Kewaunee Nuclear Power Plant
Operated by Nuclear Management Company, LLC

April 27, 2005

NRC-05-050
10 CFR 50.71(b)

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

Kewaunee Nuclear Power Plant
Docket 50-305
License No. DPR-43

2004 Annual Financial Reports

Enclosed please find one copy of the 2004 Annual Financial Report for WPS Resources Corporation, and one copy of the 2004 Annual Financial Report for Alliant Energy Corporation. The enclosed reports are submitted in accordance with the requirements of 10 CFR 50.71(b).

Craig W. Lambert
Site Vice President, Kewaunee Nuclear Power Plant
Nuclear Management Company, LLC

Enclosures (2)

cc: Administrator, Region III, USNRC (w/o enclosures)
Resident Inspector, Kewaunee, USNRC (w/o enclosures)

M004

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ENCLOSURE 1

WPS RESOURCES CORPORATION - 2004 ANNUAL REPORT

ENCLOSURE 2

ALLIANT ENERGY CORPORATION - 2004 ANNUAL REPORT

energy
TO BELIEVE IN

WPS Resources Corporation

2004 ANNUAL REPORT

highlights

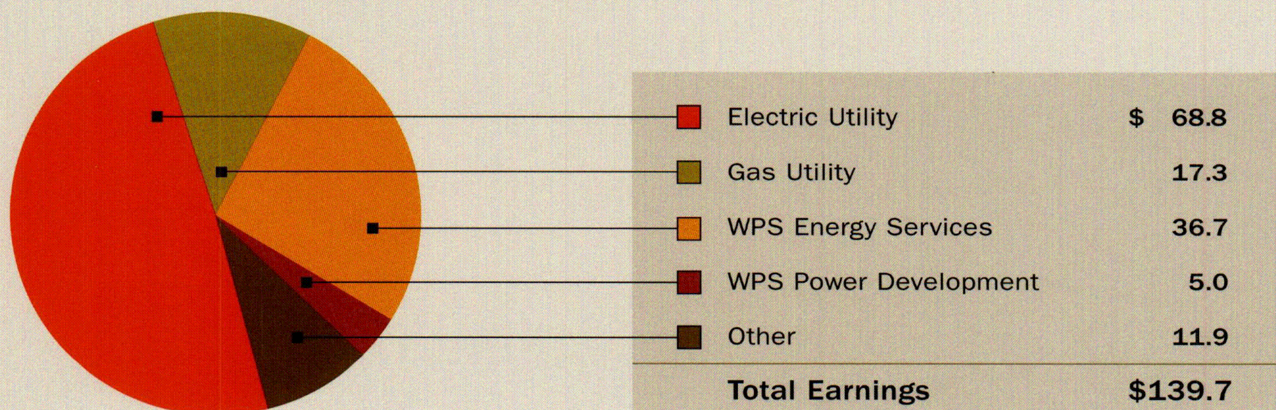
Year Ended December 31	2004	2003	Percent Change
Consolidated revenues – nonregulated *(Millions)* *	**$3,598.6**	$3,137.6	14.7
Consolidated revenues – utility *(Millions)* *	**1,292.0**	1,183.7	9.1
Margins – nonregulated *(Millions)*	**139.8**	121.0	15.5
Margins – utility *(Millions)*	**715.8**	651.4	9.9
Income from continuing operations *(Millions)* *	**156.2**	110.6	41.2
Income available for common shareholders *(Millions)*	**139.7**	94.7	47.5
Earnings per average share of common stock			
Income from continuing operations – basic *	**$4.09**	$3.26	25.5
Income from continuing operations – diluted *	**4.07**	3.24	25.6
Income available for common shareholders – basic	**3.74**	2.87	30.3
Income available for common shareholders – diluted	**3.72**	2.85	30.5
Dividends per share	**$ 2.20**	$ 2.16	1.9
Book value per share	**29.30**	27.40	6.9
Common stock price at year end	**$49.96**	$46.23	8.1
Shares outstanding at year end (excludes treasury stock and shares in deferred compensation trust)	**37,259,553**	36,621,976	1.7
Total assets *(Millions)*	**$4,445.6**	$4,292.3	3.6

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

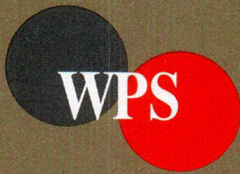
Cash Flow Summary

Year Ended December 31 *(Millions)*	2004	2003	2002
Net cash operating activities	**$243.0**	$ 62.4	$188.5
Net cash investing activities	**(312.6)**	(244.0)	(265.4)
Net cash financing activities	**76.8**	198.6	93.1
Change in cash and cash equivalents – continuing operations	**$ 7.2**	$ 17.0	$ 16.2

2004 Earnings By Segment *(Millions)*



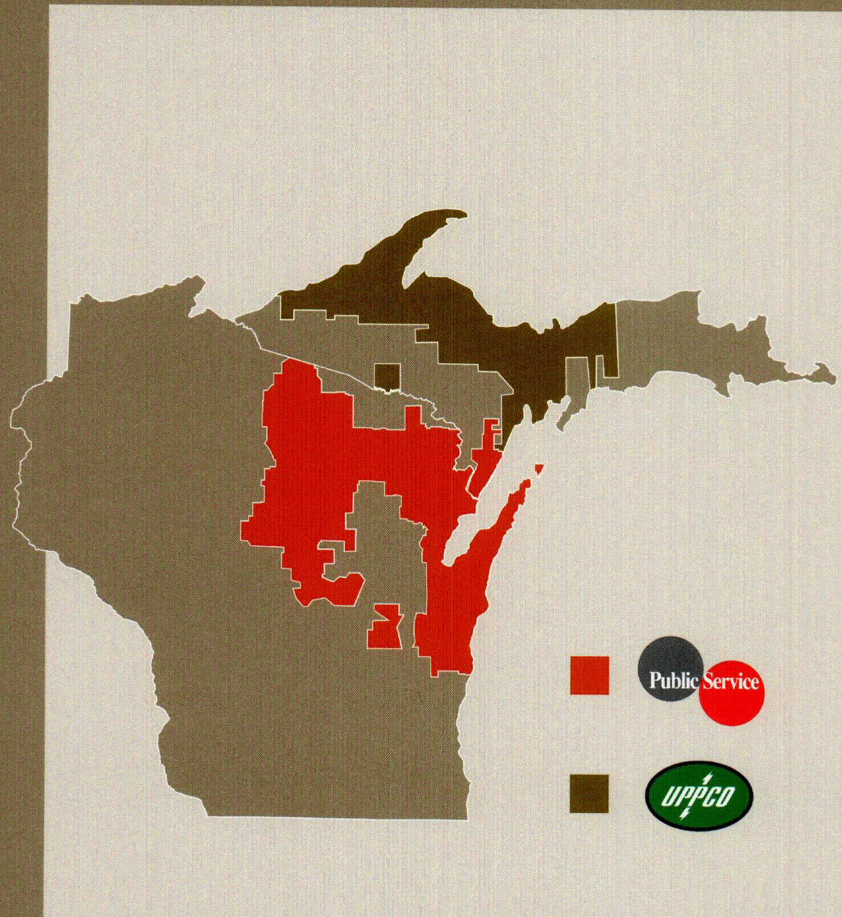
AT A GLANCE



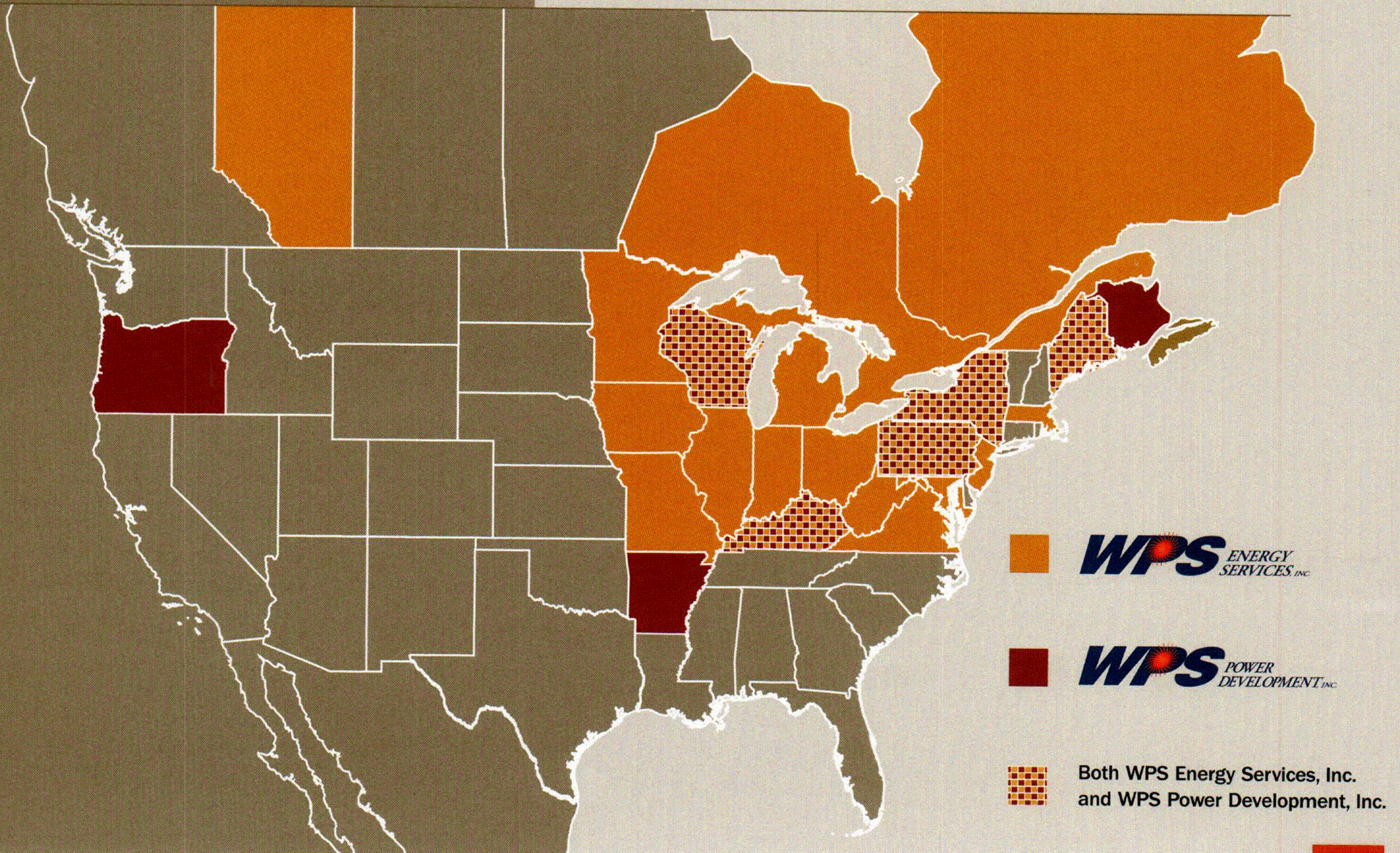
WPS Resources Corporation

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

Regulated Operations



Nonregulated Operations



Wisconsin Public Service Corporation

Business

- Established in 1883.
- Regulated electric and natural gas utility.
- Operates in northeast and central Wisconsin and an adjacent portion of Upper Michigan (see map at left).
- 2,462 employees.

Market

- Serves 421,240 electric and 305,648 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 66% and natural gas operations accounted for 34% of 2004 revenues.
- Electric revenues are comprised of 87% retail sales and 13% wholesale sales.
- Wisconsin customers accounted for 97% and Michigan customers accounted for 3% of 2004 revenues.

Facilities

- Electric generating capacity based on 2005 summer capacity ratings is 2,198 megawatts, including share of jointly owned facilities. A peak demand was reached on July 20, 2004, with a system demand of 2,180 megawatts.
- Electric property includes 20,897 miles of electric distribution lines, 90% of which are operated at 24.9 kV.
- Gas property includes 7,483 miles of gas main, 70% of which is plastic main, and 86 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 at left).
- 174 employees.

Market

- Serves 51,941 electric customers in 99 communities.
- Provides electric energy to 36 wholesale customers.
- Main industries served are forest products, tourism, and small manufacturing.
- Electric revenues are comprised of 83% retail sales and 17% wholesale sales.

Facilities

- Electric generating capacity based on 2005 summer capacity ratings is 78 megawatts. A peak demand was reached on January 29, 2004, with a system demand of 149 megawatts.
- Electric property includes 3,070 miles of electric distribution lines.

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, Virginia, and Wisconsin. Principal Canadian operations include Alberta, Ontario, and Quebec (see map at left).
- Provides retail and wholesale products primarily in the northeast quadrant of the United States and adjacent portions of Canada.
- Develops nonregulated assets.
- 204 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.
- 180 employees.

Market

- Operates nationwide and in adjacent portions of Canada (see map at left).
- 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 hydroelectric 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.

DEAR fellow SHAREHOLDERS

Larry L. Weyers, Chairman, President, and Chief Executive Officer of WPS Resources Corporation, relaxes at home.

"Energy to Believe In"

Throughout life we find it necessary to believe in something. As children we believe that our fondest wish will come true. In our innocence, we delight in seeing only the desired outcome and none of the obstacles in our path. As children we trust that someone or something will know our heart's desires—even if we don't share our hopes and dreams with anyone—and our wishes will come true.

As children, we believe the care and nurturing our parents provide will always be there for us. We believe that our teachers will teach us everything we need to know. We believe that if we work hard, we will have an honest chance to succeed as we grow older. Then we learn to believe in ourselves. And, finally, we learn to trust and believe in each other.

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"At work, my dad finds new ways to communicate with telephones and other electronics. It is cool! He works all day and still has time to play with me and my brothers. I love him!" Moriah Maternoski, age 9 (Also pictured on cover)

Craig Maternoski manages communications technologies for Wisconsin Public Service. He is leading a team that is building a communications infrastructure to support the company's long-term vision. With his daughter, Moriah, and his sons, he's forging ties that will withstand the test of time.

Belief also plays an equally important role in our industry. Customers believe in our ability to supply their energy needs—to be there whenever they want light, heat, or energy for a myriad of needs. They believe in our reliability and our dependability in delivering energy in a safe and environmentally responsible manner and at competitive prices.

Investors believe in our ability to manage our business well and to provide them with reasonable returns and prudent risk management. They believe we will continue to protect and grow the value of their investments.

Employees believe in their own abilities and the abilities of their co-workers to get the job done, to do the right thing for our customers and the communities we serve, and to work in an atmosphere that provides respect, opportunity, and safety for all.

Communities and the public believe in our ability to make the right decisions in energy matters, environmental stewardship, and community involvement. They have learned to trust us to be there in their time of need and help resolve their immediate concerns.

Believing in someone or something first requires trust. A big part of our job at WPS Resources is to build the trust necessary for all stakeholders to believe in our willingness and ability to contribute positively to today's society. That contribution may be in the form of energy, community support, employment opportunities, or just caring.

Our employees have completed another year of building that trust and enabling others to believe in us. They are continuing to create energy to believe in. Let me illustrate a few examples from 2004.

Energy for the Future

- We began construction on Weston 4—the largest single electric generation project in our company's history.
- We signed a contract with Calpine Corporation, doubling the amount of energy available to us from the Fox Energy Center. This facility will add 470 megawatts to our generating capacity for several years.
- We completed a new facility housing our customer call center. This facility will enable us to better serve our customers during adverse conditions.

Energy for Environmental Stewardship

- We completed the sales and donation of the Peshtigo River lands, transferring almost 12,000 acres of recreational lands for the future enjoyment of many generations.
- We signed an agreement to purchase 70 megawatts of renewable energy, provided by wind generation, and collaborated with paper customers in using by-products as a renewable energy source.
- We are building a highly efficient generating unit in Weston 4, which will operate under stringent emission standards that are among the lowest in the nation for a coal-fired unit and will make the plant one of the cleanest plants of its kind.

Energy for Partnerships

- We signed a joint ownership agreement with Dairyland Power Cooperative for Weston 4. Joint ownership will reduce the risk associated with ownership of such a large unit.
- We signed a long-term, comprehensive energy supply agreement with Consolidated Water Power Company, a subsidiary of Stora Enso North America, that will provide benefits for both organizations for many years to come.
- We signed a long-term wholesale supply agreement with Wisconsin Public Power Inc., providing the communities they serve with part of their energy requirements.

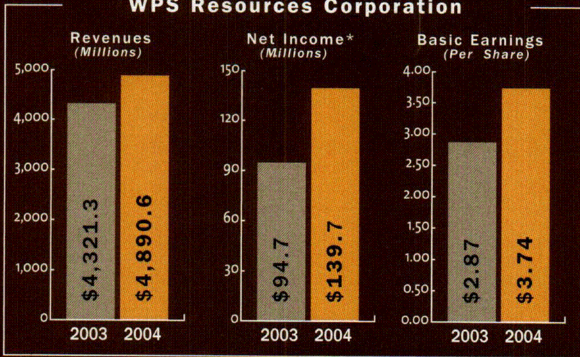
Energy for Innovative Products

- We developed portfolio optimization and risk mitigation capabilities for WPS Energy Services that allow us to provide new products and solutions for customers.
- We welcomed Advantage Energy into the WPS Resources family and began offering WPS Energy Services' products to the New York retail markets.
- We offered new tariffs to our Wisconsin commercial and industrial customers that provide options and enable them to better control their energy costs.

"Customers believe in our ability to supply their energy needs."

an overview
OF OUR FINANCIAL PERFORMANCE

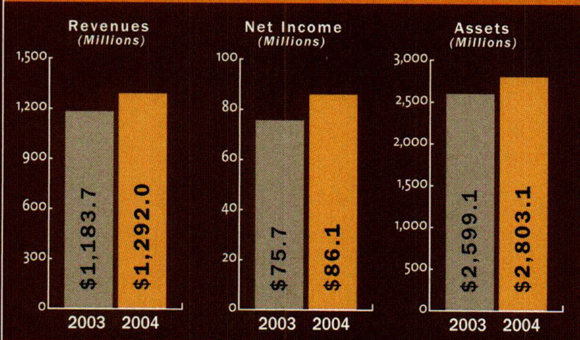
WPS Resources Corporation



*Includes discontinued operations.

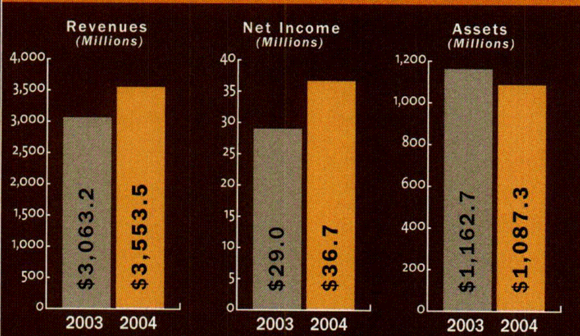
Utility Operations

Wisconsin Public Service Corporation and Upper Peninsula Power Company



Nonregulated Subsidiaries

WPS Energy Services, Inc.



WPS Power Development, Inc.

*Includes discontinued operations.

Energy for Shareholder Value

- We surpassed our goal for annualized earnings-per-share growth of 6 to 8 percent from continuing operations and provided shareholders a 25 percent increase over 2003.
- We paid dividends for the 64th consecutive year and increased dividends for the 46th consecutive year.
- We delivered a 13.2 percent total shareholder return for our investors who reinvested their $2.20 in dividends per share and held their WPS common stock from December 31, 2003, through December 31, 2004.
- *The Wall Street Journal* reported in their February 28, 2005, edition that WPS Resources ranked 6th in shareholder return over the past five years (2000 to 2004) out of a universe of 44 electric utilities.
- We reviewed and revised our corporate governance policies, which led to top quartile scores by corporate governance rating agencies.

Energy for Great Customer Relationships

- In customer satisfaction surveys done by us and others, our customers have consistently given us high marks for our performance.
- We've worked hard on ensuring customer satisfaction, and this was once again proven when WPS Energy Services' customers rated us 7th in overall customer satisfaction and 6th by industrial customers in a 2004 national survey conducted by Mastio & Company. Since we first appeared in the Mastio rankings in 1999, customers have consistently rated WPS Energy Services among the top 10 energy marketers in North America.

Energy for Meeting Our Challenges

- As part of our asset management strategy and in an effort to modify our risk profile for our customers, in November 2003 we announced the pending sale of the Kewaunee nuclear power plant. We've received all necessary approvals, except one. The Public Service Commission of Wisconsin initially rejected the sale, but granted our request for reconsideration.

"The energy within our organization is the energy you can believe in."

- As part of our asset management strategy and following a shift in the markets in Pennsylvania, we announced the sale of our Sunbury generating facility. This sale has not occurred as scheduled, but we are progressing with a sale process using an investment banking advisor and expect the sale to occur during 2005.

Energy for Winning Strategies

- We have developed a portfolio of regulated and nonregulated businesses that have adhered to our core competencies of energy and energy-related activities. This combination has provided higher growth opportunities, diversified our risk profile, and enabled us to provide customers with more energy solutions.
- We are continuing to seek balanced growth of our businesses, placing greater emphasis on growth of our regulated utility business while at the same time carefully growing our nonregulated subsidiaries.
- We have maintained a conservative financial strategy and risk profile while growing the company and providing investors with above-average returns.
- In the coming months, we will be taking steps to make our operations work even more effectively and efficiently than they have in the past. We will be reaching for higher levels of competitive excellence through innovation and creativity. Our goal is for every process in the company to be "best in class" in our industry. We expect that these efforts will result in higher standards of service for our customers, lower prices, and highly effective operations.

Energy for Leading the Future

The challenges and opportunities we face, as individual employees and as a business, are changing rapidly, and we are continually developing the management team and the organization necessary for our continuing success.

Our focused succession planning process is one of the critical initiatives that is helping us successfully manage our destiny in new environments. It is an ongoing assessment and development of our people, ensuring the necessary knowledge, skill, and ability to support our corporate strategy for growth. It is the drive to create even more energy to believe in.

The tone of an organization is set by senior management's actions and deeds much more than by their words. Our leaders must be those that our employees, the communities we serve, the financial community, and our shareholders believe will deliver the value they seek. So, in 2004, I made a number of changes to my senior staff to bring to the forefront strong models of trust and service.

This past year, we restructured the operations of WPS Energy Services and WPS Power Development to better capture synergies. Both companies are now under the leadership of Mark Radtke as President.

Phil Mikulsky is now Executive Vice President - Development for the holding company and is responsible for our transmission team and our expanded asset management and portfolio strategy.

Tom Meinz is now Executive Vice President - Public Affairs. Tom also serves as Chairman of the Board for Upper Peninsula Power Company, President for Wisconsin River Power Company, and Vice President for Wisconsin Valley Improvement Company.

Wisconsin Public Service Corporation has two new Presidents in Charlie Schrock, President and Chief Operating Officer - Generation, and Larry Borgard, President and Chief Operating Officer - Energy Delivery.

Upper Peninsula Power Company has a new Chief Executive Officer in Larry Borgard and a new President in Gary Erickson.

Bud Treml is now Senior Vice President - Human Resources for both WPS Resources and Wisconsin Public Service.

Barbara Nick is now Vice President - Corporate Services for WPS Resources and is leading our new initiative in technology and project management.

These leadership changes are evidence of a wide-reaching effort throughout our companies to build the face of the future.

Long-Term Financial Goals

- ☐ Grow our earnings per share from continuing operations at 6 to 8 percent on an average annualized basis.
- ☐ Achieve 15 to 25 percent of our earnings from our nonregulated energy supply and services company.
- ☐ Continue our moderate growth in the annual dividend paid.
- ☐ Provide investors with a solid return on their investments.

Many other changes have occurred, as well, to place leaders and their employees in a position where they can use their strengths for the good of our customers and shareholders.

We also have a number of new Vice Presidents and Assistant Vice Presidents in other key areas:

- Brad Johnson, Vice President and Treasurer for WPS Resources and Wisconsin Public Service
- Bill Bourbonnais, Vice President - Transmission for WPS Resources
- Dave Harpole, Vice President - Energy Supply - Projects for Wisconsin Public Service
- Jim Schott, Vice President - Regulatory Affairs for Wisconsin Public Service
- Terry Jensky, Assistant Vice President - Energy Supply - Operations for Wisconsin Public Service
- Howard Giesler, Assistant Vice President for WPS Power Development

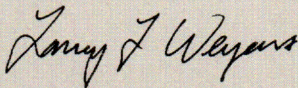
This new team has skill, knowledge, diversity, and drive and is already creating even more energy to believe in.

