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Committed to Nuclear Excellence

Kewaunee Nuclear Power Plant
Operated by Nuclear Management Company, LLC

April 28, 2004

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10 CFR 50.71(b)

U.S. Nuclear Regulatory Commission
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KEWAUNEE NUCLEAR POWER PLANT
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2003 ANNUAL FINANCIAL REPORTS

Enclosed please find one copy of the 2003 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 Nuclear Power Plant
Nuclear Management Company, LLC

cc: US NRC - Region III (w/o enclosure)
NRC Senior Resident Inspector (w/o enclosure)

Enclosure

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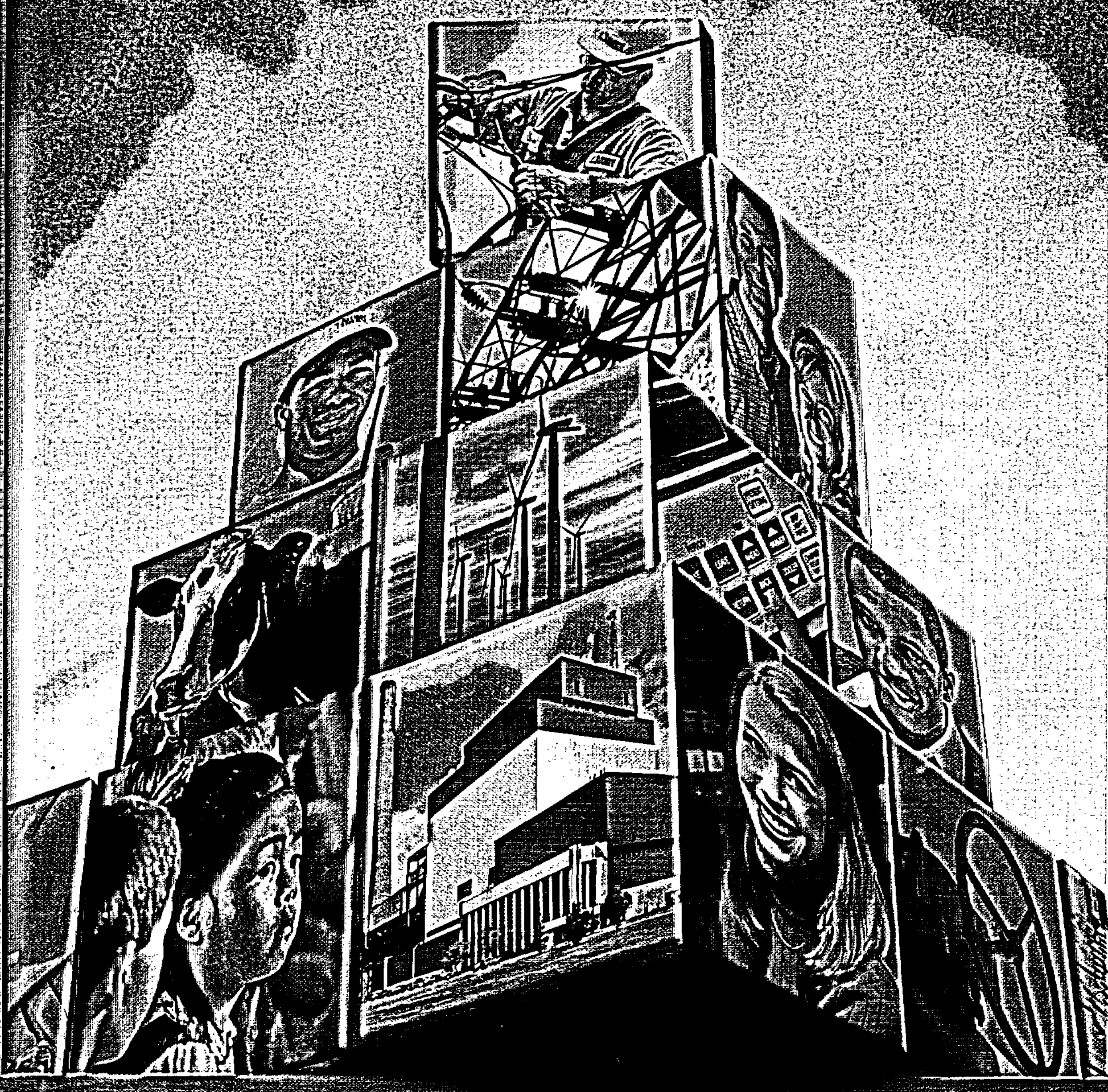
BUILDING STRENGTH AND VALUE



2003 ANNUAL REPORT

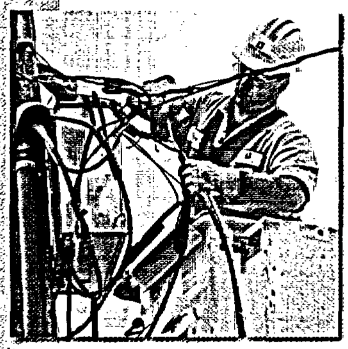
ALLIANT ENERGY.

CONTENTS

ABOUT US

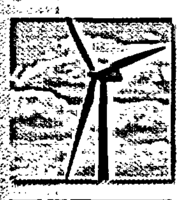
Alliant Energy is an energy holding company that serves more than three million customers worldwide. Providing domestic utility customers in the Midwest with electric and natural gas services remains our top priority. Our other key business platforms include targeted international energy markets, non-regulated generation and our Integrated Services business. Alliant Energy, headquartered in Madison, Wis., is a Fortune 1000 company traded on the New York Stock Exchange under the symbol 'LNT.' For more information, visit our Web site at www.alliantenergy.com

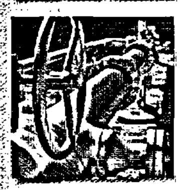
At Alliant Energy, we are **building strength and value** for our shareowners, customers, employees and others who have a vested interest in our success. But just what does that mean? Of course, it means that we are strengthening our financial position in order to enhance earnings, pay a market competitive dividend and deliver stock price appreciation. It's about building long-term shareowner value.



But, it's even more than that.

You should also take our annual report theme literally. Our updated strategic plan focuses on growing our earnings by building new domestic utility generating capacity to serve our customers' increasing energy needs while — at the same time — protecting the environment. We are building strength and value by continuing to do what we already do well — providing the reliable utility service our customers demand. As you will read in the following pages, our domestic generation plans call for utilizing a diversified portfolio approach to meet our customers' future needs through coal, natural gas and renewable energy sources as well as continuing our focus on energy efficiency.





We expect to continue to augment this domestic utility-centric focus by maintaining our strategic investments in the international energy market as well as other targeted energy-related investments.

Our domestic utilities are not only our foundation, they are our future. We will seek modest, yet sustainable growth. We will remain committed to maintaining our investment-grade credit ratings and a strong balance sheet. And we will build strength and value for all of our stakeholders.

This annual report contains forward-looking statements. These statements should be considered in light of the disclaimer on page 18.

(Dollars in millions, except per share data)

	2003	2002	Change
Operating revenues	**$3,128**	$2,487	26%
Net income:			
Income from continuing operations	**$160**	$88	82%
Income from discontinued operations	**$30**	$19	58%
Cumulative effect of changes in accounting principles	**($6)**	–	N/A
Net income	**$184**	$107	72%
Diluted earnings per average common share:			
Income from continuing operations	**$1.57**	$0.97	62%
Income from discontinued operations	**$0.30**	$0.21	43%
Cumulative effect of changes in accounting principles	**($0.06)**	–	N/A
Net income	**$1.81**	$1.18	53%
Domestic utility electric sales to retail customers (thousands of megawatt-hours)	**25,573**	25,455	–
Total domestic utility electric sales (thousands of megawatt-hours)	**31,252**	30,457	3%
Domestic utility gas sold and transported (thousands of dekatherms)	**105,889**	103,038	3%
Construction and acquisition expenditures (a)	**$839**	$657	28%
Total assets at year-end	**$7,775**	$7,814	–
Cash flows from operating activities (continuing operations)	**$420**	$555	(24%)
Total debt to capitalization ratio	**48%**	60%	N/A
Common shares outstanding at year-end (in thousands)	**110,963**	92,304	20%
Dividends declared per common share	**$1.00**	$2.00	(50%)
Market value per share at year-end	**$24.90**	$16.55	50%
Book value per share at year-end	**$21.37**	$19.89	7%

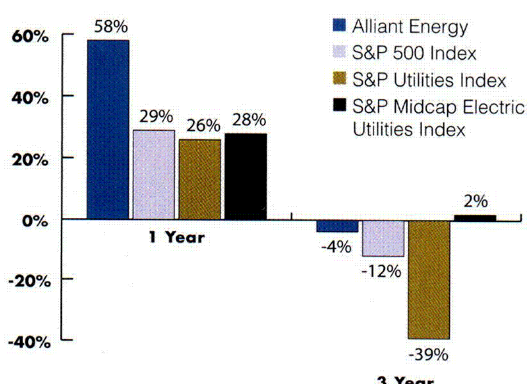
(a) These amounts do not include construction and acquisition expenditures for discontinued operations of $42 million and $214 million for 2003 and 2002, respectively.

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.

Diluted earnings per average common share

Total shareowner return*

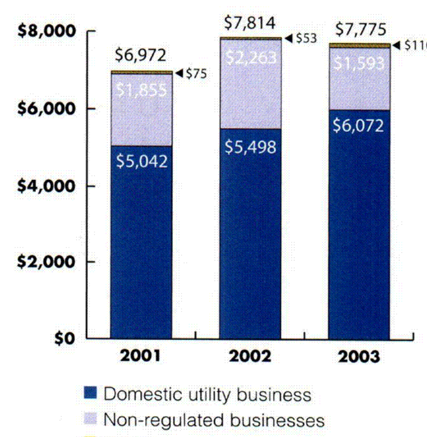
at Dec. 31, 2003



* Dividends plus stock price appreciation

Total assets at year-end

(in millions)



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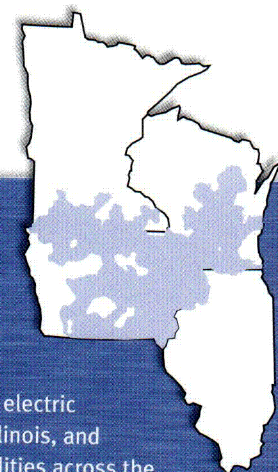
ALLIANT ENERGY

Who we are...

Alliant Energy, headquartered in Madison, Wis., is an energy holding company traded on the New York Stock Exchange under the symbol "LNT." Over the last year, we've undergone several changes in order to better align our strategy with the current market. Today, we are building strength and value by capitalizing on new opportunities in our domestic utility business. We expect our non-regulated businesses to contribute to shareowner value as well.

DOMESTIC UTILITY BUSINESS

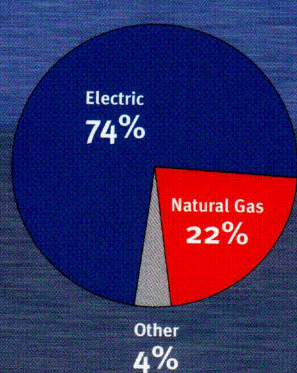


Interstate Power and Light Company and Wisconsin Power and Light Company, our domestic utility subsidiaries, form the core of Alliant Energy. Our domestic utility business is not only our foundation, but as the primary target of our future capital investments, it is also our growth platform.

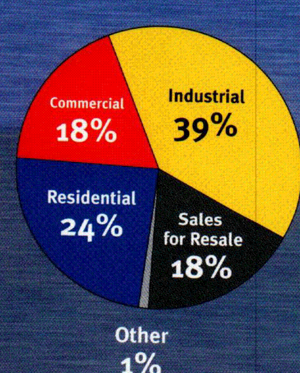
Our utilities provide safe, reliable, affordable and environmentally sound electric and natural gas services to customers in Iowa, Wisconsin, Minnesota and Illinois, and maintain a strong fleet of fossil-fuel, nuclear and renewable generating facilities across the upper Midwest. Together, they have a nameplate generation capacity of approximately 5,200 megawatts (MW). We intend to increase that capacity by about 1,600 MW from 2004 through 2010.

2003 STATISTICS	
Maximum peak hour demand	5,887 MW
Number of electric customers	965,953
Number of natural gas customers	408,427
Total electric sales (thousands of MWh)	31,252
Natural gas sold and transported (thousands of Dth)	105,889

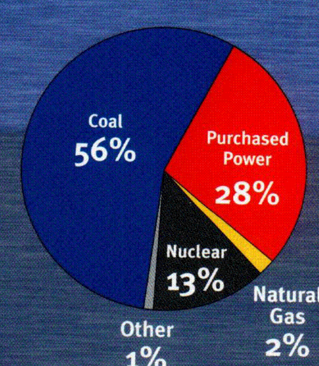
Operating Revenues



Electric Sales Mix



Electric Power Sources



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NON-REGULATED BUSINESSES

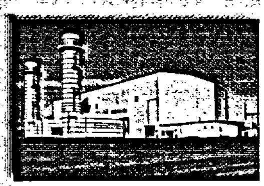
Alliant Energy Resources, Inc. is the parent company for the majority of Alliant Energy's non-regulated businesses. With the exception of anticipated activities by our non-regulated generation business in support of our domestic utility generation plan, we do not expect these businesses to be consumers of significant amounts of additional investment capital going forward. However, we expect these businesses to be strong operations that contribute increasingly to earnings and shareowner value, and provide appropriate returns on the capital already invested. As a result, we view these businesses as ongoing business platforms in comparison to our growth platform, our domestic utility business.

Primary non-regulated business platforms

Non-regulated generation: In 2003, we refined the focus of our non-regulated generation business to primarily support the development, financing and construction of generation to meet the needs of our domestic utility business. Although we own one tolled, 309 MW, natural gas-fired power plant in Neenah, Wis., we will defer pursuit of other new non-regulated generation projects, other than potential projects to utilize existing equipment held by Non-regulated generation, or further acquisitions of existing tolled generation in the near term.

International: International has invested in energy generation and distribution companies and projects in select growing markets. We currently have investments in Brazil, China and New Zealand.

Integrated Services: Alliant Energy Integrated Services Company is involved in selling and delivering high value energy and environmental services to commercial, industrial and institutional customers. Such services include energy infrastructure project development and construction management; energy planning, procurement and risk management services; and environmental engineering and site remediation services. In addition, Integrated Services also provides gas marketing and management services, and asset management services for pipelines and onsite generation.



Other investments: This includes investments in Laguna del Mar, Synfuel and transportation assets. In addition, we have various other modest investments related to economic development, energy technologies and telecommunications.

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.

SUPPORT SERVICES

Alliant Energy Corporate Services, Inc. supports the other areas of the company with traditional administrative functions, including strategy, risk management, performance improvement, accounting and finance, fuel procurement, supply chain, corporate communications, legal, regulatory, internal audit, corporate governance, information technology, human resources, labor relations, infrastructure security, and environmental and safety management.

Dear Fellow Shareowners,

Erroll B. Davis, Jr.
Chairman and CEO

The success we've enjoyed in meeting our most recent strategic challenges has energized the Alliant Energy team to position the company for continued future success.

We were acutely aware that we needed to turn things around financially in 2003 — and we delivered. By reducing debt by $875 million through asset divestitures, our debt to total capitalization ratio now stands at 48%, down from 60% at the end of 2002. We delivered a 58% total return to shareowners in 2003 and increased diluted earnings per share from continuing operations by 62% over 2002. We further narrowed our focus and announced a flexible and balanced plan to build new generation to serve our domestic utility customers. Taken together, we believe these results are the very definition of successful execution. Without question, the Alliant Energy team delivered in 2003.

With 2003 diluted earnings per share from continuing operations at $1.57 and income from continuing operations of $159.7 million, we improved significantly over our 2002 financial performance of $0.97 per diluted share from continuing operations and income from continuing operations of $87.5 million. Earnings per share also improved from $1.18 in 2002 to $1.81 in 2003.

In 2003, we also outperformed the market in terms of total shareowner return (dividends plus stock price appreciation), beating not only the S&P 500 Index, but also the S&P Utilities Index. Through the determination, strength and hard work of our employees, we have now completed all of the strategic actions we outlined in late 2002 to strengthen our financial profile. We did exactly what we said we would.

However, we are not resting on our laurels. The success we've enjoyed in meeting our most recent strategic challenges has energized this team to position the company for continued future success. We have learned much over the past two years, and the experience has made us stronger, more disciplined and more resolved.

But, before we discuss where we want to be tomorrow, we felt it appropriate to review just how we got to where we are today.

November 2002 Plan

Understanding the context for specific actions is always important, but never more so than when evaluating the U.S. energy market. Over the past two years, we have seen dramatic developments in our business and a virtual sea change in how many within the industry define themselves. In November 2002 — after the Enron debacle, the Arthur Andersen meltdown, the California energy crisis, tightened credit markets and some financial challenges of our own — we announced a series of strategic actions designed to strengthen our financial profile. In a letter to all shareowners dated Nov. 22, 2002, I listed five actions we said we were going to take in order to improve our financial strength. And, I am proud to say that we have successfully executed each and every one of them.

First, we said we would **reduce our anticipated aggregate 2002 and 2003 capital expenditures by approximately $400 million,** primarily in our non-regulated businesses. And, we did just that.

Second, we said we would make the difficult, but prudent, decision to **reduce our annual common stock dividend to $1 per share.** As difficult as it was, we took that action. Our targeted annual dividend rate, which is now $1 per share, is at a sustainable, yet still competitive, level. And, we believe the current tax treatment for dividend income, which we worked very hard to see enacted, further enhances the appeal of our dividend.

Third, we committed to **enhanced cost controls.** For example, Lean Six Sigma processes are now becoming a part of our culture at Alliant Energy. And, we expect they will yield cost savings as well as productivity enhancements far into the future. We also continue to focus on numerous other cost control initiatives, which is a normal part of our ongoing business. While we surpassed our cost savings goals in 2003, we probably will never be in a position to state this component of our strategic actions is complete. Instead, it is a commitment to continuous improvement.

Fourth, we announced we would **issue additional common equity of approximately $200 to $300 million.** In July, we delivered on that promise by issuing 17.3 million shares of our common stock. We raised net proceeds of $318 million from this transaction and infused $200 million into Wisconsin Power and Light Company and $118 million into Interstate Power and Light Company.

Finally, our plan called for us to **divest certain non-core, non-strategic assets** and, ultimately, to achieve debt reduction in excess of $800 million. Toward this end, we sold our Australian assets, our affordable housing business — primarily made up of Heartland Properties, Inc. — and our SmartEnergy, Inc. business, as well as various other modest asset sales. We crossed the last hurdle with the successful initial public offering of our oil and gas subsidiary, Whiting Petroleum Corporation.

Through these combined efforts, we reduced our debt levels by $875 million through asset divestitures.

As you can see, we made five commitments to take action, followed by successful execution, in each of these five areas. The market recognized our progress, as our stock price appreciated about 60% between Nov. 22, 2002, and Dec. 31, 2003. We are executing on our promises and we are proud of our achievements in that regard. But, we also fully recognize that we owe our investors nothing less than that.

2004 and Beyond

As 2003 closed, these five strategic actions became part of our proud history. And, with a new focus on the future, we turned our attention to, "What's next for Alliant Energy?"

Our strategic priorities for 2004 and beyond are rather straightforward. They are centered on three key themes: strategic focus, financial discipline and successful execution.

In short — we plan to build on our strengths which, in turn, will build strength and value.

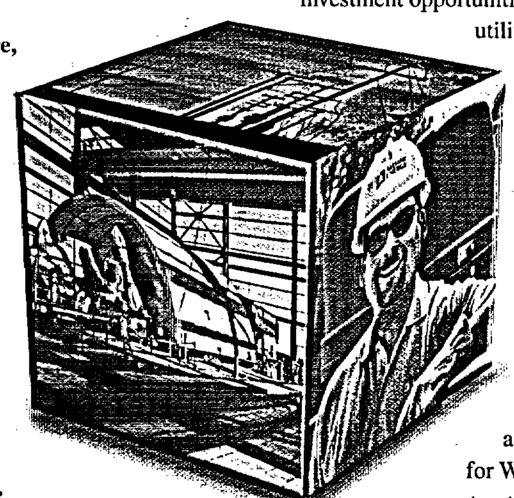
We remain steadfast in our commitment to provide our customers with safe, reliable, affordable and environmentally sound energy — a commitment we have delivered on year-after-year.

And, while we expect annual sales growth within our domestic utility service territory to be a modest 1% to 3%, we do expect to increase, over time, our earnings and cash flows by prudently investing in utility infrastructure.

As we have all learned, we must maintain our commitment to financial prudence and discipline. We are committed to maintaining investment-grade credit ratings and a strong balance sheet. We will seek modest, yet sustainable, growth with our domestic utility business serving as our growth engine. We are committed to delivering solid long-term returns for our shareowners and maintaining an impeccable "say/do" ratio.

Domestic Utility Business

Without question, our industry has changed; the market has changed; and we have changed with it. Not all of that change has been painless. But, through this transformation, we now have investment opportunities in our domestic utility business that did not exist several years ago. Progressive legislation was passed in Iowa that provides companies with the necessary ratemaking principles — and resulting increased regulatory and investment certainty — prior to making certain generation investments in Iowa.



Wisconsin also enacted legislation with the goal of assuring reliable electric energy for Wisconsin. The law allows construction of merchant power plants in the state and streamlines the regulatory approval process for building new generation and transmission facilities. Recently, the Public Service Commission of Wisconsin approved a lease-back structure for an affiliate plant, which provides a similar level of investment certainty.

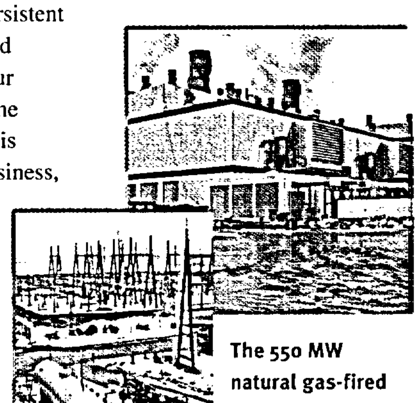
These changes have enabled Alliant Energy to pursue additional generation investments in its domestic utility business to serve its customers and to provide shareowners with greater certainty regarding the returns on these investments.

We intend to put these enlightened policies to work for the benefit of our customers and our investors. Specifically, we plan to add 1,600 MW of nameplate generating capacity to our fleet from 2004 through 2010 (985 MW in Iowa and 615 MW in Wisconsin). This new generation capacity will be a mix of coal, natural gas and renewable energy sources. Our plans are modest, balanced, flexible and financially viable.

In order to continue to provide safe, reliable and affordable energy to our customers, the company has conducted a thorough review of future demand and believes that new generation will be needed to meet increasing customer demand, reduce reliance on purchased-power agreements and mitigate the impacts of potential future plant retirements. But, through a host of actions, we remain committed to our continuing efforts to improve the environmental performance of our generation fleet. Even beyond our belief that this is the right thing to do, it's just good business.

We will continue to support legislation that creates greater certainty around environmental protection. And, we staunchly believe the investors in companies that take a lead role in protecting the environment should be rewarded for achieving these goals, not penalized.

I would be remiss if I didn't emphasize just what underlies all of our generation plans: our continuing and persistent commitment to the safe, reliable, affordable and environmentally sound delivery of energy to our customers. Understand that we will invest in the appropriate infrastructure to ensure we meet this commitment. Through our domestic utility business, we will strive for continued excellence in electric and natural gas services with superior customer service.

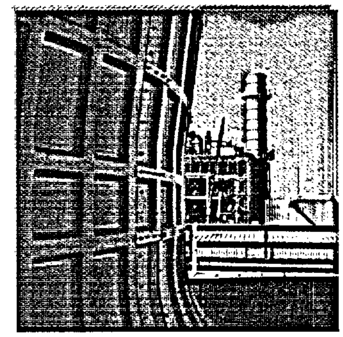


The 550 MW natural gas-fired Emery Generating Station near Mason City, Iowa, is scheduled to begin generating electricity in the second quarter of 2004.

We have also refined the focus of our non-regulated generation business; it will now focus primarily on supporting the development, financing and construction of generation to meet the needs of our domestic utility business. We will defer pursuit of other new non-regulated generation projects, other than potential projects to utilize existing equipment held by Non-regulated generation, or further acquisitions of existing tolled generation in the near term.

Clearly, we are concentrating on our core domestic utility business. However, through Alliant Energy Resources, we plan to continue our utility focus on select non-regulated businesses as well. We will continue to operate in the international arena, maintaining our investments primarily in Brazil, China and New Zealand, as well as investments in the non-regulated generation market and other select areas.

Non-regulated Businesses



Wisconsin Power and Light Company signed a purchased-power agreement for 453 MW of electrical output from the Riverside Energy Center in the town of Beloit, Wis. Commercial operation of the plant is expected to begin in May 2004.

Because they have been the target of much discussion and debate, I would emphasize that our international investments are making solid progress.

We have strong partnerships in China and our investment there is profitable ... and we expect it will remain profitable in the coming years. Our investment in New Zealand also was profitable in 2003. Aside from some modest capital investments in our generation portfolio in China that will be generated through internal cash flows from our existing China investments or from non-recourse debt, we do not expect to make significant additional investments in either of these markets.

On balance, we made great progress in Brazil in 2003. Rate increases were implemented at all five of the Brazilian operating companies throughout 2003. Electric sales volumes increased approximately 7% in 2003 over 2002 and were also higher than the sales levels in the last year before drought related and government imposed electricity rationing. Foreign currency rates improved in 2003 as well. We made progress on improving the in-country debt profile of our Brazilian investment by restructuring approximately $245 million of Brazil-based short- and long-term debt.

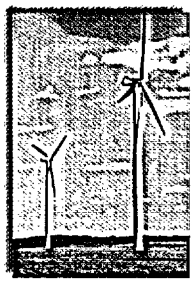
In 2003, our in-country Brazil earnings were positive, but we still incurred a net loss of $14 million after allocated debt capital and overhead charges. However, I emphasize that the $14 million loss compares favorably to a loss of $47 million in 2002. The results for the fourth quarter of 2003 were positive, which marks the first quarter that the bottom-line results have been positive since we made our initial investment in Brazil.

We are encouraged to see our considerable efforts in Brazil now beginning to bear fruit. But, while significant progress has been made in turning these investments around, I would note that we will not be satisfied until we translate that progress into realizing a consistent and reasonable rate of return on our Brazilian investment. We fully recognize that we still have considerable work yet to do.

We will also maintain several other non-regulated businesses. Although we expect these businesses to add to shareowner value over time, we do not expect to invest significant additional capital in them.

In short, Alliant Energy Resources will continue to play a role at Alliant Energy. But, rather than serve as a growth platform, it will serve as an ongoing business platform to augment and support our core domestic utility business.

Financial Plan Going Forward



After living through what has been a most tumultuous time in our industry's history, we very carefully reviewed the financial viability of our strategic actions going forward. We believe it will take an investment of roughly $650 million over the next seven years to implement our domestic utility generation plan. We anticipate having the time and the ability to adapt our plans to meet changing conditions as necessary. These changes could be related to various factors, including energy demand in our service territories, environmental regulations, capital markets or technology shifts.

We project our capital expenditures to be $700 million in 2004 and $610 million in 2005. Of those amounts, 87% in 2004 and 89% in 2005 will be directed toward our domestic utility business. Going forward, we are committed to maintaining investment-grade credit ratings that were affirmed in January 2004 after reviews by both Moody's and Standard & Poor's.

Building Strength and Value

We have certainly shifted our strategic direction over the last several years at Alliant Energy. But, be assured, there are many things at your company that have not changed.

Our commitment to our customers is unwavering. Despite the industry turmoil, we have never lost sight of our responsibilities to our customers. That commitment is certainly evident in industry benchmarks, including our customer satisfaction levels and plant reliability. Our commitment goes far beyond just keeping the lights on ... it's about providing an exceptional energy value for our customers.

We remain committed to supporting the communities we are proud to serve, protecting the environment and providing our employees with a meaningful and diverse work environment ... a place where everyone is treated with respect. Understand that while our strategic plan may change or bend with market conditions, our commitment to these core values is unyielding.

And, of course, we are staunchly committed to creating value for you, our shareowners. In fact, all employees take the execution of our strategic plan and mission personally and have a vested interest in our success.

As a personal aside, I'd like to bid farewell to two long-time Board members who will retire following our 2004 Annual Meeting of Shareowners. Alan Arends has provided impeccable leadership and sound guidance since he joined our Board in 1993. Second, I want to give special thanks to Wayne Stoppelmoor who has served as a director since 1986, as Vice Chairman of the Board on two occasions since the merger and has devoted 44 years to Alliant Energy and its predecessor companies through both the prosperous and the challenging times. On behalf of the Alliant Energy Board, its employees and all its shareowners, I extend a heartfelt thank you to both of these fine gentlemen.

While I am sad to see Alan and Wayne leave, I am pleased to welcome Michael Bennett and Ann Newhall as new members of our Board. We look forward to leveraging success from their fresh ideas, perspectives and outlooks.

While I am continuing as chairman and chief executive officer of Alliant Energy, William (Bill) Harvey has now taken over more of the day-to-day operational responsibilities as the company's new president and chief operating officer. I am confident that, with Bill's broad-based utility operational experience, Alliant Energy will continue to build on its progress.

I'd also like to recognize and welcome Eliot Protsch as our new chief financial officer. Eliot has been an integral part of our senior management team for many years and has now agreed to take an even greater role in the financial management of Alliant Energy ... and I couldn't be more pleased.

On behalf of the entire Board of Directors, I want to thank our shareowners, customers and employees for their patience and support as we've engineered this very successful turnaround in 2003. We remain committed to continued excellence going forward as we focus on building strength and value for you, our shareowners.

Sincerely,

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

Straightalk

WITH ERROLL DAVIS

While our domestic utility business is our foundation and current growth platform, we will also maintain certain non-regulated businesses, including our international and non-regulated generation investments and our Integrated Services business.

Your strategic actions for 2004 seem to focus primarily on your domestic utility operations. Aren't you reverting back to being just a regional utility?

We have no plans to revert to being solely a regional utility. Instead, we are moving forward, building on the foundation of our domestic utilities. Our domestic utilities have always been our foundation, our focus and our future. Now, they are also our growth engine.

Our domestic utilities have always been our foundation, our focus and our future. Now, they are also our growth engine.

We now have opportunities to invest in utility generation that did not exist a few short years ago — opportunities, I might add, that provide greater certainty for our shareowners. Our customers' growing energy needs will require additional infrastructure, including new power plants. In addition, new generation will be needed to help reduce reliance on purchased-power agreements and mitigate the impacts of potential future plant retirements. We will continue to purchase energy and capacity in the market and intend to remain a net purchaser of both, but at a reduced level. And, when we do purchase power, we will focus our efforts on purchasing from in-state generating sources first.

While our domestic utility business is our foundation and current growth platform, we will also maintain certain non-regulated businesses, including our international and non-regulated generation investments and our Integrated Services business.

You said you plan to add new generation capacity; just what are your specific plans?

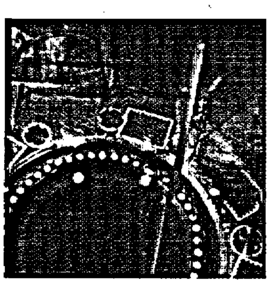
From 2004 through 2010, we expect to add approximately 1,600 MW of nameplate generating capacity to our fleet: 985 MW in Iowa and 615 MW in Wisconsin.

Through our new strategic actions, we are also reaffirming our already strong commitment to environmental stewardship by reflecting this commitment in any plant we are involved in building. We will continue to improve the environmental performance of our existing plants through our proven NOx reduction SmartBurn℠ technology, as well as through other pollution-abatement equipment.

We expect the capital expenditures associated with our proposed new generation to be approximately $650 million over the next seven years. Timelines and sites will be announced as plans for specific projects are finalized over the course of the plan timeframe.

I would also note that our strategic plan stresses not only building new generation, but also flexibility. After all, our ability to continue to maximize long-term shareowner value requires the continuous evaluation of current economic, political and regulatory environments, as well as our resulting organization structure and strategic plan and actions. In other words, every aspect of our operation is examined frequently in order to maximize our long-term financial health. In short, if changes in our course must be made, we will make them.

Does nuclear energy play a role in Alliant Energy's future energy portfolio?

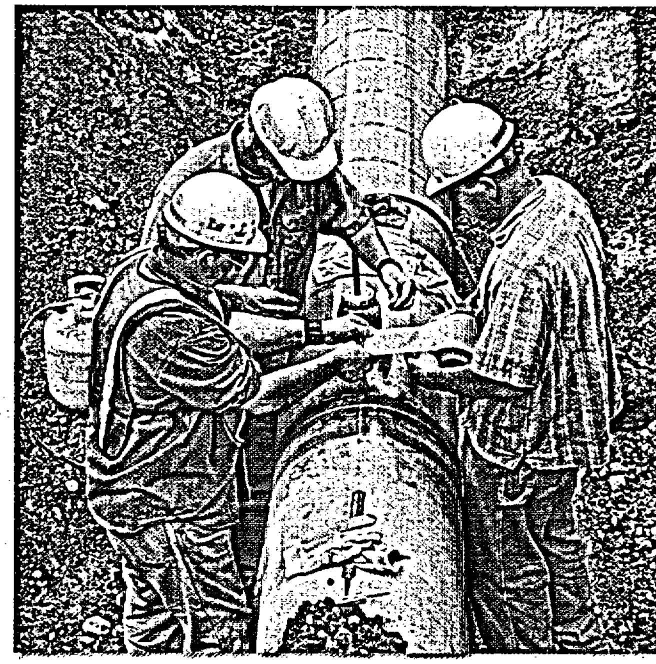


Alliant Energy maintains a diverse energy portfolio that includes nuclear energy. In 2003, nuclear energy represented roughly 13% of our electric power sources.

We believe that the best way to continue to provide our customers with safe, reliable, affordable and environmentally sound energy is by maintaining a diverse energy portfolio. That way, we're protected if one source temporarily becomes unavailable or is too expensive.

Our current portfolio includes coal, natural gas, renewable and nuclear power. In 2003, nuclear energy represented roughly 13% of our electric power sources.

The benefits of nuclear power are very clear. Nuclear power plants generate no emissions and, therefore — with prudent safety and security precautions — remain an important and clean source of power. But, clearly, there are also financial risks associated with nuclear power.



Operating and maintenance costs, as well as significant capital expenditures, are part of operating any facility. But changing regulations and the age of a facility make it extremely difficult to predict what these operating costs would be.

In 2003, we were presented with a unique opportunity to sell Wisconsin Power and Light Company's interest in the 543 MW Kewaunee Nuclear Power Plant (KNPP) to Dominion Resources, Inc., a large and experienced operator of nuclear power plants. Pending regulatory approvals, we expect the transaction to be completed by the fall of 2004.

Although we decided to sell, we will continue to buy energy and capacity from KNPP, at least equivalent to the amounts received from the plant had current ownership continued. With this long-term contract, our actual reliance on nuclear power will not change; it will simply be reflected in the future as purchased power. The purchased-power agreements also provide a stable price for energy generated by nuclear power until 2013, when the plant's current operating license will expire.

Our top priorities in this transaction were to proceed in the best interests of our customers, shareowners and employees. By selling this plant and securing a long-term purchased-power agreement, we expect to continue enjoying the benefits of having nuclear power in our energy portfolio while obtaining greater certainty on our operating and maintenance costs.

Note that we do not currently have any plans to sell our 70% ownership interest in our only other nuclear facility, the 583 MW Duane Arnold Energy Center, located in Palo, Iowa.

It appears that the company has been very active in filing rate cases over the past several years. Why is that?

The only way for a regulated utility to recover the costs it prudently incurs to provide safe, reliable, affordable and environmentally sound utility service is to work through the regulatory process of filing a rate case.

Raising rates is never a decision that we take lightly, however. Throughout the United States, there is an increasing recognition of the importance of investing in utility infrastructure — power plants, pipelines, substations, transmission lines and the technology that ties the system together. After a period of relatively low investment as energy consumption caught up with the infrastructure constructed in the 1970s and 1980s, we have now entered into a cycle of new construction. Unlike the steady or falling prices experienced during the 1980s and 1990s when few new plants or new transmission lines were being built, prices for utility service historically tend to increase as new facilities are brought into service.

For example, in March 2004, we filed a rate case in Iowa to begin seeking recovery of the $400 million Emery Generating Station. The Emery Generating Station plays a key role in providing continued reliable electric service in Iowa and will make the state less dependent on out-of-state generation sources. But, the cost of our investment in this plant must be reflected in the prices customers pay for electric service and is a major component of this rate increase request.

Unquestionably, there is a price to be paid for having the reliable utility service our customers have come to expect and demand. We have a variety of energy efficiency programs and other services in place to help customers manage their energy use which, in turn, helps address the issues related to rising prices. However, there is a far greater price to be paid for unreliable utility service. The wide-scale blackouts that occurred in August 2003 provided ample evidence of just how dependent our entire economy and quality of life have become on electricity. We are committed to ensuring our customers have that reliable service and will make the investments necessary to meet that commitment. Our ability to meet that commitment is, of course, conditioned on being able to recover the costs of making those investments.

What is your philosophy about dividends?

We take our commitment to our traditional income investors very seriously and realize they rely on a stable and market competitive dividend from Alliant Energy.

In addition, it is our obligation to create enhanced value for our investors. We also must consider the impact the dividend has on our various credit metrics and associated credit ratings as well as our continued ability to fund our capital requirements and debt maturities.

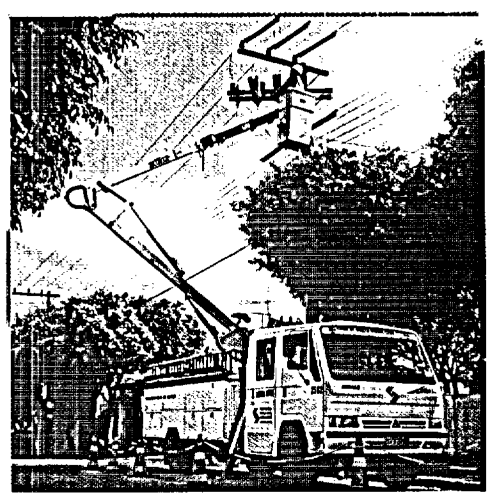
Our general intention is to maintain a dividend payout ratio similar to standard industry averages. That currently is in a range of approximately 60% to 70% of our utility earnings.

That said, our Board of Directors, which is charged with balancing these obligations and setting the dividend each quarter, will continue to re-evaluate our dividend policy and will consider all constituents and the implications of its decision on an ongoing basis.

What is the status of your investment in Brazil?

As we have discussed in the past, this investment has not met our return expectations to date for a variety of reasons. While some of the significant factors leading to this disappointing performance have been outside our control, we have focused on improving those aspects that are within our control. As evidenced by the $0.36 per share improvement in our financial results from Brazil in 2003 compared to 2002, that focus is beginning to bear fruit.

We made great progress in 2003 and we expect that trend to continue in 2004. But, challenges remain. While we are pleased with the significant improvement we realized in 2003 as it relates to the financial performance of our Brazilian investments, we are re-examining the operations and the structure of our investments in order to accelerate operational and financial improvements. This includes further cost reductions and more advantageous forms of financing. To this end, we are currently discussing with our partners in Brazil various options to accomplish these goals. For example, we believe paying down debt, rather than paying dividends to the shareowners of the Brazilian investments, would result in improved financial results. As can be the case in any business relationship, our discussions with our partners in Brazil

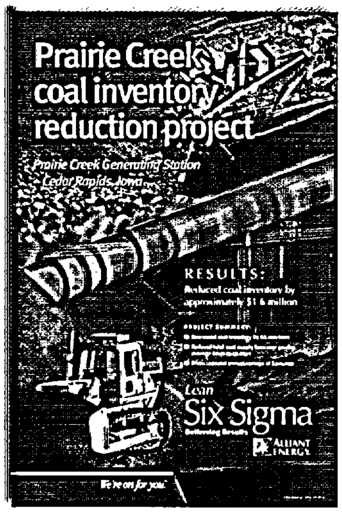


on these issues and the other challenges we have faced related to these investments, have strained our current relationship with our partners. Given the circumstances, this is certainly understandable. We are, however, committed to working with our partners to reach reasonable resolution of these issues.

On balance, when we look at both our progress and the challenges that remain, we continue to believe there is potential for enhanced growth in Brazil despite the setbacks of the last few years.

What is Lean Six Sigma all about?

Cost control is one of the key elements of the five strategic actions we announced in November 2002. Our employees have always sought out ways to control costs and, like most companies, we have gone through multiple exercises in significant belt tightening. In looking at our own past efforts, and some of the "slash and burn" efforts taking place at other companies in our industry, we have observed these approaches will generally reduce costs in the short term, but not in the long term. We are committed to controlling costs for the benefit of both our customers and our shareowners, but that commitment rings hollow if it is not sustainable. Lean Six Sigma provides a tool to reduce costs, improve processes and create efficiencies that will drive down costs, not only in a given time period, but for years to come.



Lean Six Sigma is a tool to reduce variability in processes, thereby improving predictability and efficiency, ultimately resulting in significant cost reduction. The focus of Lean Six Sigma is to understand the process based on tangible and measurable data and then "fix it for the last time." We have consulted with a number of Fortune 500 companies, which includes a number of our customers, that have successfully deployed Lean Six Sigma within their respective organizations and we are adopting those best practices as we implement Lean Six Sigma at Alliant Energy.

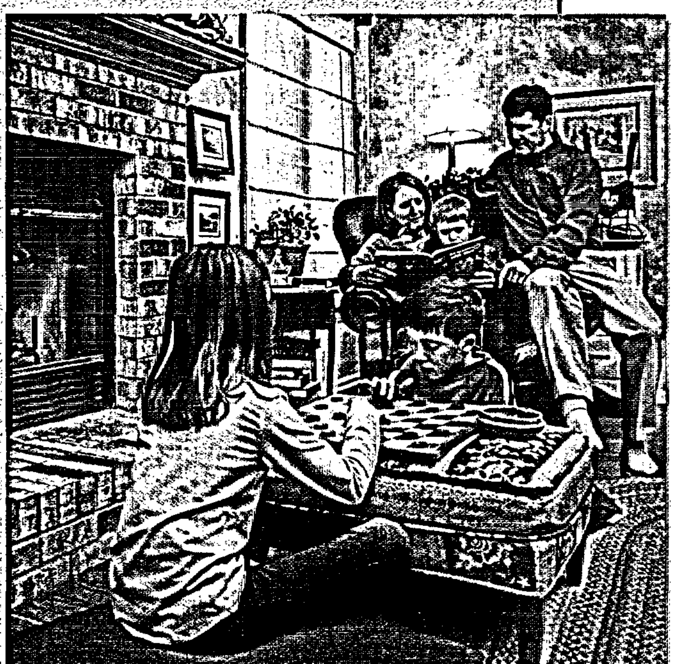
While still early in the deployment process, Lean Six Sigma is already delivering results beyond our expectations and we expect greater results in the coming years.

If we are to provide the returns our shareowners deserve while doing all that we can to control the costs that impact what our customers pay for service, we must utilize the best tools available. We believe Lean Six Sigma provides just such a tool.

We take our commitment to our traditional income investors very seriously and realize they rely on a stable and market competitive dividend from Alliant Energy.

A successful team has diverse, talented people that are able to work well together, respect each others' viewpoints and – ultimately – make the team more than the sum of its parts. I believe we have such a team, not only at the most senior levels but throughout the organization.

Erroll B. Davis, Jr.
Chairman and CEO

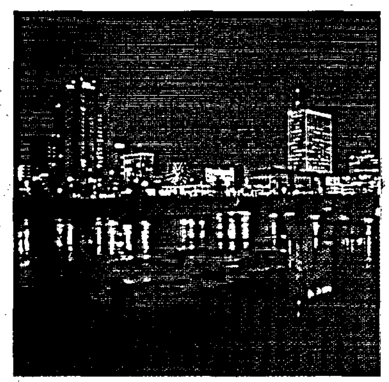


How does Alliant Energy's organizational structure help the company achieve its goals?

Most companies have organizational charts and structures that have simply evolved over time. For example, changes or reorganizations may have occurred to suit individual skills or to meet the immediate needs of the organization — needs that may have already changed. Team members simply get used to the way things are and organizations continue to operate ... but probably not up to full potential.

At Alliant Energy, we recognize that the deregulated utility industry we thought would occur following our merger will not likely be implemented in our markets any time soon. Therefore, in 2003, we created a cross-functional group to look at the way the entire company was organized and to study if we were structured in a way to achieve our current financial and operational goals, and be responsive to the realities of our markets today.

Through this extensive evaluation, we decided that certain organizational changes could improve our performance and increase accountability for both results and cost control measures.



Specifically, we have separated our corporate center activities, or our strategy, risk management, accounting and finance, legal, regulatory, corporate communications, performance improvement, internal audit, corporate governance and administrative functions, from our operations. Now, all groups responsible for core operations report to our president and chief operating officer, Bill Harvey, while our corporate center activities are under the direction of other executives and report directly to me, as does Bill.

We expect this new structure will provide stronger operational alignment while limiting multiple reporting relationships, clarify decision rights and streamline work.

In short, we made these changes to help ensure that Alliant Energy becomes more effective and efficient, positioning us to meet our strategic goals. Note that we also are continuing to improve accountability for results, ensuring that individuals do what they commit to do. Therefore, as has been the case in the past, progress toward our goals will help determine individual performance assessments which, in turn, will influence monetary rewards.

As with many other things — our organizational structure remains a work in progress. We will continue to evaluate our progress and make changes to ensure we are structured in a way that will help us meet our current goals and — ultimately — allow us to improve our operational and financial performance.

Meet Alliant Energy's Leaders

Erroll B. Davis, Jr., 59
Chairman and Chief Executive Officer
Joined the company in 1978.

William D. Harvey, 54
President and Chief Operating Officer
Joined the company in 1986.

Eliot G. Protsch, 50
Senior Executive Vice President and Chief Financial Officer
Joined the company in 1978.

Barbara J. Swan, 52
Executive Vice President and General Counsel
President, Wisconsin Power and Light Company
Joined the company in 1987.

Pamela J. Wegner, 56
Executive Vice President-Strategy and Performance
President, Alliant Energy Corporate Services, Inc.
Joined the company in 1993.

Ages are as of Dec. 31, 2003.

BOARD OF DIRECTORS

Erroll B. Davis, Jr.
Chairman of the Board
Director since 1982
Age 59

Mr. Davis has served as Chairman of the Board since 2000 and as Chief Executive Officer of the Company since 1990. He also served as President of the Company from 1990 through 2003. Mr. Davis joined WP&L in 1978 and served as President of WP&L from 1987 to 1998. He was elected Chief Executive Officer of WP&L in 1988. He has also served as Chief Executive Officer of AER and IP&L (or predecessor companies) since 1998. 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. Mr. Davis has served as a Director of WP&L since 1984, of AER since 1988 and of IP&L (or predecessor companies) since 1998.

Wayne H. Stoppelmoor
Vice Chairman of the Board, Director since 1986, Age 69

Mr. Stoppelmoor served as Vice Chairman of the Board of the Company from April 1998 until April 2000 and from May 2003 until present. He was Chairman, President and Chief Executive Officer of Interstate Power Company (a predecessor company of Alliant Energy) from 1986 until his retirement in 1997. Mr. Stoppelmoor has served as a Director of IP&L (or predecessor companies) since 1986 and of WP&L and AER since 1998.

Alan B. Arends
Director since 1993
Age 70

Mr. Arends is Chairman of the Board of Directors of Alliance Benefit Group Financial Services Corp., Albert Lea, Minn., an employee benefits company that he founded in 1983. He has served as a Director of IP&L (or predecessor companies) since 1993 and of WP&L and AER since 1998.

Michael L. Bennett
Director since 2003
Age 50

Mr. Bennett has served as President and Chief Executive Officer of Terra Industries, Inc., an international producer of nitrogen products and methanol ingredients headquartered in Sioux City, Iowa, since April 2001. From 1997 to 2001, he was Executive Vice President and Chief Operating Officer of Terra Industries, Inc. He also serves as Chairman of the Board for Terra Nitrogen Corp., a subsidiary of Terra Industries, Inc. Mr. Bennett has served as a Director of IP&L, WP&L and AER since August 2003.

Jack B. Evans
Director since 2000
Age 55

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, Nuveen Institutional Advisory Corp., and Vice Chairman and a Director of United Fire and Casualty Company. Mr. Evans has served as a Director of IP&L (or predecessor companies), WP&L and AER since 2000. **Mr. Evans is Chairperson of the Audit Committee.**

Katharine C. Lyall
Director since 1986
Age 62

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. Ms. Lyall has announced that she will retire as President of the University of Wisconsin System no later than Aug. 31, 2004. She serves on the Boards of Directors of M&I Corporation and the Carnegie Foundation for the Advancement of Teaching. Ms. Lyall has served as a Director of WP&L since 1986, of AER since 1994 and of IP&L (or predecessor companies) since 1998.

Singleton B. McAllister
Director since 2001
Age 51

Ms. McAllister has been a partner in the public law and policy strategies group of the Washington, D. C. law firm office of Sonnenschein, Nath & Rosenthal, LLP, since 2003. She previously was a partner at Patton Boggs LLP, a Washington, D.C. law firm from 2001 to 2003. From 1996 until 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. Ms. McAllister has served as a Director of IP&L (or predecessor companies), WP&L and AER since 2001.

Ann K. Newhall
Director since 2003
Age 52

Ms. Newhall is Executive Vice President, Chief Operating Officer, Secretary and a Director of Rural Cellular Corporation, a cellular communications corporation, located in Alexandria, Minn. She has served as Executive Vice President and Chief Operating Officer since August 2000, as Secretary since February 2000 and as a Director since August 1999. Prior to assuming her current positions, she served as Senior Vice President and General Counsel from 1999 to 2000. She was previously a shareholder and President of the Moss & Barnett law firm in Minneapolis, Minn. Ms. Newhall has served as a Director of IP&L, WP&L and AER since August 2003.

David A. Perdue
Director since 2001
Age 54

Mr. Perdue is Chairman of the Board and Chief Executive Officer of Dollar General Corporation, a retail sales organization headquartered in Goodlettsville, Tenn. He was elected Chief Executive Officer and a Director in April 2003 and elected Chairman of the Board in June 2003. From July 2002 to March 2003, he was Chairman and Chief Executive Officer of Pillowtex Corporation, a textile manufacturing company located in Kannapolis, N.C. From 1998 to 2002, he was employed by Reebok International Limited, where he served as President of the Reebok Brand from 2000 to 2002. Mr. Perdue has served as a Director of IP&L (or predecessor companies), WP&L and AER since 2001.

Judith D. Pyle
Director since 1992
Age 60

Ms. Pyle is President of Judith Dion Pyle and Associates, a financial services company located in Middleton, Wis. Prior to assuming her current position in 2003, she served as Vice Chair of The Pyle Group, a financial services company located in Madison, Wis. She previously served as Vice Chairman and Senior Vice President of Corporate Marketing of Rayovac Corporation, a battery and lighting products manufacturer located in Madison, Wis. In addition, Ms. Pyle is Vice Chairman of Georgette Klinger, Inc., and a Director of Uniek, Inc. Ms. Pyle has served as a Director of WP&L since 1994, of AER since 1992 and of IP&L (or predecessor companies) since 1998. **Ms. Pyle is Chairperson of the Compensation and Personnel Committee.**

Robert W. Schlutz
Director since 1989
Age 67

Mr. Schlutz is President of Schlutz Enterprises, a diversified farming and retailing business in Columbus Junction, Iowa. Mr. Schlutz has served as a Director of IP&L (or predecessor companies) since 1989 and of WP&L and AER since 1998. **Mr. Schlutz is Chairperson of the Environmental, Nuclear, Health and Safety Committee.**

Anthony R. Weiler
Director since 1979
Age 67

Mr. Weiler is Chairman and President of A.R. Weiler Co. LLC, a consulting firm for home furnishings organizations. He was previously a Senior Vice President of Heilig-Meyers Company, a national furniture retailer headquartered in Richmond, Va. He is a Director of the Retail Home Furnishings Foundation. Mr. Weiler has served as a Director of IP&L (or predecessor companies) since 1979 and of WP&L and AER since 1998. **Mr. Weiler is Chairperson of the Nominating and Governance Committee.**

Ages are as of Dec. 31, 2003. 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 OF DIRECTORS

Audit Committee

Jack B. Evans (Chairperson)
Alan B. Arends
Michael L. Bennett
Singleton B. McAllister
David A. Perdue

Compensation and Personnel Committee

Judith D. Pyle (Chairperson)
Alan B. Arends
Michael L. Bennett
Singleton B. McAllister
David A. Perdue

Nominating and Governance Committee

Anthony R. Weiler (Chairperson)
Katharine C. Lyall
Ann K. Newhall
Robert W. Schlutz

Environmental, Nuclear, Health and Safety Committee

Robert W. Schlutz (Chairperson)
Katharine C. Lyall
Ann K. Newhall
Judith D. Pyle
Anthony R. Weiler

Capital Approval Committee

Erroll B. Davis, Jr. (Chairperson)*
Michael L. Bennett
Jack B. Evans
Anthony R. Weiler

*Non-voting committee member

Committee members are as of Jan. 28, 2004.

ALLIANT ENERGY OFFICERS

Erroll B. Davis, Jr., 59 [1978]
Chairman and Chief Executive Officer

William D. Harvey, 54 [1986]
President and Chief Operating Officer

Eliot G. Protsch, 50 [1978]
Senior Executive Vice President and Chief Financial Officer

James E. Hoffman, 50 [1995]
Executive Vice President-Business Development

Barbara J. Swan, 52 [1987]
Executive Vice President and General Counsel

Pamela J. Wegner, 56 [1993]
Executive Vice President-Strategy and Performance

Thomas L. Aller, 54 [1993]
Senior Vice President-Energy Delivery

Timothy R. Bennington, 59 [1997]
Vice President-Generation

Dundeana K. Doyle, 45 [1984]
Vice President-Strategy and Risk

Robin W. Gates, 51 [1999]
Vice President-Performance Improvement

Vern A. Gebhart, 50 [1975]
Vice President-Customer Service Operations-West

Thomas L. Hanson, 50 [1980]
Vice President and Treasurer

Peggy Howard Moore, 53 [1987]
Vice President-Customer Service and Operations Support

John E. Kratchmer, 41 [1985]
Vice President-Controller and Chief Accounting Officer

John O. Larsen, 40 [1988]
Vice President-Technical and Integrated Services

Christopher J. Lindell, 48 [1981]
Vice President-Shared Services

Theresa M. Mulford, 46 [1996]
Vice President-Regulatory Affairs

Barbara A. Siehr, 52 [1976]
Vice President-Customer Service Operations-East

Kim K. Zuhlke, 50 [1978]
Vice President-New Energy Resources

F. J. Buri, 49 [1999]
Corporate Secretary

Patricia L. Reininger, 51 [2000]
Assistant Corporate Secretary

Joan M. Thompson, 46 [1977]
Assistant Controller

Enrique Bacalao, 54 [1998]
Assistant Treasurer

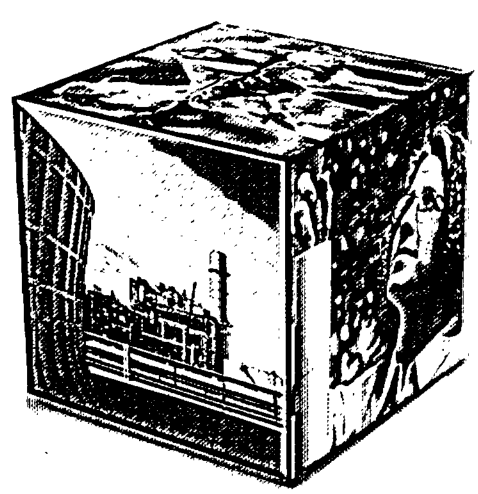
Officers are as of Jan. 28, 2004.
Ages are as of Dec. 31, 2003.

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

Financial Information

A listing of abbreviations and acronyms used in the text and notes in the financial information section of this report can be found on page 76.

17



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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: 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 impact of potential energy-related legislation in Congress and the ability to obtain adequate and timely rate relief to allow for, among other things, the recovery of operating costs and the earning of reasonable rates of return, as well as the payment of expected levels of dividends; unanticipated construction and acquisition expenditures; unanticipated issues in connection with Alliant Energy's construction of new generating facilities; issues related to purchased electric supplies and price thereof, including the ability to recover purchased-power and fuel costs through rates; issues related to electric transmission, including recovery of costs incurred, and federal legislation and regulation affecting such transmission; risks related to the operations of Alliant Energy's nuclear facilities and unanticipated issues relating to the sale of Alliant Energy's interest in Kewaunee; 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; the amount of premiums incurred in connection with Alliant Energy's planned debt reductions; improved results from Alliant Energy's Brazil investments and no material adverse changes in the rates allowed by the Brazilian regulators or from the expected utility sector reform currently being considered by Brazil 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; 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; continued access to the capital markets; the ability to successfully complete ongoing tax audits and appeals with no material impact on Alliant Energy's earnings or cash flows; inflation rates; and factors listed in "Other Matters - Other Future Considerations." Alliant Energy assumes no obligation, and disclaims any duty, to update the forward-looking statements in this report.

STRATEGIC OVERVIEW

November 2002 Plan - In 2003, Alliant Energy completed the plan it outlined in November 2002 to strengthen its financial profile. A summary of the five strategic actions completed under the plan follows.

- Asset sales and related debt reduction -
  - By July 2003, Alliant Energy had completed the sales of its Australian, affordable housing and SmartEnergy businesses.
  - In November 2003, Alliant Energy completed an IPO of WPC, leaving Alliant Energy with a 5.76% ownership interest in WPC. Alliant Energy currently plans to divest its remaining interest in WPC during 2004, subject to market conditions.
  - In 2003, Alliant Energy sold its water utility serving the Beloit area. Alliant Energy continues to pursue the sale of its water utilities serving the Ripon and South Beloit areas.
  - As a result of the above completed asset sales, Alliant Energy reduced debt by approximately $875 million during 2003. Alliant Energy incurred charges to continuing operations of approximately $0.10 per diluted share in the fourth quarter of 2003 related to debt repayment premiums from long-term debt repurchases. Alliant Energy also had $242 million of cash and temporary cash investments as of Dec. 31, 2003.
- Common equity offering - in July 2003, Alliant Energy sold 17.25 million shares (net proceeds of $318 million) of its common stock in a public offering and infused $200 million and $118 million into WP&L and IP&L, respectively, in support of their respective domestic utility generation and reliability initiatives.
- Common stock dividend - Alliant Energy reduced its targeted annual common stock dividend from $2.00 per share to $1.00 per share effective with the dividend paid in the first quarter of 2003.
- Anticipated construction and acquisition expenditures for 2002 and 2003 - Alliant Energy reduced such aggregate expenditures by approximately $400 million, largely in its non-regulated business, from the plan that existed earlier in 2002.
- Cost control - Alliant Energy has implemented a comprehensive Lean Six Sigma program, which it expects to help reduce its operating costs and improve the efficiency of its operations.

Updated Strategic Plan - Alliant Energy's domestic utility business is its core business and the sole growth platform within its updated strategic plan. As a result, Alliant Energy views its domestic utility business as the area of its business that is expected to provide the larger share of its long-term earnings growth. It will also be the area of the business that Alliant Energy will invest the bulk of its capital in during 2004 and 2005. Alliant Energy's remaining non-regulated businesses will serve as ongoing business platforms. Alliant Energy expects these businesses to contribute to its earnings growth, but to a lesser degree than its growth platform (i.e., domestic utility business). Alliant Energy does not expect to invest significant capital into these ongoing business platforms in 2004 and 2005. In addition, Alliant Energy's Non-regulated Generation business has refined its focus to support the development, financing and construction of generation to meet the needs of Alliant Energy's domestic utility business. Refer to "Liquidity and Capital Resources - Construction and Acquisition Expenditures" for additional information.

Alliant Energy's updated strategy reflects the fact that it has investment opportunities in its domestic utility business that did not exist several years ago. Progressive legislation was passed in Iowa that provides companies with the necessary rate making principles - and resulting increased regulatory and investment certainty - prior to making certain generation investments in Iowa. Wisconsin also enacted legislation with the goal of assuring reliable electric energy for Wisconsin. The law allows the construction of merchant power plants in the state and streamlines the regulatory approval process for building new generation and transmission facilities. More recently, the PSCW approved a plan proposed by another Wisconsin utility which provides a similar level of investment certainty by leasing generation from an affiliate. These changes have enabled Alliant Energy to pursue additional generation investments in its domestic utility business to serve its customers and to provide shareowners with greater certainty regarding the returns on these investments.

In December 2003, Alliant Energy announced its updated domestic utility generation plan, which is expected to add a diversified portfolio of nameplate generation between 2004 and 2010 as follows (in MW):

	IP&L	WP&L	Total
Natural gas-fired generation	840	300	1,140
Wind (purchased-power and/or generation)	130	100	230
Coal	--	200	200
Other	15	15	30
Total	985	615	1,600

Alliant Energy intends to add this new generation to meet increasing customer demand, reduce reliance on purchased-power agreements and mitigate the impacts of potential future plant retirements. Alliant Energy will continue to purchase energy and capacity in the market and intends to remain a net purchaser of both, but at a reduced level assuming the successful completion of these generation projects. Alliant Energy expects that 590 MW of the natural gas-fired generation will be installed as combustion turbines for peaking generation. The plan also reflects continued commitments to Alliant Energy's energy efficiency and environmental protection programs. The capital expenditures associated with this plan are expected to be approximately $650 million over the seven-year period of 2004 to 2010.

IP&L is currently constructing a $400 million 550 MW natural gas-fired plant (Emery) near Mason City, Iowa under its Power Iowa program to develop new electric generation capacity in Iowa. The Emery plant is expected to be placed in-service late in the second quarter of 2004. The rate making principles established for this investment reflect, among other things, recovery of the investment over 28 years based on a fixed 12.23% return on the common equity component of this investment. In January 2004, Alliant Energy announced that Resources' Non-regulated Generation business has assumed an option to purchase a site for a 300 MW natural gas-fired power plant outside Sheboygan Falls, Wisconsin. Subject to PSCW approval, Resources' Non-regulated Generation business would construct and own the approximately $150 million plant (of which $75 million has been expended as of Dec. 31, 2003 to purchase two gas turbines) and lease the facility to WP&L. WP&L will operate the plant and utilize the plant's output. With the appropriate timely regulatory approvals, Alliant Energy currently intends to have this facility placed in-service in 2005. Both the Emery and Sheboygan Falls facilities are included in the figures in the previous table. In addition, Calpine Corporation is currently constructing a 600 MW natural gas-fired combined cycle power plant in Wisconsin at WP&L's Rock River plant (Riverside). WP&L has entered into a purchased-power agreement for 453 MW of this plant's output and the plant is expected to be placed in-service prior to the 2004 summer peak demand.

RATES AND REGULATORY MATTERS

Overview - Alliant Energy has two primary utility subsidiaries, IP&L and WP&L. WP&L has one utility subsidiary, South Beloit Water, Gas and Electric Company (South Beloit). Alliant Energy's utility subsidiaries are currently subject to federal regulation by FERC and state regulation in Iowa, Wisconsin, Minnesota and Illinois. Such regulatory oversight covers not only current facilities and operations, but also the utilities' plans for construction and financing of new generation facilities and related activities.

As a public utility holding company with significant utility assets, Alliant Energy conducts its utility operations in an ever-changing business environment. Electric energy generation, transmission and distribution are facing a period of fundamental change resulting from potential legislative, regulatory, economic and technological changes. These changes could impact competition in the electric wholesale and retail markets in the event customers of electric utilities are 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. FERC regulates competition in the electric wholesale power generation market and each state regulates whether to permit retail competition, the terms that would apply 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. The pace of restructuring in its primary retail electric service territories has been delayed (and may continue to be delayed for a long period of time) due to uncertainty and developments in the industry.

Certain Recent Developments - Details of Alliant Energy's rate cases impacting its results of operations since 2001 are as follows (dollars in millions):

Case	Utility Type	Filing Date	Increase Requested	Interim Increase Granted (1)	Interim Effective Date	Final Increase Granted (1)	Final Effective Date	Expected Final Effective Date	Return on Common Equity	Notes
WP&L:										
2002 retail	E/G/W	8/01	$104	$49	4/02	$82	9/02	N/A	12.3%	
2003 retail	E/G/W	5/02	123	--	N/A	81	4/03	N/A	12%	(2)
2004 retail	E/G/W	3/03	87	--	N/A	14	1/04	N/A	12%	(3)
Wholesale	E	2/02	6	6	4/02	3	1/03	N/A	N/A	(4)
Wholesale	E	3/03	5	5	7/03	5	2/04	N/A	N/A	
South Beloit retail - IL	G/W	10/03	1	N/A	N/A	TBD	TBD	9/04	TBD	
2004 retail (fuel-only)	E	2/04	16	TBD	TBD	TBD	TBD	8/04	N/A	
IP&L retail - IA	E	3/02	82	15	7/02	26	5/03	N/A	11.15%	
IP&L retail - IA	G	7/02	20	17	10/02	13	8/03	N/A	11.05%	(4)
IP&L retail - MN	E	5/03	5	2	7/03	TBD	TBD	5/04	TBD	

(1) Interim rate relief is implemented, subject to refund, pending determination of final rates. The final rate relief granted replaces the amount of interim rate relief granted.

(2) A party representing selected commercial and industrial electric customers had appealed the rate case to a court, seeking remand back to the PSCW for further consideration on issues of revenue increase amount and rate design. In December 2003, the court denied the request for remand and affirmed the PSCW's earlier decision.

(3) A number of factors contributed to the final rate relief being set lower than the original request, including lower projected fuel and purchased-power costs, reduced operation and maintenance costs, lower purchased-power incentive costs and reduced capital expenditures.

(4) Since the final increase was lower than the interim relief granted, a refund to customers was made in 2003.

A significant portion of the rate increases included in the previous table reflect the recovery of increased costs incurred by IP&L and WP&L, or costs they expect to incur, thus the total increase in revenues related to these rate increases have not or are not expected to result in a corresponding increase in net income. IP&L expects to file for an Iowa electric rate increase in March 2004 which will include costs associated with the Emery plant currently under construction in interim rates pursuant to the rate making principles approved earlier. Refer to "Strategic Overview - Updated Strategic Plan" for further information regarding Emery.

WP&L's retail electric rates are based on annual forecasted fuel and purchased-power costs. Under PSCW rules, WP&L can seek rate increases if it experiences an extraordinary increase in the cost of fuel or if the annual costs are more than 3% higher than the estimated costs used to establish rates. Such rules were revised effective for 2003 for WP&L and significantly reduce the regulatory lag for Wisconsin utilities and customers related to the timing of changes in rates for increased or decreased fuel and purchased-power costs. The revised rules require that an interim increase/decrease in rates subject to increased/decreased fuel costs, if determined to be justified, be approved within 21 days of notice to customers. Any such change in rates would be effective prospectively, would require a refund with interest if final rates are determined to be lower than interim rates approved, and would not include a provision for collection of retroactive fuel cost variances. The revised rules also include a process whereby Wisconsin utilities can seek deferral treatment of emergency changes in fuel costs between fuel-only or base rate cases. Such deferrals would be subject to review, approval and recovery in future fuel-only or base rate cases.

In 2002, IP&L filed with the Internal Revenue Service (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 that has not been reflected in IP&L's results of operations pending a decision from the IUB on the required rate making treatment of the benefit. In its April 2003 order, the IUB approved IP&L's proposed accounting treatment to defer the tax savings resulting from the change of accounting method until the IRS audit on this issue is complete. The rate making impact will be addressed once the issue is resolved with the IRS, which is expected to occur in 2004. There would be no material negative impact on IP&L's results of operations or financial position should the IRS reject IP&L's proposal.

Energy-related legislation is currently pending in the U.S. Congress that, among other proposals, would repeal PUHCA. However, it is uncertain when or whether such legislation will be enacted or what impact it would have on Alliant Energy.

