuing operations before income taxes plus preferred dividend requirements of subsidiaries plus interest expense divided by interest expense

ELECTRIC OPERATING INFORMATION (UTILITY ONLY)	2002	2001	2000	1999	1998
Operating Revenues (000s):					
Residential	**$626,947**	$599,074	$567,283	$541,714	$532,676
Commercial	**376,365**	373,145	349,019	329,487	317,704
Industrial	**526,804**	543,471	501,155	476,140	477,241
Total from ultimate customers	**1,530,116**	1,515,690	1,417,457	1,347,341	1,327,621
Sales for resale	**160,335**	184,507	173,148	155,801	199,128
Other	**62,083**	56,359	57,431	45,796	40,693
Total	**$1,752,534**	$1,756,556	$1,648,036	$1,548,938	$1,567,442
Electric Sales (000s MWh):					
Residential	**7,616**	7,344	7,161	7,024	6,826
Commercial	**5,542**	5,464	5,364	5,260	4,943
Industrial	**12,297**	12,469	13,092	13,036	12,718
Total from ultimate customers	**25,455**	25,277	25,617	25,320	24,487
Sales for resale	**4,805**	4,936	4,906	5,566	7,189
Other	**197**	168	174	162	158
Total	**30,457**	30,381	30,697	31,048	31,834
Customers (End of Period):					
Residential	**822,229**	807,754	799,603	790,669	781,127
Commercial	**128,212**	125,539	123,833	122,509	121,027
Industrial	**2,905**	2,826	2,773	2,730	2,618
Other	**3,344**	3,324	3,316	3,282	3,267
Total	**956,690**	939,443	929,525	919,190	908,039
Other Selected Electric Data:					
Maximum peak hour demand (MW)	**5,729**	5,677	5,397	5,233	5,228
Sources of electric energy (000s MWh):					
Coal and gas	**18,349**	18,662	19,139	19,078	19,119
Purchased power	**8,596**	8,727	8,058	8,619	10,033
Nuclear	**5,012**	4,116	4,675	4,362	4,201
Other	**379**	452	427	528	504
Total	**32,336**	31,957	32,299	32,587	33,857
Revenue per KWh from ultimate customers (cents)	**6.01**	6.00	5.53	5.32	5.42

GAS OPERATING INFORMATION (UTILITY ONLY)	2002	2001	2000	1999	1998
Operating Revenues (000s):					
Residential	**$218,746**	$270,248	$245,697	$185,090	$175,603
Commercial	**111,343**	141,121	127,104	89,118	85,842
Industrial	**25,177**	31,262	27,752	21,855	20,204
Transportation/other	**38,720**	45,246	14,395	18,256	13,941
Total	**$393,986**	$487,877	$414,948	$314,319	$295,590
Gas Sales (000s Dths):					
Residential	**30,931**	29,580	32,026	30,309	28,378
Commercial	**19,348**	18,055	19,696	18,349	17,760
Industrial	**5,373**	5,344	5,350	5,963	5,507
Transportation/other	**47,386**	48,539	43,931	46,954	52,389
Total	**103,038**	101,518	101,003	101,575	104,034
Customers at End of Period (Excluding Transportation/Other):					
Residential	**358,384**	353,430	351,990	347,533	342,586
Commercial	**45,793**	45,480	44,654	44,289	43,825
Industrial	**799**	951	953	1,037	982
Total	**404,976**	399,861	397,597	392,859	387,393
Other Selected Gas Data:					
Revenue per Dth sold (excluding transportation/other)	**$6.38**	$8.35	$7.02	$5.42	$5.45
Purchased gas costs per Dth sold (excluding transportation/other)	**$4.02**	$6.31	$4.88	$3.30	$3.22

Definitions

Certain abbreviations or acronyms used in the text and notes of this report are defined below:

Abbreviation or Acronym	Definition
AFUDC	Allowance for Funds Used During Construction
Alliant Energy	Alliant Energy Corporation
APB	Accounting Principles Board Opinion
ATC	American Transmission Company LLC
Cargill	Cargill Incorporated
Cargill-Alliant	Cargill-Alliant, LLC
Corporate Services	Alliant Energy Corporate Services, Inc.
DAEC	Duane Arnold Energy Center
DNR	Department of Natural Resources
Dth	Dekatherm
EAC	Energy Adjustment Clause
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EITF	Emerging Issues Task Force
EPA	U.S. Environmental Protection Agency
EPS	Earnings Per Average Common Share
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation No.
GAAP	Accounting Principles Generally Accepted in the U.S.
ICC	Illinois Commerce Commission
IESU	IES Utilities Inc.
Integrated Services	Alliant Energy Integrated Services Company
International	Alliant Energy International, Inc.
Investments	Alliant Energy Investments, Inc.
IPC	Interstate Power Company
IP&L	Interstate Power and Light Company
IRS	Internal Revenue Service
IUB	Iowa Utilities Board
Kewaunee	Kewaunee Nuclear Power Plant
KWh	Kilowatt-hour
McLeod	McLeodUSA Incorporated
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MGP	Manufactured Gas Plants
MPUC	Minnesota Public Utilities Commission
MW	Megawatt
MWh	Megawatt-hour
NEPA	National Energy Policy Act of 1992
PSCW	Public Service Commission of Wisconsin
PUHCA	Public Utility Holding Company Act of 1935
Resources	Alliant Energy Resources, Inc.
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SmartEnergy	SmartEnergy, Inc.
South Beloit	South Beloit Water, Gas and Electric Company
Southern Hydro	Southern Hydro Partnership
Synfuel	Alliant Energy Synfuel LLC
TBD	To Be Determined
U.S.	United States of America
Whiting	Whiting Petroleum Corporation
WP&L	Wisconsin Power and Light Company

ERROLL B. DAVIS, JR.
Chairman of the Board
Age 58
Director since 1982

Mr. Davis became President and Chief Executive Officer of Alliant Energy Corporation when the company was formed in 1998 by the merger of WPL Holdings, Inc.; IES Industries Inc.; and Interstate Power Company. He became Chairman of the Board in 2000. He first joined Wisconsin Power and Light Company (a subsidiary of Alliant Energy) in 1978. He is a member of the Boards of Directors of BP p.l.c.; PPG Industries, Inc.; Electric Power Research Institute; and the Edison Electric Institute, where he also serves as Chairman.

LEE LIU
Vice Chairman of the Board
Age 69
Director since 1981

Mr. Liu served as Chairman of the Board of the company from April 1998 until April 2000. He was Chairman of the Board and Chief Executive Officer of IES Industries Inc. (a predecessor to the company) prior to 1998. Mr. Liu held a number of professional, management and executive positions after joining Iowa Electric Light and Power Company in 1957. He is a Director of Principal Financial Group and Eastman Chemical Company.

ALAN B. ARENDS
Director since 1993
Age 69

Mr. Arends is Chairman of the Board of Directors of Alliance Benefit Group Financial Services Corp., an Albert Lea, Minn.-based employee benefits company that he founded in 1983.

JACK B. EVANS
Director since 2000
Age 54

Mr. Evans is a Director and, since 1996, has served as President of The Hall-Perrine Foundation, a private philanthropic corporation in Cedar Rapids, Iowa. Previously, Mr. Evans was President and Chief Operating Officer of SCI Financial Group, Inc., a regional financial services firm. Mr. Evans is a Director of Gazette Communications, the Federal Reserve Bank of Chicago and Nuveen Institutional Advisory Corp., and Vice Chairman and a Director of United Fire and Casualty Company.

JOYCE L. HANES
Director since 1982
Age 70

Ms. Hanes has been a Director of Midwest Wholesale, Inc., a products wholesaler in Mason City, Iowa, since 1970 and Board Chair since December 1997, having previously served as Board Chair from 1986 to 1988. She is also a Director of Iowa Student Loan Liquidity Corp.

KATHARINE C. LYALL
Director since 1986
Age 61

Ms. Lyall is President of the University of Wisconsin System in Madison, Wis. In addition to her administrative position, she is a professor of economics at the University of Wisconsin-Madison. She serves on the Boards of Directors of the Kemper National Insurance Companies, M&I Corporation and the Carnegie Foundation for the Advancement of Teaching.

SINGLETON B. MCALLISTER
Director since 2001
Age 50

Ms. McAllister is a partner with Patton Boggs LLP, a Washington, D.C.-based law firm working in the public policy area and with business law groups. From 1996 until early 2001, Ms. McAllister was General Counsel for the United States Agency for International Development. She was also a partner at Reed, Smith, Shaw and McClay, where she specialized in government relations and corporate law.

DAVID A. PERDUE
Director since 2001
Age 53

Mr. Perdue served as Chairman and Chief Executive Officer of Pillowtex Corporation, a textile manufacturing company located in Kannapolis, N.C., from July 2002 to March 2003. Prior to this position, he was President and Chief Executive Officer of the Reebok Brand for Reebok International Limited. Prior to joining Reebok in 1998, he was Senior Vice President of Operations at Haggar, Inc.

JUDITH D. PYLE
Director since 1992
Age 59

Ms. Pyle is Vice Chair of The Pyle Group, a financial services company located in Madison, Wis. Prior to assuming her current position, Ms. Pyle served as Vice Chair and Senior Vice President of Corporate Marketing of Rayovac Corp. (a battery and lighting products manufacturer), based in Madison, Wis. In addition, Ms. Pyle is Vice Chair of Georgette Klinger, Inc. and a Director of Uniek, Inc.

ROBERT W. SCHLUTZ
Director since 1989
Age 66

Mr. Schlutz is President of Schlutz Enterprises, a diversified farming and retailing business in Columbus Junction, Iowa.

WAYNE H. STOPPELMOOR
Director since 1986
Age 68

Mr. Stoppelmoor served as Vice Chairman of the Board of the company from April 1998 until April 2000. He was Chairman, President and Chief Executive Officer of Interstate Power Company (a predecessor of Alliant Energy) from 1986 until his retirement in 1997.

ANTHONY R. WEILER
Director since 1979
Age 66

Mr. Weiler is a consultant for several home furnishings organizations. Prior to assuming his current position, Mr. Weiler had been a Senior Vice President for Heilig-Meyers Company, a national furniture retailer headquartered in Richmond, Va. He is a Director of the Retail Home Furnishings Foundation.

Ages are as of Dec. 31, 2002. Each election date represents the first year of Board affiliation with a company that ultimately became part of the Alliant Energy family.

COMMITTEES OF THE BOARD

AUDIT COMMITTEE

Jack B. Evans (Chair)
Alan B. Arends
Katharine C. Lyall
Singleton B. McAllister
David A. Perdue

COMPENSATION AND PERSONNEL COMMITTEE

Judith D. Pyle (Chair)
Alan B. Arends
Jack B. Evans
David A. Perdue

NOMINATING AND GOVERNANCE COMMITTEE

Anthony R. Weiler (Chair)
Joyce L. Hanes
Katharine C. Lyall
Singleton B. McAllister
Robert W. Schlutz

ENVIRONMENTAL, NUCLEAR, HEALTH AND SAFETY COMMITTEE

Robert W. Schlutz (Chair)
Joyce L. Hanes
Judith D. Pyle
Anthony R. Weiler

CAPITAL APPROVAL COMMITTEE

Erroll B. Davis, Jr. (Chair)*
Jack B. Evans
Judith D. Pyle
Anthony R. Weiler

*Non-voting committee member

SENIOR MANAGEMENT TEAM

Erroll B. Davis, Jr.
Chairman, President and Chief Executive Officer
Responsible for development of the business model for Alliant Energy and the execution of the company's long-term strategic plan.

William D. Harvey
Executive Vice President-Generation
President, Wisconsin Power and Light Company
Responsible for the operations of Alliant Energy's generation activities, including fossil-fuel, nuclear and renewable power. Oversees operations at Wisconsin Power and Light Company.

James E. Hoffman
Executive Vice President-Business Development
President, Alliant Energy Resources, Inc.
Oversees all international and non-regulated subsidiaries. Also has responsibility for shaping and implementing Alliant Energy's e-business strategies and initiatives.

Eliot G. Protsch
Executive Vice President-Energy Delivery
President, Interstate Power and Light Company
Responsible for utility energy delivery services, marketing activities and customer relations. Oversees operations at Interstate Power and Light Company, including the company's interest in the Duane Arnold nuclear plant.

Barbara J. Swan
Executive Vice President and General Counsel
Responsible for legal matters involving Alliant Energy Corp. and its utility and non-utility subsidiaries. Also oversees government and regulatory relations, corporate communications, advertising, community affairs and strategic planning.

Thomas M. Walker
Executive Vice President and Chief Financial Officer
Responsible for accounting, finance, investor relations and shareowner services. Also oversees the financial activities in all business units and subsidiary companies.

Pamela J. Wegner
Executive Vice President-Shared Solutions
President, Alliant Energy Corporate Services, Inc.
Responsible for environmental, health and safety procedures and strategies, infrastructure security, human resources, labor relations, information technology, supply chain, facilities, and project management.

ALLIANT ENERGY CORPORATION OFFICERS

Erroll B. Davis, Jr., 58 [1978]
Chairman, President and Chief Executive Officer

William D. Harvey, 53 [1986]
Executive Vice President-Generation
(President, Wisconsin Power and Light Company)

James E. Hoffman, 49 [1995]
Executive Vice President-Business Development
(President, Alliant Energy Resources, Inc.)

Eliot G. Protsch, 49 [1978]
Executive Vice President-Energy Delivery
(President, Interstate Power and Light Company)

Barbara J. Swan, 51 [1987]
Executive Vice President and General Counsel

Thomas M. Walker, 55 [1996]
Executive Vice President and Chief Financial Officer

Pamela J. Wegner, 55 [1993]
Executive Vice President-Shared Solutions
(President, Alliant Energy Corporate Services, Inc.)

Dundeana K. Doyle, 44 [1984]
Vice President-Infrastructure Security

Thomas L. Hanson, 49 [1980]
Vice President and Treasurer

John E. Kratchmer, 40 [1985]
Vice President-Controller and Chief Accounting Officer

Barbara A. Siehr, 51 [1976]
Vice President-Financial Planning and Strategic Projects

F. J. Buri, 48 [1999]
Corporate Secretary

Joan M. Thompson, 45 [1977]
Assistant Controller

Linda J. Wentzel, 54 [1978]†
Assistant Corporate Secretary

Enrique Bacalao, 53 [1998]
Assistant Treasurer

Eric D. Mott, 35 [1996]
Assistant Treasurer

ALLIANT ENERGY CORPORATE SERVICES OFFICERS*

Erroll B. Davis, Jr., 58 [1978]
Chief Executive Officer

Pamela J. Wegner, 55 [1993]
President

William D. Harvey, 53 [1986]
Executive Vice President-Generation

James E. Hoffman, 49 [1995]
Executive Vice President-Business Development

Eliot G. Protsch, 49 [1978]
Executive Vice President-Energy Delivery

Barbara J. Swan, 51 [1987]
Executive Vice President and General Counsel

Thomas M. Walker, 55 [1996]
Executive Vice President and Chief Financial Officer

Dundeana K. Doyle, 44 [1984]
Vice President-Infrastructure Security

Vern A. Gebhart, 49 [1975]
Vice President-Customer Operations

Thomas L. Hanson, 49 [1980]
Vice President and Treasurer

John E. Kratchmer, 40 [1985]
Vice President-Controller and Chief Accounting Officer

Daniel L. Mineck, 54 [1970]
Vice President-Performance Engineering and Environmental

Barbara A. Siehr, 51 [1976]
Vice President-Financial Planning and Strategic Projects

Kim K. Zuhlke, 49 [1978]
Vice President-Engineering, Sales and Marketing

F. J. Buri, 48 [1999]
Corporate Secretary

Kent M. Ragsdale, 53 [1985]††
Assistant Corporate Secretary

Linda J. Wentzel, 54 [1978]†
Assistant Corporate Secretary

Enrique Bacalao, 53 [1998]
Assistant Treasurer

Steven F. Price, 50 [1984]
Assistant Treasurer

ALLIANT ENERGY RESOURCES OFFICERS**

Erroll B. Davis, Jr., 58 [1978]
Chairman and Chief Executive Officer

James E. Hoffman, 49 [1995]
President

William D. Harvey, 53 [1986]
Executive Vice President

Eliot G. Protsch, 49 [1978]
Executive Vice President

Thomas M. Walker, 55 [1996]
Chief Financial Officer

Thomas L. Aller, 53 [1993]
Vice President
(President, Alliant Energy Investments, Inc.)

Charles Castine, 53 [1998]
Vice President
(President, Alliant Energy Integrated Services Company)

Dundeana K. Doyle, 44 [1984]
Vice President-Infrastructure Security

Thomas L. Hanson, 49 [1980]
Vice President and Treasurer

John E. Kratchmer, 40 [1985]
Vice President-Controller and Chief Accounting Officer

Michael P. Maley, 44 [2001]
Vice President
(President, Alliant Energy Generation, Inc.)

John K. Peterson, 50 [1998]
Vice President
(President, Alliant Energy International, Inc.)

Barbara A. Siehr, 51 [1976]
Vice President-Financial Planning and Strategic Projects

F. J. Buri, 48 [1999]
Corporate Secretary

Daniel L. Siegfried, 43 [1992]
Assistant Corporate Secretary

Linda J. Wentzel, 54 [1978]†
Assistant Corporate Secretary

Enrique Bacalao, 53 [1998]
Assistant Treasurer

Steven F. Price, 50 [1984]
Assistant Treasurer

Ages are as of Dec. 31, 2002.

Dates in brackets represent the year each person joined a company that ultimately became part of the Alliant Energy family.

*Alliant Energy Corporate Services, Inc. provides internal support to all business units within the company.

**Alliant Energy Resources, Inc. is the parent of the company's non-regulated businesses.

†Ms. Wentzel retired on March 18, 2003. Patricia L. Reininger was appointed Assistant Corporate Secretary, effective Jan. 13, 2003.

††Mr. Ragsdale was appointed General Counsel of TransLink Development Company LLC, effective Jan. 8, 2003.

STOCK EXCHANGE LISTINGS

	Stock exchange	Trading symbol	Newspaper abbreviation
Alliant Energy — Common	New York Stock Exchange	LNT	AlliantEngy
Wisconsin Power and Light Company — 4 50% Preferred	American Stock Exchange	WIS_PR	WI P&L pf

All other Wisconsin Power and Light Company preferred series and all preferred series of Interstate Power and Light Company are traded on the over-the-counter market

COMMON STOCK QUARTERLY PRICE RANGES AND DIVIDENDS

	2002			2001		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$ 31 01	$ 28 67	$ 50	$ 33 20	$ 28 75	$ 50
Second	$ 30 85	$ 24 75	50	$ 32 67	$ 28 20	50
Third	$ 25 77	$ 16 35	50	$ 31 49	$ 27 90	50
Fourth	$ 19 89	$ 14 28	50	$ 32 29	$ 27 50	50
Year	**$ 31 01**	**$ 14 28**	**$2.00**	**$ 33 20**	**$ 27.50**	**$2 00**

Alliant Energy Corporation 2002 year-end common stock price $16 55

2003 RECORD AND DIVIDEND PAYMENT DATES

Anticipated record and payment dates are as follows

COMMON STOCK

Record dates	Payment dates
Jan 31	Feb 15
Apr 30	May 15
July 31	Aug 15
Oct 31	Nov 15

TARGETED ANNUAL DIVIDEND RATE

Alliant Energy's 2003 targeted annual dividend rate is $1 per common share

Alliant Energy Corporation had 55,470 shareowners as of Dec 31, 2002 Shareowner records are maintained in the corporate general office in Madison, Wis

STREET-NAME ACCOUNTS

Shareowners whose stock is held by banks or brokerage firms and who wish to receive quarterly reports directly from the company should contact Shareowner Services to be placed on the mailing list Reports also may be obtained through the "Investors" section of our Web site

ANNUAL MEETING

The 2003 Annual Meeting of Shareowners will be held at the Alliant Energy Center of Dane County, Madison, Wis., on Wednesday, May 28, 2003, at 1 p m , Central Daylight Time

FORM 10-K INFORMATION

Upon request, the company will provide, without charge, copies of the Annual Report on Form 10-K for the year ended Dec 31, 2002, as filed with the Securities and Exchange Commission All reports filed with the SEC also are available through the "Investors" section of our Web site

ANALYST INQUIRIES

Inquiries from the financial community may be directed to

Eric Mott
Assistant Treasurer
P.O. Box 77007
Madison, WI 53707-1007
Phone: (608) 458-3391
Fax: (608) 458-4824
E-mail: ***ericmott@alliantenergy com***

STOCK TRANSFER AGENT AND REGISTRAR

For Alliant Energy common stock and all preferred stock of Wisconsin Power and Light Company and Interstate Power and Light Company, contact

Alliant Energy Corporation
Attn: Shareowner Services
P.O. Box 2568
Madison, WI 53701-2568

Written inquiries should be mailed to this address as well.

DUPLICATE MAILINGS

If you receive duplicate mailings of proxies, dividend checks or other mailings because of slight differences in the registration of your accounts, please call Shareowner Services for instructions on combining your accounts To reduce the volume of paper you receive from us, you may wish to consider electronic access

ELECTRONIC ACCESS

With 24-hour access via the Web, shareowners can look up account balance information and SEC filings, examine reinvestment details, obtain payment information, view statements, vote their proxies, find tax information or open a new account at any time. Go to *www alliantenergy.com,* click on "Investors" and then "Shareowner Services." Follow instructions for first-time visitors

SHAREOWNER INFORMATION

The company's annual report and quarterly newsletter focus on the shareowner audience Your questions and ideas are always welcome Please direct them to Shareowner Services.

SHAREOWNER DIRECT PLAN

The Plan is available to all shareowners of record, first-time investors, customers, vendors and employees Through the Plan, shareowners may buy common stock directly through the company without paying any brokerage commissions, fees or service charges

Full details are in the prospectus, which can be obtained through our Web site or by calling Shareowner Services

DIRECT DEPOSIT

Shareowners who are not reinvesting their dividends through the Plan may choose to have their quarterly dividend electronically deposited in their checking or savings account through this service Electronic deposit may be arranged by contacting Shareowner Services.

SHAREOWNER SERVICES

The company's Shareowner Services representatives are available to assist you from 8 30 a m. to 4 30 p m (Central Standard Time) each business day

Madison, Wis., area: (608) 458-3110
Toll-free: 1-800-356-5343

Internet address *www alliantenergy com* (click on "Investors")

Our Vision

To be the customer's first choice for energy solutions.

Our Mission

To exceed the customer's expectations for comfort, security and productivity around the world.

The Alliant Energy Way

We value S.E.R.V.I.C.E.

Safety. We do not compromise the safety of employees or the general public.

Employees. We value a diverse workplace that fosters employee growth and development.

Responsibility. We are committed to the environment and the communities we are privileged to serve.

Value. We create value for our shareowners and focus on profitable growth.

Integrity. We vow to be ethical, open and honest. We maintain personal accountability for our actions and behavior.

Customer Focus. We are results-oriented and deliver on our promises.

Excellence. We value operational excellence and encourage innovation and creativity. We act quickly and are willing to embrace changes and take risks in pursuit of excellence.

Alliant Energy
Worldwide Headquarters

4902 North Biltmore Lane
P.O. Box 77007
Madison, WI 53707-1007
General information: 1.800.ALLIANT
Shareowner services: 1.800.356.5343

Operating Headquarters

200 First St., S.E.
Cedar Rapids, IA 52401
1.800.373.1303

1000 Main St.
Dubuque, IA 52001
1.800.611.9330

Current information about Alliant Energy is available on the Web at *www.alliantenergy.com.*

LNT LISTED NYSE

The common stock of Alliant Energy Corp. is traded on the New York Stock Exchange under the symbol LNT.

ALLIANT ENERGY

We're on for you.

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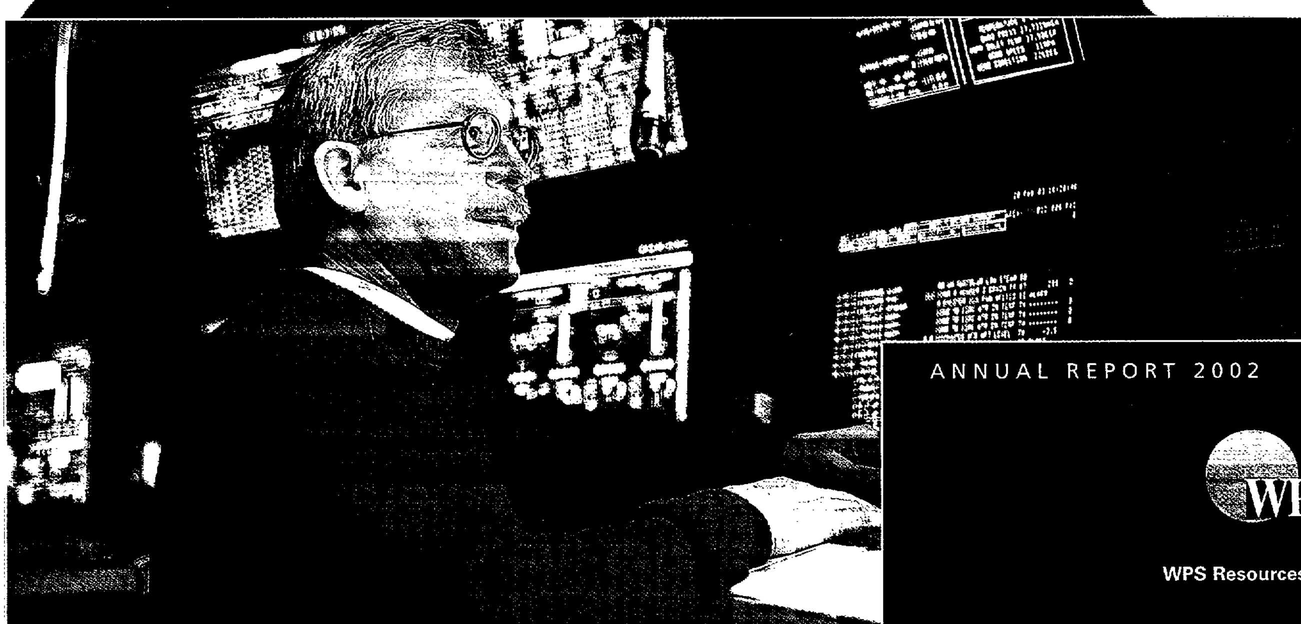


LOOK TO US

ANNUAL REPORT 2002

WPS

WPS Resources Corporation

HIGHLIGHTS

YEAR ENDED DECEMBER 31	2002	2001	PERCENT CHANGE
Consolidated revenues – nonregulated *(Millions)*	$1,624.6	$1,700.6	(4)
Consolidated revenues – utility *(Millions)*	1,050.3	974.9	8
Income available for common shareholders *(Millions)*	109.4	77.6	41
Basic earnings per average share of common stock	$ 3.45	$ 2.75	25
Diluted earnings per average share of common stock	3.42	2.74	25
Dividend paid per share	2.12	2.08	2
Book value per share	24.62	23.02	7
Common stock price at year end	$38.82	$36.55	6
Shares outstanding at year end	31,979,283	31,182,878	3
Total assets *(Millions)*	$3,207.9	$2,870.0	12

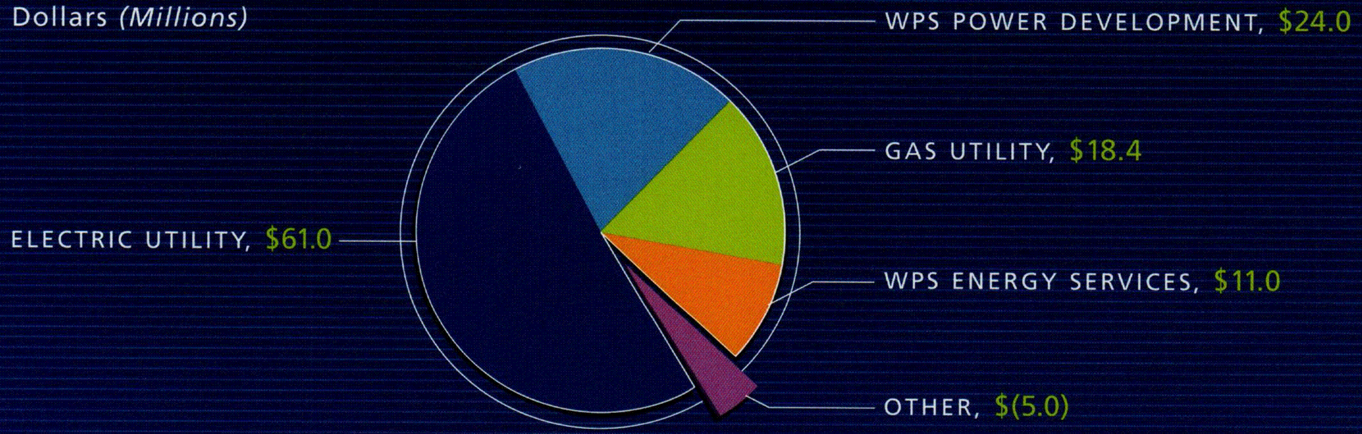
NET CASH FLOW SUMMARY

YEAR ENDED DECEMBER 31 *(Millions)*	2002	2001	2000
TOTAL SOURCES			
Net operating including preferred dividends	$191	$140	$141
Net financing	160	89	107
TOTAL	$351	$229	$248

YEAR ENDED DECEMBER 31 *(Millions)*	2002	2001	2000
TOTAL USES			
Net investing	$285	$139	$192
Common dividends	67	59	54
TOTAL	$352	$198	$246

EARNINGS BY SEGMENT

Dollars *(Millions)*

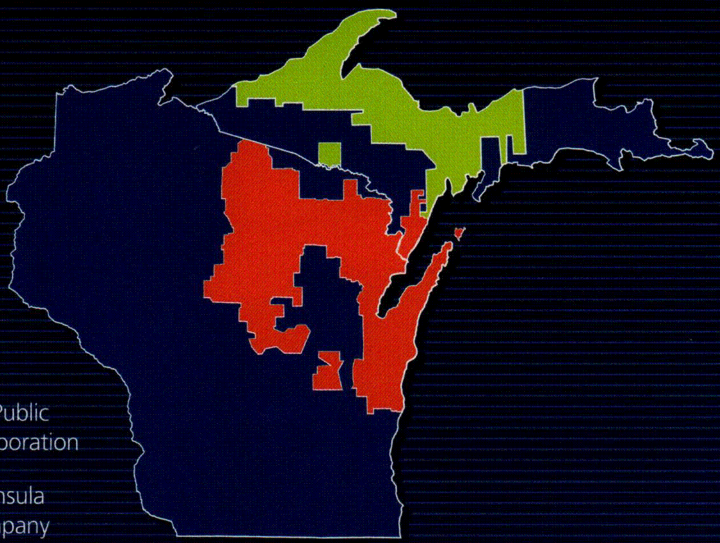


TOTAL EARNINGS $109.4

AT A GLANCE

WPS Resources Corporation

WPS Resources Corporation is a holding company based in Green Bay, Wisconsin. System companies provide products and services in both regulated and nonregulated energy markets.



Wisconsin Public Service Corporation

Upper Peninsula Power Company

WISCONSIN PUBLIC SERVICE CORPORATION

BUSINESS

Established in 1883.

Regulated electric and natural gas utility.

Operates in northeastern and central Wisconsin and an adjacent portion of Upper Michigan (see map above).

2,410 employees.

MARKET

Serves 407,768 electric and 295,816 natural gas customers.

Provides electric and natural gas products and services to residential, farm, commercial, and industrial customers. Also provides electric power to wholesale customers.

Electric operations accounted for 69% and gas operations accounted for 31% of 2002 revenues.

Electric revenues are comprised of 87% retail sales and 13% wholesale sales.

Wisconsin customers accounted for 96% and Michigan customers accounted for 4% of 2002 revenues.

FACILITIES

Electric generating capacity based on 2003 summer capacity ratings is 2,167 megawatts, including share of jointly-owned facilities. A peak demand was reached on July 17, 2002, with a system demand of 1,947 megawatts.

Electric property includes 20,212 miles of electric distribution lines, 90% of which is 24.9 kV line.

Gas property includes 6,686 miles of gas main, 69% of which is plastic main, and 83 gate and city regulator stations.

UPPER PENINSULA POWER COMPANY

BUSINESS

Established in 1884.

Regulated electric utility.

Operates in primarily rural countryside covering 10 of the 15 counties in the Upper Peninsula of Michigan (see map above).

169 employees.

MARKET

Serves 51,207 electric customers in 99 communities.

Provides electric energy to 32 wholesale customers.

Main industries served are forest products, tourism, and small manufacturing.

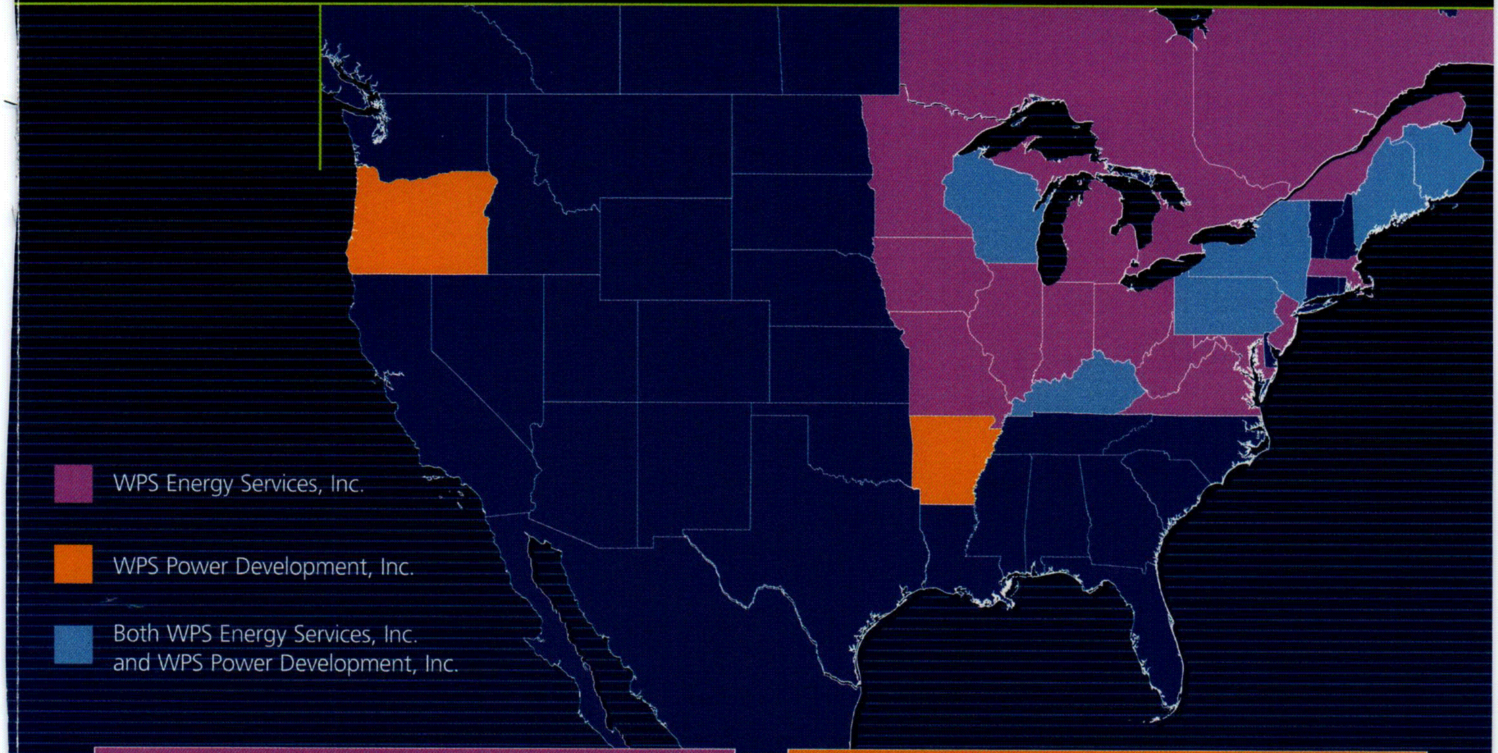
Electric revenues are comprised of 89% retail sales and 11% wholesale sales.

FACILITIES

Electric generating capacity based on 2003 summer capacity ratings is 88 megawatts. A peak demand was reached on July 1, 2002, with a system demand of 159 megawatts.

Electric property includes 2,826 miles of electric distribution lines.

204



WPS ENERGY SERVICES, INC.

BUSINESS

Established in 1994.

Diversified nonregulated energy supply and services company.

Principal operations in Illinois, Maine, Michigan, Ohio, Wisconsin, Ontario, and Quebec (see map above).

Provides retail and wholesale products primarily in the northeast quadrant of the United States and adjacent portions of Canada.