A Company to Believe In

Our company had a very successful 2004, and our success is directly related to all of our employees. They are working to provide for our customers' current and future energy requirements, protect our resources for future generations, and earn an even higher level of trust.

We respect your trust and will never take it for granted. Thank you for believing in WPS Resources and choosing us for your investment. We're proud to provide you with an energy company to believe in.

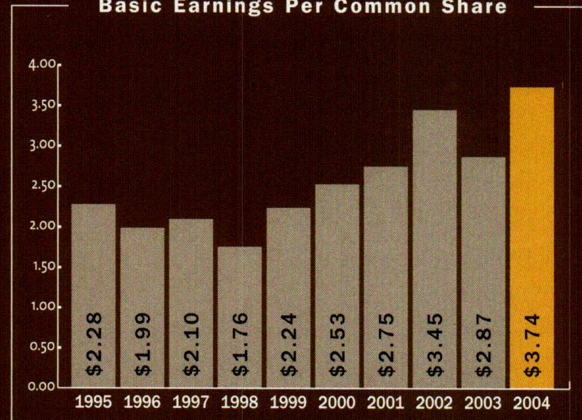
Sincerely,

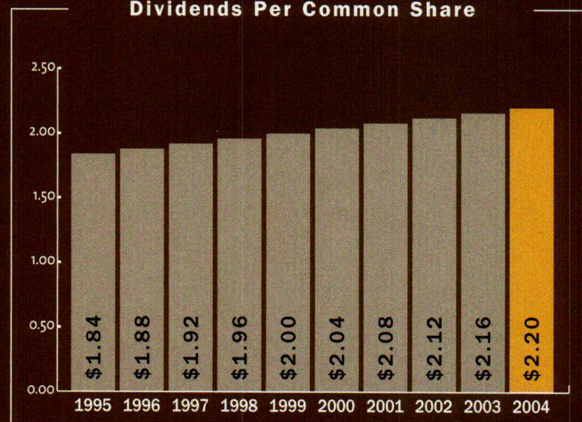


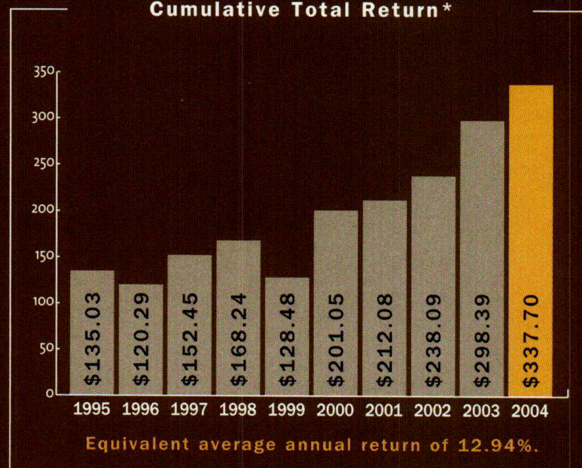
Larry L. Weyers
Chairman, President, and Chief Executive Officer

March 9, 2005

returns ON INVESTMENT







*Assumes $100 investment in common stock at year-end 1994 and all dividends reinvested quarterly. Cumulative total return for the ten-year period is equivalent to an average annual return of 12.94%.

"Our final financial goal is to provide investors with a solid return on their investment."

"My dad makes sure that **everything** is going right in the department and company."

Meredith Machesney, age 14

WPS Resources places fairness and honesty first in all dealings—with our customers, our shareholders, and our communities. As WPS Resources' director of Audit Services, Michael Machesney is a key figure in ensuring we all "do the right thing." As a father, he's doing the same for his daughter, Meredith, as well as his other two children.

energy
TO BELIEVE IN

In the eyes of a child, energy is as available as the air we breathe... reliable, dependable, totally transparent.

With the flip of a switch, holiday lights brighten a home. A lamp illuminates a bedroom. The oven bakes an after-school snack. A scoreboard flashes the winning score.

This is "Energy to Believe In." It's a promise WPS Resources Corporation has kept for generations, and a promise we'll keep for many more to come.

John Schneider, a line electrician for Wisconsin Public Service, makes sure the power is always on for customers in northern Wisconsin. It's critical work, at any hour and in all kinds of weather. It shows a sense of dedication that John's daughter, Rachel, already understands— and makes him a role model she can believe in.

Believe in the FUTURE

The rapidly changing world is posing complex issues that command attention for our energy future—growing energy use, rising energy costs, a need for balance between technology and the environment, and new ways to generate, sell, deliver, and save energy. That's why we're making deliberate choices to not only meet the demands of today, but anticipate the needs of our children, their children, and beyond.

We're continuing to expand clean, reliable power options that can keep pace with fast-rising energy use. We're offering our customers solutions to help them manage costs as the price of energy rises. And we're continuing to operate as the company so many rely on to provide the best long-term value in energy and related services.

Here are just some of the ways we're generating "Energy to Believe In" both now and for future generations of customers, employees, and shareholders.

Believe in COLLABORATION

We generated positive energy toward our goals last year by partnering with others—a bedrock value of WPS Resources' companies.

As regulators in Wisconsin sought to expedite their approval of much-needed new generation, we offered our Weston 4 project as a model to move through a new, streamlined regulatory process.

The approval of Weston 4 would never have been possible without the power of community involvement during the approval process. Throughout the year, business people, community leaders, and power plant neighbors gathered in public forums and hearings. They participated in community advisory meetings, wrote letters, raised questions, and became familiar with the dynamics of the proposed project.

"My dad works in a bucket on power lines. When there is a storm, he never stops working, because it is his job."

Rachel Schneider, age 6

Believe in RELIABILITY

"Energy to Believe In"—it all begins with WPS Resources' focus on ensuring reliable energy. We continue to act with urgency to improve and expand our energy infrastructure.

In Wisconsin, the need for more electric infrastructure can no longer wait. The growth of new homes and businesses that we serve, compounded by the rising use of computers and digital technologies, has driven electric demand upward by 2 to 3 percent per year. At that rate of growth, customer demand is expected to outpace our production by 250 megawatts in just three years.

Throughout 2004, one of our key initiatives was to obtain regulatory approval for Weston 4—a new 500-megawatt electric generating unit that will be the first "base load" power plant (designed to run around the clock) to be built by Wisconsin Public Service, our regulated electric and natural gas utility, in more than 20 years.

Achieving regulatory approval for Weston 4 made 2004 a milestone year. Yet it is not the only step Wisconsin Public Service is taking to expand and improve our infrastructure. Additional upgrades are being made to existing natural gas facilities and electrical systems throughout the service area, further strengthening our ability to deliver reliable energy on demand.

After a lengthy hearing process, the Public Service Commission of Wisconsin granted approval of the Weston 4 project in the fall of 2004, culminating a strong collaboration between community leaders, residents, and the company. Construction of the $750 million project began in October 2004, and we anticipate that the plant will be operational in June 2008.

The Weston 4 project is poised to contribute back to the community, creating as many as 1,200 construction jobs, establishing more than 40 permanent jobs, and bringing millions of dollars in material purchases back to the local economy.

Another example of collaborative partnering is an agreement that reduces the financial and operational risks of owning a facility such as Weston 4. An agreement was reached with Dairyland Power Cooperative, a neighboring wholesale electric cooperative headquartered in La Crosse, Wisconsin.

The agreement, signed in November 2004, means that, after receiving pending approvals, Dairyland would have a 30 percent ownership in the Weston 4 plant. This would supply Dairyland with 150 megawatts of capacity, which would help the cooperative meet its growing customer demand in the 62 counties throughout its four-state service area.

Sometimes our partnerships rise from unexpected opportunities. It was a winning situation for Marquette County, Michigan, when our regulated electric utility, Upper Peninsula Power Company, officially purchased the electric distribution system at K.I. Sawyer, a former Air Force base maintained by the county.

The county purchased the distribution system—including poles, wires, transformers, and substations—when the Air Force abandoned the base in 1995. In June 2004, the county sold the system to Upper Peninsula Power, and we moved quickly to improve the system for the growing community of 3 large industrial, 214 small business, and 1,145 residential customers.

When you believe in community, collaboration has no boundaries. In the aftermath of 2004's Hurricane Francis, a crew of 23 restoration technicians from Wisconsin Public Service drove a convoy of 10 line trucks to southern Florida. There, they spent nearly two weeks assisting the local utility, Progress Energy, in restoring power to ravaged communities throughout the state.

Compare My Bill allows customers to compare up to two years of previous Wisconsin Public Service bills. By analyzing changes in their bills over time, customers learn how costs are affected by weather, new appliances, and living habits—history that helps them make and keep careful budgets.

These are just some of the *Energy-Saving Tools & Ideas* that clicked with customers at www.wisconsinpublicservice.com.

Believe in CARING

Caring for our customers and the communities we serve is central to WPS Resources' corporate culture.

The needs of our limited-income customers and the energy burden many of them face are a growing concern and challenge for Wisconsin Public Service. Our team of specially trained customer assistance advisors proactively assists these customers and links those who qualify to federal, state, and local programs providing bill assistance, budget counseling,

"My dad does electrical engineering to make electricity. They burn coal at Public Service and work hard all day."
Jordan Thapa, age 9

Believe in VALUE

Reliable energy comes with a price. In 2004, driven in large part by escalating energy demand and the costs of building Weston 4, Wisconsin Public Service filed for and received approval to increase utility rates. We know increases like this one can be difficult for our customers, and rising energy costs bring new responsibilities in living out our mission to "provide customers with the best value in energy and related services."

We've turned to new ways to deliver value, giving people more ways than ever before to manage their energy use. For residential customers of Wisconsin Public Service, we've developed Internet-based tools to help analyze and adapt their energy habits.

Energy Analysis, for example, is a tool that gives customers a better understanding of their home's energy use. In minutes, they can find areas of their highest energy expense and discover cost-saving ways to change their patterns of energy use. Plus, they can compare their home's energy use to that of similar residences in their area.

weatherization, and a variety of support services. The goal is to help individuals and families work through unfortunate situations, and help them become more self-sufficient.

And that's just the beginning. From participating in corporate-sponsored Habitat for Humanity projects to holding in-house blood drives, the people of WPS Resources share generously of their time, talents, and charitable dollars.

Each year, WPS Resources Foundation donates more than $1 million to strengthen educational, cultural, human services, economic, environmental, and other programs throughout the communities we serve.

The Foundation also forms a catalyst for employee giving. Through our "Dollars for Doers" program, the Foundation donates $100 to the nonprofit organization of an employee's or retiree's choice when the employee or retiree contributes at least 20 hours of volunteer time. A program that matches employees's personal monetary contributions to qualifying groups is also offered, and resulted in more than $40,000 in matching gifts in 2004 alone.

We are living out the value of caring across our corporation.

Believe in CONTROL

Increasing revenue while managing rising costs is a constant challenge for our retail, farm, commercial, and industrial customers. So we've invested our energies in strategic enhancements that give businesses more control over their energy use than ever before.

For commercial customers, Wisconsin Public Service launched an innovative pilot program called *Response Rewards,* which takes managing electric costs to a whole new level. This optional program offers lower energy rates to reward businesses who reduce energy use during critical peaks in energy demand and prices.

Businesses in the program enjoy off-peak and on-peak rates that are lower than regular commercial rates. During a limited number of "critical peak" hours, they receive a price signal that is substantially higher than the norm. They have the option of purchasing the higher, critical peak-priced energy or reducing their purchases and costs. It's a classic win-win scenario.

For Suraj Thapa, a maintenance engineer at the Weston generating site, ensuring that more than 450 megawatts of generation runs flawlessly is all in a day's work. The day's end brings time with Suraj's sons, Jacob *(left)* and Jordan *(right)*, as well as his two daughters, and the very important job of fueling their dreams for tomorrow.

Bonnie Monson is part of WPS Energy Services' energy services consulting team—helping to meet customers' energy needs in areas of the United States and Canada where WPS Energy Services operates with award-winning service. When all is said and done, however, Bonnie knows the most important winning moments happen on her home turf, when sons Luke *(left)* and Isaac *(right)* hit the soccer field.

"My mom does work for people who need energy. She goes to Minnesota and Maine to help them. It must be really hard to do."

Isaac Monson, age 8

Wisconsin Public Service gains the ability to ease pressure on the system-wide grid during peak demand, and commercial customers benefit from the ability to enjoy significant savings throughout the year.

Day-Ahead Pricing is another power management initiative, developed for Wisconsin Public Service's largest industrial customers. This program provides an alternative pricing structure based on four levels of rates, rather than the standard two. We advise customers by 3:30 p.m. what rates to anticipate for the following day. This gives companies with energy-intensive processes the ability to increase or decrease the next day's production based on anticipated energy costs or high-value opportunities.

Believe in SMALL BUSINESS

This year, small to mid-size businesses—the economic engine of communities throughout Wisconsin Public Service's area—were armed with new energy options to create competitive advantage.

A series of Internet-based seminars offered small business owners new ways to manage their energy budgets and, potentially, increase their bottom line. The information-packed programs could be viewed from any computer with Internet access. Specific sessions were developed for the needs of grocery and convenience stores, restaurants, and hotels, motels, and inns.

In a new pilot program—the *Hometown Energy Checkup*—energy engineers took to the streets to help small businesses gain maximum value for their energy dollar. Over the course of several weeks, they conducted 250 on-site energy audits of retailers, restaurants, gas stations, and convenience stores in 4 cities.

Armed with backup data detailing each business's past energy history, our Hometown energy consultants used benchmark data to compare energy costs against similar-sized businesses in their category. They offered ideas for energy management and savings, even evaluated payback models for recommended improvements. It was quantifiable information to help small businesses make sound decisions.

Believe in SUSTAINABILITY

The way energy is produced and consumed continually changes. For upcoming generations, that outlook may be significantly different. That's why WPS Resources not only continues to find better ways to help our customers conserve, but maintains our commitment to renewable energy and advocates for new wind, solar, and biomass energies.

With an eye to providing more renewable energy, Wisconsin Public Service is stepping up the hunt for innovative, cost-effective alternative power sources.

In 2004, we announced plans to increase our wind generation capacity by 70 megawatts. It's a move that will expand our renewable portfolio by 51 percent, while balancing efficiency and commercial viability. The increase is made possible through an agreement to purchase power from the proposed Forward Energy Wind Project in Brownsville, Wisconsin, expected to be complete in 2006.

We're also expanding the availability of green power by increasing the reach of our *NatureWise*® Renewable Energy Program from Wisconsin Public Service customers to also include Upper Peninsula Power customers. Through NatureWise, environmentally conscious customers are able to purchase 100-kilowatt-hour "blocks" of renewable energy.

Energy from the NatureWise program is produced by wind- and biomass-fueled generators. It offers customers a simple means to make a real difference—over a year's time, purchasing one block of energy (100 kilowatt-hours per month) conserves 1,000 pounds of coal.

Support of promising new research is also part of our environmental vision. WPS Resources is actively involved in the National Mercury Reduction Research Project, a test program being conducted at Sunflower Electric's Holcomb Power Plant in western Kansas. The research evaluates promising approaches to achieving high levels of mercury removal in new and existing coal-fired generating plants.

The new technology involves "sorbent injection"—an advanced process that introduces an activated carbon or other similar particle into the exhaust of a coal boiler. The mercury, which is found in the flue gas, adheres to the sorbent and can be collected prior to reaching the main exhaust stack.

This advanced technology, which will be incorporated in the design of Weston 4, is expected to capture more than 80 percent of the plant's mercury emissions. As a result, Weston 4 will be one of the nation's cleanest coal-fired generators of electricity, burning fuel cleanly and efficiently, minimizing emissions, reducing overall fuel use and allowing us to rely less heavily on our older plants.

Believe in STEWARDSHIP

Pursuit of affordable alternative energies is only part of our long-term stewardship that balances respect for nature with sound business practices.

Years from now, generations will continue to revel in the unspoiled natural beauty of a premier wilderness area Wisconsin Public Service transferred to the state of Wisconsin in 2004.

Finalizing an agreement with the Wisconsin Department of Natural Resources, in December, we officially transferred the last of approximately 12,000 acres of pristine land along the Peshtigo River. The wilderness area—a breathtaking vista of native meadows, wild riverbeds, cascading waterfalls, and virgin timber—will form the 11,000-acre Peshtigo River State Forest and complete the Tommy G. Thompson Centennial State Park. This combination of sales and donations to the state culminated a plan of action that began in 2001.

Environmental stewardship also brings with it long-term corporate responsibility. Upper Peninsula Power's Dead River Basin recovery project in Upper Michigan is a case in point. In May 2003, a fuse plug and its foundation failed at Silver Lake Reservoir—unleashing the reservoir, disrupting downstream power production, and dramatically affecting the environmental landscape.

Upper Peninsula Power, operator of the reservoir, continues to work hand in hand with federal, state, and local agencies to implement a phased recovery of damage to the riverway. With the help of local and federal legislators, we acquired funding to commission a complete recovery plan and teamed up with the Army Corps of Engineers and the Natural Resource Conservation Service to continue phased recovery.

Current activities focus on recovery efforts such as stabilizing the river's banks, removing sediment and accumulations of woody debris, reshaping the existing stream channel into a more stable, natural state, and reforming the flood plain. In an era when recovery action speaks louder than rhetoric, our response to the Dead River crisis communicates integrity to believe in.

Believe in CHOICE

Future generations will have the ability to purchase energy in new ways. We see the power of this emerging paradigm in the developing nonregulated energy market.

The dynamics of the free market are catalysts for innovation and consultative service—strengths that allow our nonregulated energy marketer, WPS Energy Services, to continue as a fast-growing provider of competitive energy products.

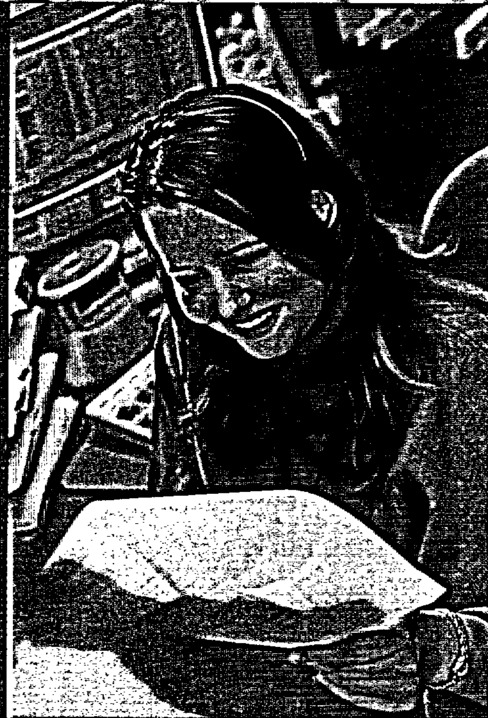
"My mommy works with people to help them pay their bills."

Jimmie Shepard, age 9

In 2004, WPS Energy Services expanded its market penetration through the purchase of Advantage Energy, a privately held nonregulated electric power marketer based in Buffalo, New York. The acquisition added more than 8,000 residential and commercial customers with a peak annual load of 275 megawatts throughout western New York to WPS Energy Services' portfolio. It also positions the subsidiary to leverage its existing relationships for the future marketing of natural gas.

Our organizational structure is also evolving to better serve the marketplace. WPS Energy Services and WPS Power Development are working together to further streamline operations and create synergies between our generating and marketing businesses. This effort is creating efficiencies and an integrated business focus.

WPS Energy Services has also ramped up the frequency and effectiveness of customer communications, delivering timely data to help customers make informed decisions. Tools include Internet enhancements, plus new capabilities for voice, fax, and pager broadcasts alerting customers to power management issues. Information-packed publications were also launched to keep customers abreast of factors affecting their energy assets, from global energy news to outlooks on the latest energy market activity.



The warmth of Theresa Thomson's kitchen, along with the warmth of her smile, instill the security and self-worth her son, Jimmie, will need as he grows. At work as a collection services specialist for Wisconsin Public Service, Theresa works with customers so they can better manage their financial responsibilities.

Dean Hilbert is a gas utility mechanic for Wisconsin Public Service in Green Bay, Wisconsin. When duty calls, he'll find the source of a reported gas leak before it becomes an emergency, which benefits the entire community. When the snow falls, he'll find the best snow for sledding, which delights his daughter, Hayley.

One of WPS Energy Services' latest enhancements is the *eMiner™* energy information system—a real-time energy monitoring program that mines and integrates energy data. Using actionable, real-time information, customers can easily analyze and adapt their energy use and manage their energy assets. And, unlike other expensive software programs, eMiner eliminates additional charges for added users. The result? Better information, better decisions about energy use, and better value for the customer's energy dollar.

Believe in MANAGED RISK

Managing risk is a critical competency in all of our businesses, but perhaps this is most evident in the merchant marketplace. It's a competency WPS Energy Services demonstrated throughout 2004.

Significant increases in electric revenue and margin, as compared to the same periods in 2003, were gained through leveraging our assets in the marketplace. WPS Energy Services focused intensely on optimizing our power portfolio and reducing market risk.

We have concentrated on serving markets that are in line with our targeted growth strategy. We have improved supply management. We have reduced price risk while creating greater value from our generating plants and retail supply portfolios. And we have minimized uncontracted generation exposure with physical products and financial instruments.

Together, this heightened focus on managing risk and delivering greater value in our nonregulated business positions WPS Resources for even more success in the coming years.

Believe in VISION

"Energy to Believe In" is about value, about reliability, and about integrity in how we serve. It's a commitment centered in our vision of "People Creating a World-Class Energy Company."

According to recent independent customer ratings, the public believes strongly in our ability to fulfill that vision.

In the past year, nearly one in four residential customers reported that their trust in Wisconsin Public Service grew. Small business customers rated us better than other area utilities for being "open and honest in dealing with customers." And 97 percent of our large industrial customers gave us top performance ratings for honoring commitments.

Belief is also echoed strongly in customers' views of WPS Energy Services. Since 1999, customers have consistently rated WPS Energy Services among the top 10 energy marketers in North America. The year 2004 was no exception.

Throughout WPS Resources' companies, the ability to balance vision and action, along with present and future needs, has generated a powerful formula for customer satisfaction and long-term strength.

"Daddy's on call. He helps people, goes to people's houses, uses his shovel, moves dirt. He makes the water hot and stuff like that. If there was anything not working, I think he would fix it." Hayley Hilbert, age 6

Improved internal risk management also provides enhanced value for our customers. Expanded products, strategies, and systems are creating more flexibility to respond to market opportunities on behalf of our customers.

Our customers are exercising greater control and certainty over their energy costs by establishing fixed prices for future deliveries of energy. And they are optimizing the value they receive from ongoing, timely operation of their energy assets. It's all part of a focused commitment to help those we serve to grow and compete in an increasingly global market.

In the same ways that we serve and maintain the trust of our customers, we continually work to serve and maintain the trust of you, our shareholders. We will do our best to earn your continued trust.

As you go about your daily life, plan for your children's hopes and dreams, and invest in the possibilities of the future, you can count on us to be with you—generating "Energy to Believe In."

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.

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions regarding Wisconsin Public Service Corporation and Upper Peninsula Power Company;
- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, changes in environmental, tax, and other laws and regulations to which WPS Resources and its subsidiaries are subject, as well as changes in application of existing laws and regulations;
- Current and future litigation, regulatory investigations, proceedings or inquiries, including manufactured gas plant site cleanup and pending Environmental Protection Agency investigations of Wisconsin Public Service Corporation's generation facilities;
- Resolution of audits by the Internal Revenue Service and various state revenue agencies;
- The effects, extent, and timing of additional competition in the markets in which WPS Resources Corporation's subsidiaries operate;
- The impact of fluctuations in commodity prices, interest rates, and customer demand;
- Available sources and costs of fuels and purchased power;
- Ability to control costs (including costs of decommissioning generation facilities);
- Investment performance of employee benefit plans;
- Advances in technology;
- Effects of and changes in political, legal, and economic conditions and developments in the United States;
- The performance of projects undertaken by nonregulated businesses and the success of efforts to invest in and develop new opportunities;
- Potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed (such as the potential sale of the Sunbury plant, the potential sale of the Kewaunee plant, construction of the Weston 4 generation plant, and construction of the Wausau, Wisconsin, to Duluth, Minnesota, transmission line);
- The direct or indirect effect resulting from terrorist incidents or responses to such incidents;
- Financial market conditions and the results of financing efforts, including credit ratings and risks associated with commodity prices, interest rates, and counterparty credit;
- Weather and other natural phenomena; and
- The effect of accounting pronouncements issued periodically by standard-setting bodies.