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 was as follows:

	2003	2002	2001
Income from continuing operations	**$1.57**	$0.97	$1.59
Income from discontinued operations	**0.30**	0.21	0.71
Cumulative effect of changes in accounting principles	**(0.06)**	--	(0.16)
Net income	**$1.81**	$1.18	$2.14

Additional details regarding Alliant Energy's net income were as follows (in millions):

	2003	2002	2001
Continuing operations:			
Domestic utility operations	**$197.2**	$165.8	$164.9
Non-regulated (Resources)	**(25.7)**	(80.4)	(38.1)
Alliant Energy parent and other (primarily taxes, interest and administrative and general)	**(11.8)**	2.1	1.4
Income from continuing operations	**159.7**	87.5	128.2
Discontinued operations:			
Operating results (includes SFAS 133 and tax adjustments)	**27.9**	15.9	57.1
Losses on sales of discontinued operations, net	**(22.9)**	--	--
Discontinuing depreciation, depletion and amortization of assets held for sale	**24.8**	3.5	--
Income from discontinued operations	**29.8**	19.4	57.1
Cumulative effect of changes in accounting principles	**(6.0)**	--	(12.9)
Net income	**$183.5**	$106.9	$172.4

The 2003 increase in domestic utility income from continuing operations was largely due to higher electric and gas margins, which were partially offset by higher operating expenses. The significant improvement in Alliant Energy's non-regulated results from continuing operations for 2003 was primarily due to improved results from its International and Integrated

Services businesses and lower non-cash valuation charges of $0.35 per share, which were partially offset by $0.10 per share of charges in 2003 related to early debt reductions. Income from continuing operations for domestic utility operations increased slightly in 2002 as higher electric and gas margins were largely offset by increased operating expenses and a higher effective income tax rate. The lower 2002 results from continuing operations for Alliant Energy's non-regulated businesses were primarily due to higher losses of $23 million from Alliant Energy's Brazil investments, higher non-cash valuation charges of $0.15 per share and higher interest expense, partially offset by improved results from Alliant Energy's China and New Zealand businesses. Alliant Energy incurred non-cash valuation charges of $0.06, $0.41 and $0.26 per share in 2003, 2002 and 2001, respectively. Refer to "Cumulative Effect of Changes in Accounting Principles" for discussion of the charges recorded in 2003 and 2001.

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

	Revenues and Costs					MWhs Sold				
	2003	2002	*	2001	**	**2003**	2002	*	2001	**
Residential	**$684,574**	$626,947	9%	$599,074	5%	**7,565**	7,616	(1%)	7,344	4%
Commercial	**409,704**	376,365	9%	373,145	1%	**5,663**	5,542	2%	5,464	1%
Industrial	**571,608**	526,804	9%	543,471	(3%)	**12,345**	12,297	--	12,469	(1%)
Total from retail customers	**1,665,886**	1,530,116	9%	1,515,690	1%	**25,573**	25,455	--	25,277	1%
Sales for resale	**195,822**	160,335	22%	184,507	(13%)	**5,495**	4,805	14%	4,936	(3%)
Other	**55,360**	62,083	(11%)	56,359	10%	**184**	197	(7%)	168	17%
Total revenues/sales	**1,917,068**	1,752,534	9%	1,756,556	--	**31,252**	30,457	3%	30,381	--
Electric production fuel and purchased-power expense	**730,594**	651,813	12%	695,168	(6%)					
Margin	**$1,186,474**	$1,100,721	8%	$1,061,388	4%					

* Reflects the % change from 2002 to 2003. ** Reflects the % change from 2001 to 2002.

Electric margin increased $85.8 million, or 8%, and $39.3 million, or 4%, for 2003 and 2002, respectively, primarily due to the impact of rate increases implemented in 2003 and 2002, including increased revenues to recover a significant portion of higher utility operating expenses, lower purchased-power and fuel costs impacting margins, the impact of WP&L implementing seasonal rates in 2003 for the first time and increased sales resulting from continued modest retail customer growth. The 2003 increase was also due to higher sales to non-retail customers, partially offset by milder weather conditions in 2003 compared to 2002. The 2002 increase was also due to more favorable weather conditions, partially offset by reduced energy conservation revenues (which were largely offset by lower energy conservation expenses) and the impact of a sluggish economy.

In April 2003, WP&L implemented seasonal electric rates that are designed to result in higher rates for the peak demand period from June 1 through Sept. 30 and lower rates in all other periods during each calendar year. As a result, total annual revenues are not expected to be impacted significantly. However, given the seasonal rates were not implemented in 2003 until April, the impact of seasonal rates increased electric margins by approximately $6 million in 2003 compared to 2002 when no seasonal rates were in effect. As a result, the first quarter of 2004 margins are expected to be negatively impacted in comparison to the 2003 margin for the same period by a similar amount.

<u>Domestic Utility Gas Margins</u> - Gas margins and Dth sales for Alliant Energy were as follows (in thousands):

	Revenues and Costs					Dths Sold				
	2003	2002	*	2001	**	**2003**	2002	*	2001	**
Residential	**$310,658**	$218,746	42%	$270,248	(19%)	**31,871**	30,931	3%	29,580	5%
Commercial	**162,651**	111,343	46%	141,121	(21%)	**19,947**	19,348	3%	18,055	7%
Industrial	**34,201**	25,177	36%	31,262	(19%)	**5,093**	5,373	(5%)	5,344	1%
Transportation/other	**59,416**	38,720	53%	45,246	(14%)	**48,978**	47,386	3%	48,539	(2%)
Total revenues/sales	**566,926**	393,986	44%	487,877	(19%)	**105,889**	103,038	3%	101,518	1%
Cost of gas sold	**396,102**	248,994	59%	360,911	(31%)					
Margin	**$170,824**	$144,992	18%	$126,966	14%					

* Reflects the % change from 2002 to 2003. ** Reflects the % change from 2001 to 2002.

Gas revenues and cost of gas sold were higher in 2003 and 2001 as compared to 2002 primarily due to increased natural gas prices. Due to Alliant Energy's rate recovery mechanisms for gas costs, these price differences alone had little impact on gas margin. Gas margin increased $25.8 million, or 18%, and $18.0 million, or 14%, for 2003 and 2002, respectively, primarily due to the impact of several rate increases implemented during 2003 and 2002, improved results of $3 million from WP&L's performance-based gas commodity cost recovery program (benefits are shared by ratepayers and shareowners), and continued modest customer growth. The 2003 increase was also due to slightly more favorable weather conditions during the heating season in 2003 compared to 2002. The 2002 increase was also due to the negative impact high gas prices in early 2001 had on gas consumption during that period, partially offset by reduced energy conservation revenues (which were largely offset by lower energy conservation expenses).

Refer to Note 1(i) of the "Notes to Consolidated Financial Statements" for information relating to utility fuel and natural gas cost recovery.

Domestic Utility Other Revenues - Other revenues for the domestic utilities increased $18.8 million and decreased $16.5 million for 2003 and 2002, respectively. The 2003 increase was largely due to increased revenues from WindConnect™, which includes Alliant Energy's wind farm construction management projects. The 2002 decrease was primarily due to lower non-commodity products and services revenues. These 2003 and 2002 variances were largely offset by variances in other operation and maintenance expenses for the domestic utilities.

Non-regulated Revenues - Details regarding Alliant Energy's non-regulated revenues were as follows (in millions):

	2003	2002	2001
Integrated Services	**$382**	$134	$193
International	**117**	100	77
Non-regulated Generation	**15**	--	--
Other (includes eliminations)	**26**	21	18
	$540	$255	$288

The 2003 Integrated Services increase was primarily due to increased gas revenues at Alliant Energy's natural gas marketing business, NG Energy, largely due to the impact of a new accounting pronouncement, higher natural gas prices and increased volumes sold. Increased revenues at Alliant Energy's energy and environmental services businesses also contributed to the increase. Refer to Note 10(d) of the "Notes to Consolidated Financial Statements" for further discussion of the impact of the new accounting pronouncement. The 2002 Integrated Services decrease was primarily due to decreased gas prices and lower energy services revenues. The increased International revenues for 2003 and 2002 were primarily due to acquisitions of additional combined heat and power facilities in China during 2001, 2002 and 2003. The 2003 Non-regulated Generation revenues were due to generation from a 309-MW, non-regulated, tolled, natural gas-fired power plant in Neenah, Wisconsin.

Other Operating Expenses - Other operation and maintenance expenses for the domestic utilities increased $78.5 million in 2003, primarily due to increases in the amortization of deferred costs that are now being recovered in rates and increased employee and retiree benefits (primarily compensation, medical and pension costs), WindConnect™ and nuclear expenses. The increased nuclear expenses resulted primarily from a planned refueling outage at Kewaunee in 2003. There was no refueling outage in 2002. These items were partially offset by lower fossil generation expenses due to the timing of boiler plant maintenance. The 2002 increase of $36.7 million was primarily due to increased fossil and nuclear generation expenses, employee and retiree benefits, transmission and distribution expenses and higher regulatory amortizations, partially offset by lower energy conservation and non-commodity products and services expenses and uncollectible account balances. A significant portion of these cost increases are being recovered as a result of the rate increases implemented during 2003 and 2002. Refer to "Rates and Regulatory Matters" for additional information.

Non-regulated operation and maintenance expenses were as follows (in millions):

	2003	2002	2001
Integrated Services	**$366**	$119	$181
International	**90**	77	59
Non-regulated Generation	**10**	7	5
Other (includes eliminations)	**27**	20	14
	$493	$223	$259

The Integrated Services, International and Non-regulated Generation variances were largely driven by the same factors impacting the revenue variances discussed previously. The 2003 Integrated Services increase was also due to an asset valuation charge of $6 million in 2003 related to a small waste-to-energy plant. Charges of $4 million, $5 million and $2 million are included in "Non-regulated Generation" in 2003, 2002 and 2001, respectively, for cancelled contracts and generation projects.

Depreciation and amortization expense increased $23.0 million and decreased $12.2 million in 2003 and 2002, respectively. The 2003 increase was primarily due to utility property additions, an increase of $9.5 million in non-regulated depreciation and amortization due largely to acquisitions at the non-regulated businesses and higher contributions of $4 million to IP&L's nuclear decommissioning trust fund. The 2002 decrease was primarily 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. These items were partially offset by utility property additions, acquisitions at the non-regulated businesses and increased software amortizations.

Taxes other than income taxes decreased $14.4 million in 2003 primarily due to decreased property taxes related to a 2003 property tax settlement and expiration of provisions which required additional payments in the early years of the revised property tax regulations in Iowa at IP&L. In 2003, IP&L settled a property tax appeal it had filed with the Iowa Department of Revenue and Finance. In addition to the benefits realized in 2003, IP&L expects to realize reductions in property tax expense of $5.1 million, $3.6 million and $2.1 million in 2004, 2005, and 2006 and thereafter, respectively, in comparison to what property tax expense would have been without the settlement. The impact of the settlement on ratepayers will be addressed in future rate making proceedings.

Interest Expense and Other - Interest expense increased $24.4 million and $0.7 million in 2003 and 2002, respectively. The 2003 increase was due to higher average borrowing rates at Resources due to an increase in the mix of long- versus short-term debt outstanding, higher credit facility fees at Resources and higher interest expense at the parent company. These items were partially offset by the impact of lower average borrowings at Resources. The 2002 increase was due to higher non-regulated borrowings, substantially offset by the impact of lower interest rates on Alliant Energy's variable rate borrowings and lower short-term debt at the Alliant Energy parent level, largely due to the impact of proceeds received in 2001 from a common equity offering.

Loss on early extinguishment of debt in 2003 includes debt repayment premiums and charges for the unamortized debt expenses related to long-term debt retirements of $71.5 million of senior notes at Resources and $24.0 million of senior notes at the Alliant Energy parent company.

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

	2003	2002	2001
ATC	($16)	($14)	($15)
Brazil	(9)	23	4
New Zealand	(8)	(4)	--
WRPC	(5)	(3)	(1)
Cargill-Alliant (sold in 2002)	--	(1)	(7)
Synfuel (began operations 5/02)	20	13	--
Other	(1)	(1)	--
	($19)	$13	($19)

Equity income from unconsolidated investments increased $32 million and decreased $32 million in 2003 and 2002, respectively. The improved results for Brazil during 2003 were primarily due to: rate increases implemented at all five of the Brazil operating companies throughout 2003; an increase in electric sales volumes of approximately 7% in 2003 compared to 2002; foreign currency transaction gains of $2.4 million and losses of $6.5 million during 2003 and 2002, respectively, related to approximately $40 million in debt at one of the Brazilian operating companies; and charges of $7.7 million during 2002 resulting from the receipt of regulatory orders related to the recovery of various costs. The lower 2002 results from the Brazil investments were also due to higher interest expense at the Brazil operating companies, partially offset by an approximate 5% increase in electric sales volumes during 2002 (a drought-driven rationing program was in place for seven months in 2001 and only two months in 2002). 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. The increased earnings from New Zealand during 2003 were primarily due to higher energy prices and gains on asset sales in 2003. The 2002 increased earnings from New Zealand were primarily due to the negative impacts of drought conditions in 2001. In 2002, Synfuel 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. Refer to "Other Matters - Other Future Considerations" for further discussion of the tax credits associated with the Synfuel investment.

AFUDC increased $13.0 million in 2003, primarily due to ongoing construction of the Emery plant. Preferred dividend requirements of subsidiaries increased $10.7 million in 2003 due to an increase in the aggregate amount of preferred stock outstanding at IP&L and a higher dividend rate. 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.

Miscellaneous, net income increased $22.9 million and decreased $4.7 million in 2003 and 2002, respectively, largely due to the recording of pre-tax asset valuation charges related to Alliant Energy's investments in Enermetrix, Inc. ($8.5 million in 2002) and Energy Technologies ($2.8 million in 2003 and $10.3 million in 2002). The 2003 increase was also due to improvements in the non-cash valuation adjustments related to Alliant Energy's McLeod trading securities, foreign currency transaction gains and gains from asset sales realized in 2003. These items were partially offset by lower interest income from loans to discontinued operations due to asset sales during 2003. The 2002 decrease was also impacted by lower interest income (the 2001 results included $10 million from tax settlements), gains from asset sales realized in 2001 and 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. Refer to Note 1(p) of the "Notes to Consolidated Financial Statements" for further discussion.

Income Taxes - The effective income tax rates for Alliant Energy's continuing operations were 28.9%, 31.2% and 27.8% in 2003, 2002 and 2001, respectively. Alliant Energy recorded tax benefits of $6.4 million in 2001 related to a court ruling on a federal tax case. Refer to Note 5 of the "Notes to Consolidated Financial Statements" for additional information.

Income from Discontinued Operations - Refer to "Overview" and Note 16 of the "Notes to Consolidated Financial Statements" for discussion of Alliant Energy's discontinued operations.

Cumulative Effect of Changes in Accounting Principles - In 2003, Alliant Energy recorded after-tax charges of $4 million and $2 million for the cumulative effect of changes in accounting principles related to the adoption on Jan. 1, 2003 of SFAS 143 and EITF Issue 02-3 within WPC and Integrated Services, respectively. Refer to Notes 10(d) and 10(a) of the "Notes to Consolidated Financial Statements" for further information on the EITF Issue 02-3 charge and for discussion of the charge incurred in 2001 for a cumulative effect of a change in accounting principle, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Overview - Based on expected operating cash flows, coupled with actions Alliant Energy has taken and expects to take to strengthen its balance sheet, Alliant Energy believes it will be able to secure the capital it requires to implement its updated strategic plan. Alliant Energy believes its ability to secure additional capital has been significantly enhanced by the successful execution of the strategic actions it announced in November 2002. Refer to "Strategic Overview - November 2002 Plan" for further discussion.

Alliant Energy's capital requirements are primarily attributable to construction programs and its debt maturities. Cash flows from Alliant Energy's utility subsidiaries are expected to cover dividends and capital expenditures related to infrastructure and reliability investments. The capital expenditures associated with building additional generation are expected to total $650 million through 2010 and are expected to be financed largely through external financings, supplemented by internally generated funds. In order to balance its capital structure, Alliant Energy may periodically issue additional common equity as well as debt.

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

Cash flows from (used for):	2003	2002	2001
Operating activities	$419,990	$555,338	$433,346
Financing activities	34,080	72,237	161,075
Investing activities	(274,648)	(632,602)	(654,561)

In 2003, Alliant Energy's cash flows from operating activities decreased $135 million primarily due to changes in working capital caused largely by changes in the levels of accounts receivable sold and higher inventory balances, partially offset by higher net income. Cash flows from financing activities decreased $38 million primarily due to changes in the amounts of debt and preferred stock issued and retired, partially offset by proceeds from a 2003 common equity offering and lower common stock dividends due to the dividend reduction implemented in 2003. Cash flows used for investing activities decreased $358 million primarily due to proceeds from asset sales, partially offset by construction and acquisition expenditures associated with the construction of the Emery plant. In 2002, Alliant Energy's cash flows from operating activities increased $122 million primarily due to changes in working capital. Cash flows from financing activities decreased $89 million 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. Cash flows used for investing activities decreased $22 million 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.

Certain Regulatory Approvals/Requirements - **PUHCA** - In 2001, Alliant Energy and Resources received SEC approval under an Omnibus Financing Order 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.

In June 2002, Alliant Energy received approval (valid 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 short-term borrowings by Resources in an aggregate amount that would not exceed $700 million at any one time in addition to its other guarantee authority granted in the Omnibus Financing Order discussed previously. In October 2002, IP&L received SEC approval (valid through Dec. 31, 2004) to issue short-term debt in a principal amount which would not at any one time exceed $300 million. Issuance of debt securities by WP&L is exempt from regulation under provisions of PUHCA.

In 2004, Alliant Energy and certain of its subsidiaries will file appropriate applications with the SEC for renewal of financing, guarantee and other authority required to accommodate its financing needs. Alliant Energy expects that such authority will be granted by the SEC on a timely basis.

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, 2003, as computed under this requirement, was 46.8%.

State Regulatory Agencies - At Dec. 31, 2003, IP&L and WP&L were authorized by the appropriate state regulatory agencies to issue short-term debt of $250 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 bonds.

Shelf Registrations - In 2003, Alliant Energy and Resources, in a joint filing, and IP&L filed shelf registrations. The joint filing relates to proposed offerings, from time to time, of an aggregate amount of up to $400 million of Alliant Energy's common stock, stock purchase contracts, and stock purchase units; and Resources' senior unsecured debt securities inclusive of the full and unconditional guarantee by Alliant Energy of Resources' debt securities. A total of $68 million of securities remains available under the joint shelf registration. The IP&L shelf registration relates to proposed offerings, from time to time, of an aggregate of up to $150 million of preferred stock, senior unsecured debt securities and collateral trust bonds. A total of $110 million of securities remains available under the IP&L shelf registration.

Cash and Temporary Cash Investments - As of December 31, 2003, Alliant Energy and its subsidiaries had approximately $242 million of cash and temporary cash investments, of which approximately $67 million consisted of deposits in foreign bank accounts. Due to Alliant Energy electing permanent investment of earnings for federal income tax purposes for certain foreign subsidiaries, a majority of the cash held in foreign banks cannot be repatriated without material tax obligations. Alliant Energy plans to use a portion of this cash held in foreign bank accounts to invest in future capital projects in China.

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.

Short-term Debt - Alliant Energy and its subsidiaries are party to various credit facilities and other borrowing arrangements. In September 2003, Alliant Energy completed the syndication of three 364-day revolving credit facilities (facilities) totaling $650 million ($200 million for Alliant Energy at the parent company level, $250 million for IP&L and $200 million for WP&L), available for direct borrowing or to support commercial paper. Alliant Energy has the option to convert these facilities into one-year term loans. The facility at the parent company level is used to fund Resources and Corporate Services as well as its own needs. It is expected that Alliant Energy, IP&L and WP&L will be able to renew or replace these facilities on favorable terms when they mature in 2004. 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 financings and capital market conditions. Information regarding commercial paper at Dec. 31, 2003 and during 2003 was as follows (dollars in millions):

	Alliant Energy	Parent Company	IP&L	WP&L
Commercial paper:				
Amount outstanding at Dec. 31, 2003	$107.5	$--	$107.5	$--
Weighted average maturity at Dec. 31, 2003	13 days	N/A	13 days	N/A
Discount rates at Dec. 31, 2003	1.20-1.22%	N/A	1.20-1.22%	N/A
Available capacity at Dec. 31, 2003	$542.5	$200.0	$142.5	$200.0
Average daily amount outstanding during 2003	$187.7	$97.4	$60.5	$29.8
Maximum daily amount outstanding during 2003	$346.5	$215.0	$190.0	$84.5

Alliant Energy's, IP&L's and WP&L's credit facility agreements contain various covenants, including the following:

Covenant Description (*)	Covenant Requirement	Status at Dec. 31, 2003
Alliant Energy:		
Consolidated debt-to-capital ratio	Less than 65%	48.7%
Consolidated net worth	At least $1.4 billion	$2.4 billion
EBITDA interest coverage ratio	At least 2.5x	3.6x
IP&L debt-to-capital ratio	Less than 58%	47.3%
WP&L debt-to-capital ratio	Less than 58%	29.9%

(*) 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 non-recourse debt and trade payables), capital lease obligations, letters of credit and guarantees of the foregoing and unfunded vested benefits under qualified pension plans. The equity component excludes accumulated other comprehensive income (loss). The EBITDA component of the interest coverage ratio is calculated by adding back depreciation and amortization expense to operating income.

Alliant Energy's credit facility contains a cross default provision providing it is a default under the credit facility if the majority-owned subsidiaries of Alliant Energy default on debt totaling $25 million or more. A default by a minority-owned affiliate would not create a cross default. A default by Alliant Energy or Resources would not be a cross default for WP&L or IP&L, nor would a default by either of the utilities create a cross default for the other utility.

Alliant Energy's, IP&L's and WP&L's credit facilities contain negative pledge provisions, which generally prohibit placing liens on any of the property of Alliant Energy or its subsidiaries with certain exceptions, including among others, for the issuance of secured debt under first mortgage bond indentures by IP&L and WP&L, non-recourse project financing, purchase money liens, and liens on the ownership interests in or assets of foreign subsidiaries to secure not more than $200 million aggregate principal amount of foreign debt.

Alliant Energy's, IP&L's and WP&L's credit facilities contain material adverse change (MAC) clauses. Before each extension of credit (each borrowing under the facilities), each borrower must represent and warrant that no MAC has occurred since December 31, 2002. A MAC is defined as a change that would create: (1) a MAC in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the borrower or the borrower and its subsidiaries taken as a whole; (2) a material impairment of the ability of the borrower to perform its obligations under a credit facility agreement to which it is a party; or (3) a MAC upon the legality, validity, binding effect or enforceability against the borrower of any credit agreement to which it is a party.

Alliant Energy's, IP&L's and WP&L's credit facilities contain provisions that require, during the term of the facilities, any proceeds from asset sales, with certain exclusions, in excess of 5% of their respective consolidated assets in any 12-month period be used to reduce commitments under their respective facilities. Exclusions include, among others, certain inter-company sales, certain sale and lease-back transactions and the WPC IPO.

Long-term Debt - In September 2003, IP&L issued $100 million of 5.875% unsecured senior debentures due 2018 and used the majority of the net proceeds to redeem $27.5 million of its 7.25% first mortgage bonds, $20 million of its 8.625% first mortgage bonds and $50 million of its 7.875% subordinated deferrable interest debentures. In October 2003, IP&L completed a $100 million issuance of 6.45% unsecured senior debentures due 2033 and used the majority of the net proceeds to redeem $94.0 million of its 7.625% first mortgage bonds.

In the fourth quarter of 2003, a portion of the proceeds from the WPC IPO were used to retire approximately $96 million of long-term debt, consisting of $24 million of Alliant Energy's 8.59% senior notes (at parent company), $17.5 million of Resources' 7% senior notes, $39 million of Resources' 7.375% senior notes and $15 million of Resources' 9.75% senior notes. Premiums of approximately $0.10 per share were incurred in the fourth quarter of 2003 related to these long-term debt repurchases. Alliant Energy estimates it will incur $0.04 to $0.08 per share of debt repayment premiums in 2004 related to additional long-term debt repurchases by Resources. Refer to "Strategic Overview - November 2002 Plan" for additional discussion of Alliant Energy's debt reduction and other strategic actions to strengthen its financial profile.

In September 2003, WP&L retired $70 million of its 8.6% first mortgage bonds due 2027 largely from proceeds of a capital contribution from Alliant Energy.

Refer to "Contractual Obligations" for the timing of Alliant Energy's long-term debt maturities. 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 Note 8 of the "Notes to Consolidated Financial Statements" for additional information on short- and long-term debt.

Preferred Stock - In September 2003, IP&L issued 1.6 million shares of 7.10% cumulative preferred stock at a price to the public of $25.00 per share in a public offering and received proceeds of approximately $38.7 million, which were used to reduce short-term debt.

Common Equity - Refer to "Strategic Overview - November 2002 Plan" for discussion of a common equity offering completed by Alliant Energy in July 2003. Subject to market and other conditions, Alliant Energy intends to sell additional equity in 2004. These equity sales may involve traditional underwritten offerings, continuous equity offerings or other transactions. The purpose of these equity sales would be to fund, among other things, the recently announced domestic generation build-out program. In addition to such common equity offerings, Alliant Energy also issues new common shares through its Shareowner Direct (dividend reinvestment and stock purchase plan) and 401(k) Savings Plans and generally uses the proceeds from these issuances to assist in funding construction and acquisition expenditures and for general corporate purposes.

Credit Ratings and Balance Sheet - Access to the capital and credit markets, and costs of obtaining external financing, are dependent on creditworthiness. Alliant Energy is committed to taking the necessary steps required to maintain investment-grade credit ratings and a strong balance sheet. Refer to "Strategic Overview - November 2002 Plan" for a discussion of specific actions taken in this regard. Although Alliant Energy believes the actions taken in 2003 to strengthen its balance sheet will enable it to maintain investment-grade 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. Alliant Energy's current credit ratings and outlook that were affirmed in January 2004 by both Standard & Poor's Rating Services (Standard & Poor's) and Moody's Investors Service (Moody's) are 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/issuer	BBB+	Baa1
WP&L	Secured long-term debt	A	A1
	Unsecured long-term debt	BBB+	A2
	Commercial paper	A-2	P-1
	Corporate/issuer	A-	A2
Resources (a)	Unsecured long-term debt	BBB	Baa3
	Commercial paper	Not rated	P-3
	Corporate/issuer	BBB+	Not rated
Alliant Energy	Unsecured long-term debt	BBB	Not rated
	Commercial paper	A-2	P-3
	Corporate/issuer	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 explicit credit rating downgrades or so-called "ratings triggers." Pre-existing ratings triggers in certain lease agreements were eliminated during 2003. However, Alliant Energy and its subsidiaries are parties to various agreements, including purchased-power agreements, fuel contracts, accounts receivable sale contracts and corporate guarantees that are dependent on maintaining investment-grade credit ratings. In the event of a downgrade below investment-grade, Alliant Energy or its subsidiaries may need to provide credit support, such as letters of credit or cash collateral equal to the amount of the exposure, or may need to unwind the contract or pay the underlying obligation. Both IP&L and WP&L are party to accounts receivable sale agreements that provide that any respective utility downgraded below investment-grade becomes ineligible to sell receivables under the program. In the event of downgrades below investment-grade, management believes the credit facilities at Alliant Energy, IP&L and WP&L provide sufficient liquidity to cover counterparty credit support or collateral requirements under the various purchased-power, fuel and receivables sales agreements.

Off-Balance Sheet Arrangements - Alliant Energy utilizes off-balance sheet synthetic operating 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. Refer to Note 3 of the "Notes to Consolidated Financial Statements" for future minimum lease payments under, and residual value guarantees by Alliant Energy, of these synthetic leases. Alliant Energy's credit facility agreements prohibit it from entering into any additional synthetic leases. Alliant Energy uses special purpose entities for its limited recourse 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. Refer to Note 4 of the "Notes to Consolidated Financial Statements" for aggregate proceeds from the sale of accounts receivable. While Alliant Energy does not have any reason to believe this program would be discontinued, 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 certain credit rating downgrades on IP&L and WP&L related to the accounts receivable sales program. Alliant Energy has reviewed these entities during its implementation of FIN 46, for those entities that are considered to be special-purpose entities, and determined that consolidation of these entities is not required. Alliant Energy continues to evaluate non-special purpose entities that may require consolidation as of March 31, 2004.

Sales of Non-strategic Assets - Alliant Energy is currently pursuing the sales in 2004 of its interest in its Kewaunee facility, its remaining interest of 1.1 million shares in WPC and its water utilities serving the Ripon and South Beloit areas. Alliant Energy also continues to divest other less material assets and will continue reviewing other ways to narrow its strategic focus and business platforms. The proceeds realized from these asset sales are expected to be available for debt reduction and other general corporate purposes.

Credit Risk - Alliant Energy's subsidiaries have limited credit exposure from electric and natural gas sales and non-performance of contractual obligations by its counterparties. 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.

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 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 investment-grade credit ratings and reasonable capitalization ratios, variations in sales, changing market conditions and new opportunities. 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 during 2004 and 2005 as follows (in millions):

	2004	2005
Domestic utility business:		
IP&L utility infrastructure and reliability investments	$252	$262
IP&L Power Iowa (Emery)	80	--
WP&L utility infrastructure and reliability investments	228	248
Non-regulated Generation in support of domestic utility generation plan (Sheboygan Falls project)	50	30
China (anticipated to be funded with internally generated cash or non-recourse financings)	50	35
Other non-regulated (primarily synthetic fuel/energy services)	40	35
	$700	$610

Alliant Energy has not yet entered into contractual commitments relating to the majority of its anticipated capital expenditures. As a result, Alliant Energy does have discretion with regard to the level of capital expenditures eventually incurred and it closely monitors and updates such estimates on an ongoing basis based on numerous economic and other factors. Refer to "Strategic Overview - Updated Strategic Plan" for a further discussion of Alliant Energy's domestic generation plan.

Contractual Obligations - Alliant Energy's long-term contractual cash obligations as of Dec. 31, 2003 were as follows (in millions):

	2004	2005	2006	2007	2008	Thereafter	Total
Long-term debt (Note 8(b))	$69	$102	$69	$199	$196	$1,985	$2,620
Capital leases (Note 3)	17	14	40	6	5	1	83
Operating leases (Note 3)	82	103	106	132	77	326	826
Purchase obligations:							
Purchased-power and fuel commitments (Note 11(b))	242	147	118	76	39	164	786
Other (Note 11(b))	26	--	--	--	--	--	26
	$436	$366	$333	$413	$317	$2,476	$4,341

At Dec. 31, 2003, long-term debt and capital lease obligations as noted in the previous table were included on the Consolidated Balance Sheet. The long-term debt amounts exclude reductions related to unamortized debt discounts. Purchased-power and fuel commitments represent normal business contracts used to ensure adequate purchased-power, coal and natural gas supplies and to minimize exposure to market price fluctuations. Other purchase obligations represent individual commitments incurred during the normal course of business which exceeded $1 million at Dec. 31, 2003. In connection with its construction and acquisition program, Alliant Energy also enters into commitments related to such program on an ongoing basis; these amounts are not reflected in the previous table. Refer to "Construction and Acquisition Expenditures" for additional information. In addition, at Dec. 31, 2003, there were various other long-term liabilities and deferred credits included on the Consolidated Balance Sheet that, due to the nature of the liabilities, the timing of payments cannot be estimated and are therefore excluded from the table. Refer to Note 6(a) of the "Notes to Consolidated Financial Statements" for anticipated 2004 pension and other postretirement benefit funding amounts, which are not included in the previous table.

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. Alliant Energy continually evaluates the impact of potential future international, federal, state and local environmental rulemakings on its operations. While the final outcome of these rule makings cannot be predicted, Alliant Energy believes that required capital investments and/or modifications resulting from them could be significant, but expects that prudent expenses incurred by IP&L and WP&L likely would be recovered in rates from its customers. The environmental rulemaking process continually evolves and the following are major emerging issues that could potentially have a significant impact on Alliant Energy's operations.

Air Quality - With regard to current environmental rules, Alliant Energy's Edgewater facility spent $21 million from 1999 to 2003 to improve its combustion performance. This facility now meets the 2008 Wisconsin Department of Natural Resources (DNR) nitrogen oxides (NOx) compliance goal.

WP&L also has responded to multiple data requests from the U.S. Environmental Protection Agency (EPA), related to the historical operation and associated air permitting for certain major Wisconsin coal-fired generating units. Similar requests have been precursor to penalties and capital expenditures requiring installation of air pollution controls at other utilities. However, WP&L has received no response in this regard from the EPA related to information submitted.

The 1990 Clean Air Act Amendments mandate preservation of air quality through existing regulations and periodic reviews to ensure adequacy of these provisions based on scientific data. In 1997, the EPA revised National Ambient Air Quality Standards (NAAQS) for ozone and fine particulate matter. In December 2003, the EPA proposed an Interstate Air Quality Rule related to transport of these emissions that would require significant upgrades to power plants. This rule would reduce the current level of nationwide sulfur dioxide emissions approximately 40% by 2010 and 70% by 2015, and NOx emission levels 50% by 2015. Additional reduction requirements may also be imposed at the state level for those areas that are in non-attainment with NAAQS.

In 2000, the EPA determined that regulation of hazardous air pollutant emissions from coal-fired and oil-fired electric utility steam generating units was necessary. Under an existing settlement agreement, Maximum Achievable Control Technology requirements or alternative regulations must be implemented by Dec. 15, 2004. Accordingly, the EPA has published rules for comment requiring control of mercury from coal-fired and nickel from oil-fired generating units. The impact of these regulations on IP&L's and WP&L's generating facilities is subject to the control level mandated in the final rules. In 2001, the Wisconsin DNR also independently developed proposed mercury emission control rules that could require reductions from Wisconsin generating facilities of 40% by 2010 and 80% by 2015. These rules have been sent back to the Wisconsin DNR for revision by the Wisconsin legislature due to the pending federal mercury regulations.

In December 2003, the State Environmental Protection Agency of China issued a regulation requiring thermal power plants to lower emissions to meet new limits for particulate, sulfur and nitrous oxide from coal- and oil-fired boilers. Facilities are required to meet the first phase of this emission standard by 2005 and the second phase by 2010. Alliant Energy is currently reviewing the impact of this new regulation on its China business.

Alliant Energy is also currently monitoring various other potential international, federal, state and local environmental rulemakings and activities, including, but not limited to: litigation of federal New Source Review Reforms; Regional Haze evaluations for Best Available Retrofit Technology; and 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.

Water Quality - In 2002, the EPA published a proposed regulation under the Clean Water Act referred to as "316(b)" that is anticipated to be finalized in 2004. This rule would require existing large power plants with cooling water intake structures to ensure that the location, design, construction, and capacity of cooling water intake structures reflect the best technology available for minimizing adverse environmental impacts to fish and other aquatic life. Alliant Energy is also currently evaluating proposed revisions to the Wisconsin Administrative Code concerning the amount of heat that WP&L's generating stations can discharge into Wisconsin waters.

Land and Solid Waste - Alliant Energy is monitoring possible significant land and solid waste regulatory changes. This includes a potential EPA regulation for management of coal combustion product in landfills and surface impoundments that could require installation of monitoring wells at some facilities and an ongoing expanded groundwater monitoring program. Compliance with the polychlorinated biphenols (PCB) Fix-it Rule/Persistent Organic Pollutants Treaty could possibly require replacement of all electrical equipment containing PCB insulating fluid which is a substance known to be harmful to human health. The Wisconsin Department of Commerce is proposing new rules related to flammable, combustible and hazardous liquids stored in above-ground storage tanks in which the main financial impact would be from a secondary containment requirement for all hazardous materials tanks and for hazardous material unloading areas. In addition, in December 2003, at the request of the Wisconsin DNR, WP&L submitted a written plan for facility closure of the Rock River Generating Station landfill and clean-up of the support ponds and all areas where coal combustion waste is present.

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

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 periodically 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 2004 than in 2003, interest expense would increase (decrease) by approximately $5.3 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, 2003.

Commodity Risk - Non-trading - Alliant Energy is exposed to the impact of market fluctuations in the commodity price and transportation costs of electric 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(i) of the "Notes to Consolidated Financial Statements" for further discussion.

WP&L periodically utilizes commodity derivative instruments to reduce the impact of price fluctuations on electric fuel and purchased energy costs needed to meet its power supply requirements. Under PSCW rules, WP&L can also seek rate increases if it experiences an extraordinary increase in the cost of electric fuel and purchased energy costs or if the annual costs are more than 3% higher than the estimated costs used to establish rates. Such rules were revised effective for 2003 for WP&L and significantly reduce the regulatory lag for Wisconsin utilities and customers related to the timing of changes in rates for increased or decreased fuel and purchased energy costs. Based on these revised rules, WP&L does not anticipate any significant earnings exposure related to fuel and purchased energy costs.

WP&L periodically utilizes natural gas commodity derivative instruments to reduce the impact of price fluctuations on natural gas purchased and injected into storage during the summer months and withdrawn and sold at current market prices during the winter months. The natural 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 natural gas commodity swaps. A 10% increase (decrease) in the price of natural gas would not have a significant impact on the combined fair market value of the natural gas in storage and related swap arrangements in place at Dec. 31, 2003. To the extent actual storage withdrawals vary from forecasted withdrawals, WP&L has physical gas price exposure.

IP&L also utilizes 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 commodities to be recovered from ratepayers, IP&L does not have significant commodity risk exposure.

NG Energy utilizes natural gas commodity derivative instruments to reduce the impact of natural gas price fluctuations on physical natural gas sales from storage. These natural gas commodity swaps and forward sales contracts are entered into at the same time and for the same volumes that are purchased and injected into storage, thereby minimizing natural gas commodity risk exposure. Based on the volume of natural gas sales from storage at NG Energy, a 10% increase (decrease) in the price of natural gas would not have a significant impact on Alliant Energy's results of operations or financial condition. Refer to Note 10(a) of the "Notes to Consolidated Financial Statements" for additional information concerning the impact of SFAS 149 on NG Energy's earnings.

Equity Price Risk - IP&L and WP&L maintain trust funds to fund their anticipated nuclear decommissioning costs. At Dec. 31, 2003 and 2002, these funds were invested primarily in domestic equity and debt instruments. Fluctuations in equity prices or interest rates do not affect Alliant Energy's consolidated results of operations. In 2001, WP&L entered into a four-year hedge on equity assets in its nuclear decommissioning trust fund. In January 2004, WP&L liquidated all of its qualified decommissioning trust fund assets into money market funds as a result of the pending Kewaunee sale. Refer to Notes 10(c) and 17 of the "Notes to Consolidated Financial Statements" for further discussion. Refer to "Critical Accounting Policies - Accounting for Pensions and Other Postretirement Benefits" for the impact on Alliant Energy's pension and other postretirement benefit costs of changes in the rate of returns earned by its plan assets, which include equity securities.

Currency Risk - Alliant Energy has investments in various countries where the net investments are not hedged, including 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, 2003, Alliant Energy had a cumulative foreign currency translation loss, net of any tax benefits realized, of $81 million, which related to decreases in the value of the Brazil real of $92 million and increases in the value of the New Zealand dollar of $11 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, 2003, a 10% sustained increase/decrease over the next 12 months in the foreign exchange rates of Brazil, China and New Zealand would result in a corresponding increase/decrease in the cumulative foreign currency translation loss of $48 million. Alliant Energy's equity income (loss) from its foreign investments is also impacted by fluctuations in currency exchange rates. At Dec. 31, 2003, Alliant Energy also had currency exchange risk associated with approximately $40 million of debt outstanding at one of the Brazilian operating companies. Alliant Energy recorded equity income of $2.4 million and equity losses of $6.5 million in 2003 and 2002, respectively, related to its share of the foreign currency transaction gains/losses on such debt. Based on the loan balance and currency rates at Dec. 31, 2003, a 10% change in the currency rates would result in a $2.9 million pre-tax increase/decrease in net income.

In addition, Alliant Energy has currency exchange risk associated with approximately $30 million of payables at a Canadian subsidiary within Alliant Energy's Integrated Services business. In 2003, Alliant Energy recorded pre-tax income of $3.2 million related to the foreign currency transaction gains on such payables. In November 2003, Alliant Energy acquired an option to protect $11 million of its exposure against declines in currency rates while still retaining the opportunity to participate in the benefits of increases in currency rates. Based on the payables balance, option and currency rates at Dec. 31, 2003, a 10% increase and 10% decrease in the currency rates would result in a $3.0 million pre-tax increase and $2.2 million pre-tax decrease in income, respectively.

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

<u>Accounting Pronouncements</u> - 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 adopted FIN 46, related to those entities that are considered to be special-purpose entities, on Dec. 31, 2003 with no material impact on its financial condition or results of operations. Alliant Energy continues to evaluate tolling arrangements, renewable energy entities and any other non-special purpose entities, to determine if they require consolidation under the revised FIN 46 guidance issued by the FASB in December 2003. Alliant Energy will apply the provisions of the revised guidance as of March 31, 2004.

Alliant Energy adopted SFAS 143 on Jan. 1, 2003, which provides accounting and disclosure requirements for retirement obligations associated with long-lived assets (AROs). Refer to Note 18 of the "Notes to Consolidated Financial Statements" for additional information.

Alliant Energy adopted SFAS 149 for contracts entered into or modified after June 30, 2003, except for certain implementation issues and certain provisions of forward purchase and sale contracts and for hedging relationships designated after June 30, 2003. Refer to Note 10(a) of the "Notes to Consolidated Financial Statements" for additional information.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which requires an issuer to classify outstanding free-standing financial instruments within its scope as a liability on its balance sheet even though the instruments have characteristics of equity. Alliant Energy adopted SFAS 150 on July 1, 2003 with no material impact on its financial condition or results of operations. Alliant Energy continues to evaluate the implications of FSP No. FAS 150-3, "Effective Date, Disclosures, and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests under FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" issued in November 2003, which defers the effective date for applying the provisions of SFAS 150 for certain mandatorily redeemable non-controlling interests.

In December 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans, that provide a benefit that is at least actuarially equivalent to Medicare Part D. As permitted by FSP No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," Alliant Energy has elected to defer reflecting the effect of the Act on postretirement net periodic benefit cost and the accumulated postretirement benefit obligation in the Consolidated Financial Statements, since specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require Alliant Energy to change previously reported information. Alliant Energy is currently evaluating the effect of the Act on its other postretirement benefits expense.

Alliant Energy does not expect the various other new accounting pronouncements not mentioned above that were effective in 2003 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, it qualifies for the application of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." 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. Some 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.

At Dec. 31, 2003, Resources' Non-regulated Generation business owned $96 million of generation equipment consisting of two gas turbines and one steam turbine. Alliant Energy plans to deploy the two gas turbines ($75 million) in a 300 MW natural gas-fired power plant outside Sheboygan Falls, Wisconsin and continues to review for potential generation projects to utilize the steam turbine ($21 million). As a result, Alliant Energy has assessed the recoverability of the $96 million equipment cost compared to the future anticipated cash flows from these generation projects. The future anticipated cash flows are 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. 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. In 2002, 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. The Consolidated Balance Sheets also contain various other investments that are evaluated for recoverability when indicators of impairment may exist. Refer to Note 9 of the "Notes to Consolidated Financial Statements" for further information related to Alliant Energy's investments accounted for in accordance with SFAS 115.

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 local currency 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 represent a significant estimate. The $283 million carrying value of Alliant Energy's Brazil investments has been reduced by $162 million of pre-tax cumulative foreign currency translation losses. The net of tax balance of $92 million has been recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheet at Dec. 31, 2003. 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.

Resources' investment in Mexico consists primarily of a loan receivable (including accrued interest income) from a Mexican development company aggregating approximately $79 million at Dec. 31, 2003. The proceeds from the loan have been used by the Mexican development company to complete substantially all of the construction and development of the infrastructure of a master planned resort community. The loan accrues interest at 8.75% and is secured by a first lien on the land parcels to be developed for the master planned community. Repayment of the loan principal and interest will be based on a portion of the proceeds from the sales, performed by the Mexican development company, of real estate lots in the master planned community and therefore is dependent on the successful development of the project and sale of real estate. The recoverability of this loan receivable is currently assessed by comparing the fair value of the land used to secure the loan and the carrying value of the loan including accrued interest. An updated, independent appraisal completed in the fourth quarter of 2003 indicated that the fair value of the collateral, which is a significant estimate, exceeded the carrying value of the loan and accrued interest at Dec. 31, 2003, by a modest amount. Notwithstanding the developers' expectations regarding the development of the project and the impending lot sales, Alliant Energy has expressed concerns with the developers regarding the pace of the project and its marketing efforts. Alliant Energy is providing options to the developers to hasten the marketing and sales of the lots of the master planned community and to ensure faster recovery of its secured loan. If the development of the project and related real estate sales are not successfully executed, it is possible that Alliant Energy could incur material asset valuation charges and/or be required to discontinue recording interest income on the loan in the future. Refer to Note 9 of the "Notes to Consolidated Financial Statements" for additional information concerning Alliant Energy's investments in Brazil and Mexico.

Goodwill - In accordance with SFAS 142, 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, 2003, Alliant Energy had $56 million of net goodwill (including $41 million and $10 million within its Cogenex and China 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. Refer to Note 14 of the "Notes to Consolidated Financial Statements" for further discussion.

Derivative Financial Instruments - Alliant Energy uses derivative financial instruments to hedge exposures to fluctuations in interest rates, certain commodity prices, certain currency rates, 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.

SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. Although SFAS 149 is expected to result in more energy contracts in Alliant Energy's domestic utility business qualifying as derivatives, changes in the fair value of these derivatives are generally reported as changes in regulatory assets and liabilities rather than being reported currently in earnings, based on the regulatory treatment. SFAS 149 will likely result in more earnings volatility at NG Energy given the majority of its derivatives may not qualify for hedge accounting. Additionally, Alliant Energy has some commodity purchase and sales contracts that have been designated, and qualify for, the normal purchase and sale exception. Based on this designation, these contracts are not accounted for as derivative instruments.

A number of Alliant Energy's derivative transactions are in its domestic utility business and are based on the fuel and natural gas cost recovery mechanisms in place, as well as other specific regulatory authorizations. As a result, 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. Refer to Notes 10(d) and 10(a) of the "Notes to Consolidated Financial Statements" for a further discussion of the impacts of EITF Issue 02-3 and SFAS 149, respectively, on the derivatives entered into by NG Energy.

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 system demand 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 and Other Postretirement Benefits - Alliant Energy accounts for pensions and other postretirement benefits under SFAS 87, "Employers' Accounting for Pensions" and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively. Under these rules, certain assumptions are made which represent significant estimates. There are many factors involved in determining an entity's pension and other postretirement liabilities and costs each period including assumptions regarding employee demographics (including age, life expectancies, and compensation levels), discount rates, assumed rate of returns and funding. Changes made to the plan provisions may also impact current and future pension and other postretirement 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, 2003, Alliant Energy was using a 6% discount rate to calculate benefit obligations 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 $102 million and $23 million in Alliant Energy's pension and other postretirement benefit obligations and $7 million and $2 million in expense, respectively. A 100 basis point change in the rate of return would result in an approximate change of $5 million and $1 million in pension and other postretirement benefit expense, respectively. Refer to Note 6(a) of the "Notes to Consolidated Financial Statements" for discussion of the impact of a change in the medical trend rates.

Income Taxes - Alliant Energy accounts for income taxes under SFAS 109, "Accounting for Income Taxes." Under these rules, certain assumptions are made which represent significant estimates. There are many factors involved in determining an entity's income tax assets, liabilities, benefits and expense each period. These factors include assumptions regarding Alliant Energy's future taxable income and its ability to utilize tax credits and loss carryovers as well as the impacts from the completion of audits of the tax treatment of certain transactions. Alliant Energy's assumptions are supported by historical data and reasonable projections and are reviewed quarterly by management. Significant changes in these assumptions could have a material impact on Alliant Energy's financial condition and results of operations. Refer to Note 5 of the "Notes to Consolidated Financial Statements" for further discussion.

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

Exchangeable Senior Notes - At Dec. 31, 2003, the carrying amount of the debt component of Resources' exchangeable senior notes was $37.9 million, consisting of the par value of $402.5 million, less unamortized debt discount of $364.6 million. The terms of the exchangeable senior notes required 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 2003, interest expense on the notes was $10.2 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 2004, 2005 and 2006.

The interest deductions Alliant Energy has taken on its federal tax returns related to Resources' exchangeable notes are currently under audit by the IRS. Alliant Energy believes these interest deductions comply with the Internal Revenue Code, however, if Alliant Energy receives an adverse ruling related to these interest deductions it could have a material impact on its results of operations.

Brazil - In the fourth quarter of 2003, the Brazilian electric utility companies Alliant Energy holds unconsolidated investments in completed the restructuring of approximately $245 million, as converted from local currency to U.S. dollars, of short- and long-term debt into new long-term debentures and commercial loans. The Brazilian electric utility companies have also arranged for the restructuring of the approximately $40 million loan for the joint venture gas-fired generating facility (Juiz de Fora) in which Alliant Energy holds a 50% direct ownership interest. Alliant Energy does not expect these debt restructurings will have a material impact on its 2004 earnings as the primary changes relate to extending the debt repayment dates. However, interest rates in general have been declining in Brazil, which would have a favorable impact on the comparison of Alliant Energy's 2004 and 2003 earnings, should the average 2004 rates remain lower than the average 2003 rates.

To complete earlier plans, the Juiz de Fora facility is scheduled for a 20-MW expansion from a single cycle to a combined cycle facility at an estimated cost of $24 million. If the Juiz de Fora combined cycle construction is not completed as anticipated, the future performance obligations of this generation asset might be significantly adversely affected. In such an event, Alliant Energy is not required to invest any additional capital in Brazil, however, it could lead to material asset valuation charges with respect to Alliant Energy's investment in the Juiz de Fora facility.

Alliant Energy continues to closely monitor the financial performance of its Brazilian investments. While such performance improved significantly in 2003, and Alliant Energy expects continued improvements in 2004, Alliant Energy believes more can be done to hasten the rate of improvement - particularly in regard to controlling costs and reduction of debt - and this has been a source of dispute with its Brazilian partners. Alliant Energy believes the potential of the Brazilian market is significant and it is discussing with its Brazilian partners various alternatives in order to strengthen and secure its investments in this market. Alliant Energy continues its ongoing review of options related to its Brazilian investments. Alliant Energy cannot currently predict the ultimate outcome of these reviews and discussions.

Synfuel - In June 2003, the IRS announced it was reviewing the scientific validity of test procedures and results used by companies claiming tax credits for producing synthetic fuels from coal and may withdraw such credits for operations that fail to meet federal standards which require, among other things, a significant chemical change to occur in the process. In October 2003, the IRS stated this review was complete and that the test procedures and results used by taxpayers for chemical change are scientifically valid if the procedures are applied in a consistent and unbiased manner. Since the second quarter of 2002, Alliant Energy has been an investor in a synthetic fuel facility and continued to record these tax credits as of Dec. 31, 2003. Currently, the IRS is auditing this facility to determine if its procedures are applied in a consistent and unbiased manner. Alliant Energy expects the audit to be completed in 2004 and cannot predict its outcome. The synthetic fuel facility Alliant Energy partially owns previously received a private letter ruling from the IRS, which states that based on the facts submitted, a significant chemical change was achieved in its process. Alliant Energy has recognized tax credits for producing synthetic fuels of $23 million and $15 million for 2003 and 2002, respectively, and expects to recognize approximately $23 million of additional credits in 2004.

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 of America. 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 and Chief Executive Officer

Eliot G. Protsch
Senior Executive Vice President and Chief Financial Officer

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

March 3, 2004

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, 2003 and 2002, and the related consolidated statements of income, cash flows and changes in common equity for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the consolidated financial statements, on January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 3, 2004

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2003	2002	2001
	(in thousands, except per share amounts)		
Operating revenues:			
Domestic utility:			
Electric	$1,917,068	$1,752,534	$1,756,556
Gas	566,926	393,986	487,877
Other	104,194	85,415	101,894
Non-regulated	539,999	254,655	287,903
	3,128,187	2,486,590	2,634,230
Operating expenses:			
Domestic utility:			
Electric production fuel and purchased power	730,594	651,813	695,168
Cost of gas sold	396,102	248,994	360,911
Other operation and maintenance	701,784	623,240	586,550
Non-regulated operation and maintenance	493,457	223,389	259,021
Depreciation and amortization	305,074	282,098	294,339
Taxes other than income taxes	89,442	103,865	102,136
	2,716,453	2,133,399	2,298,125
Operating income	411,734	353,191	336,105
Interest expense and other:			
Interest expense	207,150	182,741	182,008
Loss on early extinguishment of debt	16,864	-	-
Equity (income) loss from unconsolidated investments	(19,121)	12,825	(18,799)
Allowance for funds used during construction	(20,719)	(7,696)	(11,144)
Preferred dividend requirements of subsidiaries	16,891	6,172	6,720
Impairment of available-for-sale securities of McLeodUSA Inc.	-	27,218	-
Miscellaneous, net	(20,859)	2,074	(2,662)
	180,206	223,334	156,123
Income from continuing operations before income taxes	231,528	129,857	179,982
Income taxes	71,827	42,401	51,823
Income from continuing operations	159,701	87,456	128,159
Income from discontinued operations, net of tax (Note 16)	29,825	19,425	57,071
Income before cumulative effect of changes in accounting principles	189,526	106,881	185,230
Cumulative effect of changes in accounting principles, net of tax	(5,983)	-	(12,868)
Net income	$183,543	$106,881	$172,362
Average number of common shares outstanding (basic)	101,366	90,897	80,498
Average number of common shares outstanding (diluted)	101,544	90,959	80,636
Earnings per average common share (basic and diluted):			
Income from continuing operations	$1.57	$0.97	$1.59
Income from discontinued operations	0.30	0.21	0.71
Cumulative effect of changes in accounting principles	(0.06)	-	(0.16)
Net income	$1.81	$1.18	$2.14
Dividends declared per common share	$1.00	$2.00	$2.00

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

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2003	2002
	(in thousands)	
Property, plant and equipment:		
Domestic utility:		
Electric plant in service	$5,707,478	$5,295,381
Gas plant in service	646,439	613,122
Other plant in service	538,340	530,456
Accumulated depreciation	(2,985,285)	(2,791,891)
Net plant	3,906,972	3,647,068
Construction work in progress:		
Emery generating facility	304,332	10,651
Other	152,684	252,445
Other, less accumulated depreciation (accum. depr.) of $3,242 and $2,952	68,611	68,340
Total domestic utility	4,432,599	3,978,504
Non-regulated and other:		
Non-regulated Generation, less accum. depr. of $3,380 and $73	204,480	156,699
International, less accum. depr. of $33,708 and $20,737	198,875	171,179
Integrated Services, less accum. depr. of $32,903 and $31,021	60,617	73,983
Other Investments, less accum. depr. of $26,179 and $24,108	53,819	54,303
Corporate Services and other, less accum. depr. of $25,283 and $9,427	68,415	75,282
Total non-regulated and other	586,206	531,446
	5,018,805	4,509,950
Current assets:		
Cash and temporary cash investments	242,281	62,859
Restricted cash	11,418	9,610
Accounts receivable:		
Customer, less allowance for doubtful accounts of $5,522 and $4,364	80,664	69,413
Unbilled utility revenues	83,385	50,624
Other, less allowance for doubtful accounts of $786 and $845	94,733	60,107
Income tax refunds receivable	20,878	97,469
Production fuel, at average cost	54,148	63,126
Materials and supplies, at average cost	60,518	58,603
Gas stored underground, at average cost	90,964	62,797
Regulatory assets	61,777	46,076
Assets of discontinued operations (Note 16)	-	969,291
Other	82,137	105,487
	882,903	1,655,462
Investments:		
Investments in unconsolidated foreign entities	481,525	373,816
Nuclear decommissioning trust funds	381,524	344,892
Investment in ATC and other	260,511	217,992
	1,123,560	936,700
Other assets:		
Regulatory assets	339,261	302,365
Deferred charges and other	410,917	409,607
	750,178	711,972
Total assets	$7,775,446	$7,814,084

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

CONSOLIDATED BALANCE SHEETS (Continued)

CAPITALIZATION AND LIABILITIES	December 31, 2003	2002
	(in thousands, except share amounts)	
Capitalization (See Consolidated Statements of Capitalization):		
Common stock - $0.01 par value - authorized 200,000,000 shares; outstanding 110,962,910 and 92,304,220 shares	$1,110	$923
Additional paid-in capital	1,643,572	1,293,919
Retained earnings	840,417	758,187
Accumulated other comprehensive loss	(106,415)	(209,943)
Shares in deferred compensation trust - 264,673 and 239,467 shares at an average cost of $27.84 and $28.80 per share	(7,370)	(6,896)
Total common equity	2,371,314	1,836,190
Cumulative preferred stock of subsidiaries, net	243,803	205,063
Long-term debt, net (excluding current portion)	2,123,298	2,609,803
	4,738,415	4,651,056
Current liabilities:		
Current maturities and sinking funds	69,281	46,591
Variable rate demand bonds	55,100	55,100
Commercial paper	107,500	195,500
Other short-term borrowings	21,495	113,721
Accounts payable	309,816	282,855
Accrued interest	43,962	34,819
Accrued taxes	70,835	105,521
Liabilities of discontinued operations (Note 16)	-	138,251
Other	176,120	149,952
	854,109	1,122,310
Other long-term liabilities and deferred credits:		
Accumulated deferred income taxes	702,648	661,798
Accumulated deferred investment tax credits	49,085	54,375
Regulatory liabilities	632,230	94,300
Asset retirement obligations (Note 18)	345,680	-
Pension and other benefit obligations	188,324	181,010
Cost of removal obligations	-	781,516
Other	212,413	224,294
	2,130,380	1,997,293
Minority interest	52,542	43,425
Commitments and contingencies (Note 11)		
Total capitalization and liabilities	$7,775,446	$7,814,084

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
		(in thousands)	
Cash flows from operating activities:			
Net income	$183,543	$106,881	$172,362
Adjustments to reconcile net income to net cash flows from operating activities:			
Income from discontinued operations, net of tax	(29,825)	(19,425)	(57,071)
Depreciation and amortization	305,074	282,098	294,339
Other amortizations	73,716	51,567	52,724
Deferred tax expense (benefit) and investment tax credits	59,133	13,192	(19,937)
Equity (income) loss from unconsolidated investments, net	(19,121)	12,825	(18,799)
Distributions from equity method investments	24,252	21,671	16,961
Non-cash valuation charges	11,035	59,463	33,706
Cumulative effect of changes in accounting principles, net of tax	5,983	-	12,868
Other	(12,821)	(8,473)	(4,693)
Other changes in assets and liabilities:			
Accounts receivable	(52,638)	(16,576)	64,567
Sale of utility accounts receivable	(26,000)	24,000	24,000
Gas stored underground	(28,167)	(5,683)	(15,755)
Accounts payable	(16,415)	37,997	(55,872)
Accrued taxes	(34,686)	18,764	11,392
Other	(23,073)	(22,963)	(77,446)
Net cash flows from operating activities	419,990	555,338	433,346
Cash flows from financing activities:			
Common stock dividends	(101,313)	(180,987)	(158,231)
Proceeds from issuance of common stock	345,606	56,066	288,553
Proceeds from issuance of preferred stock of subsidiary	38,738	144,602	-
Redemption of preferred stock of subsidiary	-	(56,389)	-
Net change in Resources' credit facility	-	(383,610)	63,110
Proceeds from issuance of other long-term debt	338,623	300,023	513,530
Reductions in other long-term debt	(367,783)	(20,818)	(145,359)
Net change in commercial paper and other short-term borrowings	(180,226)	200,145	(320,449)
Net change in loans with discontinued operations	(10,574)	37,467	(49,006)
Other	(28,991)	(24,262)	(31,073)
Net cash flows from financing activities	34,080	72,237	161,075
Cash flows used for investing activities:			
Construction and acquisition expenditures:			
Domestic utility business	(580,808)	(405,761)	(340,789)
Non-regulated businesses	(248,517)	(218,242)	(332,183)
Corporate Services and other	(9,568)	(32,749)	(40,019)
Nuclear decommissioning trust funds	(14,091)	(22,923)	(22,100)
Proceeds from asset sales	523,045	27,643	107,934
Other	55,291	19,430	(27,404)
Net cash flows used for investing activities	(274,648)	(632,602)	(654,561)
Net increase (decrease) in cash and temporary cash investments	179,422	(5,027)	(60,140)
Cash and temporary cash investments at beginning of period	62,859	67,886	128,026
Cash and temporary cash investments at end of period	$242,281	$62,859	$67,886
Supplemental cash flows information:			
Cash paid during the period for:			
Interest	$198,582	$184,135	$180,351
Income taxes, net of refunds	$17,488	$30,649	$70,895
Noncash investing and financing activities:			
Debt repaid directly by buyer in the sale of Australian business	$127,595	$-	$-
Debt assumed by buyer of affordable housing business	$87,986	$-	$-
Capital lease obligations incurred and other	$14,801	$19,101	$19,967

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 2003	2002
	(in thousands)	
Common equity (See Consolidated Balance Sheets)	$2,371,314	$1,836,190
Cumulative preferred stock of subsidiaries, net (Note 7(b))	243,803	205,063
Long-term debt:		
Domestic utility:		
First Mortgage Bonds:		
7.75%, due 2004	62,000	62,000
1.73% variable rate at Dec. 31, 2003 to 7.6% fixed rate, due 2005	88,000	88,000
8% at Dec. 31, 2003, due 2007, partially retired in 2003	25,000	52,450
1.37% variable rate at Dec. 31, 2003, due 2014	8,500	8,500
1.29% to 1.73% variable rate at Dec. 31, 2003, due 2015	30,600	30,600
7-5/8%, retired in 2003	-	94,000
8.6%, retired in 2003	-	70,000
8-5/8%, retired in 2003	-	20,000
	214,100	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:		
2.5% to 4.2% through 2004, due 2005 to 2023	25,900	25,900
6.25% to 6.35%, due 2009 to 2012, partially retired in 2003	12,250	14,930
2.4% variable rate at Dec. 31, 2003, due 2010, partially retired in 2003	7,700	10,100
	45,850	50,930
Other long-term debt:		
Debentures, 7%, due 2007	105,000	105,000
Debentures, 5.7%, due 2008	60,000	60,000
Senior debentures, 6-5/8%, due 2009	135,000	135,000
Debentures, 7-5/8%, due 2010	100,000	100,000
Senior debentures, 6-3/4%, due 2011	200,000	200,000
Senior debentures, 5.875%, due 2018	100,000	-
Senior debentures, 6.45%, due 2033	100,000	-
Subordinated deferrable interest debentures, 7-7/8%, retired in 2003	-	50,000
Total domestic utility	1,294,350	1,360,880
Non-regulated and other:		
Senior notes, 4.55%, due 2008	75,000	-
Senior notes, 7.375%, due 2009, partially retired in 2003	210,955	250,000
Alliant Energy Neenah, LLC credit facility, 2.69% at Dec. 31, 2003, due 2010	55,139	-
Senior notes, 7%, due 2011, partially retired in 2003	282,500	300,000
Senior notes, 9.75%, due 2013, partially retired in 2003	285,000	300,000
Exchangeable senior notes, 2.5%, due 2030	402,500	402,500
Senior notes, 8.59%, retired in 2003	-	24,000
WPC credit facility, 3.63% at Dec. 31, 2002 (a)	-	185,000
Multifamily housing revenue bonds, 1.75% variable rate to 7.55% at Dec. 31, 2002 (b)	-	38,830
Other, 1% to 6.70%, due 2004 to 2010 (c)	14,943	223,841
Total non-regulated and other	1,326,037	1,724,171
	2,620,387	3,085,051
Less:		
Current maturities	(69,281)	(46,591)
Variable rate demand bonds	(55,100)	(55,100)
Unamortized debt discount, net	(372,708)	(373,557)
Total long-term debt, net (excluding current portion)	2,123,298	2,609,803
Total capitalization	$4,738,415	$4,651,056

(a) Not included on Alliant Energy's Consolidated Balance Sheet at Dec. 31, 2003 as a result of the WPC IPO.
(b) Balance at Dec. 31, 2002 was assumed by buyer of affordable housing business in 2003.
(c) Balance at Dec. 31, 2002 includes debt repaid directly by buyer in the sale of Australian business and debt assumed by buyer of affordable housing business.

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)		
2001:						
Beginning balance (a)	$790	$947,504	$818,162	$271,867	($851)	$2,037,472
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
2003:						
Net income			183,543			183,543
Unrealized holding gains on securities, net of tax of $6,467				11,203		11,203
Less: reclassification adjustment for gains included in net income, net of tax of $1,420				2,408		2,408
Net unrealized gains on securities				8,795		8,795
Foreign currency translation adjustments, net of tax				83,646		83,646
Minimum pension liability adjustments, net of tax of $4,279				6,291		6,291
Unrealized holding losses on derivatives, net of tax of ($886)				(1,655)		(1,655)
Less: reclassification adjustment for losses included in net income, net of tax of ($3,802)				(6,451)		(6,451)
Net unrealized gains on qualifying derivatives				4,796		4,796
Total comprehensive income						287,071
Common stock dividends			(101,313)			(101,313)
Common stock issued	187	349,653			(474)	349,366
Ending balance	$1,110	$1,643,572	$840,417	($106,415)	($7,370)	$2,371,314

(a) Accumulated other comprehensive income (loss) at January 1, 2001 consisted of $335,523 of net unrealized gains on securities, ($59,978) of foreign currency translation adjustments and ($3,678) of net unrealized losses on qualifying derivatives.

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

NOTES TO CONSOLIDATED FINANCIAL 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. IP&L and WP&L are utility subsidiaries that are engaged principally in the generation, transmission (IP&L only), distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in Iowa, Wisconsin, Minnesota and Illinois. Resources (through its numerous direct and indirect subsidiaries) is comprised of four primary business platforms: Non-regulated Generation, International, Integrated Services and Other Investments. Non-regulated Generation owns a 309-MW, non-regulated, tolled, natural gas-fired power plant in Neenah, Wisconsin and intends to support the development, financing and construction of generation to meet the needs of Alliant Energy's domestic utility business. International holds interests in various businesses to develop energy generation, delivery and infrastructure in growing international markets, including Brazil, China and New Zealand. Integrated Services provides a wide range of energy and environmental services for commercial, industrial, institutional, educational and governmental customers. Other Investments includes ownership of transportation companies, an equity interest in a synthetic fuel processing facility, Alliant Energy's loan receivable from a Mexican development company and related utility operations and various other investments. 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 (WPC), Australian (including Southern Hydro Partnership (Southern Hydro)), affordable housing and SmartEnergy businesses were classified as held for sale. In 2003, Alliant Energy completed the sale of the Australian, affordable housing and SmartEnergy businesses, as well as the sale of over 94% of the WPC stock. 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. FIN 46, issued by the FASB in January 2003, 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 risk to finance its activities without additional subordinated financial support from other parties. 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. The most significant reclassifications relate to the reporting of accumulated costs of removal which are non-legal retirement obligations and accumulated decommissioning costs accrued prior to January 1, 2003. Previously, these costs were included as components of "Accumulated Depreciation" but in accordance with recent SEC guidance are now shown in "Cost of removal obligations" on the Consolidated Balance Sheet at Dec. 31, 2002.

Unconsolidated investments for which Alliant Energy does not control, but does have the ability to exercise significant influence over operating and financial policies (generally, 20% to 50% voting interest), are 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.