132 employees.

MARKET

Operates in the retail and wholesale nonregulated energy marketplace.

Emphasis is on serving aggregated retail, commercial, industrial, and wholesale customers in the northeast quadrant of the United States and adjacent portions of Canada.

PRODUCTS AND SERVICES

Provides individualized energy supply solutions, structured products, and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation.

Provides natural gas, electric, and alternate fuel products, real-time energy management services, energy utilization consulting, and project management.

Patented DENet® computer technology allows customers to continuously monitor and actively manage their energy usage.

WPS POWER DEVELOPMENT, INC.

BUSINESS

Established in 1995.

Develops, owns, and operates various nonregulated electric generation facilities.

Owns a portion of a synthetic fuel facility.

Provides electric power generation services.

211 employees.

MARKET

Nationwide and adjacent portions of Canada (see map above).

Significant focus on the northeast quadrant of the United States.

PRODUCTS AND SERVICES

Acquisition and investment analysis, project development, engineering and management services, and operations and maintenance services.

Areas of expertise include cogeneration, distributed generation, generation from renewables, and generation plant repowering projects.

FACILITIES

- 69 megawatts of hydro and diesel generation facilities in the State of Maine and in New Brunswick, Canada.
- 503 megawatts of primarily coal-fired generation facilities in Pennsylvania.
- 257 megawatts of combined cycle and fluidized bed generation facilities in upstate New York.
- 50-megawatt combustion turbine facility in Combined Locks, Wisconsin.
- Two-thirds interest in a 53-megawatt coal-fired steam facility located in Cassville, Wisconsin.
- A minority interest in a synthetic fuel facility located in Kentucky.
- Landfill and wood waste gas generating facilities in Wisconsin and steam boilers in other states.

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DEAR FELLOW SHAREHOLDERS

The events of the past few years are continuing to impact our industry and our company today. The terrorist attacks, the downturn in the economy, and corporate scandals have created changes in the marketplace that affect us and our shareholders.

Investors are looking for safe havens for their investment dollars as their portfolios have decreased. They've seen many "good" companies fall from the antics of a few. Retirement nest eggs are shrinking as dividends are cut and stock prices fall. Investors are concerned about the stability of dividends and current income flows in making investment decisions.

The downturn in the economy still looms and the threat of war weighs heavily. These threats are tempering the choices of customers and investors. Spending isn't as discretionary for many.

We find ourselves spending more to ensure the security of our facilities and operations—controlling access and duplicating operational systems—protecting the bricks and mortar that house them. We're paying more to insure our facilities and our operations. New reporting requirements are adding to the magnitude of data we issue on a regular basis and stretching our accounting staff. We're taking another look at how we deliver and what we deliver—ensuring the integrity of each and every portion of our business.

Integrity is the key to ensuring value for our customers and investors—integrity of people, processes, and systems. As a conservative company, we've upheld the importance of integrity and value. Our long-standing recognition as a company of integrity has served us well.

In a year that was troubling for many, you looked to us for value and we believe we delivered. Let me tell you how.

Doug Vine, Director of Operations for Wisconsin Public Service's Green Bay Service Center, knows the word "service" holds profound meaning for an energy company. It implies duty and trustworthiness.

Pictured on cover, top to bottom:
Paul Sackmann, Auxiliary Operator at Wisconsin Public Service's Weston 3 Power Plant near Wausau, Wisconsin, is one of 143 employees who recently marked a full year without injuries at the plant.

Rachelle Bissing, Estimating Methods Supervisor for Wisconsin Public Service, is pictured outside our corporate headquarters and is one of the many employees throughout WPS Resources who use the voice of the customer to set standards of excellence in all that they do.

Don Bartel, Control Operator at Wisconsin Public Service's Pulliam Power Plant in Green Bay, Wisconsin, has constant communication with floor operators during his shift, ensuring safe and reliable operation of the plant.

A QUICK REVIEW OF 2002

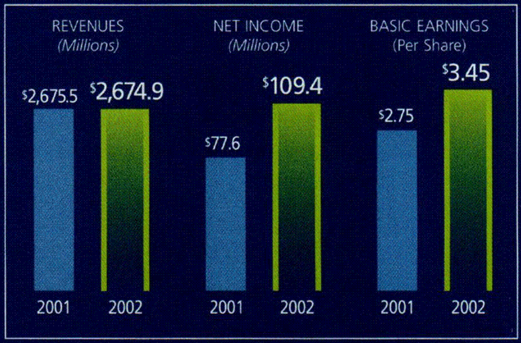
- We announced record earnings per share of $3.45 for the year.
- We increased our overall return.
- We raised the dividend on our common stock.
- Our common stock was added to Standard & Poor's MidCap 400 Index, giving our stock greater liquidity.
- We expanded our utilities' call center operations to 24 hours a day, 7 days a week to better serve our customers.
- We began constructing an 83-megawatt natural gas-fired combustion turbine electric generator on an existing plant site in Green Bay, Wisconsin.
- We selected Deloitte & Touche LLP to replace Arthur Andersen as our external auditor.
- We purchased CH Resources, Inc., which included three power plants in upstate New York with combined generating capacity of 257 megawatts.
- We announced plans to build a 500-megawatt coal-fired electric generator on an existing plant site near Wausau, Wisconsin.
- We completed credit line syndications for WPS Resources and Wisconsin Public Service Corporation.
- We sold $250 million of senior notes at very favorable rates.
- We completed the year with the purchase of the 180-megawatt De Pere Energy Center from Calpine Corporation and a further selldown of our interest in a synthetic fuel facility.

So, our pace has quickened and our employees have been challenged, but we are creating greater value for our customers and shareholders, and they can look to us for continued growth and integrity in our operations.

AN OVERVIEW

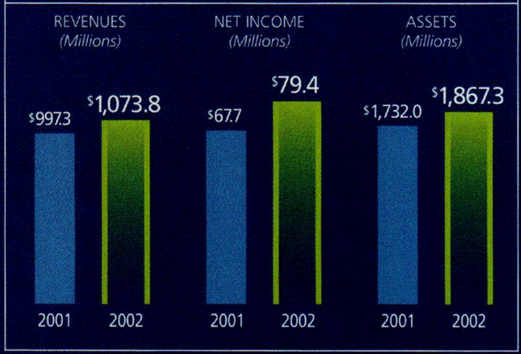
Our Financial Performance Continues to Improve.

WPS RESOURCES CORPORATION



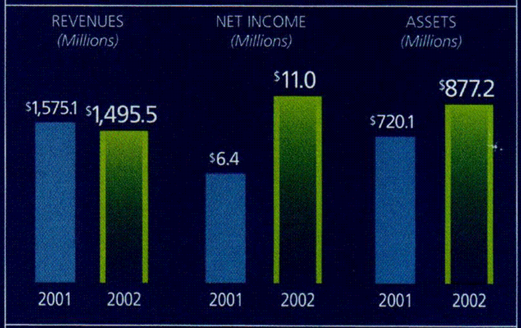
UTILITY OPERATIONS

Wisconsin Public Service Corporation and Upper Peninsula Power Company

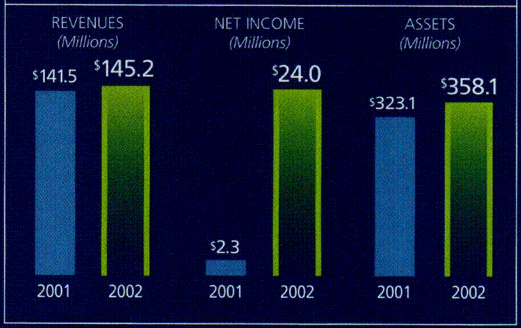


NONREGULATED SUBSIDIARIES

WPS Energy Services, Inc.



WPS Power Development, Inc.



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LOOK TO US FOR A FOCUSED STRATEGY

During 2002, we took a close look at our strategy. We reconfirmed that balanced growth is important to us. Acknowledging the changing environment, we will place greater emphasis on growth of our regulated utility business while at the same time carefully growing our nonregulated subsidiaries. Investors are rightfully concerned about energy companies that have diversified too far from their roots and too fast. We, on the other hand, have adhered to our core competencies of energy and energy-related activities. Investors applaud our focus on core competencies and the energy markets within the United States and Canada.

Our steps may have been small, but they have always been decisive. We've built upon what we do best—serving our customers with the best value in energy-related products and services. We began that long ago.

LOOK TO US FOR GROWING REGULATED UTILITIES

Our utility foundation is solid, dating back to 1883. The foundation was created through the merger of many small utility companies. Through the years, we've paid close attention to our facilities, always ensuring that they remained state-of-the-art to better serve our growing customer base. Decisions made over three decades ago to install 24.9 kV electric lines and plastic gas mains have paid dividends through the years in keeping maintenance costs low and, as a result, rates low. Installing automated meter reading technology is another step in the right direction. But we must do more. So, we've taken a closer look at how and when we serve our customers.

With the goal of better serving our customers, we expanded the call center operations at our utilities to 24 hours a day, 7 days a week. We've always been available for 24-hour emergency service, but we wanted to be more available for our customers whenever their need arose. Expanding our hours of operation allows our customers to access information about their accounts at any time from anywhere. We're available to address billing or payment options, service requests, and to give advice on managing energy costs. We also added self-service features to our Web site that allow customers to access information about their home, business, or farm. Our customers now have more choices, including how and when they want to be served.

After minimal building of new generation at the utility level for many years, we're back in a construction mode with our installation of an 83-megawatt combustion turbine electric generator at our Pulliam Power Plant site. With construction well underway, the natural gas-fired generator should begin operating in June of 2003.

With the demand for electricity growing by 2 to 3 percent per year in Wisconsin, we announced our plan to build a 500-megawatt state-of-the-art coal-fired electric generator at our existing Weston Power Plant site. We expect the $700 million power plant to begin operating in 2008.

In December 2002, we purchased the 180-megawatt natural gas-fired De Pere Energy Center from Calpine Corporation for $120.4 million. The transaction included termination of the existing power purchase agreement and a new power purchase agreement for up to 235 megawatts of capacity and energy for 10 years from Calpine at a cost of approximately $250 million over the 10-year period beginning in 2005. This will give us a better mix of resources and will mean lower costs for our customers. Termination of the existing power purchase agreement allows us to take advantage of changes in technology to provide lower-cost options for meeting the increasing needs of our customers.

We also set a generation record when our jointly-owned Kewaunee Nuclear Power Plant produced 4.47 billion kilowatt-hours of electricity during 2002, surpassing our 1999 record of 4.42 billion kilowatt-hours. Replacement of the steam generators and refueling late in 2001 brought Kewaunee back to full capacity and allowed us to serve the energy requirements of about 653,000 households for an entire year with the energy created by that one plant.

FINANCIAL GOALS FOR 2003

- Grow our earnings at 6 to 8 percent on an annualized basis.
- Achieve 15 to 20 percent of our earnings from WPS Energy Services and WPS Power Development.
- Continue our moderate growth in the annual dividend paid.

LOOK TO US FOR FOCUSED NONREGULATED BUSINESSES

WPS Energy Services, Inc. made great strides this year when it increased its net income by almost 72 percent and improved its margins by $16 million. This sound financial performance reflects the efforts we made in 2001 to revamp our natural gas business. This includes improving our procurement processes, reducing the components of our sales commitments that are difficult to hedge, and focusing on the quality of suppliers and customers.

A key step for us in 2002 was leveraging our nonregulated retail core competency by increasing our involvement in Canadian markets. We were able to do this by acquiring a natural gas retail business operating in Ontario and Quebec under a low-risk, earn-out structure. This enables us to expand our geographical scope and capability without deviating from our core competencies. It also allows us to leverage across a larger customer base the improvements we made to our nonregulated energy services infrastructure and processes in 2001. We expect this operation to contribute to earnings in 2004 and beyond. The addition of this business to our portfolio and our geographical expansion are contributing to the balance between our nonregulated wholesale and retail segments—a balance that we believe is very important for us to maintain.

In June, we completed the $59.2 million acquisition of CH Resources, Inc., whose primary assets included three upstate New York power plants built in the 1990s. The plants have a combined capacity of 257 megawatts.

WPS Power Development's synthetic fuel facility has reached outstanding production levels and generates more tax credits than we have the capacity to use. After selling down our interest in the facility in 2001 and recognizing a pretax gain of $38 million in 2002, we monetized a portion of our excess capacity in 2002, which should deliver cumulative pretax earnings of approximately $36 million between 2003 and 2007, pending satisfaction of certain contingencies relating to the production of synthetic fuel. This project has been a winner for us.

However, our nonregulated subsidiaries did face some challenges in 2002. We endured low stream flows in Maine because of the lasting effects of drought conditions in 2001—the worst in 106 years—which reduced production at our hydro facilities. The year also brought reduced revenues due to depressed markets in Pennsylvania and New York. To counteract the depressed market conditions, we adapted our operation at our Sunbury plant in Pennsylvania to increase our flexibility and response to market conditions. We also took steps to improve fuel costs and reduce fixed costs. A workforce reduction at the plant in early 2003 also resulted from the down market. We made a difficult decision that will allow us to remain a viable energy producer in the Pennsylvania-New Jersey-Maryland market until the current economic conditions improve.

LOOK TO US FOR SOUND FINANCIAL MANAGEMENT

LOW RATES

January 2002 brought interim electric and natural gas rates for Wisconsin Public Service's customers in Wisconsin. We operated under the interim rates until June 22, when the Public Service Commission of Wisconsin's final rate order became effective. The final order granted a 10.9 percent, or $58.6 million, annualized increase in retail electric rates and a 3.9 percent, or $10.6 million, annualized increase in retail natural gas rates. The order also granted a 12.3 percent return on equity and allowed an average of 55 percent equity in our capital structure. Even with this rate increase, Wisconsin Public Service's rates remain among the lowest in Wisconsin and the nation.

In December, the Michigan Public Service Commission granted Upper Peninsula Power Company an 8.9 percent increase in its base rates and a return on equity of 11.4 percent starting on December 21, 2002. This was the first base rate increase for Upper Peninsula Power in 10 years.

Wisconsin Public Service has filed a request to increase its electric rates by 8.3 percent and its natural gas rates by 2.7 percent for its Wisconsin customers in 2003. On February 20, 2003, the Public Service Commission of Wisconsin ruled on the requested rate increase, including a 12 percent return on equity rather than the 12.6 percent requested with equity constituting 55 percent of the capital structure. We anticipate receiving a final rate order in March 2003. We're investing in service, reliability, and infrastructure that our customers require for the future.

On February 6, 2003, Wisconsin Public Service filed a request to increase its electric rates by 9 percent for its Michigan customers. This is our first Michigan base rate increase request in 17 years. We're continually making changes to produce and deliver energy more efficiently—while at the same time providing the services and reliability our customers depend upon.

FINANCING OUR FUTURE

In September, we established a $180 million revolving credit line for WPS Resources and a $100 million revolving credit line for Wisconsin Public Service. Eleven banks participated in the syndication. The 364-day senior unsecured syndicated bank facilities earned high ratings from Moody's, with WPS Resources receiving a "Aa3" rating and Wisconsin Public Service receiving a "Aa2" rating. These credit lines give us greater flexibility as we grow our regulated and nonregulated subsidiaries.

In November, WPS Resources completed the sale of $100 million of 5.375 percent 10-year senior unsecured notes. The notes were rated "Aa3" by Moody's and "A" by Standard & Poor's.

In December, Wisconsin Public Service completed the sale of $150 million of 4.875 percent 10-year senior notes. The notes were in the form of fading lien notes and have the security of first mortgage bonds until all other Wisconsin Public Service first mortgage bonds are retired. They then will either become senior unsecured notes or will be secured by substitute mortgage bonds. The notes were rated "Aa1" by Moody's and "AA-" by Standard & Poor's.

Our financial strength and quality credit ratings—some of the best in the industry—generate great market demand and enable us to issue debt on very favorable terms. We will continue to work hard to maintain quality credit ratings that give us access to the capital markets at reasonable rates.

BENEFITS FOR OUR INVESTORS

WPS Resources was added to Standard & Poor's MidCap 400 Index in February 2002. This gave our stock greater liquidity with our average daily trading volume increasing from 40,000 shares at the end of 2001 to 121,000 shares by the end of 2002.

In May, we selected Deloitte & Touche LLP to replace Arthur Andersen LLP as our independent auditor. We also decided to undertake a reaudit of 2000 and 2001 to enhance our financial flexibility in accessing capital markets when the need arises. I am proud to say that the reaudit was completed and did not change our reported earnings for those years.

In July, we rewarded our shareholders by increasing our common stock dividend for the 44th consecutive year. We believe it's important for us to pay healthy dividends to our shareholders, and we will work hard to continue to do so.

In October, we moved our stock transfer agent function from U.S. Bank, N.A. to American Stock Transfer & Trust Company. The move gives our shareholders access to their account information through the Internet and gives them expanded hours in which to carry out their stock activities.

Our stock price has held up well over the last year—a year that was volatile for many companies. We finished 2001 at $36.55 and ended 2002 at $38.82. For investors who held WPS common stock from December 31, 2001 through December 31, 2002 and were able to reinvest their $2.12 in dividends paid per share, their total shareholder return for the year was 12.26 percent—a very positive result for our investors in a year that was difficult for many other companies as reflected in the S&P 500 Index, which suffered a 22 percent loss.

LOOK TO US FOR STRONG LEADERSHIP

Membership on our Board of Directors changed this year with the retirement of A. Dean Arganbright on May 9, 2002. Dean kept a watchful eye on our shareholders' investments for almost 30 years, and he deserves recognition for his dedication to serving our investors. Albert J. Budney, Jr. was elected to the Board on May 9, 2002 and brings many years of energy-related experience, having previously served as Director and President of Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation.

The year also brought changes to our leadership team. Ralph Baeten, our Senior Vice President - Finance and Treasurer, retired on February 28, 2002 after 31 years of

Art Bahr uses his experience as an Auxiliary Operator to instruct employees in safe, efficient operation of Pulliam Power Plant's six turbines.

service. Pat Schrickel, our Executive Vice President (also President and Chief Operating Officer for Wisconsin Public Service and Chairman, President, and Chief Executive Officer for Upper Peninsula Power) joined the ranks of the retired on March 31, 2002 after 35 years of service. I want to thank Ralph and Pat for their leadership and countless contributions through the years.

We named Brad Johnson as Treasurer effective March 1, 2002. Brad has more than 23 years of experience in finance with the company and has proven that he is up to the challenge of keeping your investments in WPS working for you.

LOOK TO US FOR INTEGRITY

Our financial statements are accurate. Joe O'Leary, our Senior Vice President and Chief Financial Officer, and I attested to the integrity of those statements in August, and we continue to attest to the integrity of our financial statements every quarter. I am also proud of the integrity that our employees exhibit in every aspect of their jobs. We expect it, we require it, and we respect it.

We know that if it were not for you, our investors and customers, we would not be the company we are today. You have placed your faith in us, and we plan to continue delivering a sound return on your investment. Our decisions are guided by the belief and trust that we are doing the right thing—serving both our customers and our shareholders with great value while also ensuring today's energy environment is a better place because of the mark we have left on it.

LOOK TO US FOR VALUE

For the past several years, we have sought balanced growth in our regulated and nonregulated business with emphasis on our nonregulated subsidiaries. Our targeted growth rate has been 8 to 10 percent earnings per share growth. In 2003, we will continue to seek balanced utility and nonregulated growth; however, we will place more emphasis on regulated growth, thereby further reducing our exposure to the risks of the nonregulated markets while they are still maturing. We will remain active in the nonregulated marketplace, however, so that we are positioned to ramp up the capabilities of our nonregulated subsidiaries if the environment allows. We are also slowing our long-term earnings per share growth rate to a target of 6 to 8 percent on an average annualized basis, with fluctuations in any given year that may be above or below that targeted range. These revisions in our overall strategy will reduce the overall risk to investors and, combined with our growing dividend, provide very good returns to our shareholders.

Investors have had a tough time identifying quality companies. They are recognizing that WPS Resources' conservative nature has served it well through the years. Our core competencies are in energy and energy-related businesses, and we intend to stay in those businesses within the United States and Canada. We understand the energy business and have a business plan that capitalizes on that understanding. Our utility base is solid and our nonregulated energy businesses are focused. We've rewarded our shareholders with 44 consecutive years of increasing dividends. We effectively mitigate and minimize risk in the operation of our business and work hard to maintain quality credit ratings. Finally, we deliver value to our customers and our shareholders.

We will continue delivering value through our strong utility foundation, focused nonregulated energy and energy-related businesses, achieving our projected annualized earnings per share growth of 6 to 8 percent, and maintaining our outstanding dividend record. We plan to continue delivering value for many years to come!

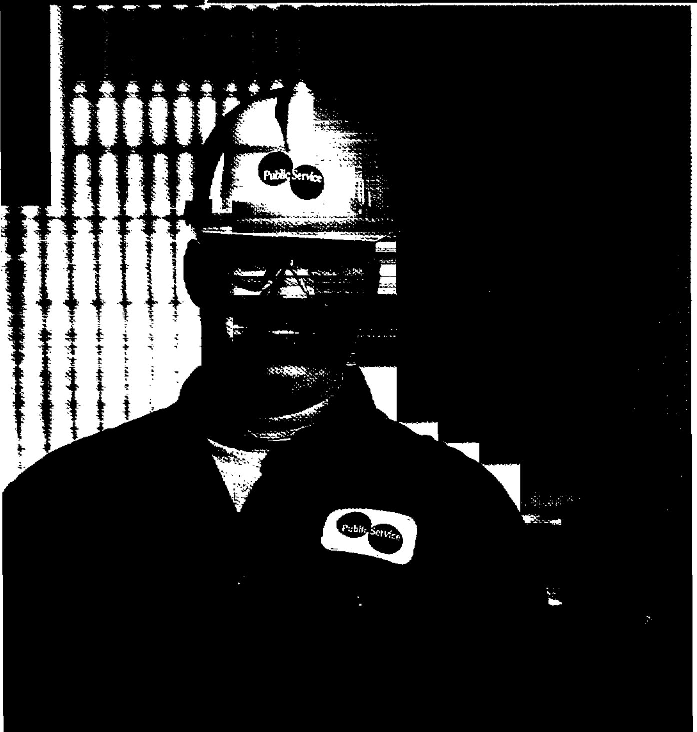
Thanks for choosing us for your investment. We will protect it as our own.

Sincerely,

Larry L. Weyers

Larry L. Weyers
Chairman, President, and
Chief Executive Officer

February 28, 2003



A line electrician works 30 feet in the air on a gusty winter night. With patience, a customer service representative helps an elderly caller understand her energy bill. On a scorching-hot July day, an energy supply supervisor schedules economical generation resources to serve customers' high electric demand—while maintaining the safety and reliability of our electric network.

These are the things our customers expect from us. They look to WPS Resources' companies for energy and reliability—and we deliver.

IN ALL THINGS, CLARITY

As our customers look to us for their energy needs, our eyes are on the horizon. Our vision—of "People Creating a World-Class Energy Company"—gives all of us at WPS Resources Corporation a clear sense of direction.

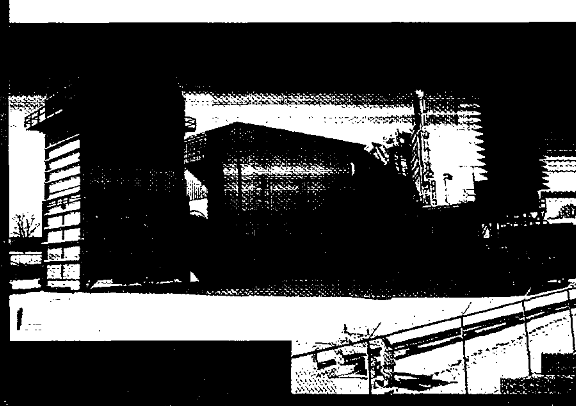
Our employees help make WPS Resources' vision a reality each and every day. We surpass the high expectations of our customers as well as those we've set for ourselves.

Howard Giesler, Manager of Pulliam Power Plant in Green Bay, Wisconsin, ensures this cornerstone of our generation continues serving customers of Wisconsin Public Service.

WHAT CUSTOMERS VALUE

Creating a world-class energy company means bringing customers the best value in energy and energy-related services. Our customers tell us they value fair prices, reliable service, and solutions for their energy issues. So that's what we deliver.

At our regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company, keeping rates reasonable is important to the homes and businesses we serve. With planning, we've been able to keep costs down and service up. According to a 2002 report by Edison Electric Institute, Public Service's average overall electric rates were 13.8 percent lower than the average overall rates of other major Wisconsin utilities and 26.3 percent below average rates across the nation. We maintain this record even though we've increased rates to improve service for our customers and replace equipment and systems. We help our customers understand the investments we must make to ensure reliable energy for their future.



Wisconsin Public Service purchased the 180-megawatt natural gas–fueled De Pere Energy Center in 2002.

At Upper Peninsula Power, cost management has allowed our rates to remain unchanged for nearly 10 years. But now it's time to upgrade technology and systems. A rate increase approved in late December 2002 will mean new services for our customers in Upper Michigan and improved electric reliability.

At WPS Energy Services, our nonregulated energy marketing subsidiary, we deliver cost-effective energy supplies and services throughout the Northeast quadrant of the United States and adjacent portions of Canada. WPS Energy Services competes with larger energy companies by offering the alternatives and reliability our customers value. We custom-design energy programs with the level of service our customers need.

REWARDS IN SIGHT

At Wisconsin Public Service and Upper Peninsula Power, we measure our success by what our customers think of us. Twice each year we benchmark customers' perceptions of our companies against their perceptions of other energy utilities in the region—and against our own past performance. We can proudly proclaim that between our two regulated utilities, we score "best in class" in all service qualities surveyed, including price, helpful employees, environmental stewardship, and corporate character.

In 2002, Wisconsin Public Service received top honors from an E-Source benchmark study of utility call centers. E-Source, a Platts company, specializes in analysis of retail energy markets, services, and technologies. Our customer service representatives are the benchmark for energy companies when responding to calls about power outages, bill inquiries, and new gas or electric service.

Also in 2002, Wisconsin Public Service was rated in the top quartile of overall customer satisfaction as measured in the J.D. Power and Associates Electric Utility Residential Customer Satisfaction Study.

While many major energy marketers have exited the energy business, WPS Energy Services continues to stand tall among the fewer, stronger remaining market participants. In Mastio & Company's study of North American gas marketers, WPS Energy Services has consistently placed among the top gas providers in terms of customer satisfaction, particularly in areas such as integrity, knowledge, and experience of personnel.

In 2002, WPS Energy Services acquired an existing energy marketing business in Toronto, Ontario, and Montreal, Quebec—creating the potential to double WPS Energy Services' natural gas retail sales volume. This investment expands upon our core competency of delivering energy and leverages the systems we already have in place to serve other markets.

A VIEW TO THE FUTURE

Technology helps us create advantages for our customers and shareholders. Anticipating and taking full advantage of technology brings efficiencies for our customers and ourselves.

ONLINE AND ACROSS THE WIRES

Our Web sites give customers the option to do business with us in their own way and on their own schedule. The Internet is an advantage for them and an efficiency for us.

On the Wisconsin Public Service Web site, www.wisconsinpublicservice.com, customers access multiple free tools to help them positively impact their energy use and costs. With View Bill History, they track their bills for the past 24 months, identify trends, and chart them. Energy Analyzer examines their energy use and furnishes reliable energy advice tailored specifically to their home or business.

Tim Gauthier, Senior Systems Analyst on WPS Resources' Web Team, is responsible for bringing customers and customer service together online.

Kay Emme, Back Office Leader at WPS Energy Services, is part of behind-the-scenes efficiency and support that contribute to superior customer service.

WPS Power Development's purchase of three power plants, totaling 257 megawatts of generation, in June included this 109-megawatt facility in Syracuse, New York. A combined-cycle operation, it can burn either natural gas or #2 fuel oil.

Dave Harpole, Vice President of Energy Supply at Wisconsin Public Service, oversees all facets of energy supply, from control of our power plants to new generation projects.

At www.wpsenergy.com, WPS Energy Services' large commercial and industrial customers track, aggregate, and manage their energy use by facility or meter—all with a click of the mouse. Online strategies, statistics, and tools help them manage the risks and rewards of the energy market. Most importantly, they can get a real-time look at their energy supply portfolio, perform "what-if" scenarios, and project their monthly commodity budget based on market conditions and supplies they've purchased.

The best decisions are based on the best data. Our customers look to us to help them be more cost-efficient and knowledgeable. It's how we will continue to provide value to our customers.

Automated Meter Reading (AMR) is another technological efficiency, and it, too, will eventually lead to more information for customers. AMR electronically reads the meters of Wisconsin Public Service customers, transmitting the readings over power lines back to our system. Significant benefits include faster discovery of outages and the ability to read meters at any time. At year-end 2002, more than 201,000 customer meters—more than 28 percent of all of Wisconsin Public Service customers—were being served by Automated Meter Reading.

Our technology, like our customer service, is award-winning. The new EAGLE (Enterprise Applications for Gas, Land, and Electric) system at Wisconsin Public Service is an internally developed geographic information system for creating computerized mapping of our multitude of lines and facilities. It recently earned the 2003 Excellence Award from the Geospatial Information and Technology Association. This international award was also given to our previous geographic mapping system. We are the first company to ever have won this prestigious award twice.

Using "ruggedized" laptops that can withstand any weather and an occasional drop, our line electricians and street mechanics can access views of the EAGLE system—and many of our other major systems—from any location. The laptops are being rolled out to our employees now, equipping them better than ever to provide superior service.

OPPORTUNITIES WITHIN OUR SCOPE

WPS Resources has a clear strategy: energy and nothing but energy. In this way, we efficiently manage our businesses—without distraction, without diluting our resources.

WPS Power Development is our independent power producer. We generate a vital product for industry and individuals alike. Everyone needs energy, and if we do our job well, we're transparent to them.

To generate value for our customers and shareholders, WPS Power Development invests in opportunities that best fit the needs of our customers. Our asset management strategy helps us make sound decisions about when to sell or hold assets.

WPS Power Development operates hydroelectric and fossil-fueled power plants, partners with large energy users for energy-efficient cogeneration, and converts waste into energy—for a current total of about 900 megawatts of generating capacity. We work closely with WPS Energy Services, maximizing the value of our assets by enhancing our sister company's marketing capability. And we're always looking for ways to do it better.

THROUGH A WIDE-ANGLE LENS

Preparing for the future means having a hand in shaping industry developments and having a full view of what they mean to our customers and businesses. WPS Resources is prepared for changes occurring in the energy world.

We're engaged in discussions with the Midwest Independent Transmission System Operator, state Public Service Commissions, and the Federal Energy Regulatory Commission as they transform the nation's energy markets, generation, and transmission systems.

For years we've involved our largest customers in the energy market to help them understand how the market works. At Wisconsin Public Service, for example, our portfolio of load control options—Online Power Exchange, Interruptible Electric Rate, Voluntary Energy Reduction Program, Direct Load Control—allows all of our business customers to get involved in the market to the degree they are able. They can then benefit by capitalizing on the energy market.

Our patented DENet® system, developed internally to administer these programs, is advanced, flexible, and cost effective. We can communicate in real time to help our customers make sound energy decisions as the market changes. Many are participating now, and we foresee that the opportunities we can offer them will grow in the developing energy environment.

As Automated Meter Reading expands in Wisconsin Public Service's area, traditional meters are retired. Tim Dassey, Meter Shop Electrician, prepares electric meters for testing in the company's central shop.

Kue Ly, Control Operator at Pulliam Power Plant, can view all aspects of the plant's production at a glance. Computerized controls have replaced the manual gauges of the past.

SEEING THE WORLD AROUND US

Our businesses have an impact on the natural environment. We see that. We are continually vigilant in our responsibility to use resources wisely, to give back, to replenish.

In a spirit of environmental stewardship, Wisconsin Public Service introduced the NatureWise™ renewable energy program in 2002. NatureWise is a new way we and our customers can support clean sources of energy—wind, sun and biomass from farms and landfills—and add them to our power grid. It's an environmentally conscious choice that makes a significant difference for our community and future generations.

With another environmental program—SolarWise® for Schools—Wisconsin Public Service, through WPS Community Foundation, Inc., along with students and teachers, looks to the sun for energy and education. This year, with the help of nearly 5,000 customers, we'll install solar panels on the rooftops of three more schools in the Wisconsin Public Service area—for a total of 21 SolarWise Schools. The current systems produce 93,000 kilowatt-hours of electricity each year, saving the schools about $7,000 in energy costs and teaching kids about the potential of solar power. In 2002, for a third consecutive year, SolarWise for Schools was named one of the Top Ten U.S. Green Pricing Programs by the National Renewable Energy Laboratory.

OUR VIEW OF INTEGRITY

Showing our customers a brighter future is part of our dedication to energy and our world. They look to us and believe in us because we're a company with integrity.

Each year for more than a decade, employees of WPS Resources have confirmed their promise to conduct business ethically and in the best interest of our customers and shareholders. This Code of Conduct, which employees sign, is business as usual at WPS Resources. In 2002, we introduced an additional measure of integrity with our Business Integrity Helpline. The Business Integrity Helpline is a toll-free number our employees can use to anonymously report ethical concerns. The line is answered 24 hours a day, 7 days a week, by an independent third party who will notify us of any issue so we can investigate it.

Giving every employee the means to enhance the integrity of WPS Resources makes us stronger than ever.

WPS Energy Services' excellent rating from Mastio & Company is a direct result of satisfaction delivered by employees like Joe Gindt, Account Executive, and Sarah Vande Corput, Account Manager, in the company's Green Bay office.

FULFILLING EXPECTATIONS

WPS Resources' employees recognize their responsibility to deliver energy safely and efficiently every day. We maintain resolute character under changing and unexpected conditions. We make responsible choices, help shape the energy future for our customers, and provide success for our shareholders.

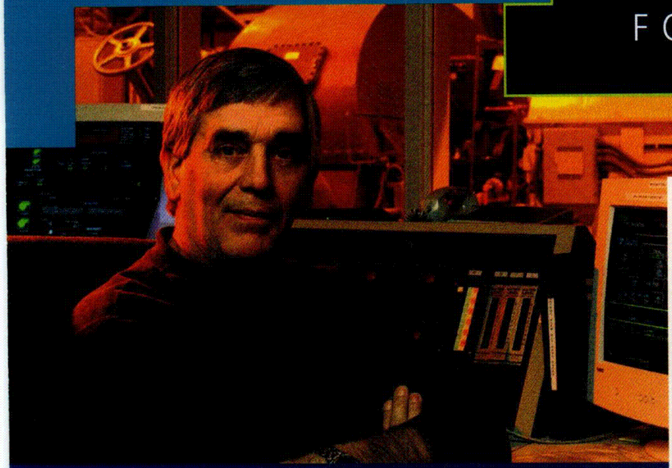
TRUE TO OUR DIRECTION

Our mission is delivering value to our customers. Our corporate values provide direction for the decisions and actions we take to deliver on that mission.

We value integrity. Honesty, trust, and sincerity guide our actions. We value safety, in our services, workplace, and communities. We lead our communities, caring for them and our environment. We respect our surroundings and the unique and diverse individuals and perspectives in the world around us.

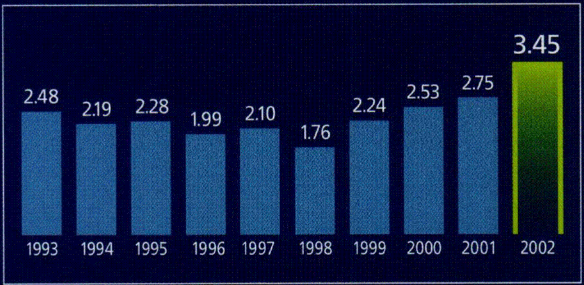
We value service to our customers and trying to exceed their expectations. And we value our shareholders, seeking long-term rewards for you through dividend growth, a strong return on your investment, and safety for your investment.

Continue to look to us. We will continue to deliver!

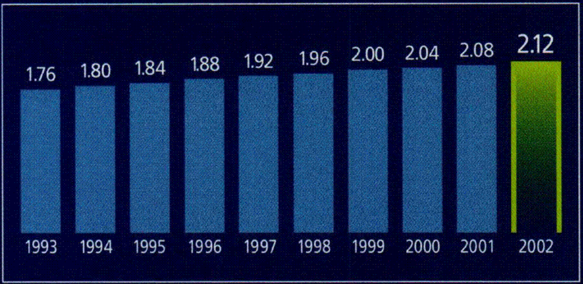


Ed Jordan, a Plant Manager for WPS Power Development in Syracuse and Beaver Falls, New York, manages operations at two of three energy-efficient power plants we acquired in 2002. The plants sell power into New York's newly deregulated electric market.