INTRODUCTION

WPS Resources is a holding company that is exempt from the Public Utility Holding Company Act of 1935. Our wholly owned subsidiaries include two regulated utilities, Wisconsin Public Service Corporation (WPSC)—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 (UPPCO). Another wholly owned subsidiary, WPS Resources Capital Corporation, is a holding company for our nonregulated businesses, including WPS Energy Services, Inc. (ESI) and WPS Power Development, Inc. (PDI).

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 a strategic overview and insight into the operations of our subsidiaries.

Strategic Overview

The focal point of WPS Resources' business plan is the creation of long-term value for our shareholders (through growth, operational excellence, and asset management) and the continued emphasis on reliable, competitively priced, and environmentally sound energy services for our customers. We are seeking a balanced portfolio of utility and nonregulated growth, but we are placing emphasis on regulated growth. A discussion of the essential components of our business plan is set forth below:

Maintain a Strong Utility Base – As discussed above, we are focusing on growth in our utility operations. A strong utility base is important in order to maintain quality credit ratings, which are critical to our success. In 2004, WPSC signed contracts with several wholesale customers in order to bolster growth beyond our normal utility growth rate, and WPSC is also expanding its generation fleet in order to meet growing electric demand and ensure the continued reliability of our energy services.

- WPSC entered into long-term power sale agreements with two wholesale customers in 2004. One is for Consolidated Water Power Company's full requirements service (between 65 and 125 megawatts of firm load) through December 31, 2017. The other is a 50-megawatt agreement with Wisconsin Public Power Inc. beginning May 1, 2006, and ending April 30, 2021.
- In October 2004, WPSC began construction of its 500-megawatt coal-fired Weston 4 base-load power plant near Wausau, Wisconsin, and announced in May 2004 that it would pursue plans to build a jointly owned 500-megawatt base-load electric plant with Wisconsin Power and Light Company. The Weston 4 power plant is expected to be operational in 2008.
- Calpine Corporation's 560-megawatt, combined cycle, natural gas-fired generating facility (Fox Energy Center) in Kaukauna, Wisconsin, is expected to be placed in service in June 2005. WPSC has contracted for approximately 470 megawatts of this plant's output over a 10-year period. WPSC also contracted to purchase 70 megawatts of wind generation over a 20-year period from the Forward Energy Wind Project in Brownsville, Wisconsin. Both of these agreements were signed as a means of seeking the most cost effective mix of energy resources to meet growing electric demand.

Integrate Resources to Provide Operational Excellence – WPS Resources is committed to integrating the resources of its business units (in accordance with any applicable regulatory restrictions) by leveraging their individual capabilities and expertise across the company.

- Effective August 2004, in an effort to better manage the market risks associated with PDI's merchant generation plants, we restructured the management of our two nonregulated business units (ESI and PDI) and currently have one executive management team overseeing the operations of these two business units.
- In January 2004, ESI implemented strategies to optimize the value of PDI's merchant generation fleet and has reduced the market price risk while extracting additional value from these plants, through the use of various financial and physical instruments (such as forward contracts, options, and swaps). Prior to leveraging ESI's energy marketing expertise, PDI sold uncontracted energy into liquid financial markets at spot prices or day ahead prices, which provided less predictable revenue and margin.

Strategically Grow Nonregulated Businesses – ESI looks to grow its electric and natural gas business, targeting growth in the northeastern United States and adjacent portions of Canada (through strategic acquisitions, market penetration of existing businesses, and new product offerings), which is where ESI has the most market expertise. As discussed above, our utilities are our core businesses and as such we are placing a strong emphasis on growth of utility operations in order to balance our regulated and nonregulated growth. PDI focuses on optimizing the operational efficiency of its existing portfolio of assets and pursues compatible power development projects and the acquisition of generation assets that "fit" in well with ESI's customer base and market expertise.

- In July 2004, ESI completed the acquisition of Advantage Energy, a privately held nonregulated electric power marketer based in Buffalo, New York. This acquisition provides ESI with enhanced opportunities to participate in the New York market, where we believe there is good opportunity for further penetration and the sale of new products.
- ESI continues to grow its business in the energy management sector by providing customers the expertise needed to manage their energy needs in volatile energy markets.

Place Strong Emphasis on Asset Management – Our asset management strategy calls for the continuing disposition and acquisition of assets in a manner that enhances our earnings capability. The acquisition portion of this strategy calls for the

acquisition of assets that compliment our existing assets and strategy such as Advantage Energy. Another portion of the asset management strategy calls for the disposition of assets, including plants and entire business units, which are no longer required for operations.

- We continue to pursue the sale of Sunbury and expect to have a completed sale in 2005. The sale of Sunbury fits well within our asset management strategy. Included in this strategy is the desire to reduce risk associated with uncontracted merchant exposure.
- We continue to pursue the sale of Kewaunee to a subsidiary of Dominion Resources.
- Our Peshtigo River land sale initiative (which included land sales and donations to the Wisconsin Department of Natural Resources (WDNR) and the sale of land at public auction) was completed in 2004. We continue to identify alternatives for the sale of the balance of our identified excess real-estate holdings.

Regulated Utilities

Our regulated utilities include WPSC and UPPCO. WPSC derives its revenues primarily from the production, distribution, and sale of electricity, and the purchase, distribution, and sale of natural gas to retail customers in a service area of approximately 11,000 square miles in northeastern Wisconsin and an adjacent portion of the Upper Peninsula of Michigan. The Public Service Commission of Wisconsin (PSCW) and the Michigan Public Service Commission (MPSC) regulate these retail sales. WPSC also provides wholesale electric service to numerous utilities and cooperatives for resale. The Federal Energy Regulatory Commission (FERC) regulates wholesale sales. UPPCO derives revenues from the sale of electric energy in a service area of approximately 4,500 square miles in the Upper Peninsula of Michigan and is regulated by the MPSC.

The regulatory commissions allow the utilities to earn a return on common stock equity that is commensurate with an investor's desired return, compensating for the risks investors face when providing funds to the utility. The return on common stock equity approved by the PSCW, FERC, and the MPSC was 12.0%, 11.0%, and 11.4%, respectively, in 2004. Generally, consumers bear the price risk for fuel and purchased power costs as regulators allow the utility to recover substantially all of these costs (to the extent they are prudently incurred), through various cost recovery mechanisms, but utilities bear volume risk as rates are based upon normal sales volumes as projected by the utility. The utilities may also be able to defer certain unexpected costs that are incurred during the year for recovery in future rate proceedings (examples include WPSC's deferral of costs associated with the extended Kewaunee outage in 2004 and deferral of costs incurred by UPPCO related to the Dead River flood); however, these costs must be prudently incurred as determined by the regulatory commissions. As such, the ability of our regulated utilities to earn their approved return on equity is dependent upon accurate forecasting techniques, their ability to obtain timely rate increases to account for rising cost structures (while 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 their control, such as macroeconomic factors and weather conditions. Unfavorable weather conditions compared to normal for both electric and natural gas utility operations and increased operating expenses contributed to WPSC's inability to earn its approved rate of return in 2004.

Uncertainties related to the deregulation process are a risk for our regulated utilities. Deregulation of natural gas service has begun in Wisconsin. 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. 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. If electric choice occurs, we believe we could lose some generation load but would retain the delivery revenues and margin. Also, the capacity that would be freed up should be competitive in our marketplace. Deregulation of electricity is present in Michigan; however, in the Upper Peninsula of Michigan, 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 excess transmission and generation system capacity in the areas we serve, which is a barrier to competitive suppliers entering the market.

The utilities are also exposed to costs associated with increasingly stringent environmental rules and regulations to the extent recovery of these costs is disallowed in rate proceedings. WPSC and UPPCO are also members of the Midwest Independent System Operator, which is in the process of restructuring the electric market in its footprint. For further discussion of environmental risks, see Note 17, "Commitments and Contingencies," of Notes to Consolidated Financial Statements and for further discussion of the Midwest Independent System Operator, see Trends.

WPS Energy Services

ESI 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 ESI has a widening array of products and services, revenues are primarily derived through sales of electricity and natural gas to retail and wholesale customers.

ESI's marketing and trading operations manage power and natural gas procurement as an integrated portfolio with its retail and wholesale sales commitments. ESI strives to maintain a low risk portfolio with relatively few open positions, balancing natural gas and electricity purchase commitments with corresponding sales commitments. In 2004, ESI 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 producers and suppliers under daily, monthly, seasonal, and long-term contracts, with pricing delivery and volume schedules to accommodate customer requirements. ESI's customers include utilities, municipalities, cooperatives, commercial and industrial consumers, aggregators, and other marketing and retail entities. ESI uses derivative financial instruments to provide flexible pricing to customers and suppliers, manage purchase and sales commitments, and reduce exposure relative to volatile market prices.

The table below discloses future natural gas and electric sales volumes under contract as of December 31, 2004. Contracts are generally one to three years in duration. ESI expects that its ultimate sales volumes in 2005 and beyond will exceed the volumes shown in the table below as it continues to seek growth opportunities and existing customers who do not have long-term contracts continue to buy their short-term requirements from ESI.

Forward Contracted Volumes at 12/31/2004 (1)	2005	2006 to 2008	2009 to 2010
Wholesale sales volumes - billion cubic feet	98.1	10.2	–
Retail sales volumes - billion cubic feet	184.8	39.6	2.0
Total natural gas sales volumes	282.9	49.8	2.0
Wholesale sales volumes - million kilowatt-hours	5,981	1,665	–
Retail sales volumes - million kilowatt-hours	3,413	1,575	73
Total electric sales volumes	9,394	3,240	73

(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.

For comparative purposes, future natural gas and electric sales volumes under contract at December 31, 2003, are shown below. Actual electric and natural gas sales volumes for 2004 are disclosed within Results of Operations - ESI Segment Operations.

Forward Contracted Volumes at 12/31/2003 (1)	2004	2005 to 2007	2008 to 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	3,176	238	–
Retail sales volumes - million kilowatt-hours	5,133	3,623	37
Total electric sales volumes	8,309	3,861	37

(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.

ESI 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 2004, ESI grew its retail electric business through the acquisition of retail operations in New York and through portfolio optimization strategies utilized to maximize the value of PDI's merchant generation fleet and ESI's retail supply portfolio. Natural gas volumes increased as a result of the continued expansion of ESI's retail natural gas business in Canada. ESI expects to continue to target acquisitions and participate in generation service programs within the area it serves.

As a company that participates in energy commodity markets, ESI 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 (see Quantitative and Qualitative Disclosures About Market Risk for more information about Value-at-Risk). 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. ESI's 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 ESI 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 ESI 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- and Moody's rating of Baa3).

The other category of risk mentioned above that ESI faces is credit risk from retail and wholesale counterparties. In order to mitigate its exposure to credit risk, ESI has implemented stringent credit policies. As a result of these credit policies, ESI has not experienced significant write-offs from its large wholesale counterparties to date. Write-offs pertaining to retail counterparties were $0.7 million, or 0.0%, in 2004, compared to $3.1 million, or 0.2%, in 2003. ESI believes its write-off percentage is within the range experienced by most energy companies. The table at the top of page 24 summarizes wholesale counterparty credit exposure, categorized by maturity date, as of December 31, 2004 (in millions):

Counterparty Rating *(Millions)* [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	$ 18.8	$ 13.7	$ 5.1	$ –
Investment grade – other	86.6	79.1	7.5	–
Non-investment grade – regulated utility	–	–	–	–
Non-investment grade – other	4.0	4.0	–	–
Non-rated – regulated utility	–	–	–	–
Non-rated – other	36.3	28.2	8.1	–
Total Exposure	$145.7	$125.0	$20.7	$ –

(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 $11.7 million at December 31, 2004, $3.2 million from non-investment grade counterparties and $8.5 million from non-rated counterparties.

A risk that became more prevalent in 2004 is industry restructuring. There is some concern over the status of the nonregulated energy market in Michigan and Ohio, which are two states in which ESI operates. ESI is also a member of the Midwest Independent System Operator, which is in the process of restructuring the electric power market in its footprint. For more information on these risks, see Trends.

WPS Power Development

PDI competes in the wholesale merchant electric power generation industry, primarily in the midwest and northeastern United States and adjacent portions of Canada. PDI's core competencies include power plant operation and maintenance and material condition assessment of assets. In order to enable PDI to focus on its core competencies and improve the efficiency and reliability of its existing fleet of power plants, ESI has assumed much of the market price risk associated with these plants. Through several tolling agreements and power purchase agreements, ESI has contracted for approximately 330 of PDI's 425 megawatts of total capacity (these capacity numbers exclude Sunbury, which is recorded in discontinued operations). ESI utilizes power from PDI's New England and Canadian assets primarily to serve its firm load commitments in northern Maine and certain other sale agreements with customers. For the remaining capacity contracted from PDI, ESI utilizes financial tools, including forwards, options, and swaps to limit exposure, as well as to extract additional value from PDI's merchant generation fleet. These activities had a positive impact on ESI's margin in 2004 and benefited PDI by providing more stable revenue streams.

PDI has power purchase agreements in place with third-party customers for the 95 megawatts of capacity that is not contracted to ESI, which includes its Stoneman facility in Cassville, Wisconsin, and its Combined Locks facility in Combined Locks, Wisconsin.

Oversupply of capacity, low spark spreads (spark spread is the difference between the market price of electricity and its cost of production), and high fuel costs have led to lower than anticipated results for PDI's merchant generation business in recent years. In response to these market conditions, PDI has taken steps to adjust to the current wholesale merchant environment. As discussed above, beginning in January 2004, ESI began assuming much of the market price risk for PDI's merchant generation fleet. Prior to the capacity and power contracts with ESI, risk management activities (i.e., hedging activities) were sparsely utilized, leaving PDI's generation fleet more exposed to market price risk. PDI also continues to pursue the sale of Sunbury and anticipates that the plant will be sold in 2005. The Sunbury sale will allow PDI to reduce its uncontracted merchant exposure and enable WPS Resources to redeploy capital into business opportunities with different risk profiles.

PDI, 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 on the risks related to PDI's investment in this synthetic fuel operation.

PDI is subject to clean air regulations enforced by the United States Environmental Protection Agency (EPA) and state and local governments. New legislation could require significant capital outlays. See Note 17, "Commitment and Contingencies," of Notes to Consolidated Financial Statements for more information on PDI's environmental exposure.

RESULTS OF OPERATIONS

2004 Compared with 2003

WPS Resources Overview

WPS Resources' 2004 and 2003 results of operations are shown in the following table:

WPS Resources' Results (Millions, except share amounts)	2004	2003	Change
Consolidated operating revenues	$4,890.6	$4,321.3	13.2%
Income available for common shareholders	$139.7	$94.7	47.5%
Basic earnings per share	$3.74	$2.87	30.3%
Diluted earnings per share	$3.72	$2.85	30.5%

The $569.3 million increase in consolidated operating revenue for the year ended December 31, 2004, compared to the same period in 2003, was largely driven by a $475.1 million, or 15.4%, increase in revenue at ESI and an $82.5 million, or 10.1%, increase in electric utility revenue. Higher natural gas prices, portfolio optimization strategies (implemented in 2004), and expansion of the Canadian retail natural gas business were the primary contributors to increased revenue at ESI. Higher electric utility revenue was primarily the result of authorized retail electric rate increases for WPSC's Wisconsin and Michigan customers. Revenue changes by reportable segment are discussed in more detail below.

Income available for common shareholders was $139.7 million ($3.74 basic earnings per share) for the year ended December 31, 2004, compared to $94.7 million ($2.87 basic earnings per share) for the year ended December 31, 2003. Significant factors impacting the change in earnings and earnings per share are as follows (and are discussed in more detail below).

- Approved rate increases (including the impact of timely retail electric rate relief in 2004, compared to the delay in receiving retail electric rate relief in 2003) favorably impacted year-over-year margin at the utilities.
- Natural gas utility throughput volumes were 6.2% lower in 2004 due to weather that was 4.3% warmer during the heating season, compared to 2003.
- Higher throughput volumes and improved supply management in Ohio favorably impacted ESI's year-over-year retail natural gas margin.
- Portfolio optimization strategies, better management of retail operations in Ohio and positive operating results from Advantage Energy contributed to improved year-over-year electric margins at ESI.
- As part of our overall asset management strategy, WPS Resources realized earnings of $15.0 million from the sale and donation of land in 2004, compared to $6.5 million in 2003.
- Earnings from equity method investments (primarily from American Transmission Company (ATC)) increased in 2004, compared to 2003.
- Earnings were negatively impacted by higher operating and maintenance expenses in 2004.
- Synthetic fuel related tax credits recognized were higher in 2004 when compared to 2003.
- The weighted average number of shares of WPS Resources common stock increased by 4.4 million shares for the year ended December 31, 2004, compared to the same period in 2003. The increase was largely due to issuing 4,025,000 additional shares of common stock through a public offering in November 2003. Additional shares were also issued under the Stock Investment Plan and certain stock-based employee benefit plans.

Overview of Utility Operations

Utility operations include the electric utility segment, consisting of the electric operations of WPSC and UPPCO and the gas utility segment comprising the natural gas operations at WPSC. Income available for common shareholders attributable to the electric utility segment was $68.8 million for the year ended December 31, 2004, compared to $60.0 million for the year ended December 31, 2003. Income available for common shareholders attributable to the gas utility segment was $17.3 million for the year ended December 31, 2004, compared to $15.7 million for the year ended December 31, 2003.

Electric Utility Segment Operations

WPS Resources' Electric Utility Segment Results (Millions)	2004	2003	Change
Revenues	$896.6	$814.1	10.1%
Fuel and purchased power costs	295.5	266.3	11.0%
Margins	$601.1	$547.8	9.7%
Sales in kilowatt-hours	14,465.7	14,346.7	0.8%

Electric utility revenue increased $82.5 million, or 10.1%, for the year ended December 31, 2004, compared to the same period in 2003. Electric utility revenue increased largely due to authorized retail and wholesale electric rate increases for WPSC's Wisconsin and Michigan customers (as summarized below) to recover higher fuel and purchased power costs, increased operating expenses, and expenditures incurred for infrastructure improvements.

- Effective March 21, 2003, the PSCW approved a retail electric rate increase of $21.4 million, or 3.5%.
- Effective May 11, 2003, FERC approved a $4.1 million, or 21%, interim increase in wholesale electric rates.
- Effective July 22, 2003, the MPSC approved a $0.3 million, or 2.2%, increase in retail electric rates for WPSC's Michigan customers and authorized recovery of $1.0 million of increased transmission costs through the power supply cost recovery process.
- Effective January 1, 2004, the PSCW approved a retail electric rate increase of $59.4 million, or 9.3%.

Electric utility sales volumes were also slightly higher in 2004, increasing 0.8% over 2003 sales volumes. A 1.6% increase in sales volumes to commercial and industrial customers was partially offset

by a 1.2% decrease in sales volumes to residential customers. Higher sales volumes to our commercial and industrial customers reflect an improving economy and growth within our service area, while the decrease in sales volumes to residential customers reflects weather that was 6.6% cooler during the 2004 cooling season, compared to 2003.

The electric utility margin increased $53.3 million, or 9.7%, for the year ended December 31, 2004, compared to 2003. The majority of this increase can be attributed to a $52.3 million, or 10.5%, increase in WPSC's electric margin. The increase in WPSC's electric margin is primarily related to the retail and wholesale electric rate increases, partially offset by a $20.4 million increase in purchased power costs. The quantity of power purchased in 2004 increased 9.3% over 2003 purchases, and purchased power costs were 17.4% higher (on a per-unit basis) in 2004, compared to 2003. The PSCW allows WPSC to adjust prospectively the amount billed to Wisconsin retail customers for fuel and purchased power if costs are in excess of plus or minus 2% from approved levels. In response to a request for additional fuel cost recovery filed early in 2004, WPSC was allowed to recover $3.2 million of its increased fuel and purchased power costs during 2004. The PSCW also allowed WPSC to defer $5.4 million of unanticipated fuel and purchased power costs directly associated with the extension of the Kewaunee refueling outage in the fourth quarter of 2004. The Kewaunee outage was extended three weeks due primarily to an unexpected problem encountered with equipment used for lifting internal vessel components to perform a required ten-year in-service inspection. It is anticipated that these costs will be recovered in 2006, pending final approval.

Electric utility earnings increased $8.8 million, or 14.7%, for the year ended December 31, 2004, compared to 2003. The increased earnings were largely driven by the higher margin at WPSC (including the effect of timely retail electric rate relief in 2004 compared to a delay in receiving retail electric rate relief in 2003), partially offset by higher operating and maintenance expenses.

Gas Utility Segment Operations

WPS Resources' Gas Utility Segment Results *(Millions)*	2004	2003	Change
Revenues	$420.9	$404.2	4.1%
Purchased gas costs	301.9	291.0	3.7%
Margins	$119.0	$113.2	5.1%
Throughput in therms	801.3	854.5	(6.2%)

Gas utility revenue increased $16.7 million, or 4.1%, for the year ended December 31, 2004, compared to 2003. Higher revenue was driven by an authorized rate increase and an increase in the per-unit cost of natural gas, partially offset by an overall 6.2% decrease in natural gas throughput volumes. The PSCW issued a final order authorizing a retail natural gas rate increase of $8.9 million, or 2.2%, effective January 1, 2004. Natural gas prices increased 14.2% per unit in 2004. Higher natural gas prices reflect higher marketplace natural gas costs in 2004. The PSCW and the MPSC allow WPSC to pass changes in the total cost of natural gas on to customers. As a result, changes in the price of the natural gas commodity do not have a direct impact on WPSC's margin. The decrease in natural gas throughput volumes was driven by weather that was 4.3% warmer during the heating season for the year ended December 31, 2004, compared to 2003.

The natural gas utility margin increased $5.8 million, or 5.1%, for the year ended December 31, 2004, compared to 2003. The higher natural gas utility margin is largely due to the authorized rate increase mentioned above. The ability of WPSC to realize the full benefit of an authorized rate increase is dependent upon normal throughput volumes; therefore, the decrease in natural gas throughput volumes negatively impacted WPSC's ability to benefit from the full amount of the rate increase.

The higher margin drove a $1.6 million, or 10.2% increase in natural gas utility earnings for the year ended December 31, 2004.

Overview of Nonregulated Operations

Nonregulated operations consist of natural gas, electric, and other sales at ESI, a diversified energy supply and services company, and the operations of PDI, an electric generation company. ESI and PDI are both reportable segments.

Income available for common shareholders attributable to ESI was $36.7 million for the year ended December 31, 2004, compared to $29.0 million for the same period in 2003. Higher overall margins were offset by an increase in operating expenses and a $3.3 million after-tax cumulative effect of change in accounting principles that was recorded at ESI in 2003.

PDI reported income available for common shareholders of $5.0 million for the year ended December 31, 2004, compared to a $7.9 million net loss for the year ended December 31, 2003, largely due to an increase in the amount of tax credits recognized and a lower loss from discontinued operations, partially offset by higher operating and maintenance expenses and a lower overall margin.

ESI's Segment Operations

Total segment revenues at ESI were $3,556.3 million for the year ended December 31, 2004, compared to $3,081.2 million for the year ended December 31, 2003. The total margin at ESI was $111.6 million for the year ended December 31, 2004, compared to $86.8 million for the year ended December 31, 2003. ESI's nonregulated natural gas and electric operations are the primary contributors to revenues and margins and are discussed below.

ESI's Natural Gas Results (Millions, except sales volumes)	2004	2003	Change
Nonregulated natural gas revenues	$3,035.1	$2,696.6	12.5%
Nonregulated natural gas cost of sales	2,978.5	2,652.5	12.3%
Margins	$ 56.6	$ 44.1	28.3%
Wholesale sales volumes in billion cubic feet *	236.3	252.4	(6.4%)
Retail sales volumes in billion cubic feet *	276.7	240.6	15.0%

* Represents gross physical volumes.

Natural gas revenue increased $338.5 million, driven by higher natural gas prices and the expansion of the Canadian retail natural gas business (due to obtaining new customers), partially offset by lower sales volumes from physical wholesale transactions. Sales volumes from physical wholesale transactions declined as a result of reduced price volatility of natural gas during the first half of 2004 (volatility provides more opportunity for profitable physical wholesale transactions).