(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, 2003 and 2002, IP&L had $24 million and $7 million and WP&L had $7 million and $6 million of regulatory assets that were not earning returns, respectively. At Dec. 31, 2003 and 2002, regulatory assets and liabilities were comprised of the following items (in millions):

	Regulatory Assets		Regulatory Liabilities	
	2003	2002	**2003**	2002
Tax-related (Note 1(d))	**$187.2**	$177.6	**$92.0**	$83.8
Environmental-related (Note 11(e))	**58.6**	64.9	**5.2**	5.1
Energy efficiency program costs	**36.8**	46.7	**--**	--
Asset retirement obligations (Note 18)	**28.8**	--	**--**	--
Cost of removal obligations	**--**	--	**535.8**	--
Other	**89.6**	59.2	**16.9**	22.3
	$401.0	$348.4	**$649.9**	$111.2

Alliant Energy believes it is probable that any differences between expenses for legal AROs calculated under SFAS 143 and expenses recovered currently in rates will be recoverable in future rates, and is deferring the difference of $28.8 million as a regulatory asset. Alliant Energy also collects in rates future removal costs for many assets that do not have an associated legal ARO. Alliant Energy records a liability for the estimated amounts it has collected in rates for these future removal costs less amounts spent on removal activities. At Dec. 31, 2003 and 2002, non-legal removal obligations of $535.8 million and $497.1 million were recorded in "Regulatory liabilities" and "Cost of removal obligations," respectively, on the Consolidated Balance Sheets.

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 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) because rates are reduced for the current tax benefits. 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:	**2003**	2002	2001
Basic earnings per share calculation	**101,365,877**	90,896,885	80,497,823
Effect of dilutive securities	**178,510**	62,177	138,006
Diluted earnings per share calculation	**101,544,387**	90,959,062	80,635,829

In 2003, 2002 and 2001, 3,799,938, 3,338,978, and 1,501,854 options, respectively, to purchase shares of common stock, with average exercise prices of $28.68, $29.67, and $31.08, 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. Alliant Energy's short-term restricted cash at Dec. 31, 2003 and 2002 primarily related to borrowing requirements for various power plants in China. At Dec. 31, 2003, Alliant Energy also had $6.7 million of long-term restricted cash related to borrowing requirements for the acquisition and maintenance of Resources' 309-MW, non-regulated, tolled, natural gas-fired power plant in Neenah, Wisconsin, which was acquired in 2003.

(g) Property, Plant and Equipment - Domestic utility plant (other than acquisition adjustments) is recorded at original cost, which includes overhead, administrative costs and AFUDC. At Dec. 31, 2003 and 2002, IP&L had $20.8 million and $22.0 million, respectively, of acquisition adjustments, net of accumulated amortization, included in utility plant ($4.6 million and $4.9 million, respectively, of such balances are currently being recovered in IP&L's rates). The aggregate AFUDC recovery rates, computed in accordance with the prescribed regulatory formula, were as follows:

	2003	2002	2001
IP&L	7.9%	6.9%	7.7%
WP&L	9.5%	2.6%	7.9%

IP&L and WP&L 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 the Duane Arnold Energy Center (DAEC), of which IP&L is a co-owner, is based on the Nuclear Regulatory Commission (NRC) 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		
	2003	2002	2001	2003	2002	2001
Electric	3.3%	3.4%	3.5%	3.7%	3.6%	3.7%
Gas	2.7%	2.9%	3.6%	4.0%	4.1%	4.1%

Nuclear fuel for DAEC is leased. Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for electric generation, 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 electric generation. This accumulated amortization assumes spent nuclear fuel will have no residual value. Estimated future disposal costs of such fuel are expensed based on kilowatt-hours (KWhs) generated. Refer to Note 3 for additional information on DAEC's nuclear fuel lease.

Non-regulated property, plant and equipment is recorded at cost. The majority of the non-regulated property, plant and equipment is depreciated using the straight-line method over periods ranging from 10 to 32 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 the Consolidated Statements of Income. Ordinary retirements of utility plant and salvage value are netted and charged to accumulated depreciation upon removal from utility plant accounts and no gain or loss is recognized. Removal costs reduce the regulatory liability previously established.

(h) Operating Revenues - Revenues from IP&L and WP&L are primarily from electric and natural gas sales and deliveries 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's non-regulated businesses also account for the revenues of certain contracts on the percentage of completion method. Alliant Energy accrues revenues for services rendered but unbilled at month-end. Revenues and expenses from non-regulated gas marketing contracts that are designated as trading are reported on a net basis in the Consolidated Statements of Income. Refer to Note 10(d) for discussion of energy-trading contracts. Certain of Alliant Energy's subsidiaries serve as collection agents for sales or various other taxes and record revenues on a net basis. The revenues do not include the collection of the aforementioned taxes.

(i) Domestic 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 production fuel and purchased power" and "Cost of 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 Energy Adjustment Clauses (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 rate increases if it experiences an extraordinary increase in these costs or if the annual costs are more than 3% higher than the estimated costs used to establish rates. 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.

(j) Generating Facility Outages - 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. These costs include incremental internal labor costs, contractor labor and materials directly related to activities performed during the outage. 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. The maintenance costs incurred during outages for Alliant Energy's various other generating facilities are also expensed as incurred. The timing of the DAEC and Kewaunee refueling outages during 2001-2003 and anticipated refueling outages for 2004-2006 are as follows:

	2001	2002	2003	2004	2005	2006
DAEC	Spring	None	Spring	None	Spring	None
Kewaunee	Fall	None	Spring	Fall	None	Spring

(k) 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.

(l) Derivative Financial Instruments - Alliant Energy uses derivative financial instruments to hedge exposures to fluctuations in interest rates, certain commodity prices, certain currency rates 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. A number of Alliant Energy's derivative transactions are in its 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 some commodity purchase and sales contracts that have been designated, and qualify for, the normal purchase and sale exception and 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 related to its derivative financial instruments. Refer to Note 10 for further discussion of Alliant Energy's derivative financial instruments.

(m) Accounting for Stock Options - At Dec. 31, 2003, 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 Accounting Principles Board Opinion (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. 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):

	2003	2002	2001
Net income, as reported	**$183,543**	$106,881	$172,362
Less: stock-based compensation expense, net of tax	**2,044**	2,541	2,446
Pro forma net income	**$181,499**	$104,340	$169,916
EPS (basic and diluted):			
As reported	**$1.81**	$1.18	$2.14
Pro forma	**$1.79**	$1.15	$2.11

(n) 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.

(o) 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. The estimated fair value, less cost to sell assets held for sale, is compared each reporting period to their carrying values. Impairment charges are recorded for assets held for sale if the carrying value of such asset exceeds the estimated fair value less cost to sell.

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. In accordance with SFAS 142, 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. If an impairment is indicated, a charge is recognized equal to the amount the carrying value exceeds the investment's fair value.

(p) Miscellaneous, net - The other (income) and deductions included in "Miscellaneous, net" in the Consolidated Statements of Income are as follows (in millions):

	2003	2002	2001
Interest income:			
From loans to discontinued operations	**($3.8)**	($16.9)	($10.0)
Other	**(14.0)**	(12.8)	(23.7)
Valuation charges/(income):			
Unconsolidated investments	**2.8**	18.8	--
McLeod trading securities (Note 10(a))	**(0.6)**	5.0	215.1
Derivative component of Resources' exchangeable senior notes (Note 10(a))	**--**	(0.4)	(181.6)
(Gains) losses on asset sales, net	**(5.8)**	0.1	(4.4)
Currency transaction (gains) losses, net	**(5.6)**	0.7	(0.4)
Minority interest of subsidiaries' net earnings	**4.8**	5.2	4.9
Other	**1.3**	2.4	(2.6)
	($20.9)	$2.1	($2.7)

(2) DOMESTIC UTILITY RATE MATTERS

In February 2004, WP&L received approval from the PSCW to refund $5.3 million to its natural gas customers as relates to its annual performance under the gas performance incentive. The PSCW has not yet audited the refund calculation, but agreed with WP&L's request to refund approximately 80% of the total refund amount at this time. This refund was completed in February 2004 and the remainder of the refund will be completed after the PSCW completes their audit and issues a ruling. At Dec. 31, 2003, WP&L had reserves for all amounts related to these refunds. Refer to Note 1(i) for further discussion of WP&L's fuel cost recovery.

(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 production fuel and purchased power" in the Consolidated Statements of Income) for 2003, 2002 and 2001 were $12.7 million, $15.5 million and $14.1 million, respectively. Alliant Energy's operating lease rental expenses, which include certain purchased-power agreements, for 2003, 2002 and 2001 were $46.3 million, $44.5 million and $40.2 million, respectively. The purchased-power agreements total below includes $464 million and $69 million related to the Riverside and RockGen plants, respectively, in Wisconsin. Riverside is expected to be placed in-service in 2004. Alliant Energy continues to evaluate Riverside, RockGen and other tolling arrangements, renewable energy entities and any other non-special purpose entities, to determine if they require consolidation under the revised FIN 46 guidance issued by the FASB in December 2003. Alliant Energy will apply the provisions of the revised guidance as of March 31, 2004. The synthetic leases relate to the financing of the corporate headquarters, corporate aircraft, utility railcars and a utility radio dispatch system. These leases do not meet the consolidation requirements per FIN 46 and are not included on the Consolidated Balance Sheets. Alliant Energy has guaranteed the residual value of its synthetic leases totaling $75 million in the aggregate. The guarantees extend through the maturity of each respective underlying lease with remaining terms up to 12 years. Residual value guarantees have been included in the future minimum lease payments noted in the table below (in millions):

	2004	2005	2006	2007	2008	Thereafter	Total
Operating leases:							
Certain purchased-power agreements	$52.6	$69.5	$70.9	$72.2	$64.8	$235.0	$565.0
Synthetic leases	11.5	18.8	24.5	50.2	3.9	26.6	135.5
Other	17.7	14.5	11.1	9.2	8.2	64.9	125.6
Total operating leases	$81.8	$102.8	$106.5	$131.6	$76.9	$326.5	$826.1

	2004	2005	2006	2007	2008	There -after	Total	Less: amount repre- senting interest	Present value of net minimum capital lease payments	Gross assets under lease at 12-31-03
Capital leases:										
Nuclear fuel (IP&L)	$15.4	$12.0	$11.2	$5.6	$4.6	$1.1	$49.9	$5.2	$44.7	$75.5
Office building (IP&L)	1.5	1.5	28.8	--	--	--	31.8	3.8	28.0	15.7 (a)
Other	0.2	0.1	0.2	0.2	0.2	0.9	1.8	0.5	1.3	1.4
Total capital leases	$17.1	$13.6	$40.2	$5.8	$4.8	$2.0	$83.5	$9.5	$74.0	$92.6

(a) The difference between the gross assets under the lease and the present value of the net minimum capital lease payments relates to cash received by IP&L at the inception of the lease.

(4) SALES OF ACCOUNTS RECEIVABLE

Domestic utility customer accounts receivable, including unbilled revenues, arise primarily from electric and natural gas sales. At Dec. 31, 2003 and 2002, 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 special purpose entities. Corporate Services acts as a collection agent for the buyer and receives a fee for collection services. 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, 2003 and 2002, Alliant Energy had sold $176 million and $202 million of receivables, respectively. In 2003, 2002 and 2001, Alliant Energy received $1.8 billion, $2.3 billion and $2.2 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 $2.6 million, $4.2 million and $7.9 million in 2003, 2002 and 2001, 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" which do not require consolidation per the guidelines of FIN 46. 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. Resources also sells receivables in its Integrated Services business that allows financing without incurring additional debt.

(5) INCOME TAXES

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

	2003	2002	2001
Current tax expense:			
Federal	**$19.2**	$21.7	$52.1
State	**12.7**	21.6	16.2
Deferred tax expense (benefit):			
Federal	**62.3**	20.8	(9.1)
State	**0.5**	(2.5)	(5.6)
Foreign tax expense	**8.2**	5.5	4.2
Research and development tax credits	**(1.1)**	(4.5)	--
Amortization of investment tax credits	**(5.1)**	(5.2)	(5.2)
Nonconventional fuel credits	**(23.1)**	(14.9)	(0.5)
Other tax credits	**(1.8)**	(0.1)	(0.3)
	$71.8	$42.4	$51.8

Included in "Cumulative effect of changes in accounting principles, net of tax" in the Consolidated Statements of Income for 2003 and 2001 were income tax benefits of $3.8 million and $5.5 million, respectively, related to the adoption of EITF Issue 02-3 and SFAS 143 by Alliant Energy on Jan. 1, 2003, and the adoption of SFAS 133 by an equity method foreign affiliate of Alliant Energy on Jan. 1, 2001, respectively. Refer to Note 16 for discussion of taxes associated with Alliant Energy's discontinued operations.

Alliant Energy's subsidiaries calculate income tax provisions using the separate return methodology. Separate return amounts are adjusted to reflect state apportionment benefits net of federal tax and the fact that PUHCA prohibits the retention of tax benefits at the parent level. Any difference between the separate return methodology and the actual consolidated return is allocated as prescribed in Alliant Energy's tax allocation agreement.

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.

	2003	2002	2001
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
Effect of rate making on property related differences	**4.0**	0.1	2.3
State income taxes, net of federal benefits	**3.2**	8.5	5.5
Research and development tax credits	**(0.4)**	(3.3)	--
Adjustment of prior period taxes	**(0.6)**	0.9	(11.4)
Amortization of investment tax credits	**(2.1)**	(3.8)	(3.0)
Foreign operations	**(2.7)**	6.5	(0.7)
Nonconventional fuel credits	**(9.2)**	(11.0)	(0.3)
Other items, net	**1.7**	(1.7)	0.4
Overall effective income tax rate	**28.9%**	31.2%	27.8%

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):

	2003			2002		
	Deferred Tax Assets	Deferred Tax Liabilities	Net	Deferred Tax Assets	Deferred Tax Liabilities	Net
Property related	($37.2)	$711.0	$673.8	($45.1)	$692.5	$647.4
Exchangeable senior notes	--	153.7	153.7	--	140.8	140.8
Capital loss carryover	(37.6)	--	(37.6)	(34.4)	--	(34.4)
Decommissioning related	(30.1)	--	(30.1)	(33.1)	--	(33.1)
Other	(67.4)	1.8	(65.6)	(90.1)	--	(90.1)
Total	($172.3)	$866.5	$694.2	($202.7)	$833.3	$630.6

	2003	2002
Other current assets	($8.4)	($31.2)
Accumulated deferred income taxes	702.6	661.8
Total deferred tax liabilities	$694.2	$630.6

At Dec. 31, 2003, Alliant Energy had the following tax carryforwards: alternative minimum tax credits of $31.6 million, capital losses of $107.4 million, net operating losses (primarily state) of $422.9 million, and general business credits of $17.7 million. The alternative minimum tax credit carryforwards can be carried forward indefinitely. The majority of the capital loss carryforwards expire in 2007. The net operating loss carryforwards have expiration dates ranging from 2004 to 2023. The general business credit carryforwards have expiration dates ranging from 2022 to 2023. Due to the uncertainty of the realization of certain tax carryforwards, Alliant Energy has established valuation allowances of $35.8 million and $21.4 million as of Dec. 31, 2003 and 2002, respectively. At Dec. 31, 2003 and 2002, $19.6 million and $16.3 million, respectively, of these valuation allowances have been recorded to "Accumulated other comprehensive loss" on the Consolidated Balance Sheets and relate to unrealized tax benefits on certain foreign currency translation losses that are subject to capital loss carryover limitations.

At Dec. 31, 2003, 2002 and 2001, Alliant Energy had not recorded U.S. tax provisions of $19.2 million, $16.3 million and $6.8 million relating to $54.9 million, $46.6 million and $19.5 million of unremitted earnings from foreign investments, respectively, 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):

	2003	2002	2001
U.S. sources	$174.9	$132.8	$159.0
Foreign sources	56.6	(2.9)	21.0
Income from continuing operations before income taxes	$231.5	$129.9	$180.0

(6) BENEFIT PLANS

(a) Pension Plans and Other Postretirement Benefits - Alliant Energy has various 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 for qualified and non-qualified pension benefits and other postretirement benefits at the measurement date of Sept. 30 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	**2003**	2002	2001
Discount rate for benefit obligations	**6%**	6.75%	7.25%	**6%**	6.75%	7.25%
Discount rate for net periodic cost	**6.75%**	7.25%	8%	**6.75%**	7.25%	8%
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	**9.5%**	10.8%	12%
Ultimate trend rate	**N/A**	N/A	N/A	**5%**	5%	5%

The expected return on plan assets was determined by analysis of historical and forecasted asset class returns as well as actual returns for the plan over the past 10 years. An adjustment to the returns to account for active management is also made in the analysis. The obligations are viewed as long-term commitments and a long-term approach is used when determining the expected rate of return on assets, which is reviewed on an annual basis.

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

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	**2003**	2002	2001
Service cost	**$16.1**	$13.7	$11.6	**$7.6**	$5.5	$4.0
Interest cost	**43.6**	42.1	40.4	**14.7**	12.7	10.6
Expected return on plan assets	**(40.6)**	(41.8)	(48.5)	**(5.4)**	(5.5)	(6.1)
Amortization of:						
Transition obligation (asset)	**(0.5)**	(2.0)	(2.4)	**3.7**	3.7	3.7
Prior service cost	**3.2**	3.2	3.2	**(0.3)**	(0.3)	(0.3)
Actuarial loss (gain)	**8.7**	2.7	(1.4)	**2.6**	0.5	(1.5)
	$30.5	$17.9	$2.9	**$22.9**	$16.6	$10.4

The assumed medical trend rates are critical assumptions in determining the service and interest cost and accumulated postretirement benefit obligation related to postretirement benefits costs. A 1% change in the medical trend rates for 2003, 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	$2.5	($2.2)
Effect on postretirement benefit obligation	$24.8	($21.8)

A reconciliation of the funded status of Alliant Energy's qualified and non-qualified pension benefit and other postretirement benefit plans to the amounts recognized on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Change in projected benefit obligation:				
Net projected benefit obligation at beginning of year	$646.7	$587.8	$215.7	$174.5
Service cost	16.1	13.7	7.6	5.5
Interest cost	43.6	42.1	14.7	12.7
Plan participants' contributions	--	--	1.9	1.8
Plan amendments	1.7	1.1	(19.1)	(0.9)
Actuarial loss	47.8	36.0	34.6	34.3
Gross benefits paid	(34.9)	(34.0)	(13.0)	(12.2)
Net projected benefit obligation at end of year	721.0	646.7	242.4	215.7
Change in plan assets:				
Fair value of plan assets at beginning of year	466.7	483.3	67.3	73.8
Actual return on plan assets	86.2	(25.1)	9.9	(7.2)
Employer contributions	12.6	42.5	12.2	11.1
Plan participants' contributions	--	--	1.9	1.8
Gross benefits paid	(34.9)	(34.0)	(13.0)	(12.2)
Fair value of plan assets at end of year	530.6	466.7	78.3	67.3
Funded status at end of year	(190.4)	(180.0)	(164.1)	(148.4)
Unrecognized net actuarial loss	175.2	181.8	90.9	63.4
Unrecognized prior service cost	22.4	23.9	(4.6)	(0.9)
Unrecognized net transition obligation (asset)	(0.8)	(1.3)	17.9	36.7
Net amount recognized at end of year	$6.4	$24.4	($59.9)	($49.2)
Amounts recognized on the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	$60.1	$70.4	$2.2	$2.3
Accrued benefit cost	(53.7)	(46.0)	(62.1)	(51.5)
Additional minimum liability	(77.1)	(90.0)	--	--
Intangible asset	14.2	16.5	--	--
Accumulated other comprehensive loss	62.9	73.5	--	--
Net amount recognized at measurement date	6.4	24.4	(59.9)	(49.2)
Contributions paid after 9/30 and prior to 12/31	0.6	0.5	6.7	4.0
Net amount recognized at 12/31	$7.0	$24.9	($53.2)	($45.2)

The funded status of the qualified pension plans based on the projected benefit obligation at Sept. 30, 2003, was ($147.6) million. Included in the following table are Alliant Energy's accumulated benefit obligations, aggregate amounts applicable to pension and other postretirement benefits with accumulated benefit obligations in excess of plan assets, as well as pension plans with projected benefit obligations in excess of plan assets as of the measurement date of Sept. 30 (in millions):

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Accumulated benefit obligation	$663.2	$596.9	$242.4	$215.7
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	497.5	453.8	240.7	213.9
Fair value of plan assets	355.6	313.2	75.1	64.3
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	721.0	646.7	N/A	N/A
Fair value of plan assets	530.6	466.7	N/A	N/A

Alliant Energy's net periodic benefit cost is primarily included in "Domestic utility - other operation and maintenance" in the Consolidated Statements of Income. Alliant Energy calculates the fair value of plan assets by using the straight market value of assets approach.

Postretirement benefit plans are funded via specific assets within certain retirement plans (401(h) assets) as well as Voluntary Employees' Beneficiary Association (VEBA) trusts. The asset allocation of the 401(h) assets mirrors the pension plan assets and the asset allocation of the VEBA trusts are reflected in the table below under "Other Postretirement Plans." The asset allocation for Alliant Energy's pension and other postretirement benefit plans at Sept. 30, 2003 and 2002, and the pension plan target allocation for 2003 were as follows:

	Pension Plans			Other Postretirement Plans	
	Target Allocation	Percentage of Plan Assets at Sept. 30		Percentage of Plan Assets at Sept. 30	
Asset Category	2003	2003	2002	2003	2002
Equity securities	50-65%	61%	55%	47%	40%
Debt securities	25-40%	33%	35%	41%	44%
Other	0-5%	6%	10%	12%	16%
		100%	100%	100%	100%

For the various Alliant Energy pension and postretirement plans, Alliant Energy common stock represented less than 1% of total plan assets at Dec. 31, 2003 and 2002. Alliant Energy's plan assets are managed by outside investment managers. Alliant Energy's investment strategy and its policies employed with respect to pension and postretirement assets is to combine both preservation of principal, and prudent and reasonable risk-taking to protect the integrity of the assets in meeting the obligations to the participants while achieving the optimal return possible over the long-term. It is recognized that risk and volatility are present to some degree with all types of investments; however, high levels of risk are minimized at the total fund level. This is accomplished through diversification by asset class, number of investments, and sector and industry limits when applicable.

For the pension plans, the mix among asset classes is controlled by long-term asset allocation targets. The assets are viewed as long-term with moderate liquidity needs. Historical performance results and future expectations suggest that equity securities will provide higher total investment returns than debt securities over a long-term investment horizon. Consistent with the goals to maximize returns and minimize risk over the long-term, the pension plans have a long-term investment posture more heavily weighted towards equity holdings. The asset allocation mix is monitored quarterly and appropriate action is taken as needed to rebalance the assets within the prescribed range. Assets related to postretirement plans are viewed as long-term. A balanced mix of both equity and debt securities are utilized to maximize returns and minimize risk over the long-term.

Prohibited investment vehicles related to the pension and postretirement plans include, but may not be limited to, direct ownership of real estate, real estate investment trusts, private placements, unregistered or restricted stock, options and futures unless specifically approved, margin trading, oil and gas limited partnerships, commodities, short selling, commercial mortgage obligations and securities of the managers' firms or affiliate firms.

Alliant Energy estimates that funding for the pension and postretirement benefit plans for 2004 will be approximately $60 million and $15 million, respectively.

In December 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans, that provide a benefit that is at least actuarially equivalent to Medicare Part D. As permitted by FSP No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," Alliant Energy has elected to defer reflecting the effect of the Act on postretirement net periodic benefit cost and the accumulated postretirement benefit obligation in the Consolidated Financial Statements, since specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require Alliant Energy to change previously reported information. Alliant Energy is currently evaluating the effect of the Act on its other postretirement benefits expense.

Alliant Energy has various life insurance policies that cover certain key employees and directors. At Dec. 31, 2003 and 2002, the cash surrender value of these investments was $35 million and $32 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, 2003 and 2002, the fair market value of the trusts totaled $7.6 million and $4.9 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 401(k) plan, which are based on the participants' level of contribution, were $8.0 million, $9.2 million, and $8.2 million in 2003, 2002 and 2001, respectively. For the Alliant Energy 401(k) plan, Alliant Energy common stock represented 22.6% and 18.2% of total plan assets at Dec. 31, 2003 and 2002.

(b) Equity Incentive Plans - Alliant Energy has an 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, 2003, 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 had an LTEIP, under which no awards may be granted after January 2004, and under which non-qualified stock options, restricted stock and performance shares were outstanding at Dec. 31, 2003.

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. Options become fully vested upon death or disability and remain exercisable at any time prior to their expiration date, or for one year after the effective date of the death or disability, 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:

	2003		2002		2001	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**3,842,136**	**$29.48**	2,917,229	$30.03	2,265,862	$29.67
Options granted	**957,200**	**16.82**	945,863	27.79	721,072	31.14
Options exercised	**--**	**--**	--	--	(42,432)	29.87
Options forfeited	**(582,622)**	**28.49**	(20,956)	29.41	(27,273)	30.07
Outstanding at end of year	**4,216,714**	**26.74**	3,842,136	29.48	2,917,229	30.03
Exercisable at end of year	**2,514,908**	**29.68**	2,242,187	29.93	1,593,047	29.94

The weighted-average remaining contractual life of outstanding options at Dec. 31, 2003, 2002 and 2001 was 7.1 years, 7.4 years and 7.7 years, respectively. Additional information as of Dec. 31, 2003 is as follows:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price
$16.82	907,714	$16.82	9 years	6,228	$16.82
$27.50-$31.56	3,309,000	29.46	7 years	2,508,680	29.71

The value of the options granted during the year using the Black-Scholes pricing method was as follows:

	2003	2002	2001
Value of options	**$1.94**	$9.14	$4.30
Volatility	**22.8%**	40.6%	18.9%
Risk free interest rate	**3.5%**	5.0%	5.0%
Expected life	**7 years**	10 years	10 years
Expected dividend yield on date of grant	**5.9%**	6.0%	6.6%

At Dec. 31, 2003 and 2002, Alliant Energy had 1,745 shares of restricted stock outstanding. 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 is measured at the date of the award based on the fixed number of shares awarded and the market price of the shares at the award date. Compensation cost, which is recognized ratably over the three-year restriction period, was $0, $0.2 million and $0.6 million in 2003, 2002 and 2001, respectively.

The payout to key employees of Corporate Services for performance shares granted through 2002 is contingent upon achievement over a three-year period of specified EPS growth and total return to shareowners of Alliant Energy compared with an investor-owned utility peer group (TSR), and for performance shares granted in 2003 is contingent solely upon TSR. The payout to key employees of Resources is contingent upon achievement over a three-year period of specified Resources EPS 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 payout. Pursuant to APB 25, Alliant Energy accrues the plan expense over the three-year period the services are performed and recognized (income) expense of $4.1 million, ($1.6) million and $2.4 million in 2003, 2002 and 2001, 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:

	2003	2002	2001
Beginning balance	92,304,220	89,682,334	79,010,114
Shares issued:			
Public offering	17,250,000	--	9,775,000
Shareowner Direct Plan	970,445	1,877,032	668,379
401(k) Savings Plan	438,245	689,336	161,239
Equity incentive plans	--	55,518	67,602
Ending balance	110,962,910	92,304,220	89,682,334

In July 2003, Alliant Energy completed a public offering of its common stock generating net proceeds of $318 million, which were used to make capital contributions to WP&L of $200 million and IP&L of $118 million in support of their respective generation and reliability initiatives. In November 2001, Alliant Energy completed a public offering of its common stock generating net proceeds of $263 million which were used to repay short-term debt. From January 2001 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. At Dec. 31, 2003 and 2002, Alliant Energy had a total of 4.7 million and 6.8 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%.

IP&L and WP&L 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. In its December 2003 rate order, the PSCW stated WP&L may not pay annual common stock dividends, including pass-through of subsidiary dividends, in excess of $89 million to Alliant Energy if WP&L's actual average common equity ratio, on a regulatory financial basis, is or will fall below the authorized level of 54.01%. 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, 2003, IP&L and WP&L were in compliance with all such dividend restrictions.

In 2003, 2002 and 2001, 13, 11 and 14 non-employee directors voluntarily elected to purchase up to 1,000, 1,000 and up to 1,000 shares each of Alliant Energy common stock through the Shareowner Direct Plan utilizing cash compensation received as part of the directors' compensation program, for a total of $181,000, $337,000 and $338,000, respectively.

(b) Preferred Stock - In September 2003, IP&L issued 1.6 million shares of preferred stock at $25.00 per share in a public offering and received net proceeds of $39 million. 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, 2003 and 2002 was $286 million and $198 million, respectively. Information related to the carrying value of Alliant Energy's cumulative preferred stock of subsidiaries, net (none are mandatorily redeemable) at Dec. 31 was as follows (in millions):

Liquidation Preference/ Stated Value	Authorized Shares	Shares Outstanding	Series	2003	2002
$25	*	6,000,000	8.375%	**$150.0**	$150.0
$25	*	1,600,000	7.10%	**40.0**	--
$100	**	449,765	4.40% - 6.20%	**45.0**	45.0
$25	**	599,460	6.50%	**15.0**	15.0
				250.0	210.0
Less: discount				**(6.2)**	(4.9)
				$243.8	$205.1

* 16,000,000 authorized shares in total. ** 3,750,000 authorized shares in total.

(8) DEBT

(a) Short-Term Debt - To provide short-term borrowing flexibility and security for commercial paper outstanding, Alliant Energy and its subsidiaries maintain committed bank lines of credit, all of which require a fee. Information regarding short-term debt was as follows (dollars in millions):

	2003	2002
At Dec. 31:		
Commercial paper outstanding	**$107.5**	$195.5
Discount rates on commercial paper	**1.2%**	1.6-1.9%
Bank facility borrowings	**$--**	$85.0
Interest rates on bank facility borrowings	**N/A**	2.3-2.4%
Other borrowings (primarily at foreign subsidiaries)	**$21.5**	$28.7
Interest rates on other borrowings	**5.3-10.8%**	5.3-6.9%
For the year ended:		
Average amount of short-term debt (based on daily outstanding balances)	**$269.8**	$337.9
Average interest rates on short-term debt	**2.6%**	2.7%

(b) Long-Term Debt - Substantially all of IP&L's utility plant is pledged as collateral under one or more of several outstanding indentures. These indentures secure IP&L's Collateral Trust and First Mortgage Bonds. WP&L's First Mortgage Bonds are secured by substantially all of its utility plant. IP&L, WP&L and Resources also maintain indentures related to the issuance of unsecured debt securities.

In October 2003 and September 2003, IP&L issued $100 million and $100 million of 6.45% and 5.875% unsecured senior debentures due 2033 and 2018, respectively, and used the majority of the net proceeds to redeem long-term debt. In December 2002, Resources issued $300 million of 9.75% senior notes due 2013 and used the proceeds to repay short-term debt.

Alliant Energy utilized the proceeds from its non-regulated asset sales in 2003 to reduce short-term debt outstanding and also retired various "Non-regulated and other" long-term debt as noted on the Consolidated Statements of Capitalization.

Debt maturities for 2004 to 2008 are $69 million, $102 million, $69 million, $199 million and $196 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, 2003 and 2002 was $2.2 billion and $2.7 billion, respectively. The fair market value, based upon the market yield of similar securities and quoted market prices, at Dec. 31, 2003 and 2002 was $2.6 billion and $2.9 billion, respectively.

Alliant Energy has fully and unconditionally guaranteed the payment of principal and interest on various debt securities issued by Resources. No other Alliant Energy subsidiaries are guarantors of Resources' debt securities. Alliant Energy does not have any intercompany debt cross-collateralizations or intercompany debt guarantees.

(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 was as follows (in millions):

	2003		2002	
	Carrying/Fair Value	**Unrealized Gains, Net of Tax**	Carrying/Fair Value	Unrealized Gains, Net of Tax
Available-for-sale securities:				
Nuclear decommissioning trust funds:				
Debt securities	**$215**	**$6**	$206	$9
Equity securities	**167**	**39**	139	13
Total	**382**	**45**	345	22
WPC	**20**	**2**	N/A	N/A
Various other investments	**29**	**11**	21	4
Trading securities (McLeod)	**1**	**N/A**	1	N/A

In accordance with SFAS 115, the carrying values of the investments are adjusted to estimated fair value based upon market values 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.

Nuclear Decommissioning Trust Funds - At Dec. 31, 2003, $110 million, $65 million and $40 million of the debt securities mature in 2004-2010, 2011-2020 and 2021-2040, respectively. The fair value of the nuclear decommissioning trust funds, as reported by the trustee, was adjusted for the tax effect of unrealized gains and losses. In 2003, net unrealized holding gains were recorded as part of regulatory liabilities or as an offset to regulatory assets related to AROs (recorded in 2002 as part of cost of removal obligations). The funds realized gains (losses) from the sales of securities of ($6.0) million, $10.4 million and $2.0 million in 2003, 2002 and 2001, respectively (cost of the investments based on specific identification was $385.6 million, $111.1 million and $169.8 million, respectively, and proceeds from the sales were $379.6 million, $121.5 million and $171.8 million, respectively). In January 2004, WP&L liquidated all of its qualified decommissioning assets into money market funds as a result of the pending Kewaunee sale.

Investment in McLeod - Alliant Energy has investments in the common stock of McLeod, a telecommunications company. 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 3.3 million shares of new common stock and classified 0.9 million and 2.4 million shares 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 foreign investments at Dec. 31 was as follows (in millions):

	Brazil	China	New Zealand	Mexico	Total
2003					
Unconsolidated	**$283**	**$17**	**$103**	**$79**	**$482**
Consolidated	**--**	**178**	**--**	**--**	**178**
Total	**$283**	**$195**	**$103**	**$79**	**$660**
2002					
Unconsolidated	$214	$19	$86	$55	$374
Consolidated	--	161	--	--	161
Total	$214	$180	$86	$55	$535

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, 2003 and 2002, 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., 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% direct ownership interest in Usina Termeletrica de Juiz de Fora S.A., a thermal power plant. The increase in Alliant Energy's foreign investments in Brazil from Dec. 31, 2002 to Dec. 31, 2003 is largely due to the impacts of changes in the Brazil currency exchange rate.

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 23.8% ownership interest in TrustPower Ltd., a hydro and wind generation utility company, accounted for under the equity method, and several other smaller investments accounted for under the cost method. Based on the exchange rates and trading prices at Dec. 31, 2003 and 2002, the TrustPower Ltd. investment carrying value was $81 million and $65 million, respectively, and the market value was $157 million and $69 million, respectively.

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 the Mexican development company to build the utility infrastructure of a master planned resort community. The loan accrues interest at 8.75% and is secured by a first lien on the land parcels of the master planned community. Repayment of the loan principal and interest will be based on a portion of the proceeds from the sales, performed by the Mexican development company, of real estate lots in the master planned community and therefore is dependent on the successful development of the project and sale of real estate. Additionally, in the third quarter of 2003, Alliant Energy Servicios de Mexico, S. de R. L. de C. V. and Alliant Energy Operaciones de Mexico S. de R. L. de C. V. began operations in Mexico and provide contract services solely to the resort community's utility company, which are paid monthly on a cost-plus basis.

Investment in ATC - At Dec. 31, 2003 and 2002, WP&L had ownership interests in ATC of approximately 25% and 27%, respectively, and accounts for this investment under the equity method. At Dec. 31, 2003 and 2002, the carrying value of WP&L's investment in ATC was $121 million and $112 million, respectively. Pursuant to various agreements, WP&L receives a range of transmission services from ATC. WP&L provides operation, maintenance, 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 $41.3 million, $38.7 million and $36.4 million in 2003, 2002 and 2001, respectively. WP&L billed ATC $12.4 million, $18.1 million and $18.4 million in 2003, 2002 and 2001, and recorded equity earnings of $16.2 million, $14.3 million and $14.6 million in 2003, 2002 and 2001, respectively.

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

	2003	2002 *	2001
Operating revenues	**$1,804.9**	$1,440.6	$2,214.1
Operating income	**220.4**	159.8	138.2
Net income	**19.8**	36.6	52.1
As of Dec. 31:			
Current assets	**395.1**	383.0	
Non-current assets	**2,488.5**	1,976.4	
Current liabilities	**452.4**	435.9	
Non-current liabilities	**815.4**	505.1	
Minority interest	**172.8**	133.4	

* 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. At Dec. 31, 2003 and 2002, Alliant Energy had $15.4 million and $6.4 million of derivative assets included in "Other current assets" on its Consolidated Balance Sheets and $17.1 million and $9.1 million of derivative liabilities included in "Other current liabilities" on its Consolidated Balance Sheets, respectively.

In the first quarter of 2001, Alliant Energy recorded a net loss of $12.9 million 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 electric derivative contracts under the applicable accounting principles in effect at Dec. 31, 2000, and the carrying values of these electric derivative contracts as determined in accordance with SFAS 133 as of Jan. 1, 2001. Alliant Energy sold its Southern Hydro business in 2003.

In April 2003, the FASB issued SFAS 149, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. Although SFAS 149 is expected to result in more energy contracts in Alliant Energy's domestic utility business qualifying as derivatives, changes in the fair value of these derivatives are generally reported as changes in regulatory assets and liabilities rather than being reported currently in earnings, based on the regulatory treatment. SFAS 149 will likely result in more earnings volatility at NG Energy given the majority of its derivatives may not qualify for hedge accounting.

Cash Flow Hedging Instruments - During 2003 and/or 2002, Alliant Energy held various derivative instruments designated as cash flow hedging instruments. WP&L utilized natural gas commodity financial swap arrangements to reduce the impact of price fluctuations on natural 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. NG Energy utilizes natural gas commodity derivative instruments to reduce the impact of natural gas price fluctuations on physical natural gas sales from storage. WP&L utilized physical coal purchase contracts, some of which did not qualify for the normal purchase and sale exception, to manage the price of anticipated coal purchases and sales. Treasury rate locks and interest rate swaps were used by Resources to mitigate risk associated with movements in the 10 year treasury yield used to price $300 million of Resources' senior notes issued in November 2001 and a portion of long-term debt used to finance the 309-MW, non-regulated, tolled, natural gas-fired power plant in Neenah, Wisconsin purchased by Resources in February 2003.

In 2003 and 2002, $0 and a net loss of $0.1 million, respectively, were recognized relating to the amount of hedge ineffectiveness in accordance with SFAS 133. In 2003 and 2002, Alliant Energy did not exclude any components of the derivative instruments' gain or loss from the assessment of hedge effectiveness and in 2003, Alliant Energy reclassified net gains of $2.9 million into earnings as a result of the discontinuance of hedges. At Dec. 31, 2003, the maximum length of time over which Alliant Energy hedged its exposure to the variability in future cash flows for forecasted transactions was eight months and Alliant Energy estimated that an insignificant amount will be reclassified from accumulated other comprehensive loss into earnings in 2004 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 2003 and/or 2002 included the embedded derivative component of Resources' exchangeable senior notes; electric, coal, gas and oil contracts; and a foreign currency option.

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. Refer to Note 1(p) for the valuation charges (income) recorded in 2003, 2002 and 2001 related to the exchangeable senior notes and the McLeod trading securities.

Electric contracts were used to manage utility energy costs during supply/demand imbalances. Coal, gas and oil contracts that do not qualify for the normal purchase and sale exception were used to manage the price of anticipated coal, gas and oil purchases and sales. The foreign currency option was used to mitigate fluctuations in Canadian currency rates. Refer to Note 10(d) for additional information on NG Energy's derivatives.

(b) Weather Derivatives - Alliant Energy uses weather derivatives to reduce the impact of weather volatility on its domestic utility natural gas sales volumes. In 2003 and 2002, 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. In 2003, fair value changes of these instruments did not impact net income as they were recorded as equally offsetting changes in the investment in nuclear decommissioning trust funds and regulatory liabilities or, for AROs, as an offset to regulatory assets (in 2002 as an offset to cost of removal obligations).

(d) Energy-trading Contracts - Resources is the majority owner of a natural gas marketing business, NG Energy. NG Energy enters into financial and physical contracts for the sale, purchase, storage, transportation and loan of natural gas. NG Energy accounts for gas in storage at the weighted average cost of gas. NG Energy 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 and that are derivatives under SFAS 133, must be reflected on a net basis in the income statement for all periods presented. Alliant Energy adopted EITF Issue 02-3 on Jan. 1, 2003 for all of NG Energy's trading contracts and storage gas acquired prior to Oct. 25, 2002, and reclassified prior period trading contracts on a net basis in the income statement. The impact of transitioning from reporting inventory and existing contracts that were not derivatives under SFAS 133 at fair value to historical cost resulted in a cumulative effect charge of $2.1 million (net of a deferred tax benefit of $1.4 million) in the first quarter of 2003. Any new contracts entered into after Oct. 25, 2002 have been reported on a historical cost basis rather than at fair market value unless the contract meets the definition of a derivative. Commencing Jan. 1, 2003, NG Energy has very few contracts that are accounted for as derivatives under SFAS 133 and that are also classified as trading contracts, therefore almost all of its sales of energy and cost of sales in 2003 are reported on a gross basis. Because substantially all of its contracts prior to 2003 were classified as trading contracts under EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," primarily all of its sales of energy and cost of sales for 2002 and 2001 are reported on a net basis. NG Energy recorded gas revenues and gas costs on the Consolidated Statements of Income as follows (in millions):

	2003	2002	2001
Non-regulated operating revenues	$209	$6	$1
Non-regulated operation and maintenance expenses	204	--	--

(11) COMMITMENTS AND CONTINGENCIES

(a) Construction and Acquisition Expenditures - Certain commitments have been made in connection with 2004 capital expenditures. During 2004, total construction and acquisition expenditures are estimated to be approximately $700 million (unaudited).

(b) Purchase Obligations - 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, 2003, Alliant Energy's minimum commitments related to its domestic utility business were as follows (dollars and Dths in millions; MWhs and tons in thousands):

	Purchased-power		Coal		Natural gas	
	Dollars	MWhs	Dollars	Tons	Dollars	Dths
2004	$38.4	1,032	$109.9	11,905	$84.7	5
2005	2.3	--	85.0	8,596	52.8	--
2006	2.3	--	59.4	6,110	51.4	--
2007	0.1	--	33.2	2,685	39.0	--
2008	0.1	--	19.0	1,078	16.1	--
Thereafter	0.2	--	68.6	153	40.0	--

In addition, Alliant Energy, through its non-regulated business, has entered into coal and natural gas supply, transportation and storage contracts. At Dec. 31, 2003, Alliant Energy's minimum fuel commitments related to its non-regulated business were $8.9 million, $6.6 million, $4.9 million, $3.8 million, $3.8 million and $55.1 million for 2004, 2005, 2006, 2007, 2008, and 2009 and thereafter, respectively.

Also, at Dec. 31, 2003, Alliant Energy's other purchase obligations, which represent individual commitments incurred during the normal course of business which exceeded $1 million at Dec. 31, 2003, were $26.4 million for 2004. This excludes lease obligations which are included in Note 3.

(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 - In accordance with the provisions of FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," as of Dec. 31, 2003 and 2002, Alliant Energy had guarantees outstanding to support unconsolidated affiliate and third-party financing arrangements of $5 million and $4 million, respectively. Such guarantees are not included on the Consolidated Balance Sheets. At Dec. 31, 2003, the maximum remaining term of the guarantees and the underlying debt was 10 years. Refer to Note 3 for discussion of Alliant Energy's residual value guarantees of its synthetic leases.

Under the purchase and sale agreement (Meridian Agreement) with Meridian Energy Limited (Meridian) relating to the sale of Alliant Energy's Australian business, Alliant Energy agreed to indemnify Meridian for losses resulting from the breach of the representations and warranties made by Alliant Energy as of the closing date, and for breach of its obligations under the Meridian Agreement. Based on exchange rates as of Dec. 31, 2003, the indemnification is limited to $223 million until July 2004, and will then be reduced to $64 million until October 2007. Alliant Energy believes the likelihood of having to make any material cash payments under this indemnification is remote.

Alliant Energy provided certain indemnifications associated with the sale of its affordable housing business for losses resulting from breach of the representations and warranties made by Alliant Energy as of the closing date, for the breach of its obligations under the sale agreement and for its obligations for periods prior to the date of sale. The indemnifications are limited to $11 million in aggregate and expire in July 2005. Alliant Energy also retains any tax obligations that may arise from its ownership prior to the date of sale. Alliant Energy believes the likelihood of having to make any material cash payments under these indemnifications is remote.

Alliant Energy continues to guarantee the abandonment obligations of WPC under the Point Arguello partnership agreements. As of Dec. 31, 2003, the guarantee does not include a maximum limit, but is currently estimated at approximately $4 million, which is the present value of the abandonment liability. Alliant Energy believes that no payments will be made under this guarantee.

(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	2003	2002	Regulatory assets	2003	2002
MGP sites	$45.5	$49.3	MGP sites	$51.1	$54.1
NEPA	5.0	6.6	NEPA	6.2	7.9
Other	0.1	0.2	Other	1.3	2.9
	$50.6	$56.1		$58.6	$64.9

MGP Sites - 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 nine and six 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 2003, 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 IP&L's and WP&L's sites to be $34 million to $61 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 four-year period effective with rates set to recover such amounts. 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.

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 uranium enrichment services provided in conjunction with prior nuclear fuel purchases. IP&L and WP&L elected to pay their assessment in 15 annual installments. The costs associated with this assessment for IP&L and WP&L are being recovered through EACs and fuel costs, respectively. The final installment payment is scheduled to be made in fall 2006. Alliant Energy continues to pursue relief from this assessment through litigation.

(f) Decommissioning of DAEC and Kewaunee - Decommissioning expense is included in "Depreciation and amortization" in the Consolidated Statements of Income and the cumulative amount for 2003 is included in "Regulatory liabilities" or, for AROs, is netted in "Regulatory assets" on the Consolidated Balance Sheets. For 2002, the cumulative amount is included in "Cost of removal obligations." 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. 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 (1):		
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	4.30%	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%
Current annual rate recovery:		
Iowa	$10.6	N/A
Minnesota (interim rates effective July 2003, subject to refund)	$1.0	N/A
FERC	--	$2.9
External trust fund balance at Dec. 31, 2003	$147.9	$233.7
Internal reserve at Dec. 31, 2003	$21.7	$--
After-tax earnings (losses) on external trust funds in 2003	$4.1	($4.7)

(1) Information for DAEC and Kewaunee is related to their most recent IUB order and FERC settlement, respectively.

The current rate recovery amounts for DAEC only include an inflation estimate for three years. 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 2003, the earnings accumulate in the external trust fund balances and as an offset to regulatory assets for ARO related earnings or regulatory liabilities for non-ARO related earnings. Refer to Note 17 for information regarding the pending sale of WP&L's interest in Kewaunee and Note 18 for information related to the impact of SFAS 143.

(g) Credit Risk - Alliant Energy's subsidiaries have limited credit exposure from electric and natural gas sales and non-performance of contractual obligations by its counterparties. 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.

(12) JOINTLY-OWNED ELECTRIC UTILITY PLANT

Under joint ownership agreements with other Iowa and Wisconsin utilities, IP&L and WP&L 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 IP&L's and WP&L's ownership interest in these facilities at Dec. 31, 2003 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	$576.4	$336.4	$7.1
Ottumwa	Coal	48.0	193.8	122.5	1.1
Neal Unit 4	Coal	25.7	90.1	61.5	1.9
Neal Unit 3	Coal	28.0	62.1	37.4	0.7
Louisa Unit 1	Coal	4.0	25.3	15.6	0.1
			947.7	573.4	10.9
WP&L					
Edgewater Unit 5	Coal	75.0	237.0	120.7	0.8
Columbia Energy Center	Coal	46.2	192.5	118.5	2.5
Kewaunee	Nuclear	41.0	175.8	127.6	7.7
Edgewater Unit 4	Coal	68.2	66.8	39.5	1.7
			672.1	406.3	12.7
			$1,619.8	$979.7	$23.6

Refer to Note 17 for information regarding the pending sale of WP&L's interest in Kewaunee.

(13) SEGMENTS OF BUSINESS

Alliant Energy's principal businesses are:

- **Domestic utility business** - includes IP&L and WP&L, serving customers in Iowa, Wisconsin, Minnesota and Illinois, and Alliant Energy's investments in the Nuclear Management Company, LLC (NMC) and TRANSLink Transmission Company LLC (TRANSLink) (investment has been fully reserved as of Dec. 31, 2003). The domestic utility business is broken down into three segments: a) electric operations, including the impacts of NMC and TRANSLink; b) gas operations; and c) other, which includes the steam business, water business, various other energy-related products and services including construction management services for wind farms 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 Domestic Utility Business."
- **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 three segments: a) International (Int'l); b) Integrated Services (ISCO); and c) other, which includes the operations of the Non-regulated Generation and Other Investments business platforms 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.

Alliant Energy's administrative support services are directly charged to the applicable segment where practicable. In all other cases, administrative support services are allocated to the applicable segment based on Alliant Energy's corporate services agreements, as prepared and approved pursuant to PUHCA. 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, products and services and geographic information was as follows (in millions):

	Domestic Utility Business				Non-regulated Businesses					Alliant Energy
	Electric	Gas	Other	Total	Int'l	ISCO	Other	Total	Other	Consolidated
2003										
Operating revenues	$1,917.1	$566.9	$104.2	$2,588.2	$117.5	$382.3	$46.1	$545.9	($5.9)	$3,128.2
Depreciation and amortization	238.8	25.7	3.8	268.3	15.1	8.7	12.9	36.7	0.1	305.1
Operating income (loss)	363.6	42.4	2.5	408.5	11.6	4.1	(11.2)	4.5	(1.3)	411.7
Interest expense, net of AFUDC				82.6	52.1	10.4	35.8	98.3	5.5	186.4
Loss on early extinguishment of debt				--	--	--	15.2	15.2	1.7	16.9
Equity (income) loss from unconsolidated investments				(20.9)	(18.1)	(0.3)	20.2	1.8	--	(19.1)
Preferred dividends				16.9	--	--	--	--	--	16.9
Miscellaneous, net				(3.5)	(2.3)	(8.2)	(7.8)	(18.3)	0.9	(20.9)
Income tax expense (benefit)				136.2	(16.7)	0.5	(50.6)	(66.8)	2.4	71.8
Income (loss) from continuing operations				197.2	(3.4)	1.7	(24.0)	(25.7)	(11.8)	159.7
Income (loss) from discontinued operations, net of tax				--	44.7	--	(14.9)	29.8	--	29.8
Cumulative effect of changes in accounting principles, net of tax				--	--	(2.1)	(3.9)	(6.0)	--	(6.0)
Net income (loss)				197.2	41.3	(0.4)	(42.8)	(1.9)	(11.8)	183.5
Total assets	5,007.5	671.3	393.0	6,071.8	751.6	283.9	557.7	1,593.2	110.4	7,775.4
Investments in equity method subsidiaries	137.0	--	--	137.0	380.1	1.7	23.7	405.5	--	542.5
Construction and acquisition expenditures	649.5	37.2	3.0	689.7	24.3	4.9	219.3	248.5	(99.3)	838.9

	Domestic Utility Business				Non-regulated Businesses					Alliant Energy
	Electric	Gas	Other	Total	Int'l	ISCO	Other	Total	Other	Consolidated
2002										
Operating revenues	$1,752.5	$394.0	$85.4	$2,231.9	$99.7	$133.8	$27.9	$261.4	($6.7)	$2,486.6
Depreciation and amortization	225.0	26.1	3.8	254.9	11.2	9.1	6.9	27.2	--	282.1
Operating income (loss)	320.1	26.2	9.0	355.3	11.3	2.0	(14.9)	(1.6)	(0.5)	353.2
Interest expense, net of AFUDC				96.2	39.0	8.4	29.1	76.5	2.3	175.0
Equity (income) loss from unconsolidated investments				(17.6)	17.1	(0.1)	13.4	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				(2.4)	4.9	8.3	(8.1)	5.1	(0.6)	2.1
Income tax expense (benefit)				107.1	(12.1)	(6.0)	(42.3)	(60.4)	(4.3)	42.4
Income (loss) from continuing operations				165.8	(37.6)	(8.6)	(34.2)	(80.4)	2.1	87.5
Income from discontinued operations, net of tax				--	10.5	--	8.9	19.4	--	19.4
Net income (loss)				165.8	(27.1)	(8.6)	(25.3)	(61.0)	2.1	106.9
Total assets	4,472.2	642.5	383.4	5,498.1	955.1	270.5	1,037.6	2,263.2	52.8	7,814.1
Investments in equity method subsidiaries	125.4	--	--	125.4	297.1	1.7	27.4	326.2	--	451.6
Construction and acquisition expenditures	372.4	28.6	4.8	405.8	65.5	14.2	138.6	218.3	32.7	656.8

	Domestic Utility Business				Non-regulated Businesses					Alliant Energy
	Electric	Gas	Other	Total	Int'l	ISCO	Other	Total	Other	Consolidated
2001										
Operating revenues	$1,756.6	$487.9	$101.8	$2,346.3	$77.1	$192.6	$23.8	$293.5	($5.6)	$2,634.2
Depreciation and amortization	238.1	28.2	3.2	269.5	8.3	13.0	3.5	24.8	--	294.3
Operating income (loss)	313.6	11.2	14.1	338.9	9.1	(0.5)	(9.5)	(0.9)	(1.9)	336.1
Interest expense, net of AFUDC				97.0	54.4	11.2	(1.5)	64.1	9.8	170.9
Equity (income) loss from unconsolidated investments				(15.6)	4.1	(0.6)	(6.6)	(3.1)	(0.1)	(18.8)
Preferred dividends				6.7	--	--	--	--	--	6.7
Miscellaneous, net				(8.3)	(1.0)	(2.8)	14.0	10.2	(4.6)	(2.7)
Income tax expense (benefit)				94.2	(22.7)	(3.3)	(8.0)	(34.0)	(8.4)	51.8
Income (loss) from continuing operations				164.9	(25.7)	(5.0)	(7.4)	(38.1)	1.4	128.2
Income from discontinued operations, net of tax				--	11.3	--	45.8	57.1	--	57.1
Cumulative effect of a change in accounting principle, net of tax				--	(12.9)	--	--	(12.9)	--	(12.9)
Net income (loss)				164.9	(27.3)	(5.0)	38.4	6.1	1.4	172.4
Total assets	4,014.1	557.6	470.1	5,041.8	817.8	254.3	782.4	1,854.5	75.4	6,971.7
Investments in equity method subsidiaries	119.2	--	--	119.2	448.3	1.1	31.5	480.9	--	600.1
Construction and acquisition expenditures	298.7	36.9	5.2	340.8	173.0	31.5	127.7	332.2	40.0	713.0

Products and Services - In 2003, Alliant Energy's domestic utility electric and gas revenues represented 67% and 19% of consolidated operating revenues, respectively. No other products or services represented more than 10% of Alliant Energy's consolidated operating revenues in 2003.

Geographic Information

Non-regulated and other - Long Lived Assets			
Year	Domestic	Foreign	Total
		(in millions)	
2003	$386.7	$199.5	$586.2
2002	359.8	171.6	531.4
2001	196.3	157.9	354.2

(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, 2001, net income for 2001 would have increased $4 million and basic and diluted EPS would have increased $0.05 per share. Alliant Energy continues to monitor its equity method investments in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock." Certain information regarding net goodwill and other intangible assets included on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	2003	2002
Net goodwill:		
Deferred charges and other (consolidated investments):		
Integrated Services	$46	$47
International	10	10
Investments in unconsolidated foreign entities (equity method investments)		
International	17	9
Net other intangible assets:		
Deferred charges and other (consolidated investments)	19	19
Investments in unconsolidated foreign entities (equity method investments)	26	22
Investment in ATC and other (equity method investments)	20	25

In February 2003, Resources acquired 100% of an entity that owns a 309-MW, non-regulated, tolled, natural gas-fired power plant in Neenah, Wisconsin for $109 million. Substantially all of the purchase price was allocated to property, plant and equipment and resulted in no goodwill from this acquisition.

(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.

	2003				2002			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(in millions, except per share data)							
Operating revenues	$908.2	$659.5	$779.1	$781.4	$583.0	$553.8	$674.1	$675.7
Operating income	76.9	58.2	165.6	110.9	69.2	59.5	131.7	92.9
Income (loss) from continuing operations	14.6	11.8	85.2	48.1	(7.8)	(5.5)	46.6	54.1
Income (loss) from discontinued operations, net of tax	(9.1)	20.4	18.0	0.5	17.5	11.8	(1.9)	(8.0)
Cumulative effect of changes in accounting principles, net of tax	(6.0)	--	--	--	--	--	--	--
Net income (loss)	(0.5)	32.2	103.2	48.6	9.7	6.3	44.7	46.1
EPS:								
Income (loss) from continuing operations	0.16	0.13	0.78	0.43	(0.09)	(0.06)	0.51	0.59
Income (loss) from discontinued operations	(0.10)	0.22	0.16	0.01	0.20	0.13	(0.02)	(0.09)
Cumulative effect of changes in accounting principles	(0.07)	--	--	--	--	--	--	--
Net income (loss)	(0.01)	0.35	0.94	0.44	0.11	0.07	0.49	0.50

(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 during 2003. 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, the assets and liabilities of Alliant Energy's oil and gas (WPC), Australian (including Southern Hydro), affordable housing and SmartEnergy 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.

Alliant Energy completed the sale of its Australian, affordable housing and SmartEnergy businesses in the second, third and third quarters of 2003, respectively. In the fourth quarter of 2003, Alliant Energy completed an IPO of WPC, leaving Alliant Energy with an approximate 6% ownership interest in WPC that is accounted for under the cost method as of Dec. 31, 2003.

Prior to the IPO, Alliant Energy and WPC entered into a tax separation and indemnification agreement pursuant to which Alliant Energy and WPC made tax elections with the effect that the tax basis of the assets of WPC's consolidated tax group were increased based on the sales price of WPC's shares in the IPO. This increase will be included in income in the consolidated federal income tax return filed by Alliant Energy. WPC has agreed to pay Resources 90% of any tax benefits realized annually due to the increase in tax basis for years ending on or prior to Dec. 31, 2013. Such tax benefits will generally be calculated by comparing WPC's actual taxes to the taxes that would have been owed by WPC had the increase in basis not occurred. In 2014, WPC will be obligated to pay Resources the present value of the remaining tax benefits assuming all such tax benefits will be realized in future years. As of the IPO closing date, Resources recorded a receivable from WPC based on the estimated present value of the payments expected from WPC. As of Dec. 31, 2003, Resources estimated the present value of these anticipated future tax benefits from WPC was approximately $30 million and has recorded this as a receivable from WPC in "Deferred charges and other" on the Consolidated Balance Sheets.

A summary of the components of discontinued operations in the Consolidated Statements of Income was as follows (in thousands):

	2003	2002	2001
Operating revenues	**$187,677**	$231,027	$158,575
Operating expenses (a)	**101,084**	195,624	105,935
Interest expense and other (pre-tax numbers):			
Gain on sale of Australian business	**(72,115)**	--	--
Loss on sale of affordable housing business	**60,685**	--	--
Loss on sale of oil and gas business (a)	**16,696**	--	--
Loss on sale of SmartEnergy business	**13,645**	--	--
Southern Hydro SFAS 133 income	**(14,689)**	(16,081)	(15,570)
Other	**17,949**	38,891	3,122
Income before income taxes	**64,422**	12,593	65,088
Income tax expense (benefit)	**34,597**	(6,832)	8,017
Income from discontinued operations, net of tax	**$29,825**	$19,425	$57,071

(a) Operating expenses were lower in 2003 as compared to 2002 partially due to Alliant Energy ceasing depreciation, depletion and amortization (DD&A) of its assets held for sale. Ceasing DD&A of WPC's assets also resulted in a higher carrying value of WPC's assets and had a direct impact on the amount of loss on the sale.

Alliant Energy's Australian business entered into electric derivative contracts that were not designated as hedges (as defined by SFAS 133) to manage the electric commodity price risk associated with anticipated sales into the spot market. SFAS 133 income in the previous table reflects the change in the fair value of these electric derivative contracts. In 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. "Income tax expense (benefit)" in the previous table includes $3 million, $10 million and $10 million of affordable housing tax credits earned by Alliant Energy's affordable housing business during 2003, 2002 and 2001, respectively. These tax credits, along with 2003 income tax impacts of the sales transactions, 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 Sheet at Dec. 31, 2002 was as follows (in thousands):

	2002
Assets of discontinued operations:	
Property, plant and equipment, net	$644,910
Current assets	113,866
Investments	6,824
Deferred charges and other	203,691
Total assets of discontinued operations	$969,291
Liabilities of discontinued operations:	
Current liabilities	$73,344
Other long-term liabilities and deferred credits	64,783
Minority interest	124
Total liabilities of discontinued operations	138,251
Net assets of discontinued operations	$831,040

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

	2003	2002	2001
Net cash flows from operating activities	**$61,015**	$72,820	$44,327
Net cash flows from (used for) financing activities	**(43,228)**	153,087	41,529
Net cash flows used for investing activities	**(33,831)**	(215,638)	(88,752)
Net increase (decrease) in cash and temporary cash investments	**(16,044)**	10,269	(2,896)
Cash and temporary cash investments at beginning of period	**16,044**	5,775	8,671
Cash and temporary cash investments at end of period	**$--**	$16,044	$5,775
Supplemental cash flows information:			
Cash paid (refunded) during the period for:			
Interest	**$19,517**	$14,704	$6,355
Income taxes, net of refunds	**($34,618)**	($9,002)	($3,331)

(17) PENDING SALE OF WP&L'S INTEREST IN KEWAUNEE
WP&L has signed a definitive agreement to sell its 41% ownership interest in Kewaunee to Richmond, Va.-based Dominion Energy Kewaunee, Inc. (Dominion), a subsidiary of Dominion Resources, Inc. Joint owner of Kewaunee, Wisconsin Public Service Corporation, also agreed to sell its 59% ownership interest in Kewaunee to Dominion. Pending various regulatory approvals, including the PSCW and NRC, the transaction is expected to be completed by fall 2004. WP&L anticipates that, based on an expected Nov. 1, 2004 closing date, it will receive approximately $90 million in cash and retain ownership of the trust assets contained in one of the two decommissioning funds it has established to cover the eventual decommissioning of Kewaunee. The fund that will be retained had an after-tax value of $67.3 million on Dec. 31, 2003. The gross cash proceeds from the sale are expected to slightly exceed WP&L's carrying value of the assets being sold. WP&L has requested deferral of any gain and related costs from the PSCW. Because any gain realized and the retained decommissioning fund will likely be returned to customers in future rate filings, WP&L does not expect this transaction will have a significant impact on its operating results. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and WP&L is required to provide qualified decommissioning trust assets of at least $160.7 million on an after-tax basis. The after-tax value of the qualified fund was $166.3 million on Dec. 31, 2003. In January 2004, WP&L liquidated all of the qualified decommissioning assets into money market funds as a result of the pending Kewaunee sale. At the closing of the sale, WP&L will enter into a long-term purchased-power agreement with Dominion to purchase energy and capacity equivalent to the amounts received had current ownership continued. The purchased-power agreement, which also will require regulatory approval, will extend through 2013 when the plant's current operating license will expire.

(18) ASSET RETIREMENT OBLIGATIONS
Alliant Energy adopted SFAS 143 on Jan. 1, 2003, which provides accounting and disclosure requirements for AROs associated with long-lived assets. SFAS 143 requires that when an asset is placed in service the present value of retirement costs for which Alliant Energy has a legal obligation must 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 scope of SFAS 143 as it relates to Alliant Energy primarily includes decommissioning costs for DAEC and Kewaunee. The differences between the estimated decommissioning costs disclosed in Note 11(f) for DAEC and Kewaunee and the recorded SFAS 143 liability are primarily related to fuel management costs, non-nuclear demolition costs and the timing of future cash flows. It also applies to a smaller extent to several other domestic utility 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 current AROs are not significant. A reconciliation of the changes in the AROs is depicted below (in millions):

	IP&L	WP&L	Total
Balance at Jan. 1, 2003	$180	$175	$355
Accretion expense	11	13	24
Change in cash flow estimates	(33)	--	(33)
Balance at Dec. 31, 2003	$158	$188	$346

If SFAS 143 had been adopted as of Jan. 1, 2001, IP&L and WP&L would have recorded ARO SFAS 143 liabilities of $180 million and $175 million at Dec. 31, 2002 and $168 million and $161 million at Dec. 31, 2001, respectively. Refer to Note 17 for information regarding the pending sale of WP&L's interest in Kewaunee.

Upon adoption of SFAS 143, Alliant Energy also recognized a $3.9 million impact as a cumulative effect of a change in accounting principle at WPC (in the fourth quarter of 2003, Alliant Energy completed an IPO of WPC).

At Dec. 31, 2002, prior to the adoption of SFAS 143, Alliant Energy recorded $284.4 million of legal AROs in "Cost of removal obligations" on the Consolidated Balance Sheet.

SELECTED FINANCIAL AND OPERATING STATISTICS

FINANCIAL INFORMATION	2003 (1)	2002 (1)	2001 (1)	2000 (2)	1999 (3)
	(dollars in thousands, except per share data)				
Income Statement Data:					
Operating revenues	**$3,128,187**	$2,486,590	$2,634,230	$2,270,975	$2,048,158
Income from continuing operations	**159,701**	87,456	128,159	330,915	154,334
Income from discontinued operations, net of tax	**29,825**	19,425	57,071	51,039	42,247
Income before cumulative effect of changes in accounting principles	**189,526**	106,881	185,230	381,954	196,581
Cumulative effect of changes in accounting principles, net of tax	**(5,983)**	--	(12,868)	16,708	--
Net income	**183,543**	106,881	172,362	398,662	196,581
Common Stock Data:					
Earnings per average common share (diluted):					
Income from continuing operations	**$1.57**	$0.97	$1.59	$4.18	$1.98
Income from discontinued operations	**$0.30**	$0.21	$0.71	$0.64	$0.53
Cumulative effect of changes in accounting principles	**($0.06)**	--	($0.16)	$0.21	--
Net income	**$1.81**	$1.18	$2.14	$5.03	$2.51
Common shares outstanding at year-end (000s)	**110,963**	92,304	89,682	79,010	78,984
Dividends declared per common share	**$1.00**	$2.00	$2.00	$2.00	$2.00
Market value per share at year-end	**$24.90**	$16.55	$30.36	$31.88	$27.50
Book value per share at year-end (4)	**$21.37**	$19.89	$21.39	$25.79	$27.29
Other Selected Financial Data:					
Cash flows from operating activities (continuing operations)	**$419,990**	$555,338	$433,346	$393,090	$423,794
Construction and acquisition expenditures	**$838,893**	$656,752	$712,991	$845,454	$418,371
Total assets at year-end (4)	**$7,775,446**	$7,814,084	$6,971,735	$7,399,468	$6,663,175
Long-term obligations, net	**$2,321,634**	$2,784,216	$2,586,044	$2,128,496	$1,660,558
Times interest earned before income taxes (5)	**2.20X**	1.74X	2.03X	4.35X	3.05X
Capitalization ratios:					
Common equity (4)	**47%**	36%	41%	44%	50%
Preferred stock	**5%**	4%	2%	2%	3%
Long- and short-term debt	**48%**	60%	57%	54%	47%
Total	**100%**	100%	100%	100%	100%

(1) Refer to "Results of Operations" in MD&A for a discussion of the 2003, 2002 and 2001 results of operations.

(2) Includes $204 million ($2.58 per diluted share) of non-cash net income related to Alliant Energy's adoption of SFAS 133 and $16 million ($0.20 per diluted share) of net income from gains on sales of McLeod stock.

(3) Includes $25 million ($0.32 per diluted share) of net income from gains on sales of McLeod stock.