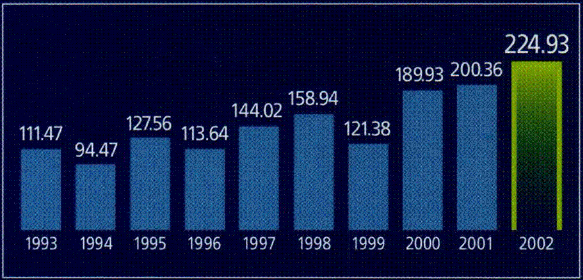
BASIC EARNINGS PER SHARE IN DOLLARS 1993-2002



DIVIDEND PER SHARE IN DOLLARS 1993-2002



CUMULATIVE TOTAL RETURN* IN DOLLARS 1993-2002



* Assumes $100 investment in common stock at year-end 1992 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 8.44%.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Although we believe we have been prudent in our plans and assumptions, there can be no assurance that indicated results will be realized. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated.

Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from those contained in forward-looking statements.

- General economic, business, and regulatory conditions
- Legislative and regulatory initiatives regarding deregulation and restructuring of the utility industry which could affect costs and investment recovery
- State and federal rate regulation, including the inability to obtain necessary regulatory approvals
- Changes in generally accepted accounting principles
- Growth and competition and the extent and timing of new business development in the markets of subsidiary companies
- The performance of projects undertaken or acquired by subsidiary companies
- Business combinations among our competitors and customers
- Energy supply and demand
- Financial market conditions, including availability, terms, and use of capital
- Nuclear and environmental issues
- Weather and other natural phenomena
- Commodity price and interest rate risk
- Counterparty credit risk
- Federal and state tax policies
- Acts of terrorism or war

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Results of Operations

WPS Resources Corporation is a holding company. Our wholly-owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation and Upper Peninsula Power Company. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses including WPS Energy Services, Inc. and WPS Power Development, Inc.

2002 COMPARED WITH 2001

WPS RESOURCES CORPORATION OVERVIEW

WPS Resources' 2002 and 2001 results of operations are shown in the following table:

WPS RESOURCES' RESULTS (*Millions*, except share amounts)	2002	2001	Change
Consolidated operating revenues	$2,674.9	$2,675.5	–%
Income available for common shareholders	$109.4	$77.6	41%
Basic earnings per share	$3.45	$2.75	25%
Diluted earnings per share	$3.42	$2.74	25%

The increase in earnings per share was largely driven by a gain at WPS Power Development related to the 2001 sale of part of its synthetic fuel operations. The sale occurred in the fourth quarter of 2001, and we deferred recognition of a portion of the related gain on the sale pending the satisfaction of certain contingencies. In addition, WPS Energy Services' net income increased 72%, primarily due to improved natural gas margins. A full year contribution from gas utility operations acquired in the spring of 2001, warmer than normal weather during the heating season in 2001, and a rate increase approved by regulators resulted in increased earnings from our gas utility in 2002. Even with the 2002 rate increases approved by regulators, we were unable to earn the full return approved by them.

OVERVIEW OF UTILITY OPERATIONS

Utility operations include the electric utility operations at Wisconsin Public Service and Upper Peninsula Power and the natural gas utility operations at Wisconsin Public Service. Income available for common shareholders attributable to electric utility operations was $61.0 million in 2002 compared with $58.8 million in 2001. Income available for common shareholders attributable to gas utility operations was $18.4 million in 2002 and $8.9 million in 2001.

Utility margins at Wisconsin Public Service were impacted positively by a Public Service Commission of Wisconsin interim rate order, which was effective January 1, 2002, authorizing a 10.3% increase in Wisconsin retail electric rates and a 4.7% increase in Wisconsin retail natural gas rates. In late June 2002, Wisconsin Public Service received a final 2002 rate order which authorized a 10.9% increase in Wisconsin retail electric rates and a 3.9% increase in Wisconsin retail natural gas rates. The final order authorized a lower retail natural gas rate increase than was approved in the interim order resulting in a $0.4 million refund to Wisconsin Public Service's natural gas customers.

At an energy company, reliability and safety are everything. It's what line electricians like Kelly Collaer at Wisconsin Public Service strive for from day's beginning to day's end. His laptop computer helps him deliver superior service from any location.

ELECTRIC UTILITY MARGINS

The consolidated electric utility margin represents electric revenue less cost of sales exclusive of intercompany transactions. Our consolidated electric utility margin increased $85.0 million, or 19%, due to the Wisconsin retail electric rate increases at Wisconsin Public Service and higher overall electric utility sales volumes.

WPS RESOURCES' CONSOLIDATED Electric Utility Results (*Millions*)	2002	2001	2000
Revenues	$741.6	$654.4	$623.8
Fuel and purchased power costs	220.4	218.2	199.0
Margins	$521.2	$436.2	$424.8
Sales in kilowatt-hours	13,717.2	12,741.0	12,565.0

Our consolidated electric utility revenues increased $87.2 million, or 13%, in 2002 as the result of the electric rate increases and an 8% increase in overall electric sales volumes at Wisconsin Public Service. Sales volumes were up 25% for lower margin, wholesale customers while sales to higher margin, residential customers increased 6% and sales to higher margin, commercial and industrial customers increased 3%. Summer weather was 7% warmer in 2002 than in 2001, and 23% warmer than normal.

Increased fuel costs for power generation were partially offset by lower purchased power expenses. Our consolidated fuel expense for generation plants increased $4.9 million, or 4%, in 2002. Our consolidated purchased power expense, however, decreased $2.7 million, or 3%, in 2002. Overall generation from Wisconsin Public Service's plants increased 10% while purchased volumes decreased 3%. The change in the energy supply mix was largely due to the availability of less expensive power generation from the Kewaunee Nuclear Power Plant. Wisconsin Public Service increased its ownership interest in the Kewaunee plant to 59% in September 2001. Although Upper Peninsula Power's purchased volumes remained fairly consistent, the unit cost of its purchased power decreased 9%.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. Wisconsin Public Service is required to file an application to adjust rates either higher or lower when costs are plus or minus 2% from forecasted costs on an annualized basis. Wisconsin Public Service did not submit any fuel filings in 2002.

GAS UTILITY MARGINS

The consolidated gas utility margin represents natural gas revenues less purchases exclusive of intercompany transactions. Effective April 1, 2001, the gas utility margin at Wisconsin Public Service includes the merged Wisconsin Fuel and Light Company operations.

WISCONSIN PUBLIC SERVICE CORPORATION'S

Gas Utility Results (*Millions*)	2002	2001	2000
Revenues	$310.7	$321.6	$264.5
Purchase costs	198.6	230.2	185.1
Margins	$112.1	$ 91.4	$ 79.4
Throughput in therms	845.4	742.7	701.1

An increase in overall natural gas throughput volumes of 14% and the Wisconsin retail gas rate increase resulted in a higher gas utility margin of $20.7 million, or 23%, in 2002. Increased overall gas throughput volumes were partially the result of including 12 months of operations for former Wisconsin Fuel and Light in 2002 compared with the inclusion of 9 months of operations in 2001. Gas throughput volumes were also affected by a heating season that was 5% colder in 2002 than in 2001, but 3% milder than normal.

Wisconsin Public Service's gas revenues decreased $10.9 million, or 3%, in 2002 and gas purchase costs decreased $31.6 million, or 14%, largely as the result of a 26% decrease in the average unit cost of natural gas in 2002. Wisconsin Public Service passes changes in the cost of gas on to customers through a purchased gas adjustment clause, as allowed by the Public Service Commission of Wisconsin and the Michigan Public Service Commission under current regulatory practice.

OTHER UTILITY EXPENSES/INCOME

Utility operating and maintenance expense increased $67.6 million in 2002 largely due to amortization of regulatory deferrals, increased benefit costs, higher transmission expenses associated with American Transmission Company, increased expenses at the Kewaunee plant (as a result of Wisconsin Public Service acquiring additional ownership interest in the plant), and increased energy conservation expenses.

Utility depreciation and decommissioning expense increased $7.8 million in 2002 largely due to additional plant assets at Wisconsin Public Service, including its increased ownership interest in the Kewaunee plant. Lower depreciation expense of $5.5 million related to decreased decommissioning earnings partially offset the increased plant asset depreciation.

Utility miscellaneous income decreased $8.1 million in 2002 primarily as the result of lower earnings of $5.7 million on Wisconsin Public Service's nuclear decommissioning trust assets. Due to regulatory practice, a decrease in earnings on the trust assets is largely offset by decreased depreciation expense.

OVERVIEW OF NONREGULATED OPERATIONS

Nonregulated operations consist of the natural gas, electric, and other sales at WPS Energy Services, a diversified energy supply and services company, and the operations of WPS Power Development, an electric generation asset development company.

WPS Energy Services' net income increased to $11.0 million in 2002 compared with $6.4 million in 2001 primarily due to a higher gas margin. WPS Power Development's net income increased to $24.0 million in 2002 compared with $2.3 million in 2001 largely due to recognition of a gain related to the 2001 sale of a portion of its synthetic fuel operations.

OVERVIEW OF WPS ENERGY SERVICES

WPS Energy Services' principal businesses involve nonregulated gas and electric sales. Revenues at WPS Energy Services were $1.5 billion in 2002 compared with $1.6 billion in 2001, a decrease of 6%. The decrease was the result of a lower unit cost of natural gas in 2002 partially offset by additional natural gas and electric sales volumes. The lower unit cost of natural gas is also reflected in cost of sales, thus having no impact on margin. Net income increased $4.6 million, or 72%, in 2002 due to increased gas margins and improved operations.

WPS ENERGY SERVICES' MARGINS

WPS ENERGY SERVICES' GAS RESULTS

(*Millions*, except sales volumes)	2002	2001	2000
Nonregulated natural gas revenues	$1,248.1	$1,406.3	$919.5
Nonregulated natural gas cost of sales	1,213.2	1,390.4	908.2
Margins	$ 34.9	$ 15.9	$ 11.3
Wholesale sales volumes in billion cubic feet	233,800	242,800	153,300
Retail sales volumes in billion cubic feet	135,700	104,500	75,300

Jui-Ning Cheng, an Associate Engineer, moved to Wisconsin from Taiwan in 2000 to pursue an advanced engineering degree. At Wisconsin Public Service, she puts her newly earned degree to work, while fellow employees benefit by learning about her background and heritage.

Nonregulated gas revenues at WPS Energy Services decreased $158.2 million, or 11%, in 2002 primarily as the result of lower natural gas prices in 2002. The nonregulated gas margin increased $19.0 million, or 119%, in 2002 due to improved management of the retail gas procurement and volume risk processes and increased retail sales volumes.

WPS ENERGY SERVICES' ELECTRIC RESULTS *(Millions)*	2002	2001	2000
Nonregulated electric revenues	$244.5	$165.0	$33.8
Nonregulated electric cost of sales	232.8	150.3	29.4
Margins	$ 11.7	$ 14.7	$ 4.4
Wholesale sales in kilowatt-hours	4,250.0	1,696.6	557.6
Retail sales in kilowatt-hours	2,703.6	1,944.7	601.7

Nonregulated electric revenues at WPS Energy Services increased $79.5 million, or 48%, in 2002 due to higher sales volumes. The nonregulated electric margin decreased $3.0 million, or 20%, in 2002 primarily due to the slow economy which produced less favorable market conditions for opportunity sales in 2002.

WPS ENERGY SERVICES' OTHER EXPENSES

Operating expenses at WPS Energy Services increased $7.3 million in 2002 largely due to costs associated with business expansion and increased bad debt expense.

OVERVIEW OF WPS POWER DEVELOPMENT

Revenues at WPS Power Development were $145.2 million in 2002 compared with $141.5 million in 2001, an increase of 3%. The increase was primarily due to the operation of the generation assets obtained from CH Resources in the second quarter of 2002 and the operation of the Combined Locks Energy Center. Partially offsetting these increases were a change in accounting from consolidation to equity method accounting for WPS Power Development's synthetic fuel operations and lower revenues from steam sales.

WPS POWER DEVELOPMENT'S MARGIN

WPS POWER DEVELOPMENT'S PRODUCTION RESULTS *(Millions)*	2002	2001	2000
Nonregulated other revenues	$145.2	$141.5	$128.1
Nonregulated other cost of sales	93.3	110.2	94.8
Margins	$ 51.9	$ 31.3	$ 33.3

WPS Power Development experienced an increase of $20.6 million, or 66%, in its margin in 2002. The margin increased $6.7 million at the Sunbury generation plant in 2002 due to lower fuel costs and lower prices for spot market purchases (which allowed Sunbury to meet its firm contracts at a lower cost). The operation of the generation assets obtained in the June 2002 CH Resources acquisition and the startup of the Combined Locks Energy Center contributed to WPS Power Development's higher margin in 2002. A change in accounting for WPS Power Development's synthetic fuel operations also increased 2002 margins. As a result of the 2001 sale of a portion of WPS Power Development's synthetic fuel operations, WPS Power Development no longer consolidates these operations as a part of revenue and cost of sales. The remaining interest in the synthetic fuel operations is now accounted for under the equity method of accounting with such amounts recorded as a component of miscellaneous income.

WPS POWER DEVELOPMENT'S OTHER EXPENSES/INCOME/TAX CREDITS

Operating expenses at WPS Power Development increased $8.1 million in 2002 primarily due to maintenance and other expenses at the Sunbury generation plant, including costs related to a staff reduction that was announced November 7, 2002 and took effect in January 2003. Costs associated with the generation assets obtained in the CH Resources acquisition and operation of the Combined Locks Energy Center also contributed to increased operating expenses in 2002.

Depreciation expense increased $3.1 million in 2002 due to additional plant assets at WPS Power Development, including the Combined Locks Energy Center and the assets obtained in the CH Resources acquisition. A nitrogen oxide reduction project at Sunbury also contributed to increased depreciation expense in 2002.

WPS Power Development's miscellaneous income increased $24.9 million in 2002 primarily as the result of recognizing a pretax gain of $38.0 million (approximately $22.8 million after tax) related to the 2001 sale of part of WPS Power Development's synthetic fuel operations. WPS Power Development recognized a pretax gain of $2.2 million (approximately $1.3 million after tax) on the sale in the fourth quarter of 2001 and deferred the remaining portion of the gain pending satisfaction of certain contingencies, including the receipt of a private letter ruling from the Internal Revenue Service. The contingencies were satisfied in 2002 and the remaining gain was recognized. WPS Power Development also recognized royalties of $2.3 million in 2002 related to its synthetic fuel operations. Partially offsetting these factors were equity method losses for WPS Power Development's synthetic fuel operations.

WPS Power Development recorded synthetic fuel tax credits of $23.3 million in 2002, an increase of approximately $1.8 million over 2001.

OVERVIEW OF HOLDING COMPANY AND OTHER OPERATIONS

Holding Company and Other operations include the operations of WPS Resources and WPS Resources Capital as holding companies and the nonutility activities at Wisconsin Public Service and Upper Peninsula Power. Holding Company and Other operations experienced a net loss of $5.0 million in 2002 compared with net income of $1.3 million in 2001. A net loss was experienced in 2002 primarily due to interest expense from financing to provide funds for subsidiary operations.

Our asset management strategy resulted in pretax gains of $3.3 million in 2002 compared with pretax gains of approximately $17 million in 2001. WPS Resources' asset management strategy, which was initiated in 2001, is a five to seven-year plan intended to optimize shareholder return from the sale, development, or use of certain assets. In addition, earnings on equity investments were higher in 2002 compared with 2001 primarily due to our investment in American Transmission Company.

TAX CREDITS

We used tax credits to the extent the tax law permits to reduce our current federal income tax liability, and the remaining credits increased our alternative minimum tax credit available for future years. Approximately $15 million of alternative minimum tax credits were carried over from 2002, which brings the cumulative credits being carried forward to approximately $36 million. Alternative minimum tax credits can be used in future years to reduce our regular tax liability, subject to various limitations. Based on a review of all known facts and circumstances, management has concluded that it is more likely than not that we will be able to use these credits in the future to reduce our federal income tax liability.

WEIGHTED AVERAGE SHARES

The weighted average number of outstanding shares of WPS Resources' common stock increased 3.5 million shares during 2002. The increase was largely due to issuing 2.3 million additional shares through a public offering in the fourth quarter of 2001 and issuing 1.8 million shares in the merger of Wisconsin Fuel and Light into Wisconsin Public Service in the second quarter of 2001. Additional shares were also issued in 2002 under the Stock Investment Plan.

2001 COMPARED WITH 2000

WPS RESOURCES CORPORATION OVERVIEW

WPS Resources' 2001 and 2000 results of operations are shown in the following table:

WPS RESOURCES' RESULTS (*Millions*, except share amounts)	2001	2000	Change
Consolidated operating revenues	$2,675.5	$1,949.0	37%
Income available for common shareholders	$77.6	$67.0	16%
Basic earnings per share	$2.75	$2.53	9%
Diluted earnings per share	$2.74	$2.53	8%

Consolidated operating revenues increased in 2001 due to sales volume growth for all business segments and higher natural gas prices in the first part of 2001. In addition, rate increases at Wisconsin Public Service contributed to increased revenues in 2001. The Public Service Commission of Wisconsin authorized a 5.4% increase in Wisconsin retail electric rates and a 1.5% increase in Wisconsin retail natural gas rates effective January 1, 2001.

Increased profitability at our nonregulated segments offset a decrease in earnings at our electric and natural gas utility segments. Higher earnings resulted from a gain on the sale of hydro lands as part of our asset management strategy, increased natural gas and electric utility margins, increased electric and natural gas margins at WPS Energy Services, additional tax credits at WPS Power Development, and a gain on the sale of a portion of WPS Power Development's investment in its synthetic fuel operations. Partially offsetting these factors were increased operating expenses at all segments and a lower margin at WPS Power Development.

OVERVIEW OF UTILITY OPERATIONS

Income available for common shareholders attributable to electric utility operations was $58.8 million in 2001 compared with $60.7 million in 2000. Income available for common shareholders attributable to gas utility operations was $8.9 million in 2001 and $11.6 million in 2000.

ELECTRIC UTILITY MARGINS

Our consolidated electric utility margin increased $11.4 million, or 3%, in 2001 primarily due to a 5.4% Wisconsin retail electric rate increase at Wisconsin Public Service, which became effective on January 1, 2001, and higher sales volumes to most customer classes at Upper Peninsula Power and Wisconsin Public Service. Summer weather was 66% warmer in 2001 than in 2000, and 17% warmer than normal. Partially offsetting these factors was a 2% decrease in sales to large commercial and industrial customers at Wisconsin Public Service due to declining economic conditions.

Affecting the electric utility margin was a change in the customer mix at Wisconsin Public Service in 2001. Sales to lower margin, non-firm customers increased more than sales to higher margin customers. The lack of new retail electric rates at Upper Peninsula Power also affected the margin negatively.

Our consolidated fuel expense for production plants decreased $5.2 million, or 4%, in 2001 largely due to decreased production at Wisconsin Public Service's combustion turbine generation plants. Our consolidated purchased power expense, however, increased $24.4 million due to an increase in power purchases and a 19% increase in the cost per kilowatt-hour of power purchases made by Wisconsin Public Service in 2001 compared with 2000. Power purchases were 21% higher in 2001 due to warmer summer weather and the availability of economically priced energy. Also contributing to increased power purchases were a scheduled outage at Wisconsin Public Service's nuclear plant and an unscheduled outage at one of its fossil-fueled generation plants.

Wisconsin Public Service's Kewaunee plant was off-line for a scheduled refueling and replacement of its steam generators which began in late September 2001. The Kewaunee plant returned to service in early December as scheduled. Wisconsin Public Service is a 59% owner of the Kewaunee plant. Wisconsin Public Service's Pulliam Unit 7 was off-line for unscheduled repairs in the fourth quarter of 2001 and returned to service in February 2002. Wisconsin Public Service chose to take advantage of purchased power during these outages because of economically favorable pricing.

The Public Service Commission of Wisconsin allows Wisconsin Public Service to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs fall outside a specified range. In the third quarter of 2001, Wisconsin Public Service submitted a fuel filing with the Public Service Commission of Wisconsin requesting a $1.9 million retail electric rate reduction. The rate reduction was approved and implemented on September 3, 2001. Wisconsin Public Service submitted an additional fuel filing in November 2001, and a rate reduction of $0.3 million was approved and implemented on December 8, 2001.

GAS UTILITY MARGINS

Effective April 1, 2001, the gas utility margin at Wisconsin Public Service includes the merged Wisconsin Fuel and Light Company operations.

The gas utility margin at Wisconsin Public Service increased $12.0 million, or 15%, in 2001. This increase was due to a 1.5% increase in Wisconsin retail natural gas rates effective January 1, 2001, and a 6% increase in overall natural gas throughput volumes. Increased gas throughput volumes were largely the result of Wisconsin Public Service's acquisition of Wisconsin Fuel and Light in the second quarter of 2001. Gas throughput volumes to large commercial and industrial customers, however, decreased 9% as a result of customers switching to the gas transport customer class and declining economic conditions. Gas throughput volumes to gas transport customers increased 15%. In addition, gas throughput volumes to interruptible customers decreased 6%. Gas throughput volumes were negatively affected by winter weather, which was 9% milder in 2001 than in 2000 and 8% milder than normal.

Wisconsin Public Service's natural gas revenues increased $57.1 million, or 22%, as the result of an increase in the average unit cost of natural gas in the first half of 2001, increased throughput as a result of Wisconsin Public Service's acquisition of Wisconsin Fuel and Light in the second quarter of 2001, and the 1.5% increase in Wisconsin retail gas rates.

Wisconsin Public Service's natural gas purchase costs increased $45.1 million, or 24%, in 2001 largely due to a higher average unit cost of natural gas in the first half of 2001. The higher natural gas prices experienced earlier in 2001 were passed on to customers and are reflected in both revenues and gas purchases, thus having little impact on margin.

OTHER UTILITY EXPENSES/INCOME

Utility operating expenses increased $36.3 million in 2001 largely due to increased transmission expenses associated with the transfer of assets to American Transmission Company, increased payments to the Wisconsin Department of Administration for energy conservation activities, increased maintenance costs at the Kewaunee plant during its refueling outage, and higher write-offs of uncollectible accounts.

The Public Service Commission of Wisconsin allowed a portion of the higher transmission costs to be deferred. The deferred transmission costs, $4.4 million for 2001, were recovered in 2002 Wisconsin retail rates.

Lower earnings on the nuclear decommissioning fund contributed to a decrease in other income from utility operations in 2001. Due to regulatory practice, lower earnings on the nuclear decommissioning fund were largely offset by decreased depreciation expense. An extension in the Kewaunee plant's assumed depreciable life and a reduction in the nuclear decommissioning fund contribution also contributed to decreased depreciation expense.

Interest expense increased due to the issuance of additional long-term debt by Wisconsin Public Service in August 2001.

OVERVIEW OF NONREGULATED OPERATIONS

WPS Energy Services' net income increased to $6.4 million in 2001 compared with $1.7 million in 2000. WPS Power Development's net income increased to $2.3 million in 2001 compared with $0.9 million in 2000.

OVERVIEW OF WPS ENERGY SERVICES

Revenues at WPS Energy Services grew to $1.6 billion in 2001 compared with $955.6 million in 2000, an increase of 67%. This increase was the result of additional natural gas and electric sales volumes coupled with a higher unit cost of natural gas in the first half of 2001. The higher unit cost of natural gas is also reflected in cost of sales, thus having no impact on margin. Income increased $4.7 million in 2001 due to increased sales and improved operations.

WPS ENERGY SERVICES' MARGINS

Nonregulated gas revenues at WPS Energy Services increased $486.8 million, or 53%, primarily as the result of sales volume growth and higher natural gas prices in the first half of 2001. The nonregulated gas margin increased $4.6 million, or 41%, in 2001 due to increased sales volumes and exiting from unprofitable market segments.

Nonregulated electric revenues at WPS Energy Services increased $131.2 million, or 388%, in 2001. The nonregulated electric margin increased $10.3 million, or 234%, in 2001. Higher electric sales volumes in existing and newly-entered retail electric markets, increased electric wholesale activities, as well as impacts from marketing energy from WPS Power Development's Sunbury plant, contributed to these increases.

WPS ENERGY SERVICES' OTHER EXPENSES

Operating expenses at WPS Energy Services increased $8.5 million in 2001 largely due to costs associated with business expansion and higher bad debt expense.

OVERVIEW OF WPS POWER DEVELOPMENT

Revenues at WPS Power Development increased $13.4 million, or 10%, in 2001 primarily due to higher revenues from its steam operations of $7.1 million and higher revenues at its Sunbury generation plant of $7.0 million. WPS Power Development's income was $2.3 million in 2001 compared with $0.9 million in 2000. Additional tax credits of approximately $4 million from its synthetic fuel operation was the primary factor in WPS Power Development's increased income in 2001.

WPS POWER DEVELOPMENT'S MARGIN

WPS Power Development experienced a decrease of $2.0 million in its margin in 2001. The primary factors in this decrease were a $2.8 million margin decrease at Sunbury due to higher fuel costs as a result of purchasing coal at current market prices, and higher costs of replacement power during outages. WPS Power Development recovered a portion of the fuel cost increase through settlement with its coal supplier. The Sunbury margin decrease was partially offset by higher margins at the Westwood generation plant, which was acquired in September 2000.

WPS POWER DEVELOPMENT'S OTHER EXPENSES/INCOME/TAX CREDITS

Operating expenses at WPS Power Development increased $4.5 million in 2001 primarily due to costs associated with operations at the Westwood plant, higher payroll expenses, and increased development costs for potential new projects.

Miscellaneous income increased $1.8 million in 2001 primarily due to recognizing a pretax gain of $2.2 million (approximately $1.3 million after tax) related to the 2001 sale of a portion of WPS Power Development's synthetic fuel operations.

WPS Power Development recorded synthetic fuel tax credits of $21.5 million in 2001, an increase of approximately $4 million over 2000.

OVERVIEW OF HOLDING COMPANY AND OTHER OPERATIONS

Holding Company and Other operations experienced net income of $1.3 million in 2001 compared with a net loss of $7.9 million in 2000.

Miscellaneous nonutility income included pretax gains of approximately $17 million including a pretax gain of $13.1 million on the sale of hydro lands at Wisconsin Public Service in December 2001. The sale of these hydro lands was a significant transaction in a five to seven-year asset management strategy to optimize shareholder return from the sale, development, or use of certain assets. In addition, earnings on equity investments were higher in 2001 compared with 2000 primarily due to our investment in American Transmission Company.

Interest expense increased due to additional short-term borrowing at WPS Resources for working capital needs in the first half of 2001.

TAX CREDITS

We used tax credits to the extent the tax law permits to reduce our current federal income tax liability, and the remainder increased our alternative minimum tax credit available for future years. Approximately $10 million of alternative minimum tax credits were carried over from 2001, which brought the cumulative credits being carried forward to approximately $21 million at the end of 2001.

Balance Sheet

2002 COMPARED WITH 2001

Customer and other receivables increased $45.3 million in 2002 and accrued unbilled revenues increased $49.4 million in 2002, both as the result of increased sales volumes at Wisconsin Public Service and WPS Energy Services due to colder weather and customer growth. Wisconsin retail rate increases at Wisconsin Public Service also contributed to these higher balances.

Current assets from risk management activities increased $70.6 million in 2002 and current liabilities from risk management activities increased $149.6 million. Long-term assets from risk management activities decreased $16.1 million in 2002 and long-term liabilities from risk management activities decreased $36.0 million. These variances were largely due to changes in forward prices and increased volumes.

Property, plant, and equipment increased $146.6 million due to additional plant assets at Wisconsin Public Service, including construction of portions of the Pulliam combustion turbine and the Wausau to Duluth transmission line, and additional plant assets at WPS Power Development, including the assets obtained in the CH Resources acquisition and capital expenditures at the Sunbury generation plant.

Accounts payable increased $117.4 million in 2002 largely due to the $48.4 million payable as the result of Wisconsin Public Service's purchase of the De Pere Energy Center in December 2002. Increased natural gas purchases at Wisconsin Public Service and WPS Energy Services as the result of colder weather and customer growth also contributed to the higher accounts payable balance.

Long-term debt increased $96.6 million in 2002 due to the issuance in the fourth quarter of 2002 of senior unsecured notes at WPS Resources and senior notes, which were secured by first mortgage bonds, at Wisconsin Public Service. Extinguishment of the capital lease obligation related to the De Pere Energy Center and the retirement of first mortgage bonds at Wisconsin Public Service partially offset these factors.

Liquidity and Capital Resources

FINANCING

WPS Resources normally uses internally generated funds and commercial paper borrowing to satisfy most of its capital requirements. We may periodically issue long-term debt and common stock to reduce short-term debt, maintain desired capitalization ratios, and fund future growth. We may seek nonrecourse financing for funding some nonregulated acquisitions. WPS Resources' commercial paper borrowing program provides for working capital requirements of the nonregulated businesses and Upper Peninsula Power. Wisconsin Public Service has its own commercial paper borrowing program. The specific forms of long-term financing, amounts, and timing depend on the availability of projects, market conditions, and other factors.

WPS Resources and Wisconsin Public Service completed the syndication of revolving credit lines of $180 million and $100 million, respectively, during the third quarter of 2002.

The current credit ratings for WPS Resources and Wisconsin Public Service are listed in the table below.

CREDIT RATINGS	STANDARD & POOR'S	MOODY'S
WPS Resources Corporation		
Senior unsecured debt	A	Aa3
Commercial paper	A-1	P-1
Trust preferred securities	BBB+	A1
Credit line syndication	–	Aa3
Wisconsin Public Service Corporation		
Bonds	AA-	Aa1
Preferred stock	A	A1
Commercial paper	A-1+	P-1
Credit line syndication	–	Aa2

The ratings reflect a 2002 Standard & Poor's downgrade of WPS Resources' senior unsecured debt rating from A+ to A and the trust preferred securities rating from A to BBB+. At the same time, Standard & Poor's affirmed WPS Resources' commercial paper rating of A-1 and affirmed all of Wisconsin Public Service's previous ratings. We believe these ratings continue to be among the best in the energy industry, and they have allowed us to access commercial paper and long-term debt markets on favorable terms. Credit ratings are not recommendations to buy, are subject to change, and each rating should be evaluated independently of any other rating.

In 2002, we issued new shares of common stock under our Stock Investment Plan and under certain stock-based employee benefit plans. Equity increased $28.3 million in 2002 as a result of these plans. WPS Resources also repurchased $1.3 million of existing common stock for stock-based compensation plans in 2002.

WPS Resources issued $100.0 million of 5.375% 10-year senior unsecured notes in November 2002. We used approximately $55 million of the net proceeds from the issuance of these notes to repay short-term debt incurred to provide equity capital to our subsidiaries and the remainder for other corporate purposes.

Wisconsin Public Service issued $150.0 million of 4.875% 10-year senior notes in December 2002 under a shelf registration for the offering and sale of up to $300 million in long-term debt. The senior notes are secured by a pledge of first mortgage bonds and may become unsecured if Wisconsin Public Service retires all of its outstanding first mortgage bonds. Wisconsin Public Service used approximately $72 million of the net proceeds from the issuance of the senior notes to acquire the De Pere Energy Center and $69 million to retire short-term debt. The balance of the net proceeds was used for other corporate purposes. Wisconsin Public Service retired $50.0 million of 7.30% first mortgage bonds in October 2002. An additional $50.0 million of 6.80% first mortgage bonds were retired on February 1, 2003.

WPS Resources may issue additional debt and/or common stock in 2003. The size of the debt and common stock issues is contingent on the level of future investment activity by our subsidiaries. Wisconsin Public Service expects to issue additional debt in 2003.

REGULATORY

On March 28, 2002, Wisconsin Public Service filed an application with the Public Service Commission of Wisconsin to modify its Wisconsin retail electric and natural gas rates for 2003 and 2004. In order to ensure reliable energy into the future and to recover increased costs, Wisconsin Public Service requested retail electric rate increases of 8.3% in 2003 and 4.9% in 2004 and retail natural gas rate increases of 2.7% in 2003 and 1.4% in 2004. Wisconsin Public Service requested a 12.6% return on equity, with equity constituting 55% of the capital structure. On February 20, 2003, the Public Service Commission of Wisconsin ruled on the requested rate increase, including a 12.0% return on equity with no change in the capital structure. A final order is anticipated by mid March 2003.

On December 20, 2002, the Michigan Public Service Commission approved an 8.95% increase in retail electric rates for customers of Upper Peninsula Power. The Commission granted an 11.4% return on equity.

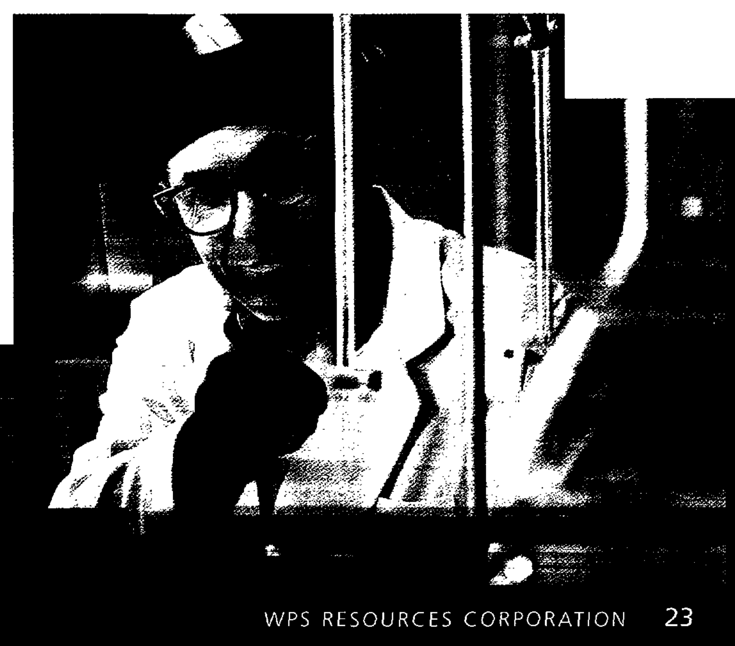
On February 6, 2003, Wisconsin Public Service filed an application with the Michigan Public Service Commission for new electric rates for its Michigan retail customers. Wisconsin Public Service requested a 9% increase in Michigan electric rates, its first request since 1986. Since it is uncertain as to when the Michigan Public Service Commission will review its request, Wisconsin Public Service also filed for a 5.8% interim rate increase. If approved, the interim rates will be in effect until final rates are approved.

Wisconsin Public Service intends to file for an increase in wholesale electric rates with the Federal Energy Regulatory Commission in the first quarter of 2003. If the filing meets all the necessary criteria, new rates could be implemented, subject to refund, as early as 61 days after the initial filing. If the rate case is litigated to a conclusion, the process could take up to three years to complete.

ASSET SALES, ACQUISITIONS, AND CONSTRUCTION

On September 3, 2002, Wisconsin Public Service received a certificate of authority from the Public Service Commission of Wisconsin to construct an 83-megawatt combustion turbine unit at its Pulliam plant location. Construction of the unit, which is expected to cost approximately $39 million, should be complete in June 2003.

On December 16, 2002, Wisconsin Public Service purchased the 180-megawatt De Pere Energy Center and terminated the related existing purchased power agreement. Wisconsin Public Service paid $72.0 million



In a spirit of environmental stewardship, WPS Resources uses rigorous environmental controls and practices. Mike Mason, Environmental Technician at Wisconsin Public Service, conducts testing to ensure compliance with this principle.

at the close of the transaction, with the remaining $48.4 million due in December 2003. As a result of this transaction, Wisconsin Public Service extinguished its capital lease obligation and entered into a purchased power agreement for up to 235 megawatts from a plant yet to be constructed. The new purchased power agreement is contingent on timely plant construction. Wisconsin Public Service expects to recover a substantial portion of the remaining payment in future customer rates.

As part of its regulated utility operations, Wisconsin Public Service expects to submit an application for a Certificate of Public Convenience and Necessity to the Public Service Commission of Wisconsin in late 2003 for approval to build a 500-megawatt coal-fired generation facility near Wausau, Wisconsin. Wisconsin Public Service anticipates receiving approval from the Public Service Commission of Wisconsin in 2004. The facility is estimated to cost approximately $700 million, assuming the Public Service Commission of Wisconsin allows a current return on construction costs. The facility will be funded with internally generated funds, debt issues, and equity. WPS Resources may need to issue additional common stock to fund equity to Wisconsin Public Service.

Effective June 1, 2002, WPS Power Development acquired CH Resources, Inc. from Central Hudson Energy Services, Inc. for $59.2 million.

On November 1, 2002, WPS Energy Services acquired an existing book of retail gas business in Canada. Consideration for the purchase consists of an earn-out to the seller based on a percent of margin on the volume delivered during the two years ending October 31, 2004. The retail volumes of this book of business have the potential to equal WPS Energy Services' current retail gas volumes.