The natural gas margin at ESI increased $12.5 million, or 28.3%, for the year ended December 31, 2004, compared to 2003. The margin related to retail natural gas operations increased $12.3 million, primarily driven by higher natural gas throughput volumes in Ohio (driven by the addition of new customers), operational improvements, and better management of supply for residential and small commercial customers. Customer growth in Canada also contributed to the increase in the retail natural gas margin. The margin attributed to wholesale natural gas operations increased $0.2 million. The increase in wholesale natural gas margin was driven by a $4.6 million margin increase related to the natural gas storage cycle, a $2.2 million increase in the Canadian wholesale natural gas margin, and increased margins from other structured wholesale natural gas transactions. Favorable settlements of liabilities with several counterparties in 2003 (in the amount of $8.4 million) largely offset these increases in the wholesale natural gas margin. For the year ended December 31, 2004, the natural gas storage cycle had a $2.0 million positive impact on margin, compared with a $2.6 million negative impact on margin for the same period in 2003. The increase in the Canadian wholesale natural gas margin is related to higher volumes (more structured wholesale transactions) as ESI continues to increase its wholesale natural gas operations in this region.

ESI experiences earnings volatility associated with the natural gas storage cycle, which runs annually from April through March of the next year. Generally, injections of natural gas into storage inventory take place in the summer months and natural gas is withdrawn from storage in the winter months. ESI's policy is to hedge the value of natural gas storage with sales in the over-the-counter and futures markets, effectively locking in a margin on the natural gas in storage. However, fair market value hedge accounting rules require the natural gas in storage to be marked-to-market using spot prices, while the future sales contracts are marked-to-market using forward prices. When the spot price of natural gas changes disproportionately to the forward price of natural gas, ESI experiences volatility in its earnings. Consequently, earnings volatility may occur within the contract period for natural gas in storage. The accounting treatment does not impact the underlying cash flows or economics of these transactions. At December 31, 2004, there was a $0.6 million difference between the market value of natural gas in storage and the market value of future sales contracts (net risk management liability), related to the 2004/2005 natural gas storage cycle. At December 31, 2003, there was a $2.6 million difference (net risk management liability) related to the 2003/2004 natural gas storage cycle. The difference between the market value of natural gas in storage and the market value of future sales contracts related to the 2004/2005 storage cycle is expected to vary with market conditions, but will reverse entirely when all of the natural gas is withdrawn from storage.

ESI's Electric Results (Millions)	2004	2003	Change
Nonregulated electric revenues	$518.9	$382.2	35.8%
Nonregulated electric cost of sales	466.1	341.8	36.4%
Margins	$ 52.8	$ 40.4	30.7%
Wholesale sales volumes in kilowatt-hours *	3,181.5	2,768.0	14.9%
Retail sales volumes in kilowatt-hours *	7,202.9	6,435.3	11.9%

* Represents gross physical volumes.

Electric revenue increased $136.7 million, largely due to an $83.7 million increase resulting from higher volumes from portfolio optimization strategies. In the first quarter of 2004, ESI first implemented the portfolio optimization strategies to optimize the value of PDI's merchant generation fleet and its own retail supply portfolios to reduce market price risk and extract additional value from these assets through the use of various financial and physical instruments (such as forward contracts and options). Electric revenue also increased as a result of the July 1, 2004, acquisition of Advantage Energy and higher energy prices compared to the prior year. These increases were partially offset by lower sales volumes from participation in the New Jersey Basic Generation Services Program, as ESI's participation in this program ended in May 2004.

ESI's electric margin increased $12.4 million, or 30.7%, for the year ended December 31, 2004, compared to 2003. The 2004 retail electric margin increased $7.8 million compared to 2003. The margin related to retail electric operations in Ohio increased $7.6 million, which can be attributed to better management of retail operations and improved supply procurement. Also contributing to the increase in retail electric margin was a $2.6 million favorable settlement of a counterparty pricing dispute and positive operating results from Advantage Energy. The increase in the retail electric margin was partially offset by a decrease in margin from retail electric operations in Maine. The lower margin in Maine was anticipated due to the sales price and supply cost associated with the new provider of last resort in northern Maine (which became effective in March 2004). The margin from retail electric operations in Michigan also decreased, driven by higher wholesale electricity prices, higher transmission related charges, and an increase in competition. The margin attributed to wholesale electric operations increased $4.6 million. The higher wholesale electric margin was driven by a $10.3 million increase from the portfolio optimization strategies discussed above. This increase was partially offset by a $5.7 million decrease in margin from ESI's participation in the New Jersey Basic Generation Services Program, which began in August 2003 and ended in May 2004. Under the program, ESI realized greater margins in 2003, compared to 2004.

PDI's Segment Operations

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

PDI's Production Results *(Millions)*	2004	2003	Change
Nonregulated other revenues	$71.4	$82.4	(13.4%)
Nonregulated other cost of sales	48.1	57.9	(16.9%)
Margins	$23.3	$24.5	(4.9%)

PDI's revenue decreased $11.0 million, or 13.4%, for the year ended December 31, 2004, compared to 2003, largely due to reduced generation from its Beaver Falls facility in New York, lower revenue from its Combined Locks Energy Center in Wisconsin, lower revenue from its steam boiler in Oregon, and lower revenue from its Wyman generation facility in Maine. The Beaver Falls facility experienced an unplanned plant outage that began in October 2003, with the facility returning to service in April 2004. This facility continued to experience lower volumes after returning to service as PDI has been more conservative in the dispatch of this unit to preserve the limited remaining service life of the turbine blades for higher margin opportunities. The decrease in revenue at the Combined Locks Energy Center was driven by lower demand for energy by the counterparty to a power purchase agreement in place at this facility and an unplanned plant outage that began in March 2004, and continued through May 2004. The decrease in revenue from the steam boiler in Oregon was largely due to a 30-day planned outage to perform repairs on the boiler, which took place in the second quarter of 2004. A power purchase agreement in place at the Wyman facility in 2003 was not renewed in 2004. As a result, energy from the Wyman facility was sold into short-term power markets in 2004, but unfavorable energy prices and lack of demand for capacity resulted in a decline in the amount of power generated at this facility in 2004, compared to 2003. The decline in revenue was partially offset by higher sales volumes at the Stoneman generation facility in Cassville, Wisconsin, related to a new power purchase agreement in place at this facility.

PDI's margin for the year ended December 31, 2004, decreased $1.2 million, or 4.9%, compared to 2003. This margin does not include the results of PDI's discontinued operations, which are reported separately in the Consolidated Statements of Income (Discontinued Operations are discussed below). The Niagara, Beaver Falls, and Wyman generating facilities experienced a combined $4.6 million decrease in margin. The lower margin at the Niagara generating facility was largely due to an increase in the per ton cost of coal utilized in the generation process. The unplanned plant outage experienced at the Beaver Falls facility and lower volumes related to PDI's decision to only dispatch the facility at times when energy prices are at a very favorable level, drove the decrease in margin at this facility. Unfavorable energy prices and lack of demand for capacity negatively impacted sales volumes at the Wyman generation facility (there was a power purchase agreement in place at this facility in 2003). These decreases were partially offset by a combined $2.9 million increase in margins at the Combined Locks Energy Center and the Stoneman generation facility. The higher margin at the Combined Locks Energy Center was driven by a negotiated increase in the dispatch flexibility of steam sold under a supply agreement with a counterparty, resulting in an increase in the value of electricity produced from this facility. The increase in margin at the Stoneman generation facility was due to higher sales volumes.

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 WPSC and UPPCO. Holding Company and Other operations had income available for common shareholders of $11.9 million for the year ended December 31, 2004, compared to a net loss of $2.1 million for the year ended December 31, 2003. This favorable variance can be attributed to an increase in earnings recognized from the sale of Wisconsin land located along the Peshtigo River and an increase in equity earnings from ATC and Wisconsin River Power Company. Equity earnings from ATC were $16.0 million in 2004, compared to $10.1 million in 2003. WPSC nonutility operations recognized a $13.3 million pre-tax gain on the sale of land located near the Peshtigo River in the fourth quarter of 2004, compared to a $6.2 million pre-tax gain that was recognized on the sale of land in the fourth quarter of 2003. WPSC also realized an income tax benefit in the fourth quarter of 2004 from the donation of land to the WDNR.

Operating Expenses

WPS Resources' Operating Expenses *(Millions)*	2004	2003	Change
Operating and maintenance expense	$513.2	$459.5	11.7%
Depreciation and decommissioning expense	107.0	138.4	(22.7%)
Taxes other than income	46.1	43.8	5.3%

Operating and Maintenance Expense

Operating and maintenance expenses increased $53.7 million, or 11.7%, for the year ended December 31, 2004, compared to 2003. Utility operating and maintenance expenses increased $36.3 million. Electric transmission and distribution costs were up $15.2 million at the utilities due primarily to an increase in transmission rates. Pension and postretirement medical costs incurred at the utilities increased $11.0 million. Additionally, $6.8 million of the increase was driven by amortization of costs incurred in conjunction with the implementation of the automated meter reading system and the purchase of the De Pere Energy Center (previously deferred as regulatory assets). Maintenance expenses at WPSC's coal-fired generation facilities were $4.2 million higher in 2004, compared to

2003, driven by an extension of the annual planned outage at the Pulliam 6 generation facility in 2004. Higher payroll and other benefit costs also contributed to the increase in operating and maintenance expenses. The fall refueling outage at Kewaunee did not significantly impact the year-over-year change in operating and maintenance expenses as there was also a refueling outage at Kewaunee in spring 2003, and the PSCW approved the deferral of incremental operating and maintenance expenses that were incurred as a direct result of the refueling outage extension ($1.8 million of operating and maintenance expenses were deferred in the fourth quarter of 2004 and collection is anticipated in 2006). Operating expenses at ESI increased $10.5 million mostly due to higher payroll, benefits, and other costs associated with continued business expansion. Operating and maintenance expenses at PDI were $1.5 million higher as a result of repairs and maintenance expenses incurred in conjunction with outages at its Beaver Falls generation facility, the Combined Locks Energy Center, and the Westwood Generation Station.

Depreciation and Decommissioning Expense

Depreciation and decommissioning expense decreased $31.4 million, or 22.7%, for the year ended December 31, 2004, compared to 2003, due primarily to a decrease of $35.9 million resulting from lower realized gains on decommissioning trust assets and because the decommissioning trust was not funded in 2004 in anticipation of selling Kewaunee. Realized gains on decommissioning trust assets are substantially offset by depreciation expense pursuant to regulatory practice (see detailed discussion in *Miscellaneous Income* below). An increase in depreciation expense from plant asset additions at WPSC partially offset the decrease in decommissioning expense.

Other Income (Expense)

WPS Resources' Other Income (Expense) *(Millions)*	2004	2003	Change
Miscellaneous income	$47.7	$63.6	(25.0%)
Interest expense and distributions of preferred securities	(54.2)	(55.6)	(2.5%)
Minority interest	3.4	5.6	(39.3%)
Other income (expense)	$ (3.1)	$13.6	(122.8%)

Miscellaneous Income

Miscellaneous income decreased $15.9 million, or 25.0%, for the year ended December 31, 2004, compared to 2003. The decrease in miscellaneous income is largely due to a decrease in realized gains on decommissioning trust assets of $33.5 million. There were significant realized gains recognized on decommissioning trust assets in the fourth quarter of 2003, which were driven by a change in the investment strategy for WPSC's qualified nuclear decommissioning trust assets. Qualified decommissioning trust assets were placed in more conservative investments in anticipation of the sale of Kewaunee. Pursuant to regulatory practice, realized gains on decommissioning trust assets are substantially offset by depreciation expense. A $1.5 million write-off of previously deferred financing costs associated with the redemption of our trust preferred securities in the first quarter of 2004 also unfavorably impacted miscellaneous income. Partially offsetting the decreases discussed above were an $8.7 million increase in equity earnings from investments, a $7.1 million increase in income recognized from the sale of Wisconsin land located along the Peshtigo River (discussed previously), and a combined $3.1 million increase related to higher royalties and a decrease in operating losses realized from our investment in a synthetic fuel producing facility. The increase in equity earnings was primarily related to our investments in ATC, Wisconsin River Power Company, and Wisconsin Valley Improvement Company. Equity earnings from ATC were $16.0 million in 2004, compared to $10.1 million in 2003. Royalty income recognized from the synthetic fuel facility increased as a result of higher production levels at this facility.

Minority Interest

The decrease in minority interest is related to the fact that PDI's partner in its subsidiary, ECO Coal Pellitization #12 LLC, was allocated more production from the synthetic fuel operation in 2003 compared to 2004. PDI's partner was not allocated any production from the synthetic fuel facility in the first quarter of 2004 as they requested additional production in the fourth quarter of 2003.

Provision for Income Taxes

The effective tax rate was 16.1% for the year ended December 31, 2004, compared to 23.4% for the year ended December 31, 2003. The decrease in the effective tax rate was driven by tax deductions pertaining to items that exceed the related book expense (including land donated to the WDNR in the fourth quarter of 2004), resulting in a $5.7 million decrease in the 2004 provision for income taxes compared to 2003, a $9.6 million increase in the amount of tax credits recognized in 2004 (related to an increase in synthetic fuel tax credits produced in 2004 and the favorable settlement of several federal tax audits and refund claims related to prior tax years).

Our ownership interest in the synthetic fuel operation resulted in the recognition of $27.8 million of Section 29 federal tax credits for the year ended December 31, 2004, and $18.2 million of tax credits for 2003. The increase in synthetic fuel related tax credits was primarily due to an increase in tax credits produced and allocable to PDI, an increase in the value of the credits produced resulting from the higher Btu content of coal and the annual inflation adjustment allowed, and the favorable settlement of several tax audits and refund claims related to prior tax years.

Discontinued Operations

The after-tax loss from discontinued operations (Sunbury) was $13.4 million for the year ended December 31, 2004, compared to $16.0 million in 2003. The decrease in the loss from discontinued operations was driven by a $4.4 million termination payment that was received from Duquesne Power in December 2004 as a result of Duquesne's termination of the asset sale agreement for Sunbury, a $3.7 million decrease in operating and maintenance expenses, and a $0.7 million reduction in interest expense. The decrease in operating and maintenance expenses was driven by lower depreciation expense resulting from the discontinuance of depreciation on those assets classified as held for sale effective December 2003. In addition, repair and maintenance expenses were higher in 2003 because of mechanical difficulties related to fuel delivery systems.

Sunbury's margin decreased in 2004, compared to 2003, partially offsetting the favorable variances discussed above. The margin was negatively impacted by an increase in the per ton cost of coal utilized to service a fixed price outtake contract and a decrease in opportunities to sell power into the spot market. In anticipation of the sale, Sunbury did not enter into staggered term coal contracts in accordance with its normal procurement practice.

Cumulative Effect of Change in Accounting Principles

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 ESI) to income available for common shareholders as a net result of removing from its balance sheet the mark-to-market effects of contracts that do not meet the definition of a derivative. This change in accounting resulted from the decision of the Emerging Issues Task Force to preclude mark-to-market accounting for energy contracts that are not derivatives. The required change in accounting had no impact on the underlying economics or cash flows of the contracts.

In addition, the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," at PDI resulted in a $0.3 million negative after-tax cumulative effect of a change in accounting principle in the first quarter of 2003, related to recording a liability for the closure of an ash basin at Sunbury.

2003 Compared with 2002

WPS Resources 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 *ESI's Segment Operations* below for further information). Total revenues also increased due to sales volume growth at ESI, electric utility rate increases, and higher natural gas prices.

Income available for common shareholders was $94.7 million ($2.87 basic earnings per share) for the year ended December 31, 2003, compared to $109.4 million ($3.45 basic earnings per share) for the year ended December 31, 2002. Significant factors impacting the change in earnings and earnings per share are as follows (and are discussed in more detail below):

- Approved rate increases and a change in electric utility sales mix favorably impacted margins at the utilities.
- Cooler weather during the cooling season in 2003 negatively impacted electric utility margins.
- Colder weather during the heating season in 2003 positively impacted natural gas throughput volumes.
- Rising operating expenses (primarily pension and medical costs), together with a delay in receiving 2003 retail electric rate relief, negatively impacted electric utility earnings.
- ESI's November 2002 acquisition of a retail natural gas business in Canada and favorable settlements with several counterparties drove an increased year-over-year retail natural gas margin.
- ESI's electric margin improved as a result of acquisition synergies, improved management of retail operations in Michigan, and participation in the New Jersey Basic Generation Service Program.
- PDI's earnings were significantly lower in 2003, primarily as a result of an $18.2 million decrease in after-tax gains recognized from sales of portions of its interest in a synthetic fuel operation, a $10.0 million increased loss from discontinued operations, and a $5.1 million reduction in tax credits recognized from the synthetic fuel operation.
- Consolidated operating expenses increased in 2003.
- 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

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 was largely due to retail and

wholesale electric rate increases for our Wisconsin and Michigan customers in accordance with new rate orders.

The electric utility margin increased $27.4 million, or 5%, in 2003 compared to 2002. Due primarily to the electric rate increases, electric margins at WPSC increased $20.2 million, or 4%. Electric margins at WPSC 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 WPSC's service area and 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 UPPCO increased $7.2 million, or 17%, due primarily to retail electric rate increases, partially offset by a 3% decrease in sales volumes. The decrease in sales volumes was 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 was due to a decrease in earnings at WPSC 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 PSCW 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 WPSC was partially offset by a modest increase in earnings at UPPCO due to the increase in rates.

Gas Utility Segment Operations

WPS Resources' Gas Utility Segment Results (Millions)	2003	2002	Change
Revenues	$404.2	$310.7	30%
Purchased gas 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 PSCW, 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.

Overview of Nonregulated Operations

ESI's 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.

PDI 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, PDI'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.

ESI's Segment Operations

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

ESI's 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.

ESI's 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 related 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 was attributed to higher natural gas prices compared to the prior year.

Natural gas margins at ESI 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 on page 30 for further discussion.

ESI's 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 volumes in kilowatt-hours *	2,768.0	4,250.0	(35%)
Retail sales volumes in kilowatt-hours *	6,435.3	2,703.6	138%

* Represents gross physical volumes.

ESI's 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 related to the required adoption of Issue 02-03. Another $88 million of the increase was attributed to participation in the New Jersey Basic Generation Services Program. ESI acquired 700 megawatts of fixed price load and 250 megawatts of variable priced 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 was attributed to increased prices and expansion within existing service territories. ESI also acquired retail electric operations in Michigan in 2003. Prior to the acquisition, this operation was an electric wholesale customer of ESI; 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.

ESI's electric margin increased $29.3 million, or 264%, in 2003 compared to 2002. Approximately $26 million of the increase was 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 ESI's electric margins was largely due to the impact of the change in accounting prescribed by the required adoption of Issue 02-03, which precluded mark-to-market accounting for nonderivative trading contracts.

PDI's Segment Operations

All revenues and costs of PDI's discontinued operations are combined and reported on a net basis in WPS Resources' 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.

PDI'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%

PDI's revenues increased $23.0 million, or 39%, in 2003 compared to 2002. PDI'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 PDI's Stoneman generating facility in Cassville, Wisconsin, 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 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 was 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 WDNR. The sale of these hydroelectric lands was part of our asset management strategy, which was initiated in 2001, and was 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 Kewaunee's scheduled refueling outage in 2003 (there was no refueling outage in 2002), additional operating expenses at Kewaunee, and wage increases. Operating expenses at ESI 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 was 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 PDI 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 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 was due primarily to the change in investment strategy for WPSC's qualified nuclear decommissioning trust assets. Qualified decommissioning trust assets were transferred to more conservative investments in 2003 pending the sale of Kewaunee, thus triggering realized gains. Most of the remaining increase resulted from plant asset additions at WPSC and PDI.

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 WPSC 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)	–
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 was largely due to an increase in realized gains on the decommissioning trust assets of $36.4 million, which was 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 WDNR 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 PDI's synthetic fuel operation. PDI recognized a $7.6 million pre-tax gain in 2003 compared with a $38.0 million pre-tax gain in 2002 related to these sales. 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 PDI'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 sale of a portion of PDI's interest in a synthetic fuel operation, which was recognized in its entirety by December 31, 2002.

Minority Interest
As a result of PDI'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 PDI'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 was 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.

Discontinued Operations

The after-tax loss from discontinued operations increased to $16.0 million for the year ended December 31, 2003, from $6.0 million for the year ended December 31, 2002. The increased loss was 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 early in 2003, 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.

BALANCE SHEET

2004 Compared with 2003

Current assets from risk management activities decreased $78.6 million, or 15.2%, at December 31, 2004, compared to December 31, 2003, and current liabilities from risk management activities decreased $115.7 million, or 22.4%. Long-term assets from risk management activities decreased $23.9 million, or 22.9%, at December 31, 2004, compared to December 31, 2003, and long-term liabilities from risk management activities decreased $23.9 million, or 25.9%. The decrease in short-term risk management assets and liabilities was primarily related to changes in the forward price curve of natural gas.

The decrease in long-term risk management assets and liabilities was driven by lower natural gas volumes under contract beyond one year and changes in the forward price curve for natural gas.

Property, plant, and equipment, net, increased $173.9 million to $2,002.6 million at December 31, 2004, compared to $1,828.7 million at December 31, 2003. This increase was mostly due to a $174.3 million increase in property, plant, and equipment at WPSC primarily related to capital expenditures associated with the construction of Weston 4 and the installation of automated meter reading.

Regulatory assets increased $33.2 million, from $127.7 million at December 31, 2003, to $160.9 million at December 31, 2004, largely due to the increase in environmental remediation liabilities related to manufactured gas plants at WPSC, as discussed below. WPSC expects to recover cleanup costs related to the manufactured gas plants, net of insurance recoveries, in future rates.

Short-term debt increased $254.4 million, from $38.0 million at December 31, 2003, to $292.4 million at December 31, 2004. Retirements of long-term debt and increased capital expenditures (primarily related to Weston 4) drove the increase in short-term debt.

Current portion of long-term debt decreased from $56.6 million at December 31, 2003, to $6.7 million at December 31, 2004. On January 19, 2004, WPSC retired early $49.9 million of its 7.125% series first mortgage bonds. These bonds had an original maturity date of July 1, 2023.

Accounts payable increased $78.7 million, from $510.7 million at December 31, 2003, to $589.4 million at December 31, 2004. Accounts payable at WPSC increased $40.2 million, driven by expenditures related to Weston 4. Accounts payable at ESI increased $38.0 million, primarily as a result of higher natural gas prices compared to the prior year.

The environmental remediation liability increased $30.5 million from December 31, 2003, to December 31, 2004. This liability primarily relates to clean-up costs associated with several manufactured gas plant sites at WPSC (see Note 17, "Commitments and Contingencies," of Notes to Consolidated Financial Statements for more information). WPSC's estimate of future clean-up costs required to remediate these sites increased significantly to reflect the WDNR's application of sediment guidance that was recently issued.

Pension and postretirement benefit obligations decreased $43.1 million, or 31.3%, from December 31, 2003, to December 31, 2004, primarily due to a reduction in the minimum pension liability. The decrease in the minimum pension liability was driven by WPS Resources' merger of its two non-contributory qualified retirement plans. On a combined basis, the minimum pension liability and related pension asset were reduced pursuant to generally accepted accounting principles.

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* below).

Operating Cash Flows

During 2004, net cash provided by operating activities was $243.0 million, compared to $62.4 million in 2003. The increase was driven by operating activities at ESI and WPSC. In 2003, operating activities at ESI used cash due primarily to increasing working capital requirements resulting from business growth and gas storage opportunities near the end of the year. ESI's natural gas operations did not experience the same level of growth in 2004 as they did in 2003, and storage opportunities were similar at the end of both years, which enabled ESI to generate additional operating cash flow in 2004. The increase in net cash provided by operating activities at WPSC was driven by improved operating results.

During 2003, net cash provided by operating activities was $62.4 million, compared with $188.5 million in 2002. The decrease was primarily due to increased working capital requirements, specifically at ESI and WPSC. Inventories increased due to high natural gas prices at both ESI and WPSC, as well as business growth at ESI. The inventory increase was also the result of ESI 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 ESI.