(4) Alliant Energy adjusts the carrying value of its investments in McLeod to its estimated fair value, pursuant to the applicable accounting rules. At Dec. 31, 2003, 2002, 2001, 2000 and 1999, the carrying amount reflected an unrealized gain (loss) of approximately $2 million, $1 million, ($13) million, $543 million and $1.1 billion, respectively, with a net of tax increase (decrease) to common equity of $1 million, $0.4 million, ($9) million, $317 million and $640 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 (DOMESTIC UTILITY ONLY)

	2003	2002	2001	2000	1999
Operating Revenues (000s):					
Residential	$684,574	$626,947	$599,074	$567,283	$541,714
Commercial	409,704	376,365	373,145	349,019	329,487
Industrial	571,608	526,804	543,471	501,155	476,140
Total from retail customers	1,665,886	1,530,116	1,515,690	1,417,457	1,347,341
Sales for resale	195,822	160,335	184,507	173,148	155,801
Other	55,360	62,083	56,359	57,431	45,796
Total	$1,917,068	$1,752,534	$1,756,556	$1,648,036	$1,548,938
Electric Sales (000s MWh):					
Residential	7,565	7,616	7,344	7,161	7,024
Commercial	5,663	5,542	5,464	5,364	5,260
Industrial	12,345	12,297	12,469	13,092	13,036
Total from retail customers	25,573	25,455	25,277	25,617	25,320
Sales for resale	5,495	4,805	4,936	4,906	5,566
Other	184	197	168	174	162
Total	31,252	30,457	30,381	30,697	31,048
Customers (End of Period):					
Residential	830,559	822,229	807,754	799,603	790,669
Commercial	129,130	128,212	125,539	123,833	122,509
Industrial	2,902	2,905	2,826	2,773	2,730
Other	3,362	3,344	3,324	3,316	3,282
Total	965,953	956,690	939,443	929,525	919,190
Other Selected Electric Data:					
Maximum peak hour demand (MW)	5,887	5,729	5,677	5,397	5,233
Sources of electric energy (000s MWh):					
Coal	18,451	17,674	18,190	18,669	18,585
Purchased power	9,155	8,596	8,727	8,058	8,619
Nuclear	4,498	5,012	4,116	4,675	4,362
Gas	631	675	472	470	493
Other	240	379	452	427	528
Total	32,975	32,336	31,957	32,299	32,587
Revenue per KWh from retail customers (cents)	6.51	6.01	6.00	5.53	5.32

GAS OPERATING INFORMATION (DOMESTIC UTILITY ONLY)

	2003	2002	2001	2000	1999
Operating Revenues (000s):					
Residential	$310,658	$218,746	$270,248	$245,697	$185,090
Commercial	162,651	111,343	141,121	127,104	89,118
Industrial	34,201	25,177	31,262	27,752	21,855
Transportation/other	59,416	38,720	45,246	14,395	18,256
Total	$566,926	$393,986	$487,877	$414,948	$314,319
Gas Sales (000s Dths):					
Residential	31,871	30,931	29,580	32,026	30,309
Commercial	19,947	19,348	18,055	19,696	18,349
Industrial	5,093	5,373	5,344	5,350	5,963
Transportation/other	48,978	47,386	48,539	43,931	46,954
Total	105,889	103,038	101,518	101,003	101,575
Customers at End of Period (Excluding Transportation/Other):					
Residential	361,835	358,384	353,430	351,990	347,533
Commercial	45,826	45,793	45,480	44,654	44,289
Industrial	766	799	951	953	1,037
Total	408,427	404,976	399,861	397,597	392,859
Other Selected Gas Data:					
Revenue per Dth sold (excluding transportation/other)	$8.92	$6.38	$8.35	$7.02	$5.42
Purchased gas costs per Dth sold (excluding transportation/other)	$6.11	$4.02	$6.31	$4.88	$3.30

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
ARO	Asset Retirement Obligation
ATC	American Transmission Company LLC
Cargill-Alliant	Cargill-Alliant, LLC
Corporate Services	Alliant Energy Corporate Services, Inc.
Dth	Dekatherm
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EIP	2002 Equity Incentive Plan
EITF	Emerging Issues Task Force
EITF Issue 02-3	Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities
Emery	Emery Generating Station
EPS	Earnings Per Average Common Share
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation No.
FIN 46	Consolidation of Variable Interest Entities
FSP	FASB Staff Position
GAAP	Accounting Principles Generally Accepted in the U.S.
ICC	Illinois Commerce Commission
Integrated Services	Alliant Energy Integrated Services Company
International	Alliant Energy International, Inc.
IP&L	Interstate Power and Light Company
IPO	Initial Public Offering
IUB	Iowa Utilities Board
Kewaunee	Kewaunee Nuclear Power Plant
LTEIP	Long-Term Equity Incentive Plan
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
N/A	Not Applicable
NEPA	National Energy Policy Act of 1992
NG Energy	NG Energy Trading, LLC
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
SFAS 115	Accounting for Certain Investments in Debt and Equity Securities
SFAS 133	Accounting for Derivative Instruments and Hedging Activities
SFAS 142	Goodwill and Other Intangible Assets
SFAS 143	Accounting for Asset Retirement Obligations
SFAS 149	Amendment of SFAS 133 on Derivative Instruments and Hedging Activities
SmartEnergy	SmartEnergy, Inc.
Synfuel	Alliant Energy Synfuel LLC
TBD	To Be Determined
U.S.	United States of America
WPC	Whiting Petroleum Corporation
WP&L	Wisconsin Power and Light Company
WRPC	Wisconsin River Power Company

Stock Exchange Listings	Stock exchange	Trading symbol	Newspaper abbreviation
Alliant Energy — Common	New York Stock Exchange	LNT	AlliantEngy
Interstate Power and Light Company	New York		
— 8.375% Preferred	Stock Exchange	IPL Pr B	IntstPwrLt pfB
— 7.10% Preferred		IPL Pr C	IntstPwrLt pfC
Wisconsin Power and Light Company	American Stock Exchange		
— 4.50% Preferred		WIS_PR	WI P&L pf

All other Wisconsin Power and Light Company preferred are traded on the over-the-counter market.

Web site address:
www.alliantenergy.com/shareowners

Common Stock Quarterly Price Ranges and Dividends

	2003			2002		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$18.30	$14.98	$.25	$31.01	$28.67	$.50
Second	20.60	16.03	.25	30.85	24.75	.50
Third	22.70	18.69	.25	25.77	16.35	.50
Fourth	25.09	21.94	.25	19.89	14.28	.50
Year	**25.09**	**14.98**	**1.00**	**31.01**	**14.28**	**2.00**

Alliant Energy Corporation 2003 year-end common stock price: $24.90

2004 Record and Dividend Payment Dates
Anticipated record and payment dates are as follows:

COMMON STOCK	
Record dates	Payment dates
Jan. 30	Feb. 14
Apr. 30	May 15
July 30	Aug 14
Oct. 29	Nov. 15

Alliant Energy had 53,231 shareowners of record as of Dec. 31, 2003. Shareowner records are maintained in the corporate headquarters 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 our Web site.

Annual meeting

The 2004 Annual Meeting of Shareowners will be held at the Grand River Center, 500 Bell St., Dubuque, Iowa, on Friday, May 21, 2004, 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, 2003, as filed with the Securities and Exchange Commission (SEC). All reports filed with the SEC also are available through our Web site.

Analyst inquiries

Inquiries from the financial community may be directed to:

Alliant Energy
Attn: Investor Relations
P.O. Box 77007
Madison, WI 53707-1007
Phone: (608) 458-4950
Fax: (608) 458-4824
E-mail: invest@alliantenergy.com

Shareowner inquiries

Inquiries from individual shareowners may be directed to:

Alliant Energy
Attn: Shareowner Services
P.O. Box 2568
Madison, WI 53701-2568
Phone: (608) 458-3110
Toll-free: 1-800-356-5343
Fax: (608) 458-3321
E-mail: shareownerservices@alliantenergy.com

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.

Stock transfer agent and registrar

Contact Shareowner Services for Alliant Energy common stock and all preferred stock of Interstate Power and Light Company and Wisconsin Power and Light Company.

Mail written inquiries to the address in the section above.

Shareowner Connection – electronic on-line access – just a click away!

With 24-hour access via the Web, seven days a week, shareowners and prospective shareowners can:

- Examine reinvestment and certificate account details and balances
- Obtain payment information
- View statements
- Vote proxies
- Change address information
- Find and print tax information
- Open a new account at any time

Go to www.alliantenergy.com/shareowners. Follow instructions for first-time visitors.

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 (see Shareowner Connection–electronic on-line access section preceding).

Shareowner information

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

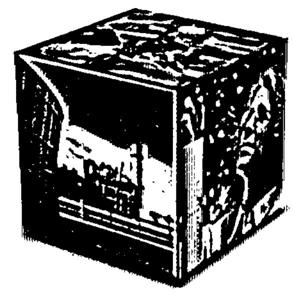
Shareowner Direct Plan

The Shareowner Direct 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 Shareowner Direct Plan may choose to have their quarterly dividend electronically deposited in their checking or savings account through this service. Electronic deposit may be initiated or changed through our Web site at www.alliantenergy.com/shareowners or by contacting Shareowner Services.



Alliant Energy
Corporate 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.*

ALLIANT ENERGY.
We're on for you.

LNT
LISTED
NYSE

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

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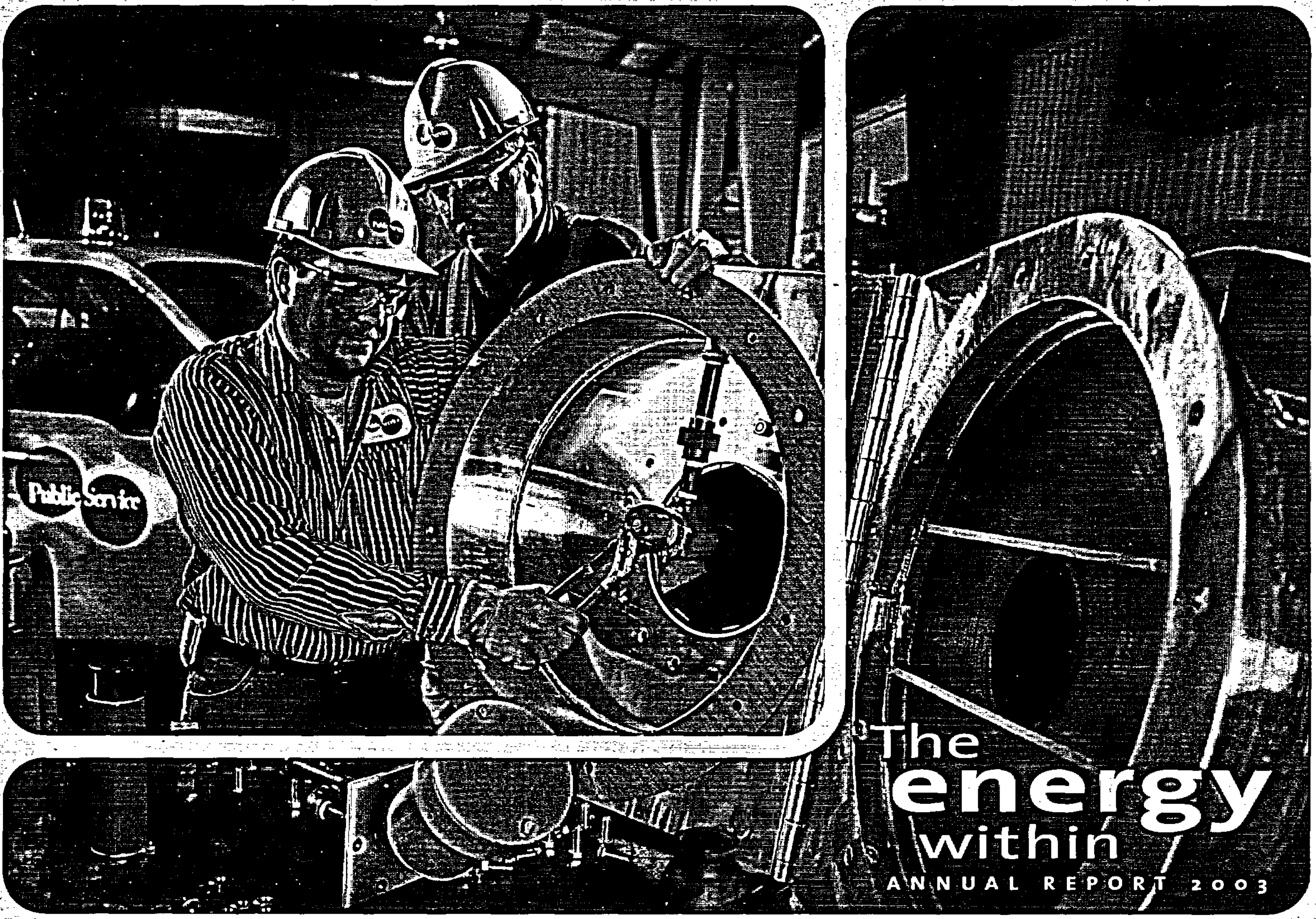


The energy within

ANNUAL REPORT 2003

WPS Resources Corporation

Highlights

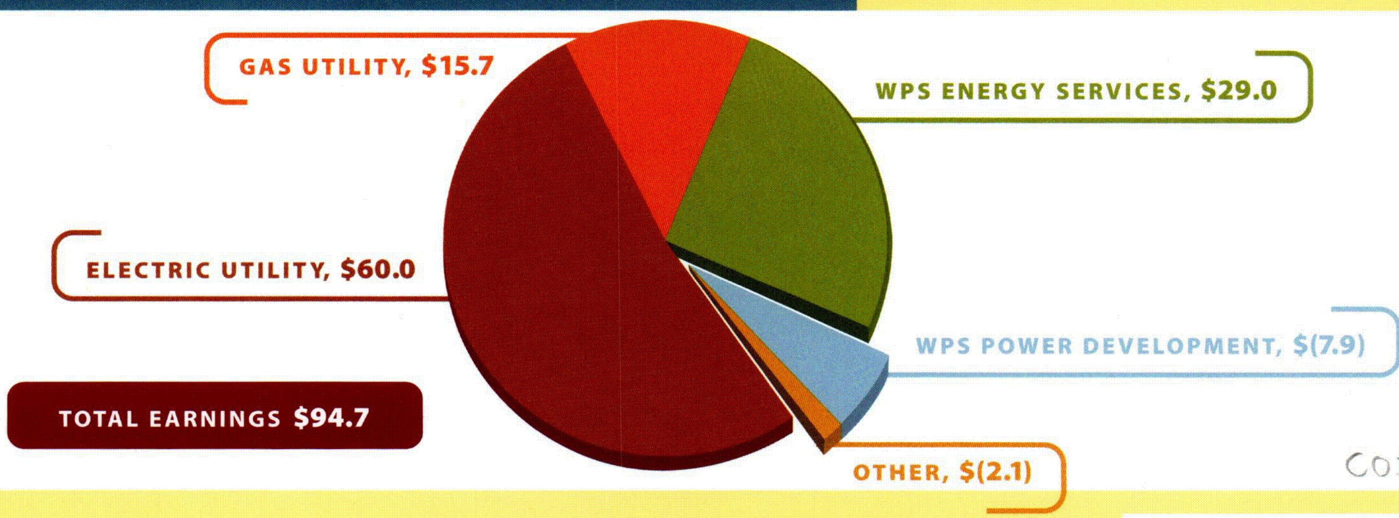
Year Ended December 31	2003	2002	Percent Change
Consolidated revenues – nonregulated *(Millions)* *	$3,137.6	$ 410.8	663.8
Consolidated revenues – utility *(Millions)* *	1,183.7	1,050.3	12.7
Margins – nonregulated *(Millions)*	121.0	71.1	70.2
Margins – utility *(Millions)*	651.4	631.3	3.2
Income from continuing operations *(Millions)* *	110.6	118.5	(6.7)
Income available for common shareholders *(Millions)*	94.7	109.4	(13.4)
Earnings per average share of common stock			
Basic income from continuing operations *	$3.26	$3.64	(10.4)
Diluted income from continuing operations *	3.24	3.61	(10.2)
Basic income available for common shareholders	2.87	3.45	(16.8)
Diluted income available for common shareholders	2.85	3.42	(16.7)
Dividends per share	$ 2.16	$ 2.12	1.9
Book value per share	27.40	24.62	11.3
Common stock price at year end	$46.23	$38.82	19.1
Shares outstanding at year end (excludes treasury stock and shares in deferred compensation trust)	36,621,976	31,808,779	15.1
Total assets *(Millions)*	$4,292.3	$3,671.2	16.9

* Refer to Management's Discussion and Analysis for explanation of changes in revenue and a discussion of discontinued operations.

Cash Flow Summary

Year Ended December 31 *(Millions)*	2003	2002	2001
Net cash operating activities	$ 62.4	$188.5	$144.1
Net cash investing activities	(244.0)	(265.4)	(134.8)
Net cash financing activities	198.6	93.1	33.6
Change in cash and cash equivalents – continuing operations	$ 17.0	$ 16.2	$ 42.9

2003 Earnings By Segment *(Millions)*



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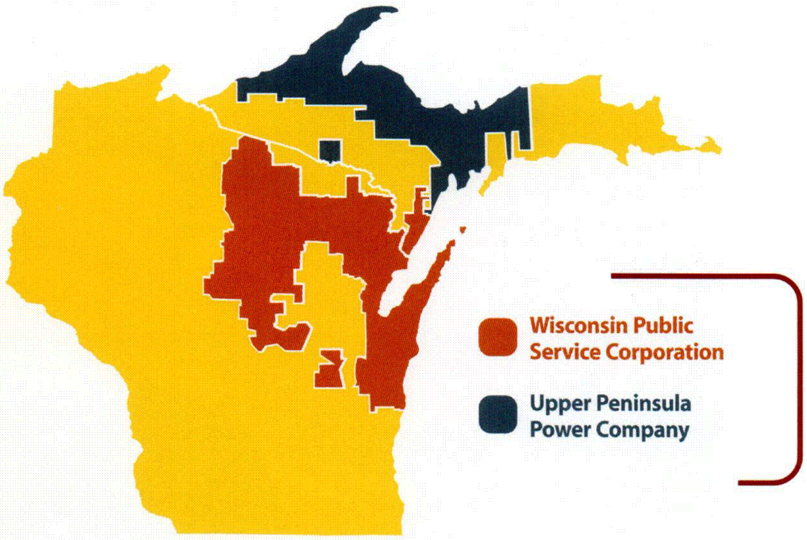
At A Glance

WPS Resources Corporation

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



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).

2,483 employees.

Market

Serves 414,370 electric and 300,859 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 64% and gas operations accounted for 36% of 2003 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 2003 revenues.

Facilities

Electric generating capacity based on 2004 summer capacity ratings is 2,206 megawatts, including share of jointly owned facilities. A peak demand was reached on August 21, 2003, with a system demand of 2,185 megawatts.

Electric property includes 20,490 miles of electric distribution lines, 90% of which are operated at 24.9 kV.

Gas property includes 6,845 miles of gas main, 70% of which is plastic main, and 85 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).

171 employees.

Market

Serves 51,556 electric customers in 99 communities.

Provides electric energy to 35 wholesale customers.

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

Electric revenues are comprised of 88% retail sales and 12% wholesale sales.

Facilities

Electric generating capacity based on 2004 summer capacity ratings is 79 megawatts. A peak demand was reached on January 22, 2003, with a system demand of 154 megawatts.

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

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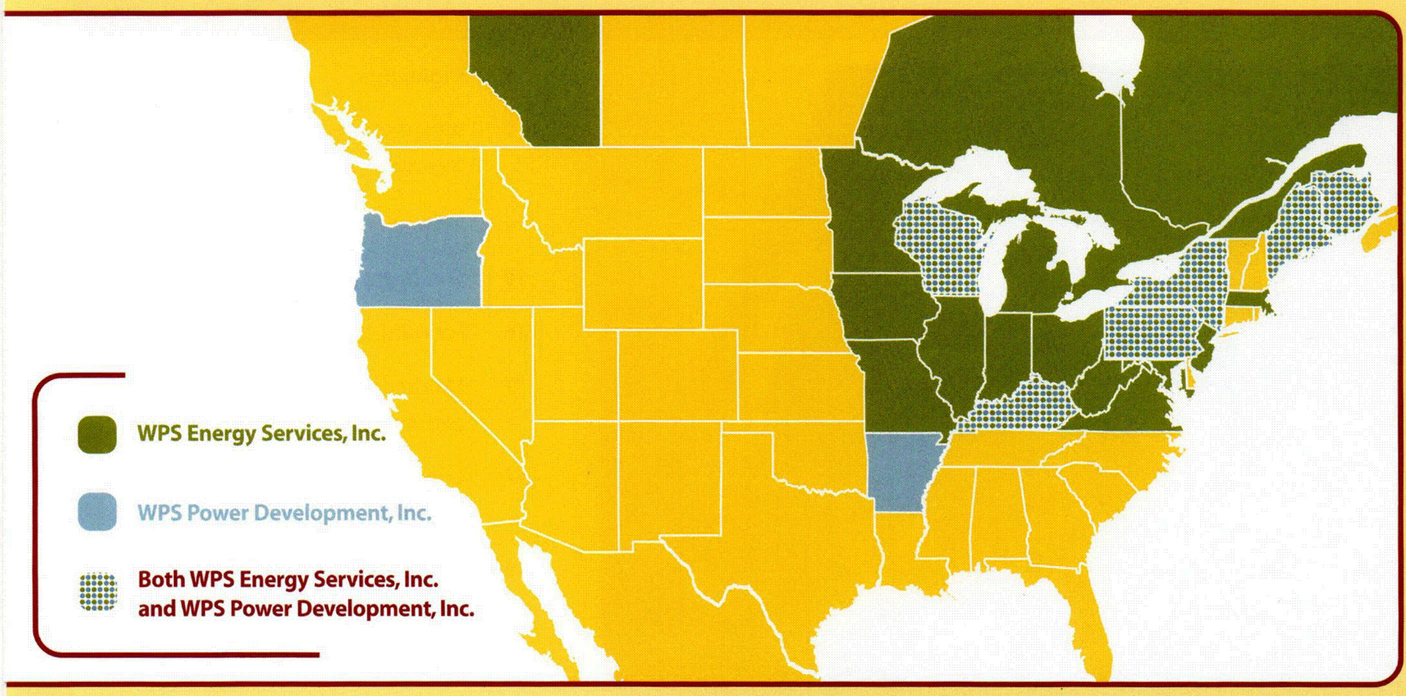

WPS Energy Services, Inc.

Business

Established in 1994.

Diversified nonregulated energy supply and services company.

Principal operations in the United States include Illinois, Maine, Michigan, New York, Ohio, and Wisconsin. Principal Canadian operations include Alberta, 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.

Develops nonregulated assets.

183 employees.

Market

Operates in the retail and wholesale nonregulated energy marketplace.

Emphasis is on serving aggregated residential and small commercial, large 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 development and management.

Provides acquisition and investment analysis, market management services, and optimization of energy assets in the competitive marketplace.

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

WPS Power Development, Inc.

Business

Established in 1995.

Owns and operates various nonregulated electric generation facilities.

Owns a portion of a synthetic fuel facility.

Provides electric power generation services.

193 employees.

Market

Operates nationwide and in adjacent portions of Canada (see map above).

Significant focus on the northeast quadrant of the United States.

Products and Services

Provides 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

- 74 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.
- 259 megawatts of combined cycle and fluidized bed generation facilities in upstate New York.
- 50-megawatt cogeneration facility in Combined Locks, Wisconsin.
- 53-megawatt coal-fired generation facility 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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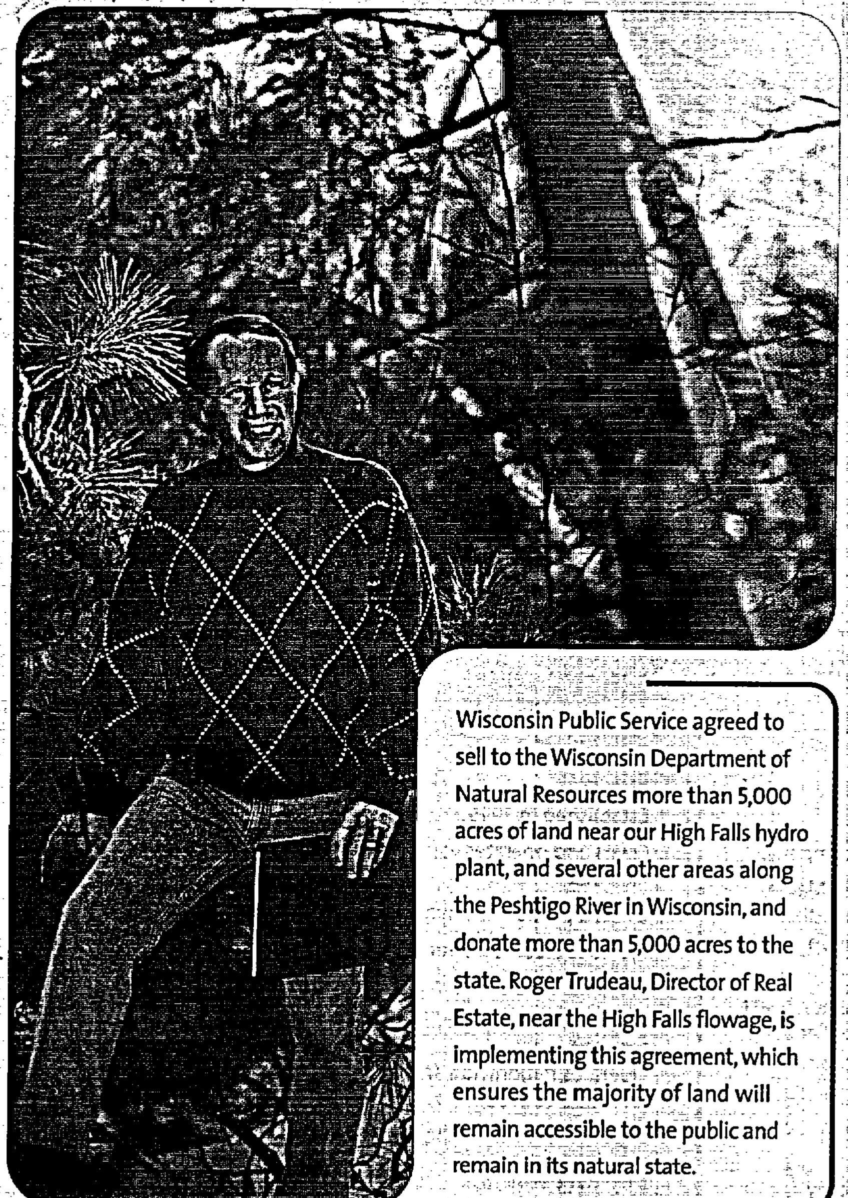
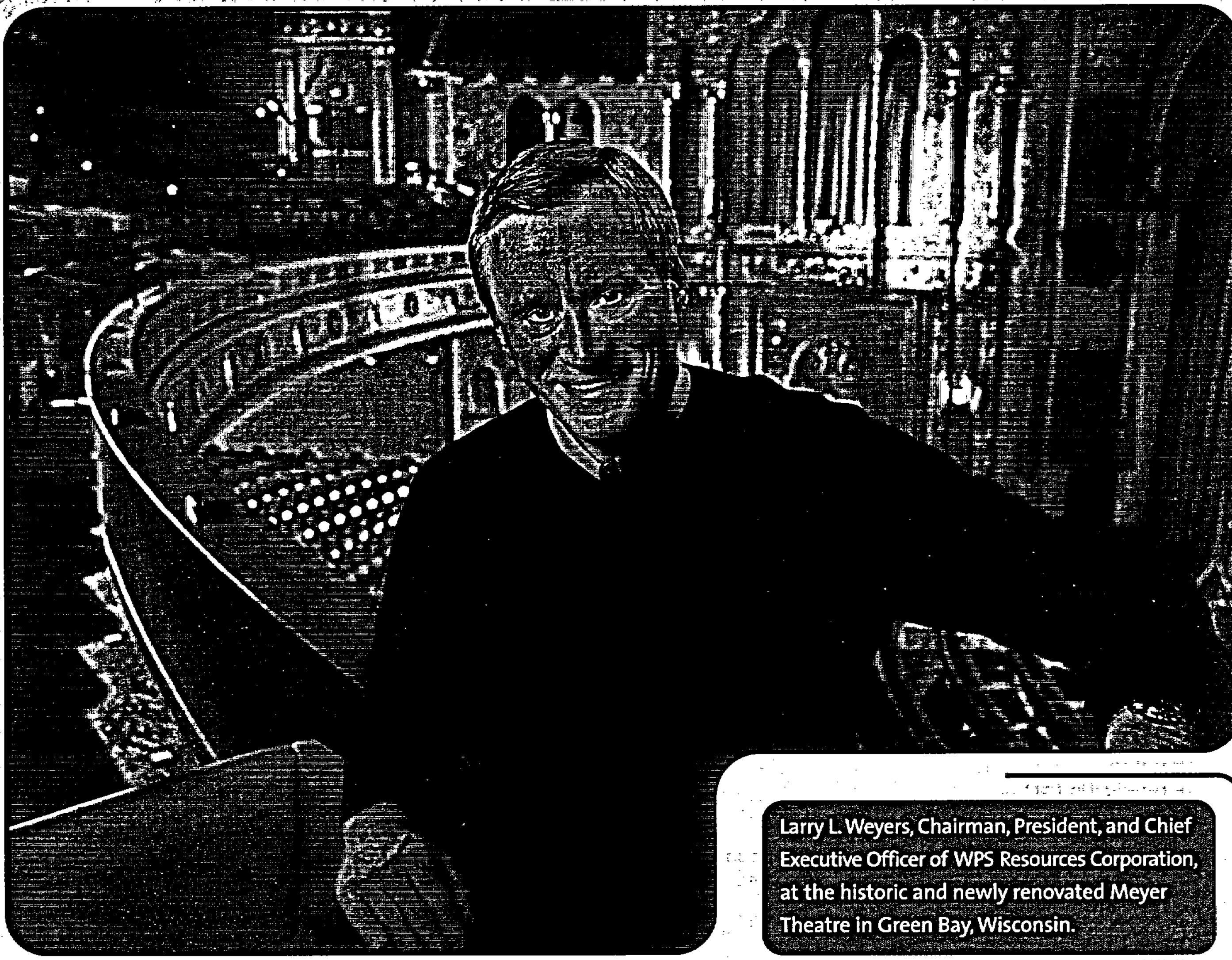
Contents



Wisconsin Public Service agreed to sell to the Wisconsin Department of Natural Resources more than 5,000 acres of land near our High Falls hydro plant, and several other areas along the Peshtigo River in Wisconsin, and donate more than 5,000 acres to the state. Roger Trudeau, Director of Real Estate, near the High Falls flowage, is implementing this agreement, which ensures the majority of land will remain accessible to the public and remain in its natural state.

Ka Youa Kong (center), Corporate Recruiter, and Sandra Hallock (right), Human Resources Information Coordinator, bring qualified professionals into the WPS Resources organization.

Pictured on cover, top to bottom: In the Wisconsin Public Service Rhinelander, Wisconsin, service center, Steve Boneck, Gas Maintenance Mechanic, and David Detert, Service/Street Mechanic, assemble a natural gas burner for a gate and regulator station. Sara Hurley, Manager of Financial Analysis, and Margaret Graese, Accountant, make sure WPS Power Development's financial reporting adheres to current standards.



Larry L. Weyers, Chairman, President, and Chief Executive Officer of WPS Resources Corporation, at the historic and newly renovated Meyer Theatre in Green Bay, Wisconsin.

Dear Fellow Shareholders

The energy within. That's what makes a company strong. It's the internal energy that keeps things rolling within a company. Without this energy, a company would falter. And for a company in the energy industry, the energy within takes on additional significance.

Our business is energy. We strive to understand that business better than any other company. Our mission is to provide the best value in energy and related services. Creating value for our customers, shareholders, employees, and the communities we serve is not a small task. It takes a tremendous amount of energy to pull it off—energy that comes from our employees. Their internal drive helps us fulfill our mission and reach our goals. That energy will propel us into becoming a world-class energy company.

I am happy to report that 2003 put us firmly on track to be that company. We once again made substantial progress toward our goals, and the energy within is enabling us to succeed. Let me tell you how.

A Quick Review of 2003: Many Successes

- We filed an application to construct and operate a 500-megawatt electric generating facility at our existing Weston power plant site.
- We agreed to sell our Sunbury generating station in Pennsylvania to Duquesne Power.
- We purchased a one-third interest in the Guardian Pipeline.
- We increased the dividend on our common stock for the 45th consecutive year.
- For the seventh time in eight years, we met the challenge of a new all-time peak in energy demand when we supplied 2,185 megawatts on August 21.
- We completed credit line syndications for WPS Resources and Wisconsin Public Service.
- We won the bid to provide standard-offer electric service to northern Maine for a 34-month period beginning March 1, 2004.
- We agreed to sell the Kewaunee Nuclear Power Plant to Dominion Energy.
- We sold an additional 4,025,000 shares of our common stock at $43 per share, and investor demand exceeded the number of shares offered.
- We issued $125 million of utility senior notes at very favorable rates.
- We sold 542 acres of land near the Peshtigo River to the Wisconsin Department of Natural Resources.
- We began construction of a 50,000-square-foot addition to our Green Bay Service Center to house our 24-hour call center and additional customer support operations.
- We announced a long-term agreement to provide more than 55 megawatts of wholesale electric service to two northeastern Wisconsin communities—Shawano and Clintonville.
- We completed remediation efforts on a former manufactured gas plant site in Green Bay, Wisconsin, and won the Mayor's Beautification Award at the same time.
- We sold a seven-acre former manufactured gas plant site after completing environmental remediation efforts.
- Our NatureWise™ and SolarWise® for Schools renewable energy programs were ranked among the top 10 in national Green Power programs based on customer participation.

The Challenges

We also faced a number of challenges during 2003. First, when approval of Wisconsin Public Service's 2003 rate case was delayed for three months due to other priorities at the Public Service Commission of Wisconsin, we lost approximately $5 million of potential electric revenue. We expected to receive an order before the end of 2002, but the Commission did not grant approval until March 21, 2003. The delay in receiving the needed rate increase caused a decline in utility earnings that we were not able to overcome during the remainder of the year.

Maintenance issues, purchased power, and fuel costs took a toll on the performance of WPS Power Development's assets during 2003. We diligently corrected the maintenance issues, lowered fuel costs, and steadily improved the overall condition of the facilities and enhanced their long-term operation.

The environment in the nonregulated energy marketplace has become more challenging due to, among other things, high and volatile natural gas prices, major accounting changes, the dramatic overbuild of capacity and, to a lesser extent, the reduction in wholesale market participants. Although electric prices have been close to projections made at the inception of our investments, the forward value of nonregulated capacity markets was vastly overestimated by most industry experts and us.

Although WPS Energy Services' financial performance has been good the past few years, the overall financial performance by WPS Power Development's assets is not acceptable.

In 2003, WPS Power Development took decisive actions to adjust to the new merchant marketplace. We announced the pending sale of our Sunbury plant to Duquesne Power. We downsized the workforce for our New York assets by about 20 percent and have still maintained reliable operations. We also downsized WPS Power Development's central office staff and focused the company on the efficient operation and optimization of its assets. In addition, we moved nonregulated business development activities to WPS Energy Services to facilitate its ability to market power from WPS Power Development's generation assets. Given current market conditions, we don't expect to see significant growth in the form of acquired generation assets, but we are continuing to look for growth opportunities for our nonregulated companies that will enhance shareholder value.

WPS Energy Services made adjustments to better integrate its market focus with WPS Power Development's generation assets. WPS Energy Services hired personnel with experience in the market management of electric generation assets in New York, New England, and the Pennsylvania-New Jersey-Maryland markets and opened a new office in the Washington, D.C. area.

This staff is focused on maximizing the value of company and customer energy assets in the northeast markets, with activities that include risk analysis, portfolio management, scheduling, and settlement.

The energy industry experienced volatile and high commodity market prices in 2003, and we expect these market conditions to continue into 2004. This can put a financial strain on undercapitalized market participants. We continue to be diligent and improve our credit processes to minimize credit-related damage. On the plus side, market volatility often creates opportunity and enhances the value of the products WPS Energy Services is able to provide to the nonregulated wholesale and retail marketplace.

Goals

The energy within an organization is a key to success. But energy must be harnessed and driven in the direction of goals with sustained effort. A company must develop its goals, lay out its strategy for accomplishing those goals, and then put the right leadership in place to ensure attainment of those goals. It takes energy all along the way to keep us headed in the right direction.

Our financial goals are simple. We expect to provide 6 to 8 percent average annualized growth in earnings per share from continuing operations, but we know that the growth may vary—sometimes higher and sometimes lower than the targeted range in any given year. We have surpassed this goal over the past five years.

Another goal is to have between 15 percent and 25 percent of our earnings come from our nonregulated subsidiaries: WPS Energy Services and WPS Power Development.

This past year, 22 percent came from those two subsidiaries, which is down from 32 percent in 2002. We have chosen this range because it allows us substantial growth opportunities and still provides the benefits of a balanced portfolio of business operations that derives 75 percent or more of our earnings from utility investments.

Our final financial goal is to provide investors with a solid return on their investment. That includes sustained dividends and dividend growth. Our total return to shareholders has exceeded 12 percent on an average annual basis for the last five years, and we have increased dividends annually for the last 45 years.

Strategy

Our strategy continues to be balanced growth, adherence to our core competencies of energy and energy-related activities, and focusing our nonregulated efforts on the energy markets within the northeast quadrant of the United States and adjacent portions of Canada. We are continuing to place greater emphasis on growth of our regulated utility business while at the same time carefully growing our nonregulated subsidiaries.

A major part of our strategy is to develop the infrastructure that will be needed to provide reliable supplies of energy for many years and to provide customers with the best value for their energy purchases.

Generating the Energy

With our strategy in mind, Wisconsin Public Service completed construction of Pulliam 31 at a cost of approximately $38 million. This is an 83-megawatt natural gas-fired combustion turbine peaking plant, which is located at our existing Pulliam power plant site in Green Bay, Wisconsin.

Wisconsin Public Service also began work on the Weston 4 project. This is a new 500-megawatt, coal-fired plant that will be located at our existing Weston generating site near Wausau, Wisconsin. This will be a state-of-the-art unit that we plan to have available in 2008. It will be one of the most efficient and environmentally friendly units in Wisconsin and is expected to cost about $770 million.

Pat Bourassa, Technical Support Supervisor, was asked to take on a new role—project director for the $23.6 million service center annex project for Wisconsin Public Service. She brought the building construction portion of this project in ahead of schedule and under budget. The entire project is expected to be complete in December 2005.

Wisconsin Public Service also announced a $250 million contract to buy power from a new gas-fired plant Calpine is building near Kaukauna, Wisconsin. The Fox Energy Center will be available early in 2005 and will provide up to 235 megawatts of capacity and energy to our system for ten years.

Transmitting Energy to Where It's Needed

Transmission infrastructure must also be developed, and we made significant progress in that arena in 2003 through our partial ownership of American Transmission Company, LLC.

During 2003, we transferred about $20 million of assets related to the Wausau, Wisconsin, to Duluth, Minnesota, transmission line project to American Transmission Company for additional equity.

The Public Service Commission of Wisconsin approved construction of the 220-mile transmission line at a cost of about $420 million. We anticipate funding approximately 50 percent of total costs incurred, up to $198 million, and receiving additional equity in American Transmission Company. We expect to complete construction in 2008.

In December 2003, we invested approximately $6 million in American Transmission Company with the transfer of other recently completed projects to the American Transmission Company, increasing our ownership interest to about 20 percent.

We also signed an interconnection agreement with the American Transmission Company, which will provide for the development of the transmission infrastructure necessary to transport the output of the proposed Weston 4 plant.

Ensuring Reliability with a Natural Gas Pipeline

On the natural gas side of our business, we purchased a one-third interest in the Guardian Pipeline for $26 million. The pipeline, which began operating in 2002, stretches about 140 miles from Joliet, Illinois, into southern Wisconsin. It can transport up to 750 million cubic feet of natural gas daily. Even though our principal utility doesn't connect to it, we've supported the Guardian Pipeline since it was first proposed because it provides potential benefits of competition to current and future customers in the state of Wisconsin. We think it will be a sound addition to our business holdings. The pipeline is critical to natural gas reliability in Wisconsin, and more than 88 percent of its capacity is under contract through 2012.

Managing and Reducing Risk

Another major part of our strategy is the management and, when possible, the reduction of risk. In that regard, we made substantial progress in 2003. We will reduce our exposure to the merchant plant markets with WPS Power Development's proposed sale of the 402-megawatt Sunbury Power Plant, located in Pennsylvania, to Duquesne Power, L.P., a subsidiary of Duquesne Light Holdings, for approximately $120 million. We expect to complete this sale in the third quarter of 2004.

We also reached an agreement to sell the 543-megawatt Kewaunee Nuclear Power Plant to Dominion Energy Kewaunee, LLP, a subsidiary of Dominion Resources, for approximately $220 million. Wisconsin Public Service owns 59 percent of Kewaunee and an unaffiliated utility owns 41 percent. At closing, we expect to receive approximately $130 million in cash, transfer our decommissioning liability, and retain ownership of trust assets contained in one of two decommissioning funds we established to cover the eventual decommissioning of the plant. The cash proceeds from the sale are expected to slightly exceed our carrying value on the assets being sold. We expect that the retained decommissioning fund, as well as most of the gain from the plant sale, will be available to Wisconsin Public Service's customers in future rate proceedings. The transaction is subject to approval by various regulatory agencies, including the Public Service Commission of Wisconsin, the Federal Energy Regulatory Commission, and the Nuclear Regulatory Commission. We expect this transaction to be completed in 2004.

At the closing of the sale, Wisconsin Public Service will enter into a power purchase agreement with Dominion Energy to buy energy and capacity generated at Kewaunee. The agreement provides for an equivalent amount of electricity at substantially the same costs that we would expect if current ownership continued. The power purchase agreement, which also requires regulatory approval, will extend through 2013, when the plant's current operating license will expire.

This sale will transfer the risk of nuclear ownership and operation, including decommissioning and fuel disposal costs, away from our customers and shareholders. We believe our customers and shareholders will benefit from the sale and power purchase agreement. Additionally, the transaction fits with our asset management strategy and lowers our business risk profile.

The sale of Kewaunee was a bittersweet decision for our management team because Kewaunee has been a flagship for excellent operations in the industry throughout its 30-year history. We are confident it will continue to operate well in the hands of its new owner and the existing competent staff at Kewaunee.

Benefiting from Our Asset Management Strategy

Our asset management strategy calls for the addition or disposition of assets, including plants and entire business units, to create value for customers and enhance returns for shareholders. Sales of excess land, buildings, and other facilities are a part of this strategy.

The sales of Kewaunee and Sunbury are examples of our asset management strategy. This strategy will enable us to improve returns to shareholders by managing our assets in a manner that reduces risk.

Another example of our asset management strategy was the December 2003 sale of an additional 542 acres of land near the Peshtigo River to the Wisconsin Department of Natural Resources for $6.5 million. This was part of a multi-phase agreement reached in 2001. Under terms of that agreement, we sold more than 5,000 acres of land to the state for $13.5 million in 2001. The state recently exercised its option to purchase an additional 179 acres for $5 million in 2004. Following the close of the third and final phase of the agreement in 2004, we will donate 5,176 acres to the state. At that point, the Wisconsin Department of Natural Resources will have acquired nearly 12,000 acres of wilderness for $25 million. When this transaction is completed, it will ensure that this pristine wilderness will remain open and accessible to the public and in its present natural state. We have been the stewards of this land for more than 100 years, and it's important that the new owner, the state of Wisconsin, carry on our stewardship. We are retaining about 300 acres of land in the vicinity that will be sold for development at an auction to be held in late 2004.

We also sold a seven-acre waterfront site for $940,000 to the city of Oshkosh, Wisconsin, for park expansion. The land was the site of a coal gasification plant on which we completed environmental remediation work. We are pleased that Oshkosh residents will be able to take advantage of this property to develop and improve the riverfront.

Nonregulated Growth

Another major part of our strategy is the continuing growth of WPS Energy Services. We made substantial progress in 2003 with the acquisition of a retail electric business in Michigan and integration of a retail natural gas business in Canada. WPS Energy Services also secured major new contracts in the New Jersey and Maine markets. They are well on the way to many years of profitable growth.

We also decided that the time was right to take WPS Power Development in a new direction—one focused more on operational excellence than on development of power plants. As a result, in 2003, WPS Energy Services assumed the development efforts for our nonregulated businesses.

Financial Strength

Successful infrastructure development and profitable growth is possible only if the energy within our company is combined with a strong financial position.

Rates to Sustain Us

The ability to successfully conclude rate cases is essential for any regulated utility, and we are no different. During 2003, we were successful in a number of jurisdictions. The Public Service Commission of Wisconsin granted Wisconsin Public Service authority to increase retail electric rates by 3.5 percent, or $21.4 million, effective March 21, 2003. The Michigan Public Service Commission granted authority for a $300,000 increase in Wisconsin Public Service's retail electric rates on July 23, 2003, and also authorized recovery of $1 million of increased transmission costs through the power supply cost recovery fuel adjustment clause. In addition, the Federal Energy Regulatory Commission ordered a 21 percent, or $4.1 million, interim increase in wholesale electric rates, subject to refund if the final rate increase is less, for Wisconsin Public Service effective May 11, 2003, with final settlement anticipated in the second quarter of 2004.

Wisconsin Public Service also successfully concluded its 2004 Wisconsin rate case with authorization to increase retail electric rates by 9.4 percent, or $59.4 million, and retail natural gas rates by 2.2 percent, or $8.9 million, effective January 1, 2004. As part of this order, the Commission allowed a 12 percent return on equity with 56 percent equity in our utility capital structure.

Rate increases of this sort are often hard on our customers, but the increased rates are needed to maintain the reliability and safety of our service to them. Our customers should know that we are taking advantage of every opportunity to reduce costs and passing those savings on to them. Even with the higher rates, our electric and natural gas rates are still among the lowest in Wisconsin and the nation.

Financial Goals for 2004

- Grow our earnings per share from continuing operations at 6 to 8 percent on an annualized basis.
- Achieve 15 to 25 percent of our earnings from WPS Energy Services and WPS Power Development.
- Continue our moderate growth in the annual dividend paid.
- Provide investors with a solid return on their investment.

Financings

In 2003, we took steps to enhance our strong financial position. In August, we completed a credit line syndication that established a $225 million revolving credit line for WPS Resources and a $115 million revolving credit line for Wisconsin Public Service. The 364-day senior unsecured revolving credit line facilities give us greater financial flexibility as we grow our regulated utilities and nonregulated businesses.

Our quality debt ratings provide flexibility and access to capital markets at reasonable rates to help grow the business. This was apparent in December when we successfully issued $125 million of 4.80 percent 10-year senior notes for Wisconsin Public Service. Due to the high ratings of the utility issue, the notes were heavily oversubscribed prior to pricing, which resulted in a very favorable interest rate.

We also completed an equity sale last fall, which netted $167 million. These debt and equity financings will help maintain our financial strength as we grow. We are maintaining our financial strength to support our quality credit ratings.

Benefits for our Shareholders

We've paid a dividend on our common stock for 63 consecutive years, and we've rewarded our shareholders with 45 consecutive years of dividend increases. We feel it is extremely important for us to continue to pay dividends to our shareholders, and we'll continue to strive to do so.

Our successful public offering of 4,025,000 shares of common stock in November was oversubscribed, split about evenly between retail and institutional purchasers, and confirms the value of our company to the investing public. During 2003, we increased our common stock equity through that public offering and increased investor participation in our Stock Investment Plan. In 2003, shareholders invested more than $13.1 million to add additional shares to their accounts under the plan and reinvested about $10.1 million of dividends.

Our investors are recognizing the value of their WPS investment as our stock increases its value. We closed the year 2002 with a stock price of $38.82 and ended 2003 with a stock price of $46.23. The 52-week range was between $36.80 and $46.80. For investors who held WPS common stock from December 31, 2002, through December 31, 2003, and were able to reinvest their $2.16 in dividends per share, their total shareholder return for the year was 25.3 percent—a very positive result for our investors.

Energized Leadership

The energy within WPS Resources must be combined with strong leadership to provide maximum value. In that regard, we are upgrading leaders' skills throughout the company. Leadership training courses have been developed for new leaders, new hires, and experienced leaders. More than 83 percent of our formal leaders have been involved in these classes in the past 24 months. We use external courses to augment our internal initiatives.

Recognizing the energy that can be created by a diverse workforce, we are continuing our diversity efforts throughout WPS Resources. This initiative provides us with a workforce and culture that is rich in ideas and highly effective.

Leadership Changes

This past year brought about changes in our Board of Directors. Mike Ariens retired from our Board after serving for 29 years. We thank Mike for the tremendous contribution he made to our success throughout that term.

We are pleased to welcome Ellen Carnahan to our Board of Directors. Ellen has a strong background in venture capital. She is proving to be a valuable asset to our future success.

On our management team, Jerry Mroczkowski retired from his position as Chief Executive Officer of WPS Power Development. Jerry has agreed to continue as a consultant for the company.

Charlie Schrock left his position as President of WPS Power Development for an assignment at WPS Resources. Charlie is now responsible for several projects critical to our success.

In addition to his role as Senior Vice President - Development of WPS Resources, in which he oversees all nonregulated activity, Phil Mikulsky is now President of WPS Power Development and will take responsibility for moving this nonregulated subsidiary in a new direction.

The Energy Within

WPS Resources truly does have energy within. It is the force that keeps us strong and successful. It enables us to deliver the best value in energy and related services. It allows us to provide solid returns for our investors.

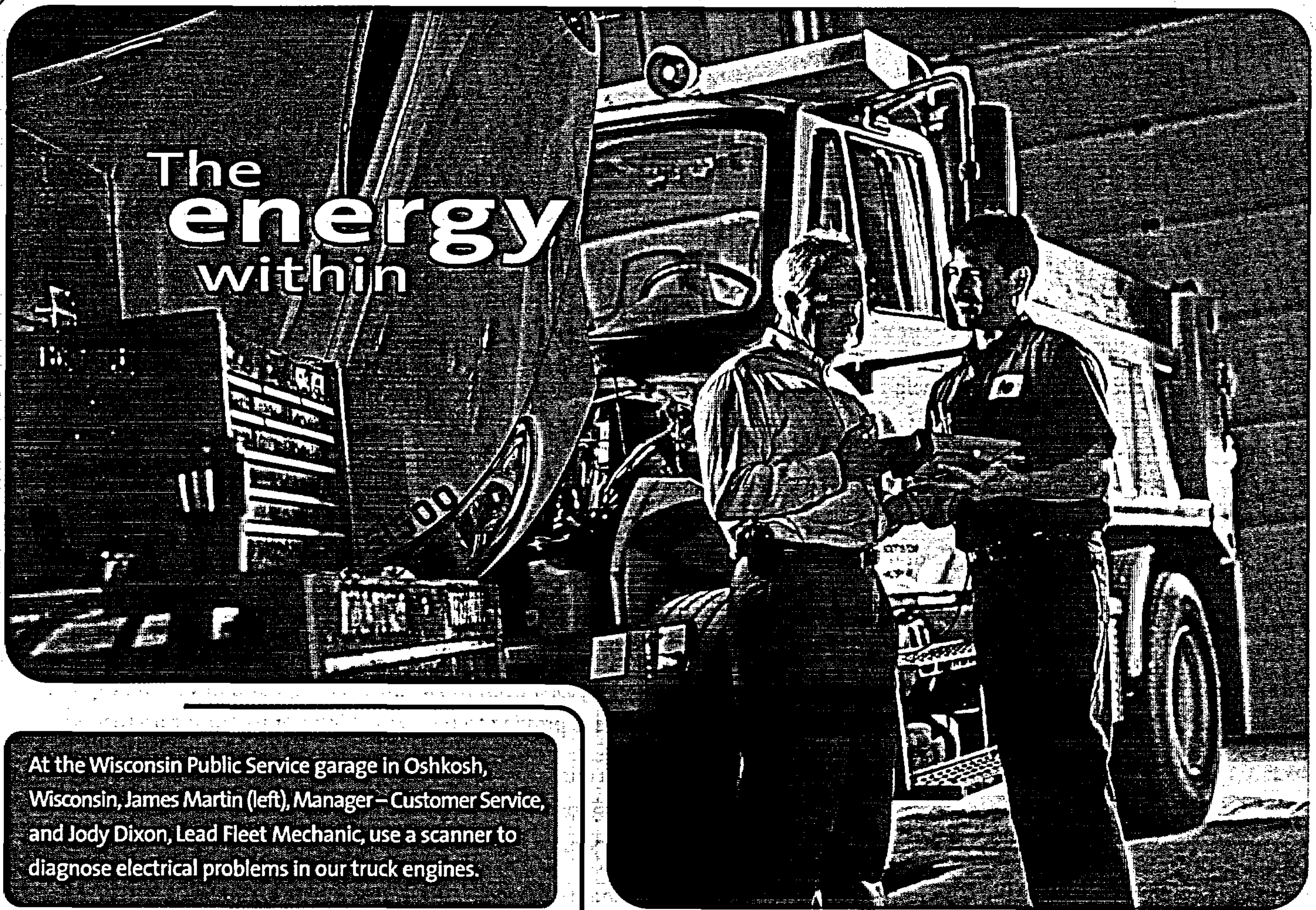
We plan to nurture the energy within and continue delivering value to our shareholders for many years to come.

Thank you for choosing WPS Resources for your investment. We will put all our energy to work for you.

Sincerely,

Larry L. Weyers

Larry L. Weyers
Chairman, President, and Chief Executive Officer
March 12, 2004



At the Wisconsin Public Service garage in Oshkosh, Wisconsin, James Martin (left), Manager–Customer Service, and Jody Dixon, Lead Fleet Mechanic, use a scanner to diagnose electrical problems in our truck engines.

The Energy Within

WPS Resources' subsidiaries use their abilities to generate and deliver energy to homes and businesses across the central and northeastern United States and adjacent areas of Canada. That's the kind of energy most people think of when they hear "WPS Resources." But what about the energy needed to listen intently to our customers, to serve our communities with compassion, and to persevere in difficult times? That energy doesn't come from a generator, pipe, or wire. It's an energy that resonates within each of WPS Resources' employees.

The Energy to Serve

The energy within our employees is, first and foremost, the energy to serve our customers exceedingly well. Whether that means repairing a broken gas main in below-zero weather or helping customers find ways to effectively use the energy we sell, our employees get the job done with spirit and integrity. We create products and services that are valuable to our customers, and in the end, create value for our shareholders as well.

"There's Energy in Everything We Do"

At Wisconsin Public Service, our regulated electric and natural gas utility operating in northeastern Wisconsin and portions of Upper Michigan, we tell customers, "There's Energy in Everything We Do"—and there is, according to feedback from our customers. In benchmarking research we conducted in 2003, Wisconsin Public Service rated among the "best in class" when compared with other major investor-owned utilities in Wisconsin. Attributes investigated in the research included price, corporate character, and service quality.

We spend a great deal of energy searching for new ways to serve our customers better. We look for innovations that are convenient and customized for homeowners and businesses but that also enable us to provide service efficiently and at a lower cost.

Many of these innovations are on the Web. Some of our most popular new services are our free on-line "Energy-Saving Tools" for homes and businesses. With Energy-Saving Tools, customers are learning ways to manage rising energy costs, based on their own billing data and patterns of energy use. And, they're able to do so whenever they choose. The popularity of these energy management tools, along with on-line bill payment and other routine transactions available on our Web site, brought double the number of visitors to http://www.wisconsinpublicservice.com in 2003 as compared with 2002.

Questions posed by small business customers receive specialized attention in the Wisconsin Public Service Business Information Center. These representatives are trained to meet the unique energy needs of small business managers and owners, who wear many hats in their operations and have little time or money to spend on energy issues. Making optimum use of phone and Internet technology, the Business Information Center cared for nearly twice as many business customers in 2003 as compared to 2002. At the same time, the cost of serving each of those customers via the Business Information Center was cut in half.

These creative on-line and call center solutions for our residential and small business customers have allowed us to centralize many functions previously carried out by local offices. So while we have more opportunity to serve, our customers can choose the way they want to be served, and costs are actually reduced.

"Check the Prices, and Do the Math"

In early fall, more than 45,000 new residential and small business customers in Ohio signed up to buy natural gas from WPS Energy Services, our nonregulated energy marketing subsidiary. This surge in business was prompted, in large part, by an independent article in the *Akron Beacon-Journal*. The reporter stated that "after checking out all the prices, doing the math, and talking with each company," WPS Energy Services was the obvious choice for gas supply.

Consumers flocked to http://www.wpsenergy.com. The site received 2.5 million hits in August alone, and two customers per minute signed up online for natural gas service. More than 40,000 individuals called WPS Energy Services, up 700 percent from the usual monthly call volume. That's a remarkable level of interest for an energy supplier to receive on short notice. But with a firm grasp of Internet technology and a reliable customer service call center, WPS Energy Services came through for customers. Our reputation in Ohio helped increase our market share by nearly 4 percent in a market of 1.2 million customers.

WPS Energy Services' reputation for a strong work ethic has earned our company an ever-increasing amount of business. Since 2001, WPS Energy Services has been the supplier of choice for aggregated buying groups like Cleveland, Ohio. In 2003, Northern Maine again chose us as its standard offer energy supplier. Under a 34-month contract, we will be the electricity provider for all of Maine Public Service Company's service area, as well as customers of Houlton Water Company and the Eastern Maine Electric Cooperative.

With a focus on competitive energy prices, reliable energy, top-notch customer service, and innovative technology, WPS Energy Services is one of the fastest-growing energy marketers in the country.

Strategy provides focus for the energy within. It is a constant behind all decisions made by WPS Energy Services' staff. This includes, from left to right, Craig Avery, Risk Administration Leader; Richard Bissing, Vice President; Daniel Verbanac, Senior Vice President, who recently was appointed Chief Operating Officer; Ruqaiyah Stanley, Vice President; and Bruce Rizor, Vice President – Structured Energy Trading.

The Energy to Inspire Greatness

WPS Resources is generating a ready supply of talented leaders who can continue our tradition of outstanding, reliable service to customers. Our forward-looking Mentoring Program, for example, is in its fourth year.

Mentoring is a powerful, time-tested way of supporting employees as they meet the challenges of being successful, productive employees. Right now in our formal mentoring program, 75 mentors—seasoned leaders with specialized experience—are bringing mentees access to developmental assignments, senior executive relationships, and growth opportunities. In return, these yearlong relationships are bringing a fresh perspective to our mentors, and the company is adding to a bank of strategic knowledge and potential leadership.

At WPS Resources, new leaders prepare to lead effectively by participating in our specially designed Leadership Training for New Leaders. This series of workshops focuses on how to lead using WPS Resources' corporate values and vision. It includes leadership basics as well as the five core competencies we have designated for all of our leaders: Coaching and Developing Others, Communication and Influence, Sales Ability and Negotiation, Planning and Organizing, and Managing and Valuing Diversity. In their final class, graduates of this program develop an ongoing development plan for themselves, so they continue to grow as leaders. More than 200 individuals have completed this program over the past two years.

But planning for future success doesn't stop there. At WPS Resources, we believe in inspiring future success even beyond our "four walls." In the communities we serve, spirited employees give their time to help people and businesses thrive.

Small businesses are a case in point. They're the constant heartbeat behind the economic vitality of any community. In Columbus, Ohio, where WPS Energy Services serves a significant portion of the residential and small business market, our employees work closely with the local chamber of commerce, helping members make sound energy choices. In Maine, our involvement with the Maine Technology Institute is helping to promote new business in the state's technology sector.

Elsewhere, our employees are in schools, helping the very young become the leaders of tomorrow. From tutoring elementary school children who have English as a second language to leading teenagers in Junior Achievement, we're using our energy to inspire greatness.

Energy to Overcome Adversity

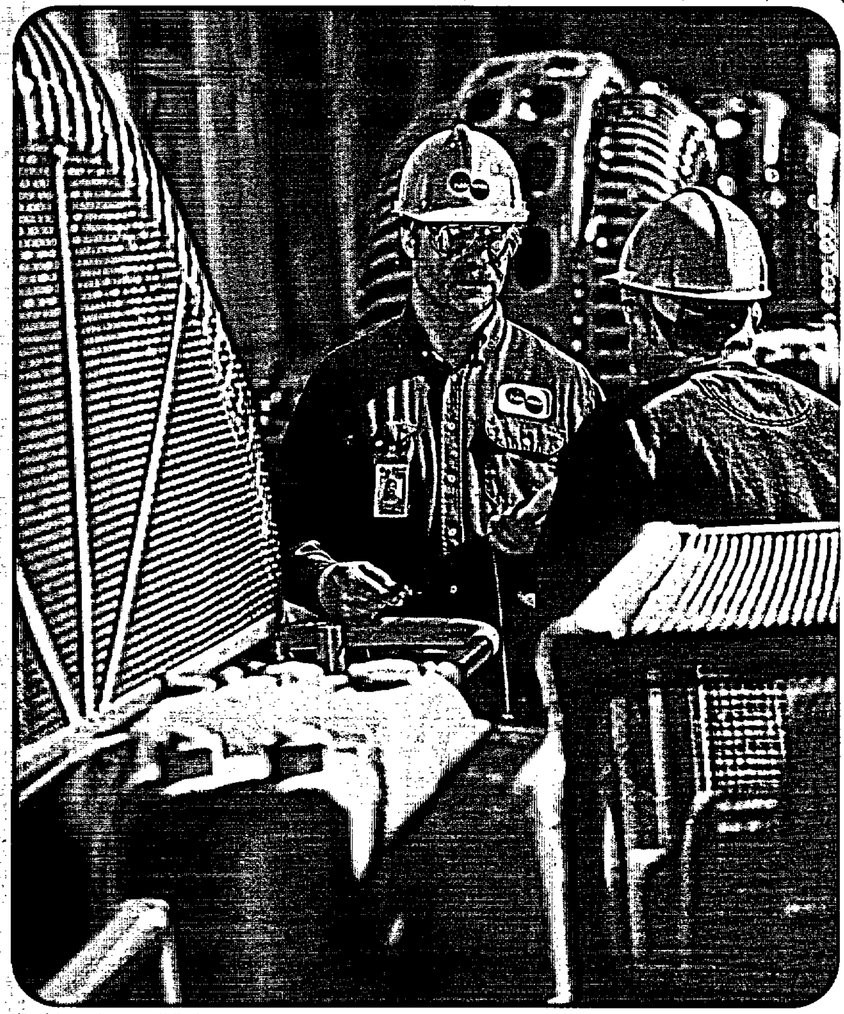
Not every day is business as usual. That's when our employees draw from their reserves of energy to take their daily dedication even further.

Recover Habitat and Riverway

On May 14, 2003, a fuse plug and its foundation failed at Silver Lake reservoir, operated by Upper Peninsula Power Company, our regulated electric utility in Upper Michigan. The flooding that followed disrupted power supply to some consumers in the Upper Peninsula and damaged property along the Dead River. This incident tested the mettle of our employees and confirmed the value of teamwork between Upper Peninsula Power's work groups.

Upper Peninsula Power employees immediately began working with local officials to ensure the safety of area residents. Within days, our hydroelectric managers conducted a flyover of the 25-mile stretch of rivers from the reservoir to Lake Superior and gained an understanding of the waters' status. Portable diesel generators helped us fill our customers' energy needs. And our Environmental Department arrived on the scene, identifying areas of environmental concern.

Gary Delveaux (center), Manager – Business and Community Development for Wisconsin Public Service, discusses plans for a new industrial park with Green Bay Mayor Jim Schmitt (left), and Pete Thillman (right), Director of Economic Development for Green Bay. Gary advises on infrastructure and helps promote the new park to attract businesses.



Above: Charlotte Ostrowski, a Service Clerk, greets customers with a smile in Wisconsin Public Service's customer walk-in center in Merrill, Wisconsin. Our walk-in centers will be redesigned by the end of 2004 to increase efficiency and better utilize our workforce. At right: Wisconsin Public Service owns and operates several hydroelectric dams in Wisconsin and Upper Michigan. Mark Nelezen, Operator and Maintenance Mechanic, is one of the employees responsible for safe and efficient operations at our High Falls, Wisconsin, hydro facility.

Since then, the recovery effort has been ongoing. Upper Peninsula Power, with assistance from the Natural Resource Conservation Service, seeded a portion of Silver Lake, graded and stabilized the new channel formed by the flood, and conducted an initial environmental assessment of the entire riverway from Silver Lake up to Lake Superior. This assessment determined the stability of the river banks, as well as the flood's impact on aquatic habitat, and told us what steps were still needed.

Upper Peninsula Power will continue working cooperatively with the Federal Energy Regulatory Commission, state and local governments, state regulatory agencies, and local property owners toward recovery of the river area in 2004 and beyond. This will include a study of the economic feasibility of rebuilding Silver Lake and restoring recreational use of the area.

Protect Our Part of the Homeland

Energy stands steadfast behind the achievements of our country and modern society. For that reason, the U.S. Department of Homeland Security has included energy companies among the many organizations who must take extra measures to protect themselves and their surroundings in light of world events.

Our formal security measures, led by Chief Security Officer Tom Meinz and our Managers of Physical and Cyber Security, have increased tenfold over the past few years and have become engrained into our daily activity.

All of our employees know they have the power and the responsibility to protect their work space. Controlled access, formal security procedures, and an acute awareness of our surroundings combine for our best defense. At WPS Resources, we're doing the best job we can to protect "our homeland"—our workplace and community—during times of national threats.

The Energy to Grow

As the communities we serve grow and see success, so does our company. At Wisconsin Public Service, more homes and businesses are driving the need for additional electric generation.

On September 26, 2003, Wisconsin Public Service officially applied to the Public Service Commission of Wisconsin to build a new 500-megawatt electric power plant called "Weston 4." The plant, to be fueled using clean coal technology, would be located on the company's existing Weston power plant site near Wausau, Wisconsin.

In itself, building a new power plant isn't a tremendously unusual idea. But the *way* we're doing it is. We strongly believe in the underlying principal that building a power plant is a community issue calling for community involvement.

Since first announcing our plans to build a plant, Wisconsin Public Service has taken extraordinary steps to involve and seek the opinions of the local community. One of our first moves was to form a Community Advisory Panel. This group of community leaders, business people, and residents is a valuable sounding board for our ideas and a great way to keep our hands on the pulse of the community. Panel members meet monthly with our Weston 4 team, discussing issues such as emissions control, aesthetics of the plant, and employment and tax benefits for the local community.

We also meet proactively with neighbors of the plant site and the public to keep them updated and allow everyone to be heard. Listening has led to several innovations in plans for the plant, including a "loop track" that will reduce rail traffic and noise caused by coal cars.

At WPS Power Development, WPS Resources' nonregulated power producer, strategy is focused as well on the pulse of local communities and regions.

The energy marketplace WPS Power Development operates within has become more challenging, with extreme volatility, high gas prices, and new regulations and accounting rules, among other issues. The value of these markets was overestimated by many in the industry, including us.

Top: Over the past two years, Wisconsin Public Service employees have cut their outage response time from 56 minutes to 28 minutes—a self imposed goal that makes customers' lives easier. Brian Anderson, Lead Line Electrician, and Jarrod Wurz, Line Electrician, in Wausau, Wisconsin, work in all kinds of weather conditions to meet this goal.
Far left: The Weston 4 Power Plant project is moving forward with the guidance of a cross-functional team. Some key members include, left to right, Daniel Yagodinski, Project Manager; Kathy Hartman, Manager – Public Affairs; and Kelly Zagrzebski, Corporate Community Relations Leader. Weston 4 is scheduled for completion in 2008.
Left: Okho Bohm, Customer Solutions Project Leader, and Jeffrey DeLaune, Technical Research and Development Project Leader, develop demand response programs for customers of Wisconsin Public Service. These new programs will help customers control costs and help the company manage load and supply.

In 2003, we took decisive actions to adjust to the new merchant marketplace. Most notably, we announced plans to sell our Sunbury plant—a move that will reduce our risk in the merchant market. We'll close on this transaction in summer 2004 if the plant's buyer, Duquesne Power, receives approval by the Pennsylvania Public Utility Commission and other needed regulatory approvals.

Selling Sunbury fits well into our balanced portfolio and asset management strategy, reducing uncontracted merchant exposure and allowing us to focus our energies on markets that are more in line with our growth strategy.

WPS Resources continues to believe that success on the nonregulated side of our business is achievable in markets where we can both sell energy and operate, or contract for, physical assets—thus fully integrating the energy services we offer the market.