WPS Energy Services was appointed manager of Quest Energy, LLC in November 2002. The appointment as manager, as well as other factors including the provision of substantial financial support, resulted in the consolidation of Quest's financial statements with those of WPS Resources at December 31, 2002. WPS Resources assigned the right to convert its interest bearing note and other indebtedness from Quest to equity to WPS Energy Services in January 2003 and on January 29, 2003, the conversion was exercised at which time Quest became a wholly-owned subsidiary of WPS Energy Services.

In December 2001, Wisconsin Public Service sold approximately 5,700 acres of land on the Peshtigo River in northeastern Wisconsin to the Wisconsin Department of Natural Resources for $13.5 million. This sale was a significant transaction in WPS Resources' five to seven-year asset management strategy which was initiated in 2001. The agreement with the Department of Natural Resources includes two options, one exercisable in 2003 and the other in 2004, whereby the Department may acquire, at less than fair value, approximately 5,000 additional acres for $11.5 million if both options are exercised. The value associated with the difference between the option price and the fair value will be treated as a charitable contribution. As part of our asset management strategy, we sold additional assets in 2002 for gains of $3.3 million.

On December 19, 2002, WPS Power Development sold a 30% interest in ECO Coal Pelletization #12, LLC, the company WPS Power Development owns which holds our interest in the synthetic fuel project. WPS Power Development received consideration of $3.0 million cash, as well as a fixed note and a variable note. Payments under the variable note are contingent upon the synthetic fuel production facility achieving specified levels of synthetic fuel production. In conjunction with the sale, WPS Power Development has agreed to make certain payments to a third party broker, consisting of an up-front payment of $1.5 million which was paid at the time of closing, and projected payments in 2003 and 2004 of approximately $1.9 million per year. At December 31, 2002, a deferred gain of $11.6 million was reflected on WPS Power Development's balance sheet. This deferred gain represents the present value of future payments under the fixed note and the up-front cash payments net of transaction costs. It does not include an amount for the variable note which is contingent upon the synthetic fuel production allocation. WPS Power Development anticipates recognizing cumulative pretax income of approximately $36 million over the period from 2003 to 2007 as a result of this transaction, assuming all contingencies are satisfied.

SUNBURY GENERATION PLANT

As a result of market conditions, the Sunbury generation plant has not met our projected near-term financial performance levels. WPS Power Development expects to contribute up to $12 million of additional capital to Sunbury Generation, LLC for operational needs in 2003. This amount is in addition to the $24.1 million that WPS Resources and WPS Power Development infused into Sunbury Generation in 2002, primarily for the project to reduce nitrogen oxide emissions from the plant. The nitrogen oxide reduction project was anticipated when the plant was acquired. We initially projected that Sunbury Generation would generate sufficient cash flow in 2002 for operations, with the exception of capital expenditures, but market conditions in which Sunbury Generation participates have degraded for capacity. Although Sunbury's operating performance is now nearing industry standards for equivalent availability, market conditions continue to be depressed. If present market conditions persist, additional capital may be needed in 2004 for operational needs. In an effort to mitigate the impact of these market conditions, we have initiated several cost control measures at Sunbury Generation, including a reduction in the work force at Sunbury effective January 2003. See discussion of critical accounting policies for additional information.

COMBINED LOCKS ENERGY CENTER

WPS Power Development temporarily removed the Combined Locks Energy Center from operation in August 2002 due to emission compliance testing results. WPS Power Development successfully retested the unit in December 2002. The unit was returned to service in December 2002. Fines or penalties associated with this event, if any, are not expected to be material.

Karen Kollmann, Director of Fossil Fuel Services at WPS Resources, is responsible for Wisconsin Public Service's and WPS Power Development's coal procurement—from the time a purchase is made until it's delivered to plants to be burned.

WPS ENERGY SERVICES AGGREGATION PROGRAM

WPS Energy Services has a delinquent receivables balance of $2.1 million as a result of rules related to the former hierarchy of application for customer payments in the Ohio electric aggregation program. This resulted in the customer remittances being applied first to the customer's current and past due balances with the utility and then to the customer's current and past due balance with WPS Energy Services. WPS Energy Services has established an allowance for doubtful accounts of $1.9 million related to these delinquent receivables, resulting in a bad debt expense ratio which is considerably in excess of the ratio experienced by the serving utility. WPS Energy Services continues to experience bad debt in the program, but at a reduced rate as a result of consistently dropping delinquent customers from the program. The Public Utility Commission of Ohio has proposed a payment hierarchy which is more equitable to the energy marketers. The proposed payment hierarchy would help to reduce the level of delinquent receivables at WPS Energy Services. WPS Energy Services filed a complaint and requested a hearing with the Public Utility Commission of Ohio to enforce a purchase of receivables provision that affects the aggregation program and on December 12, 2002, the Ohio Commission issued a ruling which would minimize the amount of exposure to delinquent receivables going forward through an interim purchase rate of 96% for service rendered after the customers' first scheduled meter read in 2003. We expect that this rate will be adjusted retroactively once a permanent settlement is reached. In the absence of a favorable settlement, WPS Energy Services will evaluate its participation in the Ohio aggregation program once the current product price commitments expire. WPS Energy Services believes the reserve for delinquent receivables it has created is adequate.

BASIC GENERATION SERVICE AUCTION

On February 3, 2003, WPS Energy Services participated in a basic generation service auction conducted by the four regulated electric distribution companies in New Jersey. The auction allowed third party suppliers to bid for the right to serve a fixed percentage of the electric distribution companies' basic generation service load. WPS Energy Services was awarded 700 megawatts of fixed-price load and 250 megawatts of hourly-priced load. The hourly-priced load will be supplied from WPS Power Development's Sunbury generation plant. Contracts have been executed with third party generation suppliers to provide energy for the fixed-price load. The supply contracts mirror WPS Energy Services' sales contracts to the electric distribution companies, providing effectively hedged transactions. Service to the New Jersey electric distribution companies begins August 1, 2003 and ends May 31, 2004. WPS Energy Services' sales awarded under the basic generation service auction are to the regulated electric distribution companies, not to retail customers, thus eliminating direct retail customer credit risk.

Contractual Obligations and Commercial Commitments

The following table summarizes the contractual obligations of WPS Resources, including its subsidiaries.

CONTRACTUAL OBLIGATIONS		Payments Due By Period			
As of December 31, 2002 *(Millions)*	Total Amounts Committed	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Long-term debt principal and interest payments	$1,286.9	$ 118.9	$175.0	$102.4	$ 890.6
Operating leases	9.2	3.2	4.4	0.5	1.1
Unconditional purchase obligations	1,752.5	960.4	484.6	97.7	209.8
Total contractual cash obligations	$3,048.6	$1,082.5	$664.0	$200.6	$1,101.5

Wisconsin Public Service purchased this heavy-lift knuckle-boom crane primarily for safety reasons. With a lower height, it can lift heavy loads but more easily avoid overhead obstructions. In addition, line electricians can operate the crane by remote control, decreasing any possibility of danger if the crane does touch energized conductors.

Long-term debt principal and interest payments represent bonds, notes, and loans held by WPS Resources and its subsidiaries. We record all principal obligations on the balance sheet.

Unconditional purchase obligations represent mainly commodity purchase contracts of WPS Resources and its subsidiaries. The energy supply contracts at WPS Energy Services have offsetting energy sale contracts. Wisconsin Public Service expects to recover the costs of its contracts in future customer rates.

As part of normal business, WPS Resources and its subsidiaries enter into various guaranties providing financial or performance assurance to third parties on behalf of certain subsidiaries. These guaranties are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

The guaranties issued by WPS Resources include intercompany guaranties between parents and their subsidiaries, which are eliminated in consolidation, and guaranties of the company's own performance. As such, all of WPS Resources' guaranties are excluded from the recognition, measurement, and disclosure requirements of Financial Accounting Standards Board Interpretation No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others."

At December 31, 2002 and December 31, 2001, outstanding guaranties totaled $655.8 million and $518.4 million, respectively, as follows:

WPS RESOURCES' OUTSTANDING GUARANTIES

(Millions)	December 31, 2002	December 31, 2001
Guaranties of subsidiary debt	$ 38.8	$ 39.1
Guaranties supporting commodity transactions of subsidiaries	584.3	415.2
Standby letters of credit	22.7	18.4
Surety bonds	6.4	42.4
Other guaranties	3.6	3.3
Total guaranties	$655.8	$518.4

WPS RESOURCES' OUTSTANDING GUARANTIES

(Millions) Commitments Expiring	Total Amounts Committed At December 31, 2002	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Guaranties of subsidiary debt	$ 38.8	$ 11.6	$ –	$ –	$27.2
Guaranties supporting commodity transactions of subsidiaries	584.3	437.8	135.5	2.9	8.1
Standby letters of credit	22.7	16.1	–	6.5	0.1
Surety bonds	6.4	0.5	0.1	0.1	5.7
Other guaranties	3.6	0.9	–	2.7	–
Total guaranties	$655.8	$466.9	$135.6	$12.2	$41.1

At December 31, 2002, WPS Resources held $38.8 million in corporate guaranties supporting indebtedness. Of that total, $38.6 million supports outstanding debt at two WPS Power Development's subsidiaries. The underlying debt related to these guaranties is reflected in the consolidated balance sheet.

The WPS Resources Board of Directors has authorized management to issue corporate guaranties in the aggregate amount of up to $900 million to support the business operations of WPS Energy Services. WPS Resources primarily issues the guaranties to counterparties in the wholesale electric and natural gas marketplace to meet the counterparties' requirements and permit WPS Energy Services to operate within these markets. The amount of guaranties actually issued by WPS Resources to support the business operations at WPS Energy Services at December 31, 2002 was $506.1 million. The amount supported is dependent on the amount of outstanding business WPS Energy Services actually has with the counterparties holding the guaranties at any point in time. WPS Resources reflects WPS Energy Services' obligations supported by these parental guaranties on its consolidated balance sheet either as accounts payable or liabilities from risk management activities.

The WPS Resources Board of Directors has authorized corporate guaranties as needed to support certain specific business operations of WPS Power Development. At December 31, 2002, WPS Resources issued $29.4 million in corporate guaranties to support the business operation of WPS Power Development, which are reflected in the table on page 26. WPS Resources issues the guaranties for indemnification obligations related to business purchase agreements and counterparties in the wholesale electric marketplace to meet their credit requirements and permit WPS Power Development to operate within these markets. The amount supported is dependent on the amount of the outstanding obligation that WPS Power Development has with the parties holding the guaranties at any point in time. WPS Resources reflects WPS Power Development's obligations supported by these parental guaranties on its consolidated balance sheet as either accounts payable or other liabilities.

The remaining $48.8 million of corporate guaranties consist of a $48.4 million guaranty reflected on Wisconsin Public Service's balance sheet supporting the termination agreement related to the acquisition of the De Pere Energy Center and $0.4 million of guaranties supporting operations at WPS Resources' smaller subsidiaries.

WPS Resources issued $22.7 million in standby letters of credit to financial institutions for the benefit of third parties that have extended credit to certain subsidiaries. If a subsidiary does not pay amounts when due under a covered contract, the counterparty may present its claim for payment to the financial institution, which will request payment from WPS Resources. Any amounts owed by our subsidiaries are reflected in the consolidated balance sheet.

At December 31, 2002, WPS Resources purchased $4.7 million of surety bonds from the Commonwealth of Pennsylvania for waste management and disposal largely related to our WPS Power Development operations in that state. The remaining $1.7 million of surety bonds were purchased for various purposes including worker compensation coverage and obtaining various licenses, permits and rights-of-way. Liabilities incurred as a result of activities covered by surety bonds are included in the consolidated balance sheet.

Other guaranties of $3.6 million listed on the table on page 26 include guaranties of subsidiary indebtedness that is available to the subsidiary but not outstanding as of December 31, 2002. Since this amount is not outstanding at the end of the year, it is not reflected on the consolidated balance sheet.

Wisconsin Public Service makes large investments in capital assets. Net construction expenditures, including nuclear fuel, are expected to be approximately $736 million in the aggregate for the 2003 through 2005 period. The Public Service Commission of Wisconsin has not yet approved some of these expenditures. Significant anticipated expenditures during this three-year period include:

- construction of generation facilities – $193 million
- automated meter reading – $60 million
- corporate services infrastructure – $49 million
- nuclear fuel – $34 million
- corporate software systems and hardware – $30 million
- security – $19 million
- nuclear reactor vessel head – $12 million
- combustion turbine – $10 million

Other capital requirements for the three-year period include a contribution of $7.8 million to the Kewaunee plant's decommissioning trust fund.

Upper Peninsula Power is expected to incur construction expenditures of about $39 million in the aggregate for the period 2003 through 2005, primarily for electric distribution improvements and repairs and safety measures at hydro facilities.

Significant capital expenditures identified at WPS Power Development for 2003 through 2005 include $12 million at the Sunbury facility, including $3.1 million for handling nitrogen oxide emissions at the Sunbury facility. Other capital expenditures for WPS Power Development for 2003 through 2005 could be significant depending on its success in pursuing development and acquisition opportunities. When appropriate, WPS Power Development may seek nonrecourse financing for a portion of the cost of these acquisitions.

Capital expenditures identified at WPS Energy Services for 2003 through 2005 include $1.7 million for software and systems upgrades.

Wisconsin Public Service, along with co-applicants Minnesota Power and American Transmission Company, continues to pursue the development of the 220-mile, 345-kilovolt Wausau, Wisconsin to Duluth, Minnesota transmission line and expects the project to proceed despite opposition primarily from local landowners, the Citizens Utility Board, and environmental groups.

Under an agreement recently reached with American Transmission Company, which will own and operate the completed line, Wisconsin Public Service will be reimbursed for its project costs to date, approximately $18.5 million, following approval of the agreement by the Public Service Commission of Wisconsin and the Federal Energy Regulatory Commission. Under the agreement, American Transmission

Company will assume primary responsibility for the overall management of the project. Wisconsin Public Service will continue to be responsible for obtaining property rights necessary for the project and construction of the project. WPS Resources will fund 50% of future project costs and receive additional equity in American Transmission Company. For the period 2003 through 2005, we expect to make capital contributions of up to $80 million for our portion of the Wausau to Duluth transmission line. Additional contributions will be required through 2008 to complete the transmission line. WPS Resources may terminate its funding obligation if total project costs exceed the revised estimate of $396 million announced by American Transmission Company on November 11, 2002. This updated cost estimate reflects additional costs to the project resulting from time delays, added regulatory requirements, changes and additions to the project at the request of local governments and American Transmission Company's management, and overhead costs.

The applicants filed petitions with the Public Service Commission of Wisconsin for approval to transfer primary responsibility for the project to American Transmission Company and the revised cost estimate. We anticipate receiving approval of the agreement transferring primary responsibility for the project to American Transmission Company some time in 2003. We also anticipate receiving approval of project continuation with new cost estimates in 2003. Completion of the line is expected in 2008.

Trading Activities

WPS Energy Services currently measures the fair value of contracts, including NYMEX exchange and over-the-counter contracts, natural gas options, natural gas and electric power physical fixed-price contracts, basis contracts, and related financial instruments on a mark-to-market basis using both quoted market prices and modeling techniques. The primary input for natural gas pricing is the settled forward price curve of the NYMEX exchange which includes spreads, contracts, and options. Basis natural gas pricing is derived from published indices and documented broker quotes. WPS Energy Services bases electric prices on published indices and documented broker quotes. The following table provides an assessment of the factors impacting the change in the net value of WPS Energy Services' assets and liabilities from risk management during the 12 months ended December 31, 2002.

WPS ENERGY SERVICES, INC. Mark-to-Market Roll Forward (*Millions*)	Natural Gas	Electric	Total
Fair value of contracts at January 1, 2002	$25.4	$ 6.3	$31.7
Less contracts realized or settled during period	13.0	1.0	14.0
Plus fair value of new contracts entered into during period	8.8	2.2	11.0
Changes in fair value attributable to changes in valuation techniques and assumptions	0.2	(0.3)	(0.1)
Other changes in fair value	(28.5)	3.8	(24.7)
Fair value of contracts outstanding at December 31, 2002	$ (7.1)	$11.0	$ 3.9

The fair value of contracts at January 1, 2002 and December 31, 2002, reflect the values reported on the balance sheet for net mark-to-market assets and liabilities as of those dates. Contracts realized or settled include the value of contracts in existence at January 1, 2002 that were no longer included in the net mark-to-market assets as of December 31, 2002. Mark-to-market gains and losses related to contracts, that were entered into subsequent to January 1, 2002, and are still included in WPS Energy Services' portfolio at December 31, 2002, are included in the fair value of new contracts entered into during the period. These amounts include amounts paid for the purchase of energy contracts and the mark-to-market gain or loss at the inception of these contracts. There were, in many cases, offsetting positions entered into and settled during the period resulting in gains or losses being realized during the current period. The realized gains or losses from these offsetting positions are not reflected in the table to the left. Although WPS Energy Services strives to maintain a balanced book of back-to-back transactions, any ineffectiveness from its risk management activity for 2002 has been included under "fair value of new contracts entered into during period" in the table to the left. The "Other changes in fair value" line in the table primarily represents the change in the fair value of gas storage contracts from January 1, 2002 and December 31, 2002, the acquisition of a retail gas portfolio in Canada, and the accounting consolidation of the Quest electric portfolio. In compliance with generally accepted accounting principles, WPS Energy Services adjusts the value of natural gas storage at the end of each reporting period to fair value. The January 1, 2002 amount has been revised to include the adjustment to fair value of the natural gas storage.

In October 2002, the Emerging Issues Task Force Issue 02-03 "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," rescinded Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," which required energy trading contracts to be accounted for at fair value. The rescission was effective immediately for new contracts entered into after October 25, 2002. WPS Energy Services accounted for those energy trading contracts which existed at October 25, 2002 at fair value at December 31, 2002.

WPS ENERGY SERVICES, INC.

Contract Aging at Fair Value

Source of Fair Value (*Millions*)	Maturity Less Than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices actively quoted	$ (24.9)	$(0.3)	$ –	$ –	$(25.2)
Prices provided by external sources	15.8	(0.9)	–	–	14.9
Prices based on models and other valuation methods	9.1	5.1	–	–	14.2
Total fair value	$ –	$ 3.9	$ –	$ –	$ 3.9

Prices actively quoted includes NYMEX contracts. Prices provided by external sources includes basis swaps and over-the-counter contracts. Prices based on models and other valuation methods includes some retail natural gas and electric contracts due to the volume optionality that exists in those contracts. We derive the pricing for all contracts in the above table from active quotes or external sources. Pricing is the most significant variable in the mark-to-market calculations.

Critical Accounting Policies

In May 2002, the Securities and Exchange Commission issued proposed rules regarding the identification and disclosure of accounting estimates a company makes in applying its accounting policies and the disclosure of initial adoption by a company of an accounting policy that has a material impact on its financial presentation. Under the first part of the proposal, a company would have to identify the accounting estimates reflected in its financial statements that required it to make assumptions about matters that were highly uncertain at the time of estimation. Disclosures about those estimates would then be required if different estimates that the company reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of the company's financial condition, changes in financial condition or results of operations.

The Securities and Exchange Commission accepted comments on the proposed rules through July 19, 2002 and has not made any final decisions since that time. In anticipation of at least parts of this proposed rule being made final, we have identified the following accounting policies to be critical to the understanding of our financial statements because their application requires significant judgment and reliance on estimations of matters that are inherently uncertain.

By increasing the number of customers we serve with natural gas, we maximize our investment in assets and capitalize on the synergies of serving customers with both electricity and natural gas—which benefits shareholders. Glen Calewarts, Lead Street Mechanic, and Michael Pasterski, Street Mechanic, for Wisconsin Public Service help build these natural gas distribution assets.

PRICE RISK ACTIVITIES

The fair values of commodity and trading contracts recorded for WPS Resources under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," are based on estimates that are critical to our financial statements. Fair value is determined using internal models, third party quotes, or a combination of the two methods. Changes in the expected energy and gas market prices could cause variability to the fair values of the derivatives. Such changes would be reflected on the balance sheets, statements of income, and/or as a component of other comprehensive income.

As a component of the fair value determination, WPS Energy Services maintains reserves to account for the estimated costs of servicing and holding certain of its contracts. The reserves are based on estimates of administrative costs, credit/counterparty risk, and servicing margin with both fixed and variable components. Variability can occur if fundamental changes in service cost or risk require an adjustment to the reserve components. The estimates were derived from historical data.

The following table shows the effect of changing both the administrative costs and credit/counterparty risk assumptions.

Change in Assumption	Effect to Operating Reserve
100% increase	$ 2.3 million
50% decrease	$(1.2) million

These potential changes to the operating reserve would be shown as part of the Nonregulated cost of fuel, gas and purchased power on the Consolidated Statements of Income and Liabilities from risk management activities on the Consolidated Balance Sheets.

ACQUISITIONS

The methodology that WPS Resources uses to account for WPS Power Development's acquisitions employs a number of steps; the first relates to the allocation of the initial purchase price. An independent appraiser is retained to allocate the purchase price to the various assets and liabilities, if any, acquired in the acquisition using Statement of Financial Accounting Standards No. 141, "Business Combinations," and Statement of Financial Accounting Standards No. 142, "Goodwill and Other

Intangible Assets," as guidance. The appraiser uses a combination of the following three methodologies to calculate fair market value:

— replacement cost,
— discounted cash flows, and
— recent sales of similar assets in the specific geographic region.

WPS Power Development's management reviews these calculations.

Once the purchase price has been allocated to the various asset classes, engineers from WPS Power Development assist in the assignment of depreciation lives for the various assets acquired. Industry standards, physical condition, and company experience with various assets are used as a basis for developing the respective depreciation lives. A significant change in these estimates would impact reported income, either higher or lower depending on the change to the depreciable life, as well as impacting the carrying value of these assets on the balance sheet.

ASSET IMPAIRMENT

WPS Resources annually reviews its assets for impairment. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," and Statement No. 142, "Goodwill and Other Intangible Assets," are the basis for these analyses.

The review for impairment of tangible assets is more critical to WPS Power Development than to our other segments because of its significant investment in property, plant, and equipment and lack of access to regulatory relief that is available to our regulated segments. We believe that the accounting estimate related to asset impairment of power plants is a "critical accounting estimate" because: (1) the estimate is susceptible to change from period to period because it requires company management to make assumptions about market sales pricing, production costs, and generation volumes and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet and the net loss on our income statement could be material. Management's assumptions about future market sales prices and generation volumes require significant judgment because actual market sales prices and generation volumes have fluctuated in the past as a result of changing fuel costs, environmental changes, and required plant maintenance and are expected to continue to do so in the future.

The primary estimates used at WPS Power Development in this process are future revenue streams and operating costs. A combination of input from both internal and external sources is used to project revenue streams. WPS Power Development's operations group projects future operating costs with input from external sources for fuel costs and forward energy prices. These estimates are modeled over the projected remaining life of the power plants using the model defined in Statement No. 144. WPS Power Development evaluates property, plant, and equipment for impairment whenever indicators of impairment exist. Statement 144 requires that if the sum of the undiscounted expected future cash flows from a company's asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset.

WPS Power Development owns nine power plants. Six power plants, including the Sunbury generating plant, were reviewed for impairment as of September 30, 2002. We determined that the sum of the undiscounted expected future cash flows from the property, plant, and equipment as of September 30, 2002, exceeded the carrying value of those assets.

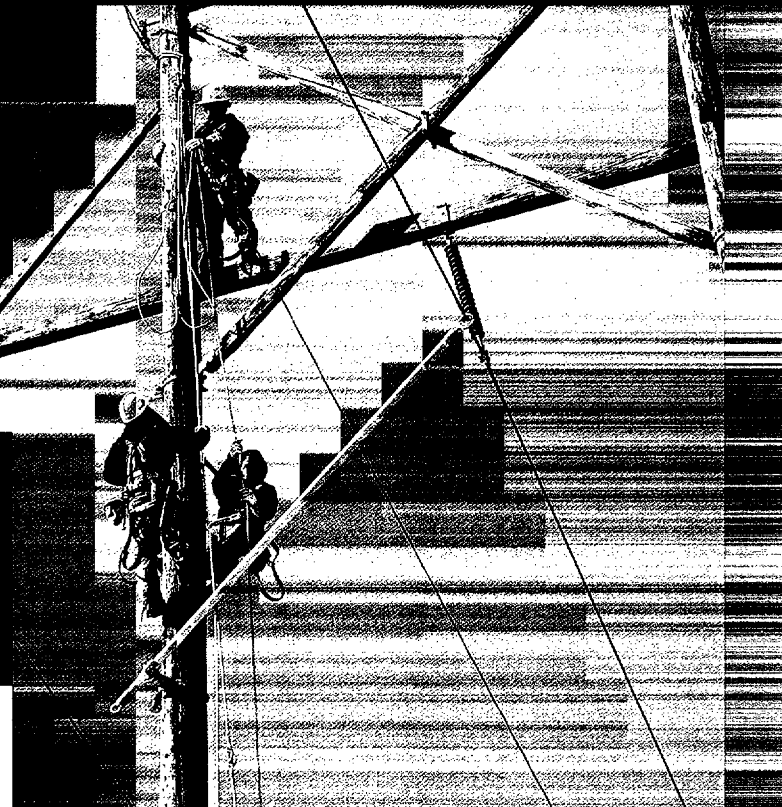
The Sunbury generating plant represents 6.7% of WPS Resources' Property, plant, and equipment. At September 30, 2002, the estimate of future cash flows, on an undiscounted basis, was greater than the $108.7 million carrying value of the Sunbury generating plant. Any increases in estimated future cash flows would have no impact on the carrying value of the Sunbury generating plant. An increase of 20% in fuel expenses or a 20% increase in operating expenses would result in decreased future cash flows, but would also have no impact on the carrying value of the Sunbury generating plant. In contrast, a decrease of 20% in revenue rates would reduce the estimate of future cash flows to less than the carrying value of the Sunbury generating plant. In that case, an impairment loss would be recognized that would have reduced WPS Resources' Total assets at December 31, 2002 by 3.4% and decreased Income before taxes for the year by 31.8%.

The merger of Wisconsin Fuel and Light into Wisconsin Public Service in 2001 resulted in Wisconsin Public Service recording goodwill related to its gas utility segment. The goodwill is tested for impairment yearly based on the guidance of Statement No. 142. The test for impairment includes assumptions about future profitability of the gas utility segment and the correlation between our gas utility segment and published projections for other similar gas utility segments. A significant change in the gas utility market and/or our projections of future profitability could result in a loss being recorded on the income statement related to a decrease in the goodwill asset, as a result of the impairment test.

ACCRUALS

Our regulated gas and electric utilities and WPS Energy Services accrue estimated amounts of revenue for services rendered but not yet billed. Estimated unbilled sales are calculated using actual generation and throughput volumes, recorded sales, and weather factors. The estimated unbilled sales are assigned different rates based on historical customer class allocations. Any difference between actual sales and the estimates or weather factors would cause a change in the estimated revenue.

WPS Resources reserves for potential uncollectible customer accounts as an expense on the income statement and an uncollectible reserve on the balance sheet. Due to the nature of the nonregulated energy marketing business having higher credit risk, the reserve is more critical to WPS Energy Services than to our other segments. At WPS Energy Services, the reserve is based on historical uncollectible experience and specific customer identification where practical. If the assumption that historical uncollectible experience matches current customer default is incorrect, or if a specific customer with a large account receivable that has not previously been identified as a risk defaults, there could be significant changes to the expense and uncollectible reserve balance.



While Wisconsin Public Service no longer owns transmission lines, we support American Transmission Company by contracting to maintain its lines. Here, Line Electricians Mike Mleziva, Tony Nigbor, and Scott Palubicki change insulators on an energized 138-kilovolt line near Green Bay, Wisconsin.

ACCRUALS FOR PENSION AND POSTRETIREMENT BENEFITS

The costs of providing non-contributory defined pension benefits and other postretirement benefits described in Note 16 to the Consolidated Financial Statements, are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience.

Pension costs, for example, are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions we make to the plan, and earnings on plan assets. Changes made to the plan provisions may also impact current and future pension costs. Pension costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation and pension costs.

Other postretirement benefit costs, for example, are impacted by actual employee demographics (including age and compensation levels), the level of contributions we make to the plans, earnings on plan assets, and health care cost trends. Changes made to the plan provisions may also impact current and future other postretirement benefit costs. Other postretirement benefit costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, health care cost trend rates, and the discount rates used in determining the postretirement benefit obligation and postretirement costs.

WPS Resources' pension plan assets and other postretirement benefit plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased or decreased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also increase or decrease recorded pension costs. Changes in assumptions regarding current discount rates, health care cost trend rates, and expected rates of return on plan assets could also increase or decrease recorded other postretirement benefit costs. Management believes that such changes in costs would be recovered at our regulated segments through the ratemaking process.

The following table reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The table below reflects an increase or decrease in the percentage for each assumption, and how each change would impact the projected benefit obligation, our reported prepaid pension asset on the balance sheet, and our reported annual pension cost on the income statement as they relate to our two large qualified pension plans. Each sensitivity below reflects an evaluation of the change based solely on a change in that assumption only.

Actuarial Assumption (*Millions*, except percentages)	Change in Assumption	Impact on Projected Benefit Obligation	Impact on Prepaid Pension Asset	Impact on Pension Cost
Discount rate	(0.5)%	$31.9	$(1.4)	$1.4
Discount rate	0.5%	(28.9)	1.3	(1.3)
Rate of return on plan assets	(0.5)%	N/A	(2.7)	2.7
Rate of return on plan assets	0.5%	N/A	2.7	(2.7)

Actuarial Assumption (*Millions*, except percentages)	Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on Postretirement Benefit Liability	Impact on Postretirement Benefit Cost
Discount rate	(0.5)%	$18.2	$1.5	$1.5
Discount rate	0.5%	(16.6)	(0.8)	(0.8)
Health care cost trend rate	(1.0)%	(32.5)	(3.0)	(3.0)
Health care cost trend rate	1.0%	41.2	5.0	5.0
Rate of return on plan assets	(0.5)%	N/A	0.6	0.6
Rate of return on plan assets	0.5%	N/A	(0.6)	(0.6)

The table above reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The table above reflects an increase or decrease in the percentage for each assumption, and how each change would impact the projected other postretirement benefit obligation, our reported other postretirement benefit liability on the balance sheet, and our reported annual other postretirement benefit cost on the income statement. Each sensitivity above reflects an evaluation of the change based solely on a change in that assumption only.

In selecting an assumed discount rate, we consider long-term Corporate Aa rated bond yield rates. In selecting an assumed rate of return on plan assets, we consider past performance and economic forecasts for the types of investments held by the plan. The market value of WPS Resources' plan assets was affected by sharp declines in equity markets since the third quarter of 2000.

For the past three years, pension plan assets earned $41.2 million in 2000 and lost $13.7 million and $47.8 million in 2001 and 2002, respectively. As a result of our plan asset return experience and the declining interest rate environment, we could be required in some future period to recognize an additional minimum liability as prescribed by Statement No. 87. The liability would be recorded as an intangible asset and a possible reduction to common equity through a charge to Other comprehensive income. The charge to Other comprehensive income would be restored through common equity in future periods to the extent fair value of trust assets exceeded the accumulated benefit obligation. Also, pension cost and cash funding requirements could increase in future years without improved asset returns.

For the past three years, other postretirement benefit plan assets earned $7.9 million in 2000 and lost $4.4 million and $14.8 million in 2001 and 2002, respectively. In selecting assumed health care cost trend rates, we consider past performance and forecasts of health care costs. WPS Resources adjusted its health care cost trend rates upwards each of the last two years in an attempt to keep our health care cost trend rates in line with the rapidly increasing health care costs the country and WPS Resources have faced. Also, other postretirement benefit cost and cash funding could increase in future years without improved asset returns.

REGULATORY ACCOUNTING

The electric and gas utility segments of WPS Resources follow Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and our financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating these segments. We defer certain expenses and revenues that regulators have authorized for deferral as regulatory assets and regulatory liabilities. Future recovery of deferred expenses recorded as regulatory assets is not assured, but is subject to review by regulators in a rate proceeding for prudence and reasonableness. Management regularly assesses whether these regulatory assets are probable of future recovery by considering factors such as regulatory environment changes and the status of any pending or potential deregulation legislation. Once approved, we recognize these deferred expenses in income over the rate recovery period. If not approved, these deferred expenses would be recognized in income in the then current period.

If our electric and gas utility segments no longer meet the criteria for applying Statement No. 71, we would discontinue its application as defined under Statement No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71." Assets and liabilities recognized solely due to the actions of rate regulation may no longer be recognized on the balance sheet and would be classified as an extraordinary item in income for the period in which the discontinuation occurs. A write-off of all WPS Resources' regulatory assets and regulatory liabilities at December 31, 2002 would result in a 3.5% decrease in Total assets, a 1.5% decrease in Total liabilities and shareholders' equity, and a 44.6% decrease in Income before taxes.

TAX PROVISION

Estimates of current and future year taxable income are used to determine the estimated period ended income tax provision, including determining the estimated current and future tax benefit of federal and state tax credits produced in the period. The income tax provision also includes an estimate of the future tax benefit related to state net operating loss carryovers. Determination of current year taxable income and the ability to utilize tax credits and net operating loss carryovers will not be settled until several years after the close of the tax year. Estimates of future year taxable income reflect management's current understanding of the economics related to projected operations and markets. Changes in either estimate of taxable income could cause a significant change in management's estimated income tax provision.

Related Party Transactions

WPS Resources has investments in related parties which are accounted for under the equity method of accounting. These include the investment at WPS Investment, LLC, a consolidated subsidiary of Wisconsin Public Service, in American Transmission Company LLC and Wisconsin Public Service's investment in Wisconsin River Power Company.

Wisconsin Public Service recorded revenues from American Transmission of $12.9 million in 2002 and $11.3 million in 2001. Wisconsin Public Service recorded transmission expenses from American Transmission of $21.4 million in 2002 and $31.0 million in 2001. Upper Peninsula Power recorded revenues from American Transmission of $5.8 million in 2002 and $2.7 million in 2001. Upper Peninsula Power recorded transmission expenses from American Transmission of $3.4 million in 2002 and $3.3 million in 2001.

Wisconsin Public Service recorded revenues from Wisconsin River Power of $2.5 million in 2002 and $1.7 million in 2001. Wisconsin Public Service recorded power purchases from Wisconsin River Power of $2.1 million in 2002 and $1.7 million in 2001.

Trends

ENVIRONMENTAL

We are subject to federal, state, and local regulations regarding environmental impacts of our operations on air and water quality and solid waste. The application of federal and state restrictions to protect the environment can involve review, certification, or issuance of permits by various federal and state authorities, including the United States Environmental Protection Agency and the various states' environmental agencies, including the Wisconsin Department of Natural Resources. These restrictions may limit, prevent, or substantially increase the cost of the operation of generation facilities and may require substantial investments in new equipment at existing installations. Such restrictions may require substantial additional investments for new projects and may delay or prevent completion of projects. We cannot forecast the effects of such regulation on our generation, transmission, and other facilities or operations.

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites, two of which were previously owned by Wisconsin Fuel and Light. Wisconsin Public Service anticipates that work will commence on the land portion of the Green Bay site in 2003. Costs of previous cleanups were within the range expected for these sites.

The United States Environmental Protection Agency has designated southeastern Wisconsin as an ozone non-attainment area. Under the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area. This plan affects Edgewater Unit 4, of which Wisconsin Public Service owns 31.8%. A compliance plan for this unit includes a combination of combustion optimization and emission trading at a cost to Wisconsin Public Service of about $5 million. About 70% of the project has been completed. In addition, Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with voluntary nitrogen oxide reductions.

Air quality modeling by the Wisconsin Department of Natural Resources revealed that Weston Units 1 and 2 contribute to a modeled exceedance of the sulfur dioxide ambient air quality standard. Wisconsin Public Service is cooperating with the Wisconsin Department of Natural Resources to develop an approach to resolve this issue.

The Wisconsin Department of Natural Resources initiated a rulemaking effort aimed at the control of mercury emissions. Wisconsin Public Service estimates that it could cost $105 million per year for it to achieve the proposed mercury emission reductions of 90% phased in over 15 years.

ENERGY AND CAPACITY PRICES

Prices for electric energy and capacity have been extremely volatile over the past two years. WPS Resources' nonregulated entities are impacted by this volatility which has been driven by the exit of many of the largest speculative traders, the slow-down in the economy, and significant overbuilding of generation capacity.