"My dad helps make electricity." Evan Harteau, age 6

"My mom makes sure the company pays its bills." Erin Harteau, age 7

Tim Harteau, a team manager in Supply Chain Services at Wisconsin Public Service, isn't directly involved in making electricity. But as his son, Evan, understands, Tim—and all of our employees—are integral to successfully completing the mission of "Creating a World-Class Energy Company." Laine Harteau, an accounts payable system representative, is involved in training and systems in the Accounts Payable department. And Tim's father is retired from the company. For the Harteaus, the energy game is all in the family.

Investing Cash Flows

Net cash used for investing activities was $312.6 million in 2004, compared to $244.0 million in 2003. The increase was largely related to a $114.0 million increase in utility capital expenditures (see *Capital Expenditures* below), partially offset by a $50.4 million decrease in cash used for the purchase of equity investments and other acquisitions. Purchase of equity investments and other acquisitions consisted primarily of additional investments in ATC, capital contributions to ECO Coal Pelletization #12 LLC, and the acquisition of Advantage Energy in 2004. In 2003, purchase of equity investments and other acquisitions consisted primarily of WPSC's final payment for the purchase of the De Pere Energy Center, WPSC's purchase of a one-third interest in Guardian Pipeline, additional investments in ATC, and capital contributions to ECO Coal Pelletization. WPS Resources contributed capital of $15.7 million to ECO Coal Pelletization in 2004 and $14.0 million in 2003. See Note 6, "Acquisitions and Sales of Assets," of Notes to Consolidated Financial Statements for more information.

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 (see *Capital Expenditures* below), as well as a $24.3 million increase in cash received from the sale of property, plant, and equipment. The majority of the increase in the sale of property, plant, and equipment was the result of WPSC's sale of $20.1 million of assets at book value related to the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to ATC in June 2003. Partially offsetting this decrease was a $30.4 million increase in cash used for the purchase of equity investments and other acquisitions. The composition of purchase of equity investments and other acquisitions in 2003 is discussed above. In 2002, the purchase of equity investments and other acquisitions primarily related to PDI's acquisition of CH Resources and a $11.7 million capital contribution to ECO Coal Pelletization. See Note 6, "Acquisitions and Sales of Assets," of Notes to Consolidated Financial Statements for more information.

Capital Expenditures

Capital expenditures by business segment for the years ended December 31, 2004, 2003, and 2002 are as follows:

	Years Ended December 31,		
(Millions)	2004	2003	2002
Electric utility	$223.0	$131.0	$164.3
Gas utility	62.7	40.7	34.0
ESI	1.6	1.4	0.8
PDI	2.4	3.3	8.2
Other	0.3	(0.2)	3.0
WPS Resources Consolidated	$290.0	$176.2	$210.3

The increase in capital expenditures at the electric utility in 2004 as compared to 2003 is mainly due to higher capital expenditures associated with the construction of a 500-megawatt coal-fired Weston 4 generation facility located near Wausau, Wisconsin. Gas utility capital expenditures increased primarily due to the installation of automated meter reading. Capital expenditures at PDI and ESI remained fairly consistent between 2004 and 2003.

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 WPSC in 2002. Gas utility capital expenditures increased due to the installation of automated meter reading in 2003. PDI'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 ESI remained fairly consistent between 2003 and 2002.

Financing Cash Flows

Net cash provided by financing activities was $76.8 million in 2004, compared to $198.6 million in 2003. Less cash was required from financing activities as a result of the increase in cash generated from operating activities in 2004, partially offset by higher capital expenditures incurred in 2004.

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.

Significant Financing Activities

WPS Resources had outstanding commercial paper borrowings of $279.7 million and $28.0 million at December 31, 2004, and 2003, respectively. WPS Resources had other outstanding short-term debt of $12.7 million and $10.0 million as of December 31, 2004, and 2003, respectively. Short-term borrowings in 2004 were used primarily to fund capital expenditures related to Weston 4.

In 2004, 2003, and 2002, we issued new shares of common stock under our Stock Investment Plan and under certain stock-based employee benefit and compensation plans. As a result of these plans, equity increased $28.3 million, $31.0 million, and $28.3 million in 2004, 2003, and 2002, respectively.

On January 19, 2004, WPSC retired $49.9 million of its 7.125% series first mortgage bonds. These bonds had an original maturity date of July 1, 2023.

On January 8, 2004, WPS Resources retired $50.0 million of its 7.0% trust preferred securities. As a result of this transaction, WPSR Capital Trust I, a Delaware business trust, was dissolved.

WPSC 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 WPSC 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.

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 the trust preferred securities in January 2004, reduce short-term debt, fund equity contributions to subsidiary companies, and for general corporate purposes.

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

WPSC called $9.1 million of 6.125% tax-exempt bonds in May 2003.

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

WPSC used short-term debt to retire $50.0 million of 6.8% first mortgage bonds on February 1, 2003, that had reached maturity.

WPSC 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 WPSC retires all of its outstanding first mortgage bonds. WPSC 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.

WPS Resources issued $100.0 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.

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

Credit Ratings

WPS Resources and WPSC use internally generated funds and commercial paper borrowing to satisfy most of their capital requirements. WPS Resources also periodically issues long-term debt and common stock to reduce short-term debt, maintain desired capitalization ratios, and fund future growth. WPS Resources may seek nonrecourse financing for funding nonregulated acquisitions. WPS Resources' commercial paper borrowing program provides for working capital requirements of the nonregulated businesses and UPPCO. WPSC has its own commercial paper borrowing program. WPSC also periodically issues long-term debt, receives equity contributions from WPS Resources, and makes payments for return of capital to WPS Resources to reduce short-term debt, fund future growth, and maintain capitalization ratios as authorized by the PSCW. 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 WPSC are listed in the table below.

Credit Ratings	Standard & Poor's	Moody's
WPS Resources		
Senior unsecured debt	A	A1
Commercial paper	A-1	P-1
Credit line syndication	–	A1
WPSC		
Bonds	A+	Aa2
Preferred stock	A-	A2
Commercial paper	A-1	P-1
Credit line syndication	–	Aa3

In January 2005, Standard & Poor's downgraded its ratings for WPSC one ratings level and established a negative outlook. At the same time, Standard & Poor's affirmed WPS Resources ratings but changed the outlook from stable to negative. In taking these actions, Standard & Poor's cited WPSC's substantial capital spending program and the risk profile of WPS Resources' nonregulated businesses.

In November 2003, Moody's downgraded its long-term ratings for WPS Resources and WPSC 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 WPSC was 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 2003 downgrade, Moody's set the ratings outlook at stable for both WPS Resources and WPSC.

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 WPSC 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 WPSC. A significant 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.

ESI maintains underlying agreements to support its electric and natural 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 ESI can conduct.

ESI 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.

Future Capital Requirements and Resources

Contractual Obligations

The table at the bottom of the page summarizes the contractual obligations of WPS Resources, including its subsidiaries.

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. Energy supply contracts at ESI included as part of commodity purchase obligations are generally entered into to meet obligations to deliver energy to customers. WPSC and UPPCO expect to recover the costs of their contracts in future customer rates. Purchase orders include obligations related to normal business operations and large construction obligations, including 100% of Weston 4 obligations even though we expect 30% of these costs to be paid by Dairyland Power Cooperative after certain conditions are met. Capital contributions to equity method investment include our commitment to fund a portion of the Wausau, Wisconsin, to Duluth, Minnesota, transmission line. Other mainly represents expected pension and post-retirement funding obligations.

Capital Requirements

WPSC makes large investments in capital assets. Net construction expenditures are expected to be approximately $1.2 billion in the aggregate for the 2005 through 2007 period (upon the closing of the sale of Kewaunee, expenditures would decrease approximately $73.8 million during this period). The largest of these expenditures is for the construction of Weston 4, in which WPSC is expected to incur costs of $432 million between 2005 through 2007, assuming 100% ownership in 2005, and 70% ownership in 2006 and 2007 after the expected purchase of a 30% interest in Weston 4 by Dairyland Power Cooperative.

As part of its regulated utility operations, on September 26, 2003, WPSC submitted an application for a Certificate of Public Convenience and Necessity to the PSCW seeking approval to construct Weston 4, 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). As of December 31, 2004, WPSC has incurred a total cost of $94.9 million related to this project. In addition, WPSC expects to incur additional construction costs through the date the plant goes into service of approximately $41 million to fund construction of the transmission facilities required to support Weston 4. ATC will reimburse WPSC for the construction costs of the interconnection and related carrying costs when Weston 4 becomes commercially operational, which is expected to occur in June 2008.

On October 7, 2004, we received the final PSCW order granting authority to proceed with construction of Weston 4 contingent upon receipt of an air permit. The air permit was issued by the WDNR on October 19, 2004. We believe the air permit is one of the most stringent in the nation, which means that Weston 4 will be one of the cleanest plants of its kind in the United States. Construction began in October 2004, and on November 15, 2004, a petition was filed with the WDNR contesting the air permit issued. On December 2, 2004, the WDNR granted the petition and forwarded the matter to the Division of Hearings and Appeals. Construction continues and it is anticipated that the contested case hearing will be held in the second half of 2005.

Other significant anticipated expenditures during this three-year period (2005 to 2007) include:

- mercury and pollution control projects – $188 million
- corporate services infrastructures – $34 million
- jointly owned 500-megawatt base-load plant – $65 million
- nuclear fuel – $43 million

Other capital requirements for the three-year period include a potential contribution of $3.3 million to the Kewaunee decommissioning trust fund if the sale of Kewaunee is not completed.

On April 18, 2003, the PSCW approved WPSC's request to transfer its interest in the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to the ATC. WPS Resources committed to fund 50% of total project costs incurred up to $198 million, and receive additional equity

Contractual Obligations As of December 31, 2004 *(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	$1,316.6	$ 58.9	$ 118.8	$269.7	$ 869.2
Operating leases	18.2	4.2	4.5	3.6	5.9
Commodity purchase obligations	3,600.4	2,243.7	696.6	212.6	447.5
Purchase orders	499.6	305.7	163.3	30.6	–
Capital contributions to equity method investment	175.3	56.2	97.5	21.6	–
Other	221.7	32.6	48.2	46.6	94.3
Total contractual cash obligations	$5,831.8	$2,701.3	$1,128.9	$584.7	$1,416.9

in ATC. WPS Resources may terminate funding if the project extends beyond January 1, 2010. On December 19, 2003, WPSC and ATC received approval to continue the project at a 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 ATC 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 2005 through 2008, we expect to make capital contributions of approximately $175 million for our portion of the Wausau to Duluth transmission line. Our commitment to fund this transmission line could decrease up to 50% if Minnesota Power exercises its option to fund a portion of the project.

WPS Resources expects to provide additional capital contributions to ATC of approximately $36 million for the period 2005 through 2007 for other projects.

UPPCO is expected to incur construction expenditures of about $47 million in the aggregate for the period 2005 through 2007, primarily for electric distribution improvements and repairs and safety measures at hydroelectric facilities.

Capital expenditures identified at PDI for 2005 through 2007 are expected to be approximately $7.4 million, primarily for fuel improvements and blade replacement at WPS Empire State.

Capital expenditures identified at ESI for 2005 through 2007 are expected to be approximately $7.0 million, largely due to the Advantage Energy acquisition and computer equipment related to business expansion and normal technology upgrades.

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 2005 through 2007 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

As of December 31, 2004, both WPS Resources and WPSC were in compliance with all of the covenants under their lines of credit and other debt obligations.

For the period 2005 through 2007, 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 debt to equity ratios at appropriate levels to support current ratings and corporate growth. 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. WPSC has the ability to issue up to an additional $375.0 million of debt under its currently effective shelf registration statements. The shelf registrations are subject to the ultimate terms and conditions to be determined prior to the actual issuance of specific securities.

WPS Resources and WPSC have 364-day credit line facilities for $400.0 million and $115.0 million, respectively. The credit lines are used to back 100% of WPS Resources' and WPSC's commercial paper borrowing programs and letters of credit for WPS Resources. As of December 31, 2004, there was a total of $141.7 million and $20.2 million available under WPS Resources' and WPSC's credit lines, respectively.

In 2003, WPS Resources announced the sale of Sunbury, and WPSC announced the sale of its portion of Kewaunee. We anticipate being able to complete the sale of Sunbury in 2005. See the *Kewaunee* paragraph below for a discussion on this potential sale. 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 WPSC. 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 sales, see the discussion below.

Other Future Considerations

Sunbury

WPS Resources made capital contributions of $24.5 million to Sunbury in 2004 to compensate for the impact of lower capacity revenues, as well as adjustments to Sunbury's operating plan. These funds have been used to cover operating losses, make principal and interest payments, and purchase emission allowances. In 2004, WPS Resources' Board of Directors granted authorization to contribute up to $32.8 million of additional capital to Sunbury. Of that amount, $8.3 million remains available in 2005, as authorized by WPS Resources' Board of Directors.

On September 30, 2004, PDI received a letter of termination from Duquesne Power, L.P. related to the previously announced agreement to sell Sunbury to Duquesne for approximately $120 million. Duquesne issued its letter of termination following a determination by the Pennsylvania Public Utility Commission not to reconsider its earlier approved Provider of Last Resort plan, which Duquesne believed did not satisfy a closing condition in the agreement. PDI is continuing its efforts to sell Sunbury. The carrying value of Sunbury is about $117 million, and this project carries approximately $66 million of project-financed debt. Based upon consideration of all information available at this time, management determined that no adjustment to the carrying value of Sunbury was required in 2004. Although management cannot predict the precise timetable or ultimate outcome, PDI is progressing with the sale process, and anticipates being able to complete the sale of Sunbury in 2005.

Kewaunee

On November 7, 2003, WPSC entered into a definitive agreement to sell its 59% ownership interest in Kewaunee to a subsidiary of Dominion Resources, Inc. The other joint owner of Kewanee, Wisconsin Power and Light Company, also agreed to sell its 41% ownership interest in

Kewaunee to Dominion. The transaction is subject to approvals from various regulatory agencies, of which all major approvals have been obtained, except for approval by the PSCW. The PSCW rejected the sale on November 19, 2004. However, WPSC, Wisconsin Power and Light Company, and Dominion Resources, Inc. offered a proposal addressing the PSCW's concerns in December 2004. In January 2005, the PSCW agreed to reconsider its decision on this transaction, and we expect a decision to be rendered in March 2005.

WPSC 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 WPSC assets being sold. In addition to the cash proceeds, WPSC 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 net-of-tax fair value of the non-qualified decommissioning trust's assets at December 31, 2004, was $102.5 million. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive WPSC's qualified decommissioning trust assets that had a net of tax fair value of $242.0 million at December 31, 2004. WPSC has requested deferral of the gain or loss resulting from this transaction and related costs from the PSCW. Accordingly, the gain or loss on the sale of the plant assets and the related non-qualified decommissioning trust assets are expected to be returned to customers under future rate orders.

On February 20, 2005, Kewaunee was temporarily removed from service after a potential design weakness was identified in a backup cooling system. Plant engineering staff identified the concern and the unit was shut down in accordance with the plant license. A modification is being made to resolve the issue, and it is anticipated that the unit will be back in service at 100% power by mid April. WPSC intends to file a request with the PSCW for recovery of incremental costs associated with fuel, purchased power, and operating and maintenance costs. WPSC and Dominion remain committed to the sale of Kewaunee.

Asset Management Strategy

WPS Resources is finalizing its sales strategy for the balance of its identified excess real estate holdings. This strategy is expected to provide for WPS Resources to meet its average annualized earnings per share goal.

Regulatory

For a discussion of regulatory considerations, see Note 22, "Regulatory Environment," of Notes to Consolidated Financial Statements.

American Jobs Creation Act of 2004

On October 22, 2004, the President of the United States signed into law the American Jobs Creation Act of 2004 ("2004 Jobs Act"). The 2004 Jobs Act introduces a new deduction, the "United States production activities deduction." This domestic production provision allows as a deduction an amount equal to a specified percent of the lesser of the qualified production activities income of the taxpayer for the taxable year or taxable income for the taxable year. The deduction is phased in, providing a deduction of three percent of income through 2006, a six percent deduction through 2009, and a nine percent deduction after 2009. On December 21, 2004, the Financial Accounting Standards Board (FASB) issued final staff position ("FSP") 109-1, effective the same day, on accounting for the effects of the domestic production deduction provisions. The FSP 109-1 said the deduction should be accounted for as a special deduction rather than a tax rate reduction. The FSP 109-1 also said the special deduction should be considered by an enterprise in measuring deferred taxes when graduated tax rates are a significant factor and also in assessing if a valuation allowance is necessary. On December 8, 2004, the PSCW issued an order authorizing WPSC to defer the revenue requirements impacts resulting from the 2004 Jobs Act. The Internal Revenue Service and Department of Treasury issued interim guidance on January 19, 2005, covering the implementation of the domestic production provision of the 2004 Jobs Act. WPS Resources is currently reviewing this guidance in order to quantify the tax impact of this deduction or identify all potential tax issues related to the 2004 Jobs Act. However, pursuant to regulatory treatment, WPS Resources expects any tax benefits derived from utility operations to be deferred and passed on to customers in future rates.

Section 29 Federal Tax Credits

The current rise in oil prices may result in a reduction or elimination of the Section 29 federal tax credits expected for future years. A phase out or elimination of the Section 29 federal tax credits would have no impact on the value of alternative minimum tax credits WPS Resources is carrying forward as a result of prior production of Section 29 federal tax credits. WPS Resources is assessing the impact of this issue on future operations and evaluating alternatives to potentially protect the ongoing economic benefits of the synthetic fuel facility.

GUARANTEES AND 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 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 inter-company 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 FIN No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others."

At December 31, 2004, 2003, and 2002, outstanding guarantees totaled $977.9 million, $981.8 million, and $652.2 million, respectively, as follows:

WPS Resources' Outstanding Guarantees *(Millions)*	December 31, 2004	December 31, 2003	December 31, 2002
Guarantees of subsidiary debt	$ 27.2	$ 39.7	$ 38.8
Guarantees supporting commodity transactions of subsidiaries	863.9	874.4	584.3
Standby letters of credit	80.9	61.1	22.7
Surety bonds	0.6	1.1	6.4
Other guarantee	5.3	5.5	–
Total guarantees	$977.9	$981.8	$652.2

WPS Resources' Outstanding Guarantees *(Millions)* Commitments Expiring	Total Amounts Committed At December 31, 2004	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Guarantees of subsidiary debt	$ 27.2	$ –	$ –	$ –	$27.2
Guarantees supporting commodity transactions of subsidiaries	863.9	812.6	22.4	12.9	16.0
Standby letters of credit	80.9	68.0	12.9	–	–
Surety bonds	0.6	0.6	–	–	–
Other guarantee	5.3	–	–	–	5.3
Total guarantees	$977.9	$881.2	$35.3	$12.9	$48.5

At December 31, 2004, WPS Resources had outstanding $27.2 million in corporate guarantees supporting indebtedness. Of that total, $27.0 million supports outstanding debt at one of PDI'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 ESI. WPS Resources primarily issues the guarantees to counterparties in the wholesale electric and natural gas marketplace to provide counterparties the assurance that ESI will perform on its obligations and permit ESI to operate within these markets. The amount of guarantees actually issued by WPS Resources to support the business operations at ESI at December 31, 2004, was $817.7 million, and this is reflected in the table above. These guarantees reflect the amount of outstanding business ESI could have with the counterparties holding the guarantees at any point in time. At December 31, 2004, the actual amount of ESI's obligations to counterparties supported by WPS Resources' parental guarantees was $132.6 million.

At December 31, 2004, WPS Resources had issued $38.3 million in corporate guarantees to support the business operation of PDI, 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 PDI to operate within these markets. The amount supported is dependent on the amount of the outstanding obligations that PDI has with the parties holding the guarantees at any point in time. At December 31, 2004, the amount of PDI's obligations supported by WPS Resources' parental guarantees was $4.7 million. 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 PDI in addition to guarantees that receive specific WPS Resources Board authorization.

Another $7.9 million of corporate guarantees support energy and transmission supply at UPPCO 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 $15.0 million to support the business operations of UPPCO. 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 $80.9 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, 2004, WPS Resources furnished $0.6 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.

The other guarantee of $5.3 million listed on the above table was issued by WPSC 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 guarantees the potential retrospective premiums that could be addressed under WPS Resources' nuclear insurance program.

See Note 23, "Variable Interest Entities," of Notes to the Consolidated Financial Statements for information on the implementation of Interpretation No. 46R. Interpretation No. 46R 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 financial support from other parties.

MARKET PRICE RISK MANAGEMENT ACTIVITIES

Market price risk management activities include the electric and natural gas marketing and related risk management activities of ESI. ESI's marketing and trading operations manage power and natural gas procurement as an integrated portfolio with its retail and wholesale sales commitments. Derivative instruments are utilized in these operations. ESI measures the fair value of derivative instruments (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. The fair value of derivatives is shown as "assets or liabilities from risk management activities" in the consolidated balance sheets.

The offsetting entry to assets or liabilities from risk management activities is to other comprehensive income or earnings, depending on the use of the derivative, how it is designated, and if it qualifies for hedge accounting. The fair values of derivative instruments are adjusted each reporting period using various market sources and 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. ESI 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 ESI's assets and liabilities from risk management activities for the 12 months ended December 31, 2004.

ESI Mark-to-Market Roll Forward *(Millions)*	Natural Gas	Electric	Total
Fair value of contracts at January 1, 2004	$13.3	$ 6.3	$19.6
Less - contracts realized or settled during period	10.9	(2.0)	8.9
Plus - changes in fair value of contracts in existence at December 31, 2004	29.2	5.4	34.6
Fair value of contracts at December 31, 2004	$31.6	$13.7	$45.3

The fair value of contracts at January 1, 2004, and December 31, 2004, reflects 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 includes the value of contracts in existence at January 1, 2004, that were no longer included in the net mark-to-market assets as of December 31, 2004, along with the amortization of those derivatives later designated as normal purchases and sales under SFAS No. 133. Changes in fair value of existing contracts include unrealized gains and losses on contracts that existed at January 1, 2004, and contracts that were entered into subsequent to January 1, 2004, which are included in ESI's portfolio at December 31, 2004. 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.

Market quotes are more readily available for short duration contracts. The table at the bottom of this page shows the sources of fair value and maturity of ESI's risk management instruments.

We derive the pricing for most contracts in the table at the bottom of this page from active quotes or external sources. "Prices actively quoted" includes NYMEX contracts and basis swaps. "Prices provided by external sources" includes electric and natural gas contract positions for which pricing information is obtained primarily through broker quotes. "Prices based on models and other valuation methods" includes electric contracts for which reliable external pricing information does not exist.

ESI, as a result of PDI's ownership 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, 2004, was $0.7 million.

ESI employs 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. However, the application of hedge accounting rules causes ESI to experience earnings volatility associated with electric and natural gas operations. While risks associated with power generating capacity and power sales are economically hedged, certain transactions do not meet the definition of a derivative or qualify for hedge accounting under generally accepted accounting principles. Consequently, gains and losses from the generating capacity do not always match with the related physical and financial hedging instruments in some reporting periods. The result can cause volatility

ESI Risk Management Contract Aging at Fair Value As of December 31, 2004 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	$27.4	$1.8	$ –	$ –	$29.2
Prices provided by external sources	8.1	5.1	–	–	13.2
Prices based on models and other valuation methods	2.8	0.1	–	–	2.9
Total fair value	$38.3	$7.0	$ –	$ –	$45.3

in ESI's reported period-by-period earnings; however, the financial impact of this timing difference will reverse at the time of physical delivery and/or settlement of the hedge transaction. The accounting treatment does not impact the underlying cash flows or economics of these transactions. At December 31, 2004, the unrealized mark-to-market gains were $5.4 million for ESI's electric operations and related hedges that did not qualify for cash flow hedge treatment under SFAS No. 133. See Results of Operations - Overview of Nonregulated Operations - *ESI's Segment Operations* for information regarding earnings volatility associated with the natural gas storage cycle.

CRITICAL ACCOUNTING POLICIES

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. WPS Resources' management has discussed these critical accounting policies with the Audit Committee of the Board of Directors.

Risk Management Activities

WPS Resources has entered into contracts that are accounted for as derivatives under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. At December 31, 2004, 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 sales exemption, provided by SFAS 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.