The Energy to Remain Strong

No matter where we operate, no matter which part of WPS Resources our employees work for, one thing is clear—we are all about energy. Knowing this helps us funnel our personal energies into doing the best job possible for our customers. And, it prevents us from entering business lines or markets that could bring unreasonable risk to our shareholders.

In 2003, corporations—especially energy companies—continued to be faced with public uncertainty. The news media provided additional coverage of corporate America's struggles with ethics, and energy prices across the country were on the rise and volatile.

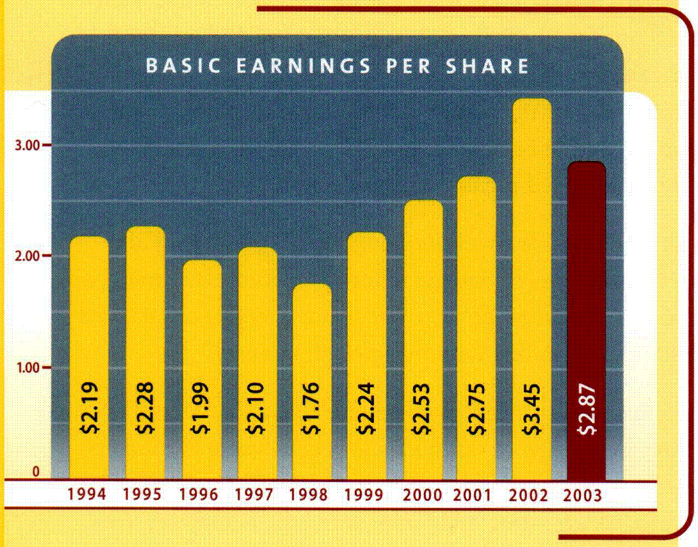
According to research by Wisconsin Public Service in 2003, customers' trust in our principal subsidiary, Wisconsin Public Service, actually *increased* during this time. That confirms something we have always known: we are a company of integrity. Corporate character isn't just something we proclaim; it comes to life in the way our employees perform every day.

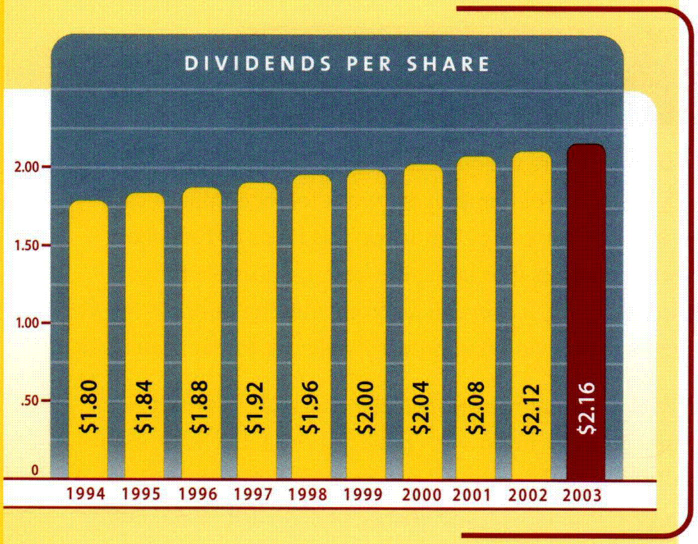
Creating a World-Class Energy Company

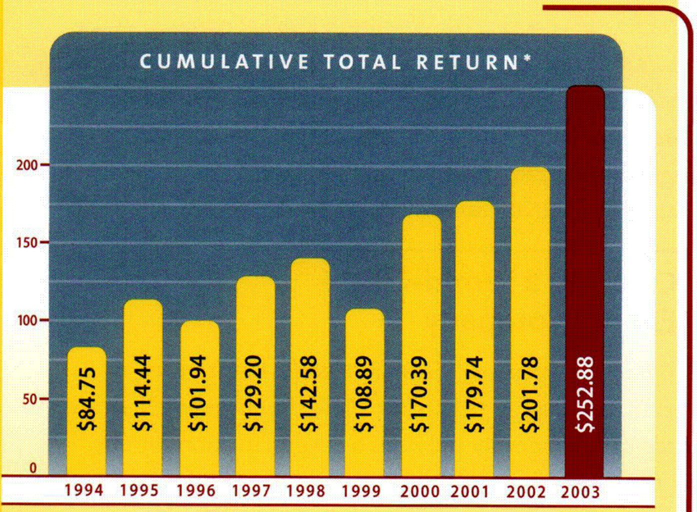
At WPS Resources, our vision is "People Creating a World-Class Energy Company." The simplicity of these words simultaneously provides a single direction for our company and allows for the ingenuity to get things done.

Our companies are fueled by hardworking, ethical employees, who are focused on getting energy to customers.

That's the energy within WPS Resources.







* Assumes $100 investment in common stock at year-end 1993 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 9.72%.

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 that 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.

- The pending sales of our Sunbury generation plant and our Kewaunee nuclear power plant
- Completion of planned hydro sales
- 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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Management's Discussion and Analysis

Introduction

WPS Resources Corporation is a holding company, which is exempt from the Public Utility Holding Company Act of 1935. Our wholly owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation (which is an operating entity as well as a holding company exempt from the Public Utility Holding Company Act of 1935) 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.

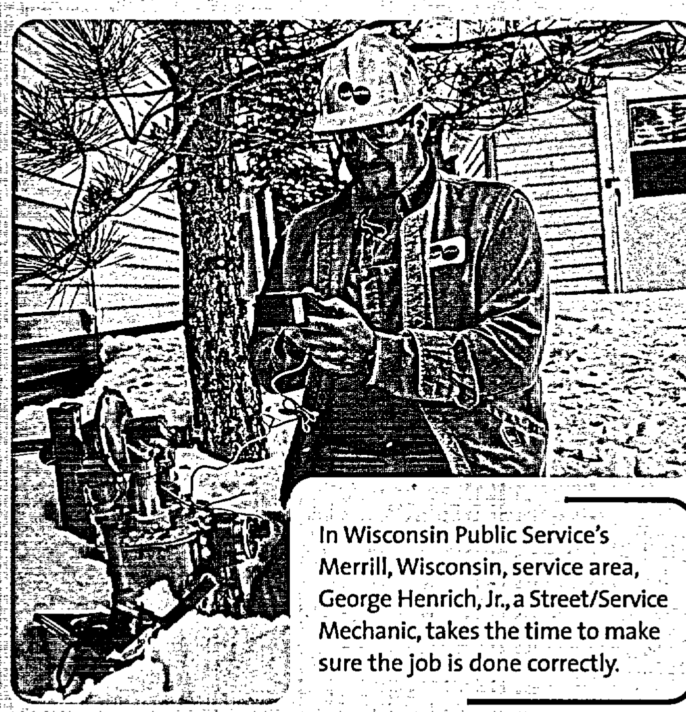
Our regulated and nonregulated businesses have distinct competencies and business strategies, offer differing products and services, experience a wide array of risks and challenges, and are viewed uniquely by management. The following summary provides insight into the operations of our subsidiaries.

REGULATED UTILITIES

Our regulated utilities include Wisconsin Public Service and Upper Peninsula Power. Wisconsin Public Service derives its revenues primarily from servicing retail electric and natural gas customers in northeastern and central Wisconsin and an adjacent portion of Upper Michigan. Wisconsin Public Service also provides wholesale electric service to various customers, including municipal utilities, electric cooperatives, energy marketers, other investor-owned utilities, and a municipal joint action agency. Upper Peninsula Power derives revenues from the sale of electric energy in the Upper Peninsula of Michigan.

The ability of our regulated utilities to earn their approved return on equity is dependent upon accurate budgeting and forecasting techniques, our ability to obtain timely rate increases to account for rising cost structures, minimizing the required rate increases in order to maintain the competitiveness of our core industrial customer base and keep these customers in our service area, and certain conditions that are outside of our control, such as macroeconomic factors and weather conditions. An approximately three month delay in receiving retail electric rate relief played a significant role in Wisconsin Public Service not earning its approved return on equity in 2003. As a result of this delay, we met with the Public Service Commission of Wisconsin and established procedures and fixed timelines for completion of the 2004 rate case in order to allow the Public Service Commission of Wisconsin to rule on a more timely basis. These efforts led to a timely rate order for 2004. Even with the higher retail electric rates, Wisconsin Public Service's overall electric rates are among the lowest when compared to other investor-owned utilities in Wisconsin and across the nation. The approved returns on equity for Wisconsin Public Service and Upper Peninsula are 12.0% and 11.4%, respectively.

Perhaps the most relevant risk to our regulated utilities is deregulation. Deregulation of the electric and natural gas utilities has begun in Wisconsin, especially for natural gas service. Currently, the largest natural gas customers can purchase natural gas from suppliers other than their local utility. Efforts are underway to make it easier for smaller natural gas customers to do the same. In addition, the Public Service Commission of Wisconsin has been studying how to deregulate the state's electric supply. We believe electric deregulation inside Wisconsin is at least several years off as the state is focused on improving reliability by building more generation and transmission facilities and creating fair



In Wisconsin Public Service's Merrill, Wisconsin, service area, George Henrich, Jr., a Street/Service Mechanic, takes the time to make sure the job is done correctly.

market rules. As electric choice occurs, we believe we will lose some generation load but will retain the delivery revenues and margin. Also, the capacity that is freed up should be competitive in our marketplace. Deregulation of electricity is present in Michigan; however, no customers have chosen an alternative electric supplier and no alternative electric suppliers have offered to serve any customers in Michigan's Upper Peninsula due to the lack of transmission capacity in the areas we serve in the Upper Peninsula, which is a barrier to competitive suppliers entering the market.

WPS POWER DEVELOPMENT

WPS Power Development competes in the wholesale merchant electric power generation industry, primarily in the midwest and northeastern United States and adjacent portions of Canada. WPS Power Development's core competencies include power plant operation and maintenance, waste disposal, and material condition assessment of assets. Revenues are derived primarily through the sale of capacity and energy generated from plant assets through wholesale outtake contracts and into liquid financial markets, primarily the PJM (Pennsylvania, New Jersey and Maryland), New York, and NEPOOL (New England Power Pool) markets, at spot prices or day ahead prices. Historically, risk management activities have not been utilized significantly at WPS Power Development. Excluding discontinued operations (the operation of the Sunbury generation plant, which is pending sale, and certain other related assets), WPS Power Development has approximately 425 megawatts of existing capacity, with fixed price contracts in place to sell approximately 86 megawatts. The majority of the remaining 339 megawatts of generation have been leased to WPS Energy Services under an operating lease effective January 2004, as discussed in more detail below.

WPS Power Development, through its subsidiary ECO Coal Pelletization #12 LLC, also owns an interest in a synthetic fuel producing facility. See *Trends, Synthetic Fuel Operation* for more information.

WPS Power Development's ability to generate revenues is dependent upon open access to physical markets and liquid financial markets.

We are not currently aware of any significant changes in the physical markets in which WPS Power Development operates. In addition, we believe that financial markets are becoming more liquid with the addition of large financial players.

WPS Power Development is subject to clean air regulations enforced by the United States Environmental Protection Agency and state and local governments. New legislation could require significant capital outlays that may impact WPS Power Development's ability to compete with regulated utilities, which are allowed recovery of these costs.

Oversupply of capacity, low spark spreads (spark spread is the difference between the market price of electricity and its cost of production), and extreme volatility in the price of fuel, energy, and capacity values have negatively impacted margins at WPS Power Development. In response to these market conditions, WPS Power Development has taken steps to adjust to the current wholesale merchant environment. WPS Power Development has instituted workforce reductions at the central office and at various New York and Pennsylvania plants. On October 23, 2003, a definitive agreement was entered into to sell WPS Power Development's Sunbury generating facility to a subsidiary of Duquesne Light Holdings. The pending sale of Sunbury will allow WPS Power Development to reduce uncontracted merchant exposure and redeploy capital into markets with different risk profiles. In addition, in January 2004, WPS Power Development entered into operating lease agreements with WPS Energy Services as part of its asset management strategy. This partnership will enable WPS Power Development to focus on efficient and effective operation of its plants and is expected to reduce market price risks associated with the merchant generation plants by utilizing WPS Energy Services' financial and physical product trading expertise. WPS Energy Services will utilize various financial tools, including forwards and options, to limit exposure, as well as to extract additional value from volatile commodity prices.

Given current market conditions, we do not expect to see significant growth through the acquisition of generation assets, but we are continuing to look for growth opportunities that will allow us to extract synergies between WPS Power Development and WPS Energy Services that will enhance shareholder value.

WPS ENERGY SERVICES

WPS Energy Services offers nonregulated natural gas, electric, and alternate fuel supplies, as well as energy management and consulting services, to retail and wholesale customers primarily in the northeastern quadrant of the United States and adjacent portions of Canada. Although WPS Energy Services has a widening array of products and services, revenues are primarily derived through sales of electricity and natural gas.

WPS Energy Services' marketing and trading operations manage power and natural gas procurement as an integrated portfolio with its retail and wholesale sales commitments. In 2003, WPS Energy Services purchased electricity required to fulfill these sales commitments primarily from independent generators, energy marketers, and organized electric power markets and purchased natural gas from a variety of suppliers under daily, monthly, seasonal, and long-term contracts, with pricing delivery and volume schedules to accommodate customer requirements.

WPS Energy Services' customers include utilities, municipalities, cooperatives, commercial and industrial consumers, aggregators, and other marketing and retail entities. WPS Energy Services uses derivative financial instruments to provide flexible pricing to customers and suppliers, manage purchase and sales commitments, and reduce exposure relative to the volatility of market prices.

The table below discloses future natural gas and electric sales volumes under contract as of December 31, 2003. Contracts are generally one to three years in duration. WPS Energy Services expects that its ultimate sales volumes in 2004 and beyond will exceed the volumes shown in the table below as it continues to seek growth opportunities.

Forward Contracted Volumes at 12/31/2003 (1)	2004	2005-2007	2008-2009
Wholesale sales volumes – billion cubic feet	95.8	15.1	–
Retail sales volumes – billion cubic feet	173.4	63.2	–
Total natural gas sales volumes	269.2	78.3	–
Wholesale sales volumes – million kilowatt-hours (2)	3,176	238	–
Retail sales volumes – million kilowatt-hours (2)	5,133	3,623	37
Total electric sales volumes	8,309	3,861	37

For comparative purposes, future natural gas and electric sales volumes under contract at December 31, 2002, are shown below. Actual electric and natural gas sales volumes for 2003 are disclosed within *Results of Operations, WPS Energy Services' Segment Operations.*

Forward Contracted Volumes at 12/31/2002 (1)	2003	2004-2006	2007-2008
Wholesale sales volumes – billion cubic feet	67.6	9.7	–
Retail sales volumes – billion cubic feet	110.4	26.6	–
Total natural gas sales volumes	178.0	36.3	–
Wholesale sales volumes – million kilowatt-hours (2)	3,833	3,147	–
Retail sales volumes – million kilowatt-hours (2)	1,966	739	10
Total electric sales volumes	5,799	3,886	10

(1) These tables represent physical sales contracts for natural gas and electric power for delivery or settlement in future periods. Management has no reason to believe that gross margins that will be generated by these contracts will vary significantly from those experienced historically.

(2) WPS Energy Services acquired retail electric operations in Michigan in 2003. Prior to the acquisition, this operation was an electric wholesale customer of WPS Energy Services, therefore forward contracted volumes to this customer at December 31, 2002, were included in wholesale sales volumes. At December 31, 2003 forward contracted volumes related to this operation were included in retail sales volumes.

WPS Energy Services has experienced steady increases in electric and natural gas sales volumes since its inception, and expects this trend to continue as it continues to look for opportunities that fit within its growth strategy. In 2003, WPS Energy Services grew its retail electric business through the acquisition of retail operations in Michigan and participation in the New Jersey Basic Generation Service program.

Natural gas volumes increased as a result of the expansion of its retail natural gas business in Canada. WPS Energy Services expects to continue to target acquisitions and participate in generation service programs within the area it serves. Although revenues are expected to grow in 2004, we do not anticipate earnings growth in 2004 since 2003 growth included the favorable settlement of several counterparty liabilities and the cumulative effect of a change in accounting arising from the required adoption of Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Energy Trading and Risk Management Activities," with requirements that shifted margin recognition from 2004 to 2003. We anticipate long-term earnings growth at WPS Energy Services in the range of 15% to 25%.

As a company that participates in energy commodity markets, WPS Energy Services is exposed to a variety of risks, including market, operational, liquidity, and credit risks. Market risk is measured as the potential gain or loss of a portfolio that is associated with a price movement within a given probability over a specific period of time, known as value-at-risk. Through the use of derivative financial instruments, we believe we have reduced our value-at-risk to acceptable levels. Operational risk is the risk of loss from less than flawless execution of transactions, forecasting, scheduling, or other operational activities and is common to all companies participating in the energy marketing industry. WPS Energy Services' continued investment in computational infrastructure, business process improvement, employee training, and internal controls has helped mitigate operational risk to date. Liquidity risk is an emerging risk, and one that has historically been less applicable to WPS Energy Services than many industry participants because of the financial support provided by WPS Resources in the form of guarantees to counterparties. A significant downgrade in WPS Resources' credit ratings, however, could cause counterparties to demand additional assurances of payment. WPS Resources' Board of Directors imposes restrictions on the amount of guarantees WPS Resources is allowed to provide to these counterparties in order to protect its credit ratings, and WPS Energy Services believes it would have adequate capital to continue core operations unless WPS Resources' credit ratings fell below investment grade (Standard & Poor's rating of BBB-/Moody's rating of Baa3).

Jeff Tomcek, Special Events Coordinator, and retiree Arnie Rentmeester, set up a Wisconsin Public Service historical booth at Lambeau Field for Green Bay's 150th birthday celebration.

The other category of risk mentioned above that WPS Energy Services faces is credit risk from retail and wholesale counterparties. In order to mitigate its exposure to credit risk, WPS Energy Services has implemented stringent credit policies. As a result of these credit policies, WPS Energy Services has not experienced significant write-offs from its large wholesale counterparties to date. Write-offs pertaining to retail counterparties were $3.1 million in 2003, or 0.2%, and we believe this write-off percentage is within the range experienced by most energy companies. The table below summarizes wholesale counterparty credit exposure, categorized by maturity date, as of December 31, 2003 (in millions):

Counterparty Rating [1]	Exposure [2]	Exposure Less Than 1 Year	Exposure 1 to 3 Years	Net Exposure of Counterparties Greater Than 10% of Net Exposure
Investment grade – regulated utility	$ 5.9	$ 5.5	$0.4	$ –
Investment grade – other	79.7	75.9	3.8	17.5
Non-investment grade – regulated utility	7.6	7.6	–	–
Non-investment grade – other	3.3	3.3	–	–
Non-rated – regulated utility	0.9	0.9	–	–
Non-rated – other	21.2	17.0	4.2	–
Total exposure	$118.6	$110.2	$8.4	$17.5

(1) The investment and non-investment grade categories are determined by publicly available credit ratings of the counterparty or the rating of any guarantor, whichever is higher. Investment grade counterparties are those with a senior unsecured Moody's rating of Baa3 or above or a Standard & Poor's rating of BBB- or above.

(2) Exposure considers netting of accounts receivable and accounts payable where netting agreements are in place as well as netting mark-to-market exposure. Exposure is before consideration of collateral from counterparties. Collateral, in the form of cash and letters of credit, received from counterparties totaled $6.2 million at December 31, 2003, all from non-rated counterparties.

As discussed above, WPS Energy Services is aiding WPS Power Development with its asset management, starting in January 2004. Over the past year, WPS Energy Services has positioned itself to mitigate price risks and optimize the market value associated with WPS Power Development's merchant generation facilities. WPS Energy Services expects to employ a variety of physical and financial instruments offered in the marketplace to limit risk exposure associated with fluctuating commodity prices and volumes, enhance value, and minimize cash flow volatility. While risks associated with the power generating capacity, retail electric, and natural gas sales will be commercially hedged, generally accepted accounting principles related to recognition of changes in the fair value of derivative instruments as represented in Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted and Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," will preclude a perfect matching of gains and losses from the generating capacity with the physical and financial hedging instruments in some reporting periods. The result could cause volatility in the reported earnings of WPS Energy Services. However, the financial impact of this timing difference would be reversed at the time of physical delivery and/or settlement of the transactions.

WPS Energy Services is also impacted by earnings volatility associated with the natural gas storage cycle, which runs annually from June to March. Injections of natural gas into inventory take place in the summer and natural gas is withdrawn in the winter months. WPS Energy Services' policy is to hedge the price risk of all purchases for storage with sales in the over-the-counter and futures markets, eliminating the price risk for the storage assets. Current accounting rules allow for the marking to market of forward sales, but do not allow for the marking to market of the related gas inventory. This results in gains and losses that are recognized in different interim periods, but even out by the end of the storage cycle. At December 31, 2003, there were pre-tax mark-to-market losses of $2.6 million recorded (related to the natural gas storage cycle) that are expected to reverse in the first quarter of 2004.

Results of Operations

2003 Compared with 2002

WPS RESOURCES CORPORATION OVERVIEW

WPS Resources' 2003 and 2002 results of operations are shown in the following table:

WPS Resources' Results *(Millions, except share amounts)*	2003	2002	Change
Consolidated operating revenues	$4,321.3	$1,461.1	196%
Income available for common shareholders	$94.7	$109.4	(13%)
Basic earnings per share	$2.87	$3.45	(17%)
Diluted earnings per share	$2.85	$3.42	(17%)

Total revenues increased significantly due to the required reclassification of previously reported 2002 revenues and cost of sales (see *WPS Energy Services' Segment Operations* for further information). Total revenues also increased due to sales volume growth at WPS Energy Services, electric utility rate increases, and higher natural gas prices.

The decrease in basic earnings per share in 2003 compared to 2002 was largely driven by an $18.2 million decrease in after-tax gains recognized from sales of portions of our interest in a synthetic fuel operation, a $10.0 million increase in losses from discontinued operations, and a $5.1 million reduction in tax credits recognized from the synthetic fuel operation. These decreases were partially offset by an $18.0 million, or 164%, increase in income available for common shareholders at WPS Energy Services. Strategic acquisitions, customer growth, and favorable settlement of certain counterparty liabilities contributed to WPS Energy Services' increased earnings.

Also impacting basic earnings per share was an increase of 1.3 million in the weighted average number of outstanding shares of WPS Resources' common stock in 2003 compared to 2002. The increase was largely due to issuing 4,025,000 additional shares through a public offering in November 2003. Additional shares were also issued in 2003 under the Stock Investment Plan.

OVERVIEW OF UTILITY OPERATIONS

Utility operations include the electric utility segment consisting of the electric operations of Wisconsin Public Service and Upper Peninsula Power and the gas utility segment comprising the natural gas operations at Wisconsin Public Service. Income available for common shareholders attributable to the electric utility segment was $60.0 million in 2003 compared to $61.0 million in 2002. Income available for common shareholders attributable to the gas utility segment was $15.7 million in 2003 compared to $18.4 million in 2002.

ELECTRIC UTILITY SEGMENT OPERATIONS

WPS Resources' Electric Utility Segment Results *(Millions)*	2003	2002	Change
Revenues	$814.1	$763.1	7%
Fuel and purchased power costs	266.3	242.7	10%
Margins	$547.8	$520.4	5%
Sales in kilowatt-hours	14,346.7	14,547.6	(1%)

Electric utility segment revenues increased $51.0 million, or 7%, for the year ended December 31, 2003, compared to the year ended December 31, 2002. The increase is largely due to retail and wholesale electric rate increases for our Wisconsin and Michigan customers in accordance with new rate orders. Wisconsin Public Service was granted authority to increase retail electric rates 3.5%, effective March 21, 2003, by the Public Service Commission of Wisconsin. Wisconsin Public Service was granted authority for a $0.3 million increase in retail electric rates from the Michigan Public Service Commission, effective July 23, 2003. The Michigan Public Service Commission also authorized recovery of $1.0 million of increased transmission costs through the power supply cost recovery fuel adjustment clause. In addition, the Federal Energy Regulatory Commission ordered a 21% interim increase in wholesale electric rates for Wisconsin Public Service effective May 11, 2003, subject to refund to the extent final rates are lower (final rates are anticipated in the second quarter of 2004). Upper Peninsula Power was granted authority to increase retail electric rates by 8.95%, effective December 20, 2002, by the Michigan Public Service Commission.

The electric utility margin increased $27.4 million, or 5%, in 2003 compared to 2002. Due primarily to the electric rate increases mentioned above, electric margins at Wisconsin Public Service increased $20.2 million, or 4%. Electric margins at Wisconsin Public Service were also impacted favorably by a change in sales mix in 2003. While total sales volumes remained basically unchanged in 2003 compared to 2002, sales volumes to higher margin residential, and commercial and industrial customers increased slightly. The increase in sales volumes to these higher margin customer classes reflects growth within Wisconsin Public Service's service area and recent changes in the economy. These increases were partially offset by cooler weather during the cooling season for the year ended December 31, 2003, compared to the year ended December 31, 2002. Electric margins at Upper Peninsula Power increased $7.2 million, or 17%, due primarily to the retail electric rate increase mentioned above, partially offset by a 3% decrease in sales volumes. The decrease in sales volumes can be attributed to less favorable weather conditions for the year ended December 31, 2003, compared to the year ended December 31, 2002, and customer conservation of electricity made necessary due to a flood that occurred earlier in 2003.

Although the electric utility margin increased, electric utility segment earnings for the year ended December 31, 2003, decreased $1.0 million compared to the year ended December 31, 2002. The primary reason for the decrease in electric utility segment earnings is due to a decrease in earnings at Wisconsin Public Service attributed to a delay in receiving 2003 retail electric rate relief, together with rising operating expenses (primarily pension and medical costs). Rate relief for our increasing operating costs was expected on January 1, 2003; however, the increase in retail electric rates granted by the Public Service Commission of Wisconsin was not effective until March 21, 2003. The delay in receiving rate relief was a significant factor in our inability to achieve our authorized 12% return on equity in 2003. The decrease in earnings experienced by Wisconsin Public Service was partially offset by a modest increase in earnings at Upper Peninsula Power Company due to the increase in rates.

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. See *Liquidity and Capital Resources – Other Future Considerations, Regulatory* for information on fuel filings related to 2003.

GAS UTILITY SEGMENT OPERATIONS

WPS Resources' Gas Utility Segment Results *(Millions)*	2003	2002	Change
Revenues	$404.2	$310.7	30%
Purchase costs	291.0	198.6	47%
Margins	$113.2	$112.1	1%
Throughput in therms	854.5	845.4	1%

Gas utility segment revenues increased $93.5 million, or 30%, for the year ended December 31, 2003, compared to the year ended December 31, 2002. The increase in gas utility revenues is mostly due to a 39% increase in the average cost of natural gas for the year ended December 31, 2003, compared to the prior year, partially offset by the 0.3% decrease in retail natural gas rates ordered by the Public Service Commission of Wisconsin, effective March 21, 2003.

The natural gas utility margin for the year ended December 31, 2003, increased $1.1 million, or 1%, compared to the year ended December 31, 2002. The increase in the natural gas utility margin can be attributed to a 1% increase in natural gas throughput volumes in 2003 compared to 2002. Natural gas throughput volumes to our higher margin residential and commercial and industrial customers increased 6% in the aggregate, mostly as a result of colder weather in 2003 compared to 2002. Natural gas throughput volumes to our lower margin transport customers decreased 5% due to the rising price of natural gas together with their ability to use alternate fuel sources.

Despite the modest increase in gas utility margins, gas utility earnings for the year ended December 31, 2003, decreased $2.7 million compared to 2002. The decline is primarily due to rising operating expenses (primarily pension and medical costs) together with the decrease in natural gas rates mentioned above.

Wisconsin Public Service passes changes in the total 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 regulatory practice.

OVERVIEW OF NONREGULATED OPERATIONS

Nonregulated operations consist of 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 company. WPS Energy Services and WPS Power Development are both reportable segments.

WPS Energy Services' income available for common shareholders increased to $29.0 million in 2003 compared with $11.0 million in 2002, primarily as a result of increased electric and natural gas margins discussed below.

WPS Power Development recognized a net loss of $(7.9) million in 2003 compared to income available for common shareholders of $24.0 million in 2002. Despite an increase in margins, WPS Power Development's earnings were impacted by a decrease in gains recognized from the sale of portions of its interest in a synthetic fuel operation, increased losses from discontinued operations, and a decrease in the amount of tax credits recognized.

WPS ENERGY SERVICES' SEGMENT OPERATIONS

Total segment revenues at WPS Energy Services were $3,081.2 million in 2003 compared to $361.2 million in 2002. The total margin at WPS Energy Services was $86.8 million in 2003 compared to $48.4 million in 2002. WPS Energy Services' nonregulated natural gas and electric operations are the primary contributors to revenues and margins and are discussed below.

WPS Energy Services' Natural Gas Results *(Millions, except sales volumes)*	2003	2002	Change
Nonregulated natural gas revenues	$2,696.6	$245.1	1,000%
Nonregulated natural gas cost of sales	2,652.5	210.2	1,162%
Margins	$ 44.1	$ 34.9	26%
Wholesale sales volumes in billion cubic feet *	252.4	233.8	8%
Retail sales volumes in billion cubic feet *	240.6	135.7	77%

* Represents gross physical volumes.

WPS Energy Services' nonregulated natural gas revenues increased $2,451.5 million for the year ended December 31, 2003, compared to the prior year. Approximately $997 million of the increase relates to the required adoption of Issue No. 02-03, effective January 1, 2003, (see *Trends* for more information about this accounting change). Volume growth driven by the acquisition of a retail natural gas business in Canada accounted for approximately $500 million of the increase in revenues in 2003. Most of the remaining increase can be attributed to higher natural gas prices compared to the prior year.

Natural gas margins at WPS Energy Services increased $9.2 million, or 26%, in 2003 compared to 2002. Approximately $6 million of the increase related to the November 1, 2002, acquisition of a retail natural gas business in Canada. The remaining increase related to favorable settlements of pending liabilities with several counterparties, partially offset by the change in accounting prescribed by the required adoption of Issue 02-03. See *Cumulative Effect of Change in Accounting Principles* for further discussion.

WPS Energy Services' Electric Results *(Millions)*	2003	2002	Change
Nonregulated electric revenues	$382.2	$113.7	236%
Nonregulated electric cost of sales	341.8	102.6	233%
Margins	$ 40.4	$ 11.1	264%
Wholesale sales in kilowatt-hours *	2,768.0	4,250.0	(35%)
Retail sales in kilowatt-hours *	6,435.3	2,703.6	138%

* Represents gross physical volumes.

WPS Energy Services' nonregulated electric revenues increased $268.5 million for the year ended December 31, 2003, compared to the prior year. Approximately $130 million of the increase relates to the required adoption of Issue 02-03. Another $88 million of the increase can be attributed to participation in the New Jersey Basic Generation Services program. WPS Energy Services acquired 700 megawatts of fixed price load and 250 megawatts of variable price load for the period from August 1, 2003, to May 31, 2004, as a result of its participation in this program. The remaining increase in nonregulated electric revenues can be attributed to increased prices and expansion within existing service territories. WPS Energy Services also acquired retail electric operations in Michigan in 2003. Prior to the acquisition, this operation was an electric wholesale customer of WPS Energy Services; therefore the acquisition did not have a significant impact on total revenues in 2003 compared to 2002. The acquisition did, however account for most of the increase in retail sales volumes and related decrease in wholesale sales volumes in 2003 compared to 2002.

WPS Energy Services' electric margin increased $29.3 million, or 264%, in 2003 compared to 2002. Approximately $26 million of the increase is due to acquisition synergies and improved management of retail operations in Michigan and participation in the New Jersey Basic Generation Service program. The remaining increase in WPS Energy Services' electric margins is largely due to the impact of the change in accounting prescribed by the required adoption of Issue 02-03, which precludes mark-to-market accounting for nonderivative trading contracts.

WPS POWER DEVELOPMENT'S SEGMENT OPERATIONS

All revenues and costs of WPS Power Development's discontinued operations are combined and reported on a net basis in the WPS Resources Corporation Consolidated Statements of Income for all periods presented. Accordingly, the table below does not include the results of discontinued operations, which are discussed separately within Discontinued Operations below.

WPS Power Development's Production Results *(Millions)*	2003	2002	Change
Nonregulated other revenues	$82.4	$59.4	39%
Nonregulated other cost of sales	57.9	37.8	53%
Margins	$24.5	$21.6	13%

WPS Power Development's revenues increased $23.0 million, or 39%, in 2003 compared to 2002. WPS Power Development's margin increased $2.9 million, or 13%, in 2003 compared to 2002. The increase in revenues and margin was primarily the result of increased generation from generating assets acquired in New York on June 1, 2002, revenues from the Combined Locks Energy Center that became fully operational in the second quarter of 2002, and an increase in generation at the hydroelectric plants in Maine and Canada as a result of increased rainfall, higher capacity revenues, and increased pricing on a renegotiated outtake contract. Partially offsetting these increases was a decrease in revenues and margins at WPS Power Development's Cassville, Wisconsin, facility as a result of the expiration of an energy and capacity outtake contract that was not renewed.

OVERVIEW OF HOLDING COMPANY AND OTHER SEGMENT 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 $(2.1) million in 2003 compared to a net loss of $(5.0) million in 2002. The decrease in the net loss experienced is largely related to an increase in gains recognized on hydroelectric land sales in 2003 compared to 2002 (recorded as a component of miscellaneous income), primarily due to a $6.2 million pre-tax gain recognized in 2003 from land sales to the Wisconsin Department of Natural Resources. The sale of these hydroelectric lands is part of our asset management strategy, which was initiated in 2001, and is intended to optimize shareholder return from the sale, development, or use of certain assets or entire business units.

OPERATING EXPENSES

WPS Resources' Operating Expenses *(Millions)*	2003	2002	Change
Operating and maintenance expense	$459.5	$412.5	11%
Depreciation and decommissioning expense	138.4	94.8	46%
Taxes other than income	43.8	39.9	10%

OPERATING AND MAINTENANCE EXPENSE

Operating expenses increased $47.0 million, or 11%, for the year ended December 31, 2003, compared to the year ended December 31, 2002. Utility operating expenses increased $30.7 million, or 9%, in 2003 compared to 2002. Approximately $18 million of the increase reflects higher pension, postretirement medical, and active medical costs. The remaining increase pertains to costs incurred for plant maintenance related to the Kewaunee nuclear power plant's scheduled refueling outage in 2003 (there was no refueling outage in 2002), additional operating expenses at the Kewaunee nuclear power plant, and wage increases. Operating expenses at WPS Energy Services increased $12.0 million, or 40%, in 2003 compared to 2002, largely due to costs associated with business expansion, including the acquisition of a retail natural gas business in Canada and a retail electric business in Michigan. The remaining increase is largely due to higher incentive compensation costs and the costs associated with a full year of operation of generation assets in New York that were purchased by WPS Power Development in June 2002.

DEPRECIATION AND DECOMMISSIONING EXPENSE

Depreciation and decommissioning expense increased $43.6 million, or 46%, due primarily to an increase of $37.4 million resulting from increased realized gains on the decommissioning trust assets that resulted in recording decommissioning expense approximately equal to the gains recognized in miscellaneous income pursuant to regulatory practice. The increase in realized gains is due primarily to the change in investment strategy for Wisconsin Public Service's qualified nuclear decommissioning trust assets. Qualified decommissioning trust assets were transferred to more conservative investments in 2003 pending the sale of the Kewaunee nuclear power plant, thus triggering realized gains. Most of the remaining increase resulted from plant asset additions at Wisconsin Public Service and WPS Power Development.

TAXES OTHER THAN INCOME

Taxes other than income increased $3.9 million, or 10%, primarily due to an increase in gross receipts taxes paid by Wisconsin Public Service as a result of increased revenues.

OTHER INCOME (EXPENSE)

WPS Resources' Other Income (Expense) *(Millions)*	2003	2002	Change
Miscellaneous income	$63.6	$47.8	33%
Interest expense and distributions of preferred securities	(55.6)	(55.8)	0%
Minority interest	5.6	–	–
Other income (expense)	$13.6	$(8.0)	–

MISCELLANEOUS INCOME

Miscellaneous income increased $15.8 million for the year ended December 31, 2003, compared to the year ended December 31, 2002. The increase in miscellaneous income is largely due to an increase in realized gains on the decommissioning trust assets of $36.4 million, which is primarily the result of the change in investment strategy for the qualified nuclear decommissioning trust assets. The realized gains were offset by increased decommissioning expense, as discussed above. Miscellaneous income also increased $6.2 million as a result of the sale of land to the Wisconsin Department of Natural Resources and $8.1 million resulting from an increase in earnings from equity investments.

The increases in miscellaneous income were partially offset by lower gains from sales of ownership interests in WPS Power Development's synthetic fuel operation. WPS Power Development recognized a $7.6 million pre-tax gain in 2003 compared with a $38.0 million pre-tax gain in 2002 related to these sell-downs. An increase in operating losses generated by the synthetic fuel operation due to increased production decreased miscellaneous income by approximately $3.5 million in 2003. The increased operating losses were driven by our partner's ability to utilize tax credits in 2003 and were offset by minority interest, which is discussed below. In the aggregate, the items mentioned above relating to the synthetic fuel operation resulted in a $33.9 million decrease in miscellaneous income.

The 2003 gain resulted from the 2002 sale of a portion of WPS Power Development's interest in its synthetic fuel operation. Similar gains from the 2002 sale are expected to be recognized annually through 2007, dependent upon production at the synthetic fuel facility. The gain reported in 2002 resulted from a 2001 sell-down of a portion of WPS Power Development's interest in a synthetic fuel operation, which was recognized in its entirety by December 31, 2002.

MINORITY INTEREST

As a result of WPS Power Development's sale of an approximate 30% interest in its subsidiary, ECO Coal Pelletization #12 LLC, on December 19, 2002, $5.6 million of losses related to the synthetic fuel operation and reported in miscellaneous income were allocated to WPS Power Development's partner and reported as a minority interest.

PROVISION FOR INCOME TAXES

The effective tax rate was 23.4% in 2003 compared to 19.5% in 2002. The increase in the effective tax rate in 2003 compared to 2002 is largely due to a decrease in tax credits that could be recognized from our ownership interest in a synthetic fuel operation. Tax credits recognized during the year ended December 31, 2003, decreased $5.1 million compared to the prior year, due to the sale of a portion of our interest in the synthetic fuel operation on December 19, 2002. Lower taxable income in 2003 also reduced the amount of tax credits that could be claimed. Our ownership interest in the synthetic fuel operation resulted in the recognition of $18.1 million of Section 29 tax credits as a reduction of federal income tax expense in 2003 compared to $23.2 million in 2002.

The operations of our synthetic fuel facility generate tax credits, which we use to reduce our current federal income tax liability, with any remaining credits increasing our alternative minimum tax credit available for future years. The cumulative amount of credits carried forward at December 31, 2003, relating to our interest in the synthetic fuel facility was $52.3 million. 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.

DISCONTINUED OPERATIONS

On October 24, 2003, a definitive agreement was entered into to sell WPS Power Development's Sunbury generation plant, subject to certain contingencies. As a result of such agreement, we have determined that the operations of the plant and certain other related assets meet the definition of discontinued operations per the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The loss from discontinued operations increased to $22.7 million ($16.0 million after taxes) for the year ended December 31, 2003, from $9.9 million ($6.0 million after taxes) for the year ended December 31, 2002. The increased loss is largely due to a decrease in capacity sales in 2003 due to the expiration of a sales contract, an increase in variable production expenses related to increased emission costs, and an increase in operating costs. Operating costs increased in 2003 as a result of issues related to fuel quality and associated mechanical difficulties involving fuel delivery systems earlier in the year, operational issues related to newly installed environmental equipment in various boilers, and turbine outages. The increase in the loss from discontinued operations was partially offset by decreases in payroll and employee benefits as a result of a restructuring that took place at the end of 2002.

Jim Barribeau, Jr., a Garage Mechanic for Wisconsin Public Service in Oshkosh, Wisconsin, welds a rack that will hold reels of wire for electric installation crews.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES

WPS Energy Services had been applying the accounting standards of Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," from the first quarter of 2000 until this standard was rescinded by Issue 02-03 in October 2002. WPS Energy Services was defined as a trading company under Issue 98-10 and was required to mark all of its energy related contracts to market. On October 25, 2002, the Emerging Issues Task Force rescinded Issue 98-10, thus precluding mark-to-market accounting for energy trading contracts entered into after that date that are not derivatives and requiring a cumulative change in accounting principle to be recorded effective January 1, 2003, for all nonderivative contracts entered into on or prior to October 25, 2002. On January 1, 2003, WPS Resources recorded a positive after-tax cumulative effect of a change in accounting principle of $3.5 million (primarily related to the operations of WPS Energy Services) to income available for common shareholders to remove from its balance sheet the mark-to-market effects of those contracts entered into on or prior to October 25, 2002, that do not meet the definition of a derivative under Statement No. 133, as amended. The cumulative effect of adopting this new accounting standard is expected to reverse upon the settlement of the contracts impacted by the standard. Most of these settlements are expected to occur in 2004. The required change in accounting had no impact on the underlying economics or cash flows of the contracts. In addition, the adoption of Statement No. 143 at WPS Power Development resulted in a $(0.3) million cumulative effect of change in accounting principle related to the closure of an ash basin at the Sunbury generating plant.

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	$1,461.1	$1,345.4	9%
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 basic earnings per share in 2002 compared to 2001 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' income available for common shareholders 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.

Also impacting basic earnings per share was an increase of 3.5 million in the weighted average number of outstanding shares of WPS Resources' common stock in 2002 compared to 2001. 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.

OVERVIEW OF UTILITY OPERATIONS

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 compared with $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 that 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.

ELECTRIC UTILITY SEGMENT OPERATIONS

Our electric utility segment margin increased $84.2 million, or 19%, due to the Wisconsin retail electric rate increases at Wisconsin Public Service and higher overall electric utility sales volumes.

WPS Resources' Electric Utility Segment Results *(Millions)*	2002	2001	Change
Revenues	$763.1	$675.7	13%
Fuel and purchased power costs	242.7	239.5	1%
Margins	$520.4	$436.2	19%
Sales in kilowatt-hours	14,547.6	13,532.8	7%

Our electric utility segment revenues increased $87.4 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. Fuel expense for generation plants increased $4.9 million, or 4%, in 2002. 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 nuclear power 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%.

As discussed previously, 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 did not submit any fuel filings in 2002.

GAS UTILITY SEGMENT OPERATIONS

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

WPS Resources' Gas Utility Segment Results *(Millions)*	2002	2001	Change
Revenues	$310.7	$321.6	(3%)
Purchase costs	198.6	230.2	(14%)
Margins	$112.1	$ 91.4	23%
Throughput in therms	845.4	742.7	14%

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.

OVERVIEW OF NONREGULATED OPERATIONS

WPS Energy Services' income available for common shareholders 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 income available for common shareholders 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.

WPS ENERGY SERVICES' SEGMENT OPERATIONS

Revenues at WPS Energy Services were $361.2 million in 2002 compared with $326.6 million in 2001, an increase of 11%. The increase was primarily the result of higher retail natural gas sales volumes in 2002.

WPS Energy Services' Gas Results *(Millions, except sales volumes)*	2002	2001	Change
Nonregulated natural gas revenues	$245.1	$210.1	17%
Nonregulated natural gas cost of sales	210.2	194.2	8%
Margins	$ 34.9	$ 15.9	119%
Wholesale sales volumes in billion cubic feet	233.8	242.8	(4%)
Retail sales volumes in billion cubic feet	135.7	104.5	30%

Nonregulated gas revenues at WPS Energy Services increased $35.0 million, or 17%, in 2002 primarily as the result of higher natural gas sales volumes 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	Change
Nonregulated electric revenues	$113.7	$112.7	1%
Nonregulated electric cost of sales	102.6	99.4	3%
Margins	$ 11.1	$ 13.3	(17%)
Wholesale sales in kilowatt-hours	4,250.0	1,696.6	151%
Retail sales in kilowatt-hours	2,703.6	1,944.7	39%

Nonregulated electric revenues at WPS Energy Services increased $1.0 million, or 1%, in 2002 due to higher sales volumes. The nonregulated electric margin decreased $2.2 million, or 17%, in 2002 primarily due to the slow economy, which produced less favorable market conditions for opportunity sales in 2002.

WPS POWER DEVELOPMENT'S SEGMENT OPERATIONS

WPS Power Development's Production Results *(Millions)*	2002	2001	Change
Nonregulated other revenues	$59.4	$56.6	5%
Nonregulated other cost of sales	37.8	48.7	(22%)
Margins	$21.6	$ 7.9	173%

Revenues at WPS Power Development were $59.4 million in 2002 compared with $56.6 million in 2001, an increase of 5%. The increase was primarily due to the operation of the generation assets acquired in New York in the second quarter of 2002 and the operation of the Combined Locks Energy Center. As new generation assets are acquired or constructed, WPS Power Development's output is increased, providing new sales opportunities. 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 experienced an increase of $13.7 million, or 173%, in its margin in 2002. The operation of the generation assets acquired in New York 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 by approximately $4.3 million. As a result of the November 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. After the sell-down, WPS Power Development became a minority owner, and therefore accounts for its interest in the synthetic fuel operations under the equity method of accounting. As a result of no longer consolidating the synthetic fuel operations, WPS Power Development's margins increased because this business had negative margins in 2001.

OVERVIEW OF HOLDING COMPANY AND OTHER SEGMENT OPERATIONS

Holding Company and Other operations experienced a net loss of $(5.0) million in 2002 compared with income available for common shareholders 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.

Hydro land sales, which are part of our asset management strategy, resulted in pre-tax gains of $3.3 million in 2002 compared with pre-tax gains of approximately $17 million in 2001. In addition, earnings on equity investments were higher in 2002 compared with 2001 primarily due to our investment in American Transmission Company.

OPERATING EXPENSES

WPS Resources' Operating Expenses *(Millions)*	2002	2001	Change
Operating and maintenance expense	$412.5	$333.0	24%
Depreciation and decommissioning expense	94.8	84.1	13%
Taxes other than income	39.9	36.7	9%

OPERATING AND MAINTENANCE EXPENSE

Operating and maintenance expense increased $79.5 million, or 24%, for the year ended December 31, 2002, compared to 2001. 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 nuclear power plant (as a result of Wisconsin Public Service acquiring additional ownership interest in the plant), and increased energy conservation expenses. Operating and maintenance expenses at WPS Energy Services increased $7.3 million in 2002, largely due to costs associated with business expansion and increased bad debt expense. Operating expenses at WPS Power Development increased $4.3 million in 2002 primarily due to costs associated with the generation assets in New York that were purchased by WPS Power Development in June 2002 and operation of the Combined Locks Energy Center.

DEPRECIATION AND DECOMMISSIONING EXPENSE

Depreciation and decommissioning expense increased $10.7 million, or 13%, for the year ended December 31, 2002, compared to 2001. 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 nuclear power plant. Lower depreciation expense of $5.5 million related to decreased decommissioning earnings partially offset the increased plant asset depreciation. WPS Power Development's depreciation expense increased $2.4 million in 2002 due to additional plant assets, including the Combined Locks Energy Center and the assets obtained in the CH Resources acquisition. Depreciation and decommissioning expense at WPS Energy Services did not change significantly from the prior year.

TAXES OTHER THAN INCOME

Taxes other than income increased $3.2 million, or 9%, primarily due to an increase in gross receipts taxes paid by Wisconsin Public Service as a result of increased revenues.

OTHER INCOME (EXPENSE)

WPS Resources' Other Income (Expense) *(Millions)*	2002	2001	Change
Miscellaneous income	$47.8	$ 37.5	27%
Interest expense and distributions of preferred securities	(55.8)	(53.4)	4%
Other income (expense)	$ (8.0)	$(15.9)	50%

MISCELLANEOUS INCOME

Miscellaneous income increased $10.3 million, or 27%, in 2002 compared to 2001. WPS Power Development's miscellaneous income increased $25.1 million in 2002 primarily as the result of recognizing a pre-tax gain of $38.0 million related to the 2001 sale of part of WPS Power Development's synthetic fuel operations. WPS Power Development recognized a pre-tax gain of $2.2 million 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.

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.

Miscellaneous income related to Holding Company and Other operations also decreased in 2002 compared to 2001. The decrease is largely due to a $13.7 million decrease in gains realized from the sale of hydroelectric lands in 2002, partially offset by increased earnings on equity investments due to the investment in American Transmission Company.

INTEREST EXPENSE AND DISTRIBUTIONS OF PREFERRED SECURITIES
Interest expense increased $2.4 million, or 4%, in 2002 compared to 2001 primarily due to the increase in the amount of long-term debt.

PROVISION FOR INCOME TAXES
The effective tax rate was 19.5% in 2002 compared to 9.5% in 2001. The increase in the effective tax rate in 2002 compared to 2001 is largely due to a decrease in tax credits recognized from our ownership interest in a synthetic fuel operation. We used tax credits to the extent the tax law permits to reduce our current federal income tax liability, with any remaining credits increasing our alternative minimum tax credit available for future years.

DISCONTINUED OPERATIONS
The after-tax loss from discontinued operations decreased to $6.0 million in 2002 from $6.9 million in 2001. While we were able to improve the operating performance of our discontinued generation plant, market conditions for capacity in the area in which this plant participates continued to degrade, which resulted in continued losses.

Balance Sheet

2003 Compared with 2002

Accounts receivable, net of reserves, increased $209.1 million, or 71%, at December 31, 2003, compared to December 31, 2002, largely due to a $199 million increase in WPS Energy Services' accounts receivable. The increase in receivables at WPS Energy Services is due to a significant increase in electric and natural gas sales volumes combined with significantly higher natural gas prices.

Inventories increased $68.0 million, or 62%, at December 31, 2003, compared to December 31, 2002. Inventories at Wisconsin Public Service increased approximately $18 million, or 39%, in correlation with the 39% increase in the average price of natural gas experienced by this business in 2003. WPS Energy Services' stored gas inventories increased approximately $50 million, or 82%, due to higher anticipated sales in the first quarter of 2004 compared to the first quarter of 2003 and increased natural gas prices.

Current assets from risk management activities increased $111.5 million, or 27%, at December 31, 2003, compared to December 31, 2002, and current liabilities from risk management activities increased $73.5 million, or 17%. Long-term assets from risk management activities decreased $31.0 million, or 23%, at December 31, 2003, compared to December 31, 2002, and long-term liabilities from risk management activities decreased $17.5 million, or 16%. These variances were largely due to changes in the forward price curve for natural gas and increased volumes.

Property, plant, and equipment, net, increased $116.4 million to $1,828.7 million at December 31, 2003, compared to $1,712.3 million at December 31, 2002. WPS Resources adopted Statement No. 143, "Accounting for Asset Retirement Obligations," effective January 2003, and as a result, capitalized a net asset retirement cost of $90.8 million (decreased to $78.5 million at December 31, 2003, due to depreciation). The remaining increase in property, plant, and equipment, net, primarily relates to capital expenditures at Wisconsin Public Service for the Pulliam combustion turbine and gas and electric distribution equipment. The staff of the Securities and Exchange Commission recently expressed their views on the balance sheet classification of costs of removal for the utility industry and required that the amounts be reclassified from accumulated depreciation to a liability. As a result, WPS Resources reclassified costs of removal out of accumulated depreciation at December 31, 2003, and 2002. See *Trends* for more information about these accounting changes.

Other long-term assets increased $83.5 million, or 31%, at December 31, 2003, compared to December 31, 2002, as a result of our investment in Guardian Pipeline, additional investments in American Transmission Company, and the recognition of an intangible pension asset related to the minimum pension liability we recorded at December 31, 2003.

Accounts payable increased $58.7 million at December 31, 2003, compared to December 31, 2002. The accounts payable balance at WPS Energy Services increased approximately $110 million as a result of an increase in electric and natural gas purchases required to supply its larger customer base and the significant increase in natural gas prices compared to the prior year. The increase experienced by WPS Energy Services was partially offset by a decrease in accounts payable at Wisconsin Public Service, largely due to a $48.4 million payable that was recorded at December 31, 2002, resulting from the purchase of the De Pere Energy Center. This amount was paid in 2003.

Other current liabilities increased $33.8 million, or 64%, in 2003 largely due to an increase in customer prepayments experienced at WPS Energy Services.

Regulatory liabilities increased $254.7 million at December 31, 2003, compared to December 31, 2002, largely due to the reclassification of $180.0 million of non-legal costs of removal from nuclear decommissioning and other cost of removal to regulatory liabilities. Most of the remaining increase relates to a regulatory liability that was recorded upon the adoption of Statement No. 143. See *Trends* for more information about this accounting change.

Pension and postretirement benefit obligations increased $67.1 million, or 95%, at December 31, 2003, compared to December 31, 2002, due primarily to the minimum pension liability that was recorded at December 31, 2003, for our administrative pension plan, driven by a decrease in the discount rate used to value our obligation under this plan.

The $344.0 million asset retirement obligation recorded at December 31, 2003, is related to a legal retirement obligation recorded as a result of our adoption of Statement No. 143 for the decommissioning of the irradiated portions of the Kewaunee nuclear power plant. See *Trends* for more information about this accounting change.

The $463.3 million liability for nuclear decommissioning and other costs of removal at December 31, 2002, was reclassified from accumulated depreciation in accordance with recent views expressed by the staff of the Securities and Exchange Commission for the utility industry. Historically, these costs of removal were reflected as a component of depreciation expense and accumulated depreciation in accordance with regulatory treatment. Upon adoption of Statement No. 143 on January 1, 2003, costs of removal with associated legal obligations of $290.5 million were removed from nuclear decommissioning and other costs of removal as these costs are now accounted for as asset retirement obligations. At December 31, 2003, costs of removal without an associated legal obligation, as defined by Statement No. 143, were reclassified to a regulatory liability pursuant to Statement No. 71. See *Trends* for more information about this accounting change.

Liquidity and Capital Resources

We believe that our cash balances, liquid assets, operating cash flows, access to equity capital markets and borrowing capacity made available because of strong credit ratings, when taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to expansion of existing businesses and development of new projects. However, our operating cash flow and access to capital markets can be impacted by macroeconomic factors outside of our control. In addition, our borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies. Currently, we believe these ratings are among the best in the energy industry (see *Financing Cash Flows, Credit Ratings* on page 31).

OPERATING CASH FLOWS

During 2003, net cash provided by operating activities was $62.4 million, compared with $188.5 million in 2002. The decrease is primarily due to increased working capital requirements, specifically at WPS Energy Services and Wisconsin Public Service. Inventories increased due to high natural gas prices at both WPS Energy Services and Wisconsin Public Service, as well as business growth at WPS Energy Services. The inventory increase is also the result of WPS Energy Services' taking advantage of opportunities to put additional gas into storage at favorable relationships to forward prices. The change in receivables and payables was also attributable to the high natural gas prices as well as the business growth at WPS Energy Services.

During 2002, net cash provided by operating activities was $188.5 million, compared with $144.1 million in 2001. The increase is primarily due to an increase in income available for common shareholders after adjustment for certain non-cash items, partially offset by an increase in cash used for working capital items. The increase in accounts receivable was the result of increased sales volumes at Wisconsin Public Service and WPS Energy Services due to colder weather and customer growth. Increased natural gas purchases at Wisconsin Public Service and WPS Energy Services as the result of colder weather and customer growth contributed to the higher accounts payable balance.

INVESTING CASH FLOWS

Net cash used for investing activities was $244.0 million in 2003 compared to $265.4 million in 2002, a decrease of $21.4 million. The decrease is largely attributed to a $34.1 million decrease in capital expenditures, mainly at the utilities, as well as a $24.3 million increase in cash received from the sale of property, plant, and equipment. Partially offsetting this decrease was an increase in cash used for the purchase of equity investments and other acquisitions. See *Asset Sales and Acquisitions* below for further detail.

Cash used for investing activities was $265.4 million in 2002 compared to $134.8 million in 2001, an increase of $130.6 million. These factors were partially the result of cash used for the purchase of equity investments and other acquisitions (discussed in more detail in *Asset Sales and Acquisitions* below), a decrease in the sale of property, plant, and equipment, and a decrease in return of capital from the American Transmission Company. The increase was partially offset by a decrease in capital expenditures. The decrease in return of capital is due to the fact that in 2001 WPS Resources transferred transmission assets at their net book value to American Transmission Company in exchange for cash and an approximate 15% ownership interest in American Transmission Company. The decrease in the sale of property, plant, and equipment from 2002 to 2001 was due to the 2001 sale of land on the Peshtigo River in northeastern Wisconsin to the Wisconsin Department of Natural Resources, as well as WPS Power Development's transactions surrounding its synthetic fuel facility.

ASSET SALES AND ACQUISITIONS

Certain acquisitions and asset sales that have a significant impact on investing cash flows are discussed below. In addition, see Note 6 in Notes to WPS Resources Consolidated Financial Statements, Acquisitions and Sales of Assets, for a more detailed discussion of asset sales and acquisitions.

On December 30, 2003, Wisconsin Public Service sold an additional 542 acres of land near the Peshtigo River to the Wisconsin Department of Natural Resources for $6.5 million as part of a multi-phase agreement reached between the parties in 2001. Under the terms of the 2001 agreement, the Wisconsin Department of Natural Resources bought more than 5,000 acres of land for $13.5 million in 2001. The sale is part of a five to seven-year asset management strategy adopted by WPS Resources in 2001.

On April 18, 2003, the Public Service Commission of Wisconsin approved Wisconsin Public Service's request to transfer its interest in the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to the American Transmission Company. American Transmission Company is a for-profit transmission-only company created by the transfer of transmission assets previously owned by multiple electric utilities serving the upper Midwest in exchange for an ownership interest in American Transmission Company. Wisconsin Public Service sold approximately $20.1 million of assets at book value related to the Wausau to Duluth transmission line to American Transmission Company in June 2003. No gain or loss was recognized on the transaction. Wisconsin Public Service will continue to manage construction of the project and be responsible for obtaining property rights necessary for the construction of the project.

During 2003, WPS Resources invested an additional $19.9 million in American Transmission Company, increasing the consolidated

WPS Resources ownership interest in American Transmission Company to 19.8%. WPS Resources contributed capital of $14.0 million to ECO Coal Pelletization #12 in 2003 and $11.7 million in 2002.

On May 30, 2003, WPS Resources purchased a one-third interest in Guardian Pipeline, LLC from CMS Gas Transmission Company, for approximately $26 million. Guardian Pipeline owns a natural gas pipeline, which began operating in 2002, that stretches about 140 miles from near Joliet, Illinois, into southern Wisconsin.

On December 16, 2002, Wisconsin Public Service purchased the 180-megawatt De Pere Energy Center for $120.4 million and terminated the related existing purchased power agreement. Wisconsin Public Service paid $72.0 million at the close of the transaction and the remaining $48.4 million in December 2003.

Effective June 1, 2002, WPS Power Development acquired CH Resources, Inc. from Central Hudson Energy Services, Inc. for $61.1 million, including acquisition costs. CH Resources owns three power plants and associated assets in upstate New York with a combined capacity of 258 megawatts.

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. 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. WPS Power Development recognized all of the $38.0 million deferred gain in 2002.

The actual payments for the purchase of the former partner's interest in ECO #12 were contingent upon the same provisions referred to above. As a result, $21.3 million was originally held in escrow and released proportionately as the respective rescission rights and put options expired. As of December 31, 2003, the escrow balance has been released as all contingencies have expired.

On December 19, 2002, WPS Power Development sold a 30% interest in ECO #12. 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 facility achieving specified levels of synthetic fuel production. In conjunction with the sale, WPS Power Development 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), $1.9 million which was paid in 2003, and an additional $1.9 million to be paid in 2004. A deferred gain of $9.2 million and $11.6 million was reflected on WPS Power Development's balance sheet at December 31, 2003, and 2002, respectively. In 2003, a pre-tax gain in the amount of $7.6 million was recognized as a component of miscellaneous income related to this transaction, of which $2.4 million related to the recognition of a portion of the deferred gain referenced above. Similar annual gains are expected to result from this transaction through 2007. There was no gain recognized in 2002 related to this transaction.

CAPITAL EXPENDITURES

Capital expenditures by business segment for the years ended December 31, 2003, 2002, and 2001 are as follows:

	Years Ended December 31,		
	2003	2002	2001
Electric Utility	$131.0	$164.3	$175.8
Gas Utility	40.7	34.0	24.9
WPS Energy Services	1.4	0.8	10.9
WPS Power Development	3.3	8.2	27.7
Other	(0.2)	3.0	5.0
WPS Resources Consolidated	$176.2	$210.3	$244.3

Capital expenditures in the electric utility were higher in 2002, as compared to 2003, mainly due to the construction of portions of the Pulliam combustion turbine at Wisconsin Public Service in 2002. Gas utility capital expenditures increased due to the installation of automated meter reading in 2003. WPS Power Development's capital expenditures were higher in 2002 compared to 2003 due to the conversion of the Combined Locks Energy Center to a combined cycle system in 2002. Capital expenditures at WPS Energy Services remained fairly consistent between 2003 and 2002.

As part of its regulated utility operations, on September 26, 2003, Wisconsin Public Service submitted an application for a Certificate of Public Convenience and Necessity to the Public Service Commission of Wisconsin seeking approval to build a 500-megawatt coal-fired generation facility near Wausau, Wisconsin. The facility is estimated to cost approximately $770 million (including the acquisition of coal trains), assuming the Public Service Commission of Wisconsin allows a current return on construction costs. As of December 31, 2003, Wisconsin Public Service has incurred a total cost of $4.0 million related to this project. In its 2003 rate order, the Public Service Commission of Wisconsin authorized deferral of costs related to development of the facility. On November 12, 2003, Wisconsin Public Service received a declaratory ruling allowing recovery of all reasonable costs (up to $71.2 million) related to the project incurred or committed to prior to the Public Service Commission of Wisconsin's final decision regarding construction authorization. In addition, Wisconsin Public Service expects to incur additional construction costs of approximately $41 million to fund construction of the transmission facilities required to support the generating facility through the date the generating facility goes into service. American Transmission Company will reimburse Wisconsin Public Service for the construction costs of the interconnection and related carrying costs when the generation facility becomes commercially operational.

On February 11, 2004, the Public Service Commission of Wisconsin determined Wisconsin Public Service's application is "complete." The Public Service Commission of Wisconsin and the Wisconsin Department of Natural Resources now have 180 days to make a decision on the project. The Public Service Commission of Wisconsin may request from the Dane County Court of Appeals one 180-day extension. The Public Service Commission of Wisconsin and the Wisconsin Department of Natural Resources will create an environmental impact statement. The public will have opportunities to testify at public hearings. Technical hearings will also be held. Following a review of the application, the environmental impact statement, and the hearing testimony, the

Public Service Commission of Wisconsin will determine if the proposed project will be approved, modified, or denied.

On February 16, 2004, Wisconsin Public Service signed a Letter of Intent with Dairyland Power Cooperative for electric supply alternatives for 150 megawatts of energy from the proposed 500-megawatt coal-fired generation facility. According to the agreement, Dairyland could choose to purchase an interest in the plant or buy electricity from it (we have since received written notification from Dairyland, confirming their intent to purchase an interest in the plant). In providing Dairyland with electric supply alternatives, Wisconsin Public Service can reduce the risks associated with building and operating the power plant. The agreement is part of Wisconsin Public Service's continuing plan to provide least-cost reliable energy for the increasing electric demand of its customers. This transaction is subject to a number of conditions including successfully developing a joint plant ownership and operating agreement, Dairyland obtaining financing approval from the Rural Utility Services, and Dairyland securing firm transmission service from the Midwest Independent System Operator on terms and conditions Dairyland deems acceptable.

Capital expenditures at the electric utility were $11.5 million higher in 2001, as compared to 2002, mostly related to steam generator replacement at the Kewaunee nuclear power plant that occurred in 2001. In the gas utility segment, capital expenditures increased by $9.1 million in 2002, partially due to the installation of automated meter reading. The remaining increase is attributed to various one-time projects that occurred in 2002. Capital expenditures at WPS Energy Services were $10.1 million higher in 2001 compared to 2002 due to the construction of a gas storage field in 2001. WPS Power Development's capital expenditures were $19.5 million higher in 2001 compared to 2002 due to the completion of the Combined Locks Energy Center construction in 2001.

FINANCING CASH FLOWS

Net cash provided by financing activities was $198.6 million in 2003 compared to $93.1 million in 2002. The $105.5 million increase in cash provided by financing activities in 2003 is primarily related to the decrease in cash provided by operating activities in 2003 compared to 2002. A larger amount of investing activities was financed through common stock and debt issuances in 2003 as compared to the prior year.

Our financing activities provided cash inflows of $93.1 million and $33.6 million for the years ended December 31, 2002, and 2001, respectively. The 2002 increase was due to new debt issuances used to finance investing activities, offset by an increase in repayments of long-term debt and the capital lease (see *Significant Financing Activities* below for further detail). The net change in short-term debt in 2002 from 2001 is attributable to the reduced need to rely on commercial paper in 2001 due to the 2001 issuance of additional long-term debt at Wisconsin Public Service and common stock at WPS Resources.

SIGNIFICANT FINANCING ACTIVITIES

As of December 31, 2003, both WPS Resources and Wisconsin Public Service were in compliance with all of the covenants under their lines of credit and other debt obligations.

WPS Resources and Wisconsin Public Service established 364-day credit line syndications for $225.0 million and $115.0 million, respectively, during the third quarter of 2003. The 2002 credit line syndications were $180.0 million for WPS Resources and $100.0 million for Wisconsin Public Service. The credit lines are used to back 100% of WPS Resources' and Wisconsin Public Service's commercial paper borrowing programs and letters of credit for WPS Resources.

WPS Resources had outstanding commercial paper borrowings of $28.0 million and $16.0 million at December 31, 2003, and 2002, respectively. WPS Resources had outstanding short-term debt of $10.0 million and $13.8 million as of December 31, 2003, and 2002, respectively.

In 2003, WPS Resources' shelf registration statement for $350.0 million was declared effective by the Securities and Exchange Commission, which allows WPS Resources to issue any combination of debt and equity. In November 2003, 4,025,000 shares of WPS Resources common stock were sold in a public offering at $43.00 per share, which resulted in a net increase in equity of $166.8 million. Net proceeds from this offering were used to retire $50.0 million of 7.0% trust preferred securities in January 2004, reduce short-term debt, fund equity contributions to subsidiary companies, and for general corporate purposes.

Wisconsin Public Service, under a registration statement declared effective in 2002, issued $125.0 million of 4.80% 10-year senior notes in December 2003. The senior notes are collateralized by a pledge of first mortgage bonds and may become non-collateralized if Wisconsin Public Service retires all of its outstanding first mortgage bonds. The net proceeds from the issuance of the senior notes were used to call $49.9 million of 7.125% first mortgage bonds on January 19, 2004, fund construction costs and capital additions, reduce short-term indebtedness, and for other corporate utility purposes.

Effective January 2001, we began issuing new shares of common stock under our Stock Investment Plan and under certain stock-based employee benefit plans. Equity increased $31.0 million, $28.3 million, and $18.6 million in 2003, 2002, and 2001, respectively, as a result of these plans. WPS Resources also repurchased $1.1 million, $1.3 million, and $1.1 million of outstanding common stock for stock-based compensation plans in 2003, 2002, and 2001, respectively.

Wisconsin Public Service used short-term debt to retire $50.0 million of 6.8% first mortgage bonds on February 1, 2003, that had reached maturity. Wisconsin Public Service also called $9.1 million of 6.125% tax-exempt bonds in May 2003. Wisconsin Public Service is evaluating the potential for refinancing existing debt in 2004.

In March 2003, Upper Peninsula Power retired $15.0 million of 7.94% first mortgage bonds that had reached maturity.

In November 2003, WPS Power Development retired all of the notes payable under a revolving credit note, in the amount of $12.5 million.

In October 2002, Wisconsin Public Service retired $50.0 million of 7.30% first mortgage bonds that had reached maturity.

WPS Resources issued $100 million of 5.375% 10-year senior non-collateralized 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. The senior notes are collateralized by a pledge of first mortgage bonds and may become non-collateralized 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 utility purposes.