Although electric energy prices are currently favorable due to high natural gas prices, we expect that electric capacity prices will continue to be depressed for several years. Pressure on capacity prices will continue until existing reserve margins are depleted either by load growth or capacity retirements. WPS Power Development is impacted by pricing exhibited in the external marketplace but attempts to manage its assets with a combination of long and short-term contracts. WPS Power Development attempts to execute bilateral contracts for a longer term and actively participates in real-time markets for the short-term. WPS Energy Services is not as affected by pricing pressures as it structures its deals with back-to-back transactions which hedge pricing changes.

CREDIT RISK

Companies participating in energy commodity markets face significant credit risk. Credit risk represents the potential loss should a counterparty fail to perform under its contractual obligation. Credit assurance is often required when WPS Energy Services enters into a transaction that creates a future obligation to a counterparty. WPS Energy Services currently satisfies credit assurance through parental guaranties from WPS Resources.

WPS Energy Services reduces the need for credit assurance through netting agreements. These netting agreements allow WPS Energy Services and the counterparty to net their respective positions with each other, with only the party in the net owe position remitting payment to the other party. Another method of reducing the need for credit assurance is to employ multilateral netting through a credit clearing house. By clearing transactions through a credit clearing house, only net credit positions are required to be posted. The energy commodity industry views credit clearing as the preferred solution to the current credit environment which has barred many entities from participating in energy markets.

WPS Energy Services extends credit to certain customers without specific assurances, such as parental guaranties. WPS Energy Services has stringent credit standards for its retail customers and also extends limited trade credit to wholesale market participants based on the credit rating of the entity.

INDUSTRY RESTRUCTURING

The energy industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressure on electric and natural gas utility companies. Increased competition may create greater risks to the stability of utility earnings generally and may reduce future utility earnings from retail electric and natural gas sales. The future of deregulation in the utility industry and its impact on our future is uncertain. At the present time, Wisconsin has not adopted legislation or regulations that would allow customers to choose their electric supplier. All Michigan electric customers were able to choose their electric generation suppliers beginning January 1, 2002 as a result of the Customer Choice Act. At this time, no customers have chosen an alternative electric supplier and no alternative electric suppliers have offered to serve any customers in Michigan's Upper Peninsula.

To the extent competitive pressures increase and the pricing and sale of electricity assumes more of the characteristics of a commodity business, the economics of our business may come under increasing pressure. In addition, regulatory changes may increase access to electric transmission grids by utility and nonutility purchasers and sellers of electricity, thus potentially resulting in a significant number of additional competitors in wholesale power generation.

In 2002, the Federal Energy Regulatory Commission issued a Notice of Proposed Rule Making proposing a standard wholesale electric market design. It is expected to take several years to implement and perfect the standard market design.

NEW ACCOUNTING STANDARDS

WPS Resources adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003. Statement No. 143 requires legal asset retirement obligations to be recognized at fair value in the period incurred. Upon initial recognition of the asset retirement liability, the cost of the asset retirement is capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. The liability is then accreted over time by applying the interest method of allocation to the liability.

Following Statement No. 143, Wisconsin Public Service identified the final decommissioning of its Kewaunee plant as a legal retirement obligation and recorded a liability of approximately $326 million as of January 1, 2003. Amounts related to nuclear decommissioning previously recorded in accumulated depreciation (approximately $291 million) were reclassified to the asset retirement obligation liability. Wisconsin Public Service did not have any cumulative effect of adopting the new statement to recognize in net income.

WPS Power Development identified closure of an ash basin at the Sunbury generation plant as an asset retirement obligation. WPS Power Development recognized an asset retirement obligation liability of $2.0 million on January 1, 2003 and a negative after-tax cumulative effect of adopting the new statement of $0.3 million to net income.

The Emerging Issues Task Force Issue 02-03, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," requires revenues related to derivative instruments classified as trading to be reported net of related cost of sales both prospectively and retroactively. Under Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," WPS Energy Services classified all its activities as trading. Consistent with Issue 02-03, effective January 1, 2003, WPS Energy Services classifies those transactions that are speculative in nature to be trading activities. WPS Energy Services does not anticipate that the classification of revenues and cost of sales under Issue 02-03 will be significantly different than its historical presentation prior to implementation of Issue 02-03.

The Emerging Issues Task Force rescinded Issue 98-10, thus precluding mark-to-market accounting for energy trading contracts that are not derivatives. At January 1, 2003, WPS Energy Services reevaluated contracts entered into on or prior to October 25, 2002 under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," and recorded a positive after-tax cumulative effect of a change in accounting principle of approximately $3 million to net income.

MARKET GROWTH

WPS Energy Services expects to continue expanding in the northeastern quadrant of the United States and adjacent portions of Canada. WPS Energy Services is continuing to maintain a balance of retail and wholesale natural gas and electric business, utilizing WPS Power Development's assets where applicable.

The addition of the Canadian natural gas retail business to WPS Energy Services' portfolio and WPS Energy Services' geographical expansion into Canadian markets has contributed to the balance between its wholesale and retail segments.

The integration of WPS Energy Services' marketing efforts and WPS Power Development's generation efforts in Maine continues to drive a large percentage of WPS Energy Services' retail electric margin. WPS Energy Services and WPS Power Development are also working together in developing and executing strategies to improve the profitability of our Pennsylvania generation plants and develop integrated market capabilities in New York.

EQUITY MARKETS

Due to the sharp declines in the United States' equity markets since the third quarter of 2000, the value of the assets held in our pension, postretirement, and nuclear decommissioning trusts decreased. As a result, additional contributions may be required in the future to meet our obligations to pay benefits, and to decommission the Kewaunee plant. Wisconsin Public Service anticipates that any additional contributions to decommission the Kewaunee plant would be recoverable through the ratemaking process. Likewise, additional expenses for pension and postretirement benefits related to regulated operations would likely be recovered in future rates.

Impact of Inflation

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States and report operating results in terms of historic cost. The statements provide a reasonable, objective, and quantifiable statement of financial results; but they do not evaluate the impact of inflation. Under rate treatment prescribed by utility regulatory commissions, Wisconsin Public Service's and Upper Peninsula Power's projected operating costs are recoverable in revenues. Because rate forecasting assumes inflation, most of the inflationary effects on normal operating costs are recoverable in rates. However, in these forecasts, Wisconsin Public Service and Upper Peninsula Power are only allowed to recover the historic cost of plant via depreciation.

Quantitative and Qualitative Disclosures About Market Risk

MARKET RISKS

WPS Resources has potential market risk exposures related to commodity price risk, interest rate risk, equity return, and principal preservation risk. The current exposure to foreign currency exchange rate risk is not significant. WPS Resources has risk management policies in place to monitor and assist in controlling these market risks and may use derivative and other instruments to manage some of these exposures.

INTEREST RATE RISK

WPS Resources and Wisconsin Public Service are exposed to interest rate risk resulting from their variable rate long-term debt and short-term commercial paper borrowing. Exposure to interest rate risk is managed by limiting the amount of variable rate obligations and continually monitoring the effects of market changes in interest rates. WPS Resources and Wisconsin Public Service enter into long-term fixed rate debt when it is advantageous to do so. WPS Resources and Wisconsin Public Service may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure. At December 31, 2002 and 2001, WPS Resources utilized one interest rate swap to fix the interest rate on a variable rate loan at one of its nonregulated subsidiaries.

Based on the variable rate debt of WPS Resources and Wisconsin Public Service outstanding at December 31, 2002, a hypothetical increase in market interest rates of 100 basis points in 2003 would increase annual interest expense by approximately $0.6 million and $0.3 million, respectively. Comparatively, based on the variable rate debt outstanding at December 31, 2001, an increase in interest rates of 100 basis points would have increased interest expense in 2002 by approximately $0.6 million and $0.1 million. These hypothetical changes are based on certain simplifying assumptions, including a constant level of variable rate debt during the period and an immediate increase in the level of interest rates with no other subsequent changes for the remainder of the period. In the event of a significant change in interest rates, management would take action to mitigate WPS Resources' and Wisconsin Public Service's exposure to the change.

COMMODITY PRICE RISK

WPS Resources is exposed to commodity price risk resulting from the impact of market fluctuations in the price of certain commodities, including but not limited to electricity, natural gas, coal, fuel oil, and uranium, which are used and/or sold by our subsidiaries in the normal course of their business. We employ established policies and procedures to reduce the market risk associated with changing commodity prices, including using various types of commodity and derivative instruments.

WPS Resources' exposure to commodity price risk in its regulated utilities is significantly mitigated by the current ratemaking process for the recovery of its electric fuel and purchased energy costs as well as its cost of natural gas purchased for resale. Therefore, the value-at-risk amounts discussed below do not include measures for WPS Resources' regulated utilities. To further manage commodity price risk, our regulated utilities enter into contracts of various duration for the purchase and/or sale of natural gas, fuel for electric generation, and electricity.

WPS Power Development utilizes purchase and/or sale contracts for electric fuel and electricity to help manage its commodity price risk. WPS Energy Services uses derivative financial and commodity instruments to reduce market risk associated with the changing prices of natural gas and electricity sold at firm prices to customers. WPS Energy Services also utilizes these instruments to manage market risk associated with anticipated energy purchases.

For purposes of risk management disclosure, WPS Power Development's and WPS Energy Services' activities are classified as non-trading. The value-at-risk amounts discussed below are presented separately for both WPS Power Development and WPS Energy Services due to the differing market and timing exposures of each entity.

Mary Kay Duket, Manager of Customer Service at Wisconsin Public Service, coaches employees on how to integrate customer service and value into everything they do.

VALUE-AT-RISK

To measure commodity price risk exposure, WPS Resources performs a value-at-risk (VaR) analysis of its exposures.

VaR is used to describe a probabilistic approach to quantifying the exposure to market risk. The VaR amount represents an estimate of the potential change in fair value that could occur from adverse changes in market factors, within a given confidence level, if an instrument or portfolio is held for a specified time period. VaR models are relatively sophisticated. However, the quantitative risk information is limited by the parameters established in creating the model. The instruments being used may have features that could trigger a potential loss in excess of the calculated amount if the changes in the underlying commodity price exceed the confidence level of the model used. VaR is not necessarily indicative of actual results that may occur.

At WPS Resources, VaR is estimated using a delta-normal approximation based on a one-day holding period and a 95% confidence level. The delta-normal approximation is based on the assumption that changes in the value of the portfolio over short time periods, such as one day, are normally distributed. It does not take into account higher order risk exposures, so it may not provide a good approximation of the risk in a portfolio with substantial option positions. We utilized a delta-normal approximation because our portfolio has limited exposure to optionality. Our VaR calculation includes derivative financial and commodity instruments, such as forwards, futures, swaps, and options as well as commodities held in inventory, such as natural gas held in storage to the extent such positions are significant.

Our VaR amount for WPS Energy Services was calculated to be $0.5 million at both December 31, 2002 and December 31, 2001. Our VaR amount for WPS Power Development was calculated to be $0.3 million at December 31, 2002 compared with $3.2 million at December 31, 2001. This decrease was primarily due to decreased volatility in our forward price curve for electricity and a decrease in the exposure period for some assets, both of which are used in our VaR calculation. A significant portion of this VaR amount is mitigated by WPS Power Development's generating capabilities, which are excluded from the VaR calculation as required by the Securities and Exchange Commission rules.

For the year ended December 31, 2002, the average, high, and low VaR amounts for WPS Energy Services were $0.5 million, $0.7 million, and $0.4 million, respectively. The same amounts for the year ended December 31, 2001 were $0.4 million, $0.6 million, and $0.2 million. For the year ended December 31, 2002, the average, high, and low VaR amounts for WPS Power Development were $1.5 million, $3.2 million, and $0.3 million, respectively. The same amounts for the year ended December 31, 2001 were $3.0 million, $4.4 million, and $1.4 million. The average, high, and low amounts were computed using the VaR amounts at the beginning of the reporting period and the four quarter-end amounts.

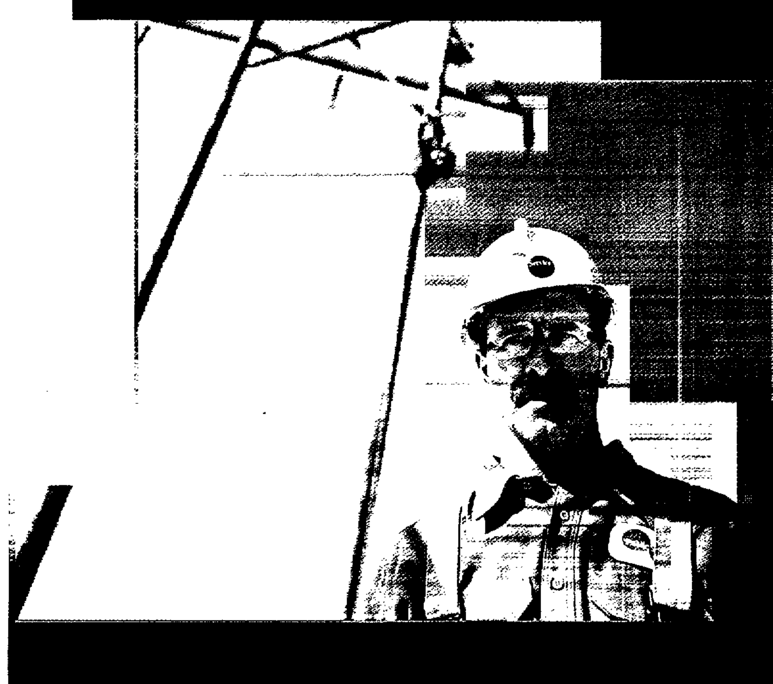
EQUITY RETURN AND PRINCIPAL PRESERVATION RISK

WPS Resources and Wisconsin Public Service currently fund liabilities related to employee benefits and nuclear decommissioning through various external trust funds. These funds are managed by various investment managers and hold investments in debt and equity securities. Changes in the market value of these investments can have an impact on the future expenses related to these liabilities. The qualified pension liability is currently over funded and no contributions to the plan are required. However, continued declines in the equity markets or continued declines in interest rates may result in increased future pension costs and possible future required contributions. Changes in the market value of investments related to other employee benefits or nuclear decommissioning could also impact future contributions. WPS Resources monitors the trust fund portfolios by benchmarking the performance of the investments against certain security indices. All decommissioning costs and most of the employee benefit costs relate to WPS Resources' regulated utilities. As such, the majority of these costs are recovered in customers' rates, mitigating the equity return and principal preservation risk on these exposures.

FOREIGN CURRENCY EXCHANGE RATE RISK

WPS Resources is exposed to foreign currency risk as a result of foreign operations owned and operated in Canada and transactions denominated in Canadian dollars for the purchase and sale of gas by one of our nonregulated subsidiaries. WPS Resources has processes in place to protect against this risk. The risk to WPS Resources is not significant at December 31, 2002.

WPS Resources has been at the forefront of efforts to strengthen and add to Wisconsin's transmission system. Employees like Dave Farber, Lead Line Electrician, do their best to maintain the integrity of existing lines owned by American Transmission Company, but without additional transmission being built, electric reliability will suffer.



CONSOLIDATED STATEMENTS OF INCOME

A solid background in agriculture and down-to-earth way of doing business resonates with our farm customers. Chuck Imig is one of seven Agricultural Account Executives at Wisconsin Public Service.

YEAR ENDED DECEMBER 31 *(Millions, except per share data)*	2002	2001	2000
Nonregulated revenue	$1,624.6	$1,700.6	$1,060.7
Utility revenue	1,050.3	974.9	888.3
Total revenues	2,674.9	2,675.5	1,949.0
Nonregulated cost of fuel, gas, and purchased power	1,522.2	1,639.6	1,014.3
Utility cost of fuel, gas, and purchased power	419.0	444.6	379.3
Operating and maintenance expense	444.5	361.2	311.5
Depreciation and decommissioning expense	98.0	86.6	99.9
Taxes other than income	40.1	36.2	33.8
Operating income	151.1	107.3	110.2
Miscellaneous income	47.8	37.5	20.2
Interest expense	(58.1)	(55.8)	(50.8)
Distributions – preferred securities of subsidiary trust	(3.5)	(3.5)	(3.5)
Other income (expense)	(13.8)	(21.8)	(34.1)
Income before taxes	137.3	85.5	76.1
Provision for income taxes	24.8	4.8	6.0
Net income before preferred dividends	112.5	80.7	70.1
Preferred stock dividends of subsidiary	3.1	3.1	3.1
Income available for common shareholders	$ 109.4	$ 77.6	$ 67.0
Average shares of common stock	31.7	28.2	26.5
Earnings per common share			
Basic	$3.45	$2.75	$2.53
Diluted	$3.42	$2.74	$2.53
Dividends per common share	$2.12	$2.08	$2.04

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31 *(Millions)*	2002	2001
Assets		
Cash and cash equivalents	$ 43.3	$ 43.9
Restricted funds	4.2	21.3
Accounts receivable – net of reserves of $7.0 and $5.0, respectively	293.3	248.0
Accrued unbilled revenues	105.9	56.5
Inventories	118.1	102.5
Current assets from risk management activities	406.6	336.0
Other current assets	72.3	61.5
Current assets	1,043.7	869.7
Property, plant, and equipment, net	1,610.2	1,463.6
Regulatory assets	110.9	91.0
Long-term assets from risk management activities	135.3	151.4
Other	307.8	294.3
Total assets	$3,207.9	$2,870.0
Liabilities and Shareholders' Equity		
Short-term debt	$ 29.8	$ 46.2
Current portion of long-term debt	71.1	56.6
Accounts payable	452.0	334.6
Current liabilities from risk management activities	443.8	294.2
Other current liabilities	53.7	69.4
Current liabilities	1,050.4	801.0
Long-term debt	824.4	727.8
Deferred income taxes	73.7	69.5
Deferred investment tax credits	19.3	21.0
Regulatory liabilities	49.7	78.4
Environmental remediation liabilities	40.2	45.0
Postretirement benefit obligations	51.8	52.4
Long-term liabilities from risk management activities	109.7	145.7
Other	104.8	112.2
Long-term liabilities	1,273.6	1,252.0
Company-obligated mandatorily redeemable trust preferred securities of subsidiary trust holding solely WPS Resources' 7.00% subordinated debentures	50.0	50.0
Preferred stock of subsidiary with no mandatory redemption	51.1	51.1
Common stock equity	782.8	715.9
Total liabilities and shareholders' equity	$3,207.9	$2,870.0

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

Chip Bircher, Renewable Product Manager at Wisconsin Public Service, promotes energy from biomass produced at farms like Wholesome Dairy near Chilton, Wisconsin.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Millions)	Comprehensive Income	Total	Employee Stock Plan Guarantees and Deferred Compensation Trust	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 1999	–	$539.9	$(4.4)	$26.9	$175.7	$341.7	$0.0	$0.0
Income available for common shareholders	$67.0	67.0	–	–	–	67.0	–	–
Other comprehensive income (net of tax)	–	–	–	–	–	–	–	–
Comprehensive income	$67.0	–	–	–	–	–	–	–
Issuance of common stock	–	0.4	–	–	0.4	–	–	–
Dividends on common stock	–	(53.9)	–	–	–	(53.9)	–	–
Other	–	(5.3)	1.2	–	1.6	–	(8.1)	–
Balance at December 31, 2000	–	$548.1	$(3.2)	$26.9	$177.7	$354.8	$(8.1)	$0.0
Income available for common shareholders	$77.6	77.6	–	–	–	77.6	–	–
Other comprehensive income – cash flow hedge (net of tax of $3.7)	(2.7)	(2.7)	–	–	–	–	–	(2.7)
Comprehensive income	$74.9	–	–	–	–	–	–	–
Issuance of common stock	–	152.3	–	4.6	147.7	–	–	–
Dividends on common stock	–	(58.8)	–	–	–	(58.8)	–	–
Other	–	(0.6)	(1.0)	–	–	–	0.4	–
Balance at December 31, 2001	–	$715.9	$(4.2)	$31.5	$325.4	$373.6	$(7.7)	$(2.7)
Income available for common shareholders	$109.4	109.4	–	–	–	109.4	–	–
Other comprehensive income – cash flow hedge (net of tax of $5.1)	(4.6)	(4.6)	–	–	–	–	–	(4.6)
Other comprehensive income – minimum pension liability (net of tax of $1.8)	(2.7)	(2.7)	–	–	–	–	–	(2.7)
Comprehensive income	$102.1	–	–	–	–	–	–	–
Issuance of common stock	–	28.3	–	0.5	21.7	–	6.1	–
Purchase of common stock	–	(1.3)	(1.3)	–	–	–	–	–
Dividends on common stock	–	(67.1)	–	–	–	(67.1)	–	–
Other	–	4.9	0.1	–	4.7	–	0.1	–
Balance at December 31, 2002	–	$782.8	$(5.4)	$32.0	$351.8	$415.9	$(1.5)	$(10.0)

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31 *(Millions)*	2002	2001	2000
Operating Activities			
Net income before preferred dividends	$112.5	$ 80.7	$ 70.1
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and decommissioning	98.0	86.6	99.9
Amortization of nuclear fuel and other	50.6	15.5	19.6
Gain on nuclear decommissioning trust	(1.7)	(8.1)	(10.8)
Deferred income taxes and investment tax credit	(0.3)	(34.4)	(16.8)
Unrealized gains and losses on nonregulated energy contracts	5.3	14.4	17.0
Gain on sale of partial interest in synthetic fuel operation	(38.0)	(2.2)	–
Gain on sale of property, plant, and equipment	(0.6)	(14.9)	(3.8)
Other	1.6	(9.2)	4.3
Changes in working capital, net of businesses acquired			
Receivables	(96.3)	83.6	(207.1)
Inventories	20.3	(46.0)	(30.1)
Other current assets	(6.0)	0.9	(39.0)
Accounts payable	56.5	(35.0)	230.9
Other current liabilities	(7.9)	11.0	9.7
Net cash operating activities	194.0	142.9	143.9
Investing Activities			
Capital expenditures	(229.1)	(248.7)	(199.1)
Return of capital from equity investment	0.4	42.4	–
Dividends received from equity investment	7.1	3.5	–
Equity infusion to equity investment	(11.7)	–	–
Purchase of CH Resources, Inc.	(60.6)	–	–
Sale of property, plant, and equipment	7.7	58.8	31.3
Decommissioning funding	(2.6)	(2.6)	(8.8)
Other	4.0	7.3	(15.5)
Net cash investing activities	(284.8)	(139.3)	(192.1)
Financing Activities			
Short-term debt – net	1.0	(104.6)	39.7
Issuance of long-term debt	250.3	180.8	87.4
Repayment of long-term debt and capital lease	(129.6)	(64.7)	(10.3)
Payment of dividends			
Preferred stock	(3.1)	(3.1)	(3.1)
Common stock	(67.1)	(58.8)	(53.9)
Issuance of common stock	28.3	96.4	–
Purchase of common stock	(1.3)	(1.1)	(10.5)
Redemption of obligations acquired in purchase business combination	–	(17.9)	–
Other	11.7	0.5	1.2
Net cash financing activities	90.2	27.5	50.5
Change in cash and cash equivalents	$ (0.6)	$ 31.1	$ 2.3
Cash and cash equivalents at beginning of year	43.9	12.8	10.5
Cash and cash equivalents at end of year	$ 43.3	$ 43.9	$ 12.8

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) NATURE OF OPERATIONS—WPS Resources Corporation is a holding company. Our wholly-owned subsidiary, Wisconsin Public Service Corporation, is an electric and gas utility. Wisconsin Public Service supplies and distributes electric power and natural gas in its franchised service territory in northeastern Wisconsin and an adjacent portion of the Upper Peninsula of Michigan. Our other wholly-owned utility subsidiary, Upper Peninsula Power Company, is an electric utility. Upper Peninsula Power supplies and distributes electric energy in the Upper Peninsula of Michigan. Another wholly-owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses, WPS Energy Services, Inc. and WPS Power Development, Inc. WPS Energy Services is a diversified energy supply and services company. WPS Power Development develops, owns and operates, through its own subsidiaries, electric generation projects.

The term "utility" refers to the regulated activities of Wisconsin Public Service and Upper Peninsula Power, while the term "nonutility" refers to the activities of Wisconsin Public Service and Upper Peninsula Power, which are not regulated. The term "nonregulated" refers to activities other than those of Wisconsin Public Service and Upper Peninsula Power.

(B) USE OF ESTIMATES—We prepare our financial statements in conformity with accounting principles generally accepted in the United States. We make estimates and assumptions that affect reported amounts. These estimates and assumptions include assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(C) INCOME TAXES—We account for income taxes using the liability method as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes have been recorded using currently enacted tax rates for the differences between the tax basis of assets and liabilities and the basis reported in the financial statements. Due to the effects of regulation on Wisconsin Public Service Corporation and Upper Peninsula Power Company, certain adjustments made to deferred income taxes are, in turn, recorded as regulatory assets or liabilities.

Investment tax credits have been recorded as deferred credits and are being amortized to income tax expense over the service lives of the related property.

WPS Resources files a consolidated United States income tax return that includes domestic subsidiaries in which its ownership is 80% or more. WPS Resources and its consolidated subsidiaries are parties to a tax allocation arrangement under which each entity determines its income tax provision on a stand-alone basis, after which effects of federal consolidation are accounted for.

(D) CAPITALIZED INTEREST AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION—Our nonregulated subsidiaries capitalize interest for construction projects, while our utilities use an allowance for funds used during construction calculation, which includes both an interest and an equity component.

Approximately 50% of Wisconsin Public Service's retail jurisdictional construction work-in-progress expenditures are subject to allowance for funds used during construction. For 2002, Wisconsin Public Service's retail rate allowance for funds used during construction was 10.1%.

Wisconsin Public Service's construction work-in-progress debt and equity percentages for wholesale jurisdictional electric allowance for funds used during construction are specified in the Federal Energy Regulatory Commission's Uniform System of Accounts. For 2002, the allowance for funds used during construction wholesale rate was 7.9%.

Upper Peninsula Power is subject to one allowance for funds used during construction rate. That rate is the Michigan Public Service Commission's allowed rate of return. For 2002, the allowance for funds used during construction rate was 8.4%. Historically, there have been few calculations of allowance for funds used during construction due to the small dollar amounts or short construction periods of Upper Peninsula Power's construction projects. We expect larger projects to occur in the future that will be subject to the application of the allowance for funds used during construction calculation.

Wisconsin Public Service's allowance for funds used during construction for 2002, 2001, and 2000 were $3.0 million, $1.9 million, and $1.7 million, respectively. Upper Peninsula Power did not record allowance for funds used during construction for 2002, 2001, or 2000.

Both WPS Energy Services and WPS Power Development calculate capitalized interest on long-term construction projects for periods where financing is provided by WPS Resources through interim debt. The interest rate capitalized is based upon the monthly short-term borrowing rate WPS Resources incurs for such funds.

Candace Florence, an Account Manager in the specialized Business Information Center at Wisconsin Public Service, is an energy resource for small business owners and managers.

(E) REVENUE AND CUSTOMER RECEIVABLES—Revenues are recognized on the accrual basis and include estimated amounts for electric and natural gas service rendered but not billed. Approximately 7% of WPS Resources' total revenue is from companies in the paper products industry.

Wisconsin Public Service and Upper Peninsula Power use automatic fuel adjustment clauses for the Federal Energy Regulatory Commission wholesale-electric and the Michigan Public Service Commission retail-electric portions of the business. The Wisconsin retail-electric portion of Wisconsin Public Service's business uses a "cost variance range" approach, based on a specific estimated fuel cost for the forecast year. If Wisconsin Public Service's actual fuel costs fall outside this range, a hearing can be held resulting in an adjustment to future rates.

The Public Service Commission of Wisconsin approved a modified one-for-one gas cost recovery plan for Wisconsin Public Service commencing in January 1999. This plan allows Wisconsin Public Service to pass changes in the cost of natural gas purchased from its suppliers on to system natural gas customers, subject to regulatory review.

The Michigan Public Service Commission has approved one-for-one recovery of prudently incurred gas costs for Wisconsin Public Service, subject to regulatory review. The Michigan Public Service Commission has also approved a gas cost recovery factor adjustment mechanism for Wisconsin Public Service for the period April 2002 through March 2003. This adjustment mechanism allows Wisconsin Public Service to upwardly adjust the gas rates charged to customers in Michigan based on upward changes to the New York Mercantile Exchange natural gas futures price of gas without further Commission action. Wisconsin Public Service has requested that the Michigan Public Service Commission extend the gas cost recovery factor adjustment mechanism for the period April 2003 through March 2004.

Billings to Upper Peninsula Power's customers under the Michigan Public Service Commission's jurisdiction include base rate charges and a power supply cost recovery factor. Upper Peninsula Power receives Michigan Public Service Commission approval each year to recover projected power supply costs by establishment of power supply cost recovery factors. Annually, the Michigan Public Service Commission reconciles these factors to actual costs and permits 100% recovery of allowed power supply costs. Upper Peninsula Power defers any over or under recovery on the balance sheet. The deferrals are relieved with additional billings or refunds.

Wisconsin Public Service and Upper Peninsula Power are required to provide service and grant credit to customers within their service territories. The two companies continually review their customers' credit worthiness and obtain deposits or refund deposits accordingly. Both utilities are precluded from discontinuing service to residential customers during winter moratorium months. Our regulated segments calculate a reserve for potential uncollectible customer receivables using a four-year average of bad debts net of recoveries as a percentage of total accounts receivable. The historical percentage is applied to the current year-end accounts receivable balance to determine the reserve balance required.

At WPS Power Development, electric power revenues related to fixed-price contracts are recognized at the lower of amounts billable under the contract or an amount equal to the volume of the capacity made available or the energy delivered during the period multiplied by the estimated average revenue per kilowatt-hour per the terms of the contract. Under floating-price contracts, electric power revenues are recognized when capacity is provided or energy is delivered.

WPS Energy Services accrues revenues in the month that energy is delivered and/or services are rendered. WPS Energy Services calculates the reserve for potential uncollectible customer receivable balances by applying an estimated bad debt experience rate to each past due aging category and reserving for 100% of specific customer receivable balances deemed to be uncollectible. The basis for calculating the reserve for receivables from wholesale counterparties considers any netting agreements, collateral, or guaranties in place.

(F) INVENTORIES—Inventories consist of natural gas in storage and fossil fuels, including coal. We value all fossil fuels using average cost. Average cost is also used to value natural gas in storage for our regulated segments. Natural gas in storage for our nonregulated segments is recorded at fair market value. Approximately 66% and 56% of the total natural gas in storage at December 31, 2002 and 2001, respectively, was recorded at fair market value.

(G) REGULATORY ASSETS AND LIABILITIES—Wisconsin Public Service and Upper Peninsula Power are subject to the provisions of Financial Accounting Standards Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenue associated with certain incurred costs. Revenue will be recovered from customers through the ratemaking process. Regulatory liabilities represent amounts that are refundable in future customer rates. Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, we believe that future recovery of our regulatory assets is probable.

(H) ASSET IMPAIRMENT—We review assets for impairment annually or when indications of impairment exist. Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," and Statement No. 142, "Goodwill and Other Intangible Assets," are the basis for these analyses.

(I) RETIREMENT OF DEBT—Premiums, discounts, and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

(J) STOCK OPTIONS—At December 31, 2002, WPS Resources had three stock option plans, which are described more fully in Note 20, Stock Option Plans. We account for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock option-based compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The table to the right illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statements No.123, "Accounting for Stock Based Compensation," to stock option-based employee compensation.

(K) CONSOLIDATION BASIS OF PRESENTATION—All significant intercompany transactions and accounts are eliminated. If a minority owner's equity is reduced to zero, it is our policy to record 100% of the subsidiary's losses until the minority owner makes capital contributions or commitments to fund its share of the operating costs.

(L) RECLASSIFICATIONS—We reclassified certain prior year financial statement amounts to conform to current year presentation.

(Millions, except per share amounts)	2002	2001	2000
Net income			
As reported	$109.4	$77.6	$67.0
Deduct: Total stock option-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.5)	(0.3)	(0.2)
Pro forma	108.9	77.3	66.8
Basic earnings per common share			
As reported	$ 3.45	$ 2.75	$ 2.53
Pro forma	3.43	2.74	2.53
Diluted earnings per common share			
As reported	$ 3.42	$ 2.74	$ 2.53
Pro forma	3.41	2.73	2.52

NOTE 2—CASH AND CASH EQUIVALENTS

We consider short-term investments with an original maturity of three months or less to be cash equivalents.

Cash paid for taxes during 2002, 2001, and 2000 was $34.6 million, $34.0 million, and $25.5 million, respectively. During 2002, 2001, and 2000, cash paid for interest totaled $52.3 million, $52.6 million, and $49.5 million, respectively.

Non-cash transactions were as indicated in the table to the right (in millions):

	2002	2001	2000
Restricted cash	$(17.8)	$21.3	–
Conversion of indebtedness to equity in Quest Energy, LLC	2.4	–	–
Liabilities assumed in connection with CH Resources acquisition	0.9	–	–
Minimum pension liability equity adjustment	(2.7)	–	–
Exchange of transmission assets for equity interest in American Transmission Company	–	93.1	–
Exchange of common stock due to merger with Wisconsin Fuel and Light	–	54.8	–

NOTE 3—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Short-Term Investments, Energy Conservation Loans, Notes Payable, and Outstanding Commercial Paper: The carrying amount approximates fair value due to the short maturity of those investments and obligations.

Nuclear Decommissioning Trusts: The value of nuclear decommissioning trust investments included in utility plant is recorded at fair value, net of taxes payable on unrealized gains and losses, and represents the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as Nuclear decommissioning trusts - other assets.

Long-Term Debt and Preferred Stock: The fair value of long-term debt and preferred stock are estimated based on the quoted market price for the same or similar issues or on the current rates offered to WPS Resources for debt of the same remaining maturity.

The estimated fair values of our financial instruments as of December 31 were:

(Millions)	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 43.3	$ 43.3	$ 43.9	$ 43.9
Restricted cash	4.2	4.2	21.3	21.3
Energy conservation loans	2.2	2.2	2.6	2.6
Nuclear decommissioning trusts - utility plant	290.5	290.5	311.3	311.3
Nuclear decommissioning trusts - other assets	13.0	13.0	22.4	22.4
Notes payable	13.8	13.8	31.2	31.2
Commercial paper	16.0	16.0	15.0	15.0
Trust preferred securities	50.0	51.1	50.0	49.9
Long-term debt (excluding capital lease obligation)	898.1	970.6	712.6	744.2
Preferred stock	51.1	45.5	51.1	43.9
Risk management activities	(11.6)	(11.6)	47.5	47.5

NOTE 4—RISK MANAGEMENT ACTIVITIES

As part of our regular operations, WPS Resources enters into contracts, including options, swaps, futures, forwards and other contractual commitments to manage market risks such as changes in commodity prices, interest rates, and foreign currency exchange rates.

WPS Energy Services applies fair value accounting in accordance with Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," for all contracts entered into on or before October 25, 2002. Issue 98-10 was rescinded in October 2002 pursuant to Issue 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." WPS Energy Services will continue to evaluate its contracts under Financial Accounting Standards Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," for all contracts entered into after October 25, 2002. Statement No. 133 establishes accounting and financial reporting standards for derivative instruments and requires, in part, that we recognize certain derivative instruments on the balance sheet as assets or liabilities at their fair value. Subsequent changes in fair value of the derivatives are recorded currently in earnings unless certain hedge accounting criteria are met or the derivatives qualify for regulatory deferral subject to the provisions of Statement No. 71, "Accounting for the Effects of Certain Types of Regulation."

Our regulated utility segments have entered into a limited number of natural gas purchase agreements and electric purchase and sale contracts to service customers that meet the definition of a derivative. Management believes any gains or losses resulting from the eventual settlement of these contracts will be collected from or refunded to customers. The Public Service Commission of Wisconsin approved the recording of derivative amounts as a result of these contracts to a regulatory asset or liability pursuant to Statement No.71. As of December 31, 2002, we have recorded an Asset from risk management activities of $1.4 million and a Liability from risk management activities of $0.7 million related to these contracts. We recorded an Asset from risk management activities of $5.0 million related to these contracts at December 31, 2001.

Our nonregulated segments enter into contracts to reduce commodity price, interest rate, and foreign currency risk that are accounted for as derivatives under Statement No.133. At December 31, 2002, those derivatives not designated as hedges are primarily commodity contracts entered into to manage price risk associated with wholesale and retail natural gas purchase and sale activities and electric energy contracts. At December 31, 2002, the fair value of these contracts is recorded as an Asset from risk management activities of $25.5 million and a Liability from risk management activities of $23.2 million on the Consolidated Balance Sheet. At December 31, 2001, the fair value of these derivatives was not significant. Changes in the fair value of the nonregulated segments' non-hedge derivatives are recognized currently in earnings. In 2001, WPS Energy Services' commodity contracts were accounted for as energy trading contracts under Issue 98-10. See the last paragraph of this note for further discussion of the transition from Issue 98-10 to Statement No. 133.