Derivative contracts that are determined to fall within the scope of SFAS 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 direct 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 the underlying servicing and credit/counterparty risk assumptions is as follows:

Change In Assumption *(Millions)*	Effect to Operating Reserve at December 31, 2004
100% increase	$11.4
50% decrease	$ (5.7)

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 current and long-term Assets/Liabilities from risk management activities on the Consolidated Balance Sheets.

Asset Impairment

WPS Resources annually reviews its assets for impairment. SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," and SFAS No. 142, "Goodwill and Other Intangible Assets," form the basis for these analyses.

The review for impairment of tangible assets is more critical to PDI 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. At December 31, 2004, the carrying value of PDI's property, plant, and equipment totaled $138.1 million, excluding assets held for sale, which totaled $73.9 million. 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 management to make assumptions about future market sales pricing, production costs, capital expenditures and generation volumes and (2) the impact of recognizing an impairment could be material to our financial position or results of operations. 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 PDI in the impairment analysis are future revenue streams and operating costs. A combination of input from both internal and external sources is used to project revenue streams. PDI's operations group forecasts 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 SFAS No. 144. PDI evaluates property, plant, and equipment for impairment whenever

indicators of impairment exist. These indicators include a significant underperformance of the assets relative to historical or projected future operating results, a significant change in the use of the assets or business strategy related to such assets, and significant negative industry or economic trends. SFAS No. 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. For assets held for sale, impairment charges are recorded if the carrying value of such assets exceeds the estimated fair value less costs to sell. The amount of impairment recognized is calculated by reducing the carrying value of the asset to its fair value.

Throughout 2004, PDI tested its power plants for impairment whenever events or changes in circumstances indicated that their carrying amount may not be recoverable. No impairment charges were recorded in 2004 as a result of these recoverability tests. Results of past impairment tests may not necessarily be an indicator of future tests given the criticality of the accounting estimates involved, as discussed more fully above. Changes in actual results or assumptions could result in an impairment.

WPSC recorded goodwill of $36.4 million in its gas utility segment following the merger of Wisconsin Fuel and Light into WPSC in 2001. The goodwill is tested for impairment yearly based on the guidance of SFAS 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 natural 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 natural gas and electric utilities and ESI 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. At December 31, 2004, 2003, and 2002, the amount of unbilled revenues was $113.2 million, $90.0 million, and $105.9 million, respectively. Any difference between actual sales and the estimates or weather factors would cause a change in the estimated revenue.

WPS Resources records reserves for potential uncollectible customer accounts as an expense on the income statement and an uncollectible reserve on the balance sheet. WPSC records a regulatory asset to offset its uncollectible reserve. Because the nonregulated energy marketing business involves higher credit risk, the reserve is more critical to ESI than to our other segments. At ESI, 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 benefit pension benefits and other postretirement benefits, described in Note 18, "Employee Benefit Plans," of Notes to Consolidated Financial Statements, are dependent upon numerous factors resulting from actual plan experience and assumptions regarding future experience.

Pension costs and other postretirement benefit costs 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. Other postretirement benefit costs are also impacted by health care cost trends. Pension and other postretirement benefit costs may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, discount rates used in determining the projected benefit and other postretirement benefit obligation and pension and other postretirement benefit costs, and health care cost trends. Changes made to the plan provisions may also impact current and future pension and other postretirement benefit 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. Management believes that such changes in costs would be recovered at our regulated segments through the ratemaking process.

The table below shows how a given change in certain actuarial assumptions would impact the projected benefit obligation, the net amount recognized on the balance sheet, and the reported annual pension cost on the income statement as they relate to all of our defined benefit pension plans. Each factor 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)	$44.2	$(3.7)	$3.7
Discount rate	0.5	(41.6)	3.7	(3.7)
Rate of return on plan assets	(0.5)	N/A	(2.6)	2.6
Rate of return on plan assets	0.5	N/A	2.6	(2.6)

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)	$23.8	$(1.9)	$1.9
Discount rate	0.5	(20.5)	1.6	(1.6)
Health care cost trend rate	(1.0)	(34.7)	4.8	(4.8)
Health care cost trend rate	1.0	42.0	(5.2)	5.2
Rate of return on plan assets	(0.5)	N/A	(0.7)	0.7
Rate of return on plan assets	0.5	N/A	0.7	(0.7)

The table above shows how a given change in certain actuarial assumptions would impact the projected other postretirement benefit obligation, the reported other postretirement benefit liability on the balance sheet, and the reported annual other postretirement benefit cost on the income statement. Each factor below 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. To select 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. In selecting assumed health care cost trend rates, we consider past performance and forecasts of health care costs.

Regulatory Accounting

The electric and gas utility segments of WPS Resources follow SFAS 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 is 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 amortize the regulatory assets and liabilities into income over the rate recovery period. If recovery of costs is not approved or is no longer deemed probable, these regulatory assets or liabilities are recognized in current period income.

If our electric and gas utility segments no longer meet the criteria for application of SFAS No. 71, we would discontinue its application as defined under SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of SFAS No. 71." Assets and liabilities recognized solely due to the actions of rate regulation would 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 occurred. A write-off of all WPS Resources' regulatory assets and regulatory liabilities at December 31, 2004, would result in a 3.6% decrease in total assets, an 8.7% decrease in total liabilities, and a 68.4% 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 for 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 also 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, which is offset by an expense within the tax provisions in the income statement.

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. The assumptions involved are supported by historical data and reasonable projections. Significant changes in these assumptions could have a material impact on WPS Resources' financial condition and results of operations.

RELATED PARTY TRANSACTIONS

WPS Resources has investments in related parties that are accounted for under the equity method of accounting. These include WPS Investments, LLC's (a consolidated subsidiary of WPS Resources) investments in ATC and Guardian Pipeline; WPSC's investment in Wisconsin River Power Company; and WPS Nuclear Corporation's (a consolidated subsidiary of WPS Resources) investment in Nuclear Management Company. WPS Resources also had an investment in WPSR Capital Trust I, which was dissolved January 8, 2004. See Note 10, "Investments in Affiliates, at Equity Method," of Notes to Consolidated Financial Statements for information regarding related party transactions involving ATC, Guardian Pipeline, and Nuclear Management Company. Note 24, "Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Preferred Stock Trust," of Notes to Consolidated Financial Statements contains information regarding WPSR Capital Trust I.

TRENDS

Environmental

See Note 17, "Commitments and Contingencies," of Notes to Consolidated Financial Statements for a detailed discussion of WPS Resources' environmental commitments and contingencies.

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, equilibrium between natural gas supply and demand, changes 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. PDI 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.

In 2004, PDI entered into tolling agreements with ESI to market electric production from its facilities and to manage natural gas costs for its gas-fired generation facilities. ESI is utilizing various financial tools, including forwards and options, to limit exposure and extract additional value from volatile commodity prices. PDI continues to manage costs of fuel for its coal-fired facilities.

Synthetic Fuel Operation

See Note 17, "Commitments and Contingencies," of Notes to Consolidated Financial Statements for a detailed discussion of WPS Resources' synthetic fuel production facility.

Industry Restructuring

The Ohio Legislature passed a Senate Bill in May 1999 instituting market-based rates, instituting competitive retail electric services, and establishing a market development period that began January 1, 2001, which was to end no later than December 31, 2005. This bill required Ohio electric distribution companies to file electric transition plans, including the collection of transition costs and freezing generation rates at a 5% discount during the course of the market development period. At the end of the market development period, rates would be set at a market-based price. However, the Public Utilities Commission of Ohio, recognizing the competitive electric market has not developed as envisioned and fearing rate shock at the end of the market development period, requested the Ohio electric distribution utilities to file rate stabilization plans covering the 2006-2008 time period. The 2006-2008 rate stabilization plans are expected to provide rate certainty, provide financial stability for the electric distribution utilities, and further develop the competitive market.

Since 2001, ESI has been the supplier to approximately 100,000 residential, small commercial, and government facilities in the FirstEnergy service areas under the State of Ohio provisions for Opt-out Electric Aggregation Programs. On June 9, 2004, the Public Utilities Commission of Ohio ordered a competitive bid auction be developed and conducted and approved a modified version of the rate stabilization plan submitted by FirstEnergy. The FirstEnergy Rate Stabilization Plan would establish electric rates consumers would pay beginning in 2006 if the auction does not produce better benefits.

ESI participated as an intervener in the FirstEnergy Rate Stabilization Plan and competitive bid process cases in an effort to preserve the competitive electric business established in the FirstEnergy service areas in the 2006-2008 time period. ESI filed comments requesting modifications to the competitive bid process to allow for fair competition. In October 2004, the Public Utilities Commission of Ohio issued orders directing FirstEnergy to modify the competitive bid process based on filed comments and direction from independent consultants and scheduled the auction for December 8, 2004.

The competitive bid process was conducted on December 8, 2004, concluding the same day. On December 9, 2004, the Public Utility Commission of Ohio rejected the auction price citing the clearing price of 5.45 cents per kilowatt-hour was inadequate in comparison to the FirstEnergy Rate Stabilization Plan. While the details of the rate comparison and auction results have not been made public, the Public Utility Commission of Ohio requested stakeholder comments relative to what information to maintain as confidential and for what period of time. The Public Utility Commission of Ohio intends to conduct a similar auction next year, believing the economy of the power market will improve, increasing the probability of an acceptable auction clearing price.

Given the auction results, the FirstEnergy Rate Stabilization Plan will be implemented. ESI participated in recent case developments relative to the price to be paid by customers who return from competitive supply to default service during the Rate Stabilization Plan period. Continued service by ESI beyond December 31, 2005, to customers of the existing aggregation programs will be dependent on the ability of the communities to comply with the FirstEnergy Rate Stabilization Plan requirements imposed on governmental aggregation programs and improved market power prices.

Meanwhile, on September 23, 2004, an Ohio House Bill was introduced, proposing change to the electric restructuring law. The bill proposes to give the Public Utilities Commission of Ohio explicit authority to implement rate stabilization plans, where it has been determined that there is insufficient development of the generation market or lack of effective competition in an electric utility's service area and ensuring against any undue competitive disadvantage between Ohio and regional customers of an electric utility of its affiliates. Recent news releases indicate an increased momentum in the Ohio General Assembly for legislation that would make major changes to Senate Bill 3 in 2005.

On July 1, 2004, Senate Bills 1331-1336 were introduced in Michigan to amend legislation enacted in June 2000, which initially established a competitive supply alternative for customers in the state's electricity market. On October 6, 2004, Senate Bill S-1 was introduced as a substitute for Senate Bill 1331. As the Michigan legislature closed out 2004 with this package of bills not being voted out of the Senate Energy and Technology Committee, they must be reintroduced and sponsored again, if they are to be addressed in 2005. It is our expectation that such a move will be initiated early in 2005.

Under current legislation, Michigan's regulated utilities were able to securitize overrun costs associated with large generation assets, and the MPSC was provided the authority to administer the Electric Choice program to ensure the interests of all stakeholders were met. Under the current Electric Choice program, ESI, through its subsidiary Quest Energy, LLC, has established itself as a significant supplier to the industrial and commercial markets, achieving contract demand levels of approximately 900 megawatts, and annual sales volumes of 3.6 million megawatt-hours. The initial Senate bills contained provisions that would have substantially harmed the Electric Choice market and returned Michigan to a model of the regulated supply monopoly. If similar legislation is proposed and passed in 2005, it could diminish the benefits of competitive supply for Michigan business customers. The impact on ESI could range from maintaining Michigan business with little or no growth, to an inability to re-contract any business, leading to a possible decision by ESI to exit Michigan's electric market and redirect resources to more vibrant markets. It is not unreasonable to expect changes that will have some level of negative impact on ESI, but it would be unlikely that Michigan customers will lose all of the benefits of competition and revert back to a fully regulated monopoly supply. ESI is actively participating in the legislative and regulatory process in order to protect its interests in Michigan.

WPSC, UPPCO, and ESI are members of the Midwest Independent System Operator (ISO), which is in the process of restructuring the bulk electric power market across its footprint. The implementation of market restructuring by the Midwest ISO is currently expected to occur April 1, 2005. Such restructuring could have an impact on the costs associated with serving utility customers' energy requirements; however, given the anticipated regulatory treatment of any potential cost differences, WPSC does not currently expect the ultimate outcome will have a material impact on its results of operations or financial condition. WPSC, UPPCO, and ESI are working closely with the Midwest ISO and the FERC to ensure that there is a smooth transition to the new market in order to minimize any impact on them and their customers. ESI currently participates in markets that have gone through comparable transitions. We believe this past experience has prepared ESI for the Midwest ISO transition and positions ESI to manage the risk and pursue the opportunities that will exist.

Seams Elimination Charge Adjustment

ESI has identified an issue that could create financial exposure through March 2006. Through a series of orders issued by FERC, Regional Through and Out Rates for transmission service between the Midwest ISO and the PJM Interconnection have been eliminated effective December 1, 2004. The FERC ordered a transitional pricing mechanism called the Seams Elimination Charge Adjustment (SECA) to be put into place on December 1, 2004, through March 31, 2006, which would be paid by load serving entities. The purpose of the SECA is to compensate transmission owners (during the 16-month transition period) for the revenue they would no longer receive due to the elimination of the Regional Through and Out Rates. Because ESI is a load serving entity, it will be billed for SECA charges based on its power imports during 2002 and 2003. Although actual SECA charges have only been calculated for the first 4 months of the 16-month period, total exposure for the 16-month transitional period is estimated to be approximately $13 million for Michigan and $2 million for Ohio.

On February 10, 2005, FERC issued an order accepting compliance filings implementing the SECA effective December 1, 2004, subject to refund and surcharge, as appropriate, and setting the case in its entirety for a formal hearing. It is anticipated that the case could take a year or more to reach a final decision. In addition, matters related to the justness and reasonableness and other legal challenges to the SECA itself remain pending before FERC on rehearing. It is not known when FERC will issue an order on these requests for rehearing. It appears that ESI will be required to pay the SECA charges during this process, subject to refund. ESI has actively participated in the SECA case since its beginning and believes its position has strong merits. The application and legality of the SECA is being challenged by many other load serving entities and ESI will continue to pursue all avenues to appeal and/or reduce the SECA obligations. In the interim, the exposure will be managed through customer charges and other available avenues, where feasible. Through existing contracts, ESI has the ability to pass SECA charges on to customers. However, doing so may hinder ESI's competitiveness in the marketplace.

New Accounting Pronouncements

See Note 1(v), "New Accounting Pronouncements," of Notes to Consolidated Financial Statements for a detailed discussion of new accounting pronouncements.

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, WPSC's and UPPCO'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, WPSC and UPPCO are only allowed to recover the historic cost of plant via depreciation. Our nonregulated businesses include inflation in forecasted costs. However, any increase from inflation is offset with projected business growth. Therefore, the estimated effect of inflation on our nonregulated businesses is minor.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks and Other Significant Risks

WPS Resources has potential market risk exposure related to commodity price risk, interest rate risk, equity return, and principal preservation risk. WPS Resources is also exposed to other significant risks due to the nature of our subsidiaries' business and the environment from which we operate. WPS Resources has risk management policies in place to monitor and assist in controlling these risks and may use derivative and other instruments to manage some of these exposures as further described below.

Interest Rate Risk

WPS Resources and WPSC 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 WPSC enter into long-term fixed rate debt when it is advantageous to do so. WPS Resources and WPSC may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure. At December 31, 2004, and 2003, 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 WPSC outstanding at December 31, 2004, a hypothetical increase in market interest rates of 100 basis points in 2005 would increase annual interest expense by approximately $3.2 million at WPS Resources and $1.0 million at WPSC. Comparatively, based on the variable rate debt outstanding at December 31, 2003, an increase in interest rates of 100 basis points would have increased interest expense in 2004 by approximately $0.7 million at WPS Resources and $0.1 million at WPSC. 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 WPSC outstanding as of December 31, 2004, and 2003. 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 WPSC'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 and utilize contracts of various duration to manage our fuel and gas supply costs and 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. Recovery of electric fuel and purchased energy costs through the PSCW ratemaking process can be sought if they exceed more than 2% of the estimated costs used to establish the rates. The risk associated with exposure to costs less than 2% above the estimated costs that are not recoverable are not material. Recovery of utility natural gas commodity costs are allowed to be passed through to retail customers in both Wisconsin and Michigan via gas cost recovery plans authorized by the PSCW and MPSC, respectively. An additional risk within the ratemaking process, regulatory lag risk, occurs between the time we submit rate proceedings and the time we receive the final approval or denial from the PSCW, MPSC, or FERC. The regulatory lag risk may increase or decrease with any change in commodity prices, unplanned outages, or unscheduled maintenance during the approval period. The regulatory lag risk is deemed to be insignificant; therefore, the Value-at-Risk amounts discussed below do not include measures for WPS Resources' regulated utilities. To further manage commodity price risk and the associated regulatory lag 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.

For the nonregulated utilities, PDI utilizes purchase and/or sale contracts for electric fuel and electricity to help manage its commodity price risk, and ESI 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. ESI also utilizes these instruments to manage market risk associated with anticipated energy purchases.

For purposes of risk management disclosure, PDI and ESI's activities are classified as non-trading. Certain PDI merchant plants are under contract to ESI, and ESI has the ability to reduce market price risk and extract additional value from these plants through the use of various financial and physical tools (including forward contracts and options). Due to the fact that a majority of PDI's risk is now essentially managed and reported through ESI, a separate Value-at-Risk amount has not been presented for PDI.

Value-at-Risk

To measure commodity price risk exposure, WPS Resources performs a Value-at-Risk analysis of its exposures.

Value-at-Risk is used to describe a probabilistic approach to quantifying the exposure to market risk. The Value-at-Risk 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. Value-at-Risk 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. Value-at-Risk is not necessarily indicative of actual results that may occur.

Value-at-Risk 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 Value-at-Risk 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.

The Value-at-Risk amount for ESI was calculated to be $0.5 million at December 31, 2004, compared to $0.8 million at December 31, 2003. The decrease is due to less volatility in the market and fewer unusual fluctuations in the various portfolios. Due to the fact that a majority of PDI's risk is essentially managed and reported through ESI, a separate Value-at-Risk amount has not been presented for PDI in 2004. The Value-at-Risk amount for PDI at December 31, 2003, was calculated to be $1.2 million.

For the year ended December 31, 2004, the average, high, and low Value-at-Risk amounts for ESI were $0.6 million, $0.8 million, and $0.5 million, respectively. The same amounts for the year ended December 31, 2003, were $0.5 million, $0.8 million, and $0.4 million. The average, high, and low amounts were computed using the Value-at-Risk amounts at the beginning of the reporting period and the four quarter-end amounts.

Equity Return and Principal Preservation Risk

WPS Resources and WPSC currently fund liabilities (accumulated benefit obligations) 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 a qualified pension plan for employees' retirement. The liability (accumulated benefit obligation) of the qualified plan exceeded the value of the qualified plan's assets by $20.4 million at December 31, 2004, and WPS Resources was, therefore, required to recognize a minimum pension liability as prescribed by SFAS No. 87. Declines in the equity markets or declines in interest rates may result in increased future pension costs for the plan 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 portfolio 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, 2004, or 2003.

It's true, Cheri Salmon does eat popcorn while at work. But her time is really dedicated to managing the power supply for Upper Peninsula Power Company, which she purchases from suppliers and arranges to be transported to our Michigan customers. Transportation for Cheri's family, including sons Seth *(left)* and Jared *(right)*, is sometimes by air, in the family's well-cared-for Cessna 182 Skylane.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31 *(Millions, except per share data)*	2004	2003	2002
Nonregulated revenue	$3,598.6	$3,137.6	$ 410.8
Utility revenue	1,292.0	1,183.7	1,050.3
Total revenues	4,890.6	4,321.3	1,461.1
Nonregulated cost of fuel, gas, and purchased power	3,458.8	3,016.6	339.7
Utility cost of fuel, gas, and purchased power	576.2	532.3	419.0
Operating and maintenance expense	513.2	459.5	412.5
Depreciation and decommissioning expense	107.0	138.4	94.8
Taxes other than income	46.1	43.8	39.9
Operating income	189.3	130.7	155.2
Miscellaneous income	47.7	63.6	47.8
Interest expense and distributions on trust preferred securities	(54.2)	(55.6)	(55.8)
Minority interest	3.4	5.6	–
Other income (expense)	(3.1)	13.6	(8.0)
Income before taxes	186.2	144.3	147.2
Provision for income taxes	30.0	33.7	28.7
Income from continuing operations	156.2	110.6	118.5
Discontinued operations, net of tax	(13.4)	(16.0)	(6.0)
Net income before cumulative effect of change in accounting principles	142.8	94.6	112.5
Cumulative effect of change in accounting principles, net of tax	–	3.2	–
Net income before preferred stock dividends of subsidiary	142.8	97.8	112.5
Preferred stock dividends of subsidiary	3.1	3.1	3.1
Income available for common shareholders	$ 139.7	$ 94.7	$ 109.4
Average shares of common stock			
Basic	37.4	33.0	31.7
Diluted	37.6	33.2	32.0
Earnings (loss) per common share (basic)			
Income from continuing operations	$4.09	$3.26	$3.64
Discontinued operations	(0.35)	(0.49)	(0.19)
Cumulative effect of change in accounting principles	–	0.10	–
Earnings per common share (basic)	$3.74	$2.87	$3.45
Earnings (loss) per common share (diluted)			
Income from continuing operations	$4.07	$3.24	$3.61
Discontinued operations	(0.35)	(0.49)	(0.19)
Cumulative effect of change in accounting principles	–	0.10	–
Earnings per common share (diluted)	$3.72	$2.85	$3.42
Dividends per common share	$2.20	$2.16	$2.12

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

"My mom goes on her computer and does her work— plus, she gets to eat popcorn!" Seth Graham, age 6

CONSOLIDATED BALANCE SHEETS

At December 31 *(Millions)*	2004	2003
Assets		
Cash and cash equivalents	$ 40.0	$ 50.7
Restricted funds	–	3.2
Accounts receivable – net of reserves of $8.0 and $6.6, respectively	531.3	502.4
Accrued unbilled revenues	113.2	90.0
Inventories	188.8	178.3
Current assets from risk management activities	439.5	518.1
Assets held for sale	119.6	116.4
Other current assets	86.1	86.4
Current assets	1,518.5	1,545.5
Property, plant, and equipment, net	2,002.6	1,828.7
Nuclear decommissioning trusts	344.5	332.3
Regulatory assets	160.9	127.7
Long-term assets from risk management activities	80.4	104.3
Other	338.7	353.8
Total assets	$4,445.6	$4,292.3
Liabilities and Shareholders' Equity		
Short-term debt	$ 292.4	$ 38.0
Current portion of long-term debt	6.7	56.6
Note payable to preferred stock trust	–	51.5
Accounts payable	589.4	510.7
Current liabilities from risk management activities	401.6	517.3
Liabilities held for sale	2.8	2.7
Deferred income taxes	14.6	1.7
Other current liabilities	72.6	86.9
Current liabilities	1,380.1	1,265.4
Long-term debt	865.7	871.9
Deferred income taxes	65.5	78.8
Deferred investment tax credits	16.2	17.7
Regulatory liabilities	288.3	304.4
Environmental remediation liabilities	68.4	37.9
Pension and postretirement benefit obligations	94.6	137.7
Long-term liabilities from risk management activities	68.3	92.2
Asset retirement obligations	364.4	344.0
Other	91.2	88.0
Long-term liabilities	1,922.6	1,972.6
Commitments and contingencies		
Preferred stock of subsidiary with no mandatory redemption	51.1	51.1
Common stock equity	1,091.8	1,003.2
Total liabilities and shareholders' equity	$4,445.6	$4,292.3

The accompanying Notes to 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, 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 hedges (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 hedges (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)
Income available for common shareholders	139.7	139.7	–	–	–	139.7	–	–
Other comprehensive income – cash flow hedges (net of tax of $3.1)	4.6	4.6	–	–	–	–	–	4.6
Other comprehensive income – minimum pension liability (net of tax of $4.0)	(6.0)	(6.0)	–	–	–	–	–	(6.0)
Other comprehensive income – currency translation	0.3	0.3	–	–	–	–	–	0.3
Comprehensive income	138.6	–	–	–	–	–	–	–
Issuance of common stock	–	26.3	–	0.6	25.6	–	0.1	–
Dividends on common stock	–	(81.3)	–	–	–	(81.3)	–	–
Other	–	5.0	(1.9)	0.1	7.0	(0.2)	–	–
Balance at December 31, 2004	$ –	$1,091.8	$(8.4)	$37.5	$582.1	$497.0	$(0.3)	$(16.1)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *(Millions)*	2004	2003	2002
Operating Activities			
Net income before preferred stock dividends of subsidiary	$142.8	$ 97.8	$112.5
Adjustments to reconcile net income to net cash provided by operating activities			
Discontinued operations, net of tax	13.4	16.0	6.0
Depreciation and decommissioning	107.0	138.4	94.8
Amortization of nuclear fuel and other	44.7	42.4	46.5
Unrealized gain on investments	(5.5)	(38.7)	(1.7)
Pension and postretirement expense	39.8	26.4	5.2
Pension and postretirement funding	(17.8)	(15.6)	(7.3)
Deferred income taxes and investment tax credit	(2.1)	(0.4)	0.7
Unrealized (gains) losses on nonregulated energy contracts	(10.7)	10.4	5.8
Gain on sales of partial interest in synthetic fuel operation	(7.5)	(7.6)	(38.0)
Gain on sale of property, plant, and equipment	(12.0)	(7.1)	(0.8)
Cumulative effect of change in accounting principles, net of tax	–	(3.2)	–
Other	(11.1)	(33.7)	(8.0)
Changes in working capital, net of businesses acquired			
Receivables, net	(67.6)	(183.3)	(83.2)
Inventories	(11.6)	(79.9)	17.8
Other current assets	(0.9)	(19.4)	(6.2)
Accounts payable	45.2	102.8	59.1
Other current liabilities	(3.1)	17.1	(14.7)
Net cash operating activities	243.0	62.4	188.5
Investing Activities			
Capital expenditures	(290.0)	(176.2)	(210.3)
Sale of property, plant, and equipment	26.9	31.4	7.1
Purchase of equity investments and other acquisitions	(52.3)	(102.7)	(72.3)
Decommissioning funding	(0.3)	(3.0)	(2.6)
Other	3.1	6.5	12.7
Net cash investing activities	(312.6)	(244.0)	(265.4)
Financing Activities			
Short-term debt – net	251.2	14.7	3.9
Issuance of long-term debt	–	125.0	250.3
Repayment of long-term debt, note to preferred stock trust and capital lease	(105.1)	(87.7)	(129.6)
Payment of dividends			
Preferred stock	(3.1)	(3.1)	(3.1)
Common stock	(81.3)	(71.8)	(67.1)
Issuance of common stock	26.3	197.7	28.3
Purchase of common stock	–	(1.0)	(1.3)
Other	(11.2)	24.8	11.7
Net cash financing activities	76.8	198.6	93.1
Change in cash and cash equivalents – continuing operations	7.2	17.0	16.2
Change in cash and cash equivalents – discontinued operations	(17.9)	(9.6)	(16.8)
Change in cash and cash equivalents	(10.7)	7.4	(0.6)
Cash and cash equivalents at beginning of year	50.7	43.3	43.9
Cash and cash equivalents at end of year	$ 40.0	$ 50.7	$ 43.3

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

"My aunt, Betty Jo, works on a computer for electricity."