CREDIT RATINGS

WPS Resources uses internally generated funds and commercial paper borrowing to satisfy most of its capital requirements. We also 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 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.

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	A1
Commercial paper	A-1	P-1
Credit line syndication	–	A1
Wisconsin Public Service Corporation		
Bonds	AA-	Aa2
Preferred stock	A	A2
Commercial paper	A-1+	P-1
Credit line syndication	–	Aa3

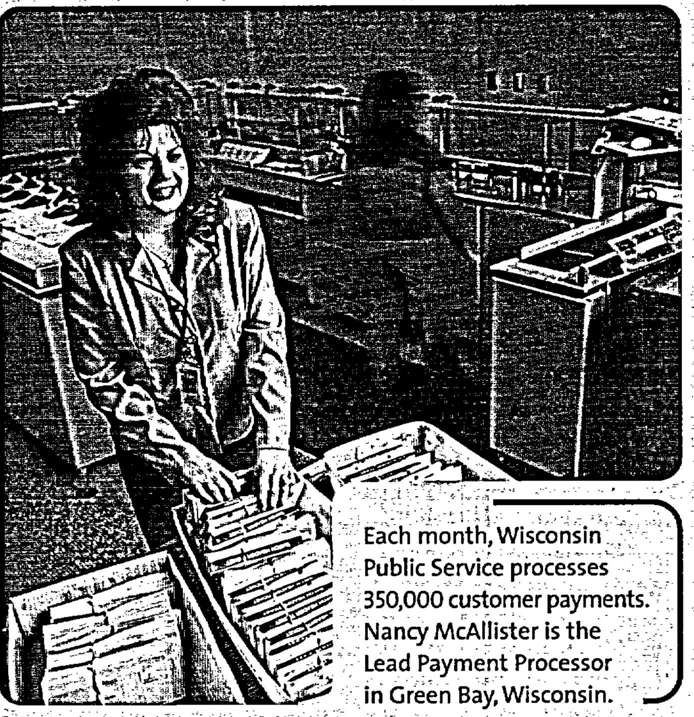
In November 2003, Moody's downgraded its long-term ratings for WPS Resources and Wisconsin Public Service one ratings level, leaving only commercial paper ratings unchanged. Moody's downgrade of WPS Resources was based principally on a gradual shift in the company's financial and business risk profile attributable to the growth of nonregulated businesses, the impact of weaker wholesale power markets, and a relatively high dividend payout. Moody's downgrade of Wisconsin Public Service is based on the expectation that the utility's substantial capital spending program will exceed its retained cash flow through 2007, which is likely to lead to a meaningful increase in debt. Following the downgrade, Moody's set the ratings outlook at stable for both WPS Resources and Wisconsin Public Service. We believe these ratings continue to be among the best in the energy industry, and allow 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.

Rating agencies use a number of both quantitative and qualitative measures in determining a company's credit rating. These measures include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength, and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective.

WPS Resources and Wisconsin Public Service hold credit lines to back 100% of their commercial paper borrowing and letters of credit. These credit facilities are based on a credit rating of A-1/P-1 for WPS Resources and A-1+/P-1 for Wisconsin Public Service. A decrease in the commercial paper credit ratings could adversely affect the companies by increasing the interest rates at which they can borrow and potentially limiting the availability of funds to the companies through the commercial paper market. A restriction in the companies' ability to use commercial paper borrowing to meet their working capital needs would require them to secure funds through alternate sources resulting in higher interest expense, higher credit line fees, and a potential delay in the availability of funds.

WPS Energy Services maintains underlying agreements to support its electric and gas trading operations. In the event of a deterioration of WPS Resources' credit rating, many of these agreements allow the counterparty to demand additional assurance of payment. This provision could pertain to existing business, new business or both with the counterparty. The additional assurance requirements could be met with letters of credit, surety bonds or cash deposits and would likely result in WPS Resources being required to maintain increased bank lines of credit or incur additional expenses, and could restrict the amount of business WPS Energy Services can conduct.

WPS Energy Services uses the NYMEX and over-the-counter financial markets to hedge its exposure to physical customer obligations. These hedges are closely correlated to the customer contracts, but price movements on the hedge contracts may require financial backing. Certain movements in price for contracts through the NYMEX exchange require posting of cash deposits equal to the market move. For the over-the-counter market, the underlying contract may allow the counterparty to require additional collateral to cover the net financial differential between the original contract price and the current forward market. Increased requirements related to market price changes usually only result in a temporary liquidity need that will unwind as the sales contracts are fulfilled.



Each month, Wisconsin Public Service processes 350,000 customer payments. Nancy McAllister is the Lead Payment Processor in Green Bay, Wisconsin.

FUTURE CAPITAL REQUIREMENTS AND RESOURCES

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations As of December 31, 2003 *(Millions)*	Total Amounts Committed	Payments Due By Period Less Than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
Long-term debt principal and interest payments	$1,498.0	$ 112.9	$ 125.9	$126.8	$1,132.4
Operating leases	19.0	5.0	4.8	3.1	6.1
Commodity purchase obligations	3,052.7	2,016.7	718.4	243.9	73.7
Purchase orders	168.8	126.1	37.3	5.4	-
Capital contributions to equity method investment	206.5	47.3	96.4	62.8	-
Other	83.4	22.3	58.3	0.8	2.0
Total contractual cash obligations	$5,028.4	$2,330.3	$1,041.1	$442.8	$1,214.2

Long-term debt principal and interest payments represent bonds issued, notes issued, and loans made to WPS Resources and its subsidiaries. We record all principal obligations on the balance sheet. Commodity purchase obligations represent mainly commodity purchase contracts of WPS Resources and its subsidiaries. The energy supply contracts at WPS Energy Services summarized above generally have offsetting energy sale contracts. Wisconsin Public Service expects to recover the costs of its contracts in future customer rates. Purchase orders include obligations related to normal business operations and large construction obligations. Other mainly represents expected pension and postretirement funding obligations for the years of 2004 and 2005.

CAPITAL REQUIREMENTS

Wisconsin Public Service makes large investments in capital assets. Net construction expenditures are expected to be approximately $1,264 million in the aggregate for the 2004 through 2006 period (upon the closing of the sale of the Kewaunee nuclear power plant, expenditures would decrease approximately $44.9 million during this period). The largest of these expenditures is for the construction of the 500-megawatt coal-fired generation facility near Wausau, Wisconsin, in which Wisconsin Public Service is expected to incur costs of $549 million between 2004 through 2006. In addition, Wisconsin Public Service expects to incur additional construction costs of approximately $12 million between 2004 and 2006 to fund construction of the transmission facilities required to support the generating facility. Other significant anticipated expenditures during this three-year period include:

- combustion turbines – $49 million
- pollution control equipment – $23 million
- corporate services infrastructures – $41 million
- automated meter reading – $35 million
- nuclear fuel – $33 million
- mercury control projects – $59 million

Other capital requirements for the three-year period include a potential contribution of $3.3 million to the Kewaunee nuclear power plant decommissioning trust fund (depending on the sale of the Kewaunee assets).

On April 18, 2003, the Public Service Commission of Wisconsin approved Wisconsin Public Service's request to transfer its interest in the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to the American Transmission Company. WPS Resources committed to fund 50% of total project costs incurred up to $198 million, and receive additional equity in American Transmission Company. WPS Resources may terminate funding if the project extends beyond January 1, 2010. On December 19, 2003, Wisconsin Public Service and American Transmission Company received approval to continue the project with the new cost estimate of $420.3 million. The updated cost estimate reflects additional costs for 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. Completion of the line is expected in 2008. WPS Resources has the right, but not the obligation, to provide additional funding in excess of $198 million up to its portion of the revised cost estimate. For the period 2004 through 2006, we expect to make capital contributions of up to $128 million for our portion of the Wausau to Duluth transmission line. In exchange, we will receive increased ownership in the American Transmission Company.

WPS Resources expects to provide additional capital contributions of approximately $15 million to American Transmission Company in 2004 for other projects.

Upper Peninsula Power is expected to incur construction expenditures of about $45 million in the aggregate for the period 2004 through 2006, primarily for electric distribution improvements and repairs and safety measures at hydroelectric facilities.

Capital expenditures identified at WPS Power Development for 2004 through 2006 are expected to be approximately $5 million, including $2.5 million at the Sunbury facility, which will be reimbursed by Duquesne Light Holdings if the sale of Sunbury is consummated (see Note 4 in Notes to WPS Resources Consolidated Financial Statements, Assets Held for Sale, for a more detailed discussion of the sale of the Sunbury facility).

Capital expenditures identified at WPS Energy Services for 2004 through 2006 are expected to be approximately $2.7 million.

All projected capital and investment expenditures are subject to periodic review and revision and may vary significantly from the estimates depending on a number of factors, including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility, and economic trends. Other capital expenditures for

WPS Resources and its subsidiaries for 2004 through 2006 could be significant depending on its success in pursuing development and acquisition opportunities. When appropriate, WPS Resources may seek nonrecourse financing for a portion of the cost of these acquisitions.

CAPITAL RESOURCES

For the period 2004 through 2006, WPS Resources plans to use internally generated funds net of forecasted dividend payments, cash proceeds from pending asset sales, and debt and equity financings to fund capital requirements. WPS Resources plans to maintain current debt to equity ratios. Management believes WPS Resources has adequate financial flexibility and resources to meet its future needs.

WPS Resources has the ability to issue up to an additional $176.9 million of debt or equity under its currently effective shelf registration statement. Wisconsin Public Service has the ability to issue up to an additional $25.0 million of debt under its currently effective shelf registration statement. Wisconsin Public Service intends to file a new shelf registration statement in 2004 for an additional $350 million.

WPS Resources and Wisconsin Public Service have 364-day credit line syndications for $225.0 million and $115.0 million, respectively. The credit lines are used to back 100% of WPS Resources' and Wisconsin Public Service's commercial paper borrowing programs and letters of credit for WPS Resources. As of December 31, 2003, there was a total of $260.9 million available under the lines of credit, net of $28 million of outstanding commercial paper, and $50.7 million in cash and cash equivalents.

In 2003, WPS Resources announced the sale of WPS Power Development's Sunbury generation plant and Wisconsin Public Service announced the sale of its portion of the Kewaunee nuclear power plant. Both of these sales are expected to close in 2004. A portion of the proceeds related to the Sunbury sale may be used to pay the non-recourse debt related to the plant. A portion of the proceeds related to the Kewaunee sale will be used to retire debt at Wisconsin Public Service. The remainder of the proceeds from both the Sunbury and Kewaunee sales will be used by WPS Resources for investing activities and general corporate purposes of its subsidiaries, including reducing the amount of outstanding debt. For more information regarding the Sunbury and Kewaunee sale, see the discussion below.

OTHER FUTURE CONSIDERATIONS

SUNBURY GENERATION PLANT

As a result of both market conditions and issues related to the physical performance of the plant, the Sunbury generation plant has not met our projected near-term financial performance levels. Market conditions continue to be depressed due to low prices for capacity. Sunbury also incurred significant outage time during 2003 to maintain and repair fuel handling and recently installed environmental control equipment that experienced accelerated wear from the use of low grade fuel in some of the units. Operational issues related to Sunbury have been resolved or a plan has been put in place to resolve them. WPS Resources made capital contributions of $18.5 million to Sunbury in 2003 to compensate for the impact of decreased capacity revenues, as well as adjustments to Sunbury's operating plan. For 2004, WPS Resources' Board of Directors has granted authorization to contribute up to $24.5 million of capital to Sunbury. These funds will be used to cover operating losses, make principal and interest payments, and purchase emission allowances.

On October 24, 2003, WPS Power Development entered into a definitive agreement to sell its Sunbury generation plant to a subsidiary of Duquesne Light Holdings for approximately $120 million, subject to certain working capital adjustments and regulatory approval. See Note 4 in Notes to WPS Resources Consolidated Financial Statements, Assets Held for Sale, for more information.

KEWAUNEE NUCLEAR POWER PLANT

On November 7, 2003, Wisconsin Public Service and Wisconsin Power and Light Company entered into a definitive agreement to sell the Kewaunee nuclear power plant to a subsidiary of Dominion Resources, Inc. Wisconsin Public Service is a 59% owner of the Kewaunee nuclear power plant. The transaction is subject to approval from various regulatory agencies, including the Public Service Commission of Wisconsin, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and several other state utility regulatory agencies and is projected to close in 2004. Approval has already been obtained from the Iowa Public Utility Commission.

Wisconsin Public Service estimates that its share of the cash proceeds from the sale will approximate $130 million, subject to various post-closing adjustments. The cash proceeds from the sale are expected to slightly exceed the carrying value of the Wisconsin Public Service assets being sold. In addition to the cash proceeds, Wisconsin Public Service will retain ownership of the assets contained in its non-qualified decommissioning trust, one of two funds that were established to cover the eventual decommissioning of the Kewaunee nuclear power plant. The pre-tax fair value of the non-qualified decommissioning trust's assets at December 31, 2003, was $115.1 million. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive Wisconsin Public Service's qualified decommissioning trust assets that had a fair value of $239.7 million at December 31, 2003. Wisconsin Public Service will request deferral of the gain expected to result from this transaction and related costs from the Public Service Commission of Wisconsin. Accordingly, the gain on the sale of the plant assets and the related non-qualified decommissioning trust assets is expected to be returned to customers under future rate orders.

REGULATORY

Wisconsin

Effective March 21, 2003, Wisconsin Public Service received approval to increase Wisconsin retail electric rates $21.4 million (3.5%) and decrease Wisconsin retail natural gas rates $1.2 million (0.3%). The 2003 electric and retail natural gas rates reflect a 12.0% return on equity and allowed average equity of 55% in the utility's capital structure.

On April 1, 2003, Wisconsin Public Service filed an application with the Public Service Commission of Wisconsin for authorization to increase retail electric rates and retail natural gas rates, effective January 1, 2004. The rate increases are necessary to recover the costs associated with the purchase of the De Pere Energy Center, fuel costs, maintenance of power production facilities, and employee benefits. On December 19, 2003, the Public Service Commission of Wisconsin issued a final written order authorizing a retail electric rate increase of $59.4 million (9.4%) and a retail natural gas rate increase of $8.9 million (2.2%), effective January 1, 2004. The 2004 rates reflect a 12.0% return on equity. The Public Service Commission of Wisconsin also approved average equity of 56% in the utility's capital structure.

The amount of fuel and purchased power costs Wisconsin Public Service is authorized to recover in rates is established in its general rate filings. If the actual fuel and purchased power costs vary from the authorized level by more than 2% on an annual basis, Wisconsin Public Service is allowed, or may be required, to file an application adjusting rates for the remainder of the year to reflect actual costs for the year to date and updated projected costs. On October 29, 2003, Wisconsin Public Service filed to reduce rates by $1.9 million, due to a reduction in the costs of fuel and purchased power, for the period August 15, 2003, through December 31, 2003. On February 19, 2004, the Public Service Commission of Wisconsin approved a refund of $2.7 million, which represents the originally filed amounts, adjustments, and interest. This refund is expected to be credited to customer accounts in March 2004. A liability of $2.6 million was accrued as of December 31, 2003, in anticipation of this refund.

As a result of the Kewaunee nuclear power plant unplanned outage in late January and early February 2004 and other fuel cost increases in 2004, Wisconsin Public Service filed for a fuel cost increase of $7.4 million on February 27, 2004. The Public Service Commission of Wisconsin has scheduled a hearing for March 22, 2004, to determine the amount of the fuel cost increase to be recovered on an interim basis. Wisconsin Public Service expects that a final order will be issued in summer 2004 regarding this rate increase request.

Michigan

Wisconsin Public Service filed for an increase in electric rates in the first quarter of 2003. On July 21, 2003, the Michigan Public Service Commission authorized an increase in electric rates of $0.3 million and the recovery of an additional $1.0 million of transmission costs through the power supply cost recovery mechanism, effective July 22, 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 Michigan Public Service Commission granted an 11.4% return on equity with the new rates being effective December 21, 2002. This was the first base rate increase for Upper Peninsula Power in 10 years.

Michigan authorizes a one-for-one fuel and purchased power recovery mechanism for prudently incurred costs. Under the mechanism, the difference between actual and authorized fuel and purchased power costs is deferred until year-end. By March 31 of the following year, the utility must file a reconciliation of the actual costs to the authorized costs. Any under or over recovery is then recovered from rates or returned to the ratepayer through the end of the following year. The reconciliation is subject to review and intervention by customers. At December 31, 2003, Upper Peninsula Power had significantly under recovered fuel and purchased power costs due to the high costs of purchased power. Upper Peninsula Power intends to file, in March 2004, a reconciliation of the 2003 purchased power costs requesting recovery of $5.2 million. In addition, costs associated with the Presque Isle Power Plant outage have been deferred and are expected to be addressed along with other Dead River flood issues in the next rate case. Upper Peninsula Power expects a final decision regarding the recovery of the 2003 fuel costs no later than the end of 2004. Due to the level of the under recovery relative to Upper Peninsula Power's revenues, the deferred cost may be recovered over more than one year.

Federal

On April 30, 2003, Wisconsin Public Service received a draft order from the Federal Energy Regulatory Commission approving a 21%, or $4.1 million, interim increase in wholesale electric rates. The new wholesale rates were effective on May 11, 2003, and are subject to refund if the final rate increase is less. The draft order also granted the use of formula rates, which allow for the adjustment of wholesale electric rates to reflect actual costs without having to file additional rate requests. On March 4, 2004, the Federal Energy Regulatory Commission and Wisconsin Public Service reached a tentative settlement regarding the final rate increase. Wisconsin Public Service anticipates no material refunds or other adjustments to revenues recorded under the interim rates based on the terms of the tentative agreement. The final settlement is anticipated to be filed with the Federal Energy Regulatory Commission in the second quarter of 2004. This is Wisconsin Public Service's first rate increase for its wholesale electric customers in 17 years.

ASSET MANAGEMENT STRATEGY

In 2001, WPS Resources initiated an asset management strategy, whereby assets, or business units, no longer required for operations would be disposed over the next five to seven years in a manner that allows recognition of profits and provides capital for redeployment into new opportunities. In conjunction with the execution of a part of this strategy, the company has identified certain assets to be disposed of consisting primarily of land and some buildings, the sale of which is expected to provide basic earnings per share between $0.15 and $0.25, annually, through 2007.

Off Balance Sheet Arrangements

As part of normal business, WPS Resources and its subsidiaries enter into various guarantees providing financial or performance assurance to third

Perry Van Den Heuvel, Street/Service Mechanic for Wisconsin Public Service, installs a new automated gas meter—for easier and more accurate meter reading—on this house in Wausau, Wisconsin. Automated meter reading has many benefits for customers, including fewer estimated bills, reductions in outage times, and improvements in meter reading accuracy.

WPS Resources' Outstanding Guarantees *(Millions)*	December 31, 2003	December 31, 2002
Guarantees of subsidiary debt	$ 39.7	$ 38.8
Guarantees supporting commodity transactions of subsidiaries	874.4	584.3
Standby letters of credit	61.1	22.7
Surety bonds	1.1	6.4
Other guarantee	5.5	–
Total guarantees	$981.8	$652.2

WPS Resources' Outstanding Guarantees *(Millions)* Commitments Expiring	Total Amounts Committed at December 31, 2003	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Guarantees of subsidiary debt	$ 39.7	$ 12.5	$ –	$ –	$27.2
Guarantees supporting commodity transactions of subsidiaries	874.4	769.3	83.4	21.2	0.5
Standby letters of credit	61.1	53.4	7.7	–	–
Surety bonds	1.1	1.1	–	–	–
Other guarantee	5.5	–	–	–	5.5
Total guarantees	$981.8	$836.3	$91.1	$21.2	$33.2

parties on behalf of certain subsidiaries. These guarantees 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 guarantees issued by WPS Resources include intercompany guarantees between parents and their subsidiaries, which are eliminated in consolidation, and guarantees of the subsidiaries' own performance. As such, these guarantees 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, 2003, and December 31, 2002, outstanding guarantees totaled $981.8 million and $652.2 million, respectively, as indicated in the table at the top of this page.

At December 31, 2003, WPS Resources had outstanding $39.7 million in corporate guarantees supporting indebtedness. Of that total, $39.5 million supports outstanding debt at two of WPS Power Development's subsidiaries. The underlying debt related to these guarantees is reflected on the consolidated balance sheet.

WPS Resources' Board of Directors has authorized management to issue corporate guarantees in the aggregate amount of up to $1.2 billion to support the business operations of WPS Energy Services. WPS Resources primarily issues the guarantees to counterparties in the wholesale electric and natural gas marketplace to provide counterparties the assurance that WPS Energy Services will perform on its obligations and permit WPS Energy Services to operate within these markets. The amount of guarantees actually issued by WPS Resources to support the business operations at WPS Energy Services at December 31, 2003, was $840.2 million and this is reflected in the table above. The amount actually supported is dependent on the amount of outstanding business WPS Energy Services has with the counterparties holding the guarantees at any point in time. WPS Resources reflects WPS Energy Services' obligations supported by these parental guarantees on its consolidated balance sheet either as accounts payable or liabilities from risk management activities.

At December 31, 2003, WPS Resources had issued $34.1 million in corporate guarantees to support the business operation of WPS Power Development, which are reflected in the above table. WPS Resources issues the guarantees 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 guarantees at any point in time. WPS Resources reflects WPS Power Development's obligations supported by these parental guarantees on its consolidated balance sheet as either accounts payable or other liabilities. In February 2004, WPS Resources' Board of Directors authorized management to issue corporate guarantees in the aggregate amount of up to $30.0 million to support business operations at WPS Power Development in addition to guarantees that have received specific authorizations.

Another $0.1 million of corporate guarantees support energy supply at Upper Peninsula Power and are not reflected on WPS Resources' consolidated balance sheet. In February 2004, WPS Resources' Board of Directors authorized management to issue corporate guarantees in the aggregate amount of up to $15 million to support the business operations of Upper Peninsula Power. Corporate guarantees issued in the future under the Board authorized limit may or may not be reflected on WPS Resources' consolidated balance sheet, depending on the nature of the guarantee.

At WPS Resources' request, financial institutions have issued $61.1 million in standby letters of credit 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, 2003, WPS Resources furnished $1.1 million of surety bonds for various reasons 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 guarantee of $5.5 million listed on the above table was issued by Wisconsin Public Service to indemnify a third party for exposures related to the construction of utility assets. This amount is not reflected on the consolidated balance sheet.

WPS Resources has not identified any material variable interest entities created, or interests in variable entities obtained, after January 31, 2003, that require consolidation or disclosure under the Financial Accounting Standard Board's revised Interpretation No. 46 ("46R"), and we continue to assess the existence of any interests in variable interest entities, not classified as special purpose entities, created on or prior to January 31, 2003. The application of Interpretation No. 46R was required for interests in special-purpose entities for periods ending after December 15, 2003. WPSR Capital Trust I was deconsolidated from the Consolidated Financial Statements of WPS Resources at December 31, 2003, as required by the provisions of Interpretation No. 46R related to special purpose entities. As a result of the deconsolidation, WPS Resources recorded a $1.5 million investment in the Trust within other current assets and a $51.5 million note payable to preferred stock trust, respectively, within the Consolidated Balance Sheet. Refer to Note 15 of WPS Resources' Notes to the Consolidated Financial Statements for further information about the deconsolidation of WPSR Capital Trust I.

WPS Resources currently anticipates that we will disclose information about a variable interest entity upon implementation of Interpretation No. 46R in the first quarter of 2004. Through an affiliate of WPS Power Development, WPS Resources owns a partial interest in a synthetic fuel production facility located in Kentucky and receives tax credits pursuant to Section 29 of the Internal Revenue Code based on sales to unaffiliated third-party purchasers of synthetic fuel produced from coal. At December 31, 2003, WPS Resources had a 23% ownership interest in the synthetic fuel facility. Section 29 tax credits generated by the facility are currently scheduled to expire at the end of 2007. WPS Resources' maximum exposure to loss as a result of our involvement with this potential variable interest entity is limited to our investment in the entity, which is not significant at December 31, 2003. Currently, we do not believe that WPS Resources is the primary beneficiary of this entity and do not anticipate consolidation of the synthetic fuel facility upon adoption of Interpretation No. 46R in the first quarter of 2004.

Trading Activities

WPS Energy Services 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 risk management systems. The primary input for natural gas pricing is the settled forward price curve of the NYMEX exchange, which includes contracts and options. Basis 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 activities during the 12 months ended December 31, 2003.

WPS Energy Services, Inc. Mark-to-Market Roll Forward *(Millions)*	Natural Gas	Electric	Total
Fair value of contracts at January 1, 2003	$(7.1)	$11.0	$ 3.9
Less – contracts realized or settled during period	(15.0)	(2.1)	(17.1)
Plus – fair value of new contracts entered into during period	9.3	1.6	10.9
Other changes in fair value	16.4	–	16.4
Cumulative effect of rescission of Issue No. 98-10	9.7	(4.2)	5.5
Fair value of contracts at December 31, 2003	$13.3	$ 6.3	$19.6

The fair value of contracts at January 1, 2003, and December 31, 2003, reflect the values reported on the balance sheet for net mark-to-market current and long-term risk management assets and liabilities as of those dates. Contracts realized or settled during the period include the value of contracts in existence at January 1, 2003, that were no longer included in the net mark-to-market assets as of December 31, 2003, and the amortization of those derivatives designated as normal purchases and sales under Statement No. 133. Mark-to-market gains and losses related to contracts that were entered into subsequent to January 1, 2003, that are still included in WPS Energy Services' portfolio at December 31, 2003, are included in the fair value of new contracts entered into during the period. 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 above. The "Other changes in fair value" line in the table primarily represents the reversal of the change in the fair value of gas storage contracts as of January 1, 2003. With the rescission of Issue No. 98-10, natural gas storage contracts are accounted for on an accrual basis and are no longer adjusted to fair value. The cumulative effect of rescission of Issue No. 98-10 is the reversal of the December 31, 2002, risk management assets and liabilities that no longer qualify for mark-to-market accounting with the rescission of Issue No. 98-10 as required by Issue No. 02-03.

WPS Energy Services, Inc. Derivative Contract Aging at Fair Value As of December 31, 2003 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	$ 6.0	$(0.1)	$ –	$ –	$ 5.9
Prices provided by external sources	4.3	5.5	–	–	9.8
Prices based on models and other valuation methods	1.2	2.7	–	–	3.9
Total fair value	$11.5	$ 8.1	$ –	$ –	$19.6

"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 table at the bottom of page 36 from active quotes or external sources. Pricing is the most significant variable in the mark-to-market calculations.

WPS Energy Services, as a result of WPS Power Development's acquisition of generating assets in New York, has acquired transmission congestion contracts, which are financial contracts, that hedge price risk between zones within the New York Independent System Operator. The contracts were marked to fair value using a combination of modeled forward prices and market quotes. The fair market value of the contracts at December 31, 2003, was $1.3 million.

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.

RISK MANAGEMENT ACTIVITIES

WPS Resources has entered into contracts that are accounted for as derivatives under the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. At December 31, 2003, those derivatives not designated as hedges are primarily commodity contracts to manage price risk associated with wholesale and retail natural gas purchase and sale activities and electric energy contracts. Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative transaction, and as a result, such expectations and intentions are documented. Cash flow hedge accounting treatment may be used when WPS Resources contracts to buy or sell a commodity at a fixed price for future delivery corresponding with anticipated physical sales or purchases. Fair value hedge accounting may be used when WPS Resources holds firm commitments and enters into transactions that hedge the risk that the price of a commodity may change between the contract's inception and the physical delivery date of the commodity. To the extent that the fair value of a hedge instrument is fully effective in offsetting the transaction being hedged, there is no impact on income available for common shareholders prior to settlement of the hedge. In addition, WPS Resources may apply the normal purchases and normal sales exemption, provided by Statement No. 133, as amended, to certain contracts. The normal purchases and sales exception provides that no recognition of the contract's fair value in the consolidated financial statements is required until the settlement of the contract.

Derivatives contracts that are determined to fall within the scope of Statement No. 133, as amended, are recorded at fair value on the Consolidated Balance Sheet of WPS Resources. Changes in fair value, except those related to derivative instruments designated as cash flow hedges, are generally included in the determination of income available for common shareholders at each financial reporting date until the contracts are ultimately settled. When available, quoted market prices are used to record a contract's fair value. If no active trading market exists for a commodity or for a contract's duration, fair value is estimated through the use of internally developed valuation techniques or models. Such estimates require significant judgment as to assumptions and valuation methodologies deemed appropriate by WPS Resources' management. As a component of the fair value determination, WPS Resources maintains reserves to account for the estimated costs of servicing and holding certain of its contracts based upon administrative costs, credit/counterparty risk, and servicing margin with both fixed and variable components. The effect of changing both the administrative costs and credit/counterparty risk assumptions is as follows:

Change in Assumption *(Millions)*	Effect to Operating Reserve at December 31, 2003
100% increase	$ 1.6
50% decrease	$(0.8)

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 Assets/Liabilities from risk management activities on the Consolidated Balance Sheets.

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 future 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 methodology 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 reducing the carrying value of the asset to its fair value.

Throughout 2003, WPS Power Development tested power plants for recoverability whenever events or changes in circumstances indicated that their carrying amount may not be recoverable. No impairment charges were recorded in 2003 as a result of these recoverability tests.

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.

RECEIVABLES AND RESERVES

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. Wisconsin Public Service records a regulatory asset to offset its uncollectible reserve. 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.

PENSION AND POSTRETIREMENT BENEFITS

The costs of providing non-contributory defined pension benefits and other postretirement benefits described in Note 19 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 chart reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The chart below reflects an increase or decrease in the percentage for each assumption, and how each change would impact the projected benefit obligation, our net amount recognized 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 on a change in that assumption only.

Actuarial Assumption *(Millions, except percentages)*	Percent Change in Assumption	Impact on Projected Benefit Obligation	Impact on Net Amount Recognized	Impact on Pension Cost
Discount rate	(0.5)	$34.0	$(0.6)	$ 0.6
Discount rate	0.5	(37.6)	0.7	(0.7)
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)*	Percent Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on Postretirement Benefit Liability	Impact on Postretirement Benefit Cost
Discount rate	(0.5)	$21.6	$2.5	$2.5
Discount rate	0.5	(20.0)	(1.8)	(1.8)
Health care cost trend rate	(1.0)	(37.4)	(5.6)	(5.6)
Health care cost trend rate	1.0	48.6	6.3	6.3
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 chart above reflects the sensitivities associated with a change in certain actuarial assumptions by the indicated percentage. The chart 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 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 the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the benefit trust portfolios.

The fair value of pension plan assets increased $92.7 million in 2003, decreased $47.8 million in 2002, and decreased $13.7 million in 2001. As further described in Note 19 to the Consolidated Financial Statements, as a result of the declining interest rate environment, we were required to recognize an additional minimum liability as prescribed by Statement No. 87. The liability was recorded as an intangible asset, a regulatory asset, and a reduction to common equity through a charge to Other comprehensive income. The charge to Other comprehensive income could be restored through common equity in future periods to the extent fair value of trust assets exceed the accumulated benefit obligation. Also, pension cost and cash funding requirements could increase in future years without continued improved asset returns.

The fair value of other postretirement benefit plan assets increased $23.7 million in 2003, decreased $14.8 million in 2002, and decreased $4.4 million in 2001. 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 continued 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 items that would otherwise be immediately recognized as expenses and revenues because our regulators have authorized deferral as regulatory assets and regulatory liabilities for future recovery or refund to customers. Future recovery of regulatory assets is not assured, but are generally subject to review by regulators in rate proceedings for matters such as prudence and reasonableness. Management regularly assesses whether these regulatory assets and liabilities are probable of future recovery or refund by considering factors such as regulatory environment changes and the status of any pending or potential deregulation legislation. Once approved, we reduce regulatory assets and liabilities by recognition in income over the rate recovery period. If not approved, these regulatory assets or liabilities 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, 2003, would result in a 3.0% decrease in total assets, a 9.4% decrease in total liabilities, and a 122.5% increase in Income before taxes.

TAX PROVISION

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet.

We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we must include an expense or benefit within the tax provisions in the statements of operations.

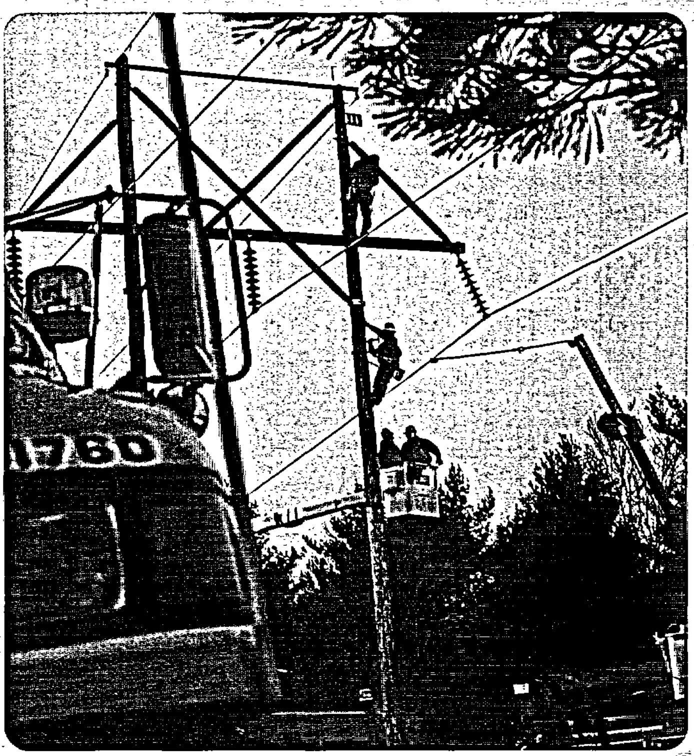
Related Party Transactions

WPS Resources has investments in related parties that are accounted for under the equity method of accounting. These include the investment at WPS Investment, LLC, (a consolidated subsidiary of WPS Resources), in American Transmission Company, LLC, and Guardian Pipeline, LLC, Wisconsin Public Service's investment in Wisconsin River Power Company, and WPS Resources' investment in WPSR Capital Trust I, and WPS Nuclear Corporation's (a consolidated subsidiary of WPS Resources) investment in Nuclear Management Company, LLC.

American Transmission Company, LLC is a for-profit, transmission-only company that owns, plans, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, and Illinois. At December 31, 2003, WPS Investment's ownership in American Transmission Company was 19.8%. Wisconsin Public Service and Upper Peninsula Power recorded related party transactions for services provided to and network transmission services received from American Transmission Company during 2003, 2002, and 2001. Charges to American Transmission Company for services provided by Wisconsin Public Service were $14.4 million, $12.9 million, and $11.3 million in 2003, 2002, and 2001, respectively. Upper Peninsula Power charged $7.6 million, $5.8 million, and $2.7 million for 2003, 2002, and 2001, respectively, for services provided. Network transmission costs paid to American Transmission Company by Wisconsin Public Service were $33.6 million, $31.0 million, and $25.2 million in 2003, 2002, and 2001, respectively. Upper Peninsula Power recorded network transmission costs of $4.4 million, $5.0 million, and $3.3 million in 2003, 2002, and 2001, respectively.

Guardian Pipeline, LLC owns a natural gas pipeline, which began operating in 2002, that stretches about 140 miles from near Joliet, Illinois, into southern Wisconsin. WPS Investments, LLC purchased its 33% interest in Guardian Pipeline, LLC on May 30, 2003.

Wisconsin River Power Company, of which Wisconsin Public Service owns 50% of the voting stock, operates an oil-fired combustion turbine and two hydroelectric plants on the Wisconsin River. The energy output from the hydroelectric plants is sold in equal parts to the three companies that previously owned equal portions of all the outstanding stock of Wisconsin River Power (Wisconsin Public Service, Wisconsin Power and Light, and Consolidated Water Power). The electric power from the combustion turbine is sold in equal parts to Wisconsin Public Service and Wisconsin Power and Light. Wisconsin Public Service recorded related party transactions for service provided to and purchases from Wisconsin River Power during 2003, 2002, and 2001. Revenues from service provided to Wisconsin River Power were $1.4 million, $1.5 million, and $0.9 million for 2003, 2002, and 2001, respectively. Purchases from Wisconsin River Power by Wisconsin Public Service were $2.0 million, $2.1 million, and $1.7 million for 2003, 2002, and 2001, respectively.



WPSR Capital Trust I was deconsolidated from the Consolidated Financial Statements of WPS Resources at December 31, 2003, as required by the provisions of Financial Accounting Standards Board's revised Interpretation No. 46 ("46R") related to special purpose entities. Refer to Note 15 of WPS Resources' Notes to the Consolidated Financial Statements for further information on the deconsolidation of WPSR Capital Trust I. As a result of the deconsolidation, WPS Resources recorded a $1.5 million investment in the Trust within other current assets and a $51.5 million note payable to preferred stock trust, a related party, within the Consolidated Balance Sheet at December 31, 2003. Prior periods have not been restated per the transition provisions of Interpretation No. 46R. The Trust remains consolidated within the December 31, 2002, Consolidated Balance Sheet and the interest payments on the debentures are reflected within interest expense and distributions on trust preferred securities on the Consolidated Statements of Income for all years presented.

On January 8, 2004, we redeemed all of the subordinated debentures that were initially issued to the Trust for $51.5 million and paid accrued interest of $0.1 million. This action required the Trust to redeem an equal amount of trust securities at face value plus any accrued interest and unpaid distributions. As a result of these transactions, the Trust has been dissolved effective January 8, 2004.

Nuclear Management Company is owned by affiliates of five utilities in the upper Midwest and operates the six nuclear power plants of these utilities. At December 31, 2003, WPS Nuclear Corporation's ownership in Nuclear Management Company was 20%. Wisconsin Public Service recorded related party transactions for services provided by Nuclear Management Company for the management and operation of the Kewaunee nuclear plant. Management service fees paid to Nuclear Management Company by Wisconsin Public Service were $25.2 million, $24.6 million, and $16.4 million in 2003, 2002, and 2001, respectively. Management service fees paid to Nuclear Management Company in 2003 and 2002 reflect a 17.8% increase in Wisconsin Public Service's ownership of the Kewaunee plant after acquiring Madison Gas and Electric Company's ownership in the Kewaunee plant on September 24, 2001.

Wisconsin Public Service's and Upper Peninsula Power's Line Electricians have the skills to come through for our customers in any kind of weather, at any time of day or night, and in any type of terrain. Response time and reliability are of prime importance for ensuring customer satisfaction.

Trends

ENVIRONMENTAL

WPS Resources and its subsidiaries are subject to federal, state, and local regulations regarding environmental impacts of their 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.

WPS Power Development is subject to regulation by the United States Environmental Protection Agency and environmental regulation in Maine, New York, Pennsylvania, and Wisconsin with respect to thermal and other discharges from its power plants. New legislation could negatively impact future cash flows and impact WPS Power Development's ability to compete with regulated utilities, which are allowed recovery of these costs.

WPS Energy Services is not directly subject to significant environmental regulations at this time.

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. As of the fall of 2003, cleanup of the land portion at five sites was substantially complete. Groundwater treatment and monitoring at these sites will continue into the future. River sediment remains to be addressed at six sites with sediment contamination. Wisconsin Public Service estimates remaining future undiscounted investigation and cleanup costs for all remaining site work to be $36.2 million to $40.6 million and recorded a $36.2 million liability for gas plant cleanup with an offsetting regulatory asset at December 31, 2003. Wisconsin Public Service expects to recover cleanup costs net of insurance recoveries in future customer rates.

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 began in 2003 and will gradually increase through 2007. Wisconsin Public Service owns 31.8% of Edgewater Unit 4, which is located in the ozone non-attainment area. A compliance plan for this unit was initiated in 2000. Wisconsin Public Service's share of the costs of this project is expected to be approximately $5 million. The project is nearly complete. Wisconsin Public Service has incurred approximately $4.9 million on this project as of December 31, 2003.

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 the Columbia facility. 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 expects that compliance with a future limit can be achieved by managing the coal supply quality. 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 other unaffiliated 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 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.

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 and 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.

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 $163 million to achieve the proposed 90% reductions. Presently, the proposed rule is on hold, and it is uncertain if the state will proceed to finalize the regulations.

In December 2003, the United States Environmental Protection Agency proposed mercury "maximum achievable control technology" standards and an alternative mercury "cap and trade" program substantially modeled on the Clear Skies legislation initiative. In addition, the United States Environmental Protection Agency proposed the Interstate Air Quality rule, which would reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin. Wisconsin Public Service is in the process of studying the proposed rules. As to the mercury "maximum achievable control technology" proposal, it requires existing units burning sub-bituminous coal to achieve an annual average mercury emission rate limit of 5.8 pounds per trillion Btu on a unit-by-unit or plant-wide basis. New units must achieve an emission rate limit of 0.020 pounds per gigawatt-hour. If the proposed rule is promulgated, Wisconsin Public Service's current analysis indicates that the emission control equipment on the existing units may be sufficient to achieve the proposed limitation. New units will require additional mercury control techniques to reduce mercury emissions by 65% to 85%. Mercury control technology is still in development. Wisconsin Public Service is assessing potential mercury control technologies for application to future new coal-fired units.

The Interstate Air Quality rule proposal allows the affected states (including Wisconsin) to either require utilities located in the state to participate in an interstate cap and trade program or meet the state's emission budget for nitrogen oxide and sulfur dioxide through measures to be determined by the state. Wisconsin has not stated a preference as to which option it would select in the event the rule becomes final. While the effect of the rule on Wisconsin Public Service's facilities is uncertain for planning purposes, it is assumed that additional nitrogen oxides and sulfur dioxide controls will be needed on existing units or the existing units will need to be converted to natural gas by 2010. The installation of any controls and/or any conversion to natural gas will need to be scheduled as part of Wisconsin Public Service's long-term maintenance plan for its existing units. As such, controls or conversions may need to take place before the proposed 2010 compliance date. On a preliminary basis and assuming controls or conversion is required, Wisconsin Public Service estimates a cost of $288 million in order to meet a 2010 compliance date. This estimate is based on costs of current control technology.

The generation assets of WPS Power Development are subject to regulations on sulfur dioxide and nitrogen oxide emissions similar to those that apply to Wisconsin Public Service. In addition, the Sunbury generation facilities of WPS Power Development are located in an ozone transport region. As a result, these generation facilities are subject to additional restrictions on emissions of nitrogen oxide. Although WPS Power Development has some emission allowances for 2004 for the Sunbury facility, it may need to purchase approximately 10,000 to 15,000 additional allowances at market rates, to meet its 2004 requirements.

ENERGY AND CAPACITY PRICES

Prices for electric energy and capacity have been extremely volatile over the past three 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 high due to increased 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 has been negatively impacted by the depressed capacity prices and volatile energy prices discussed above, and as a result we have taken certain steps to reduce our exposure to the merchant marketplace.

On October 23, 2003, a definitive agreement was signed to sell WPS Power Development's Sunbury generating facility to a subsidiary of Duquesne Light Holdings. The pending sale will allow us to reduce uncontracted merchant exposure and redeploy capital into markets with different risk profiles. In addition, in January 2004, WPS Power Development entered into an agreement to lease most of its generation relating to continuing operations to WPS Energy Services. WPS Energy Services will utilize various financial tools, including forwards and options, to limit exposure and extract additional value from volatile commodity prices.

SYNTHETIC FUEL OPERATION

We have significantly reduced our consolidated federal income tax liability for the past four years through tax credits available to us under Section 29 of the Internal Revenue Code for the production and sale of solid synthetic fuel from coal. In order to maximize the value of our synthetic fuel production facility, we have reduced our interest in the facility from 67% to 23% through sales to third parties (see Note 6 – Acquisitions and Sales of Assets). Our ability to fully utilize the Section 29 tax credits that remain available to us in connection with our remaining interest in the facility will depend on whether the amount of our federal income tax liability is sufficient to permit the use of such credits. The Internal Revenue Service strictly enforces compliance with all of the technical requirements of Section 29. Section 29 tax credits are currently scheduled to expire at the end of 2007.

On June 27, 2003, the Internal Revenue Service announced that it had reason to question the scientific validity of certain test procedures and results that have been presented by certain taxpayers to qualify for Section 29 credits. The Internal Revenue Service also announced that it was reviewing information regarding these test procedures and practices. However, on October 29, 2003, the Internal Revenue Service announced that it had closed its investigation and concluded that such tests and procedures were scientifically valid if properly applied and indicated it would issue additional guidance on future sampling and testing. WPS Resources believes that its synthetic fuel facility does and will comply with such guidelines.

As a result of the June 2003 Internal Revenue Service announcement, on August 1, 2003, WPS Resources received notice from the Internal Revenue Service that the WPS Resources' affiliate through which it holds an ownership interest in a synthetic fuel facility was under review for the 2001 tax period and that, depending upon the review of the affiliate's 2001 tax return, the Internal Revenue Service might reexamine the affiliate's 2000 tax return. However, following the October announcement that the Internal Revenue Service was closing its investigation, WPS Resources received preliminary notice in January 2004 that both audits related to this issue have closed without adjustment. Future years remain open to audit. We continue to believe that the facility has been operated in compliance with the requirements of Section 29.

The Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs has been conducting an investigation of the synthetic fuel industry and their use of Section 29 tax credits. Pursuant to its invitation, on January 30, 2004, we answered questions of the Committee regarding our synthetic fuel facility. It is not known when the investigation will be completed and what impact, if any, such investigation may have on future legislation or the enforcement policy of the Internal Revenue Service.

We have recorded approximately $81.3 million of Section 29 tax credits as reductions of income tax expense from the project's inception in June 1998 through December 31, 2003. As a result of alternative minimum tax rules, about $52.3 million of this tax benefit has been carried forward as a deferred tax asset as of December 31, 2003. Future payments under one of the agreements covering the sale of a portion of our interest in the facility are contingent on the facility's continued production of synthetic fuel. Any disallowance of some or all of those tax credits would materially affect the related deferred tax account, as well as future tax obligations. Additionally, such disallowances may also result in a reduction of the level of synthetic fuel production at the facility, thus reducing the likelihood and amount of future payments under that agreement. Future tax legislation and Internal Revenue Service review may also affect the value of the credits and the value of our share of the facility.

INDUSTRY RESTRUCTURING

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.

Deregulation of the electric and natural gas utilities has begun in Wisconsin, particularly for natural gas service. Currently, the largest natural gas customers can purchase natural gas from suppliers other than their local utility. Efforts are underway to make it easier for smaller natural gas customers to do the same. In addition, the Public Service Commission of Wisconsin has been studying how to deregulate the state's electric supply. We believe electric deregulation inside Wisconsin is at least several years off as the state is focused on improving reliability by building more generation and transmission facilities and creating fair market rules. As electric choice occurs, we believe we will lose some generation load, which could negatively impact future cash flows, but will retain the delivery revenues and margin. Also, the capacity that is freed up should be competitive in our marketplace. Deregulation of electricity is present in Michigan; however, no customers have chosen an alternative electric supplier and no alternative electric suppliers have offered to serve any customers in Michigan's Upper Peninsula due to the lack of transmission capacity in the areas we serve, which is a barrier to competitive suppliers entering the market.

In February 2004 the Michigan Public Service Commission issued an interim order providing electric rate relief to Detroit Edison in a manner that could negatively impact the competitive electric supply market in the area served by this utility. As a result of the interim order, customers of competitive electric suppliers will experience a decrease in cost savings compared to the bundled utility rate, potentially making electric choice less attractive to energy consumers. WPS Energy Services serves customers in the impacted area and therefore the interim order could negatively impact future electric revenues and margins at this business. We will work to obtain modifications to the interim order as the final rate order is not expected until September 2004.

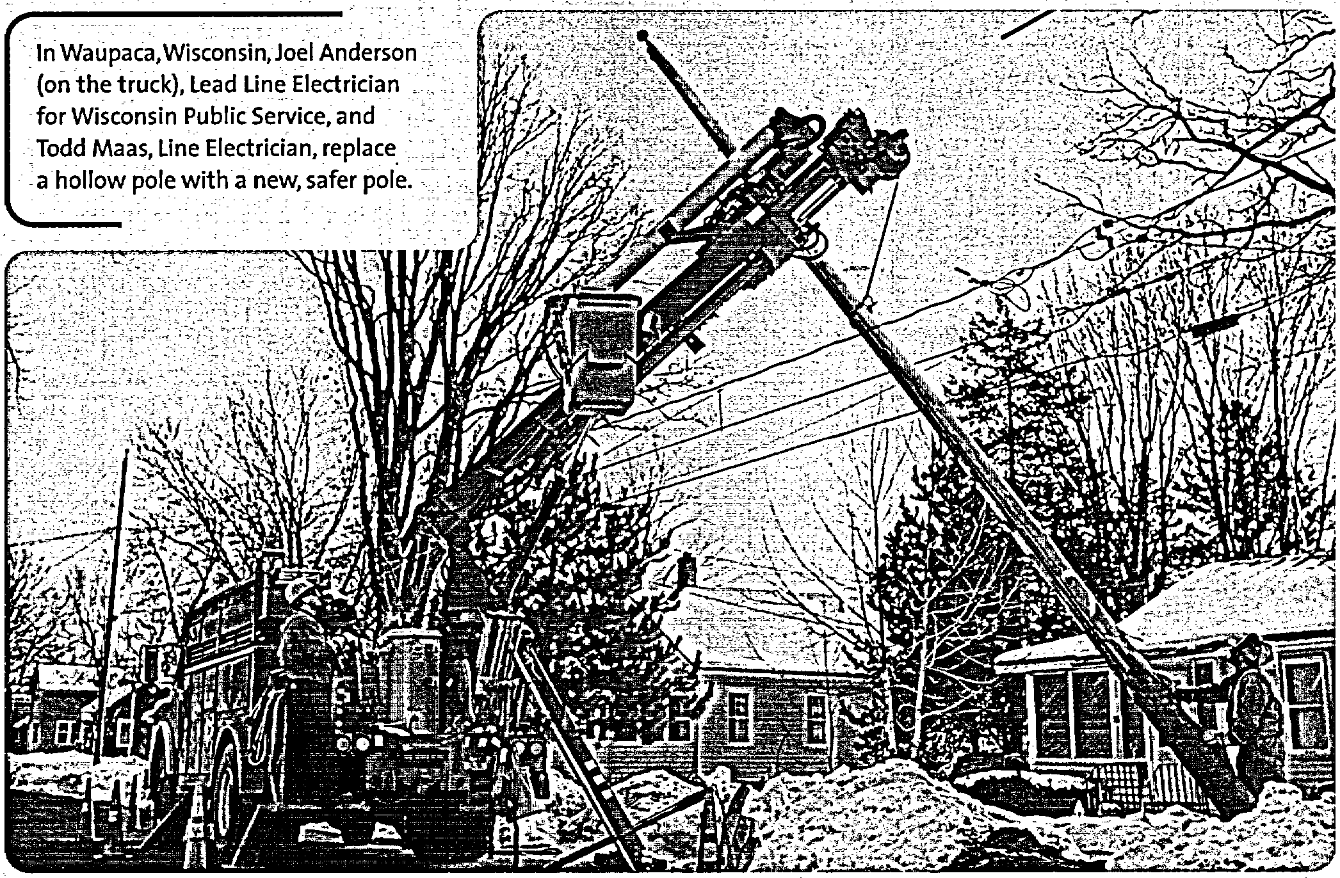
NEW ACCOUNTING PRONOUNCEMENTS

IMPACT OF ISSUE 02-03 ON WPS ENERGY SERVICES' REVENUES

As required, on January 1, 2003, WPS Energy Services adopted Issue No. 02-03. Upon adoption, Issue 02-03 required revenues related to derivative instruments classified as trading to be reported net of related cost of sales for all periods presented. Prior to January 1, 2003, WPS Energy Services classified all its activities as trading in accordance with the accounting standards in effect at that time. Consistent with the new accounting standards under Issue 02-03, effective January 1, 2003, WPS Energy Services classifies as trading activities only those transactions that at inception are intended to be settled in the near term with the objective of generating profits on short-term differences in prices. As a result of the change in the definition of trading, a larger portion of WPS Energy Services' business activities were classified as trading in 2002 than in 2003. Therefore, previously reported revenues for 2002 and 2001 have been reclassified to be shown net of cost of fuel, natural gas, and purchased power, while most 2003 revenues continue to be reported on a gross basis. The retroactive reclassification to net revenues and cost of sales for 2002 and 2001 trading activities resulted in a $1,127.4 million and $1,243.7 million decrease to WPS Resources' previously reported consolidated nonregulated revenues, respectively, and a corresponding $1,127.4 million and $1,243.7 million decrease to previously reported consolidated nonregulated cost of fuel, natural gas, and purchased power for the years ended December 31, 2002 and 2001, respectively. Neither margins, income, nor cash flows for 2002 were impacted by the reclassification of revenue upon adoption of Issue 02-03.

Leah Charbarneau, Collections Service Specialist in Rhinelander, Wisconsin, coordinates credit activities for a number of northern districts of Wisconsin Public Service.

In Waupaca, Wisconsin, Joel Anderson (on the truck), Lead Line Electrician for Wisconsin Public Service, and Todd Maas, Line Electrician, replace a hollow pole with a new, safer pole.



ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2003, WPS Resources adopted Statement No. 143. Under the new accounting standard, WPS Resources recognizes, at fair value, legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, or development and/or normal operation of the asset. The associated retirement costs are capitalized as part of the related long-lived asset and depreciated over their useful life. Legal retirement obligations identified for the regulated segments of WPS Resources relate primarily to the final decommissioning of the Kewaunee nuclear power plant. The nonregulated segments identified a legal retirement obligation related to the closure of an ash basin located at the Sunbury generation plant. The adoption of Statement No. 143 had no impact on the earnings or cash flows of the regulated segment as the effects were offset by the establishment of regulatory assets and liabilities pursuant to Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," and reduced earnings of the nonregulated segment by $0.3 million, recorded as a cumulative effect of change in accounting principle. Upon implementation of Statement No. 143 in the first quarter of 2003, we recorded a net asset retirement cost of $90.8 million (decreased to $78.5 million at December 31, 2003, due to depreciation being recorded) and an asset retirement obligation of $324.8 million upon adoption of Statement No. 143 (increased to $344.0 million at December 31, 2003, as a result of accretion being recorded). The difference between previously recorded liabilities of $290.5 million and the cumulative effect of adopting Statement No. 143 was deferred to a regulatory liability pursuant to Statement No. 71.

COSTS OF REMOVAL

The utility segments of WPS Resources recognize removal costs for utility assets. Historically, these removal costs were reflected as a component of depreciation expense and accumulated depreciation in accordance with regulatory treatment. The staff of the Securities and Exchange Commission recently expressed their views on the balance sheet classification of these costs of removal and required that the amounts be reclassified from accumulated depreciation to a liability. As a result, WPS Resources reclassified $463.3 million of removal costs from accumulated depreciation to nuclear decommissioning and other costs of removal at December 31, 2002. WPS Resources identified legal retirement obligations associated with the removal of certain utility assets upon implementation of Statement No. 143 in January 2003. Upon the adoption of Statement No. 143 on January 1, 2003, costs of removal with associated legal obligations of $290.5 million were removed from nuclear decommissioning and other costs of removal as these costs are now accounted for as asset retirement obligations. Costs of removal that were not identified as having an associated legal retirement obligation were reclassified from nuclear decommissioning and other costs of removal to a regulatory liability at December 31, 2003. Income available for common shareholders and cash flows were not impacted by this accounting change.

VARIABLE INTEREST ENTITIES

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin 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. On December 24, 2003, the Financial Accounting Standards Board issued a revision to Interpretation No. 46 ("46R") in order to clarify some of the provisions of Interpretation No. 46 and to exempt certain entities from its requirements. The effective implementation date of Interpretation No. 46 was also modified by Interpretation No. 46R. The application of Interpretation No. 46R was required for financial statements of public entities that have interests in special-purpose entities for periods ending after December 15, 2003. WPS Resources identified WPSR Capital Trust I as a special purpose entity that is within the scope of Interpretation No. 46R. See Note 15 – Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Preferred Stock Trust, for further discussion of the impacts of implementing this portion of Interpretation No. 46R on the financial statement of WPS Resources. For all other types of variable interest entities, the application of Interpretation No. 46R will be required in the first quarter of 2004. We do not anticipate a significant impact to the financial statements of WPS Resources in the first quarter of 2004 as a result of adopting the remaining provisions of Interpretation No. 46R.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003

In January 2004, the Financial Accounting Standards Board issued Staff Position (FSP) 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1 permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was signed into law on December 8, 2003. Regardless of whether a sponsor elects that deferral, the FSP required certain disclosures pending further consideration of the underlying accounting issues. In accordance with FSP 106-1, we have elected to defer accounting for the effects of this legislation until authoritative guidance on the accounting for the legislation is issued. Refer to Note 19 – Employee Benefit Plans for further information.

Impact of Inflation

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America 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, 2003, and 2002, 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, 2003, a hypothetical increase in market interest rates of 100 basis points in 2004 would increase annual interest expense by approximately $0.7 million and $0.1 million, respectively. Comparatively, based on the variable rate debt outstanding at December 31, 2002, an increase in interest rates of 100 basis points would have increased interest expense in 2003 by approximately $0.6 million and $0.3 million. These amounts were determined by performing a sensitivity analysis on the impact of a hypothetical 100 basis points increase in interest rates on the variable rate debt of WPS Resources and Wisconsin Public Service outstanding as of December 31, 2003, and 2002. This sensitivity analysis was performed assuming a constant level of variable rate debt during the period and an immediate increase in the levels 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 durations 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.

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 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.

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 $0.8 million at December 31, 2003, compared to $0.5 million at December 31, 2002. Our VaR amount for WPS Power Development was calculated to be $1.2 million at December 31, 2003, compared with $0.3 million at December 31, 2002. The increase for WPS Power Development was primarily due to increased volatility in our forward price curve for electricity. 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, 2003, the average, high, and low VaR amounts for WPS Energy Services were $0.5 million, $0.8 million, and $0.4 million, respectively. The same amounts for the year ended December 31, 2002, were $0.5 million, $0.7 million, and $0.4 million. For the year ended December 31, 2003, the average, high, and low VaR amounts for WPS Power Development were $0.7 million, $1.3 million, and $0.3 million, respectively. The same amounts for the year ended December 31, 2002, were $1.5 million, $3.2 million, and $0.3 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. WPS Resources maintains two main qualified pension plans. The pension liability for the Non-Administrative Employees Retirement Plan is currently over funded and no contributions to the plan are required. The pension liability for the Administrative Employees Retirement Plan has risen due to plan design changes and historically low interest rates. The liability of the Administrative Employees Retirement Plan exceeded the value of the Plan's assets by $64.9 million at December 31, 2003, and WPS Resources was, therefore, required to recognize a minimum pension liability as prescribed by SFAS No. 87. Declines in the equity markets or continued declines in interest rates may result in increased future pension costs for these plans 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 natural gas and electricity by our nonregulated subsidiaries. Forward foreign exchange contracts designated as fair value hedges are utilized to manage the risk associated with currency fluctuations on certain firm sales and sales commitments denominated in Canadian dollars and certain Canadian dollar denominated asset and liability positions. WPS Resources' exposure to foreign currency risk was not significant at December 31, 2003, or 2002.

Consolidated Statements of Income

Year Ended December 31 *(Millions, except per share data)*	2003	2002	2001
Nonregulated revenue	$3,137.6	$ 410.8	$ 370.5
Utility revenue	1,183.7	1,050.3	974.9
Total revenues	4,321.3	1,461.1	1,345.4
Nonregulated cost of fuel, gas, and purchased power	3,016.6	339.7	334.3
Utility cost of fuel, gas, and purchased power	532.3	419.0	444.6
Operating and maintenance expense	459.5	412.5	333.0
Depreciation and decommissioning expense	138.4	94.8	84.1
Taxes other than income	43.8	39.9	36.7
Operating income	130.7	155.2	112.7
Miscellaneous income	63.6	47.8	37.5
Interest expense and distributions on trust preferred securities	(55.6)	(55.8)	(53.4)
Minority interest	5.6	–	–
Other income (expense)	13.6	(8.0)	(15.9)
Income before taxes	144.3	147.2	96.8
Provision for income taxes	33.7	28.7	9.2
Income from continuing operations	110.6	118.5	87.6
Discontinued operations, net of tax	(16.0)	(6.0)	(6.9)
Net income before cumulative effect of change in accounting principles	94.6	112.5	80.7
Cumulative effect of change in accounting principles, net of tax	3.2	–	–
Net income before preferred stock dividends of subsidiary	97.8	112.5	80.7
Preferred stock dividends of subsidiary	3.1	3.1	3.1
Income available for common shareholders	$ 94.7	$ 109.4	$ 77.6
Average shares of common stock			
Basic	33.0	31.7	28.2
Diluted	33.2	32.0	28.3
Earnings per common share (basic)			
Income from continuing operations	$3.26	$3.64	$3.00
Discontinued operations	(0.49)	(0.19)	(0.25)
Cumulative effect of change in accounting principles	0.10	–	–
Earnings per common share (basic)	$2.87	$3.45	$2.75
Earnings per common share (diluted)			
Income from continuing operations	$3.24	$3.61	$2.99
Discontinued operations	(0.49)	(0.19)	(0.25)
Cumulative effect of change in accounting principles	0.10	–	–
Earnings per common share (diluted)	$2.85	$3.42	$2.74
Dividends per common share	$2.16	$2.12	$2.08

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)*	2003	2002
Assets		
Cash and cash equivalents	$ 50.7	$ 43.3
Restricted funds	3.2	4.2
Accounts receivable – net of reserves of $6.6 and $7.0, respectively	502.4	293.3
Accrued unbilled revenues	90.0	105.9
Inventories	178.3	110.3
Current assets from risk management activities	518.1	406.6
Assets held for sale	116.4	121.2
Other current assets	86.4	67.1
Current assets	1,545.5	1,151.9
Property, plant, and equipment, net	1,828.7	1,712.3
Nuclear decommissioning trusts	332.3	290.5
Regulatory assets	127.7	110.9
Long-term assets from risk management activities	104.3	135.3
Other	353.8	270.3
Total assets	$4,292.3	$3,671.2
Liabilities and Shareholders' Equity		
Short-term debt	$ 38.0	$ 29.8
Current portion of long-term debt	56.6	71.1
Note payable to preferred stock trust	51.5	–
Accounts payable	510.7	452.0
Current liabilities from risk management activities	517.3	443.8
Liabilities held for sale	2.7	0.6
Other current liabilities	86.9	53.1
Current liabilities	1,263.7	1,050.4
Long-term debt	871.9	824.4
Deferred income taxes	80.5	73.7
Deferred investment tax credits	17.7	19.3
Regulatory liabilities	304.4	49.7
Environmental remediation liabilities	37.9	40.2
Pension and postretirement benefit obligations	137.7	70.6
Long-term liabilities from risk management activities	92.2	109.7
Asset retirement obligations	344.0	–
Nuclear decommissioning and other costs of removal	–	463.3
Other	88.0	86.0
Long-term liabilities	1,974.3	1,736.9
Company-obligated mandatorily redeemable trust preferred securities of trust holding solely WPS Resources 7.00% subordinated debentures	–	50.0
Preferred stock of subsidiary with no mandatory redemption	51.1	51.1
Common stock equity	1,003.2	782.8
Total liabilities and shareholders' equity	$4,292.3	$3,671.2

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

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, 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 $1.8)	(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 $3.1)	(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)
Income available for common shareholders	94.7	94.7	–	–	–	94.7	–	–
Other comprehensive income – cash flow hedge (net of tax of $4.8)	7.2	7.2	–	–	–	–	–	7.2
Other comprehensive income – minimum pension liability (net of tax of $8.2)	(12.3)	(12.3)	–	–	–	–	–	(12.3)
Other comprehensive income – currency translation	0.1	0.1	–	–	–	–	–	0.1
Comprehensive income	$89.7	–	–	–	–	–	–	–
Issuance of common stock	–	197.7	–	4.8	191.8	–	1.1	–
Purchase of common stock	–	(1.0)	(1.0)	–	–	–	–	–
Dividends on common stock	–	(71.8)	–	–	–	(71.8)	–	–
Other	–	5.8	(0.1)	–	5.9	–	–	–
Balance at December 31, 2003	–	$1,003.2	$(6.5)	$36.8	$549.5	$438.8	$(0.4)	$(15.0)

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)*	2003	2002	2001
Operating Activities			
Net income before preferred stock dividends of subsidiary	$ 97.8	$112.5	$ 80.7
Adjustments to reconcile net income to net cash provided by operating activities			
Discontinued operations, net of tax	16.0	6.0	6.9
Depreciation and decommissioning	138.4	94.8	84.1
Amortization of nuclear fuel and other	42.4	46.5	11.1
Unrealized gain on investments	(38.7)	(1.7)	(8.1)
Deferred income taxes and investment tax credit	(0.4)	0.7	(33.0)
Unrealized losses on nonregulated energy contracts	10.4	5.3	14.4
Gain on sales of partial interest in synthetic fuel operation	(7.6)	(38.0)	(2.2)
Gain on sale of property, plant, and equipment	(7.1)	(0.8)	(14.9)
Cumulative effect of change in accounting principles, net of tax	(3.2)	–	–
Other	(13.3)	(9.6)	(10.7)
Changes in working capital, net of businesses acquired			
Receivables, net	(196.1)	(99.7)	84.0
Inventories	(79.9)	17.8	(42.1)
Other current assets	(29.6)	(6.2)	1.1
Accounts payable	102.8	59.1	(35.7)
Other current liabilities	30.5	1.8	8.5
Net cash operating activities	62.4	188.5	144.1
Investing Activities			
Capital expenditures	(176.2)	(210.3)	(244.3)
Sale of property, plant, and equipment	31.4	7.1	58.8
Purchase of equity investments and other acquisitions	(102.7)	(72.3)	–
Return of capital from equity investment	0.2	0.4	42.4
Dividends received from equity investment	7.8	7.1	3.5
Decommissioning funding	(3.0)	(2.6)	(2.6)
Other	(1.5)	5.2	7.4
Net cash investing activities	(244.0)	(265.4)	(134.8)
Financing Activities			
Short-term debt – net	14.7	3.9	(98.5)
Issuance of long-term debt	125.0	250.3	180.8
Repayment of long-term debt and capital lease	(87.7)	(129.6)	(64.7)
Payment of dividends			
Preferred stock	(3.1)	(3.1)	(3.1)
Common stock	(71.8)	(67.1)	(58.8)
Issuance of common stock	197.7	28.3	96.4
Purchase of common stock	(1.0)	(1.3)	(1.1)
Redemption of obligations acquired in purchase business combination	–	–	(17.9)
Other	24.8	11.7	0.5
Net cash financing activities	198.6	93.1	33.6
Change in cash and cash equivalents – continuing operations	17.0	16.2	42.9
Change in cash and cash equivalents – discontinued operations	(9.6)	(16.8)	(11.8)
Change in cash and cash equivalents	7.4	(0.6)	31.1
Cash and cash equivalents at beginning of year	43.3	43.9	12.8
Cash and cash equivalents at end of year	$ 50.7	$ 43.3	$ 43.9

The accompanying notes to WPS Resources Corporation's consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Education is clearly valued in our organization. Upper Peninsula Power encountered a shortage of trained electrical line technicians, so when an instructor at "Line School" unexpectedly dropped out, endangering the course, Jerry Le Page, Customer Service Manager, volunteered to help. He took a leave of absence to teach local people electrical line technicians' skills. He is teaching the Electrical Line Technician Program at the Midwest Skills Development Center in Michigan, and Upper Peninsula Power supports this endeavor by maintaining Jerry's benefit coverage.

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 to a portion of 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 is an electric generation company.

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) CONSOLIDATION BASIS OF PRESENTATION—The Consolidated Financial Statements include the accounts of WPS Resources Corporation and all majority owned subsidiaries, after eliminating significant intercompany transactions and balances. 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. The cost method of accounting is used for investments where WPS Resources owns less than 20% of the voting stock of the company, unless other evidence indicates we have significant influence over the operating and financial policies of the investee. Investments in businesses not controlled by WPS Resources Corporation, but over which we have significant influence over the operating and financial policies of the investee, are accounted for using the equity method. For additional information on our equity method investments see Note 10 – Investments in Affiliates, at Equity Method.