Our nonregulated segments also enter into derivative contracts that are designated as both fair value and cash flow hedges. At December 31, 2002 and 2001 those contracts designated as fair value hedges were not significant. Cash flow hedges at our nonregulated segments consist of an interest rate swap and foreign currency and commodity trading contracts associated with our energy marketing activities. At December 31, 2002 and 2001, those foreign currency and commodity trading contracts designated as cash flow hedges are not significant. The interest rate swap is used to fix the interest rate for the full term of a variable rate loan that is due in March 2018. At December 31, 2002, we recorded a Liability from risk management activities of $12.7 million related to this swap. At December 31, 2001, we recorded a Liability from risk management activities related to this swap of $4.5 million. Because the swap was determined to be perfectly effective, we offset these liabilities with charges to Other comprehensive income, net of deferred taxes. We did not exclude any components of the derivative instrument's loss from the assessment of hedge effectiveness.

WPS Energy Services began applying Issue 98-10 in the first quarter of 2000 due to changes in strategic focus that resulted in a shift in customer mix. Issue 98-10 required energy trading contracts to be recorded at fair value on the balance sheet, with changes in fair value included in earnings. On October 30, 2002, the Emerging Issues Task Force Issued 02-03 that rescinded Issue 98-10. The rescission of Issue 98-10 was effective immediately for all energy trading contracts entered into after October 25, 2002. Contracts entered into after October 25, 2002 have been evaluated using Statement No. 133 and those that meet the definition of a derivative are included in the above discussion of our nonregulated segments. The rescission of Issue 98-10 is effective January 1, 2003 for contracts entered into on or prior to October 25, 2002. The impact of the rescission of Issue 98-10 on these contracts at January 1, 2003 has been recorded as a cumulative effect of change in accounting principle of approximately $3 million (after taxes), which will be reflected as an increase to income in 2003. This cumulative effect represents the reversal of the risk management assets and liabilities for those contracts that are not derivatives or that are designated as normal pursuant to Statement No. 133 that were recorded on WPS Energy Service's financial statements at December 31, 2002 pursuant to Issue 98-10. Implementation of Issue 02-03 will not change the economics or cash flows of the underlying transactions. See Note 24, New Accounting Standards, for more information on the impact of Issue 02-03.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following utility, nonutility, and nonregulated assets.

(Millions)	2002	2001
Electric utility	$2,073.4	$1,906.3
Gas utility	427.3	392.6
Property under capital lease	–	74.1
Total utility plant	2,500.7	2,373.0
Less: Accumulated depreciation and decommissioning	1,546.4	1,496.6
Net	954.3	876.4
Nuclear decommissioning trusts	290.5	311.3
Construction in progress	101.8	60.3
Nuclear fuel, less accumulated amortization	24.6	24.9
Net utility plant	1,371.2	1,272.9
Nonutility plant	4.5	4.7
Less: Accumulated depreciation	0.7	0.5
Net nonutility plant	3.8	4.2
Electric nonregulated	236.3	167.4
Gas nonregulated	6.9	12.3
Other nonregulated	20.4	25.0
Total nonregulated property, plant, and equipment	263.6	204.7
Less: Accumulated depreciation	28.4	18.2
Net nonregulated property, plant, and equipment	235.2	186.5
Total property, plant, and equipment	$1,610.2	$1,463.6

Utility plant is stated at the original cost of construction including an allowance for funds used during construction. The cost of renewals and betterments of units of property (as distinguished from minor items of property) is capitalized as an addition to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property units. The utility charges the cost of units of property retired, sold, or otherwise disposed of, plus removal, less salvage, to the accumulated provision for depreciation. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are considered operating expenses.

We record straight-line depreciation expense over the estimated useful life of utility property and include amounts for estimated removal and salvage. The Public Service Commission of Wisconsin approved depreciation rates for Wisconsin Public Service effective January 1, 1999.

Depreciation for the Kewaunee plant is being accrued based on a Public Service Commission of Wisconsin order that became effective on January 1, 2001. The order included a change in the methodology for the Kewaunee plant after the steam generators were replaced. The cost of the new steam generators that went into service in December 2001 will be recovered over an 8-1/2 year period using the sum-of-years-digits method of depreciation. Also under this order, the unrecovered plant investment at January 1, 2001 and future additions will be recovered over a period ending 8-1/2 years after the installation of the steam generators using a straight-line remaining life depreciation methodology.

Depreciation rates for Upper Peninsula Power were approved by the Michigan Public Service Commission and are effective January 1, 2002 through December 31, 2006.

Depreciation expense also includes accruals for nuclear decommissioning. These accruals are not included in the annual composite rates shown below. An explanation of this item is included in Note 8, Nuclear Plant Operation.

Annual Utility Composite Depreciation Rates	2002	2001	2000
Electric	3.63%	3.23%	3.52%
Gas	3.58%	3.37%	3.26%

Nonutility property interest capitalization takes place during construction, and gain and loss recognition occurs in connection with retirements. Nonregulated property, plant, and equipment are capitalized at original cost. Significant additions or improvements that extend asset lives are capitalized, while repairs and maintenance are charged to expense as incurred.

Nonutility property is depreciated using straight-line depreciation. Asset lives range from 3 to 20 years.

Nonregulated plant is stated at the original construction cost, which includes capitalized interest for those assets, or estimated fair value at the time of acquisition, based upon Statements of Financial Accounting Standards No. 141, "Business Combinations." The costs of renewals, betterments, and major overhauls are capitalized as an addition to plant accounts. The gains or losses associated with ordinary retirements are recorded in the period of retirement. Maintenance, repair, and minor replacement costs are expensed as incurred.

Most of the nonregulated subsidiaries compute depreciation using the straight-line method over the following estimated useful lives:

Structures and improvements	15 to 40 years
Office and plant equipment	5 to 35 years
Office furniture and fixtures	5 to 10 years
Vehicles	5 years
Leasehold improvements	Shorter of: life of the lease or life of the asset

The Combined Locks Energy Center, however, is using the units of production depreciation method for selected pieces of equipment having defined lives stated in terms of hours of production.

WPS Resources capitalizes certain costs related to software developed or obtained for internal use and amortizes those costs to operating expense over the estimated useful life of the related software, which is usually three to seven years.

NOTE 6—ACQUISITIONS AND SALES OF ASSETS

QUEST ENERGY, LLC

Through 2002, WPS Resources provided limited financial support and energy supply services to a third party, Quest Energy, LLC, a Michigan limited liability company. Financial support was in the form of an interest-bearing note convertible to equity with an initial maturity date of May 2005, secured by the assets of Quest. A provision in the credit agreement between WPS Resources and Quest Energy, LLC, which resulted in an interest-bearing note from WPS Resources to Quest, allowed WPS Resources to convert the note and other indebtedness to equity in Quest. WPS Resources assigned that option to WPS Energy Services on January 29, 2003. WPS Energy Services exercised the conversion option on that day and acquired a 100% ownership interest in Quest. WPS Energy Services used the purchase accounting method to account for the acquisition. The financial statements reflect a preliminary purchase price allocation from this transaction. Quest Energy Holdings, LLC, an independent Michigan limited liability company and owner of Quest Energy, LLC, appointed WPS Energy Services as manager of Quest Energy, LLC, in November 2002. The appointment as manager, as well as other factors, including the provision of substantial financial support, resulted in Quest's financial statements being consolidated with those of WPS Resources as of December 31, 2002. Quest markets electric power to retail customers in Michigan.

DE PERE ENERGY CENTER

On December 16, 2002, Wisconsin Public Service completed the purchase of the 180-megawatt De Pere Energy Center from Calpine Corporation, a California-based independent power producer. The transaction includes termination of the existing power purchase agreement (that was accounted for as a capital lease) and a new purchase agreement for up to 235 megawatts of capacity and energy for 10 years beginning in 2005 from a proposed Calpine generation facility located in Wisconsin. The new purchased power agreement is contingent on timely plant construction. The cost of the capacity purchases from the proposed generation facility will be approximately $250 million over the 10-year period. Wisconsin Public Service will be responsible for supplying the fuel for the energy it receives from the facility. The $120.4 million transaction was structured to include a $72 million payment at closing and a $48.4 million payment in December 2003. The portion of the $48.4 million that is recoverable through the ratemaking process was recorded as a regulatory asset.

ECO COAL PELLETIZATION #12

In November 2001, WPS Power Development, through its subsidiary ECO Coal Pelletization #12 LLC, entered into a transaction to acquire the remaining interest in the synthetic fuel producing facility partially owned by ECO #12 from its partner. Concurrently, with this transaction, WPS Power Development entered into a separate transaction with a subsidiary of a public company resulting in ECO #12 contributing 100% of its synthetic fuel producing machinery to a newly-formed entity in exchange for cash and a one-third ownership interest in the newly-formed entity.

As a result of these transactions, WPS Power Development was the sole member of ECO #12. ECO #12 holds a one-third minority ownership interest in an entity, which produces synthetic fuel from coal qualifying for tax credits under Section 29 of the Internal Revenue Code. The sale of synthetic fuel produced by this facility entitles ECO #12 to a portion of the Section 29 tax credits generated.

These transactions generated a pre-tax gain of $40.2 million of which $38.0 million had been deferred as of December 31, 2001, as a result of certain rights of rescission and put options being granted to the buyer. The rights of rescission and the put options expired in 2002 and, as a result, WPS Power Development recognized all of the $38.0 million deferred gain in Miscellaneous income on the Consolidated Statements of Income in 2002.

The actual payments for the purchase of the former partner's interest in ECO #12 are contingent upon the same provision referred to above. As a result, $21.3 million was held in escrow that was released proportionately as the respective rescission rights and put options expired. As of December 31, 2002, this escrow had a balance of $3.5 million that will be transferred in 2003 as remaining contingencies expire that are not related to the recognition of the deferred gain.

On December 19, 2002, WPS Power Development sold an approximate 30% interest in ECO #12 to a third party. The buyer purchased the Class A interest in ECO #12 which gives the buyer a preferential allocation of tons of synthetic fuel produced and sold annually. The buyer may be allocated additional tons of synthetic fuel if WPS Power Development makes them available, but neither party is obligated beyond the required annual allocation of tons.

WPS Power Development received consideration of $3.0 million cash, as well as a fixed note and a variable note for the second sale transaction. Payments under the variable note are contingent upon the synthetic fuel production facility achieving specified levels of synthetic fuel production. In conjunction with the sale, WPS Power Development has agreed to make certain payments to a third party broker, consisting of an up-front payment of $1.5 million (which was paid at the time of closing) and projected payments in 2003 and 2004 of approximately $1.9 million per year. At December 31, 2002, a deferred gain of $11.6 million was reflected on WPS Power Development's balance sheet. This deferred gain represents the present value of future payments under the fixed note and the up-front cash payments net of transaction costs. It does not include an amount for the variable note, which is contingent upon the synthetic fuel production. No gain on this transaction was recognized in 2002.

CANADIAN RETAIL GAS BUSINESS

On November 1, 2002, WPS Energy Services entered into an agreement to purchase a book of retail gas business and the seller's current marketing offices in the Canadian provinces of Quebec and Ontario.

WPS Energy Services used the purchase method of accounting to account for the acquisition. Consideration for the purchase consists of an earn-out to the seller based on a percentage of margin on the volume delivered to customers transferred at close during a two-year period ending October 31, 2004. The business is part of the operations of WPS Energy Services Canada Corp., a subsidiary of WPS Energy Services, created in October 2002. The financial statements reflect a preliminary purchase price allocation from this transaction.

CH RESOURCES, INC.

Effective June 1, 2002, WPS Power Development acquired CH Resources, Inc. from Central Hudson Energy Services, Inc. CH Resources owns three power plants and associated assets in upstate New York with a combined capacity of 258 megawatts. WPS Power Development used the purchase method of accounting to account for the acquisition. The purchase price was $59.2 million. The corporate name of CH Resources, Inc. has been changed to WPS Empire State, Inc. The operations of WPS Empire State are included in the financial statements presented for WPS Resources for all periods beginning June 1, 2002, but do not have a material impact. The financial statements reflect a preliminary purchase price allocation from this transaction.

WISCONSIN RIVER POWER COMPANY

Wisconsin Public Service increased its ownership in Wisconsin River Power Company to two-thirds by purchasing an additional one-third interest from Consolidated Water Power Company in 2000. In December 2001, Wisconsin Power and Light Company exercised its option to purchase one-half of Wisconsin Public Service's additional one-third share of Wisconsin River Power. Both transactions were at net book value of Wisconsin River Power at August 31, 2000. As a result, Wisconsin Public Service and Wisconsin Power and Light each own one-half of Wisconsin River Power with Wisconsin Public Service remaining the operator of the facility.

ADDITIONAL INTEREST IN KEWAUNEE PLANT

On September 24, 2001, Wisconsin Public Service acquired Madison Gas and Electric Company's 17.8% interest in the Kewaunee plant including its decommissioning trust assets. As a result of the $17.5 million purchase, Wisconsin Public Service now owns 59% of the plant with the remaining portion held by Wisconsin Power and Light Company. The additional share of the operations of the Kewaunee plant is included in the financial statements of Wisconsin Public Service beginning September 24, 2001. Madison Gas and Electric retains its obligations as they relate to the plant for the period of time it was an owner.

Madison Gas and Electric maintained one decommissioning trust fund that accumulated its remaining contributions in accordance with its existing funding plan, which extended to December 31, 2002. On January 3, 2003, Madison Gas and Electric transferred administration of the remaining trust fund to Wisconsin Public Service. This trust fund was included in our financial statements since the initial transaction. Wisconsin Public Service assumed Madison Gas and Electric's share of the decommissioning obligations in exchange for these trust funds.

WISCONSIN FUEL AND LIGHT COMPANY

On April 1, 2001, Wisconsin Public Service completed its merger with Wisconsin Fuel and Light Company. Wisconsin Fuel and Light served residential, commercial, and industrial customers in Manitowoc and Wausau, Wisconsin with natural gas. Wisconsin Fuel and Light's shareholders received 1.73 shares of WPS Resources' common stock for each share of Wisconsin Fuel and Light common stock. A total of 1,763,943 shares were issued resulting in a purchase price of $54.8 million based on an average price of $31.0625, the prevailing price at the time of the merger announcement.

Wisconsin Public Service used the purchase method of accounting and recorded $41.9 million of total premium associated with the purchase. Of the total premium, $36.1 million was recorded as goodwill and is included in Other assets on the Consolidated Balance Sheets. During 2001, Wisconsin Public Service amortized $0.7 million of goodwill using the straight-line method over a period of 40 years. We adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. In accordance with the requirements of this statement, we ceased amortizing the goodwill on January 1, 2002 and prepared a preliminary evaluation of the fair market value of the gas utility business segment to assess the potential impairment of the goodwill balance. Based on the estimated fair value, an impairment charge was not required at the time of the adoption of the statement.

The remaining premium, $5.8 million after taxes, was recorded as an acquisition adjustment in plant, which we expect to be recovered in Wisconsin retail rates over the three-year period of 2003 through 2005. The acquisition premium will be amortized over the recovery period.

The operations of Wisconsin Fuel and Light are included in the financial statements presented for Wisconsin Public Service and WPS Resources for the period beginning April 1, 2001, but do not have a material impact.

SALE OF HYDROELECTRIC PROJECTS

In 2001, Wisconsin Public Service sold approximately 5,000 acres of land associated with several hydroelectric projects on the Peshtigo River in northeastern Wisconsin to the Wisconsin Department of Natural Resources for $13.5 million. The agreement with the Department of Natural Resources includes two options, one exercisable in 2003 and the other in 2004, whereby the Department may acquire, at less than fair value, approximately 5,000 additional acres for $11.5 million if both options are exercised. The value associated with the difference between the option price and the fair value will be treated as a charitable contribution. The sale was part of a five to seven-year asset management strategy adopted by WPS Resources in 2001.

Bryan Liesse, Mail Processor for Wisconsin Public Service, understands the importance of timely mail delivery to customers, shareholders, and employees. Automated equipment makes inserting material into envelopes and sorting for reduced postal charges a breeze.

NOTE 7—JOINTLY-OWNED UTILITY FACILITIES

Information regarding Wisconsin Public Service's share of major jointly-owned electric-generating facilities in service at December 31, 2002 is set forth below:

(Millions, except for percentages)	West Marinette Unit No. 33	Columbia Energy Center	Edgewater Unit No. 4	Kewaunee Plant
Ownership	68.0%	31.8%	31.8%	59.0%
Wisconsin Public Service's share of plant capacity (megawatts)	59.4	335.2	105.0	315.0
Utility plant in service	$17.7	$127.8	$27.4	$249.1
Accumulated depreciation	$ 7.0	$ 79.2	$16.0	$165.8
In-service date	1993	1975 and 1978	1969	1974

The increase in ownership at the Kewaunee plant during 2001 is the result of the purchase of Madison Gas and Electric's 17.8% interest. See Note 6, Acquisitions and Sales of Assets for more information on the transaction.

Wisconsin Public Service's share of direct expenses for these plants is included in the corresponding operating expenses in the Consolidated Statements of Income. Wisconsin Public Service has supplied its own financing for all jointly-owned projects.

NOTE 8—NUCLEAR PLANT OPERATION

On September 24, 2001, Wisconsin Public Service acquired Madison Gas and Electric Company's 17.8% interest in the Kewaunee plant including its decommissioning trust assets. Wisconsin Public Service assumed Madison Gas and Electric's share of the decommissioning obligations in exchange for these trust funds. The additional share of the operations of the Kewaunee plant is included in the financial statements of Wisconsin Public Service beginning September 24, 2001. For more information on the transaction with Madison Gas and Electric, see Note 6, Acquisitions and Sales of Assets.

The quantity of heat produced for the generation of electric energy by the Kewaunee plant is the basis for the amortization of the costs of nuclear fuel to electric production fuel expense, including an amount for ultimate disposal. These costs are recovered currently from customers in rates. The ultimate storage of fuel is the responsibility of the United States Department of Energy pursuant to a contract required by the Nuclear Waste Act of 1982. The Department of Energy receives quarterly payments for the storage of fuel based on generation. During 2002, payments from Wisconsin Public Service to the Department of Energy totaled $2.5 million. During 2001 and 2000, payments totaled $1.4 million per year.

On an interim basis, spent nuclear fuel storage space is provided at the Kewaunee plant. Expenses associated with interim spent fuel storage at the Kewaunee plant are recognized as current operating costs. At current production levels, the plant has sufficient storage for all fuel assemblies until 2009 with full core offload. Additional capacity will be needed by 2010 to maintain full core offload capability for fuel assemblies in use at shutdown in 2013.

The accumulated provision for nuclear fuel, which represents nuclear fuel purchases and amortization, totaled $256.9 million at December 31, 2002 and $247.6 million at December 31, 2001.

For information on the depreciation policy for the Kewaunee plant, see Note 5, Property, Plant, and Equipment.

Wisconsin Public Service's share of nuclear decommissioning costs to date has been accrued over the estimated service life of the Kewaunee plant, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $2.6 million in both 2002 and 2001 and $8.9 million in 2000. The 2000 funding level used a recovery period ending in 2002. Beginning in 2001, the Public Service Commission of Wisconsin authorized use of a funding period ending in 2010. As a result of this extension, the contributions for 2001 and 2002 decreased to $2.6 million. In developing our decommissioning funding plan, we assumed a long-term after-tax earnings rate of approximately 5%.

As of December 31, 2002, the market value of the external nuclear decommissioning trusts, which are recorded as a part of property, plant and equipment on the Consolidated Balance Sheets, totaled $290.5 million. This amount includes the assets Madison Gas and Electric transferred to Wisconsin Public Service.

Investments in the nuclear decommissioning trusts are recorded at fair value. Investments at December 31, 2002, consisted of 58.8% equity securities and 41.2% fixed income securities. The investments are classified as utility plant, are presented net of related income tax effects on unrealized gains, and represent the amount of assets available to accomplish decommissioning. The nonqualified trust investments designated to pay income taxes when unrealized gains become realized are classified as other assets. An offsetting regulatory liability reflects the expected reduction in future rates as unrealized gains in the nonqualified trust are realized. Information regarding the cost and fair value of the external nuclear decommissioning trusts, net of tax is set forth below:

2002 Security Type (Millions)	Fair Value	Cost	Unrealized Gain
Fixed income	$119.7	$114.0	$ 5.7
Equity	170.8	143.0	27.8
Balance at December 31	$290.5	$257.0	$33.5

2001 Security Type (Millions)	Fair Value	Cost	Unrealized Gain
Fixed income	$127.0	$123.8	$ 3.2
Equity	184.3	129.0	55.3
Balance at December 31	$311.3	$252.8	$58.5

Future decommissioning costs collected in customer rates and a charge for realized earnings from external trusts are included in depreciation expense. Realized trust earnings totaled $1.7 million in 2002, $8.1 million in 2001, and $10.8 million in 2000. Unrealized gains and losses, net of taxes, in the external trusts are reflected as increases and decreases to the decommissioning reserve, since decommissioning expense is recognized as the gains and losses are realized, in accordance with regulatory requirements. The accumulated provision for depreciation and decommissioning included accumulated provisions for decommissioning totaling $290.5 million at December 31, 2002 and $311.3 million at December 31, 2001.

Wisconsin Public Service's share of the Kewaunee plant decommissioning, based on its 59% ownership interest, is estimated to be $313 million in current dollars based on a site-specific study. The study was performed in 2002 by an external consultant and will be used as the basis for calculating regulatory funding requirements. The study uses several assumptions, including immediate dismantlement as the method of decommissioning and plant shutdown in 2013. Based on the standard cost escalation assumptions reflected in our current funding plan, which were determined based on the requirements of a July 1994 Public Service Commission of Wisconsin order, the undiscounted amount of Wisconsin Public Service's share of decommissioning costs forecasted to be expended between the years 2013 and 2043 is $920 million.

Beginning January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." This statement applies to all entities with legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and/or normal operation of that asset. We have identified the final decommissioning of the Kewaunee plant as an asset retirement obligation and have estimated the liability to be $326 million. This amount is based on several significant assumptions, including the scope of decommissioning work performed, the timing of future cash flows, and inflation and discount rates. Some of these assumptions differ significantly from the assumptions authorized by the Public Service Commission of Wisconsin to calculate the nuclear decommissioning liability for funding purposes. For more information on Statement No. 143 and its impact on the Kewaunee plant refer to Note 24, New Accounting Standards.

NOTE 9—REGULATORY ASSETS AND LIABILITIES

The following regulatory assets and liabilities are reflected in our consolidated balance sheets as of December 31:

WPS RESOURCES REGULATORY ASSETS/LIABILITIES *(Millions)*	2002	2001
Regulatory assets		
De Pere Energy Center	$ 47.8	$ –
Demand-side management expenditures	–	9.6
Environmental remediation costs (net of insurance recoveries)	40.0	40.0
Funding for enrichment facilities	3.0	3.6
Pension curtailment loss	–	8.1
Deferred nuclear costs	7.9	9.9
Unamortized loss on debt	2.1	4.5
Deferred American Transmission Company costs	–	4.4
Plant related costs	0.3	5.6
Other	9.8	5.3
Total	$110.9	$91.0
Regulatory liabilities		
Income tax related items	$ 17.7	$26.1
Unrealized gain on decommissioning trust	13.0	22.4
Pension settlement gain	–	11.8
Deferred gain on emission allowance sales	3.8	6.0
Derivatives	1.4	5.0
Interest from tax refunds	4.8	5.0
Demand-side management expenditures	5.9	1.5
Deferred American Transmission Company costs	3.1	–
Other	–	0.6
Total	$ 49.7	$78.4

Our utility subsidiaries are recovering their regulatory assets and returning their regulatory liabilities through rates charged to customers based on specific ratemaking decisions or precedent for each item. Except for amounts expended for environmental costs, Wisconsin Public Service is recovering carrying costs for all regulatory assets. Upper Peninsula Power may recover carrying costs on environmental regulatory assets. Based on prior and current rate treatment for such costs, we believe it is probable that Wisconsin Public Service and Upper Peninsula Power will continue to recover from customers the regulatory assets described in the table to the left.

See Notes 14, Income Taxes, and 16, Employee Benefit Plans, for specific information on income tax and pension related regulatory liabilities. See Note 15, Commitments and Contingencies, for information on environmental remediation deferred costs.

NOTE 10—INVESTMENTS IN AFFILIATES, AT EQUITY METHOD

Investments in corporate joint ventures and other companies accounted for under the equity method at December 31, 2002, 2001, and 2000 follow.

(Millions)	2002	2001	2000
American Transmission Company, LLC	$57.5	$56.2	$ –
Wisconsin River Power Company	9.6	6.8	9.6
Other	6.1	6.8	5.4
Investments in affiliates, at equity method	$73.2	$69.8	$15.0

Investments in affiliates under the equity method are part of the Other assets on the Consolidated Balance Sheets and the equity income is recorded in Miscellaneous income on the Consolidated Statements of Income.

WPS Investments, LLC, a consolidated subsidiary of Wisconsin Public Service, has an approximate 15% ownership interest in American Transmission Company, LLC. American Transmission Company is a for-profit, transmission-only company. It owns, plans, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, and Illinois. American Transmission Company began operation on January 1, 2001. Its assets previously were owned and operated by multiple electric utilities serving the upper Midwest, all of which transferred their transmission assets to American Transmission Company in exchange for an ownership interest. A Wisconsin law encouraged utilities in the state to transfer ownership and control of their transmission assets to a state-wide transmission company.

Wisconsin Public Service contributed its transmission assets on January 1, 2001 and Upper Peninsula Power contributed its transmission assets on June 28, 2001. Our total ownership interest in American Transmission Company fluctuated throughout 2002 and 2001 due to other utilities contributing assets and cash to become owners of American Transmission Company.

Wisconsin Public Service and Upper Peninsula Power recorded related party transactions for sales to and purchases from American Transmission Company during 2002 and 2001. Revenues from sales to American Transmission Company by Wisconsin Public Service were $12.9 million and $11.3 million in 2002 and 2001, respectively. Upper Peninsula Power recorded revenues of $5.8 million and $2.7 million for 2002 and 2001, respectively. Purchases from American Transmission Company by Wisconsin Public Service were $21.4 million and $31.0 million in 2002 and 2001, respectively. Upper Peninsula Power recorded purchases of $3.4 million and $3.3 million in 2002 and 2001, respectively.

Condensed financial data of American Transmission Company for 2002 and 2001 follows:

(Millions)	2002	2001
Income statement data		
Revenues	$205.3	$174.5
Operating expenses	(131.1)	(110.1)
Other income (expense)	(20.1)	(11.2)
Net income	$ 54.1	$ 53.2
WPS Investment's equity in net income	$ 7.9	$ 7.1
Balance sheet data		
Current assets	$ 40.7	$ 56.7
Non-current assets	754.3	666.2
Total assets	$795.0	$722.9
Current liabilities	$ 46.9	$ 36.1
Long-term debt	348.0	297.9
Other non-current liabilities	6.6	3.2
Shareholders' equity	393.5	385.7
Total liabilities and shareholders' equity	$795.0	$722.9

Wisconsin River Power Company, of which Wisconsin Public Service owns 50% of the voting stock, is incorporated under the laws of the State of Wisconsin and has its principal office at the principal executive offices of Wisconsin Public Service.

Wisconsin River Power's business consists of the operation of two hydroelectric plants on the Wisconsin River. The energy output is sold in equal parts to the three companies that previously owned equal proportions of all of the outstanding stock of Wisconsin River Power (Wisconsin Public Service, Wisconsin Power and Light, and Consolidated Water Power). Wisconsin River Power is in the final stages of constructing a combustion turbine unit. The energy output from the combustion turbine will be sold in equal parts to Wisconsin Public Service and Wisconsin Power and Light.

Wisconsin Public Service recorded related party transactions for sales to and purchases from Wisconsin River Power during 2002, 2001, and 2000. Revenues from sales to Wisconsin River Power were $2.5 million and $1.7 million for 2002 and 2001, respectively. No sales occurred to Wisconsin River Power by Wisconsin Public Service during 2000. Purchases from Wisconsin River Power by Wisconsin Public Service were $2.1 million, $1.7 million and $1.7 million for 2002, 2001 and 2000, respectively.

For more information on Wisconsin Public Service's ownership of Wisconsin River Power, see Note 6, Acquisitions and Sales of Assets.

Condensed financial data of Wisconsin River Power Company for the years ended 2002, 2001, and 2000 follows.

(Millions) (2002 information is unaudited)	2002	2001	2000
Income statement data			
Revenues	$ 6.4	$ 5.5	$ 5.3
Operating expenses	(4.9)	(4.3)	(4.0)
Other income (expense)	4.2	1.4	0.3
Net income	$ 5.7	$ 2.6	$ 1.6
Wisconsin Public Service's equity in net income	$ 2.7	$ 1.8	$ 0.5
Balance sheet data			
Current assets	$ 3.6	$ 2.1	$ 1.3
Non-current assets	20.1	16.5	14.9
Total assets	$23.7	$18.6	$16.2
Current liabilities	$ 3.5	$ 4.3	$ 1.1
Other non-current liabilities	1.0	0.8	0.7
Shareholders' equity	19.2	13.5	14.4
Total liabilities and shareholders' equity	$23.7	$18.6	$16.2

Growth in the areas we serve brings growth for our regulated utilities. Ray Hegg, a Designer for Wisconsin Public Service in Wausau, Wisconsin, helps new customers get the electricity and natural gas flowing to their homes and businesses.

NOTE 11—GOODWILL AND OTHER INTANGIBLE ASSETS

Wisconsin Public Service recorded $36.1 million of goodwill related to its merger with Wisconsin Fuel and Light in April 2001. On January 1, 2002, WPS Resources adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and amortization of the goodwill was discontinued. There was no impairment of goodwill upon adoption of Statement No. 142. Wisconsin Public Service has elected to perform its annual impairment test during the second quarter of each year. There was no impairment in the second quarter of 2002. WPS Resources has not recorded any additional goodwill.

Goodwill and purchased intangible assets are included in Other assets on the Consolidated Balance Sheets. Information in the tables below relates to total purchased intangible assets for the years indicated.

(Millions)	December 31, 2002			
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1-30	$51.7	$(12.1)	$39.6
Customer related	1-5	3.5	(2.0)	1.5
Other	1-30	3.3	(0.4)	2.9
Total		$58.5	$(14.5)	$44.0

(Millions)	December 31, 2001			
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1-30	$48.5	$ (8.4)	$40.1
Customer related	1-5	2.8	(1.5)	1.3
Other	1-30	2.1	(0.3)	1.8
Total		$53.4	$(10.2)	$43.2

Aggregate Amortization Expense:	
For year ended December 31, 2002	$ 4.4 million
Estimated Amortization Expense:	
For year ended December 31, 2003	$ 8.6 million
For year ended December 31, 2004	9.8 million
For year ended December 31, 2005	9.1 million
For year ended December 31, 2006	9.9 million
For year ended December 31, 2007	10.6 million

NOTE 12—SHORT-TERM DEBT AND LINES OF CREDIT

WPS Resources Corporation has syndicated a $180 million 364-day revolving credit facility and Wisconsin Public Service has syndicated a $100 million 364-day revolving credit facility to provide short-term borrowing flexibility and security for commercial paper outstanding.

The information in the table to the right relates to short-term debt and lines of credit for the years indicated.

The commercial paper had a maturity date of January 17, 2003. The short-term notes payable have various maturity dates, as of December 31, 2002, $10.0 million is due "on demand."

(Millions, except for percentages)	2002	2001	2000
As of end of year			
Commercial paper outstanding	$ 16.0	$ 15.0	$119.6
Average discount rate on outstanding commercial paper	1.35%	1.95%	6.63%
Short-term notes payable outstanding	$ 13.8	$ 31.2	$ 10.0
Average interest rate on short-term notes payable	1.22%	1.61%	6.73%
Available (unused) lines of credit	$264.5	$130.0	$132.0
For the year			
Maximum amount of short-term debt	$133.4	$177.6	$139.5
Average amount of short-term debt	$ 59.7	$110.6	$ 65.6
Average interest rate on short-term debt	1.73%	4.32%	6.39%

NOTE 13—LONG-TERM DEBT

At December 31 *(Millions)*	Series	Year Due	2002	2001
Capital lease obligation - Wisconsin Public Service			$ –	$ 73.0
Less: Current portion			–	(0.9)
Long-term capital lease obligation			–	72.1
First mortgage bonds - Wisconsin Public Service	Series	Year Due		
	7.30%	2002	–	50.0
	6.80%	2003	50.0	50.0
	6.125%	2005	9.1	9.1
	6.90%	2013	22.0	22.0
	7.125%	2023	50.0	50.0
Senior notes - Wisconsin Public Service	Series	Year Due		
	6.08%	2028	50.0	50.0
	6.125%	2011	150.0	150.0
	4.875%	2012	150.0	–
First mortgage bonds - Upper Peninsula Power	Series	Year Due		
	7.94%	2003	15.0	15.0
	10.0%	2008	1.5	2.1
	9.32%	2021	17.1	18.0
Unsecured senior notes - WPS Resources	Series	Year Due		
	7.00%	2009	150.0	150.0
	5.375%	2012	100.0	–
Term loans - nonrecourse, secured by nonregulated assets			91.7	95.8
Tax exempt bonds			27.0	27.0
Notes payable to bank, secured by nonregulated plant			11.6	20.3
Senior secured note			3.1	3.3
Total			898.1	712.6
Unamortized discount and premium on bonds and debt			(2.6)	(1.2)
Total long-term debt			895.5	711.4
Less current portion			(71.1)	(55.7)
Net long-term debt			824.4	655.7
Total long-term debt and capital lease obligation			$824.4	$727.8

In November 1995, Wisconsin Public Service signed a 25-year agreement to purchase power from De Pere Energy Center, LLC, an independent power producer, which supplied power from its cogeneration facility. In June 1999, Phase I of the project went into operation and the contract was accounted for as a capital lease. On December 16, 2002, Wisconsin Public Service completed the purchase of the 180-megawatt De Pere Energy Center from Calpine Corporation. The purchase power agreement previously accounted for as our only capital lease was terminated with the completion of this transaction. See Note 6, Acquisitions and Sales of Assets for detailed information on the acquisition of the De Pere Energy Center.

In November 2002, WPS Resources Corporation issued $100.0 million of 5.375% senior notes due December 2012. The senior notes are unsecured. Proceeds were used to repay short-term indebtedness and for other corporate purposes.

In October 2002, Wisconsin Public Service retired $50.0 million of 7.30% first mortgage bonds that had reached maturity. In December 2002, Wisconsin Public Service issued $150.0 million of 4.875% senior notes due December 2012. The senior notes are secured by a pledge of first mortgage bonds and become unsecured if Wisconsin Public Service retires all of its outstanding first mortgage bonds. At our utility subsidiaries, plant assets secure first mortgage bonds.

Upper Peninsula Power is required to make bond sinking fund payments for some of its outstanding first mortgage bonds.

Borrowings by WPS Power Development under term loans and secured by nonregulated assets totaled $91.7 million. The assets of WPS New England Generation, Inc. and WPS Canada Generation, Inc., subsidiaries of WPS Power Development, secure $6.3 million and $15.4 million, respectively, of the total outstanding amount. Both have semiannual installment payments, an interest rate of 8.75%, and mature in May 2010. Sunbury Generation, LLC, an indirect subsidiary of WPS Power Development, is the borrower of the remaining $70.0 million that is secured by its plant. Quarterly payments are made in relation to this financing that carries an interest rate of 7.8725% and matures in March 2018. This loan also has renewals in 2006 and 2012. However, if certain debt covenants are not met, the lender is not required to renew the loans.

In April 2001, the Schuylkill County Industrial Development Authority issued $27.0 million of refunding tax-exempt bonds. At the time of issuance of the refunding bonds, WPS Westwood Generation, LLC, a subsidiary of WPS Power Development, owned the original bonds, the proceeds of which were used in substantial part to provide facilities. Upon issuance of the refunding bonds, the original bonds were paid off. WPS Westwood Generation was paid $27.0 million from the proceeds of the refunding bonds for the retirement of the original bonds plus accrued interest. WPS Westwood Generation is now obligated to pay the refunding bonds with monthly payments that have a floating interest rate that is reset weekly. At December 31, 2002, the interest rate was 1.55%. The bonds mature in April 2021.

WPS Resources agreed to guarantee WPS Westwood Generation's obligation to provide sufficient funds to pay the refunding bonds and the related obligations and indemnities.

As of December 31, 2002, WPS Power Development had aggregate outstanding indebtedness totaling $11.6 million of notes payable under its revolving credit note of $12.5 million. This note is secured by the assets of the Stoneman plant and is guaranteed by WPS Resources. It is due in 2003 and requires quarterly interest payments. WPS Resources plans to renew this note. The note has a variable interest rate that was at 3.012% at December 31, 2002.