Olivia Moens, age 6

As a distribution planning technician for Wisconsin Public Service, Betty Bonfigt uses a computer to help design the electric distribution system and ensure that it provides reliable power for our customers. Feeder loads, voltage studies, and overcurrent protection plans are some of the tremendously complex issues she addresses daily. So it's the simple things, like her great-niece Olivia and Olivia's brand-new puppy, Sulley, that she relies on for balance.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—WPS Resources is a holding company. Our wholly owned subsidiary, Wisconsin Public Service Corporation (WPSC), is an electric and natural gas utility. WPSC 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 (UPPCO), is an electric utility. UPPCO 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. (ESI) and WPS Power Development, Inc. (PDI). ESI is a diversified energy supply and services company. PDI is an electric generation company.

The term "utility" refers to the regulated activities of WPSC and UPPCO, while the term "nonutility" refers to the activities of WPSC and UPPCO that are not regulated. The term "nonregulated" refers to activities other than those of WPSC and UPPCO.

(b) Consolidation Basis of Presentation—The Consolidated Financial Statements include the accounts of WPS Resources and all majority owned subsidiaries, after eliminating significant intercompany transactions and balances. If a minority owner's equity is reduced to zero, our policy is 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 when 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, but over which we have significant influence regarding 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."

For all periods presented, certain assets and liabilities of Sunbury are classified as held for sale and Sunbury's operating results have been separately classified and reported as discontinued operations. 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 these 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 2004, 2003, and 2002 was $37.0 million, $21.9 million, and $34.6 million, respectively. During 2004, 2003, and 2002, cash paid for interest totaled $54.4 million, $57.9 million, and $52.3 million, respectively.

Non-cash transactions were as follows:

(Millions)	2004	2003	2002
Weston 4 construction costs funded through accounts payable	$22.6	$ –	$ –
Minimum pension liability equity adjustment	6.0	12.3	2.7
Restricted cash	3.2	1.0	17.8
Debt assumed in Advantage acquisition	3.2	–	–
Exchange of transmission assets for equity interest in American Transmission Company LLC (ATC)	–	5.9	–
Conversion of indebtedness to equity in Quest Energy LLC	–	–	2.4
Debt assumed in WPS Empire State acquisition	–	–	0.9

(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 6.6% of WPS Resources' total revenue in 2004 was from companies in the paper products industry.

WPSC and UPPCO use automatic fuel and purchased power adjustment clauses for the Michigan Public Service Commission (MPSC) retail electric portions of their business. WPSC also uses automatic fuel and purchased power adjustment clauses for its Federal Energy Regulatory Commission (FERC) wholesale electric business; however, at UPPCO, most wholesale electric contracts are special contracts and have no automatic fuel and purchased power adjustment clauses. The Wisconsin retail electric portion of WPSC's business uses a "cost variance range" approach, based on a specific estimated fuel and purchased power cost for the forecast year. If WPSC's actual fuel and purchased power costs fall outside this range, the Public Service Commission of Wisconsin (PSCW) can authorize an adjustment to future rates. Decreases to rates can be implemented without a hearing, unless requested by WPSC, Commission Staff, or interveners, while increases to rates are generally subject to a hearing. For more information on current regulatory actions related to the fuel and purchased power adjustment clauses, see Note 22, "Regulatory Environment."

The PSCW approved a modified one-for-one gas cost recovery plan for WPSC commencing in January 1999. This plan allows WPSC to pass changes in the cost of natural gas on to system natural gas customers, subject to regulatory review by the Commission for reasonableness.

The MPSC has approved one-for-one recovery of prudently incurred natural gas costs for WPSC, subject to regulatory review. The MPSC also approved a natural gas cost recovery factor adjustment mechanism for WPSC for the period November 2004 through October 2005. This adjustment mechanism allows WPSC to upwardly adjust the natural gas rates charged to customers in Michigan based on upward changes to the New York Mercantile Exchange natural gas futures price without further MPSC action.

Billings to UPPCO's customers under the MPSC's jurisdiction include base rate charges and a power supply cost recovery factor. UPPCO receives MPSC approval each year to recover projected power supply costs by establishment of power supply cost recovery factors. The MPSC reconciles these factors to actual costs annually and permits 100% recovery of allowed power supply costs. UPPCO 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.

WPSC and UPPCO 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 or refund deposits accordingly. Both utilities are precluded from discontinuing service to residential customers during winter moratorium months. The 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 required reserve balance.

At PDI, 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.

ESI 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 have been reclassified to be shown net of cost of fuel, natural gas, and purchased power, while most 2004 and 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 No. 02-03.

ESI 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 netting agreements, collateral, and guarantees.

(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 accounting requirements resulting from the rescission of 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 and interest rates.

WPS Resources evaluates its derivative contracts in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. SFAS 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 SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the derivatives are marked to fair value pursuant to SFAS No. 133 and are offset with a corresponding regulatory asset or liability.

Prior to the adoption of Issue No. 02-03, effective January 1, 2003, ESI 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 No. 98-10 to Issue No. 02-03.

In the fourth quarter of 2003, WPS Resources adopted Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments that are Subject to SFAS No. 133 and Not 'Held for Trading Purposes' as Defined in Issue No. 02-03," which resulted in recording nonregulated revenues net of cost of fuel, natural gas, and purchased power for energy-related transactions entered into after October 1, 2003, that settle financially and for which the commodity does not physically transfer. Had the provisions of Issue No. 03-11 been applied to arrangements entered into prior to October 1, 2003,

previously reported nonregulated revenue would have decreased $62.9 million for the nine months ended September 30, 2003, with a corresponding $62.9 million decrease to nonregulated cost of fuel, natural gas, and purchased power. Previously reported wholesale natural gas sales volumes for the nine months ended September 30, 2003, would have decreased 10.8 billion cubic feet. Neither margins, income, nor cash flows were impacted by the adoption of Issue No. 03-11.

WPS Resources classifies mark-to-market gains and losses on derivative instruments not qualifying for hedge accounting as a component of revenues.

(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. The cost of removal associated with the retirement is charged to a regulatory liability.

We record straight-line depreciation expense over the estimated useful life of utility property and include amounts for estimated removal and salvage. The PSCW approved depreciation rates for WPSC effective January 1, 1999. On December 21, 2004, WPSC received approval for new depreciation rates effective January 1, 2005, which are not expected to have a material impact on annual depreciation expense. Depreciation rates for UPPCO were approved by the MPSC effective January 1, 2002.

The depreciation of Kewaunee production plant for the Wisconsin retail jurisdiction is being accrued based on a PSCW order. The cost of the steam generators that went into service in December 2001 will be recovered over an 8½ 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 8½ years after the installation of the steam generators using a straight-line remaining life depreciation methodology. For the Michigan retail and wholesale jurisdictions, depreciation for Kewaunee is calculated on a straight-line basis using depreciation rates approved by the PSCW effective January 1, 1994.

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	2004	2003	2002
Electric	3.59%	3.63%	3.66%
Gas	3.65%	3.63%	3.59%

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, 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 ("AFUDC") calculation, which includes both a debt and an equity component as required by regulatory accounting.

Approximately 50% of WPSC's retail jurisdictional construction work-in-progress expenditures are subject to AFUDC, except on specific projects approved by the PSCW. For 2004, WPSC's AFUDC retail rate was 9.21%.

WPSC's construction work-in-progress AFUDC debt and equity percentage formula for the wholesale jurisdiction is specified in the FERC's Uniform System of Accounts. The 2004 average AFUDC wholesale rate was 6.99%.

WPSC's allowance for equity funds used during construction for 2004, 2003, and 2002 was $2.0 million, $2.4 million, and $3.0 million, respectively. WPSC's allowance for borrowed funds used during construction for 2004, 2003, and 2002 was $0.7 million, $1.0 million, and $1.2 million, respectively. UPPCO did not record AFUDC for 2004, 2003, or 2002, as UPPCO did not have significant construction projects during these years.

Our nonregulated subsidiaries calculate capitalized interest on long-term construction projects for periods during which 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. The amount of interest capitalized during 2004, 2003, and 2002 was insignificant.

(j) Asset Impairment—We review the recoverability of long-lived tangible and intangible assets, excluding goodwill, other indefinite lived intangible assets, and regulatory assets, in accordance with SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." SFAS No. 144 requires review of assets when circumstances indicate that the carrying amount may not be recoverable. The carrying amount of assets held and used 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. The carrying value of assets held for sale is not recoverable if it exceeds the fair value less cost to sell the asset. An impairment charge is recorded for any excess of the carrying value over the fair value less cost to sell. 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. Impairment charges are recorded if the carrying value of such assets exceeds the future anticipated cash flows.

(k) Regulatory Assets and Liabilities—WPSC and UPPCO are subject to the provisions of SFAS No. 71. Regulatory assets represent probable future revenue associated with certain incurred costs which 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—In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and other assets with indefinite lives are not amortized, but are subject to annual impairment tests. WPSC performs its impairment test during the second quarter of each year, while PDI performs its impairment test annually during the third quarter. The impairment tests are updated whenever events or changes in circumstances indicate that the assets might be impaired. Based upon the results of testing, no impairments were noted in 2004, 2003, or 2002.

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—Electric research and development expenditures for WPSC totaled $0.7 million, $0.6 million, and $0.3 million, in 2004, 2003, and 2002, respectively. No other research and development expenditures were significant.

(o) Asset Retirement Obligations—Effective January 1, 2003, WPS Resources adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this 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 SFAS No. 143 and expenses currently recovered through customer rates will be recoverable or refundable in future customer rates. Accordingly, the adoption of this statement had no impact on the utility segment's income as its effect is offset by the establishment of regulatory assets or liabilities pursuant to SFAS No. 71. Refer to Note 15, "Asset Retirement Obligations," for additional information on SFAS No. 143.

(p) Income Taxes—We account for income taxes using the liability method as prescribed by SFAS 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 WPSC and UPPCO, 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 relate.

WPS Resources is an indirect part owner in a facility that produces synthetic fuel that 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 used 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% 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 the effects of federal consolidation are accounted for.

WPS Resources records a reserve for tax contingencies based upon management's assessment of the probabilities that certain deductions or income tax positions may not be sustained when income tax returns are audited by taxing jurisdictions. Our identified tax exposures are discussed below.

WPS Resources and its subsidiaries have routinely been subject to examination by various taxing jurisdictions. The periods currently

open for examination include: Internal Revenue Service – 2002 and subsequent tax years, Wisconsin Department of Revenue – 1996 and subsequent tax years, and other state and local taxing jurisdictions – various time periods. At any given time there might be several of these audits open covering multiple tax years. Management has not been informed by any taxing jurisdictions of any material adjustment to any filed or proposed tax position as a result of the on-going examinations.

WPS Resources has submitted a request to have the Internal Revenue Service conduct a pre-filing review of two tax positions related to the 2004 tax return. The first position relates to the value of the Peshtigo River land donated to the Wisconsin Department of Natural Resources (WDNR) in 2004. The second position relates to the current deductibility of a planned repair that was made to the reactor vessel at Kewaunee in 2004. The IRS has not yet responded to these requests. If the IRS decides not to undertake a pre-filing review, WPS Resources will have to wait for resolution of these positions when they come up for examination post-filing. WPS Resources has recorded a tax benefit with respect to these positions based upon management's assessment of the probability of sustaining the position WPS Resources intends to take in filing its 2004 tax return.

The combined current benefit of Section 29 tax credits and the deferred benefit of alternative minimum tax credits (arising from Section 29 tax credits) is limited to an amount equal to the WPS Resources regular consolidated federal tax liability. In 2004, and in some previous years, this limitation has impacted the amount of the tax benefit recorded as compared to actual Section 29 tax credits produced. WPS Resources has recorded a tax benefit with respect to Section 29 tax credits based upon management's assessment of the probability of sustaining the filing position for federal tax returns.

(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 (FASB) Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 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, 2004, WPSC had an outstanding guarantee to indemnify a third party for certain unrecovered costs related to a utility construction project in the event the project is not completed. At December 31, 2004, the guarantee carries a maximum exposure of $5.3 million. A liability for the fair value of this obligation was not recognized in the Consolidated Balance Sheets of WPSC because the guarantee was issued prior to the effective date for initial measurement and recognition as defined by Interpretation No. 45.

(s) Stock-Based Employee Compensation—WPS Resources has stock-based employee compensation plans, which are described more fully in Note 21, "Stock-Based Compensation." WPS Resources accounts for these plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Upon grant of stock options, no stock-based employee compensation cost is reflected in net income, as all options granted under these 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 the company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

(Millions, except per share amounts)	2004	2003	2002
Income available for common shareholders			
As reported	$139.7	$94.7	$109.4
Add: Stock-based compensation expense using the intrinsic value method – net of tax	1.4	2.1	1.3
Deduct: Stock-based compensation expense using the fair value method – net of tax	(2.1)	(2.6)	(1.8)
Pro forma	$139.0	$94.2	$108.9
Basic earnings per common share			
As reported	$3.74	$2.87	$3.45
Pro forma	3.72	2.85	3.44
Diluted earnings per common share			
As reported	$3.72	$2.85	$3.42
Pro forma	3.70	2.84	3.40

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes stock option pricing model assuming:

	2004	2003	2002
Expected life	10 years	10 years	10 years
Risk-free interest rate	4.40%	4.40% to 4.65%	4.43% to 5.57%
Expected dividend yield	5.19%	5.68% to 6.23%	6.23% to 6.60%
Expected volatility	15.44%	18.25% to 19.97%	19.53% to 20.53%

(t) Cumulative Effect of Change in Accounting Principles—ESI had been applying the accounting standards of Issue No. 98-10, from the first quarter of 2000 until this standard was rescinded by Issue No. 02-03 in October 2002. ESI was defined as a trading company under Issue No. 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 No. 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 effect of 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 ESI operations) 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 SFAS 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 occurred in 2004. The required change in accounting had no impact on the underlying economics or cash flows of the contracts.

The adoption of SFAS No. 143 at PDI on January 1, 2003, 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 Sunbury.

(u) Reclassifications—We reclassified certain prior year financial statement amounts to conform to the current year presentation.

(v) New Accounting Pronouncements—In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which addresses the accounting for share-based payment transactions. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R will be effective for WPS Resources on July 1, 2005. SFAS No. 123R offers companies alternative methods of adopting this standard. At the present time, WPS Resources has not determined which alternative method it will use, or the resulting impact on its financial position or results of operations. However, we do not expect a significant impact when we adopt the standard.

In March 2004, the FASB issued EITF No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments," which provides new guidance for assessing impairment losses on debt and equity investments. The new impairment model applies to investments accounted for under the cost method and investments accounted for under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." EITF No. 03-01 also includes new disclosure requirements for cost method investments and for all investments that are in an unrealized loss position. In September 2004, the FASB delayed the accounting provisions of EITF No. 03-01; however, the disclosure requirements were effective for WPS Resources for the year ended December 31, 2004. WPS Resources does not expect the adoption of the accounting provisions of EITF No. 03-01 to have a significant impact on financial position or results of operations.

WPS Resources' investments accounted for under SFAS No. 115 that have unrealized losses at December 31, 2004, were not significant. At December 31, 2004, the aggregate carrying amount of WPS Resources' cost method investments totaled $1.5 million. These investments were not evaluated for impairment because the fair value of the investments was not estimated in accordance with paragraphs 14 and 15 of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and no events or changes in circumstances were identified that would have had a significant adverse effect on the fair value of those investments.

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 these investments and obligations.

Nuclear Decommissioning Trusts: Nuclear decommissioning trust investments are recorded at fair value, net of taxes payable on unrealized gains and losses. This 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 values 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.

Risk Management Activities: Assets and liabilities from risk management activities are recorded at fair value pursuant to SFAS No. 133.

The estimated fair values of our financial instruments as of December 31 were:

	2004		2003	
(Millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 40.0	$ 40.0	$ 50.7	$ 50.7
Restricted cash	–	–	3.2	3.2
Energy conservation loans	1.6	1.6	1.9	1.9
Nuclear decommissioning trusts	344.5	344.5	332.3	332.3
Nuclear decommissioning trusts - other assets	26.8	26.8	22.5	22.5
Notes payable	12.7	12.7	10.0	10.0
Commercial paper	279.7	279.7	28.0	28.0
Note payable to preferred stock trust	–	–	51.5	51.5
Long-term debt	874.4	925.2	931.2	1,014.7
Preferred stock	51.1	50.0	51.1	49.0
Risk management activities - net	50.0	50.0	12.9	12.9

NOTE 3—RISK MANAGEMENT ACTIVITIES

The following table shows WPS Resources' assets and liabilities from risk management activities as of December 31, 2004, and 2003:

(Millions)	Assets		Liabilities	
	2004	2003	2004	2003
Utility Segment				
Gas and electric purchase contracts	$ 11.0	$ 8.4	$ –	$ –
Other	–	–	0.6	–
Nonregulated Segments				
Commodity and foreign currency contracts	465.3	588.7	435.4	586.4
Fair value hedges	3.8	0.3	2.3	4.0
Cash flow hedges				
Commodity contracts	39.8	25.0	22.9	9.0
Interest rate swap	–	–	8.7	10.1
Total	$519.9	$622.4	$469.9	$609.5
Balance Sheet Presentation				
Current	$439.5	$518.1	$401.6	$517.3
Long-term	80.4	104.3	68.3	92.2
Total	$519.9	$622.4	$469.9	$609.5

Assets and liabilities from risk management activities are classified as current or long-term based upon the maturities of the underlying financial instruments.

Utility Segment

WPSC has entered into a limited number of natural gas and electric purchase contracts that are accounted for as derivatives. The PSCW approved the recognition of a regulatory asset or liability for the fair value of derivative amounts as a result of these contracts. Thus, management believes any gains or losses resulting from the eventual settlement of these contracts will be collected from or refunded to customers.

Nonregulated Segments

The derivatives in the nonregulated segments not designated as hedges are primarily commodity contracts used to manage price risk associated with wholesale and retail natural gas purchase and sale activities, electric energy contracts, and foreign currency contracts used to manage foreign currency exposure related to our nonregulated Canadian businesses. Changes in the fair value of derivatives that have not qualified for hedge accounting are recognized currently in earnings.

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 the price of natural gas held in storage. 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. Fair value hedge ineffectiveness recorded in nonregulated revenue on the Consolidated Statements of Income was not significant in 2004, 2003, or 2002. At December 31, 2004, a mark-to-market gain of $3.0 million related to the changes in the difference between the spot and forward prices of natural gas was excluded from the assessment of hedge effectiveness. This loss was reported directly in earnings.

Cash flow hedges consist of commodity contracts associated with our energy marketing activities and an interest rate swap. The commodity contracts extend through December 2006 and are used to mitigate the risk of cash flow variability associated with the future purchases and sales of natural gas and electricity. To the extent they are effective, the changes in the values of these contracts are included in other comprehensive income, net of deferred taxes. Cash flow hedge ineffectiveness recorded in nonregulated revenue on the Consolidated Statements of Income was not significant in 2004, 2003, or 2002. When testing for effectiveness, no portion of the derivative instruments was excluded. 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. In 2004, we reclassified a $1.9 million gain from other comprehensive income into earnings as a result of the discontinuance of cash flow hedge accounting for certain hedge transactions where it was probable that the original forecasted transaction would no longer occur. The amounts reclassified during 2003 and 2002 were not significant. In the next 12 months, subject to changes in market prices of natural gas and electricity, it is expected that $11.5 million will be recognized in earnings due to contracts being settled.

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 used to finance the purchase of Sunbury. Because the swap was determined to be 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 a component of interest expense as the interest becomes due. In the next 12 months, we expect to expense $1.8 million, assuming interest rates comparable to those at December 31, 2004, and assuming the hedged transaction continues after Sunbury is sold. See Note 4, "Assets Held for Sale," for more information. We did not exclude any components of the derivative instrument's change in fair value from the assessment of hedge effectiveness.

NOTE 4—ASSETS HELD FOR SALE

On September 30, 2004, PDI received a letter of termination from Duquesne Power, L.P. related to the previously announced agreement to sell Sunbury to Duquesne for approximately $120 million. Duquesne issued its letter of termination following a determination by the Pennsylvania Public Utility Commission not to reconsider its earlier approved Provider of Last Resort plan, which Duquesne believed did not satisfy a closing condition in the agreement. PDI is progressing with a sale process using an investment banking advisor, and anticipates being able to complete the sale of Sunbury in 2005. This facility currently sells power on a wholesale basis, and previously

provided energy for a 200-megawatt around-the-clock outtake contract that expired on December 31, 2004. The sale of Sunbury will enable WPS Resources to reduce uncontracted merchant exposure and redeploy capital into markets with different risk profiles.

In December 2004, PDI completed the sale of certain silt reserves that were utilized in the operation of Sunbury. Consideration consisted of an up-front payment of $1.4 million and possible future payments based upon future silt extraction. The sale of the silt reserves resulted in a loss of $0.1 million.

At December 31, 2004, and 2003, the assets and liabilities associated with Sunbury have been classified as held for sale in accordance with SFAS No. 144, which 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. Based upon consideration of all information available, no adjustments to write down assets held for sale were required during the years ended December 31, 2004, and 2003.