In the fourth quarter of 2003, certain assets and liabilities of WPS Power Development's Sunbury generation plant were reclassified as assets held for sale for all periods presented. The operating results for this business have been separately classified and reported as discontinued operations in the consolidated financial statements for all periods presented. Refer to Note 4 – Assets Held for Sale for more information.

(C) USE OF ESTIMATES—We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. 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.

(D) 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 2003, 2002, and 2001 was $21.9 million, $34.6 million, and $34.0 million, respectively. During 2003, 2002, and 2001, cash paid for interest totaled $57.9 million, $52.3 million, and $52.6 million, respectively.

Non-cash transactions were as follows:

(Millions)	2003	2002	2001
Restricted cash	$(1.0)	$(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	(12.3)	(2.7)	–
Exchange of transmission assets for equity interest in American Transmission Company	5.9	–	93.1
Exchange of common stock due to merger with Wisconsin Fuel and Light	–	–	54.8

(E) REVENUE AND CUSTOMER RECEIVABLES—Revenues are recognized on the accrual basis and include estimated amounts for electric and natural gas services rendered but not billed. Approximately 5.7% of WPS Resources' total revenue is from companies in the paper products industry.

Wisconsin Public Service and Upper Peninsula Power use automatic fuel and purchased power adjustment clauses for the Federal Energy Regulatory Commission wholesale electric and the Michigan Public Service Commission retail electric portions of the business. At Upper Peninsula Power most wholesale electric contracts are special contracts and have no automatic fuel and purchased power adjustment clauses. The Wisconsin retail electric portion of Wisconsin Public Service's business uses a "cost variance range" approach, based on a specific estimated fuel and purchased power cost for the forecast year. If

Wisconsin Public Service's actual fuel and purchased power costs fall outside this range, the Public Service Commission of Wisconsin can authorize an adjustment to future rates. Decreases to rates can be implemented without a hearing, unless requested by Wisconsin Public Service, Commission staff or interveners, while increases to rates would generally be subject to a hearing. For more information on current regulatory actions relating to the fuel and purchased power adjustment clauses see Note 23 – Regulatory Environment.

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 regulatory review process allows the Commission to review the changes for reasonableness.

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 November 2003 through October 2004. 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.

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 recognizes any over or under recovery currently in its revenues and the payable or receivable is recognized on the balance sheet until settlement. The deferrals are relieved with additional billings or refunds. At December 31, 2003, Upper Peninsula Power has also recorded regulatory assets related to costs associated with the flooding on the Dead River for which the Michigan Public Service Commission has authorized deferral.

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. With the January 1, 2003, adoption of Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," revenues related to derivative instruments classified as trading are reported net of related cost of sales for all periods presented. Therefore, previously reported revenues for derivatives classified as trading in 2002 and 2001 have been reclassified to be shown net of cost of fuel, natural gas, and purchased power, while most 2003 revenues continue to be reported on a gross basis – see Note 1(T) – Cumulative Effect of Change in Accounting Principles for more information. Neither margins nor income available for common shareholders were impacted by the reclassification of revenue upon adoption of Issue 02-03.

In accordance with the requirements of Emerging Issues Task Force Issue No. 02-03, WPS Energy Services' gross physical volumes of natural gas and electricity delivered in 2003, 2002, and 2001 are reported in the following tables:

WPS Energy Services' Gas Results	2003	2002	2001
Wholesale sales volumes in billion cubic feet *	252.4	233.8	242.8
Retail sales volumes in billion cubic feet *	240.6	135.7	104.5

** Represents gross physical volumes.*

WPS Energy Services' Electric Results *(Millions)*	2003	2002	2001
Wholesale sales volumes in kilowatt-hours *	2,768.0	4,250.0	1,696.6
Retail sales volumes in kilowatt-hours *	6,435.3	2,703.6	1,944.7

** Represents gross physical volumes.*

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 valued at the lower of cost or market unless hedged pursuant to a fair value hedge. Through December 2002, natural gas in storage for our nonregulated segments was marked to the current spot price under fair value accounting rules. To comply with new accounting requirements resulting from the rescission of Emerging Issues Task Force Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," we adopted the inventory valuation method described above for our nonregulated natural gas inventories effective January 1, 2003.

(G) 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 Resources evaluates its derivative contracts in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. 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. If the derivatives qualify for regulatory deferral subject to the provisions of Statement No. 71, "Accounting for the Effects of Certain Types of Regulation," the derivatives are marked to fair value pursuant to Statement No. 133 and are offset with a corresponding regulatory asset or liability. Prior to the adoption of Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," effective January 1, 2003, WPS Resources accounted for contracts in accordance with Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." See Note 1(T) – Cumulative Effect of Change in Accounting Principles for more information concerning the transition from Issue 98-10 to Statement No. 133.

Effective July 1, 2003, WPS Resources adopted Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Statement No. 149 codifies and clarifies financial accounting and reporting for derivative instruments and hedging activities under Statement No. 133, primarily in connection with decisions made by the Derivatives Implementation Group and for implementation issues raised in the application of Statement No. 133. Statement No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of Statement No. 149 did not have a significant impact on WPS Resources for 2003.

WPS Resources adopted Emerging Issues Task Force Issue 03-11, "Reporting Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement No. 133 and Not 'Held for Trading Purposes' as Defined in Issue No. 02-03," which resulted in recording revenues net of cost of fuel, gas, and purchased power for energy-related transactions that settle financially and for which the commodity does not physically transfer for arrangements entered into after October 1, 2003. Had we applied the provisions of Issue 03-11 to arrangements entered into prior to October 1, 2003, previously reported nonregulated revenue would have decreased $62.9 million for the nine months ending September 30, 2003, with a corresponding $62.9 million decrease to nonregulated cost of fuel, gas, and purchased power. Previously reported wholesale natural gas sales volumes for the nine months ending September 30, 2003, would have decreased 10.8 billion cubic feet. Application of the provisions of Issue 03-11 to arrangements entered into prior to October 1, 2003, would not have impacted the 2002 and 2001 financial statements or reported sales volumes. Neither margins, income, nor cash flows were impacted by the adoption of Issue 03-11.

In accordance with views recently expressed by the Securities and Exchange Commission staff, WPS Resources has reclassified mark-to-market gains and losses on derivative instruments not qualifying for hedge accounting as a component of revenues for all periods presented. The retroactive reclassification of the mark-to-market gains and losses did not have a significant impact on our financial statements and neither margins, income available for common shareholders, nor cash flows were impacted by the change.

(H) PROPERTY, PLANT, AND EQUIPMENT—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. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are considered operating expenses. The utility charges the cost of units of property retired, sold, or otherwise disposed of, less salvage, to the accumulated provision for depreciation.

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. On March 1, 2004, Wisconsin Public Service filed a request for new depreciation rates to be effective January 1, 2005. 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 for the Kewaunee nuclear power 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 depreciation methodology for the Kewaunee nuclear power 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 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	2003	2002	2001
Electric	3.63%	3.66%	3.23%
Gas	3.63%	3.59%	3.37%

Nonutility property interest capitalization takes place during construction, and gain and loss recognition occurs in connection with retirements. 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 pursuant to a business combination. The costs of renewals, betterments, and major overhauls are capitalized as an addition to plant. 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	3 to 10 years
Vehicles	5 years
Computer equipment	3 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.

(I) 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 as required by regulatory accounting.

Approximately 50% of Wisconsin Public Service's retail jurisdictional construction work-in-progress expenditures are subject to allowance for funds used during construction, except specific Public Service Commission of Wisconsin approved projects that could have a larger percent of expenditures subject to allowance for funds used during construction. For 2003, Wisconsin Public Service's allowance for funds used during construction retail rate was 9.61%.

Wisconsin Public Service's construction work-in-progress debt and equity percentages for wholesale jurisdictional electric allowance for funds used during construction are specified under a formula in the Federal Energy Regulatory Commission's Uniform System of Accounts. For 2003, the allowance for funds used during construction wholesale rate was 4.03%.

Upper Peninsula Power is subject to one allowance for funds used during construction rate. That rate is specified in a formula in the Federal Energy Regulatory Commission's Uniform System of Accounts, but limited by the Michigan Public Service Commission's allowed rate of return. For 2003, the allowance for funds used during construction rate was 2.5%. 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.

Wisconsin Public Service's allowance for equity funds used during construction for 2003, 2002, and 2001 were $2.4 million, $3.0 million, and $1.9 million, respectively. Wisconsin Public Service's allowance for borrowed funds used during construction for 2003, 2002, and 2001 were $1.0 million, $1.2 million, and $2.1 million, respectively. Upper Peninsula Power did not record allowance for funds used during construction for 2003, 2002, or 2001.

Our nonregulated subsidiaries 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.

(J) ASSET IMPAIRMENT—We review the recoverability of long-lived tangible and intangible assets, excluding goodwill and regulatory assets, using Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." Statement No. 144 requires review of assets when circumstances indicate that the carrying amount of the asset may not be recoverable. This evaluation is based on various analyses, including undiscounted cash flow projections. The carrying amount is not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

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 for 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 assets exceeds the future anticipated cash flows or the estimated fair value less cost to sell, respectively.

(K) REGULATORY ASSETS AND LIABILITIES—Wisconsin Public Service and Upper Peninsula Power are subject to the provisions of Statement of Financial Accounting Standards 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.

(L) GOODWILL AND OTHER INTANGIBLE ASSETS—On January 1, 2002, WPS Resources adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and amortization of goodwill was discontinued. There was no impairment of goodwill upon adoption of Statement No. 142. WPS Resources has elected to perform its annual impairment test during the second quarter of each year, updated whenever events or changes in circumstances indicate that goodwill might be impaired. Based upon the results of impairment testing performed in 2003, no impairment of goodwill was noted.

Other intangible assets with definite lives, consisting primarily of emission credits and customer related intangible assets, are amortized over periods from 1 to 30 years. For more information on WPS Resources' intangible assets, see Note 11 – Goodwill and Other Intangible Assets.

(M) 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.

(N) RESEARCH AND DEVELOPMENT—The only member of WPS Resources' consolidated entity that incurs significant research and development costs is Wisconsin Public Service. Electric research and development expenditures for Wisconsin Public Service totaled $0.6 million for 2003, $0.3 million for 2002, and $1.1 million for 2001.

(O) ASSET RETIREMENT OBLIGATIONS—Effective January 1, 2003, WPS Resources adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." Under the new accounting standard, WPS Resources recognizes, at fair value, legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development and/or normal operation of the asset. The associated retirement costs are capitalized as part of the related long-lived asset and depreciated over the useful life of the asset. For the utility segments of WPS Resources, we believe it is probable that any differences between expenses under Statement No. 143 and expenses currently recovered through customer rates will be recoverable in future customer rates. Accordingly, the adoption of this statement had no impact on the utility segment's income as the effects were offset by the establishment of regulatory assets or liabilities pursuant to Statement No. 71. Refer to Note 16 – Asset Retirement Obligations for additional information on Statement No. 143.

(P) 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 and Upper Peninsula Power, certain adjustments made to deferred income taxes are, in turn, recorded as regulatory assets or liabilities.

Investment tax credits, which have been used to reduce our federal income taxes payable, have been deferred for financial reporting purposes. These deferred investment tax credits are being amortized over the useful lives of the property to which they are related.

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. Section 29 tax credits are currently scheduled to expire at the end of 2007. Tax credits that are not utilized to reduce tax expense as a result of alternative minimum tax rules relating to United States federal income taxes are carried forward as alternative minimum tax credits to reduce current tax expense in future years. Under current federal law, alternative minimum tax credits do not expire.

WPS Resources files a consolidated United States income tax return that includes domestic subsidiaries in which its ownership is 80 percent 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.

(Q) EXCISE TAXES—WPS Resources presents revenue net of pass-through taxes on the Consolidated Statements of Income.

(R) GUARANTEES—Effective January 1, 2003, WPS Resources adopted the provisions of Financial Accounting Standards Board 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.

At December 31, 2003, Wisconsin Public Service had an outstanding guarantee to indemnify a third-party for certain exposures related to the construction of utility assets. In the event that the construction project is not completed, Wisconsin Public Service agreed to reimburse the guaranteed party for certain unrecovered costs. At December 31, 2003, the guarantee carries a maximum exposure of $5.5 million. A liability for the fair value of this obligation was not recognized in the Consolidated Balance Sheets of Wisconsin Public Service, because the guarantee was issued prior to the effective date for initial measurement and recognition as defined by Interpretation No. 45.

(S) STOCK OPTIONS—At December 31, 2003, WPS Resources had three stock option plans, which are described more fully in Note 22 – 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 compensation cost for stock options is reflected in income available for common shareholders, 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 following table illustrates the effect on income available for common shareholders and earnings per share if we had applied the fair value recognition provisions of FASB Statements No. 123, "Accounting for Stock Based Compensation," to employee stock options.

(Millions, except per share amounts)	2003	2002	2001
Income available for common shareholders			
As reported	$94.7	$109.4	$77.6
Deduct: Total stock option employee compensation expense determined under fair value method for all awards, net of related tax effects	(0.5)	(0.5)	(0.3)
Pro forma	$94.2	$108.9	$77.3
Basic earnings per common share			
As reported	$2.87	$3.45	$2.75
Pro forma	2.85	3.44	2.74
Diluted earnings per common share			
As reported	$2.85	$3.42	$2.74
Pro forma	2.84	3.40	2.73

(T) CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES—WPS Energy Services had been applying the accounting standards of Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities," from the first quarter of 2000 until this standard was rescinded by Issue 02-03 in October 2002. WPS Energy Services was defined as a trading company under Issue 98-10 and was required to mark all of its energy related contracts to market. On October 25, 2002, the Emerging Issues Task Force rescinded Issue 98-10, thus precluding mark-to-market accounting for energy trading contracts entered into after that date that are not derivatives and requiring a cumulative change in accounting principle to be recorded effective January 1, 2003, for all nonderivative contracts entered into on or prior to October 25, 2002. On January 1, 2003, WPS Resources recorded an after-tax cumulative effect of a change in accounting principle of

$3.5 million (primarily related to the operations of WPS Energy Services) to increase income available for common shareholders as a result of removing from its balance sheet the mark-to-market effects of those contracts entered into on or prior to October 25, 2002, that do not meet the definition of a derivative under Statement No. 133. The cumulative effect of adopting this new accounting standard is expected to reverse upon the settlement of the contracts impacted by the standard. Most of this reversal is expected to occur in 2004. The required change in accounting had no impact on the underlying economics or cash flows of the contracts.

In addition, the adoption of Statement No. 143 at WPS Power Development resulted in a $0.3 million negative after-tax cumulative effect of change in accounting principle related to recording a liability for the closure of an ash basin at the Sunbury generating plant.

(U) RECLASSIFICATIONS—We reclassified certain prior year financial statement amounts to conform to the current year presentation.

(V) NEW ACCOUNTING PRONOUNCEMENTS—In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin 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. The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives the majority of the expected residual returns of the variable interest entity's activities. On December 24, 2003, the Financial Accounting Standards Board issued a revision to Interpretation No. 46 ("46R") in order to clarify some of the provisions of Interpretation No. 46 and to exempt certain entities from its requirements. The effective implementation date of Interpretation No. 46 was also modified by Interpretation No. 46R. The application of Interpretation No. 46R was required for financial statements of public entities that have interests in special-purpose entities for periods ending after December 15, 2003. WPS Resources identified WPSR Capital Trust I as a special purpose entity that is within the scope of Interpretation No. 46R. Refer to Note 15 – Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Preferred Stock Trust for further discussion of the impacts of implementing this portion of Interpretation No. 46R on the financial statement of WPS Resources. For all other types of variable interest entities, the application of Interpretation No. 46R will be required in the first quarter of 2004.

WPS Resources has not identified any material variable interest entities created, or interests in variable entities obtained, after January 31, 2003, that require consolidation or disclosure under the Financial Accounting Standard Board's Interpretation No. 46R and continues to assess the existence of any interests in variable interest entities, not classified as special purpose entities, created on or prior to January 31, 2003. WPS Resources currently anticipates that we will disclose information about a variable interest entity upon implementation of Interpretation No. 46R in the first quarter of 2004. Through an affiliate of WPS Power Development, Inc., WPS Resources owns a partial interest in a synthetic fuel production facility located in Kentucky and receives tax credits pursuant to Section 29 of the Internal Revenue Code based on sales to unaffiliated third-party purchasers of synthetic fuel produced from coal. At December 31, 2003, WPS Resources had a 23% ownership interest in the synthetic fuel facility. WPS Resources' maximum exposure to loss as a result of our involvement with this potential variable interest entity is limited to our investment in the entity, which is not significant at December 31, 2003. Currently, we do not believe that WPS Resources is the primary beneficiary of this entity and do not anticipate consolidation of the synthetic fuel facility upon adoption of Interpretation No. 46R in the first quarter of 2004.

The utility segments of WPS Resources recognize removal costs for utility assets. Historically these removal costs have been reflected as a component of depreciation expense and accumulated depreciation in accordance with regulatory treatment. The staff of the Securities and Exchange Commission has recently expressed their views on the balance sheet presentation of these removal costs for the utility industry and has required that the amounts be reclassified from accumulated depreciation to a liability for all years presented. As a result, WPS Resources reclassified $463.3 million from accumulated depreciation to nuclear decommissioning and other costs of removal at December 31, 2002. Of the total amount reclassified, Wisconsin Public Service recorded $451.6 million. Upon adoption of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" on January 1, 2003, costs of removal with associated legal retirement obligations of $290.5 million were removed from nuclear decommissioning and other costs of removal as these costs are now

Our commitment to being a world-class energy provider includes environmental responsibility. Connie Lawniczak (left) manages our environmental programs and environmental health and remediation. Shirley Scharff (right) is one of our Environmental Consultants and also manages our lab and chemical procedures.

accounted for as asset retirement obligations. Refer to Note 16 – Asset Retirement Obligations for more information on costs of removal with associated legal obligations. At December 31, 2003, WPS Resources reclassified $180.0 million of costs of removal that were determined to not have an associated legal obligation from nuclear decommissioning and other costs of removal to regulatory liability pursuant to Statement No. 71. Wisconsin Public Service reclassified $167.9 million of costs of removal that were determined to not have an associated legal obligation.

NOTE 2—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 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:

	2003		2002	
(Millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 50.7	$ 50.7	$ 43.3	$ 43.3
Restricted cash	3.2	3.2	4.2	4.2
Energy conservation loans	1.9	1.9	2.2	2.2
Nuclear decommissioning trusts	332.3	332.3	290.5	290.5
Nuclear decommissioning trusts – other assets	22.5	22.5	13.0	13.0
Notes payable	10.0	10.0	13.8	13.8
Commercial paper	28.0	28.0	16.0	16.0
Note payable to preferred stock trust	51.5	51.5	–	–
Trust preferred securities	–	–	50.0	51.1
Long-term debt	931.2	1,014.7	898.1	970.6
Preferred stock	51.1	49.1	51.1	45.5
Risk management activities – net	12.9	12.9	(11.6)	(11.6)

NOTE 3—RISK MANAGEMENT ACTIVITIES

UTILITY SEGMENT

Wisconsin Public Service has entered into a limited number of natural gas and electric purchase contracts with customers that are accounted for as derivatives. The Public Service Commission of Wisconsin approved recognizing a regulatory asset or liability for the fair value of derivative amounts as a result of these contracts pursuant to Statement No. 71. Thus, management believes any gains or losses resulting from the eventual settlement of these contracts will be collected from or refunded to customers. As of December 31, 2003, we have recorded an asset from risk management activities of $8.4 million related to these contracts. We 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 at December 31, 2002.

NONREGULATED SEGMENTS

Our nonregulated segments have also entered into contracts that are accounted for as derivatives under the provisions of Statement No. 133, as amended. At December 31, 2003, those derivatives not designated as hedges are primarily commodity contracts used to manage price risk associated with wholesale and retail natural gas purchase and sale activities and electric energy contracts. Changes in the fair value of the non-hedge derivatives are recognized currently in earnings. At December 31, 2003, the fair value of these contracts is recorded as an asset from risk management activities of $578.1 million and a liability from risk management activities of $582.1 million. At December 31, 2002, we recorded an asset from risk management activities of $25.5 million and a liability from risk management activities of $23.2 million for those contracts entered into after October 25, 2002, that qualified as derivatives and were not designated as hedges. Commodity contracts entered into before October 25, 2002, were accounted for as energy trading contracts under Issue 98-10 at December 31, 2002. At December 31, 2002, WPS Energy Services recorded an asset from risk management activities of $514.9 million and a liability from risk management activities of $516.4 million related to energy trading contracts accounted for under Issue 98-10.

Our nonregulated segments also enter into derivative contracts that are designated as either fair value or cash flow hedges. Fair value hedges are used to mitigate the risk of changes in prices of natural gas held in inventory and changes in fair value of foreign currency. The changes in the fair value of these hedges are recognized currently in earnings as are the changes in fair value of the hedged items. To the extent that the fair value hedge is fully effective, there is no impact on earnings. At December 31, 2003, the fair value of contracts designated as fair value hedges, excluding foreign exchange contracts, are recorded as an asset from risk management activities of $0.3 million and a liability from risk management activities of $4.0 million. Fair value hedge ineffectiveness recorded in nonregulated cost of fuel, gas, and purchased power on the Consolidated Statement of Income was not significant during 2003. At December 31, 2002, those contracts designated as fair value hedges were not significant.

Forward foreign exchange contracts designated as fair value hedges are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in Canadian dollars and certain Canadian dollar denominated asset and liability positions. The terms of our forward foreign exchange contracts are consistent with the terms of the underlying transactions, generally one year or less. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-U.S. dollar denominated assets and liabilities are recognized in earnings and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding at December 31, 2003, are recorded as an asset from risk management activities of $10.6 million and a liability from risk management activities of $4.3 million and were not significant at December 31, 2002. All of the foreign exchange contracts designated as fair value hedges were determined to be perfectly effective.

Cash flow hedges consist of commodity contracts associated with our energy marketing activities and an interest rate swap. At December 31, 2003, the fair value of commodity contracts designated as cash flow hedges is recorded as an asset from risk management activities of $25.0 million and a liability from risk management activities of $9.0 million. These cash flow hedges extend through December 2005. The majority of the commodity contracts were determined to be perfectly effective; therefore, the changes in the values of these contracts are included in other comprehensive income, net of deferred taxes. Amounts recorded in other comprehensive income related to these cash flow hedges will be recognized in earnings as the related contracts are settled or if the hedged transaction is discontinued. Through December 31, 2004, $6.3 million is expected to be recognized in earnings. The portion of these contracts that was determined to be ineffective was not significant at December 31, 2003, and was recorded as a component of nonregulated cost of fuel, gas, and purchased power. When testing for effectiveness, no portion of the derivative instruments was excluded. At December 31, 2002, those commodity contracts designated as cash flow hedges were not significant.

The interest rate swap designated as a cash flow hedge is used to fix the interest rate for the full term of a variable rate loan due in March 2018. At December 31, 2003, we recorded a liability from risk management activities of $10.1 million related to this swap. At December 31, 2002, we recorded a liability from risk management activities of $12.7 million related to this swap. Because the swap was determined to be perfectly effective, the changes in the value of this contract are included in other comprehensive income, net of deferred taxes. Amounts recorded in other comprehensive income related to this swap will be recognized as expense as the interest is paid. Through December 31, 2004, $2.2 million is expected to be expensed, assuming interest rates comparable to those at December 31, 2003. We did not exclude any components of the derivative instrument's loss from the assessment of hedge effectiveness.

NOTE 4—ASSETS HELD FOR SALE

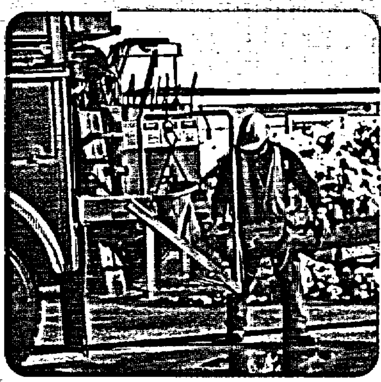
On October 24, 2003, WPS Power Development entered into a definitive agreement to sell its Sunbury generation plant located in Pennsylvania. This facility currently sells power on a wholesale basis, and provides energy for a 200-megawatt around-the-clock outtake contract that expires on December 31, 2004. The sale will enable WPS Resources to reduce uncontracted merchant exposure and redeploy capital into markets with different risk profiles. Based on the terms of the asset sale agreement, the sale price is anticipated to be approximately $120 million, subject to various working capital adjustments. WPS Power Development is also separately negotiating the sale of certain silt reserves that were utilized in the operations of the Sunbury generation plant.

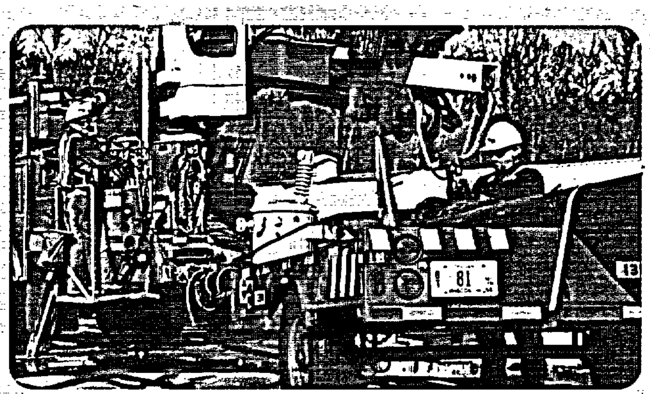
At December 31, 2003, and 2002, respectively, the assets and liabilities associated with the Sunbury generation plant that will be transferred to the buyer as well as certain silt reserves have been classified as held for sale in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Statement No. 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 cease being depreciated. No adjustments to write down assets held for sale were required in 2003. WPS Resources plans to complete the sale of the Sunbury generation plant and certain silt reserves in 2004 and, therefore, the assets and liabilities recorded as held for sale are classified as current assets and current liabilities, respectively, in the Consolidated Balance Sheets. The major classes of assets and liabilities held for sale are as follows at December 31:

(Millions)	2003	2002
Inventories	$ 4.2	$ 7.8
Other current assets	5.1	5.2
Property, plant, and equipment, net	71.5	70.7
Other assets (includes emission credits)	35.6	37.5
Assets held for sale	$116.4	$121.2
Other current liabilities	$ 0.6	$ 0.6
Asset retirement obligations	2.1	–
Liabilities held for sale	$ 2.7	$ 0.6

WPS Power Development financed Sunbury with equity from WPS Resources and debt financing, including non-recourse debt and a related interest rate swap. The interest rate swap is designated as a cash flow hedge and, as a result, the mark-to-market loss has been recorded as a component of other comprehensive income. If management determines that the hedged transactions (i.e. future interest payments on the debt) will not continue after the sale, WPS Resources will be required to recognize the amount accumulated within other comprehensive income ($6.1 million at December 31, 2003) currently in earnings. No such determination has been made at December 31, 2003.

WPS Power Development has an obligation to service a 200-megawatt outtake contract through December 31, 2004. WPS Power Development entered into the contract in conjunction with the acquisition of the Sunbury generating assets. At December 31, 2003, WPS Power Development has hedged its obligation to service its 200-megawatt outtake contract subsequent to the date of the anticipated sale of Sunbury (estimated to be August 31, 2004). The revenues from the outtake contract are $2.7 million less than





When poles are hollow or rotten, Line Electricians quickly replace them with new, safer poles. On the left, Bernard Gauthier, Jr., in Wausaukee, Wisconsin, discards a damaged pole. On the right, Jim Fischer and Bernard (right) know the importance of doing any job safely.

the hedged cost of purchased power. This loss will be included as a component of the loss from discontinued operations in the Consolidated Statements of Income when realized. The amount of the loss is subject to change if the sale does not close on August 31, 2004.

A summary of the components of discontinued operations recorded in the Consolidated Statements of Income for the years ended December 31 was as follows:

(Millions)	2003	2002	2001
Nonregulated revenue	$ 81.2	$ 87.2	$ 86.4
Operating expenses	(97.7)	(91.3)	(91.8)
Interest expense	(6.2)	(5.8)	(5.9)
Loss before taxes	(22.7)	(9.9)	(11.3)
Income tax benefit	(6.7)	(3.9)	(4.4)
Discontinued operations, net of tax	$(16.0)	$ (6.0)	$ (6.9)

Interest expense represents the nonrecourse term loans directly related to Sunbury.

In 2001, a consolidated subsidiary of WPS Resources sold electricity to our discontinued operations for $3.4 million. Sales between this subsidiary and our discontinued operations did not occur in 2003 or 2002, and we have determined that similar sales will continue with third parties after the discontinuance; therefore, the $3.4 million sales price is reflected in continuing operations in 2001. The market value of the related party sales was $4.3 million in 2001.

A summary of the components of cash used in discontinued operations recorded in the Consolidated Statements of Cash Flows for the years ended December 31 is as follows:

(Millions)	2003	2002	2001
Net cash operating activities	$(3.2)	$ 5.5	$ (1.2)
Net cash investing activities	(3.4)	(19.4)	(4.5)
Net cash financing activities	(3.0)	(2.9)	(6.1)
Change in cash and cash equivalents	$(9.6)	$(16.8)	$(11.8)

During 2003, 2002, and 2001 cash paid for interest associated with the non-recourse debt of discontinued operations was $5.5 million, $5.8 million, and $6.2 million, respectively.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following utility, nonutility, and nonregulated assets.

(Millions)	2003	2002
Electric utility	$2,288.9	$2,058.8
Gas utility	457.2	427.3
Total utility plant	2,746.1	2,486.1
Less: Accumulated depreciation	1,200.8	1,079.4
Net	1,545.3	1,406.7
Construction in progress	89.3	101.8
Nuclear fuel, less accumulated amortization	20.3	24.6
Net utility plant	1,654.9	1,533.1
Nonutility plant	20.3	19.1
Less: Accumulated depreciation	4.9	4.4
Net nonutility plant	15.4	14.7
Electric nonregulated	161.2	158.3
Gas nonregulated	7.0	6.9
Other nonregulated	20.8	20.4
Total nonregulated property, plant, and equipment	189.0	185.6
Less: Accumulated depreciation	30.6	21.1
Net nonregulated property, plant, and equipment	158.4	164.5
Total property, plant, and equipment	$1,828.7	$1,712.3

NOTE 6—ACQUISITIONS AND SALES OF ASSETS

SALE OF HYDROELECTRIC PROJECTS

Wisconsin Public Service sold 542 acres of land near the Peshtigo River to the Wisconsin Department of Natural Resources in 2003 for $6.5 million as part of a multi-phase agreement reached between the parties in 2001. Under the terms of the 2001 agreement, the Department of Natural Resources bought more than 5,000 acres of land for $13.5 million in 2001 and has an option to purchase an additional 179 acres in 2004 for approximately $5 million (in March 2004, the Wisconsin Department of Natural Resources exercised this option). Pending the close of the third and final phase of the agreement in 2004, Wisconsin Public Service will donate an additional 5,176 acres to the state. The sale is a part of our asset management strategy.

WAUSAU, WISCONSIN, TO DULUTH, MINNESOTA, TRANSMISSION LINE

On April 18, 2003, the Public Service Commission of Wisconsin approved Wisconsin Public Service's request to transfer its interest in the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to the American Transmission Company. American Transmission Company is a for-profit transmission-only company created by the transfer of transmission assets previously owned by multiple electric utilities serving the upper Midwest in exchange for an ownership interest in the company. Wisconsin Public Service sold, at book value, approximately $20.1 million of assets related to the Wausau to Duluth transmission line to American Transmission Company in June 2003. No gain or loss was recognized on the transaction. In 2003, WPS Resources invested $14.0 million in American Transmission Company, related to its agreement to fund approximately half of the Wausau, Wisconsin, to Duluth, Minnesota, transmission line. In December 2003, Wisconsin Public Service also transferred other transmission assets to American Transmission Company, increasing its investment an additional $5.9 million. At December 31, 2003, WPS Resources' ownership interest in American Transmission Company was 19.8%. Our investment in American Transmission Company is described more fully in Note 10 – Investments in Affiliates, at Equity Method.

GUARDIAN PIPELINE

On May 30, 2003, WPS Resources purchased a one-third interest in Guardian Pipeline, LLC, from CMS Gas Transmission Company for approximately $26 million. Guardian Pipeline owns a natural gas pipeline, which began operating in 2002, that stretches about 140 miles from near Joliet, Illinois, into southern Wisconsin. The pipeline can transport up to 750 million cubic feet of natural gas daily. Our interest in Guardian Pipeline, LLC, is accounted for as an equity method investment and is described more fully in Note 10 – Investments in Affiliates, at Equity Method. As the consideration paid for Guardian Pipeline approximates the underlying equity in the net assets of this investment, no purchase accounting adjustments were required. This pipeline improves natural gas price competition in Wisconsin and is critical to natural gas reliability in the state.

SUNBURY

As discussed in Note 4 – Assets Held for Sale, WPS Power Development entered into a definitive agreement on October 24, 2003, to sell its Sunbury generation plant for approximately $120 million, subject to certain working capital adjustments. The assets and liabilities of the Sunbury generation plant that will be transferred to the buyer in this transaction have been classified as held for sale on the Consolidated Balance Sheets and the operations and cash flows related to the operations of the Sunbury generation plant that will be eliminated upon the date of sale have been classified as discontinued operations within the Consolidated Statements of Income and Consolidated Statements of Cash Flows, respectively.

KEWAUNEE NUCLEAR POWER PLANT

On November 7, 2003, Wisconsin Public Service entered into a definitive agreement to sell its 59% ownership interest in the Kewaunee nuclear power plant to a subsidiary of Dominion Resources, Inc. The other joint owner of Kewaunee, Wisconsin Power and Light Company, also agreed to sell its 41% ownership interest in Kewaunee to Dominion. The transaction is subject to approval from various regulatory agencies, including the Public Service Commission of Wisconsin, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and several other state utility regulatory agencies and is projected to close in 2004. Approval has already been obtained from the Iowa Public Utility Commission.

Wisconsin Public Service estimates that its share of the cash proceeds from the sale will approximate $130 million, subject to various post-closing adjustments. The cash proceeds from the sale are expected to slightly exceed the carrying value of the Wisconsin Public Service assets being sold. In addition to the cash proceeds, Wisconsin Public Service will retain ownership of the assets contained in its non-qualified decommissioning trust, one of two funds that were established to cover the eventual decommissioning of Kewaunee. The pre-tax fair value of the non-qualified decommissioning trust's assets at December 31, 2003, was $115.1 million. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive Wisconsin Public Service's qualified decommissioning trust assets that had a fair value of $239.7 million at December 31, 2003. Wisconsin Public Service will request deferral of the gain expected to result from this transaction and related costs from the Public Service Commission of Wisconsin. Accordingly, Wisconsin Public Service anticipates most of the gain on the sale of the plant assets and the related non-qualified decommissioning trust assets will be returned to customers under future rate orders. As of December 31, 2003, Wisconsin Public Service's share of the carrying value of assets and liabilities included within the sale agreement were as follows:

(Millions)	2003
Property, plant, and equipment, net	$421.8
Other current assets	5.2
Total assets	$427.0
Regulatory liabilities	$ (25.7)
Asset retirement obligations	343.6
Total liabilities	$317.9

The assets and liabilities disclosed above do not meet the criteria to be classified as held for sale on the Consolidated Balance Sheets under the provisions of FASB Statement No. 144 due to uncertainties inherent in the regulatory approval process.

Upon the closing of the sale, Wisconsin Public Service will enter into a long-term power purchase agreement with Dominion to purchase energy and capacity equivalent to the amounts that would have been received had current ownership in the Kewaunee nuclear power plant continued. The power purchase agreement, which also will require regulatory approval, will extend through 2013 when the plant's current operating license will expire. Fixed monthly payments under the power purchase agreement will approximate the expected costs of production had Wisconsin Public Service continued to own the plant. Therefore, management believes that the sale of Kewaunee and the related power purchase agreement will provide more price certainty for Wisconsin Public Service's customers and reduce our risk profile.

QUEST ENERGY, LLC

Through 2002, WPS Resources provided financial support and energy supply services to a third party, Quest Energy, LLC, a Michigan limited liability company that markets electric power to retail customers in Michigan. Financial support was in the form of wholesale electric sales extended without generally required credit assurances, an interest-bearing note including an equity conversion option with an initial maturity date of May 2005, and trade credit indebtedness, all secured by the assets of Quest. WPS Energy Services reported revenues related to wholesale electric sales to Quest of $1.4 million in 2002 and $0.3 million in 2001. WPS Resources assigned the equity conversion option to WPS Energy Services on January 29, 2003, and WPS Energy Services acquired a 100% ownership interest in Quest. Prior to the acquisition, 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. WPS Energy Services utilized the purchase accounting method to account for this acquisition. There was no cash consideration paid; therefore, the purchase price of $0.7 million was equivalent to the carrying value of the note receivable from Quest on December 31, 2002. There was no goodwill recorded in this acquisition, as the purchase price approximated the fair value of the acquired assets and liabilities.

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. Prior to this purchase, the power from the De Pere Energy Center was under long-term contract to Wisconsin Public Service and was accounted for as a capital lease. This power purchase agreement required Calpine to expand the facility in the future. The power purchase agreement became uneconomical in the current market. Concurrent with the purchase, the long-term power purchase contract was terminated. The $120.4 million purchase included a $72.0 million payment upon closing and a $48.4 million payment in December 2003. As a result of the purchase, the capital lease obligation was reversed and the difference between the capital lease asset and the $120.4 million purchase price was recorded as a regulatory asset. Of the $47.8 million regulatory asset initially recorded, $45.6 million is under the jurisdiction of the Public Service Commission of Wisconsin and will be amortized over 20 years beginning on January 1, 2004. Amortization of the remaining regulatory asset, which is under the jurisdiction of Federal Energy Regulatory Commission and the Michigan Public Service Commission, began in 2003 and will also occur over 20 years.

The transaction also includes a new power purchase agreement with Calpine's Fox Energy Center, which is currently under construction in Kaukauna, Wisconsin. The Fox Energy Center is being constructed as a 235-megawatt gas-fired facility and is scheduled for completion in June 2005. Wisconsin Public Service will purchase 150 megawatts of electricity from June 2005 through June 2006, increasing to an estimated 235 megawatts annually in 2006 through 2015 from this plant. The additional capacity is needed to serve expected growth in northeast Wisconsin. The new power purchase agreement is contingent on timely plant construction and does not meet the requirements of a capital lease.

ECO COAL PELLETIZATION #12

In November 2001, WPS Power Development, through its subsidiary ECO Coal Pelletization #12 LLC, entered into a transaction to acquire from its partner the remaining interest in the synthetic fuel producing facility (partially owned by ECO #12). 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 Statement of Income in 2002.

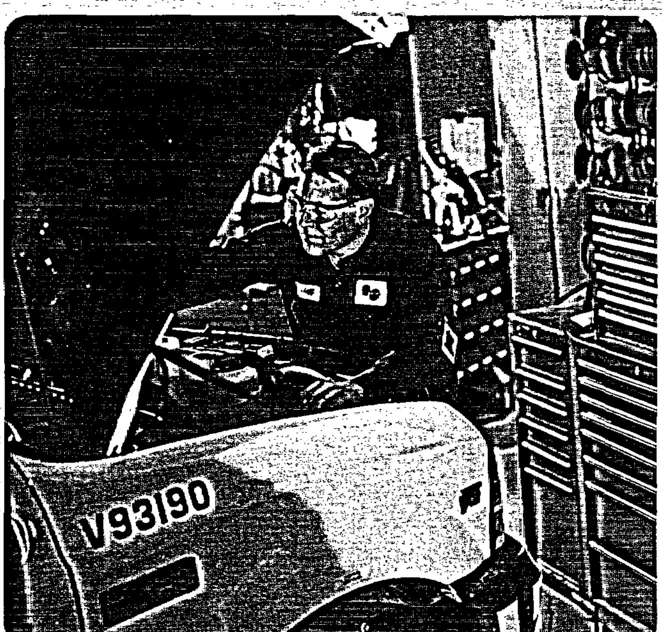
The actual payments for the purchase of the former partner's interest in ECO #12 were contingent upon the same provisions referred to above. As a result, $21.3 million was originally held in escrow and was released proportionately as the respective rescission rights and put options expired. As of December 31, 2002, this escrow had a balance of $3.5 million, $2.7 million of which was released in 2003 as the remaining contingencies, not related to the recognition of the deferred gain, expired. As a result of negotiations with our former partner, the remaining $0.8 million was released to WPS Power Development and recorded as a gain, within miscellaneous income, in 2003.

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. The buyer's share of losses generated from the synthetic fuel operation, $5.6 million in 2003, is recorded as minority interest in the Consolidated Statements of Income.

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), $1.9 million which was paid in 2003 and a projected payment of $1.9 million in 2004. A deferred gain of $9.2 million and $11.6 million was reflected on WPS Power Development's balance sheet at December 31, 2003, and 2002, respectively. This deferred gain represents the present value of future payments under the fixed note and the upfront cash payments net of transaction costs. It does not include an amount for the variable note, which is contingent upon the synthetic fuel production. Payments on the variable note are a function of fuel production and are recognized as a component of the gain when received. In 2003, a pre-tax gain in the amount of $7.6 million was recognized as a component of miscellaneous income related to this transaction. Similar gains are expected to result from this transaction through 2007. There was no gain recognized in 2002 from the 2002 sale.

CANADIAN RETAIL GAS BUSINESS

On November 1, 2002, WPS Energy Services entered into an agreement to purchase a book of retail gas business in the Canadian provinces of Quebec and Ontario. Consideration for the purchase consists of an earn-out to the seller based on a percentage of gross margin on the volume of natural gas delivered to certain customers during a two-year period ending October 31, 2004. The earn-out is equivalent to fixed percentages of gross margin realized over this two-year period for customers already under contract and for customers appearing on the acquired customer list who entered into a contract with WPS Energy Services subsequent to the date of purchase. Total consideration paid from the acquisition date through December 31, 2003, approximated $0.8 million. This transaction was accounted for using the purchase method of accounting; therefore, the results of operations are included in the financial statements presented for WPS Resources only since the acquisition date. There was no goodwill recorded in the acquisition as the purchase price approximated the fair value of the acquired assets and liabilities. The business is part of the operations of WPS Energy Services of Canada Corp., a subsidiary of WPS Energy Services, which was created in October 2002.



WPS EMPIRE STATE, INC.

Effective June 1, 2002, WPS Power Development acquired CH Resources, Inc. from Central Hudson Energy Services, Inc. The corporate name of CH Resources, Inc. was changed to WPS Empire State, Inc. WPS Empire State 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, accordingly 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 purchase price, including acquisition costs, was $61.1 million. There was no goodwill recorded in this acquisition, as the purchase price approximated the fair value of the acquired assets and liabilities.

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 NUCLEAR POWER PLANT

On September 24, 2001, Wisconsin Public Service acquired Madison Gas and Electric Company's 17.8% interest in the Kewaunee nuclear power 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 nuclear power 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 the assets of the remaining trust fund to a Wisconsin Public Service trust fund. This trust fund has been 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. See earlier discussion in this section for additional information related to the sale of the Kewaunee nuclear power plant.

Jeffrey Sievert, a Fleet Mechanic in the Wisconsin Public Service Wausaukee service center, helps keep our vehicles in top running order.

WISCONSIN FUEL AND LIGHT COMPANY

On April 1, 2001, Wisconsin Public Service completed a merger with Wisconsin Fuel and Light Company. Wisconsin Fuel and Light served residential, commercial, and industrial natural gas customers in Manitowoc and Wausau, Wisconsin. 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 within other assets on the Consolidated Balance Sheets. During 2001, Wisconsin Public Service amortized $0.6 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. In 2003, Wisconsin Public Service transferred $0.9 million from a regulatory acquisition premium (previously classified as property, plant, and equipment) to goodwill. See Note 11 – Goodwill and Other Intangible Assets for more information.

The remaining premium, $4.9 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.

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, 2003, is set forth below:

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.

(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 nameplate capacity (megawatts)	56.8	335.2	105.0	315.0
Utility plant in service	$18.0	$129.5	$28.8	$252.2
Accumulated depreciation	$ 7.5	$ 82.5	$16.9	$180.8
In-service date	1993	1975 and 1978	1969	1974

NOTE 8—NUCLEAR PLANT OPERATION

On November 7, 2003, Wisconsin Public Service and Wisconsin Power and Light Company entered into an agreement to sell the Kewaunee nuclear power plant to a subsidiary of Dominion Resources, Inc. The transaction is subject to approval from various regulatory agencies, including the Public Service Commission of Wisconsin, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, and several other state utility regulatory agencies and is projected to close in the second half of 2004. Approval has already been obtained from the Iowa Public Utility Commission. See Note 6 – Acquisitions and Sales of Assets for more information on the transaction.

The quantity of heat produced for the generation of electric energy by the Kewaunee nuclear power 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 2003, payments from Wisconsin Public Service to the Department of Energy totaled $2.3 million. During 2002 and 2001, payments totaled $2.5 million and $1.4 million, respectively.

On an interim basis, spent nuclear fuel storage space is provided at the Kewaunee nuclear power plant. Expenses associated with interim spent fuel storage at the Kewaunee nuclear power 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 $265.1 million at December 31, 2003, and $256.9 million at December 31, 2002.

For information on the depreciation policy for the Kewaunee nuclear power plant, see Note 1(H) – 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 nuclear power plant, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $3.0 million in 2003 and $2.6 million in both 2002 and 2001. In developing our decommissioning funding plan, we assumed a long-term after-tax earnings rate of approximately 5%.

At Upper Peninsula Power Company, the operating budget is carefully planned, with input from individuals in key areas. This includes, from left to right, Frank Stipech, UPPCO Operations Manager; Robert Edwards, Superintendent – Regional Generation; Dan Crane, Regional Account Executive; George Mrosz, Superintendent – Substation and Transmission Operations; Grant Larsen, Senior Business Consultant; and Gary Erickson, Vice President.

As of December 31, 2003, the market value of the external nuclear decommissioning trusts totaled $332.3 million.

As part of the anticipated sale of the Kewaunee nuclear power plant, Wisconsin Public Service will transfer its qualified nuclear decommissioning trust assets to Dominion. Wisconsin Public Service will retain the nonqualified trust assets, which totaled $115.1 million pre-tax ($92.6 million net of tax) at December 31, 2003. The funds collected from customers for the decommissioning obligation related to the nonqualified trust are expected to be refunded to customers in accordance with yet-to-be-determined regulatory guidelines. Also in conjunction with the anticipated sale, the Public Service Commission of Wisconsin suspended funding into the retail jurisdiction of Wisconsin Public Service's decommissioning trusts for 2004. For the wholesale jurisdiction, funding during 2004 will be $1.1 million.

In the fourth quarter of 2003, Wisconsin Public Service changed its investment strategy for its qualified trust and placed the assets in short-term investments. This was done to reduce volatility in the value of the trust for the anticipated transfer to Dominion at the time of closing of the Kewaunee sale. A condition of the sale specifies a minimum amount of qualified trust assets to be transferred. This liquidation and reinvestment resulted in a sizable increase in realized earnings for 2003 and a corresponding increase in depreciation expense. It also resulted in a sizable decrease in the percent of investments held in equity securities compared to prior years.

Investments in the nuclear decommissioning trusts are recorded at fair value. Investments at December 31, 2003, consisted of 27.9% equity securities and 72.1% fixed income securities. The investments 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. At December 31, 2003, the amount classified as other assets was $22.5 million. 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:

2003 Security Type *(Millions)*	Fair Value	Cost	Unrealized Gain
Fixed income	$239.7	$239.6	$ 0.1
Equity	92.6	59.1	33.5
Balance at December 31	$332.3	$298.7	$33.6

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

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 $38.7 million in 2003, $1.7 million in 2002, and $8.1 million in 2001. In 2002, unrealized gains and losses, net of taxes, in the external trusts were reflected as changes to the decommissioning reserve, since decommissioning expense is recognized as the gains and losses are realized, in accordance with regulatory requirements. The noncurrent liability for nuclear decommissioning and other costs of removal included an accumulated provision for decommissioning totaling $290.5 million at December 31, 2002. In 2003, the accumulated provision for decommissioning was removed from nuclear decommissioning and other costs of removal as these costs are now accounted for as asset retirement obligations in accordance with Statement No. 143 (see Note 1 (V) – New Accounting Pronouncements).

If the sale is not consummated, Wisconsin Public Service's share of the Kewaunee nuclear power plant decommissioning, based on its 59% ownership interest, is estimated to be $331 million in current (2003) 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 2037 is $929 million if the sale is not consummated. See Note 6 – Acquisitions and Sales of Assets for further discussion of the pending sale of the Kewaunee nuclear power plant.

Beginning January 1, 2003, we adopted Statement No. 143. 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 nuclear power plant as an asset retirement obligation and have recorded an asset retirement obligation of $343.6 million at December 31, 2003. 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 nuclear power plant refer to Note 16 – Asset Retirement Obligations.

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)*	2003	2002
Regulatory assets		
De Pere Energy Center	$ 47.7	$ 47.8
Environmental remediation costs (net of insurance recoveries)	41.0	40.0
Minimum pension liability	15.2	–
Deferred nuclear costs	4.9	7.9
Automated meter reading costs	4.5	2.6
Plant related costs	2.6	0.3
Funding for enrichment facilities	2.4	3.0
Unamortized loss on debt	1.4	2.1
Other	8.0	7.2
Total	$127.7	$110.9
Regulatory liabilities		
Cost of removal reserve	$180.0	$ –
Asset retirement obligations	66.9	–
Unrealized gain on decommissioning trust	22.5	13.0
Income tax related items	11.8	17.7
Derivatives	8.4	1.4
Demand-side management expenditures	5.3	5.9
Deferred gain on emission allowance sales	5.1	3.8
Deferred American Transmission costs	3.4	3.1
Interest from tax refunds	0.7	4.8
Other	0.3	–
Total	$304.4	$ 49.7

Our utility subsidiaries expect to recover their regulatory assets and return their regulatory liabilities through rates charged to customers based on specific ratemaking decisions or precedent for each item over periods specified by the regulators or over the normal operating period of the assets and liabilities to which they relate. 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 above.

See Note 6 – Acquisitions and Sales of Assets, Note 16 – Asset Retirement Obligations, Note 17 – Income Taxes, and Note 19 – Employee Benefit Plans for specific information on regulatory deferrals related to the De Pere Energy Center, asset retirement obligations and cost of removal, income taxes, and pensions. See Note 18 – 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, 2003 and 2002 follow.

(Millions)	2003	2002
American Transmission Company, LLC	$ 79.9	$57.5
Guardian Pipeline, LLC	27.4	–
Wisconsin River Power Company	12.8	9.6
Other	4.9	6.1
Investments in affiliates, at equity method	$125.0	$73.2

Investments in affiliates under the equity method are a component of 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 WPS Resources, had a 19.8% ownership interest in American Transmission Company, LLC, at December 31, 2003. American Transmission Company is a for-profit, transmission-only company. It owns, 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. During 2003, Wisconsin Public Service made additional contributions and sold the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to the American Transmission Company. See Note 6 – Acquisitions and Sales of Assets for more information on these transactions.

Wisconsin Public Service and Upper Peninsula Power record related party transactions for services provided to and network transmission services received from American Transmission Company. Charges to American Transmission Company for services provided by Wisconsin Public Service were $14.4 million, $12.9 million, and $11.3 million in 2003, 2002, and 2001, respectively. Upper Peninsula Power charged $7.6 million, $5.8 million, and $2.7 million for 2003, 2002, and 2001, respectively for services provided. Network transmission costs paid to American Transmission Company by Wisconsin Public Service were $33.6 million, $31.0 million, and $25.2 million in 2003, 2002, and 2001, respectively. Upper Peninsula Power recorded network transmission costs of $4.4 million, $5.0 million, and $3.3 million in 2003, 2002, and 2001, respectively.

WPS Resources recorded dividends received of $7.5 million from American Transmission Company at December 31, 2003.

Condensed financial data of American Transmission Company follows:

(Millions)	2003	2002	2001
Income statement data			
Revenues	$225.6	$205.3	$174.5
Operating expenses	(139.5)	(131.1)	(110.1)
Other income (expense)	(23.4)	(20.1)	(11.2)
Net income	$ 62.7	$ 54.1	$ 53.2
WPS Investment's equity in net income	$ 10.1	$ 7.9	$ 7.1
Balance sheet data			
Current assets	$ 33.1	$ 40.7	$ 56.7
Non-current assets	927.3	754.3	666.2
Total assets	$960.4	$795.0	$722.9
Current liabilities	$ 66.6	$ 46.9	$ 36.1
Long-term debt	448.2	348.0	297.9
Other non-current liabilities	12.9	6.6	3.2
Shareholders' equity	432.7	393.5	385.7
Total liabilities and shareholders' equity	$960.4	$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 an oil-fired combustion turbine and two hydroelectric plants on the Wisconsin River. The energy output of the hydroelectric plants 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). The electric power from the combustion turbine is sold in equal parts to Wisconsin Public Service and Wisconsin Power and Light.

Wisconsin Public Service records related party transactions for sales to and purchases from Wisconsin River Power. Revenues from services provided to Wisconsin River Power were $1.4 million, $1.5 million, and $0.9 million for 2003, 2002, and 2001, respectively. Purchases from Wisconsin River Power by Wisconsin Public Service were $2.0 million, $2.1 million, and $1.7 million for 2003, 2002, and 2001, respectively.

Wisconsin Public Service recorded dividends received of $1.5 million from Wisconsin River Power at December 31, 2003.

Condensed financial data of Wisconsin River Power Company follows:

(Millions)	2003	2002	2001
Income statement data			
Revenues	$ 6.7	$ 6.4	$ 5.5
Operating expenses	(5.0)	(4.9)	(4.3)
Other income (expense)	7.7	4.2	1.4
Net income	$ 9.4	$ 5.7	$ 2.6
Wisconsin Public Service's equity in net income	$ 4.7	$ 2.7	$ 1.8
Balance sheet data			
Current assets	$ 8.3	$ 3.6	$ 2.1
Non-current assets	19.9	20.1	16.5
Total assets	$28.2	$23.7	$18.6
Current liabilities	$ 1.1	$ 3.5	$ 4.3
Other non-current liabilities	1.7	1.0	0.8
Shareholders' equity	25.4	19.2	13.5
Total liabilities and shareholders' equity	$28.2	$23.7	$18.6

WPS Investments, LLC, a consolidated subsidiary of WPS Resources, purchased a 33% ownership interest in Guardian Pipeline, LLC, on May 30, 2003. Guardian Pipeline owns a natural gas pipeline, which began operating in 2002, that stretches about 140 miles from near Joliet, Illinois, into southern Wisconsin. It can transport up to 750 million cubic feet of natural gas daily.

Condensed financial data of Guardian Pipeline, LLC, as of December 31, 2003, and for the period from May 30, 2003, to December 31, 2003, follows:

(Millions)	2003
Income statement data	
Revenues	$ 20.6
Operating expenses	(8.7)
Other income (expense)	(8.2)
Net income	$ 3.7
WPS Investment's equity in net income	$ 1.2
Balance sheet data	
Current assets	$ 7.4
Non-current assets	270.9
Total assets	$278.3
Current liabilities	$ 10.2
Long-term debt	175.6
Shareholders' equity	92.5
Total liabilities and shareholders' equity	$278.3

Other investments accounted for under the equity method include WPS Nuclear Corporation's (a consolidated subsidiary of WPS Resources) investment in Nuclear Management Company, LLC. The Nuclear Management Company is owned by affiliates of five utilities in the upper Midwest and operates the six nuclear power plants of these utilities. At December 31, 2003, WPS Nuclear Corporation's ownership in

Nuclear Management Company was 20%. Wisconsin Public Service recorded related party transactions for services provided by Nuclear Management Company for the management and operation of the Kewaunee nuclear plant. Management service fees paid to Nuclear Management Company by Wisconsin Public Service were $25.2 million, $24.6 million, and $16.4 million in 2003, 2002, and 2001, respectively. Management service fees paid to Nuclear Management Company in 2003 and 2002 reflect a 17.8% increase in Wisconsin Public Service's ownership of the Kewaunee plant after acquiring Madison Gas and Electric Company's ownership in the Kewaunee plant on September 24, 2001.

NOTE 11—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill recorded by WPS Resources Corporation was $36.4 million and $35.5 million at December 31, 2003, and 2002, respectively. The goodwill is recorded in Wisconsin Public Service's natural gas segment relating to its merger with Wisconsin Fuel and Light. In 2003, Wisconsin Public Service transferred $0.9 million from a regulatory acquisition premium (previously classified as property, plant and equipment) to goodwill. The increase in goodwill reflects an adjustment to the amount of recoverable goodwill recorded from the Wisconsin Fuel and Light merger allowed by the Public Service Commission of Wisconsin in its March 2003 rate order.

Goodwill and purchased intangible assets are included in other assets on the Consolidated Balance Sheets. Information in the tables below relates to total purchased identifiable intangible assets for the years indicated (excluding assets held for sale).

(Millions)	December 31, 2003			
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1 to 30	$ 7.4	$(1.1)	$6.3
Customer related	1 to 5	3.7	(3.0)	0.7
Other	1 to 30	3.3	(0.6)	2.7
Total		$14.4	$(4.7)	$9.7

(Millions)	December 31, 2002			
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1 to 30	$ 5.2	$(0.6)	$4.6
Customer related	1 to 5	3.5	(2.0)	1.5
Other	1 to 30	3.3	(0.4)	2.9
Total		$12.0	$(3.0)	$9.0

The generation assets of WPS Power Development are subject to regulations on sulfur dioxide and nitrogen oxide emissions. In 2003, WPS Power Development had a net increase in the gross carrying value of their emissions credits due to additional purchases of emission allowances to meet requirements, partially offset by the write-down of existing nitrogen oxide allowances to market value.

Intangible asset amortization expense, in the aggregate, for the years ended December 31, 2003, and 2002, was $1.7 million and $1.0 million, respectively.

<u>Estimated Amortization Expense</u>:

For year ending December 31, 2004	$1.6 million
For year ending December 31, 2005	1.3 million
For year ending December 31, 2006	0.9 million
For year ending December 31, 2007	1.3 million
For year ending December 31, 2008	1.4 million

NOTE 12—LEASES

The company leases various property, plant and equipment. Terms of the leases vary, but generally require the company to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Rental expense attributable to operating leases was $5.2 million, $5.1 million, and $7.1 million in 2003, 2002, and 2001, respectively. Future minimum rental obligations under non-cancelable operating leases, are payable as follows:

Year ending December 31 *(Millions)*	
2004	$ 5.0
2005	2.8
2006	2.0
2007	1.7
2008	1.4
Later years	6.1
Total payments	$19.0

NOTE 13 — SHORT-TERM DEBT AND LINES OF CREDIT

WPS Resources Corporation has syndicated a $225 million 364-day revolving credit facility, and Wisconsin Public Service has syndicated a $115 million 364-day revolving credit facility, to provide short-term borrowing flexibility and security for commercial paper outstanding.

The information in the table below relates to short-term debt and lines of credit for the years indicated.

(Millions, except for percentages)	2003	2002	2001
As of end of year			
Commercial paper outstanding	$ 28.0	$ 16.0	$ 15.0
Average discount rate on outstanding commercial paper	1.15%	1.35%	1.95%
Short-term notes payable outstanding	$ 10.0	$ 13.8	$ 31.2
Average interest rate on short-term notes payable	1.12%	1.22%	1.61%
Available (unused) lines of credit	$288.9	$264.5	$130.0
For the year			
Maximum amount of short-term debt	$194.2	$133.4	$177.6
Average amount of short-term debt	$104.3	$ 59.7	$110.6
Average interest rate on short-term debt	1.38%	1.73%	4.32%

The commercial paper had a maturity date of January 8, 2004. The short-term notes payable is due "on demand."

NOTE 14 — LONG-TERM DEBT

At December 31 *(Millions)*			2003	2002
First mortgage bonds – Wisconsin Public Service				
	Series	Year Due		
	6.80%	2003	$ –	$ 50.0
	6.125%	2005	–	9.1
	6.90%	2013	22.0	22.0
	7.125%	2023	50.0	50.0
Senior notes – Wisconsin Public Service				
	Series	Year Due		
	6.125%	2011	150.0	150.0
	4.875%	2012	150.0	150.0
	4.80%	2013	125.0	–
	6.08%	2028	50.0	50.0
First mortgage bonds – Upper Peninsula Power				
	Series	Year Due		
	7.94%	2003	–	15.0
	10.0%	2008	0.9	1.5
	9.32%	2021	16.2	17.1
Unsecured senior notes – WPS Resources				
	Series	Year Due		
	7.00%	2009	150.0	150.0
	5.375%	2012	100.0	100.0
Term loans – nonrecourse, collateralized by nonregulated assets			87.2	91.7
Tax exempt bonds			27.0	27.0
Notes payable to bank, collateralized by nonregulated plant			–	11.6
Senior secured note			2.9	3.1
Total			931.2	898.1
Unamortized discount and premium on bonds and debt			(2.7)	(2.6)
Total long-term debt			928.5	895.5
Less current portion			(56.6)	(71.1)
Total long-term debt			$871.9	$824.4

On January 19, 2004, Wisconsin Public Service retired $49.9 million of its 7.125% series first mortgage bonds. These bonds had an original maturity date of July 1, 2023.

In February 2003, Wisconsin Public Service retired $50.0 million of 6.80% first mortgage bonds that had reached maturity. Wisconsin Public Service also called $9.1 million of 6.125% tax-exempt bonds in May 2003. In December 2003, Wisconsin Public Service issued $125.0 million of 4.80% senior notes due December 2013. The senior notes are collateralized by a pledge of first mortgage bonds and become non-collateralized if Wisconsin Public Service retires all of its outstanding first mortgage bonds.

In March 2003, Upper Peninsula Power retired $15.0 million of 7.94% first mortgage bonds that had reached maturity. 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 collateralized by nonregulated assets totaled $87.2 million at December 31, 2003. The assets of WPS New England Generation, Inc. and WPS Canada Generation, Inc., subsidiaries of WPS Power Development, collateralize $5.8 million and $14.4 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 $67.0 million that is collateralized by its plant. Quarterly payments are made in relation to this financing that carries an interest rate of 7.8725% for the year ended December 31, 2003, 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, 2003, the interest rate was 1.10%. 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.

In November 2003, WPS Power Development retired all of the notes payable under a revolving credit note, in the amount of $12.5 million. The note was collateralized by the assets of the Stoneman plant and was guaranteed by WPS Resources. Variable interest payments were made quarterly during 2003.

Upper Peninsula Power has a senior secured note of $2.9 million as of December 31, 2003, which requires semiannual payments at an interest rate of 9.25%, and matures in 2011.

At December 31, 2003, 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 and early retirements, for WPS Resources is as follows:

Year ending December 31 ***(Millions)***	
2004	$ 56.6
2005	7.0
2006	7.7
2007	8.3
2008	9.4
Later years	842.2
Total payments	$931.2

NOTE 15—COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF PREFERRED STOCK 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 was $51.5 million of subordinated debentures issued by WPS Resources. The debentures were due on June 30, 2038, and bore interest at 7% per year. The terms and interest payments on the debentures correspond to the terms and distributions on the trust preferred securities.

As discussed in Note 1(V) – New Accounting Pronouncements, the provisions of Interpretation No. 46R were required to be applied to special purpose entities as of the end of the first reporting period ending after December 15, 2003. It has been determined that WPSR Capital Trust I qualifies as a special purpose entity and; therefore, the provisions of Interpretation No. 46R were applied to the Trust at December 31, 2003. Prior to this date, we consolidated the preferred securities of the Trust into our financial statements as we held all of the voting securities. Per the provisions of Interpretation No. 46R, however, the voting interest approach is not effective in identifying controlling financial interests in which the equity investor does not bear the residual economic risks. It has been determined that the preferred security holders bear the majority of the residual economic risks associated with WPSR Capital Trust I and, therefore, the Trust has been deconsolidated effective December 31, 2003. As a result of the deconsolidation, WPS Resources recorded a $1.5 million investment in trust within other current assets and a $51.5 million note payable to preferred stock trust, respectively, within the Consolidated Balance Sheet at December 31, 2003. Prior periods have not been restated per the transition provisions of Interpretation No. 46R. The Trust remains consolidated within the December 31, 2002, Consolidated Balance Sheet and the interest payments on the debentures are reflected within interest expense and distributions on trust preferred securities on the Consolidated Statements of Income for all years presented.

On January 8, 2004, we redeemed all of the subordinated debentures that were initially issued to the Trust for $51.5 million and paid accrued interest of $0.1 million. This action required the Trust to redeem an equal amount of trust securities at face value plus any accrued interest and unpaid distributions. As a result of these transactions, the Trust has been dissolved effective January 8, 2004.

NOTE 16—ASSET RETIREMENT OBLIGATIONS

Legal retirement obligations identified for the utility segments of WPS Resources relate primarily to the final decommissioning of the Kewaunee nuclear power plant. Wisconsin Public Service has a legal obligation to decommission the irradiated portions of the Kewaunee nuclear power plant in accordance with the Nuclear Regulatory Commission's minimum decommissioning requirements. We have also identified other legal retirement obligations related to utility plant assets that are not currently significant to the financial statements. Upon implementation of Statement No. 143 on January 1, 2003, we recorded a net asset retirement cost of $90.8 million and an asset retirement obligation of $324.8 million. The difference between previously recorded liabilities of $290.5 million and the cumulative effect of adopting Statement No. 143 was deferred to a regulatory liability pursuant to Statement No. 71.

The nonregulated segments of WPS Resources have identified a legal retirement obligation related to the closure of an ash basin located at the Sunbury plant. Upon implementation of Statement No. 143, the nonregulated segments of WPS Resources recorded an increase in net property, plant, and equipment of $1.4 million, a liability of $2.0 million, and a cumulative effect of adoption after tax that reduced income available for common shareholders by $0.3 million in the first quarter of 2003.

See Note 6 – Acquisitions and Sales of Assets for information on the pending sales of the Sunbury plant and the Kewaunee nuclear power plant.

The following table describes all changes to the asset retirement obligation liabilities of WPS Resources:

(Millions)	Utility	Nonregulated	Total
Asset retirement obligations at December 31, 2002	$ –	$ –	$ –
Liability recognized in transition	324.8	2.0	326.8
Accretion expense	19.2	0.1	19.3
Asset retirement obligation at December 31, 2003	$344.0	$2.1	$346.1

The following pro forma liabilities reflect amounts relating to asset retirement obligations as if Statement No. 143 had been applied during all periods presented:

(Millions)	December 31, 2003	December 31, 2002	January 1, 2002
Utility segments:			
Nuclear decommissioning	$343.6	$324.4	$306.7
Other	0.4	0.4	0.3
Nonregulated segments:			
Ash basin facility	2.1	2.0	1.9

Pro forma income available for common shareholders and earnings per share have not been presented for the periods ended December 31, 2003, 2002, and 2001 because the pro forma application of Statement No. 143 to prior periods would result in pro forma income available for common shareholders and earnings per share not materially different from the actual amounts reported for those periods in the Consolidated Statements of Income.

NOTE 17—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)	2003	2002
Deferred tax assets		
Plant related	$ 70.5	$ 91.5
Deferred tax credit carry forwards	52.0	35.7
Employee benefits	28.7	45.0
State capital and operating loss carry forwards	10.9	7.9
Other comprehensive income	13.4	6.9
Risk management activities	6.9	(5.6)
Regulatory deferrals	3.4	1.6
Other	5.2	4.3
Total deferred tax assets	191.0	187.3
Valuation allowance	(3.0)	(0.6)
Net deferred tax assets	$188.0	$186.7
Deferred tax liabilities		
Plant related	$233.3	$209.7
Employee benefits	16.1	38.2
Regulatory deferrals	8.7	6.7
Other comprehensive income	3.4	–
Other	7.0	5.8
Total deferred tax liabilities	$268.5	$260.4
Net deferred tax liabilities	$ 80.5	$ 73.7

Valuation allowances have been established for certain 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.