Upper Peninsula Power has a senior secured note of $3.1 million as of December 31, 2002, which requires semiannual payments at an interest rate of 9.25%, and matures in 2011.

At December 31, 2002, WPS Resources and its subsidiaries were in compliance with all covenants relating to outstanding debt. A schedule of all principal debt payment amounts, including bond maturities, for WPS Resources is as follows:

YEAR ENDING DECEMBER 31 *(Millions)*	
2003	$ 71.1
2004	6.7
2005	27.7
2006	7.7
2007	8.3
Later years	776.6
Total payments	$898.1

NOTE 14—INCOME TAXES

The principal components of our deferred tax assets and liabilities recognized in the balance sheet as of December 31 are as follows:

(Millions)	2002	2001
Deferred tax assets		
Plant related	$ 91.5	$ 89.4
State capital and operating loss carry forwards	7.3	6.5
Deferred tax credit carry forwards	35.7	21.2
Employee benefits	45.0	38.0
Regulatory assets	1.6	5.7
Other comprehensive income	6.9	3.7
Other	(1.3)	4.8
Total	$186.7	$169.3
Deferred tax liabilities		
Plant related	$209.7	$184.1
Employee benefits	38.2	30.0
Regulatory deferrals	6.7	16.2
Other	5.8	8.5
Total	$260.4	$238.8
Net deferred tax liabilities	$ 73.7	$ 69.5

As of December 31, 2002, WPS Resources and its nonregulated affiliates had recorded a valuation allowance of $0.6 million related to state operating and capital loss carry forwards, due to the uncertainty of the ability to benefit from these losses in the future. Carry forward periods vary, but in the majority of states in which we do business the period is 15 years or more.

WPS Resources is an indirect part owner in a facility that produces synthetic fuel from coal, as defined in Section 29 of the Internal Revenue Code. The production and sale of the synthetic fuel from this facility qualifies for tax credits under Section 29 if certain requirements are satisfied. Tax credits that are not utilized to reduce current tax expense are carried forward as alternative minimum tax credits to reduce tax expense in future years. Under current federal law alternative minimum tax credits do not expire. The Section 29 tax credit on the production and sale of coal-based synthetic fuel expires on December 31, 2007.

The differences between income taxes determined by applying the federal statutory rate to income before tax expense for the periods ended December 31 are as follows:

(*Millions*, except for percentages)	2002		2001		2000	
	Rate	Amount	Rate	Amount	Rate	Amount
Statutory federal income tax	35.0%	$48.1	35.0%	$29.9	35.0%	$26.6
State income taxes, net	5.3	7.3	5.3	4.5	5.5	4.2
Rate difference on reversal of income tax temporary differences	(1.2)	(1.6)	(2.5)	(2.2)	(2.1)	(1.6)
Plant related	(0.8)	(0.9)	(1.2)	(1.0)	–	–
Federal tax credits	(18.7)	(25.7)	(28.1)	(24.0)	(26.4)	(20.1)
Other differences, net	(1.5)	(2.4)	(2.9)	(2.4)	(4.1)	(3.1)
Effective income tax	18.1%	$24.8	5.6%	$ 4.8	7.9%	$ 6.0
Current provision						
Federal		$10.1		$29.2		$13.7
State		11.2		8.5		8.6
Total current provision		21.3		37.7		22.3
Deferred benefit		3.5		(32.9)		(16.3)
Total income tax expense		$24.8		$ 4.8		$ 6.0

NOTE 15—COMMITMENTS AND CONTINGENCIES

FUEL AND PURCHASED POWER

WPS Resources routinely enters into long-term commodity purchase and sale commitments that have various quantity requirements and durations.

Wisconsin Public Service has obligations related to coal, purchased power, and natural gas. Obligations related to coal supply extend through 2016 and total $185.3 million. Of that amount, there is one long-term contract totaling $81.1 million that provides approximately 24% of the total requirements of Wisconsin Public Service through 2016. Through 2014, Wisconsin Public Service has obligations totaling $411.5 million for either capacity or energy related to purchased power. Also, there are natural gas supply and transportation contracts with total estimated demand payments of $130.1 million through October 2010.

Wisconsin Public Service expects to recover these costs in future customer rates. Additionally, Wisconsin Public Service has contracts to sell electricity and natural gas to customers. Many of these contracts have indefinite lives.

WPS Power Development also enters into long-term commodity contracts, mainly related to the purchase of coal for the Sunbury plant. The contracts total $16.4 million and extend through 2016.

WPS Energy Services has unconditional purchase obligations related to energy supply contracts that total $1,005.2 million and extend through 2007.

NUCLEAR LIABILITY

The Price Anderson Act ensures that funds will be available to pay for public liability claims arising out of a nuclear incident. This Act may require Wisconsin Public Service to pay up to a maximum of $52.0 million per incident. The payments will not exceed $5.9 million per incident in a given calendar year. These amounts represent Wisconsin Public Service's 59% ownership in the Kewaunee plant.

NUCLEAR PLANT OPERATION

The commercial nuclear power industry recently experienced several instances of cracking and leakage of the reactor vessel head. In response to these instances of degradation, the Nuclear Regulatory Commission mandated that inspections be performed at each plant. During the Kewaunee nuclear power plant's 2001 refueling outage, a complete visual head inspection was performed which did not reveal any problems. During the spring 2003 refueling outage, a complete visual head inspection will again be performed. If any indicated flaws are found, a more detailed reactor vessel head inspection will be necessary at a cost of approximately $5 million and a one-week outage delay. At this time, however, Wisconsin Public Service does not anticipate that the more detailed inspection will be required. Wisconsin Public Service is evaluating the replacement of the reactor vessel head to avoid the cost of future required inspections. Assuming approval from the Public Service Commission of Wisconsin, Wisconsin Public Service anticipates that replacement of the reactor vessel head will occur during the fall 2004 refueling outage at a cost of approximately $20 million.

See Note 8, Nuclear Plant Operation, for detailed information on the operations of the Kewaunee plant.

CLEAN AIR REGULATIONS

The United States Environmental Protection Agency has designated southeastern Wisconsin as an ozone non-attainment area. Under the Clean Air Act, the State of Wisconsin developed a nitrogen oxide reduction plan for Wisconsin's ozone non-attainment area. The nitrogen oxide reductions begin in 2003 and gradually increase to 2007. This plan affects Edgewater Unit 4, of which Wisconsin Public Service owns 31.8%. A compliance plan for this unit was initiated in 2000. The plan includes a combination of combustion optimization and emission trading at a cost to Wisconsin Public Service of about $5 million. About 70% of the project has been completed.

The State of Wisconsin is also seeking voluntary reductions from utility units outside the ozone non-attainment area, which may lead to additional expenditures for nitrogen oxide reductions at other units. Wisconsin Public Service is participating in voluntary efforts to reduce nitrogen oxide levels at the Columbia Energy Center. Wisconsin Public Service owns 31.8% of Columbia. The Public Service Commission of Wisconsin has approved recovery of the costs associated with voluntary nitrogen oxide reductions.

Air quality modeling by the Wisconsin Department of Natural Resources revealed that Weston Units 1 and 2 contribute to a modeled exceedance of the sulfur dioxide ambient air quality standard (the current and projected fuel meets the sulfur content limit). Wisconsin Public Service and the Wisconsin Department of Natural Resources developed a plan to eliminate the modeled exceedance by extending the existing stacks at Weston Units 1 and 2 by 55 feet and limiting the sulfur content of the fuel to 1.2 pounds per million Btu. The cost of the stack extension is about $0.9 million. The United States Environmental Protection Agency is studying the proposal related to increasing the stack height. To date the United States Environmental Protection Agency has been unwilling to agree with this approach unless further studies are done to support the stack height increase. If the United States Environmental Protection Agency does not accept this proposal, additional reduction in sulfur content of fuel burned or significant operational limitations may result. Wisconsin Public Service is cooperating with the Wisconsin Department of Natural Resources to develop an approach to resolve this issue.

In November 1999, the United States Environmental Protection Agency announced the commencement of a Clean Air Act enforcement initiative targeting the utility industry. This initiative resulted in the issuance of several notices of violation/findings of violation and the filing of lawsuits against utilities. In these enforcement proceedings, the United States Environmental Protection Agency claims that the utilities made modifications to the coal-fired boilers and related equipment at the utilities' electric generating stations without first obtaining appropriate permits under the United States Environmental Protection Agency's pre-construction permit program and without installing appropriate air pollution control equipment. In addition, the United States Environmental Protection Agency is also claiming, in certain situations, that there were violations of the Clean Air Act's "new source performance standards." In the matters where actions have been commenced, the federal government is seeking penalties and the installation of pollution control equipment.

In December 2000, Wisconsin Public Service received from the United States Environmental Protection Agency a request for information under Section 114 of the Clean Air Act. The United States Environmental Protection Agency sought information and documents relating to work performed on the coal-fired boilers located at the Pulliam and Weston electric generating stations of Wisconsin Public Service. Wisconsin Public Service filed a response with the United States Environmental Protection Agency in early 2001.

On May 22, 2002, Wisconsin Public Service received a follow-up request from the United States Environmental Protection Agency seeking additional information regarding specific boiler-related work performed on Pulliam Units 3, 5 and 7, as well as information on Wisconsin Public Service's life extension program for Pulliam Units 3-8 and Weston Units 1 and 2. Wisconsin Public Service made an initial response to the United States Environmental Protection Agency's follow-up information request on June 12, 2002, and filed a final response on June 27, 2002.

In 2000, 2001, and 2002, Wisconsin Power and Light Company received a similar series of United States Environmental Protection Agency information requests relating to work performed on certain coal-fired boilers and related equipment at the Columbia generating station (a facility located in Portage, Wisconsin jointly owned by Wisconsin Power and Light Company, Madison Gas and Electric Company, and Wisconsin Public Service). Wisconsin Power and Light is the operator of the plant and is responsible for responding to governmental inquiries relating to the operation of the facility. Wisconsin Power and Light filed its most recent response for the Columbia facility on July 12, 2002.

Depending upon the results of the United States Environmental Protection Agency's review of the information, the United States Environmental Protection Agency may seek additional information from Wisconsin Public Service and/or third parties who have information relating to the boilers, close out the investigation, or issue a "notice of violation" or "finding of violation" asserting that a violation of the Clean Air Act occurred. To date, the United States Environmental Protection Agency has not responded to the 2002 follow-up filings made by Wisconsin Public Service and Wisconsin Power and Light.

In response to the United States Environmental Protection Agency Clean Air Act enforcement initiative, several utilities have elected to settle with the United States Environmental Protection Agency, while others are in litigation. In general, those utilities that have settled have entered into consent decrees which require the companies to pay fines and penalties, undertake supplemental environmental projects and either upgrade or replace pollution controls at existing generating units or shut down existing units, and replace these units with new electric generating facilities. Several of the settlements involve multiple facilities. The fines and penalties (including the capital costs of supplemental environmental projects) associated with these settlements range between $7 million and $30 million. Factors typically considered in settlements include, but are not necessarily limited to, the size and number of facilities, as well as the duration of alleged violations, and the presence or absence of aggravating circumstances. The regulatory interpretations upon which the lawsuits or settlements are based may change based on future court decisions that may be rendered in pending litigations.

If the federal government decided to bring a claim against Wisconsin Public Service and if it were determined by a court that historic projects at the Pulliam or Weston electric generating stations required either a state or federal Clean Air Act permit, Wisconsin Public Service may, under the applicable statutes, be required to:

— shut down any unit found to be operating in non-compliance,
— install additional pollution control equipment,
— pay a fine, and/or
— pay a fine and conduct a supplemental environmental project in order to resolve any such claim.

At the end of December 2002, the United States Environmental Protection Agency issued new rules governing the federal new source review program. The rules are not yet effective in Wisconsin. They are also not retroactive.

The Wisconsin Department of Natural Resources initiated a rulemaking effort to control mercury emissions. Coal-fired generation plants are the primary targets of this effort. The proposed rule was open to comment in October 2001. As proposed, the rule requires phased-in mercury emission reductions reaching 90% reduction in 15 years. Wisconsin Public Service estimates that it could cost approximately $105 million per year to achieve the proposed 90% reductions.

PARTIAL SALE OF ECO COAL PELLETIZATION #12

In November 2001, WPS Power Development, through its subsidiary ECO Coal Pelletization #12 LLC, entered into a transaction with a subsidiary of a public company resulting in ECO #12 contributing its synthetic fuel producing machinery to a newly-formed entity in exchange for cash and a one-third ownership interest in the newly-formed entity.

The transaction generated a pre-tax gain of $40.2 million of which $38.0 million had been deferred as of December 31, 2001 as a result of certain rights of rescission and put options being granted to the buyer. All of these rights of rescission and the put options expired in 2002, and as a result WPS Power Development recognized all of the $38.0 million deferred gain in 2002.

Concurrent with the sale of a portion of this project, WPS Power Development bought out the interest of its previous partner in the ECO #12 project. The actual payments to this former partner are contingent upon the same provisions referred to above. As a result, $21.3 million was held in escrow that was released proportionately as the respective rescission rights and put options expired. As of December 31, 2002, this escrow had a balance of $3.5 million that will be transferred in 2003 as remaining contingencies expire that are not related to the recognition of deferred gain.

For more information on the transactions, see Note 6, Acquisitions and Sales of Assets.

MANUFACTURED GAS PLANT REMEDIATION

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites, including two sites formerly owned by Wisconsin Fuel and Light. As of the fall of 2002, cleanup of the land portion of the Oshkosh, Stevens Point, and two Sheboygan sites was substantially complete. Groundwater treatment and monitoring at these sites will continue into the future. River sediment remains to be addressed at the Oshkosh site, as well as other sites. Wisconsin Public Service anticipates that work will commence on the land portion of the Green Bay site in the first quarter of 2003. Costs of the cleanups, completed to date, were within the range expected for these sites. Wisconsin Public Service estimates future undiscounted investigation and cleanup costs to be in the range of $38.7 million to $43.7 million. These estimates may be adjusted in the future based on remediation technology, regulatory requirements, and the assessment of natural resources damages.

Wisconsin Public Service currently has a $38.7 million liability recorded for cleanup with an offsetting regulatory asset (deferred charge). We expect to recover cleanup costs, net of insurance recoveries, in future customer rates. Carrying costs associated with the cleanup expenditures will not be recoverable. Wisconsin Public Service has received $12.7 million in insurance recoveries that we recorded as a reduction to the regulatory asset.

NOTE 16—EMPLOYEE BENEFIT PLANS

WPS Resources has non-contributory qualified retirement plans covering substantially all employees under which the company may make annual contributions to an irrevocable trust. We established the plans to provide retired employees, who meet conditions relating to age and length of service, with a monthly payment. Wisconsin Public Service administers and maintains the plans. These plans are fully funded and no contributions were made to them in 2002, 2001, or 2000.

WPS Resources also currently offers medical, dental, and life insurance benefits to employees and their dependents. We expense these items for active employees as incurred. We fund benefits for retirees through irrevocable trusts as allowed for income tax purposes. Wisconsin Public Service and Upper Peninsula Power expensed and recovered through customer rates the net periodic benefit cost. Our nonregulated subsidiaries expensed allocated amounts. Our non-administrative plan is a collectively bargained plan and, therefore, is tax exempt. The investments in the trust covering administrative employees are subject to federal unrelated business income taxes at a 38.6% tax rate.

All pension costs are accounted for under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." All postretirement plan costs are accounted for under Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The standards require the company to accrue the cost of these benefits as expense over the period in which the employee renders service. The transition obligation for current and future retirees under Statement of Financial Accounting Standards No. 106 is recognized over 20 years beginning in 1993.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the three one-year periods ending December 31, 2002, 2001, and 2000, and a statement of the funded status as of December 31 for each year:

(Millions)	2002	2001	2000
Reconciliation of benefit obligation – pension			
Obligation at January 1	$ 495.2	$484.9	$396.7
Service cost	11.5	11.0	10.2
Interest cost	33.7	32.7	31.5
Plan amendments	–	0.2	56.5
Actuarial (gain) loss	26.2	35.4	2.2
Acquisitions	–	13.1	–
Benefit payments	(32.5)	(21.2)	(19.4)
(Settlements)/curtailments	–	(60.9)	7.2
Obligation at December 31	$ 534.1	$495.2	$484.9
Reconciliation of fair value of plan assets – pension			
Fair value of plan assets at January 1	$ 591.9	$676.1	$654.3
Actual return on plan assets	(47.8)	(13.7)	41.2
Employer contributions	–	–	–
Acquisitions	–	18.1	–
Benefit payments	(32.5)	(88.6)	(19.4)
Fair value of plan assets at December 31	$ 511.6	$591.9	$676.1
Funded status at December 31	$ (22.5)	$ 96.7	$191.2
Unrecognized transition (asset) obligation	(0.2)	(2.2)	(6.1)
Unrecognized prior-service cost	53.6	59.1	64.4
Unrecognized (gain) loss	53.2	(69.3)	(186.5)
Net prepaid benefit cost	$ 84.1	$ 84.3	$ 63.0

(Millions)	2002	2001	2000
Reconciliation of benefit obligation – other			
Obligation at January 1	$ 176.2	$102.6	$135.2
Service cost	5.3	3.0	2.7
Interest cost	12.5	7.6	7.8
Plan amendments	(4.7)	–	(16.8)
Actuarial (gain) loss	52.5	65.5	(19.0)
Acquisitions adjustments	–	3.7	(1.3)
Benefit payments	(7.5)	(6.2)	(6.0)
Obligation at December 31	$ 234.3	$176.2	$102.6
Reconciliation of fair value of plan assets - other			
Fair value of plan assets at January 1	$ 134.7	$152.3	$149.7
Actual return on plan assets	(14.8)	(4.4)	7.9
Employer contributions	7.3	(7.0)	0.7
Benefit payments	(7.5)	(6.2)	(6.0)
Fair value of plan assets at December 31	$ 119.7	$134.7	$152.3
Funded status at December 31	$(114.6)	$ (41.5)	$ 49.7
Unrecognized transition (asset) obligation	13.1	14.4	15.7
Unrecognized prior-service cost	(16.3)	(12.9)	(14.1)
Unrecognized (gain) loss	66.0	(12.4)	(96.9)
Net accrued benefit liability	$ (51.8)	$ (52.4)	$ (45.6)

The following table provides the components of net periodic benefit cost for the plans for the one-year periods ended December 31, 2002, 2001, and 2000:

(Millions)	2002	2001	2000
Net periodic benefit cost – pension			
Service cost	$11.5	$11.0	$10.2
Interest cost	33.7	32.7	31.5
Expected return on plan assets	(47.7)	(47.0)	(46.3)
Amortization of transition asset	(2.0)	(3.5)	(3.6)
Amortization of prior-service cost	5.5	5.5	4.7
Amortization of net gain	(0.8)	(2.3)	(2.7)
Net periodic benefit cost before settlement gain/curtailment loss	$ 0.2	$ (3.6)	$ (6.2)
(Settlement gain)/curtailment loss	–	(12.7)	8.7
Regulatory liability/(asset) offset	–	11.8	(8.1)
Amortization of settlement gain regulatory liability	(11.8)	–	–
Amortization of curtailment loss regulatory asset	8.1	–	–
Net periodic benefit cost	$ (3.5)	$ (4.5)	$ (5.6)
Net periodic benefit cost – other			
Service cost	$ 5.3	$ 3.0	$ 2.7
Interest cost	12.5	7.6	7.8
Expected return on plan assets	(10.2)	(9.7)	(9.3)
Amortization of transition obligation	1.3	1.3	1.8
Amortization of prior-service cost	(1.2)	(1.2)	(0.7)
Amortization of net gain	(1.2)	(4.6)	(4.6)
Net periodic benefit cost	$ 6.5	$ (3.6)	$ (2.3)

During 2000, WPS Resources made substantial changes to the administrative employees' portion of the pension and postretirement benefit plans. Effective January 1, 2001, the administrative employees' pension plan was changed to a pension equity plan with a lump sum distribution option for all future retirees. Additionally, all future administrative retirees will no longer be given subsidized postretirement medical and dental coverage. Due to employees who waited until 2001 to retire to take advantage of the new plan benefits and various reorganizations, including the formation of the Nuclear Management Company, a significant number of employees left our pension plan in early 2001. This required curtailment accounting for the year 2000 under Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Most of the 2000 curtailment loss was deferred as a regulatory asset.

For the reasons mentioned above, large numbers of lump sum payments were paid out of the pension plan during the course of 2001. This required settlement accounting under Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Most of the settlement gain was deferred as a regulatory liability.

Based on a rate order received from the Public Service Commission of Wisconsin, during 2002 Wisconsin Public Service amortized the entire regulatory asset and regulatory liability relating to the aforementioned curtailment loss and settlement gain.

The assumptions used in measuring WPS Resources' benefit obligation are shown in the following table:

Weighted average assumptions as of December 31 – pension	2002	2001	2000
Discount rate	6.75%	7.25%	7.50%
Expected return on plan assets	8.75%	8.75%	8.75%
Rate of compensation increase	5.50%	5.50%	5.50%
Weighted average assumptions as of December 31 – other			
Discount rate	6.75%	7.25%	7.50%
Expected return on plan assets	8.75%	8.75%	8.75%

The assumptions used for WPS Resources' medical and dental cost trend rates are shown in the following table:

	2002	2001	2000
Assumed medical cost trend rate (under age 65)	12.0%	10.0%	7.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2011	2008	2006
Assumed medical cost trend rate (over age 65)	14.0%	12.0%	7.0%
Ultimate trend rate	6.5%	6.5%	5.0%
Ultimate trend rate reached in	2011	2008	2006
Assumed medical cost trend rate	6.0%	7.0%	7.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2004	2004	2006

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

(Millions)	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 3.4	$ (2.8)
Effect on the health care component of the accumulated postretirement benefit obligation	$41.2	$(32.5)

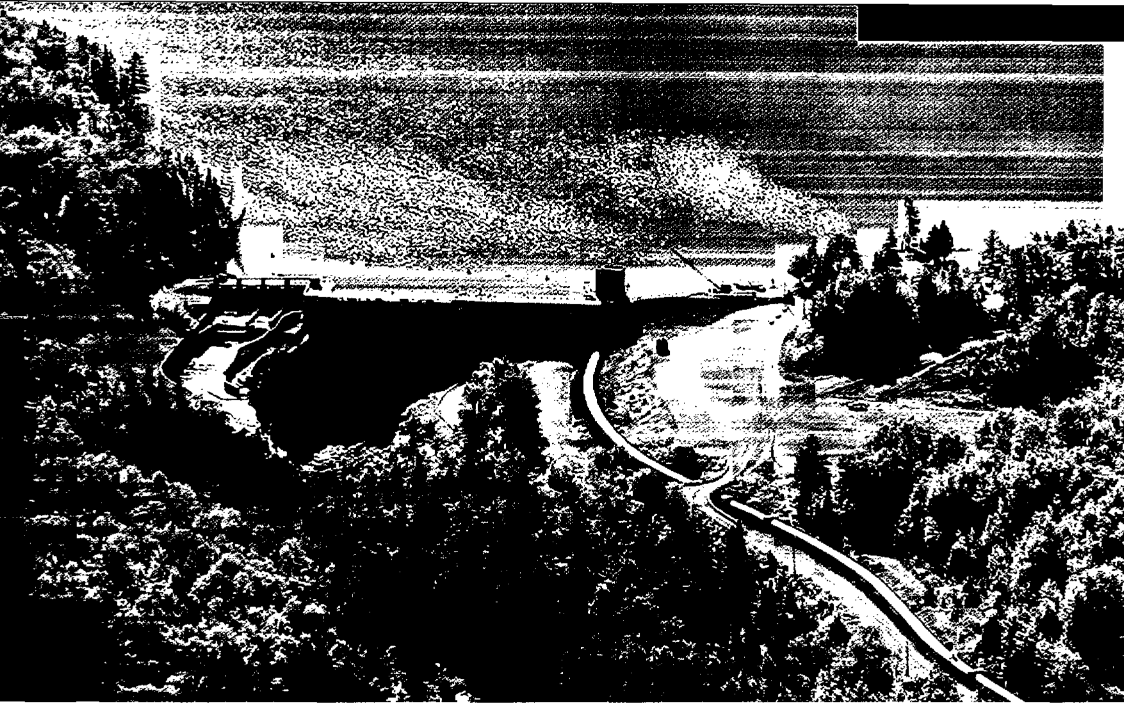
WPS Resources also sponsors several non-qualified pension plans covering certain current and former employees. These non-qualified pension plans are not funded. WPS Resources' projected benefit obligation under these plans was $19.7 million at December 31, 2002, $17.9 million at December 31, 2001, and $12.7 million at December 31, 2000. WPS Resources' pension expense under these plans was $2.4 million in 2002, $2.0 million in 2001, and $1.7 million in 2000. The accumulated benefit obligation for these plans has risen due to recent plan design changes and the decline in the discount rate used to estimate the plans' liability. Therefore, WPS Resources was required to adjust the minimum pension liability recorded on the December 31, 2002 Consolidated Balance Sheet. The effect of this adjustment was to increase pension liabilities by $8.0 million, increase intangible assets by $3.5 million, increase deferred tax assets by $1.8 million, and increase accumulated other comprehensive loss by $2.7 million. Because these adjustments were non-cash, their effect has been excluded from the accompanying Consolidated Statement of Cash Flows.

WPS Resources has an Employee Stock Ownership Plan that held 2.0 million shares of WPS Resources common stock (market value of approximately $76.7 million) at December 31, 2002. WPS Resources' net period benefit cost under this plan was $4.8 million in 2002, $4.5 million in 2001, and $2.4 million in 2000.

NOTE 17—COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST

On July 30, 1998, WPSR Capital Trust I, a Delaware business trust, issued $50.0 million of trust preferred securities to the public. WPS Resources owns all of the outstanding trust common securities of the Trust, and the only asset of the Trust is $51.5 million of subordinated debentures that we issued. The debentures are due on June 30, 2038 and bear interest at 7% per year. The terms and interest payments on the debentures correspond to the terms and distributions on the trust preferred securities. We have consolidated the preferred securities of the Trust into our financial statements. We reflect the interest payments on the debentures as Distributions - preferred securities of subsidiary trust on the Consolidated Statements of Income. These payments are tax deductible by WPS Resources.

We may defer interest payments on the debentures for up to 20 consecutive quarters. This would require the deferral of distributions on the trust preferred securities as well. If we would defer interest payments, interest and distributions would continue to accrue and compounding interest on the deferred amounts would also accrue. Through 2001, we have not deferred interest payments. After July 30, 2003, we may redeem all or part of the debentures. This would require the Trust to redeem an equal amount of trust securities at face value plus any accrued interest and unpaid distributions. We entered into a limited guaranty of payment of distributions, redemption payments, and liquidation payments with respect to the trust preferred securities. This guaranty, together with our obligations under the debentures, and under other related documents, provides a full and unconditional guaranty by us of amounts due on the outstanding trust preferred securities.



Upper Peninsula Power's Victoria Hydro facility is hard at work providing electricity for our customers in Upper Michigan. In 2001, the company replaced the facility's wooden pipeline with new, spiral-welded steel pipe.

NOTE 18—PREFERRED STOCK OF SUBSIDIARY

Our wholly-owned subsidiary, Wisconsin Public Service, has issued preferred stock with no mandatory redemption and a $100 par value. The following table shows the shares outstanding of the 1,000,000 shares authorized:

(Millions, except share amounts)	Series	Shares Outstanding	2002	2001
	5.00%	132,000	$13.2	$13.2
	5.04%	30,000	3.0	3.0
	5.08%	50,000	5.0	5.0
	6.76%	150,000	15.0	15.0
	6.88%	150,000	15.0	15.0
Total		512,000	$51.2	$51.2

NOTE 19—COMMON EQUITY

Shares outstanding at December 31	2002	2001
Common stock, $1 par value, 200,000,000 shares authorized	32,040,875	31,496,296
Treasury stock	65,650	307,052
Average cost of treasury shares	$23.62	$25.17
Shares in deferred compensation trust	166,446	135,995
Average cost of deferred compensation trust shares	$32.29	$30.67

As part of the merger of Wisconsin Fuel and Light into Wisconsin Public Service, 1,763,943 shares of common stock were issued on April 1, 2001 to former Wisconsin Fuel and Light shareholders. See Note 6, Acquisitions and Sales of Assets for more information on the merger.

On December 17, 2001, 2,300,000 shares of WPS Resources common stock were issued at $34.36 per share and resulted in a net increase in equity of $76.0 million.

Effective January 2001, we began issuing new stock under our Stock Investment Plan and under certain of our stock-based employee benefit plans. During 2002 and 2001, WPS Resources issued 790,081 and 598,328 shares, respectively, under these plans. These stock issues increased equity $28.3 million in 2002 and $20.3 million in 2001.

In December 1996, we adopted a Shareholder Rights Plan. The plan is designed to enhance the ability of the Board of Directors to protect shareholders and WPS Resources if efforts are made to gain control of our company in a manner that is not in our best interests or the best interests of our shareholders. The plan gives our existing shareholders, under certain circumstances, the right to purchase stock at a discounted price. The rights expire on December 11, 2006.

At December 31, 2002, we had $398.0 million of retained earnings available for dividends.

Earnings per share is computed by dividing net income available for common shareholders for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income available for common shareholders for the period by the weighted average number of shares of common stock outstanding during the period adjusted for the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options and performance share grants. The calculation of diluted earnings per share for the years shown excludes some stock option plan shares that had an anti-dilutive effect. The shares having an anti-dilutive effect are not significant for any of the years shown. The table to the right reconciles the computation of basic and diluted earnings per share.

RECONCILIATION OF EARNINGS PER SHARE

(Millions, except per share amounts)	2002	2001	2000
Net income available to common shareholders	$109.4	$77.6	$67.0
Basic weighted average shares	31.7	28.2	26.5
Incremental issuable shares	0.2	0.1	–
Diluted weighted average shares	31.9	28.3	26.5
Basic earnings per common share	$3.45	$2.75	$2.53
Diluted earnings per common share	$3.42	$2.74	$2.53

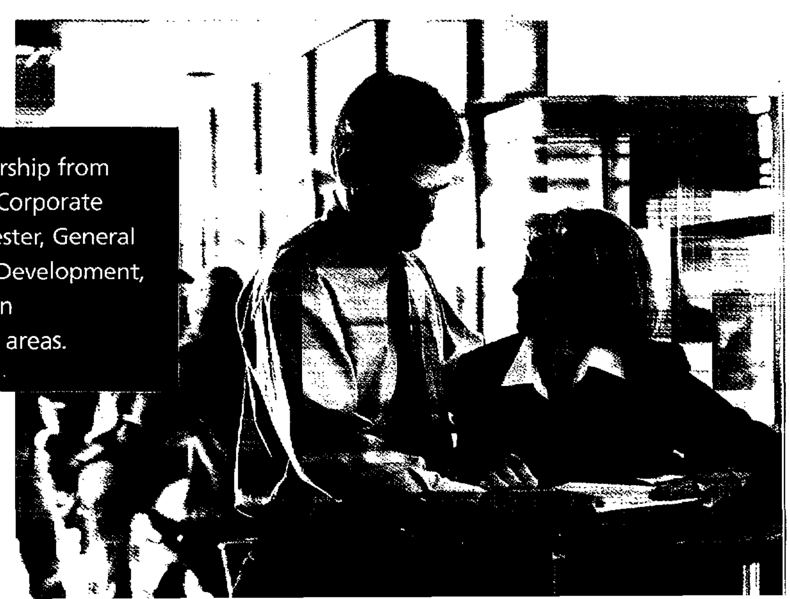
NOTE 20—STOCK OPTION PLANS

In 2001, shareholders approved the WPS Resources Corporation 2001 Omnibus Incentive Compensation Plan for certain management personnel. In 1999, shareholders approved the WPS Resources Corporation 1999 Stock Option Plan for certain management personnel. In December 1999, the Board of Directors approved the WPS Resources Corporation 1999 Non-Employee Directors Stock Option Plan. Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations are used to account for these plans. Accordingly, no compensation costs have been recognized for these plans in 2002, 2001, or 2000.

Under the provisions of the 2001 Omnibus Incentive Compensation Plan, the number of shares for which stock options may be granted may not exceed 2 million, and no single employee that is the chief executive officer of WPS Resources or any of the other four highest compensated officers of WPS Resources or its subsidiaries can be granted options for more than 150,000 shares during any calendar year. Under the provisions of the WPS Resources Corporation 1999 Stock Option Plan, the number of shares for which options may be granted may not exceed 1.5 million and no single employee can be granted options for more than 0.4 million shares during any five-year period. No additional stock options will be issued under the 1999 Stock Option Plan, although the plan will continue to exist for purposes of the existing outstanding options. Stock options are granted by the Compensation and Nominating Committee of the Board of Directors and may be granted at any time. No stock options will have a term longer than ten years. The exercise price of each stock option is equal to the fair market value of the stock on the date the stock option was granted.

Stock options were granted under the 1999 Stock Option Plan on February 11, 1999 (subject to shareholder approval of the 1999 Stock Option Plan that was received on May 6, 1999, at which time the exercise price was established for the initial grant), March 13, 2000, and December 14, 2000, with exercise prices of $29.875, $23.1875, and $34.75, respectively. During 2001, stock options were granted under the 2001 Omnibus Plan on July 12 and December 13, with exercise prices of $34.38 and $34.09, respectively. During 2002, stock options were granted under the 2001 Omnibus Plan on January 28, April 11, and December 12, with exercise prices of $36.38, $41.29, and $37.96, respectively. These stock options vest and become exercisable in equal 25% installments over a four-year period.

The number of stock options granted under the 1999 Non-Employee Directors Stock Option Plan may not exceed 100,000, and the shares delivered thereunder consist solely of treasury shares. Stock options are granted at the discretion of the Board of Directors. No options may be granted under this plan after December 31, 2008. All options have a ten-year life, but may not be exercised until one year after the date of grant. Options granted under this plan are immediately vested. The exercise price of each option is equal to the fair market value of the stock on the date the stock options were granted. Options were granted on December 9, 1999 and February 10, 2000, with exercise prices of $25.4375 and $25.6875, respectively.



WPS Resources' mentoring program builds leadership from within. Barbara Nick, Assistant Vice President of Corporate Services at WPS Resources, mentors Len Rentmeester, General Manager of Engineering Services at WPS Power Development, expanding his understanding of WPS Resources in environmental, fuel and information technology areas.

Michael Davis, Corporate Credit Analyst at Wisconsin Public Service, has served as a loaned executive to the United Way. WPS Resources lends employee resources for several months every year, giving back to the communities where we work.

The number of shares subject to each stock option plan, each outstanding stock option, and stock option exercise prices are subject to adjustment in the event of any stock split, stock dividend, or other transaction affecting our outstanding common stock.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes stock option pricing model assuming:

	WPS Resources Corporation 2001 Omnibus Incentive Compensation Plan	WPS Resources 1999 Stock Option Plan	WPS Resources 1999 Non-Employee Directors Stock Option Plan
Annual dividend yield			
February 10, 2000			6.56%
March 13, 2000		8.71%	
December 14, 2000		5.93%	
July 12, 2001	6.58%		
December 13, 2001	6.60%		
January 28, 2002	6.60%		
April 11, 2002	6.58%		
December 12, 2002	6.23%		
Expected volatility			
February 10, 2000			17.44%
March 13, 2000		15.50%	
December 14, 2000		20.40%	
July 12, 2001	20.93%		
December 13, 2001	20.19%		
January 28, 2002	20.53%		
April 11, 2002	19.53%		
December 12, 2002	20.08%		
Risk-free interest rate			
February 10, 2000			6.86%
March 13, 2000		6.36%	
December 14, 2000		5.23%	
July 12, 2001	5.54%		
December 13, 2001	5.62%		
January 28, 2002	5.40%		
April 11, 2002	5.57%		
December 12, 2002	4.43%		
Expected life (in years)	10	10	10

A summary of the status of the stock option plans as of December 31, 2002 is presented below:

STOCK OPTIONS	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year		
Omnibus plan	327,427	$34.1038
Employee plan	705,916	30.9806
Director plan	23,150	25.4699
Granted during 2002		
Omnibus plan	341,613	38.0064
Exercised during 2002		
Employee plan	206,849	29.5512
Director plan	3,750	25.4375
Forfeited during 2002		
Omnibus plan	5,492	34.0900
Employee plan	7,046	32.6744
Outstanding at end of year		
Omnibus plan	663,548	36.1131
Employee plan	492,021	31.5572
Director plan	19,400	25.4762
Options exercisable at year-end		
Omnibus plan	80,484	34.1040
Employee plan	256,011	31.6679
Director plan	19,400	25.4762
Weighted-average fair value of options granted during 2002		
Omnibus plan	$3.64	

A summary of the status of the stock option plans as of December 31, 2001 is presented below:

STOCK OPTIONS	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year		
Omnibus plan	–	–
Employee plan	722,416	$30.9322
Director plan	24,000	25.4688
Granted during 2001		
Omnibus plan	327,427	34.1038
Exercised during 2001		
Employee plan	16,500	28.8617
Director plan	850	25.4375
Forfeited during 2001	–	–
Outstanding at end of year		
Omnibus plan	327,427	34.1038
Employee plan	705,916	30.9806
Director plan	23,150	25.4699
Options exercisable at year-end		
Employee plan	283,604	30.6072
Director plan	23,150	25.4699
Weighted-average fair value of options granted during 2001		
Omnibus plan	$3.23	

A summary of the status of the stock option plans as of December 31, 2000 is presented below:

STOCK OPTIONS	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year		
Employee plan	478,000	$29.8750
Director plan	21,000	25.4375
Granted during 2000		
Employee plan	244,416	32.9997
Director plan	3,000	25.6875
Exercised during 2000	–	–
Forfeited during 2000	–	–
Outstanding at end of year		
Employee plan	722,416	30.9322
Director plan	24,000	25.4688
Options exercisable at year-end		
Employee plan	119,500	29.8750
Director plan	21,000	25.4375
Weighted-average fair value of options granted during 2000		
Employee plan	$3.87	
Director plan	3.01	

The stock options outstanding at December 31, 2002 under the 2001 Omnibus Plan for an aggregate of 663,548 shares have exercise prices between $34.0900 and $41.2900 and are summarized below:

2001 OMNIBUS PLAN OPTIONS OUTSTANDING

Exercise Prices	Options Outstanding at December 31, 2002	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)
$34.0900	306,363	$34.0900	9
34.3800	15,572	34.3800	9
36.3800	500	36.3800	9
37.9600	336,113	37.9600	10
41.2900	5,000	41.2900	9

The stock options at December 31, 2002 exercisable under the 2001 Omnibus Plan for an aggregate of 80,484 shares have exercise prices of $34.0900 and $34.3800 and remaining lives of 9 years.