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:

	2003		2002		2001	
(Millions, except for percentages)	Rate	Amount	Rate	Amount	Rate	Amount
Statutory federal income tax	35.0%	$50.5	35.0%	$51.5	35.0%	$33.9
State income taxes, net	5.9	8.5	5.3	7.8	5.2	5.0
Plant related	(0.8)	(1.1)	(1.6)	(2.4)	(3.3)	(3.2)
ESOP dividend	(1.0)	(1.5)	(1.0)	(1.4)	(0.1)	(0.1)
Investment tax credit	(1.2)	(1.7)	(1.2)	(1.7)	(1.8)	(1.7)
Federal tax credits	(13.1)	(18.9)	(16.4)	(24.1)	(23.0)	(22.3)
Other differences, net	(1.4)	(2.1)	(0.6)	(1.0)	(2.5)	(2.4)
Effective income tax	23.4%	$33.7	19.5%	$28.7	9.5%	$ 9.2
Current provision						
Federal		$18.3		$17.3		$33.8
State		14.0		11.1		8.4
Foreign		1.8		(0.4)		–
Total current provision		34.1		28.0		42.2
Deferred provision (benefit)		2.8		3.2		(31.8)
Recognition of Net Operating Loss carryforward		(1.5)		(0.8)		0.5
Recognition of deferred investment tax credit		(1.7)		(1.7)		(1.7)
Total income tax expense		$33.7		$28.7		$ 9.2

Foreign income (loss) before taxes was $4.3 million in 2003 and $(1.2) million in 2002.

As the related temporary differences reverse, Wisconsin Public Service and Upper Peninsula Power are prospectively refunding taxes to customers for which deferred taxes were recorded in prior years at rates different than current rates. The regulatory liability for these refunds and other regulatory tax effects totaled $11.8 million as of December 31, 2003, and $17.7 million as of December 31, 2002.

NOTE 18 — COMMITMENTS AND CONTINGENCIES

COMMODITY AND PURCHASE ORDER COMMITMENTS

WPS Resources routinely enters into long-term purchase and sale commitments that have various quantity requirements and durations.

WPS Energy Services has unconditional purchase obligations related to energy supply contracts that total $2,136.0 million and extend through 2009. The energy supply contracts at WPS Energy Services generally have offsetting energy sale contracts.

Wisconsin Public Service has obligations related to coal, purchased power, natural gas and nuclear fuel. Obligations related to coal supply extend through 2016 and total $321.4 million. Through 2015, Wisconsin Public Service has obligations totaling $395.6 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 $129.3 million through 2010. Nuclear fuel contracts total $48.0 million.

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 $1.8 million and extend through 2007.

Upper Peninsula Power has made commitments for the purchase of commodities, mainly capacity or energy related to purchased power, that total $20.6 million and extend through 2006.

WPS Resources also has commitments in the form of purchase orders issued to various vendors. At December 31, 2003, these purchase orders totaled $168.8 million for WPS Resources and Wisconsin Public Service committed $167.6 million of the total. The majority of these commitments relate to large construction projects including the construction of the 500-megawatt coal-fired generation facility near Wausau, Wisconsin.

NUCLEAR PLANT OPERATION

In accordance with Nuclear Regulatory Commission industry requirements, during the completed spring 2003 refueling outage, a visual inspection of the Kewaunee nuclear power plant reactor vessel head was conducted. There were no problems with the vessel head during the most recently completed operating cycle.

After evaluating the cost of continued required inspections of the existing reactor vessel head and the cost to replace the reactor vessel head, the Kewaunee nuclear power plant owners submitted a construction authorization request to the Public Service Commission of Wisconsin for replacement of the reactor vessel head. Approval of the request was received in 2003. The replacement is scheduled to occur during the fall 2004 refueling outage at a cost of up to $14.2 million for Wisconsin Public Service's share of the project.

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 $59.4 million per incident. The payments will not exceed $5.9 million per incident in a given calendar year. These amounts relate to Wisconsin Public Service's 59% ownership in the Kewaunee nuclear power plant.

See Note 8 – Nuclear Plant Operation for detailed information on the operations of the Kewaunee nuclear power plant.

See Note 6 – Acquisitions and Sales of Assets for information on the pending sale of the Kewaunee nuclear power 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 began in 2003 and will gradually increase through 2007. Wisconsin Public Service owns 31.8% of Edgewater Unit 4, which is located in the ozone non-attainment area. A compliance plan for this unit was initiated in 2000. Wisconsin Public Service's share of the costs of this project is expected to be approximately $5 million. The project is nearly complete. Wisconsin Public Service has incurred approximately $4.9 million on this project as of December 31, 2003.

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 the Columbia facility. 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 expects that compliance with a future limit can be achieved by managing the coal supply quality and does not expect these changes to have a material impact on the operations of Wisconsin Public Service. Wisconsin Public Service is cooperating with the Wisconsin Department of Natural Resources to develop an approach to resolve this issue.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY SECTION 114 REQUEST

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 other unaffiliated 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 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 Company 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 Company 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 Company.

In response to the United States Environmental Protection Agency Clean Air Act enforcement initiative, several utilities elected to settle with the United States Environmental Protection Agency, while others are in litigation. In general, those utilities that settled 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 and 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. Wisconsin has proposed amending its new source review program to substantially conform to the federal regulations. The rules are anticipated to be finalized in the second half of 2004.

MERCURY AND INTERSTATE QUALITY RULES

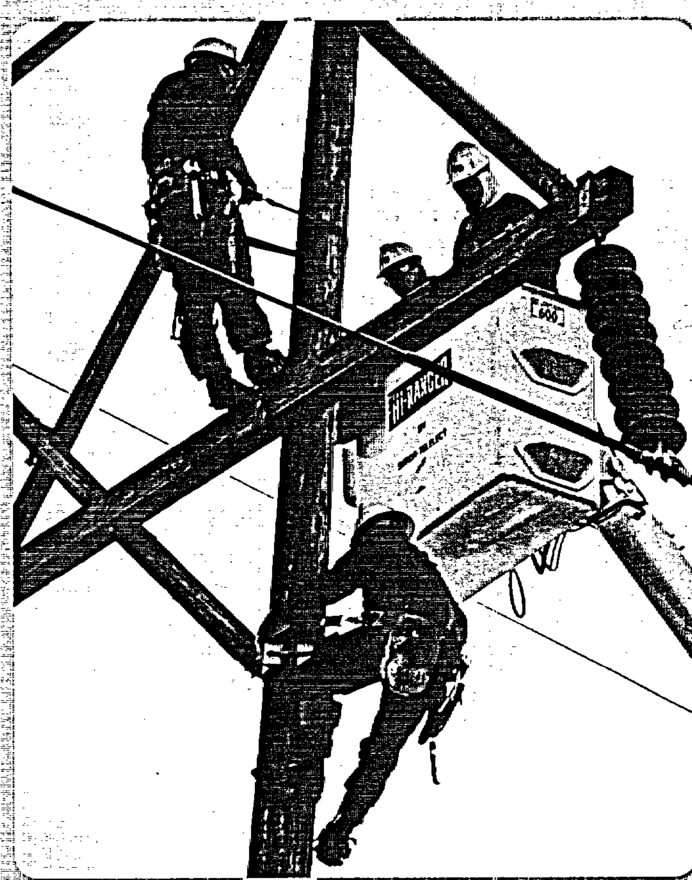
The Wisconsin Department of Natural Resources initiated a rulemaking effort to control mercury emissions. Coal-fired generation plants are the primary targets of this effort. The proposed rule was open to comment in October 2001. As proposed, the rule requires phased-in mercury emission reductions reaching 90% reduction in 15 years. Wisconsin Public Service estimates that it could cost approximately $163 million to achieve the proposed 90% reductions. Presently, the proposed rule is on hold, and it is uncertain if the state will proceed to finalize the regulations.

In December 2003, the United States Environmental Protection Agency proposed mercury "maximum achievable control technology" standards and an alternative mercury "cap and trade" program substantially modeled on the Clear Skies legislation initiative. In addition, the United States Environmental Protection Agency proposed the Interstate Air Quality rule, which would reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin. Wisconsin Public Service is in the process of studying the proposed rules. As to the mercury maximum achievable control technology proposal, it requires existing units burning sub-bituminous coal to achieve an annual average mercury emission rate limit of 5.8 pounds per trillion Btu on a unit-by-unit or plant-wide basis. New units must achieve an emission rate limit of 0.020 pounds per gigawatt-hour. If the proposed rule is promulgated, Wisconsin Public Service's current analysis indicates that the emission control equipment on the existing units may be sufficient to achieve the proposed limitation. New units will require additional mercury control techniques to reduce mercury emissions by 65% to 85%. Mercury control technology is still in development. Wisconsin Public Service is assessing potential mercury control technologies for application to future new coal-fired units.

As to the Interstate Air Quality rule proposal, the proposal allows the affected states (including Wisconsin) to either require utilities located in the state to participate in an interstate cap and trade program or meet the state's emission budget for nitrogen oxides and sulfur dioxide through measures to be determined by the state. Wisconsin has not stated a preference as to which option it would select in the event the rule becomes final. While the effect of the rule on Wisconsin Public Service's facilities is uncertain, for planning purposes it is assumed that additional expenditures for nitrogen oxide and sulfur dioxide controls will be needed on existing units or the existing units will need to be converted to natural gas by 2010. The installation of any controls and/or any conversion to natural gas will need to be scheduled as part of Wisconsin Public Service's long-term maintenance plan for its existing units. As such, controls or conversions may need to take place before the proposed 2010 compliance date. On a preliminary basis and assuming controls or conversion is required, Wisconsin Public Service estimates a cost of $288 million in order to meet a 2010 compliance date. This estimate is based on costs of current control technology.

WPS POWER DEVELOPMENT GENERATION FACILITIES

The generation assets of WPS Power Development are subject to regulations on sulfur dioxide and nitrogen oxide emissions similar to those that apply to Wisconsin Public Service. In addition, the Sunbury generation facilities of WPS Power Development are located in an ozone transport region. As a result, these generation facilities are subject to additional restrictions on emissions of nitrogen oxide. Although WPS Power Development has some emission allowances for 2004 for the Sunbury facility, approximately 10,000 to 15,000 additional allowances may need to be purchased, at market rates, to meet its 2004 requirements.



Wisconsin Public Service employees know the meaning of teamwork. Here, Stevens Point, Wisconsin, Line Electricians (top to bottom) Christopher Klingler, Dale Kluetz, Todd Murphy, and Eric Ashenfelter work together on energized 115 kilovolt transmission lines to make repairs for American Transmission Company.

Systems Analysts support the company's software and answer employees' computer questions. Here, Lori Wickman, Senior Systems Analyst, and James Frisch, Systems Analyst, problem-solve in the Green Bay office.

COLUMBIA (JOINTLY OWNED GENERATION FACILITY)

In the fourth quarter of 2003, the Wisconsin Environmental Law Advocates filed a complaint in the United States District Court for the Western District of Wisconsin against Wisconsin Power and Light Company and its parent, Alliant Energy Corporation, alleging violations of the federal Clean Water Act at the Columbia generating station (a facility jointly owned by Wisconsin Power and Light, Madison Gas and Electric Company and Wisconsin Public Service that is operated by Wisconsin Power and Light). The complaint seeks certain upgrades to the Columbia facility's wastewater treatment program, as well as unspecified penalties and attorney fees. In addition, the Wisconsin Department of Natural Resources has been pursuing enforcement of this same matter and has recently referred the matter to the Wisconsin Attorney General's office. To date, no action has been filed or settlement demanded by the State of Wisconsin, however we expect a complaint to be filed in due course. We believe that the total cost to resolve any potential penalties in this matter will not be material.

OTHER ENVIRONMENTAL ISSUES

Groundwater testing at a former ash disposal site of Upper Peninsula Power indicated elevated levels of boron and lithium. Supplemental remedial investigations were performed, and a revised remedial action plan was developed. The Michigan Department of Environmental Quality approved the plan in January 2003. A liability of $1.4 million and an associated regulatory asset of $1.4 million were recorded for estimated future expenditures associated with remediation of the site. Upper Peninsula Power received an order permitting deferral and future recovery of these costs. Upper Peninsula Power has an informal agreement, with the owner of another landfill, under which it has agreed to pay 17% of the investigation and remedial costs. It is estimated that the cost of addressing the site over the next three years is $1.7 million. Upper Peninsula Power recorded 17% ($0.3 million) of this amount as a liability in December 2003.

MANUFACTURED GAS PLANT REMEDIATION

Wisconsin Public Service continues to investigate the environmental cleanup of ten manufactured gas plant sites. As of the fall of 2003, cleanup of the land portion of the Oshkosh, Stevens Point, Green Bay, 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 six sites with sediment contamination. Wisconsin Public Service anticipates that remedial investigation work will commence on the sediment portion of the Sheboygan site in the first quarter of 2004. Sediment removal work at the Marinette site is scheduled for the fall of 2004. Work at the other sites remains to be scheduled.

Costs of these cleanups are within the range expected for these sites. Wisconsin Public Service estimates future undiscounted investigation and cleanup costs to be in the range of $36.2 million to $40.6 million. Wisconsin Public Service may adjust these estimates in the future contingent upon remedial technology, regulatory requirements and the assessment of natural resource damages. Wisconsin Public Service currently has a $36.2 million liability recorded for cleanup with an offsetting regulatory asset (deferred charge). Wisconsin Public Service has received $12.7 million in insurance recoveries that we recorded as a reduction to the regulatory asset. Wisconsin Public Service expects to recover cleanup costs, net of insurance recoveries, in future customer rates. Under current Public Service Commission of Wisconsin policies, Wisconsin Public Service will not recover carrying costs associated with the cleanup expenditures. Wisconsin Public Service will include long-term operation and maintenance costs associated with these sites in future rate requests.

FLOOD DAMAGE

On May 14, 2003, a fuse plug at the Silver Lake reservoir owned by Upper Peninsula Power was breached. This breach resulted in subsequent flooding downstream on the Dead River, which is located in Michigan's Upper Peninsula near Marquette, Michigan.

A dam owned by Marquette Board of Light and Power, which is located downstream from the Silver Lake reservoir near the mouth of the Dead River, also failed during this event. In addition, high water conditions and siltation resulted in damage at the Presque Isle Power Plant owned by Wisconsin Electric Power Company. Presque Isle, which is located downstream from the Marquette Board of Light and Power dam, was ultimately forced into a temporary shutdown.

The Federal Energy Regulatory Commission's Independent Board of Review issued its report in December of 2003 and concluded that the root cause of the incident was the failure of the design to take into account the highly erodible nature of the fuse plug's foundation materials and spillway channel, resulting in the complete loss of the fuse plug, foundation and spillway channel which caused the release of Silver Lake far beyond the intended design of the fuse plug. The fuse plug was designed for the Silver Lake reservoir by an outside engineering firm.

WPS Resources maintains a comprehensive insurance program that includes Upper Peninsula Power and which provides both property insurance for its facilities and liability insurance for liability to third parties. WPS Resources is insured in amounts that it believes are sufficient to cover its responsibilities in connection with this event. Deductibles and self-insured retentions on these policies are not material to WPS Resources.

In November 2003, Upper Peninsula Power received approval from the Michigan Public Service Commission and the Federal Energy Regulatory Commission for deferral of costs that are not reimbursable through insurance or recoverable through the power supply cost recovery mechanism. Recovery of costs deferred will be addressed in future rate proceedings. As of December 31, 2003, Upper Peninsula Power has deferred $3.2 million pre-tax and expensed $1.0 million pre-tax of costs for damages resulting from the flood. In addition, Upper Peninsula Power has recorded a $1.6 million insurance receivable at December 31, 2003.

WAUSAU, WISCONSIN, TO DULUTH, MINNESOTA, TRANSMISSION LINE

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 a recent agreement, American Transmission Company will assume primary responsibility for the overall management of the project and will own and operate the completed line. Wisconsin Public Service received approval from the Public Service Commission of Wisconsin and the Federal Energy Regulatory Commission to transfer ownership of the project to the American Transmission Company. Wisconsin Public Service will continue to manage construction of the project and be responsible for obtaining property rights in Wisconsin necessary for the construction of the project. As part of the ownership transfer, Wisconsin Public Service received approximately $20.1 million for the sale of its construction expenditures in June 2003.

WPS Resources committed to fund 50% of total project costs incurred up to $198 million, and receive additional equity in American Transmission Company. In 2003, WPS Resources invested $14.0 million in American Transmission Company, related to its agreement to fund approximately half of the Wausau to Duluth transmission line. WPS Resources may terminate funding if the project extends beyond January 1, 2010. On December 19, 2003, Wisconsin Public Service and American Transmission Company received approval to continue the project with the new cost estimates of $420.3 million. The updated cost estimate reflects additional costs for 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. Completion of the line is expected in 2008. WPS Resources has the right, but not the obligation, to provide additional funding in excess of $198 million up to its portion of the revised cost estimate. For the period 2004 through 2006, we expect to make capital contributions of up to $128 million for our portion of the Wausau to Duluth transmission line.

SYNTHETIC FUEL PRODUCTION FACILITY

We have significantly reduced our consolidated federal income tax liability for the past four years through tax credits available to us under Section 29 of the Internal Revenue Code for the production and sale of solid synthetic fuel from coal. In order to maximize the value of our synthetic fuel production facility, we have reduced our interest in the facility from 67% to 23% through sales to third parties (see Note 6 – Acquisitions and Sales of Assets). Our ability to fully utilize the Section 29 tax credits that remain available to us in connection with our remaining interest in the facility will depend on whether the amount of our federal income tax liability is sufficient to permit the use of such credits. The Internal Revenue Service strictly enforces compliance with all of the technical requirements of Section 29. Section 29 tax credits are currently scheduled to expire at the end of 2007.

On June 27, 2003, the Internal Revenue Service announced that it had reason to question the scientific validity of certain test procedures and results that have been presented by certain taxpayers to qualify for Section 29 tax credits. The Internal Revenue Service also announced that it was reviewing information regarding these test procedures and practices. However, on October 29, 2003, the Internal Revenue Service announced that it had closed its investigation and concluded that such tests and procedures were scientifically valid if properly applied and indicated it would issue additional guidance on future sampling and testing. WPS Resources believes that its synthetic fuel facility does and will comply with such guidelines.

As a result of the June Internal Revenue Service announcement, on August 1, 2003, WPS Resources received notice from the Internal Revenue Service that the WPS Resources' affiliate through which it holds an ownership interest in the synthetic fuel facility was under review for the 2001 tax period and that, depending upon the review of the affiliate's 2001 tax return, the Internal Revenue Service might reexamine the affiliate's 2000 tax return. However, following the October announcement that the Internal Revenue Service was closing its investigation, WPS Resources received preliminary notice in January 2004 that both audits have closed without adjustment. Future years remain open to audit. We continue to believe that the facility has been operated in compliance with the requirements of Section 29.

The Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs has been conducting an investigation of the synthetic fuel industry and their use of Section 29 tax credits. Pursuant to its invitation, on January 30, 2004, we answered questions of the Committee regarding our synthetic fuel facility. It is not known when the investigation will be completed and what impact, if any, such investigation may have on future legislation or the enforcement policy of the Internal Revenue Service.

We have recorded the tax benefit of approximately $81.3 million of Section 29 tax credits as reductions of income tax expense from the project's inception in June 1998 through December 31, 2003. As a result of alternative minimum tax rules, approximately $52.3 million of this tax benefit has been carried forward as a deferred tax asset as of December 31, 2003. Future payments under one of the agreements covering the sale of a portion of our interest in the facility are contingent on the facility's continued production of synthetic fuel. Any disallowance of some or all of those tax credits would materially affect the related deferred tax account, as well as, future tax obligations. Additionally, such disallowances may result in a reduction of the level of synthetic fuel production at the facility, thus reducing the likelihood and amount of future payments under that agreement. Future tax legislation and Internal Revenue Service review may also affect the value of the credits and the value of our share of the facility.

NOTE 19—EMPLOYEE BENEFIT PLANS

WPS Resources has non-contributory qualified retirement plans covering substantially all employees under which we may make contributions to an irrevocable trust. We established the plans to provide retired employees, who meet conditions relating to age and length of service, with retirement payments. As a result of the plans funding levels, no contributions were made to them in 2003, 2002, or 2001.

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 35% tax rate.

Wisconsin Public Service serves as plan sponsor for the qualified retirement plans and the postretirement plans and administers the plans. Accordingly, Wisconsin Public Service's Consolidated Balance Sheets reflect the assets and liabilities associated with these plans. The net periodic benefit cost associated with the plans is allocated between WPS Resources' subsidiaries. Actuarial calculations are performed (based upon specific employees and their related years of service) in order to determine the appropriate benefit cost allocation.

Pension costs are accounted for under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." 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 No. 106 is recognized over 20 years beginning in 1993. WPS Resources uses a December 31 measurement date for the majority of its plans.

The recently enacted Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides a prescription drug benefit as well as a federal subsidy to sponsors of certain retiree health care benefit plans. The Act may impact our postretirement benefit obligations and future net periodic postretirement benefit costs, however, until regulations necessary to implement the Act and specific accounting guidance are issued, we cannot determine the benefit, if any, associated with the new law. We will continue to monitor the new regulations and may amend the plan in order to benefit from the new legislation. Certain accounting issues raised by the Act are not explicitly addressed by Statement No. 106. As a result, the Financial Accounting Standards Board issued FASB Staff Position (FSP) No. 106-1, "Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act of 2003" which allows the plan sponsor to elect to defer recognition of the effects of the Act until authoritative guidance on the accounting for this Act is issued. As allowed by FSP 106-1, WPS Resources has elected to defer recognition of the effects of the Act on the accumulated benefit obligation and net periodic postretirement benefit cost in these financial statements and accompanying notes. The Company's deferral election expires upon the occurrence of any event that triggers a required remeasurement of plan assets or obligations, or upon the issuance of specific authoritative guidance on the accounting for the federal subsidy. Such guidance is pending and when issued could require the company to adjust previously reported information.

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, 2003, 2002, and 2001, and a statement of the funded status as of December 31 for each year:

	Pension Benefits			Other Benefits		
(Millions)	2003	2002	2001	2003	2002	2001
Reconciliation of benefit obligation						
Obligation at January 1	$534.1	$495.2	$484.9	$ 234.3	$ 176.2	$102.6
Service cost	14.4	11.5	11.0	7.1	5.3	3.0
Interest cost	35.4	33.7	32.7	15.3	12.5	7.6
Plan amendments	–	–	0.2	(15.3)	(4.7)	–
Actuarial loss – net	61.4	26.2	35.4	49.5	52.5	65.5
Acquisitions	–	–	13.1	–	–	3.7
Benefit payments	(34.4)	(32.5)	(21.2)	(9.3)	(7.5)	(6.2)
(Settlements)/curtailments	–	–	(60.9)	–	–	–
Obligation at December 31	$610.9	$534.1	$495.2	$ 281.6	$ 234.3	$176.2
Reconciliation of fair value of plan assets						
Fair value of plan assets at January 1	$511.6	$591.9	$676.1	$ 119.7	$ 134.7	$152.3
Actual return on plan assets	92.7	(47.8)	(13.7)	23.7	(14.8)	(4.4)
Employer contributions	–	–	–	15.6	7.3	(7.0)
Acquisitions	–	–	18.1	–	–	–
Benefit payments	(34.4)	(32.5)	(88.6)	(9.3)	(7.5)	(6.2)
Fair value of plan assets at December 31	$569.9	$511.6	$591.9	$ 149.7	$ 119.7	$134.7
Funded status at December 31	$ (41.0)	$ (22.5)	$ 96.7	$(131.9)	$(114.6)	$ (41.5)
Unrecognized transition (asset) obligation	–	(0.2)	(2.2)	3.8	13.1	14.4
Unrecognized prior-service cost	48.1	53.6	59.1	(21.5)	(16.3)	(12.9)
Unrecognized (gain) loss	67.8	53.2	(69.3)	99.7	66.0	(12.4)
Net asset (liability) recognized	$ 74.9	$ 84.1	$ 84.3	$ (49.9)	$ (51.8)	$ (52.4)

Amounts recognized in the Consolidated Balance Sheets relating to the qualified benefit plans consist of:

(Millions)	Pension Benefits 2003	Pension Benefits 2002	Other Benefits 2003	Other Benefits 2002
Prepaid benefit cost	$ 67.9	$84.1	$ –	$ –
Accrued benefit cost	(64.9)	–	(49.9)	(51.8)
Intangible assets	38.6	–	–	–
Regulatory asset	15.2	–	–	–
Accumulated other comprehensive income (before tax effect of $7.3 million)	18.1	–	–	–
Net asset (liability) recognized	$ 74.9	$84.1	$(49.9)	$(51.8)

The accumulated benefit obligation for the qualified defined benefit plans was $549.5 million at December 31, 2003, and $424.4 million at December 31, 2002.

Information for qualified pension plans with an accumulated benefit obligation in excess of plan assets:

(Millions)	December 31, 2003	December 31, 2002
Projected benefit obligation	$321.4	$ –
Accumulated benefit obligation	315.1	–
Fair value of plan assets	250.2	–

The following table provides the components of net periodic benefit cost (credit) for the plans for the years ended December 31, 2003, 2002, and 2001:

(Millions)	Pension Benefits 2003	Pension Benefits 2002	Pension Benefits 2001	Other Benefits 2003	Other Benefits 2002	Other Benefits 2001
Net periodic benefit cost						
Service cost	$ 14.4	$ 11.5	$11.0	$ 7.1	$ 5.3	$ 3.0
Interest cost	35.4	33.7	32.7	15.3	12.5	7.6
Expected return on plan assets	(46.7)	(47.7)	(47.0)	(10.6)	(10.2)	(9.7)
Amortization of transition (asset) obligation	(0.2)	(2.0)	(3.5)	1.0	1.3	1.3
Amortization of prior-service cost (credit)	5.5	5.5	5.5	(2.2)	(1.2)	(1.2)
Amortization of net (gain) loss	–	(0.8)	(2.3)	2.9	(1.2)	(4.6)
Special termination benefits	0.8	–	–	–	–	–
Net periodic benefit cost (credit) before settlement/curtailment	9.2	0.2	(3.6)	13.5	6.5	(3.6)
(Settlement gain)/curtailment loss	–	–	(12.7)	–	–	–
Regulatory liability/(asset) offset	–	–	11.8	–	–	–
Amortization of settlement gain regulatory liability	–	(11.8)	–	–	–	–
Amortization of curtailment loss regulatory asset	–	8.1	–	–	–	–
Net periodic benefit cost (credit)	$ 9.2	$ (3.5)	$ (4.5)	$13.5	$ 6.5	$(3.6)

Net periodic benefit cost (credit) recorded by Wisconsin Public Service related to pension benefits was $3.7 million in 2003, $(7.2) million in 2002, and $(7.4) million in 2001. Net periodic benefit cost (credit) recorded by Wisconsin Public Service related to other benefits was $11.9 million in 2003, $4.7 million in 2002, and $(5.5) million in 2001.

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 Nuclear Management Company, LLC, 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 No. 88. 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.

At December 31, 2003, WPS Resources had to record a minimum pension liability adjustment related to its large qualified Administrative Employees' Retirement Plan. Part of that minimum pension liability adjustment was a charge to other comprehensive income. WPS Resources determined that the portion of what normally would have been charged to other comprehensive income that related to the regulated portion of our operations should be recorded as a regulatory asset.

ASSUMPTIONS

	Pension Benefits			Other Benefits		
Weighted average assumptions used to determine benefit obligations at December 31	2003	2002	2001	2003	2002	2001
Discount rate	6.25%	6.75%	7.25%	6.25%	6.75%	7.25%
Rate of compensation increase	5.50%	5.50%	5.50%	-	-	-
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31	2003	2002	2001	2003	2002	2001
Discount rate	6.75%	7.25%	7.50%	6.75%	7.25%	7.50%
Expected return on plan assets	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Rate of compensation increase	5.50%	5.50%	5.50%	-	-	-

To develop the 8.75% expected long-term rate of return on assets, WPS Resources considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the benefit trust portfolios.

The assumptions used for WPS Resources' medical and dental cost trend rates are shown in the following table:

	2003	2002	2001
Assumed medical cost trend rate (under age 65)	11.0%	12.0%	10.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2011	2011	2008
Assumed medical cost trend rate (over age 65)	13.0%	14.0%	12.0%
Ultimate trend rate	6.5%	6.5%	6.5%
Ultimate trend rate reached in	2011	2011	2008
Assumed dental cost trend rate	5.0%	6.0%	7.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2004	2004	2004

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	$ 3.9	$ (3.5)
Effect on the health care component of the accumulated postretirement benefit obligation	$48.6	$(37.4)

PLAN ASSETS

WPS Resources pension plans weighted-average asset allocations at December 31, 2003, and 2002, by asset category are as follows:

Plan Assets at December 31	2003	2002
Asset category		
Equity securities	61%	54%
Debt securities	35%	40%
Real estate	3%	4%
Other	1%	2%
Total	100%	100%

The Board of Directors has established the Employee Benefits Administrator Committee to manage the operations and administration of all benefit plans and related trusts. The Committee has an investment policy for the Pension Plan assets that establishes target asset allocations for the above listed asset classes as follows: Equity securities 60%, Debt securities 35%, and Real estate 5%. The Committee is committed to diversification to reduce the risk of large losses. To that end the Committee has adopted policies requiring that each asset class will be diversified, multiple managers with differing styles of management will be employed, and equity exposure will be limited to 70% of the total portfolio value. On a quarterly basis, the Committee reviews progress towards achieving the performance objectives of the pension plans and the individual managers.

WPS Resources postretirement benefit plans weighted-average asset allocations at December 31, 2003, and 2002, by asset category are as follows:

Plan Assets at December 31	2003	2002
Asset category		
Equity securities	63%	57%
Debt securities	27%	36%
Real estate	0%	0%
Other	10%	7%
Total	100%	100%

The Employee Benefits Administrator Committee has an investment policy for the postretirement plans' assets that establishes target asset allocations for the above listed asset classes as follows: Equity securities 65% and Debt securities 35%. The Committee is committed to diversification to reduce the risk of large losses. To that end, the Committee has adopted policies requiring that each asset class will be diversified, multiple managers with differing styles of management will be employed, and equity exposure will be limited to 70% of the total portfolio value. On a quarterly basis, the Committee reviews progress towards achieving the performance objectives of the other postretirement plans and the individual managers.

CASH FLOWS

WPS Resources expects to contribute $1.6 million to its pension plans and $18.7 million to its other postretirement benefit plans in 2004.

NONQUALIFIED PLANS

WPS Resources 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 $26.3 million at December 31, 2003, $19.7 million at December 31, 2002, and $17.9 million at December 31, 2001. The weighted average assumptions used to determine benefit obligations and net periodic benefit cost for the non-qualified plans are the same as the assumptions disclosed above for the qualified plans. Amounts recognized in the Consolidated Balance Sheets related to the non-qualified pension plans are as follows:

(Millions)	2003	2002
Accrued benefit cost	$(22.9)	$(18.8)
Intangible assets	2.9	3.5
Accumulated other comprehensive income (before tax effect of $2.7 million in 2003 and $1.8 million in 2002)	6.8	4.5
Net liability recognized	$(13.2)	$(10.8)

With the exception of Upper Peninsula Power's Supplemental Early Retirement Plan, the assets and liabilities related to the non-qualified pension plans are recorded on the Consolidated Balance Sheets of Wisconsin Public Service. The net periodic benefit cost is allocated to WPS Resources' subsidiaries in a similar manner to the qualified retirement plans, as discussed above. Included in the table above is an accrued benefit cost of $1.8 million at December 31, 2003, and 2002 related to Upper Peninsula Power's Supplemental Early Retirement Plan.

WPS Resources' net periodic benefit cost under these plans was $3.5 million in 2003, $2.4 million in 2002, and $2 million in 2001. The net periodic benefit costs allocated to Wisconsin Public Service under these plans was $2.8 million in 2003, $2.1 million in 2002, and $1.7 million in 2001. 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, 2003, Consolidated Balance Sheet. Because these adjustments were non-cash, their effect has been excluded from the accompanying Consolidated Statement of Cash Flows.

DEFINED CONTRIBUTION BENEFIT PLANS

WPS Resources maintains a 401(k) Savings Plan for substantially all full-time employees. Employees generally may contribute from 1% to 30% of their base compensation to individual accounts within the 401(k) Savings Plan. Participation in this plan automatically qualifies eligible non-union employees for participation in the Employee Stock Ownership Plan ("ESOP"). The company match, in the form of WPS Resources shares of common stock, is contributed to an employee's ESOP account. The plan requires a match equivalent to 100% of the first 4% and 50% of the next 2% contributed by non-union employees. Certain union employees receive a contribution to their ESOP account regardless of their participation in the 401(k) Savings Plan. The ESOP held 2.1 million shares of WPS Resources common stock (market value of approximately $96 million) at December 31, 2003. Total costs incurred under these plans were $5.7 million in 2003, $4.8 million in 2002, and $4.5 million in 2001. Wisconsin Public Service's share of the total costs was $4.6 million in 2003, $3.9 million in 2002, and $3.8 million in 2001.

WPS Resources maintains a deferred compensation plan that enables certain key employees and non-employee directors to defer a portion of their compensation or fees on a pre-tax basis. Key employees can defer up to 75% of their base compensation and up to 100% of any incentive awards. Non-employee directors can defer up to 100% of their director fees. There are essentially two separate investment programs available to plan participants, allowing them to direct the investment of deferrals into various investment fund equivalents offered by the plan. The first program ("Program 1") offers WPS Resources common stock as a hypothetical investment option for participants; deemed dividends paid on the common stock are automatically reinvested; and all distributions must be made in WPS Resources common stock. The second program ("Program 2") offers a variety of hypothetical investment options indexed to mutual funds, WPS Resources return on equity and WPS Resources common stock. Participants may not redirect investments between the two programs. All employee deferrals are remitted to Wisconsin Public Service and, therefore, the liabilities and costs associated with the deferred compensation plans are included on Wisconsin Public Service's Consolidated Balance Sheets and Consolidated Statements of Income, respectively.

Program 1 is accounted for as a plan that does not permit diversification. As a result, the deferred compensation arrangement is classified as an equity instrument and changes in the fair value of the deferred compensation obligation are not recognized. The deferred compensation obligation associated with Program 1 was $10.3 million at December 31, 2003, and $8.8 million at December 31, 2002.

Program 2 is accounted for as a plan that permits diversification. As a result, the deferred compensation obligation associated with this program is classified as a liability in the Consolidated Balance Sheets and adjusted, with a charge or credit to expense, to reflect changes in the fair value of the deferred compensation obligation. The obligation, classified within other long-term liabilities was $18.7 million at December 31, 2003, and $16.0 million at December 31, 2002. The cost incurred under Program 2 was $2.4 million in 2003, $1.6 million in 2002, and $1.4 million in 2001.

The deferred compensation programs are partially funded through WPS Resources common stock that is held in a rabbi trust. The common stock held in the rabbi trust is classified in equity in a manner similar to accounting for treasury stock. The total cost of WPS Resources common stock held in the rabbi trust was $6.5 million at December 31, 2003, and $5.4 million at December 31, 2002.

NOTE 20—PREFERRED STOCK OF 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	2003	2002
	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

All shares of preferred stock of all series constitute one class and are of equal rank except as to dividend rates and redemption terms. Payment of dividends from any earned surplus or other available surplus is not restricted by the terms of any indenture or other undertaking by Wisconsin Public Service. Each series of outstanding preferred stock is redeemable in whole or in part at Wisconsin Public Service's option at any time on 30 days' notice at the respective redemption prices. Wisconsin Public Service may not redeem less than all, nor purchase any, of its preferred stock during the existence of any dividend default.

In the event of Wisconsin Public Service's dissolution or liquidation, the holders of preferred stock are entitled to receive (a) the par value of their preferred stock out of the corporate assets other than profits before any of such assets are paid or distributed to the holders of common stock and (b) the amount of dividends accumulated and unpaid on their preferred stock out of the surplus or net profits before any of such surplus or net profits are paid to the holders of common stock. Thereafter, the remainder of the corporate assets, surplus and net profits shall be paid to the holders of common stock.

The preferred stock has no pre-emptive, subscription or conversion rights, and has no sinking fund provisions.

NOTE 21—COMMON EQUITY

Shares outstanding at December 31	2003	2002
Common stock, $1 par value, 200,000,000 shares authorized	36,830,556	32,040,875
Treasury stock	15,700	65,650
Average cost of treasury shares	$25.19	$23.62
Shares in deferred compensation rabbi trust	192,880	166,446
Average cost of deferred compensation rabbi trust shares	$33.72	$32.29

As part of a merger with Wisconsin Fuel and Light into Wisconsin Public Service, 1,763,871 shares of common stock were issued on April 1, 2001, to former Wisconsin Fuel and Light shareholders.

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.

On November 24, 2003, 4,025,000 shares of WPS Resources common stock were issued at $43.00 per share and resulted in a net increase in equity of $166.8 million.

Treasury shares at December 31, 2003, relate to our Non-Employee Directors Stock Option Plan. The number of stock options granted under this plan may not exceed 100,000 shares. All options under this plan have a ten-year life, but may not be exercised until one year after the date of grant.

Effective January 2001, we began issuing new stock under our Stock Investment Plan and under certain of our stock-based employee benefit plans. These stock issues increased equity $31.0 million in 2003 and $28.3 million in 2002. WPS Resources also repurchased $1.1 million of existing common stock for stock-based compensation plans in 2003.

Reconciliation of Common Shares	Common Stock Shares Outstanding
Balance at December 31, 2000	26,409,470
Common stock offering	2,300,000
Wisconsin Fuel and Light Merger	1,763,871
Stock issued for Stock Incentive Plan and other stock-based employee benefit plans	581,392
Stock issued from Treasury Stock	29,333
Stock repurchased for stock-based compensation plans	(30,816)
Balance at December 31, 2001	31,053,250
Stock Incentive Plan and other stock-based employee benefit plans	544,578
Stock issued from Treasury Stock	241,402
Stock repurchased for stock-based compensation plans	(30,451)
Balance at December 31, 2002	31,808,779
Common stock offering	4,025,000
Stock Incentive Plan and other stock-based employee benefit plans	764,681
Stock issued from Treasury Stock	49,950
Stock repurchased for stock-based compensation plans	(26,434)
Balance at December 31, 2003	36,621,976

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, 2003, we had $416.1 million of retained earnings available for dividends.

Earnings per share is computed by dividing 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 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 following table reconciles the computation of basic and diluted earnings per share:

Reconciliation of Earnings Per Share ***(Millions, except per share amounts)***	2003	2002	2001
Income available for common shareholders	$94.7	$109.4	$77.6
Basic weighted average shares	33.0	31.7	28.2
Incremental issuable shares	0.2	0.3	0.1
Diluted weighted average shares	33.2	32.0	28.3
Basic earnings per common share	$2.87	$3.45	$2.75
Diluted earnings per common share	$2.85	$3.42	$2.74

NOTE 22—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.

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 400,000 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 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. In 2003, stock options were granted under the 2001 Omnibus Plan on February 10 and December 10, having exercise prices of $38.25 and $44.73, respectively. The 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 issued thereunder must 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. No additional stock options are expected to be issued under this plan.

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 was estimated using the Black-Scholes stock option pricing model and the following assumptions for each grant date.

	Annual Dividend Yield	Expected Volatility	Risk-Free Interest Rate
July 12, 2001	6.58%	20.93%	5.54%
December 13, 2001	6.60%	20.19%	5.62%
January 28, 2002	6.60%	20.53%	5.40%
April 11, 2002	6.58%	19.53%	5.57%
December 12, 2002	6.23%	20.08%	4.43%
February 10, 2003	6.23%	19.97%	4.40%
December 10, 2003	5.68%	18.25%	4.65%
Expected life (in years)	10		

A summary of the status of the stock option plans as of December 31, 2003, is presented below:

Stock Options	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year		
Omnibus plan	663,548	$36.1131
Employee plan	492,021	31.5572
Director plan	19,400	25.4762
Granted during 2003		
Omnibus plan	335,424	44.5601
Exercised during 2003		
Omnibus plan	4,420	34.6538
Employee plan	207,150	29.4879
Director plan	3,700	25.4375
Forfeited during 2003		
Omnibus plan	875	36.3014
Employee plan	1,250	23.1875
Outstanding at end of year		
Omnibus plan	993,677	38.9707
Employee plan	283,621	33.1055
Director plan	15,700	25.4853
Options exercisable at year-end		
Omnibus plan	241,076	35.4684
Employee plan	225,116	33.0890
Director plan	15,700	25.4852
Weighted-average fair value of options granted during 2003		
Omnibus plan	$4.53	

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	

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2003, under the 2001 Omnibus Plan.

Exercise Prices	Options Outstanding	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
$34.0900	303,223	$34.0900	150,042	$34.0900	8
34.3800	14,479	34.3800	6,693	34.3800	8
36.3800	500	36.3800	125	36.3800	8
37.9600	335,051	37.9600	82,966	37.9600	8
41.2900	5,000	41.2900	1,250	41.2900	8
38.2500	8,797	38.2500	-	-	10
44.7300	326,627	44.7300	-	-	10
	993,677	$38.9707	241,076	$35.4684	

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2003, under the 1999 Stock Option Plan.

Exercise Prices	Options Outstanding	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
$29.8750	76,700	$29.8750	76,700	$29.8750	6
23.1875	8,000	23.1875	-	-	6
34.7500	198,921	34.7500	148,416	34.7500	7
	283,621	$33.1055	225,116	$33.0890	

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2003, under the 1999 Non-Employee Director Stock Option Plan.

Exercise Prices	Options Outstanding and Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)
$25.4375	12,700	$25.4375	6
25.6875	3,000	25.6875	6
	15,700	$25.4852	

In the Oshkosh, Wisconsin, warehouse, Ket Vongsa, Supply Clerk, keeps an eye on inventory levels for Wisconsin Public Service.

NOTE 23—REGULATORY ENVIRONMENT

WISCONSIN

Effective March 21, 2003, Wisconsin Public Service received approval to increase Wisconsin retail electric rates $21.4 million (3.5%) and decrease Wisconsin retail natural gas rates $1.2 million (0.3%). The new retail electric and natural gas rates reflect a 12.0% return on equity and allowed average equity of 55% of total capital.

The amount of fuel and purchased power costs Wisconsin Public Service is authorized to recover in rates is established in the general rate filing. If the actual fuel and purchased power costs vary from the authorized level by more than 2% on an annual basis, Wisconsin Public Service is allowed, or may be required, to file an application adjusting rates for the remainder of the year to reflect actual costs for the year to date and updated projected costs. On October 29, 2003, Wisconsin Public Service filed to reduce rates by $1.9 million, due to a reduction in the costs of fuel and purchased power, for the period August 15, 2003, through December 31, 2003. On February 19, 2004, the Public Service Commission of Wisconsin approved a refund of $2.7 million, which represents the originally filed amounts, adjustments and interest. This refund will be credited to customer accounts in March 2004. A liability of $2.6 million was accrued as of December 31, 2003, in anticipation of this refund.

As a result of the Kewaunee nuclear power plant unplanned outage in late January and early February 2004, and other fuel cost increases in 2004, Wisconsin Public Service filed for a fuel cost increase of $7.4 million on February 27, 2004. The Public Service Commission of Wisconsin has scheduled a hearing for March 22, 2004, to determine the amount of the fuel cost increase to be recorded on an interim basis. Wisconsin Public Service expects that a final order will be issued in summer 2004 regarding this rate increase.

On April 1, 2003, Wisconsin Public Service filed an application with the Public Service Commission of Wisconsin for authorization to increase electric rates and natural gas rates, effective January 1, 2004. The rate increases are necessary to recover the costs associated with the purchase of the De Pere Energy Center, fuel costs, maintenance of power production facilities and employee benefits. On December 19, 2003, the Public Service Commission of Wisconsin issued a final written order authorizing a retail electric rate increase of $59.4 million (9.4%) and a retail natural gas rate increase of $8.9 million (2.2%), effective January 1, 2004. The new rates reflect a 12.0% return on equity and allowed average equity of 56% of total capital.

MICHIGAN

Wisconsin Public Service filed for an increase in retail electric rates in the first quarter of 2003. On July 21, the Michigan Public Service Commission authorized an increase in retail electric rates of $0.3 million and the recovery of an additional $1.0 million of transmission costs through the power supply cost recovery mechanism, effective July 22, 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 Michigan Public Service Commission granted an 11.4% return on equity with the new rates being effective December 21, 2002. This was the first base rate increase for Upper Peninsula Power in 10 years.

Michigan authorizes a one-for-one fuel and purchased power recovery mechanism for prudently incurred costs. Under the mechanism, the difference between actual and authorized fuel and purchased power costs is deferred until year-end. By March 31 of the following year, the utility must file a reconciliation of the actual costs to the authorized costs. Any under or over recovery is then recovered from or returned to ratepayers through the end of the following year. The reconciliation is subject to review and intervention by customers. At December 31, 2003, Upper Peninsula Power had significantly under recovered fuel and purchased power costs due to the high costs of purchased power. Upper Peninsula Power intends to file, in March 2004, a reconciliation of the 2003 costs requesting recovery of $5.2 million. In addition, the costs associated with the Presque Isle Power Plant outage have been deferred and are expected to be addressed along with other Dead Flood issues in the next rate case. Upper Peninsula Power expects a final decision regarding the recovery of the 2003 fuel costs no later than the end of 2004. Due to the level of the under recovery relative to Upper Peninsula Power's revenues, the deferred cost may be recovered over more than one year.

FEDERAL

On April 30, 2003, Wisconsin Public Service received a draft order from the Federal Energy Regulatory Commission approving a 21%, or $4.1 million, interim increase in wholesale electric rates. The new wholesale rates were effective on May 11, 2003, and are subject to refund if the final rate increase is less. The draft order also granted the use of formula rates, which allow for the adjustment of wholesale electric rates to reflect actual costs without having to file additional rate requests. On March 4, 2004, the Federal Energy Regulatory Commission and Wisconsin Public Service reached a tentative settlement regarding the final rate increase. Wisconsin Public Service anticipates no material refunds or other adjustments to revenues recorded under the interim rates based on the terms of the tentative agreement. The final settlement is anticipated to be filed with the Federal Energy Regulatory Commission in the second quarter of 2004. This was Wisconsin Public Service's first rate increase for its wholesale electric customers in 17 years.

NOTE 24—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. Wisconsin Public Service's revenues are primarily derived from the service of electric and natural gas retail customers in northeastern and central Wisconsin and an adjacent part of Upper Michigan. Wisconsin Public Service also provides wholesale electric service to various customers, including municipal utilities, electric cooperatives, energy marketers, other investor-owned utilities, and a municipal joint action agency. Portions of Wisconsin Public Service's electric and gas operations cannot be specifically identified as electric or gas and instead are allocated using either actual labor hours, revenues, number of customers, or number of meters. Upper Peninsula Power derives revenues from the sale of electric energy in the Upper Peninsula of Michigan.

Our other reportable segments include WPS Energy Services and WPS Power Development. WPS Energy Services offers nonregulated natural gas, electric and alternate fuel supplies as well as energy management and consulting services to retail and wholesale customers primarily in the northeastern quadrant of the United States and adjacent portions of Canada. Although WPS Energy Services has a widening array of products and services, revenues are primarily derived through sales of electricity and natural gas. WPS Energy Services' marketing and trading operations manage power and natural gas procurement as an integrated portfolio with its retail and wholesale sales commitments. Electricity required to fulfill these sales commitments was procured primarily from independent generators, energy marketers, and organized electric power markets. Natural gas was purchased from a variety of suppliers under daily, monthly, seasonal, and long-term contracts with pricing delivery and volume schedules to accommodate customer requirements. WPS Energy Services' customers include utilities, municipalities, cooperatives, commercial and industrial consumers, aggregators, and other marketing and retail entities.

WPS Power Development competes in the wholesale merchant electric power generation industry, primarily in the midwest and northeastern United States and adjacent portions of Canada. WPS Power Development's core competencies include power plant operation and maintenance, waste disposal, and material condition assessment of assets. Revenues are derived primarily through the sale of capacity and energy generated from plant assets through wholesale outtake contracts and into liquid financial markets, primarily the PJM (Pennsylvania, New Jersey, and Maryland), New York and NEPOOL (New England Power Pool) markets, at spot prices or day ahead prices.

The Holding Company and Other segment includes the operations of WPS Resources and WPS Resources Capital Corporation as holding companies and the nonutility activities at Wisconsin Public Service and Upper Peninsula Power. The tables below present information for the respective years pertaining to our operations segmented by lines of business.

Deanna Francisco leads e-Business Development and Services at Wisconsin Public Service. In 2003, http://www.wisconsinpublicservice.com won an Outstanding Web Site Award from the Web Marketing Association for easy navigation and customer-focused design.

Segments of Business *(Millions)* 2003	Regulated Utilities			Nonutility and Nonregulated Operations				
	Electric Utility *	Gas Utility *	Total Utility *	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
External revenues	$ 785.6	$398.1	$1,183.7	$3,063.2	$ 74.3	$ 0.1	$ –	$4,321.3
Internal revenues	28.5	6.1	34.6	18.0	8.1	1.1	(61.8)	–
Depreciation and decommissioning	112.8	14.3	127.1	1.8	8.9	0.6	–	138.4
Miscellaneous income	43.6	1.3	44.9	1.2	(5.0)	30.7	(8.2)	63.6
Interest expense	24.9	6.7	31.6	0.5	2.8	27.3	(6.6)	55.6
Provision for income taxes	33.9	9.2	43.1	17.4	(24.2)	(2.6)	–	33.7
Discontinued operations	–	–	–	0.3	(16.3)	–	–	(16.0)
Cumulative effect of change in accounting principle	–	–	–	3.3	(0.3)	–	0.2	3.2
Income available for common shareholders	60.0	15.7	75.7	29.0	(7.9)	(2.1)	–	94.7
Balance Sheet								
Total assets	2,102.1	497.0	2,599.1	1,162.7	373.8	305.0	(148.3)	4,292.3
Cash expenditures for long-lived assets	131.0	40.7	171.7	1.4	3.3	(0.2)	–	176.2

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Millions)* 2002	Regulated Utilities			Nonutility and Nonregulated Operations				
	Electric Utility *	Gas Utility *	Total Utility *	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
External revenues	$ 741.6	$308.7	$1,050.3	$358.8	$ 51.8	$ 0.2	$ –	$1,461.1
Internal revenues	21.5	2.0	23.5	2.4	7.6	1.1	(34.6)	–
Depreciation and decommissioning	72.6	13.3	85.9	1.1	7.3	0.5	–	94.8
Miscellaneous income	6.3	0.3	6.6	1.8	27.7	19.8	(8.1)	47.8
Interest expense	28.7	6.3	35.0	1.6	3.4	22.4	(6.6)	55.8
Provision for income taxes	31.9	12.4	44.3	6.6	(18.3)	(3.6)	(0.3)	28.7
Discontinued operations	–	–	–	0.6	(6.6)	–	–	(6.0)
Income available for common shareholders	61.0	18.4	79.4	11.0	24.0	(5.0)	–	109.4
Balance Sheet								
Total assets	1,816.7	513.9	2,330.6	877.2	358.1	172.7	(67.4)	3,671.2
Cash expenditures for long-lived assets	164.3	34.0	198.3	0.8	8.2	3.0	–	210.3

* Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business *(Millions)* 2001	Regulated Utilities			Nonutility and Nonregulated Operations				
	Electric Utility *	Gas Utility *	Total Utility *	WPS Energy Services	WPS Power Development	Other	Reconciling Eliminations	WPS Resources Consolidated
Income Statement								
External revenues	$ 654.4	$320.6	$ 975.0	$322.3	$ 47.9	$ 0.2	$ –	$1,345.4
Internal revenues	21.3	1.0	22.3	4.3	8.7	1.1	(36.4)	–
Depreciation and decommissioning	66.4	11.7	78.1	0.7	4.9	0.4	–	84.1
Miscellaneous income	14.5	0.2	14.7	1.1	2.6	27.2	(8.1)	37.5
Interest expense	28.3	6.0	34.3	0.2	4.2	23.0	(8.3)	53.4
Provision for income taxes	31.6	5.9	37.5	3.5	(29.9)	(1.8)	(0.1)	9.2
Discontinued operations	–	–	–	0.9	(7.8)	–	–	(6.9)
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	1,725.9	482.6	2,208.5	720.1	323.1	167.7	(72.9)	3,346.5
Cash expenditures for long-lived assets	175.8	24.9	200.7	10.9	27.7	5.0	–	244.3

* Includes only utility operations. Nonutility operations are included in the Other column.

Geographic Information (Millions)	2003 Revenues	2003 Long-Lived Assets	2002 Revenues	2002 Long-Lived Assets	2001 Revenues
United States	$3,749.6	$2,618.4	$1,407.4	$2,358.5	$1,343.1
Canada	571.7	24.1	53.7	25.5	2.3
Total	$4,321.3	$2,642.5	$1,461.1	$2,384.0	$1,345.4

NOTE 25—QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Three Months Ended				
	2003				
(Millions, except for share amounts)	March	June	September	December	Total
Operating revenues [1]	$1,281.8	$971.9	$989.3	$1,078.3	$4,321.3
Operating income	57.4	10.5	52.5	10.3	130.7
Income from continuing operations	35.7	9.2	33.3	32.4	110.6
Net income before cumulative effect of change in accounting principles	30.6	3.5	34.8	25.7	94.6
Income available for common shareholders	33.0	2.7	34.1	24.9	94.7
Average number of shares of common stock (basic)	32.1	32.4	32.6	34.5	33.0
Average number of shares of common stock (diluted)	32.4	32.7	32.9	34.8	33.2
Earnings per common share (basic) [2]					
Income from continuing operations	$1.09	$0.26	$1.00	$0.92	$3.26
Net income before cumulative effect of change in accounting principles	0.93	0.08	1.05	0.72	2.77
Earnings per common share (basic)	1.03	0.08	1.05	0.72	2.87
Earnings per common share (diluted) [2]					
Income from continuing operations	$1.08	$0.26	$0.99	$0.91	$3.24
Net income before cumulative effect of change in accounting principles	0.92	0.08	1.04	0.72	2.75
Earnings per common share (diluted)	1.02	0.08	1.04	0.72	2.85

	2002				
(Millions, except for share amounts)	March	June	September	December	Total
Operating revenues [1]	$380.3	$310.5	$350.6	$419.7	$1,461.1
Operating income	48.8	22.8	45.7	37.9	155.2
Income from continuing operations	32.1	23.6	29.9	32.9	118.5
Income available for common shareholders	28.1	21.7	30.5	29.1	109.4
Average number of shares of common stock (basic)	31.4	31.7	31.9	32.0	31.7
Average number of shares of common stock (diluted)	31.6	31.9	32.1	32.2	32.0
Earnings per common share (basic) [2]					
Income from continuing operations	$1.00	$0.72	$0.91	$1.01	$3.64
Earnings per common share (basic)	0.89	0.68	0.96	0.91	3.45
Earnings per common share (diluted) [2]					
Income from continuing operations	$0.99	$0.71	$0.91	$1.00	$3.61
Earnings per common share (diluted)	0.89	0.68	0.95	0.90	3.42

(1) Revenue have been reclassified, including revenues related to discontinued operation, to conform to current year presentation.

(2) 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.

Because of various factors, which affect the utility business, the quarterly results of operations are not necessarily comparable.

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 independent directors, which actively assists our Board in its role of overseeing our financial reporting process and system of internal control. Our independent public accountants are hired by and have full and free access to the Audit Committee. We also have 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.

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, 2003 and 2002, 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, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for certain energy trading contracts to adopt EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." As discussed in Notes 1 and 16 to the consolidated financial statements, effective January 1, 2003, the Company changed its method of accounting for asset retirement obligations to adopt Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

Deloitte + Touche LLP

Deloitte & Touche LLP
Milwaukee, Wisconsin
March 10, 2004

Financial Statistics

Scott Bunker (foreground), Distribution Operations Center Dispatcher; Steven Heller, System Operating Supervisor; and Neil Hermus, Superintendent of the Distribution Operations Center; monitor gas and electric distribution facilities from the Green Bay headquarters of Wisconsin Public Service. They quickly respond to problems and maintain service to customers.

As of or for Year Ended December 31 *(Millions, except per share amounts, stock price, return on average equity, and number of shareholders and employees)*	2003	2002	2001	2000	1999
Total revenues *	$4,321.3	$1,461.1	$1,345.4	$1,094.1	$1,086.5
Income from continuing operations	110.6	118.5	87.6	75.6	61.9
Income available for common shareholders	94.7	109.4	77.6	67.0	59.6
Total assets	4,292.3	3,671.2	3,346.5	3,202.7	2,185.1
Preferred stock of subsidiaries	51.1	51.1	51.1	51.1	51.2
Long-term debt and capital lease obligation (excluding current portion)	871.9	824.4	727.8	660.0	584.5
Shares of common stock (less treasury stock and shares in deferred compensation trust)					
Outstanding	36.6	31.8	31.1	26.4	26.8
Average	33.0	31.7	28.2	26.5	26.6
Earnings per common share (basic)					
Income from continuing operations	$3.26	$3.64	$3.00	$2.74	$2.21
Earnings per common share	2.87	3.45	2.75	2.53	2.24
Earnings per common share (diluted)					
Income from continuing operations	3.24	3.61	2.99	2.74	2.21
Earnings per common share	2.85	3.42	2.74	2.53	2.24
Dividend per share of common stock	2.16	2.12	2.08	2.04	2.00
Stock price at year-end	$46.23	$38.82	$36.55	$36.81	$25.13
Book value per share	$27.40	$24.62	$23.02	$20.76	$20.01
Return on average equity	11.50%	14.60%	12.80%	12.30%	11.30%
Number of common stock shareholders	22,172	22,768	23,478	24,029	25,020
Number of employees	3,080	2,963	2,856	3,030	2,900

* Revenues increased $2,860.2 million in 2003 compared to 2002. Approximately $1,127 million of the increase relates to WPS Energy Services' required adoption of Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," effective January 1, 2003. Volume growth driven by WPS Energy Services' acquisition of a retail natural gas business in Canada accounted for another $500 million of the increase. The remaining increase in revenues was primarily related to increased natural gas prices at Wisconsin Public Service and WPS Energy Services and electric rate increases at the utilities.

Board of Directors *

Richard A. Bemis
Age 62
Sheboygan Falls, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)
Audit Committee (Chair)

Albert J. Budney, Jr.
Age 56
Cazenovia, New York
Former President
Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation
(Director since 2002)
Audit Committee
Governance Committee (Chair)

Ellen Carnahan
Age 48
Chicago, Illinois
Managing Director
William Blair Capital Partners, LLC
(Director since 2003)
Governance Committee

Robert C. Gallagher
Age 65
Green Bay, Wisconsin
Chairman of the Board
Associated Banc-Corp
(Director since 1992)
Compensation Committee
Financial Committee

Kathryn M. Hasselblad-Pascale
Age 55
Green Bay, Wisconsin
Managing Partner
Hasselblad Machine Company, LLP
(Director since 1987)
Compensation Committee (Chair)

Officers **

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 58/Years of service 18

Thomas P. Meinz
Senior Vice President - Public Affairs
Age 57/Years of service 34

Phillip M. Mikulsky
Senior Vice President - Development
Age 55/Years of service 32

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer
Age 49/Years of service 2

Charles A. Schrock
Senior Vice President
Age 50/Years of service 24

Diane L. Ford
Vice President - Controller and Chief Accounting Officer
Age 50/Years of service 28

Richard E. James
Vice President - Corporate Planning
Age 50/Years of service 28

Neal A. Siikarla
Vice President
Age 56/Years of service 5

Bernard J. Treml
Vice President - Human Resources
Age 54/Years of service 31

William L. Bourbonnais, Jr.
Assistant Vice President - Transmission
Age 58/Years of service 35

Barbara A. Nick
Assistant Vice President - Corporate Services
Age 45/Years of service 19

Glen R. Schwalbach
Assistant Vice President - Corporate Planning
Age 58/Years of service 35

Barth J. Wolf
Secretary and Manager - Legal Services
Age 46/Years of service 15

Bradley A. Johnson
Treasurer
Age 49/Years of service 24

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 58/Years of service 18

Thomas P. Meinz
Senior Vice President - Public Affairs
Age 57/Years of service 34

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer
Age 49/Years of service 2

Lawrence T. Borgard
Vice President - Distribution and Customer Service
Age 42/Years of service 19

Diane L. Ford
Vice President - Controller and Chief Accounting Officer
Age 50/Years of service 28

David W. Harpole
Vice President - Energy Supply
Age 48/Years of service 26

Bernard J. Treml
Vice President - Human Resources
Age 54/Years of service 31

Charles A. Cloninger
Assistant Vice President - Operations and Engineering
Age 45/Years of service 22

James F. Schott
Assistant Vice President - Regulatory Affairs
Age 46/Years of service 1

Barth J. Wolf
Secretary and Manager - Legal Services
Age 46/Years of service 15

Bradley A. Johnson
Treasurer
Age 49/Years of service 24

Jerome J. Myers ***
Assistant Treasurer
Age 58/Years of service 35

Janet K. McKee
Assistant Treasurer
Age 50/Years of service 7

Pamela R. Clausen
Assistant Controller
Age 53/Years of service 16

James L. Kemerling
Age 64
Wausau, Wisconsin
President and Chief Executive Officer
Riiser Oil Company, Inc.
Chairman and Chief Executive Officer
Award Hardwood Floors, LLP
(Director since 1988)
Financial Committee (Chair)

John C. Meng
Age 59
Green Bay, Wisconsin
Chairman of the Board
Schreiber Foods, Inc.
(Director since 2000)
Compensation Committee
Financial Committee

William F. Protz, Jr.
Age 59
Northfield, Illinois
Consultant and Former President and Chief Executive Officer
Santa's Best
(Director since 2001)
Audit Committee
Governance Committee

Larry L. Weyers
Age 58
Green Bay, Wisconsin
Chairman, President, and Chief Executive Officer
WPS Resources Corporation
(Director since 1996)

** Age, title, and committee membership are as of December 31, 2003.*

WPS Energy Services Inc.

Phillip M. Mikulsky
Chief Executive Officer
Age 55/Years of service 32

Mark A. Radtke
President
Age 42/Years of service 20

Daniel J. Verbanac
Senior Vice President
Age 40/Years of service 19

Mark W. Stiers
Chief Operating Officer - Quest Energy
Age 41/Years of service 1

Richard J. Bissing
Vice President
Age 43/Years of service 14

Darrell W. Bragg
Vice President
Age 44/Years of service 8

Boris A. Brevnov
Vice President - Business Development and Implementation
Age 35/Years of service 1

Michael W. Charles
Vice President - Asset Development
Age 54/Years of service 26

Bruce A. Rizor
Vice President - Structured Energy Trading
Age 42/Years of service 4

Ruqaiyah Z. Stanley
Vice President
Age 49/Years of service 5

Barth J. Wolf
Secretary
Age 46/Years of service 15

Bradley A. Johnson
Treasurer
Age 49/Years of service 24

Gregory C. Lower
Controller
Age 49/Years of service 2

WPS Power Development Inc.

Phillip M. Mikulsky
President
Age 55/Years of service 32

Terry P. Jensky
Vice President - Operations
Age 50/Years of service 26

Barth J. Wolf
Secretary
Age 46/Years of service 15

Bradley A. Johnson
Treasurer
Age 49/Years of service 24

George R. Wiesner
Controller
Age 46/Years of service 19

UPPCO — Upper Peninsula Power Company

Thomas P. Meinz
Chairman and Chief Executive Officer
Age 57/Years of service 34

Lawrence T. Borgard
President
Age 42/Years of service 19

Gary W. Erickson
Vice President
Age 61/Years of service 35

Barth J. Wolf
Secretary
Age 46/Years of service 15

Bradley A. Johnson
Treasurer
Age 49/Years of service 24

*** Title, age, and years of service are as of December 31, 2003. Years of service take into consideration service with WPS Resources Corporation or a system company.*

**** Retired December 31, 2003.*

Investor Information

Shareholder Inquiries

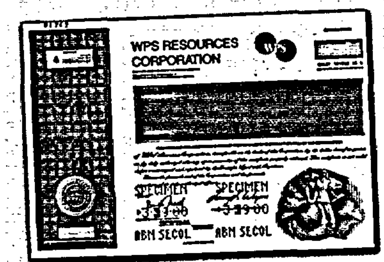
Our transfer agent, American Stock Transfer & Trust Company, can be reached via telephone between the hours of 7:00 a.m. and 6:00 p.m., Central time, Monday through Thursday, or 7:00 a.m. and 4:00 p.m., Central time, Friday, by calling 800-236-1551. You also have direct access to your account through 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 that 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, 2003, we had 36,621,976 shares of common stock outstanding, which were owned by 22,172 holders of record.

Year Ended December 31 *(By Quarter)*		Dividends Per Share	Price Range High	Price Range Low
2003	1st quarter	$ .535	$41.18	$36.80
	2nd quarter	.535	44.28	39.53
	3rd quarter	.545	41.60	38.28
	4th quarter	.545	46.80	40.94
		$2.160		
2002	1st quarter	$ .525	$39.93	$35.65
	2nd quarter	.525	42.68	37.00
	3rd quarter	.535	41.12	30.47
	4th quarter	.535	39.95	32.64
		$2.120		

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.

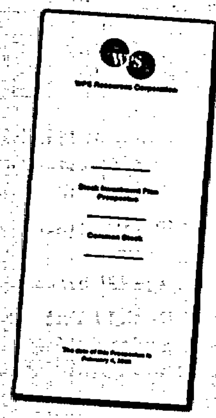
Anticipated record and payment dates for common stock dividends paid in 2004 are:

Record Date	Payment Date
February 27	March 20
May 28	June 19
August 31	September 20
November 30	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 third 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 2004 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 Company at the address on the back of this report or use their Web site at http://www.amstock.com.

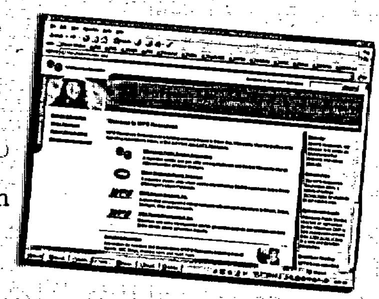
Availability of Information

Company financial information is available on the Internet. The address is http://www.wpsr.com.

It is anticipated that 2004 quarterly earnings information will be released on April 21, July 21, and October 20 in 2004 and on January 26 in 2005.

You may obtain, without charge, a copy of our 2003 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 about 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 13, 2004, 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 13, 2004, Annual Shareholders' Meeting were mailed to shareholders of record on April 8, 2004.

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.

Corporate Governance Information

Corporate governance information, including our Corporate Governance Guidelines, our Code of Conduct, and charters for the committees of our Board of Directors, is available on our Web site at http://www.wpsr.com under Investor Information. You may also obtain the information by written request to the Corporate Secretary at the mailing address for the corporate office indicated on the back cover of this report.

WPS Resources Corporation

Corporate Office

700 North Adams Street
Green Bay, WI 54301

Mailing Address
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001

Telephone
920-433-4901

Fax
920-433-1526

Web Site
http://www.wpsr.com

Investor Relations

WPS Resources Corporation
700 North Adams Street
Green Bay, WI 54301

Mailing Address
WPS Resources Corporation
P. O. Box 19001
Green Bay, WI 54307-9001

Telephone
920-433-1050 or
920-433-1857

E-Mail
investor@wpsr.com

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

Transfer Agent and Registrar

For General Information
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Web Site
http://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)

Wisconsin Utility Investors, Inc.
Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of more than 16,000 shareholders in Wisconsin utilities. 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 or by e-mail at contact@wuiinc.org.

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 10% post-consumer fiber, using environmentally conscientious vegetable inks.

Subjects in photos were not placed in unsafe conditions for the production of this Annual Report.