The stock options outstanding at December 31, 2002 under the 1999 Stock Option Plan for an aggregate of 492,021 shares have exercise prices between $23.1875 and $34.7500 and are summarized below:

1999 STOCK OPTION PLAN OPTIONS OUTSTANDING

Exercise Prices	Options Outstanding at December 31, 2002	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)
$23.1875	23,500	$23.1875	7
29.8750	266,500	29.8750	7
34.7500	202,021	34.7500	8

The stock options at December 31, 2002 exercisable under the 1999 Stock Option Plan for an aggregate of 256,011 shares have exercise prices of $23.1875, $29.8750, and $34.7500 and remaining lives of 7, 7, and 8 years, respectively.

The stock options outstanding at December 31, 2002 under the 1999 Non-Employee Director Stock Option Plan for an aggregate of 19,400 shares have exercise prices of $25.4375 and $25.6875 and are summarized below:

1999 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN OPTIONS OUTSTANDING

Exercise Prices	Options Outstanding at December 31, 2002	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)
$25.4375	16,400	$25.4375	7
25.6875	3,000	25.6875	7

All remaining stock options granted under the 1999 Non-Employee Stock Option Director Plan for an aggregate of 19,400 shares are exercisable at year-end at the above referenced exercise prices.

NOTE 21—REGULATORY ENVIRONMENT

Wisconsin Public Service filed for and received an interim rate order in the Wisconsin jurisdiction effective January 1, 2002. The order authorized a $55.5 million increase in electric revenues and an increase of $11.2 million in gas revenues on an annual basis. A final rate order for 2002 authorized a $58.6 million increase in electric revenues and an increase of $10.6 million in natural gas revenues on an annual basis. Wisconsin Public Service refunded the over collection of natural gas revenues in July 2002. The revenues are based on a 12.3% return on utility common equity, with equity constituting 55% of the capital structure. The final rate order was effective June 22, 2002.

In March 2002, Wisconsin Public Service filed a request, with the Public Service Commission of Wisconsin, for a $50.7 million electric rate increase and an $8.7 million natural gas rate increase for the 2003/2004 biennium. The rate request included a 12.6% return on equity with no change in the capital structure. The request is needed to cover increases in medical benefit costs, Kewaunee's scheduled refueling outage, a portion of the costs for a proposed 500 megawatt coal-fired generation plant to be completed in 2008, construction of a combustion turbine at the Pulliam plant, higher rate base, taxes, and depreciation. In the fourth quarter of 2002, Wisconsin's newly-elected governor appointed a new chair of the Public Service Commission. Wisconsin Public Service expects a final order by mid March 2003. We anticipate the order to authorize a 12% return on equity with no change in the capital structure.

In August 2002, Upper Peninsula Power filed an application for a 2003 rate increase. Upper Peninsula Power requested an increase of $9.9 million and a 12.6% return on equity, with equity constituting 55% of the capital structure. On December 20, 2002, the Michigan Public Service Commission approved an 8.95% increase in retail electric rates for customers of Upper Peninsula Power. The commission granted an 11.4% return on equity with the new rates being effective December 21, 2002. This is the first base rate increase for Upper Peninsula Power in 10 years.

NOTE 22—SEGMENTS OF BUSINESS

We manage our reportable segments separately due to their different operating and regulatory environments. Our principal business segments are the regulated electric utility operations of Wisconsin Public Service and Upper Peninsula Power and the regulated gas utility operations of Wisconsin Public Service. Our other reportable segments include WPS Energy Services and WPS Power Development. WPS Energy Services is a diversified energy supply and services company, and WPS Power Development is an electric generation asset development company. Nonutility operations and subsidiaries of WPS Resources not already mentioned are included in the Other column. The tables below present information for the respective years pertaining to our operations segmented by lines of business.

Segments of Business *(Millions)*

	Regulated Utilities			Nonutility and Nonregulated Operations				
2002	Electric Utility*	Gas Utility*	Total Utility*	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Total revenues	$ 763.1	$310.7	$1,073.8	$1,495.5	$145.2	$ 1.3	$(40.9)	$2,674.9
Depreciation and decommissioning	72.6	13.3	85.9	1.1	10.5	0.5	–	98.0
Miscellaneous income	6.3	0.3	6.6	1.8	27.7	18.1	(6.4)	47.8
Interest expense	28.7	6.3	35.0	1.6	9.2	18.9	(6.6)	58.1
Provision for income taxes	31.9	12.4	44.3	7.0	(22.6)	(3.6)	(0.3)	24.8
Income available for common shareholders	61.0	18.4	79.4	11.0	24.0	(5.0)	–	109.4
Balance Sheet								
Total assets	1,465.9	401.4	1,867.3	877.2	358.1	172.7	(67.4)	3,207.9
Cash expenditures for long-lived assets	164.3	34.0	198.3	0.8	27.0	3.0	–	229.1

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Millions)*

2001	Regulated Utilities Electric Utility*	Gas Utility*	Total Utility*	Nonutility and Nonregulated Operations WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Total revenues	$ 675.7	$321.6	$ 997.3	$1,575.1	$141.5	$ 1.3	$(39.7)	$2,675.5
Depreciation and decommissioning	66.4	11.7	78.1	0.7	7.4	0.4	–	86.6
Miscellaneous income	14.5	0.2	14.7	1.1	2.8	27.2	(8.3)	37.5
Interest expense	28.3	6.0	34.3	0.2	10.3	19.3	(8.3)	55.8
Provision for income taxes	31.6	5.9	37.5	4.0	(34.8)	(1.8)	(0.1)	4.8
Income available for common shareholders	58.8	8.9	67.7	6.4	2.3	1.3	(0.1)	77.6
Balance Sheet								
Total assets	1,356.8	375.2	1,732.0	720.1	323.1	167.7	(72.9)	2,870.0
Cash expenditures for long-lived assets	175.8	24.9	200.7	10.9	32.1	5.0	–	248.7

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Millions)*

2000	Regulated Utilities Electric Utility*	Gas Utility*	Total Utility*	Nonutility and Nonregulated Operations WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
Total revenues	$ 642.7	$264.5	$ 907.2	$955.6	$128.1	$ 1.2	$(43.1)	$1,949.0
Depreciation and decommissioning	82.4	8.9	91.3	1.4	6.7	0.5	–	99.9
Miscellaneous income	18.1	0.1	18.2	0.9	1.0	9.7	(9.6)	20.2
Interest expense	27.3	4.8	32.1	0.4	10.9	20.7	(13.3)	50.8
Provision for income taxes	33.6	7.6	41.2	0.9	(29.2)	(6.9)	–	6.0
Income available for common shareholders	60.7	11.6	72.3	1.7	0.9	(7.9)	–	67.0
Balance Sheet								
Total assets	1,239.0	305.5	1,544.5	924.9	233.1	178.0	(64.4)	2,816.1
Cash expenditures for long-lived assets	138.0	21.5	159.5	0.3	39.0	0.3	–	199.1

* Includes only utility operations. Nonutility operations are included in the Other column.

NOTE 23—QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(Millions, except for share amounts)	Three Months Ended 2002 March	June	September	December	Total
Operating revenues	$671.3	$579.4	$609.6	$814.6	$2,674.9
Income available for common shareholders	$ 28.1	$ 21.7	$ 30.5	$ 29.1	$ 109.4
Average number of shares of common stock	31.4	31.7	31.9	32.0	31.7
Basic earnings per share *	$0.89	$0.68	$0.96	$0.91	$3.45
Diluted earnings per share *	$0.89	$0.68	$0.95	$0.91	$3.42
2001	**March**	**June**	**September**	**December**	**Total**
Operating revenues	$997.5	$577.1	$517.1	$583.8	$2,675.5
Income available for common shareholders	$ 23.6	$ 11.7	$ 21.8	$ 20.5	$ 77.6
Average number of shares of common stock	26.5	28.6	28.7	29.2	28.2
Basic earnings per share *	$0.89	$0.41	$0.76	$0.70	$2.75
Diluted earnings per share *	$0.89	$0.41	$0.76	$0.70	$2.74

Because of various factors, which affect the utility business, the quarterly results of operations are not necessarily comparable.

* Earnings per share for the individual quarters do not total the year ended earnings per share amount because of the significant changes to the average number of shares outstanding and changes in incremental issuable shares throughout the year.

NOTE 24—NEW ACCOUNTING STANDARDS

Effective January 1, 2002, WPS Resources adopted Statement of Financial Accounting Standards No. 142,"Goodwill and Other Intangible Assets." Under Statement No. 142, amortization of goodwill is no longer allowed. Instead, an assessment of fair value will be used to test for impairment of goodwill on an annual basis or when circumstances indicate a possible impairment.

Most of the goodwill at WPS Resources is related to the Wisconsin Fuel and Light acquisition. In accordance with the requirements of the statement, we prepared an evaluation of the fair market value of the gas utility business segment to assess the potential impairment of the goodwill balance. Based on the estimated fair value, an impairment charge was not required at January 1, 2002.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." This statement applies to all entities with legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and/or normal operation of that asset. Retirement obligations within the scope of Statement No. 143 are those for which a legal obligation exists for retirement costs. Statement No. 143 requires such legal obligations to be recognized at their fair value in the period incurred. Upon initial recognition of the liability, the asset retirement cost is capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. The liability is then accreted over time by applying the interest method of allocation to the liability. The cumulative effect of initially applying this statement is recognized as a change in accounting principle. WPS Resources adopted Statement No. 143 effective January 1, 2003.

Legal retirement obligations identified for the regulated segments of WPS Resources relate primarily to the final decommissioning of our Kewaunee nuclear plant. We have also identified other legal retirement obligations that are currently not significant to the financial statements of WPS Resources. Pursuant to Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," we will establish regulatory assets or liabilities to defer any differences between the liabilities established for ratemaking purposes and those recorded as required under Statement No. 143. For our regulated segments, the adoption of Statement No. 143 will change the method we use to report legal retirement obligations on the balance sheet, but will have no impact on income. Upon implementation of Statement No. 143, we will reclassify previously recorded liabilities for nuclear decommissioning in the amount of approximately $291 million from accumulated depreciation and capitalize a net asset retirement cost of approximately $92 million, resulting in an increase in net Property, plant and equipment of approximately $383 million. We will record an asset retirement obligation of approximately $326 million. The difference of approximately $57 million between previously recorded liabilities and the liability recorded as a result of adopting Statement No. 143 will be deferred as a regulatory liability.

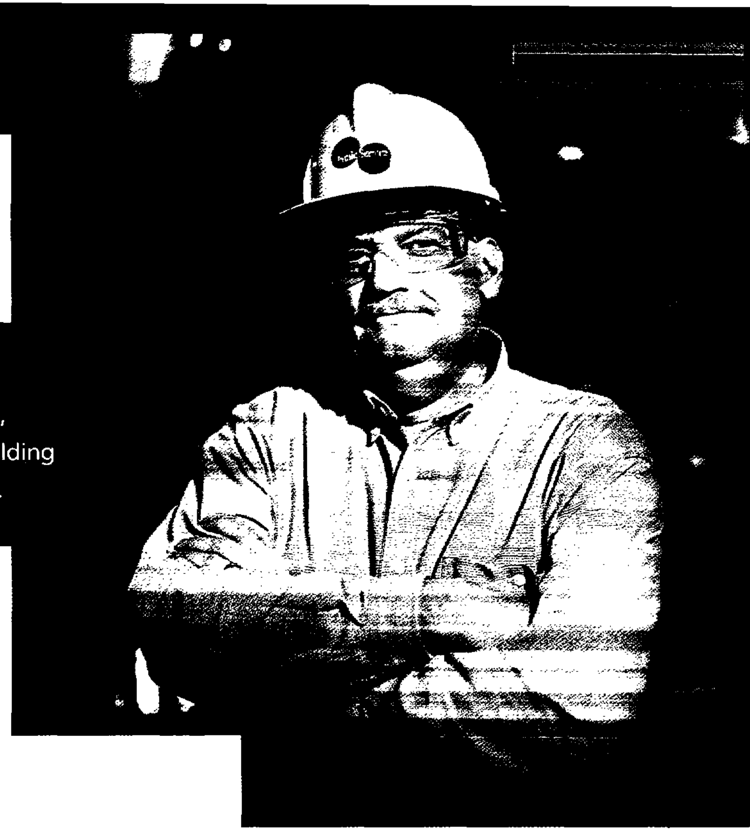
The regulated segments of WPS Resources recognize removal costs as a component of depreciation in accordance with regulatory treatment. These costs do not have associated legal retirement obligations and, therefore, are outside the scope of Statement No. 143. We estimate that at December 31, 2002, there are approximately $173 million of these regulatory liabilities included in accumulated depreciation.

The nonregulated segments of WPS Resources have identified a legal retirement obligation related to closure of an ash basin located at the Sunbury generating facility. Based on current information and assumptions, we expect to record an increase in net Property, plant, and equipment of approximately $1 million, recognize an additional liability of approximately $2 million, and recognize a cumulative effect of adoption after tax that will reduce net income by $0.3 million in 2003.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The statement intends to unify the accounting for long-lived assets to be disposed of, based on the framework established by Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The statement did not have a significant impact on WPS Resources.

The Emerging Issues Task Force of the Financial Accounting Standards Board clarifies accounting standards for diversity in practice. The Task Force reached consensus on several issues related to energy trading company operations in June 2002 under Emerging Issues Task Force Issue 02-03, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." On October 30, 2002, the Task Force issued guidance that superseded its consensus from June 2002.

Issue 02-03, when adopted by WPS Resources, will require reporting revenues net of related cost of sales for all energy trading derivative instruments within the scope of Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," classified as trading. On a prospective basis, WPS Energy Services is following the definition of trading in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which results in only those transactions that are speculative in nature being considered trading. Speculative transactions have always been reported as net and, thus, there will be minimal impact to the presentation of revenues and expenses going forward. Issue 02-03 also requires a retroactive reporting of revenues net of related cost of sales for all energy derivatives classified as trading under Issue 98-10. This will have a significant impact on previously reported revenues of WPS Energy Services, but not on margins or Income available for common shareholders.



In his role as General Manager of Generation for Wisconsin Public Service, Dennis Maki will be instrumental in building new generation for future generations.

The Emerging Issues Task Force came to a further consensus to rescind Issue 98-10 and preclude mark-to-market accounting for energy trading contracts that are not derivatives pursuant to Statement No. 133. WPS Energy Services has followed the accounting guidance presented under Issue 98-10 since January 1, 2000. The rescission was effective for all energy trading contracts entered into after October 25, 2002, and is effective January 1, 2003 for contracts entered into on or prior to October 25, 2002. Implementation of Issue 02-03 will not change the economics or cash flows of the underlying transactions. Issue 98-10 required that energy trading contracts be marked to market (that is, measured at fair value as of the balance sheet date) with the gains and losses included in earnings. As a result of the rescission, WPS Energy Services was required to re-evaluate its contracts within the hierarchy of generally accepted accounting principles excluding Issue 98-10. Those trading contracts entered into on or prior to October 25, 2002 have been evaluated under Statement No. 133 with the result of the evaluation being a cumulative effect of a change in accounting principle at January 1, 2003 of approximately $3 million after tax positive impact to net income. This cumulative effect represents the reversal of the risk management assets and liabilities for those contracts that are not derivatives or designated as normal pursuant to Statement No. 133 that were recorded on WPS Energy Services' financial statements at December 31, 2002.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. Interpretation No. 45 also requires that the guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of Interpretation No. 45 were effective for financial statements ending after December 15, 2002. WPS Resources did not meet any of the requirements for disclosure at December 31, 2002.

The initial recognition and initial measurement provisions of Interpretation No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. At this time, we do not anticipate a significant impact on the statements of WPS Resources as a result of implementing the recognition requirements of Interpretation No. 45.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," in order to improve financial reporting by companies involved with variable interest entities. Interpretation No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of Interpretation No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We do not expect a significant impact on our consolidated financial statements as a result of adopting Interpretation No. 46.

REPORT OF MANAGEMENT

WPS Resources Corporation

The management of WPS Resources Corporation has prepared, and is responsible for the integrity of, the consolidated financial statements and related financial information encompassed in this Annual Report. Our consolidated financial statements have been prepared in conformity with generally accepted accounting principles, and financial information included elsewhere in this report is consistent with our consolidated financial statements.

We maintain a system of internal accounting control designed to provide reasonable assurance that our assets are safeguarded and that transactions are properly executed and recorded in accordance with authorized procedures. The system is monitored by management and our internal auditing department. Written policies and procedures have been developed to support the internal controls in place and are updated as necessary.

Our internal auditing department reviews and assesses the effectiveness of selected internal controls, and reports to management as to its findings and recommendations for improvement. Management takes appropriate actions to correct deficiencies as they are identified.

Our Board of Directors has established an Audit Committee, comprised entirely of outside directors, which actively assists our Board in its role of overseeing our financial reporting process and system of internal control. Our independent public accountants have full and free access to the Audit Committee. Additionally, we recently established a Disclosure Committee to oversee the adequacy of our financial reporting and disclosure.

The accompanying consolidated financial statements have been audited by Deloitte & Touche, independent public accountants, whose report follows.

Larry L. Weyers

Larry L. Weyers
Chairman, President, and Chief Executive Officer

Joseph P. O'Leary

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer

Diane L. Ford

Diane L. Ford
Vice President - Controller and Chief Accounting Officer

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

To the Shareholders and Board of Directors of
WPS Resources Corporation:

We have audited the accompanying consolidated balance sheets of WPS Resources Corporation and subsidiaries (the "Company"), as of December 31, 2002 and 2001, and the related consolidated statements of income, common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of WPS Resources Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
January 29, 2003

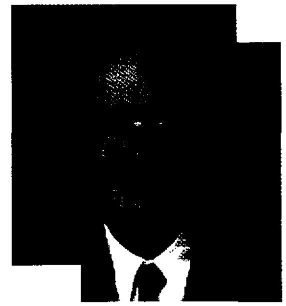
AS OF OR FOR YEAR ENDED DECEMBER 31

(Millions, except per share amounts, return on average equity, and number of shareholders and employees)	2002	2001	2000	1999	1998
Total operating revenues	$2,674.9	$2,675.5	$1,949.0	$1,098.5	$1,063.7
Income available for common shareholders	109.4	77.6	67.0	59.6	46.6
Total assets	3,207.9	2,870.0	2,816.1	1,816.5	1,510.4
Preferred stock of subsidiaries	51.1	51.1	51.1	51.2	51.2
Long-term debt and capital lease obligation	824.4	727.8	660.0	584.5	343.0
Shares of common stock (less treasury stock and shares in deferred compensation trust)					
Outstanding	31.8	31.1	26.4	26.8	26.5
Average	31.7	28.2	26.5	26.6	26.5
Basic earnings per average share of common stock	$3.45	$2.75	$2.53	$2.24	$1.76
Diluted earnings per average share of common stock	3.42	2.74	2.53	2.24	1.76
Dividend per share of common stock	2.12	2.08	2.04	2.00	1.96
Stock price	$38.82	$36.55	$36.8125	$25.125	$35.25
Book value per share	$24.62	$23.02	$20.76	$20.01	$19.52
Return on average equity	14.6%	12.8%	12.3%	11.3%	9.0%
Number of common stock shareholders	22,768	23,478	24,029	25,020	26,319
Number of employees	2,963	2,856	3,030	2,900	2,673

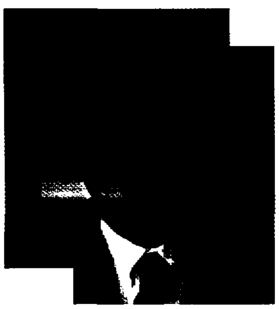
BOARD OF DIRECTORS *

MICHAEL S. ARIENS
(Age 71)
Brillion, Wisconsin
Chairman
Ariens Company
(Director since 1974)
Audit Committee
Strategic Action Planning Committee (Chair)

RICHARD A. BEMIS
(Age 61)
Sheboygan Falls, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)
Audit Committee (Chair)



ALBERT J. BUDNEY, JR.
(Age 55)
Cazenovia, New York
Former President
Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corp.
(Director since 2002)
Audit Committee
Strategic Action Planning Committee



ROBERT C. GALLAGHER
(Age 64)
Green Bay, Wisconsin
President and Chief Executive Officer
Associated Banc-Corp
(Director since 1992)
Audit Committee
Compensation and Nominating Committee
Financial Committee

KATHRYN M. HASSELBLAD-PASCALE
(Age 54)
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)
Audit Committee
Compensation and Nominating Committee (Chair)

JAMES L. KEMERLING
(Age 63)
Wausau, Wisconsin
President and Chief Executive Officer
Riiser Oil Company, Inc.
(Director since 1988)
Audit Committee
Financial Committee (Chair)

JOHN C. MENG
(Age 58)
Green Bay, Wisconsin
Chairman of the Board
Schreiber Foods, Inc.
(Director since 2000)
Audit Committee
Compensation and Nominating Committee
Financial Committee

WILLIAM F. PROTZ, JR.
(Age 58)
Northfield, Illinois
President and Chief Executive Officer
Santa's Best
(Director since 2001)
Audit Committee
Strategic Action Planning Committee

LARRY L. WEYERS
(Age 57)
Green Bay, Wisconsin
Chairman, President, and Chief Executive Officer
WPS Resources Corporation
(Director since 1996)

* Age, title, and committee membership is as of December 31, 2002.

WPS Resources Corporation

LARRY L. WEYERS
Chairman, President, and
Chief Executive Officer
Age 57/Years of service 17

THOMAS P. MEINZ
Senior Vice President -
Public Affairs
Age 56/Years of service 33

PHILLIP M. MIKULSKY
Senior Vice President -
Development
Age 54/Years of service 31

JOSEPH P. O'LEARY
Senior Vice President and Chief
Financial Officer
Age 48/Years of service 1

DIANE L. FORD
Vice President - Controller and
Chief Accounting Officer
Age 49/Years of service 27

RICHARD E. JAMES
Vice President -
Corporate Planning
Age 49/Years of service 27

NEAL A. SIIKARLA
Vice President
Age 55/Years of service 4

BERNARD J. TREML
Vice President -
Human Resources
Age 53/Years of service 30

BARBARA A. NICK
Assistant Vice President -
Corporate Services
Age 44/Years of service 18

GLEN R. SCHWALBACH
Assistant Vice President -
Corporate Planning
Age 57/Years of service 34

BARTH J. WOLF
Secretary and
Manager - Legal Services
Age 45/Years of service 14

BRADLEY A. JOHNSON
Treasurer
Age 48/Years of service 23

Wisconsin Public Service Corporation

LARRY L. WEYERS
Chairman, President, and
Chief Executive Officer
Age 57/Years of service 17

THOMAS P. MEINZ
Senior Vice President -
Public Affairs
Age 56/Years of service 33

JOSEPH P. O'LEARY
Senior Vice President and Chief
Financial Officer
Age 48/Years of service 1

LAWRENCE T. BORGARD
Vice President - Distribution and
Customer Service
Age 41/Years of service 18

DIANE L. FORD
Vice President - Controller and
Chief Accounting Officer
Age 49/Years of service 27

BERNARD J. TREML
Vice President -
Human Resources
Age 53/Years of service 30

DAVID W. HARPOLE
Vice President - Energy Supply
Age 47/Years of service 25

CHARLES A. CLONINGER
Assistant Vice President -
Operations and Engineering
Age 44/Years of service 21

BARTH J. WOLF
Secretary and
Manager - Legal Services
Age 45/Years of service 14

BRADLEY A. JOHNSON
Treasurer
Age 48/Years of service 23

JEROME J. MYERS
Assistant Treasurer
Age 57/Years of service 34

PAMELA R. CLAUSEN
Assistant Controller
Age 52/Years of service 15

WPS Energy Services Inc.

PHILLIP M. MIKULSKY
Chief Executive Officer
Age 54/Years of service 31

MARK A. RADTKE
President
Age 41/Years of service 19

DANIEL J. VERBANAC
Senior Vice President
Age 39/Years of service 18

RICHARD J. BISSING
Vice President
Age 42/Years of service 13

DARRELL W. BRAGG
Vice President
Age 43/Years of service 7

BORIS A. BREVNOV
Vice President - Business
Development and Implementation
Age 34/Years of service 1

BETTY J. MERLINA
Vice President
Age 42/Years of service 7

RUQAIYAH Z. STANLEY-LOLLES
Vice President
Age 48/Years of service 4

BARTH J. WOLF
Secretary
Age 45/Years of service 14

BRADLEY A. JOHNSON
Treasurer
Age 48/Years of service 23

GREGORY C. LOWER
Controller
Age 48/Years of service 1

WPS Power Development Inc.

GERALD L. MROCZKOWSKI
Chief Executive Officer
Age 57/Years of service 34

CHARLES A. SCHROCK
President
Age 49/Years of service 23

MICHAEL W. CHARLES
Vice President - Power
Development
Age 53/Years of service 25

TERRY P. JENSKY
Vice President - Operations
Age 49/Years of service 25

BARTH J. WOLF
Secretary
Age 45/Years of service 14

BRADLEY A. JOHNSON
Treasurer
Age 48/Years of service 23

GEORGE R. WIESNER
Controller
Age 45/Years of service 18

Upper Peninsula Power Company

THOMAS P. MEINZ
Chairman and
Chief Executive Officer
Age 56/Years of service 33

LAWRENCE T. BORGARD
President
Age 41/Years of service 18

GARY W. ERICKSON
Vice President
Age 60/Years of service 34

BARTH J. WOLF
Secretary
Age 45/Years of service 14

BRADLEY A. JOHNSON
Treasurer
Age 48/Years of service 23

Title, age, and years of service are as of December 31, 2002.

Years of service take into consideration service with WPS Resources Corporation or a system company.

SHAREHOLDER INQUIRIES

Our transfer agent, American Stock Transfer & Trust Company, can be reached via telephone between the hours of 7:00 a.m. and 6:00 p.m., Central time, Monday through Thursday, or 7:00 a.m. and 4:00 p.m., Central time, Friday, by calling 800-236-1551. You also have direct access to your account through the Internet at http://www.amstock.com.

Our Investor Relations staff is also available to assist you by calling 920-433-1050 between the hours of 8:00 a.m. and 4:30 p.m., Central time, Monday through Friday.

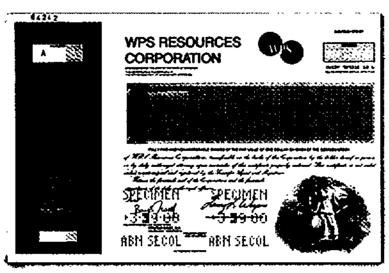
Mailing addresses and Internet addresses, along with additional telephone numbers, are listed on the back cover of this report.

COMMON STOCK

The New York Stock Exchange is the principal market for WPS Resources Corporation common stock which trades under the ticker symbol of WPS.

You may purchase or sell our common stock through our Stock Investment Plan described below or through brokerage firms and banks which offer brokerage services.

Common stock certificates issued before September 1, 1994, bear the name of Wisconsin Public Service Corporation and remain valid certificates.



Effective December 16, 1996, each share of our common stock has a Right associated with it which would entitle the owner to purchase additional shares of common stock under specified terms and conditions. The Rights are not presently exercisable. The Rights would become exercisable ten days after a person or group (1) acquires 15% or more of WPS Resources Corporation's common stock or (2) announces a tender offer to acquire at least 15% of WPS Resources' common stock.

On December 31, 2002, we had 31,979,283 shares of common stock outstanding, which were owned by 22,768 holders of record.

COMMON STOCK COMPARISON (BY QUARTER)

		Dividends Per Share	Price Range High	Price Range Low
2002	1st quarter	$ .525	$39.930	$35.650
	2nd quarter	.525	42.680	37.000
	3rd quarter	.535	41.120	30.470
	4th quarter	.535	39.950	32.640
		$2.120		
2001	1st quarter	$ .515	$36.625	$31.000
	2nd quarter	.515	35.250	32.200
	3rd quarter	.525	35.400	32.000
	4th quarter	.525	36.800	33.250
		$2.080		

DIVIDENDS

We have paid quarterly cash dividends on our common stock since 1953, and we expect to continue that trend. Future dividends are dependent on regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

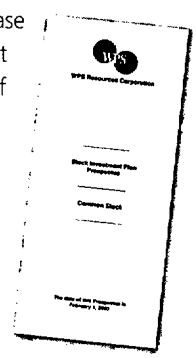
Anticipated record and payment dates for common stock dividends paid in 2003 are:

Record Date	Payment Date
February 28	March 20
May 30	June 20
August 29	September 20
November 28	December 20

As a record holder of our common stock, you may have your dividends electronically deposited in a checking or savings account at a financial institution. If you are a record holder and your dividends are not electronically deposited, we will mail your dividend check directly to you.

If you are a record holder of our common stock and your dividend check is not received on the payment date, wait approximately ten days to allow for delays in mail delivery. After that time, contact American Stock Transfer & Trust Company to request a replacement check.

STOCK INVESTMENT PLAN



We maintain a Stock Investment Plan for the purchase of common stock which allows persons who are not already shareholders (and who are not employees of WPS Resources or its system companies) to become participants by making a minimum initial cash investment of $100. Our Plan enables you to maintain registration with us in your own name rather than with a broker in "street name."

The Stock Investment Plan also provides you with options for reinvesting your dividends and making optional cash purchases of common stock directly through the Plan without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year. An automatic investment option allows you to authorize the deduction of payments from your checking or savings account automatically once each month, on the 3rd day of the month, by electronic means for investment in the Plan.

Cash for investment must be received by the 3rd or 18th day of the month for investment, which generally commences on or about the 5th or 20th day of the month or as soon thereafter as practicable.

The shares you hold in our Stock Investment Plan may be sold by the agent for the Plan as you direct us, or you may request a certificate for sale through a broker you select. We will accumulate sale requests from participants and, approximately every five business days, will submit a sale request to the independent broker-dealer on behalf of those participants.

Participation in the Stock Investment Plan is being offered only by means of a Prospectus. If you would like a copy of the Stock Investment Plan Prospectus, you may use American Stock Transfer's Web site, call American Stock Transfer at 800-236-1551, contact us via e-mail by using our e-mail address of investor@wpsr.com, or you may order or download the Prospectus and enrollment forms using the Internet at http://www.wpsr.com under Investor Information.

SAFEKEEPING SERVICES

As a participant in the Stock Investment Plan you may transfer shares of common stock registered in your name into a Plan account for safekeeping. Contact American Stock Transfer or our Investor Relations staff for further details.

PREFERRED STOCK OF SUBSIDIARY

The preferred stock of Wisconsin Public Service Corporation trades on over-the-counter markets. Payment and record dates for preferred stock dividends paid in 2003 are:

Record Date	Payment Date
January 15	February 1
April 15	May 1
July 15	August 1
October 15	November 1

STOCK TRANSFER AGENT AND REGISTRAR

Questions about transferring common or preferred stock, lost certificates, or changing the name in which certificates are registered should be directed to our transfer agent, American Stock Transfer & Trust Company, at the addresses or telephone numbers listed on the back cover.

ADDRESS CHANGES

If your address changes, write to American Stock Transfer & Trust at the address on the back of this report or use their Web site at http://www.amstock.com.

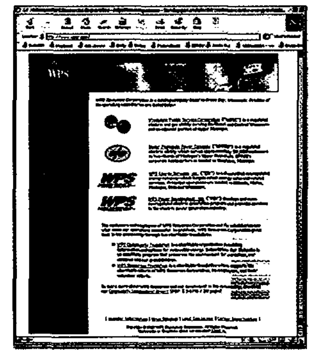
AVAILABILITY OF INFORMATION

Company financial information is available on the Internet. The address is http://www.wpsr.com.

It is anticipated that 2003 quarterly earnings information will be released on April 24, July 24, and October 23 in 2003 and on January 29 in 2004.

You may obtain, without charge, a copy of our 2002 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting the Corporate Secretary, at the Corporate Office mailing address listed on the back cover, or by using our Web site.

INTERNET



Visit our award-winning Web site at http://www.wpsr.com to find a wealth of information on our company and its subsidiaries.

The site will give you instant access to Annual Reports, SEC filings, proxy statements, financial news, presentations, news releases, career opportunities, and much more. You may also download a copy of the Prospectus for the Stock Investment Plan and the associated forms for participation in the Plan.

The site is updated regularly, so visit it often.

ANNUAL SHAREHOLDERS' MEETING

Our Annual Shareholders' Meeting will be held on Thursday, May 15, 2003, at 10:00 a.m. at the Weidner Center, University of Wisconsin – Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin.

Proxy Statements for our May 15, 2003, Annual Shareholders' Meeting were mailed to shareholders of record on April 11, 2003.

ANNUAL REPORT

If you or another member of your household receives more than one Annual Report because of differences in the registration of your accounts, please contact American Stock Transfer & Trust Company so that account mailing instructions can be modified accordingly.

This Annual Report is prepared primarily for the information of our shareholders and is not given in connection with the sale of any security or offer to sell or buy any security.

WPS Resources Corporation

CORPORATE OFFICE

700 North Adams Street
Green Bay, WI 54301

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WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001

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Fax:
920-433-1526

Web Site:
http://www.wpsr.com

INVESTOR RELATIONS

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700 North Adams Street
Green Bay, WI 54301

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P. O. Box 19001
Green Bay, WI 54307-9001

Telephone:
920-433-1050 or 920-433-1857

E-Mail:
investor@wpsr.com

TRANSFER AGENT AND REGISTRAR

For General Information:
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Web Site:
www.amstock.com

E-mail:
info@amstock.com

Telephone:
800-236-1551 (toll free)
718-921-8156 (world wide)

Fax:
718-236-2641

For Dividend Reinvestment and Direct Stock Purchase:
American Stock Transfer & Trust Company
P. O. Box 922
Wall Street Station
New York, NY 10269-0560

Telephone:
800-236-1551 (toll free)

FINANCIAL INQUIRIES

Mr. Joseph P. O'Leary
Senior Vice President and
Chief Financial Officer
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001

Telephone:
920-433-1463

STOCK EXCHANGE LISTING

New York Stock Exchange

Ticker Symbol:
WPS

Listing Abbreviation:
WPS Res

WISCONSIN UTILITY INVESTORS, INC.

Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of utility shareholders. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, and the public. WUI can be reached by calling 608-663-5813.

EQUAL EMPLOYMENT OPPORTUNITY

WPS Resources Corporation is committed to equal employment opportunity for all qualified individuals without regard to race, creed, color, religion, sex, age, national origin, sexual orientation, disability, or veteran status. To that end, we support and will cooperate fully with all applicable laws, regulations, and executive orders in all of our employment policies, practices, and decisions.

Printed on paper that contains between 10% and 30% post-consumer fiber, using environmentally-conscientious vegetable inks.

Subjects in photos are employees of WPS Resources Corporation or its subsidiaries. Employees were not placed in unsafe conditions for the production of this Annual Report.