The major classes of assets and liabilities held for sale are as follows at December 31:

(Millions)	2004	2003
Inventories	$ 7.3	$ 4.2
Other current assets	5.4	5.1
Property, plant, and equipment, net	74.7	71.5
Other assets (includes emission credits)	32.2	35.6
Assets held for sale	$119.6	$116.4
Other current liabilities	$ 0.6	$ 0.6
Asset retirement obligations	2.2	2.1
Liabilities held for sale	$ 2.8	$ 2.7

PDI 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 ($5.2 million net of tax at December 31, 2004) currently in earnings. No such determination has been made at December 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)	2004	2003	2002
Nonregulated revenue	$ 60.2	$ 81.2	$87.2
Operating expenses	(80.7)	(97.7)	(91.3)
Other income	4.3	–	–
Interest expense	(5.5)	(6.2)	(5.8)
Loss before taxes	(21.7)	(22.7)	(9.9)
Income tax benefit	(8.3)	(6.7)	(3.9)
Discontinued operations, net of tax	$(13.4)	$(16.0)	$ (6.0)

Interest expense represents the non-recourse term loans directly related to Sunbury.

A summary of the components of the change in cash and cash equivalents related to discontinued operations recorded in the Consolidated Statements of Cash Flows for the years ended December 31 are as follows:

(Millions)	2004	2003	2002
Net cash operating activities	$(12.2)	$(3.2)	$ 5.5
Net cash investing activities	(2.4)	(3.4)	(19.4)
Net cash financing activities	(3.3)	(3.0)	(2.9)
Change in cash and cash equivalents	$(17.9)	$(9.6)	$(16.8)

During 2004, 2003, and 2002 cash paid for interest associated with the non-recourse debt of discontinued operations was $5.4 million, $5.5 million, and $5.8 million, respectively.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consists of the following utility, nonutility, and nonregulated assets.

(Millions)	2004	2003
Electric utility	$2,409.4	$2,288.9
Gas utility	510.0	457.2
Total utility plant	2,919.4	2,746.1
Less: Accumulated depreciation	1,260.9	1,200.8
Net	1,658.5	1,545.3
Construction in progress	154.5	89.3
Nuclear fuel, less accumulated amortization	24.6	20.3
Net utility plant	1,837.6	1,654.9
Nonutility plant	19.5	20.3
Less: Accumulated depreciation	5.3	4.9
Net nonutility plant	14.2	15.4
Electric nonregulated	163.0	161.2
Gas nonregulated	6.6	7.0
Other nonregulated	20.1	20.8
Total nonregulated property, plant, and equipment	189.7	189.0
Less: Accumulated depreciation	38.9	30.6
Net nonregulated property, plant, and equipment	150.8	158.4
Total property, plant, and equipment	$2,002.6	$1,828.7

NOTE 6—ACQUISITIONS AND SALES OF ASSETS

Sale of Peshtigo River Lands

On October 5, 2004, WPSC sold at auction 279 acres of Peshtigo River development lands for $12.2 million. Under terms of a multi-phase agreement reached with the WDNR in 2001 related to lands near the Peshtigo River, the WDNR bought more than 5,000 acres of land for $13.5 million in 2001. In December 2003, WPSC sold an additional 542 acres of land to the WDNR for $6.5 million. WPSC completed the multi-phase agreement with the sale of 179 acres for $5.0 million to the WDNR on December 9, 2004. Following the close of this final phase of the WDNR agreement, WPSC donated an additional 5,176 acres to the state. The sales are a part of our asset management strategy.

Wausau, Wisconsin, to Duluth, Minnesota, Transmission Line

On April 18, 2003, the PSCW approved WPSC's request to transfer its interest in the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to ATC in exchange for an ownership interest in the company. ATC is a for-profit transmission-only company created by the transfer of transmission assets previously owned by multiple electric utilities serving the upper Midwest. WPSC sold, at book value, approximately $20.1 million of assets related to the Wausau to Duluth transmission line to ATC in June 2003. No gain or loss was recognized on the transaction. In December 2003, WPSC also transferred other transmission assets to ATC, increasing its investment an additional $5.9 million. In 2004 and 2003, WPS Resources invested $15.7 million and $14.0 million, respectively, in ATC, related to its agreement to fund approximately half of the Wausau, Wisconsin, to Duluth, Minnesota, transmission line. At December 31, 2004, WPS Resources' ownership interest in ATC was 22.64%. Our investment in ATC is described more fully in Note 10, "Investments in Affiliates, at Equity Method."

Advantage Energy Inc.

On July 1, 2004, ESI acquired all of the outstanding stock of Advantage Energy Inc., a New York based energy-marketing company founded in 1997. On the date of acquisition, Advantage served approximately 8,200 residential and commercial customers with a peak load of approximately 275 megawatts. Consideration for the purchase consisted of an initial cash payment for the tangible and intangible net worth of the company and an earn-out with a maximum cap and a declining percentage to the seller. Payments under the earn-out will be made on July 1, 2005, 2006, and 2007.

Kewaunee

On November 7, 2003, WPSC and Wisconsin Power and Light Company entered into an agreement to sell Kewaunee to a subsidiary of Dominion Resources, Inc. The transaction is subject to approvals from various regulatory agencies, of which all major approvals have been obtained, except for approval by the PSCW. The Commission rejected the sale on November 19, 2004; however, WPSC, Wisconsin Power and Light Company, and Dominion offered a proposal addressing the Commission's concerns in December 2004. In January 2005, the Commission agreed to reconsider its decision on this transaction, and we anticipate a decision by the Commission in March 2005.

If the Commission approves the proposed transaction, WPSC 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 WPSC assets being sold. In addition to the cash proceeds, WPSC 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 pretax fair value of the non-qualified decommissioning trust's assets at December 31, 2004, was $129.4 million. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive WPSC's qualified decommissioning trust assets that had a pretax fair value of $241.9 million at December 31, 2004. WPSC has requested deferral of the gain expected to result from this transaction and related costs from the PSCW. Accordingly, WPSC anticipates most of the gain on the sale of the plant assets and the related non-qualified decommissioning trust assets will be deferred and returned to customers under future rate orders.

As of December 31, 2004, WPSC's share of the carrying value of the assets and liabilities included within the sale agreement was as follows:

(Millions)	2004
Property, plant, and equipment, net	$177.9
Qualified decommissioning trust fund	241.9
Other current assets	5.3
Total assets	$425.1
Regulatory liabilities	$ (55.9)
Asset retirement obligations	363.9
Total liabilities	$308.0

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 SFAS No. 144 due to uncertainties inherent in the regulatory approval process.

Assuming the closing of the sale, WPSC will enter into a long-term power purchase agreement with Dominion to purchase energy and capacity virtually equivalent to the amounts that would have been received had current ownership in Kewaunee 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 WPSC 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 WPSC's customers and reduce our risk profile. In April 2004, WPSC entered into an exclusivity agreement

with Dominion. Under this agreement, if Dominion decides to extend the operating license of Kewaunee, Dominion agreed to negotiate only with WPSC for its share of the plant output for a new power purchase agreement that would extend beyond Kewaunee's current operating license termination date. This agreement allows for the same exclusivity rights for Wisconsin Power and Light Company and its share of output of the plant. The exclusivity period will start on the closing date of the sale and extend through December 21, 2011.

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 is accounted for as an equity method investment and is described more fully in Note 10, "Investments in Affiliates, at Equity Method."

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. ESI reported revenues related to wholesale electric sales to Quest of $1.4 million in 2002. In November 2002, Quest Energy Holdings, LLC, an independent Michigan limited liability company and owner of Quest Energy, LLC, appointed ESI as manager of Quest Energy, LLC. The appointment as manager, as well as other factors, including the provision of substantial financial support, resulted in the consolidation of Quest's financial statements with those of WPS Resources as of December 31, 2002. WPS Resources assigned the equity conversion option to ESI on January 29, 2003, and ESI acquired a 100% ownership interest in Quest. ESI used 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.

De Pere Energy Center

On December 16, 2002, WPSC 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 WPSC and was accounted for as a capital lease. This power purchase agreement required Calpine to expand the facility in the future. The agreement became uneconomical in the current market, and the contract was terminated concurrent with the purchase of the De Pere Energy Center. 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 PSCW and is being amortized over a 20-year period beginning on January 1, 2004. Amortization of the remaining regulatory asset, which is under the jurisdiction of FERC and the MPSC, began in 2003 and will also occur over 20 years.

The transaction also includes a power purchase agreement with Calpine Corporation for capacity and energy from the Fox Energy Center, which is currently under construction near Kaukauna, Wisconsin. The agreement calls for WPSC to purchase 150 megawatts of capacity beginning on June 1, 2005, escalating to 470 megawatts of capacity on June 1, 2006, until May 31, 2015, when it decreases to 235 megawatts. On May 31, 2016, the agreement terminates. Under the agreement, WPSC will also be responsible for fuel supply to the facility over the life of the agreement. The new power purchase agreement is contingent on timely plant construction and does not meet the requirements of a capital lease. At this time, WPSC believes Calpine will fulfill its contractual commitments, including a June 1, 2005, project in-service date.

ECO Coal Pelletization #12

As a result of several transactions in 2001, PDI became the sole member of ECO Coal Pelletization #12 LLC, which contributed 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 that produces synthetic fuel from coal qualifying for tax credits under Section 29 of the Internal Revenue Code.

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 that were granted to the buyer. The rights of rescission and the put options expired in 2002 and, as a result, PDI 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. At 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 PDI and recorded as a gain, within miscellaneous income, in 2003.

On December 19, 2002, PDI 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 PDI 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, $3.4 million in 2004, is recorded as minority interest in the Consolidated Statements of Income.

PDI 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 achievement of specified levels of synthetic fuel production by the facility. In conjunction with the sale, PDI 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), $1.4 million in 2003, and $1.9 million in 2004. A deferred gain of $6.9 million and $9.2 million was reflected on PDI's balance sheet at December 31, 2004, and 2003, respectively. This deferred gain represents the present value of future payments under the fixed note and the up-front cash payments net of transaction costs. It does not include an amount for the variable note, which is contingent upon the synthetic fuel production. Payments on the variable note are a function of fuel production and are recognized as a component of the gain when received. Pre-tax gains of $7.5 million and $7.6 million were recognized as a component of miscellaneous income in 2004 and 2003, respectively, 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, ESI entered into an agreement to purchase a book of retail natural gas business in the Canadian provinces of Quebec and Ontario. Consideration for the purchase consisted of an earn-out to the seller based on a percentage of gross margins on the volume of natural gas delivered to certain customers during a two-year period ending October 31, 2004. The earn-out was 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 ESI subsequent to the date of purchase. Total consideration paid amounted to $0.9 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 ESI, which was created in October 2002.

WPS Empire State, Inc.

Effective June 1, 2002, PDI acquired a business, now called WPS Empire State, which owns three power plants and associated assets in upstate New York with a combined nameplate capacity of 259 megawatts. PDI used the purchase method of accounting to account for the acquisition. 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.

NOTE 7—JOINTLY OWNED UTILITY FACILITIES

Information regarding WPSC's share of major jointly owned electric-generating facilities in service at December 31, 2004, is set forth below:

WPSC's share of direct expenses for these plants is included in the corresponding operating expenses in the Consolidated Statements of Income. WPSC 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
Ownership	68.0%	31.8%	31.8%	59.0%
WPSC's share of plant nameplate capacity (megawatts)	56.8	335.2	105.0	358.7
Utility plant in service	$18.0	$132.2	$30.4	$270.1 (1)
Accumulated depreciation	$ 7.9	$ 85.0	$17.7	$189.5 (1)
In-service date	1993	1975 and 1978	1969	1974

(1) Excludes asset retirement obligation asset and related accumulated depreciation.

NOTE 8—NUCLEAR PLANT OPERATION

On November 7, 2003, WPSC and Wisconsin Power and Light Company entered into an agreement to sell Kewaunee to a subsidiary of Dominion Resources, Inc. The transaction is subject to approvals from various regulatory agencies, of which all major approvals have been obtained, except for approval by the PSCW. The PSCW rejected the sale on November 19, 2004. However, WPSC, Wisconsin Power and Light Company, and Dominion Resources, Inc. offered a proposal addressing the PSCW's concerns in December 2004. In January 2005, the PSCW agreed to reconsider its decision on this transaction, and we expect a decision to be rendered in March 2005. 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 Kewaunee is the basis for the amortization of the costs of nuclear fuel, 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. Payments from WPSC to the Department of Energy totaled $2.6 million, $2.3 million, and $2.0 million, during 2004, 2003, and 2002, respectively.

On an interim basis, spent nuclear fuel storage space is provided at Kewaunee. Expenses associated with interim spent fuel storage at Kewaunee 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 the end of its current license in 2013.

The accumulated provision for nuclear fuel, which represents nuclear fuel purchases and amortization, totaled $273.0 million at December 31, 2004, and $265.1 million at December 31, 2003.

For information on the depreciation policy for Kewaunee, see Note 1(h), "Property, Plant, and Equipment."

WPSC's share of nuclear decommissioning costs to date has been accrued over the estimated service life of Kewaunee, recovered currently from customers in rates, and deposited in external trusts. Such costs totaled $0.3 million in 2004, $3.0 million in 2003, and $2.6 million in 2002. In developing our decommissioning funding plan, we assumed a long-term after-tax earnings rate of approximately 5%.

As of December 31, 2004, the market value of the external nuclear decommissioning trusts totaled $344.5 million, net of tax.

As part of the anticipated sale of Kewaunee, WPSC will transfer its qualified nuclear decommissioning trust assets to Dominion. WPSC will retain the nonqualified trust assets, which totaled $129.4 million pretax ($102.5 million net of tax) at December 31, 2004. 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 PSCW suspended funding into the retail jurisdiction of WPSC's decommissioning trusts for 2004. For the wholesale jurisdiction, funding during 2004 was $0.3 million.

In the fourth quarter of 2003, WPSC 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, 2004, consisted of 71% cash and cash equivalents and 29% equity 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, 2004, the amount classified as other assets was $26.8 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:

2004 Security Type *(Millions)*	Fair Value	Cost	Unrealized Gain
Cash and cash equivalents	$243.9	$243.9	$ –
Equity	100.6	60.6	40.0
Balance at December 31	$344.5	$304.5	$40.0
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

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 $5.5 million in 2004, $38.7 million in 2003, and $1.7 million in 2002. 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.

If the sale is not consummated, WPSC's share of Kewaunee decommissioning, based on its 59% ownership interest, is estimated to be $350 million in current (2004) dollars based on a site-specific study. The study was performed in 2002 by an external consultant and is 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 PSCW order, the undiscounted amount of WPSC'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 Kewaunee.

Beginning January 1, 2003, we adopted SFAS 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 Kewaunee as an asset retirement obligation and have recorded an asset retirement obligation of $363.9 million at December 31, 2004. 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 PSCW to calculate the nuclear decommissioning liability for funding purposes. For more information on SFAS No. 143 and its impact on Kewaunee refer to Note 15, "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)*	2004	2003
Regulatory assets		
Environmental remediation costs (net of insurance recoveries)	$ 72.7	$ 41.0
De Pere Energy Center	45.3	47.7
Deferred nuclear costs	10.9	4.9
Plant related costs	6.5	2.6
Minimum pension liability	6.4	15.2
Reserve for uncollectible accounts	5.5	4.4
Unamortized loss on debt	2.4	1.4
Automated meter reading costs	1.8	4.5
Funding for enrichment facilities	1.8	2.4
Other	7.6	3.6
Total	$160.9	$127.7
Regulatory liabilities		
Cost of removal reserve	$186.2	$180.0
Asset retirement obligations	46.6	66.9
Unrealized gain on decommissioning trust	26.8	22.5
Income tax related items	11.2	11.8
Derivatives	11.0	8.4
Deferred gain on emission allowance sales	3.7	5.1
Deferred ATC costs	1.6	3.4
Demand-side management expenditures	1.1	5.3
Interest from tax refunds	–	0.7
Other	0.1	0.3
Total	$288.3	$304.4

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 manufactured gas plant remediation, WPSC is recovering carrying costs for all regulatory assets. UPPCO may recover carrying costs on environmental regulatory assets. Based on prior and current rate treatment for such costs, we believe it is probable that WPSC and UPPCO will continue to recover from customers the regulatory assets described above.

See Note 6, "Acquisitions and Sales of Assets;" Note 15, "Asset Retirement Obligations;" Note 16, "Income Taxes;" and Note 18, "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 17, "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, 2004, and 2003 follow.

(Millions)	2004	2003
ATC, LLC	$113.4	$ 79.9
Guardian Pipeline, LLC	29.0	27.4
Wisconsin River Power Company	12.8	12.8
Other	6.8	4.9
Investments in affiliates, at equity method	$162.0	$125.0

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. Most of the equity income is taxable to the investor, rather than the investees, due to the nontaxable nature of several of the investees' business structures. Accordingly, the provision for income taxes includes our taxes on this equity income.

WPS Investments, LLC, a consolidated subsidiary of WPS Resources, had a 22.64% ownership interest in ATC at December 31, 2004. ATC is a for-profit, transmission-only company. It owns, maintains, monitors, and operates, electric transmission assets in portions of Wisconsin, Michigan, and Illinois. Its assets previously were owned and operated by multiple electric utilities serving the upper Midwest, all of which transferred their transmission assets to ATC 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. The Midwest Independent System Operator directs ATC's operation of the transmission system.

During 2003, WPSC made additional contributions and sold the Wausau, Wisconsin, to Duluth, Minnesota, transmission line to ATC. See Note 6, "Acquisitions and Sales of Assets," for more information on these transactions.

WPSC and UPPCO record related-party transactions for services provided to and network transmission services received from ATC. Charges to ATC for services provided by WPSC were $9.3 million, $14.4 million, and $12.9 million in 2004, 2003, and 2002, respectively. UPPCO charged $6.7 million, $4.8 million, and $4.5 million in 2004, 2003, and 2002, respectively for services provided. Network transmission service costs paid to ATC by WPSC were $42.6 million, $33.6 million, and $31.0 million in 2004, 2003, and 2002, respectively. UPPCO recorded network transmission service costs of $4.0 million, $4.2 million, and $4.9 million in 2004, 2003, and 2002, respectively.

WPS Resources recorded dividends received of $11.7 million and $7.5 million from ATC in 2004 and 2003, respectively.

Condensed financial data of ATC follows.

(Millions)	2004	2003	2002
Income statement data			
Revenues	$ 262.8	$225.6	$205.3
Operating expenses	(157.7)	(139.5)	(131.1)
Other income (expense)	(26.9)	(23.4)	(20.1)
Net income	$ 78.2	$ 62.7	$ 54.1
WPS Investment's equity in net income	$ 16.0	$ 10.1	$ 7.9
Balance sheet data			
Current assets	$ 30.1	$ 33.1	$ 40.7
Non-current assets	1,156.5	927.3	754.3
Total assets	$1,186.6	$960.4	$795.0
Current liabilities	$ 194.4	$ 66.6	$ 46.9
Long-term debt	448.5	448.2	348.0
Other non-current liabilities	6.7	12.9	6.6
Shareholders' equity	537.0	432.7	393.5
Total liabilities and shareholders' equity	$1,186.6	$960.4	$795.0

WPSC owns 50% of the voting stock of Wisconsin River Power Company, which operates two hydroelectric plants on the Wisconsin River and an oil-fired combustion turbine. Two-thirds of the energy output of the hydroelectric plants is sold to WPSC, and the remaining one-third is sold to Wisconsin Power and Light Company. The electric power from the combustion turbine is sold in equal parts to WPSC and Wisconsin Power and Light Company.

WPSC records related party transactions for sales to and purchases from Wisconsin River Power. Revenues from services provided to Wisconsin River Power were $1.1 million, $1.4 million, and $1.5 million for 2004, 2003, and 2002, respectively. Purchases from Wisconsin River Power by WPSC were $3.2 million, $2.3 million, and $2.1 million for 2004, 2003, and 2002, respectively.

WPSC recorded dividends received of $6.0 million and $1.5 million from Wisconsin River Power in 2004 and 2003, respectively.

Condensed financial data of Wisconsin River Power follows.

(Millions)	2004	2003	2002
Income statement data			
Revenues	$ 7.5	$ 6.7	$ 6.4
Operating expenses	(5.5)	(5.0)	(4.9)
Other income (expense)	10.4	7.7	4.2
Net income	$12.4	$ 9.4	$ 5.7
WPSC's equity in net income	$ 6.2	$ 4.7	$ 2.7
Balance sheet data			
Current assets	$ 9.0	$ 8.3	$ 3.6
Non-current assets	20.1	19.9	20.1
Total assets	$29.1	$28.2	$23.7
Current liabilities	$ 1.0	$ 1.1	$ 3.5
Other non-current liabilities	2.5	1.7	1.0
Shareholders' equity	25.6	25.4	19.2
Total liabilities and shareholders' equity	$29.1	$28.2	$23.7

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.

ESI records related party transactions for purchases from Guardian Pipeline. These purchases amounted to $0.4 million and $0.1 million for 2004 and 2003, respectively.

Condensed financial data of Guardian Pipeline, LLC as of December 31 and for the year ended December 31, 2004, and the period from May 30, 2003, to December 31, 2003, follows.

(Millions)	2004	2003
Income statement data		
Revenues	$ 35.2	$ 20.6
Operating expenses	(16.8)	(3.1)
Other income (expense)	(13.4)	(13.8)
Net income	$ 5.0	$ 3.7
WPS Investment's equity in net income	$ 1.7	$ 1.2
Balance sheet data		
Current assets	$ 5.0	$ 7.4
Non-current assets	268.4	272.3
Total assets	$273.4	$279.7
Current liabilities	$ 18.1	$ 21.6
Long-term debt	157.8	165.6
Shareholder's equity	97.5	92.5
Total liabilities and shareholders' equity	$273.4	$279.7

Other investments accounted for under the equity method include WPS Nuclear Corporation's (a consolidated subsidiary of WPS Resources) investment in Nuclear Management Company and other minor investments. 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, 2004, WPS Nuclear Corporation's ownership in Nuclear Management Company was 20%. WPSC recorded related party transactions for services provided by Nuclear Management

Company for the management and operation of Kewaunee. Management service fees paid to Nuclear Management Company by WPSC were $26.7 million, $25.6 million, and $24.7 million in 2004, 2003, and 2002, respectively.

NOTE 11—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill recorded by WPS Resources was $36.8 million at December 31, 2004, and 2003. Of this amount, $36.4 million is recorded in WPSC's natural gas segment relating to its merger with Wisconsin Fuel and Light. In 2003, WPSC transferred $0.9 million from a regulatory acquisition premium (previously classified as property, plant, and equipment) to goodwill. The increase in goodwill reflected an adjustment to the amount of recoverable goodwill from the Wisconsin Fuel and Light merger allowed by the PSCW in its March 2003 rate order. The remaining $0.4 million of goodwill relates to PDI.

Goodwill and purchased intangible assets are included in other assets on the Consolidated Balance Sheets. Emission credits are recorded at the lower of cost or market. Information in the tables below relates to total purchased identifiable intangible assets for the years indicated (excluding assets held for sale).

(Millions)	December 31, 2004			
Asset Class	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Emission credits	1 to 30	$ 6.9	$(0.9)	$ 6.0
Customer related	1 to 8	11.2	(4.6)	6.6
Other	1 to 30	4.2	(1.6)	2.6
Total		$22.3	$(7.1)	$15.2

(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

A customer related intangible asset in the amount of $7.3 million was recorded in conjunction with the July 1, 2004, acquisition of Advantage Energy. This intangible asset will be amortized over a period of eight years.

Intangible asset amortization expense, in the aggregate, for the years ended December 31, 2004, and 2003 was $2.4 million and $1.7 million, respectively.

Estimated Amortization Expense:

For year ending December 31, 2005	$2.7 million
For year ending December 31, 2006	2.2 million
For year ending December 31, 2007	2.1 million
For year ending December 31, 2008	1.9 million
For year ending December 31, 2009	1.6 million

NOTE 12—LEASES

WPS Resources leases various property, plant, and equipment. Terms of the leases vary, but generally require WPS Resources to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Rental expense attributable to operating leases was $5.7 million, $5.2 million, and $5.1 million in 2004, 2003, and 2002, respectively. Future minimum rental obligations under non-cancelable operating leases are payable as follows:

Year Ending December 31 *(Millions)*	
2005	$ 4.2
2006	2.3
2007	2.2
2008	2.0
2009	1.6
Later years	5.9
Total payments	$18.2

NOTE 13—SHORT-TERM DEBT AND LINES OF CREDIT

WPS Resources has a syndicated $225 million 364-day revolving credit facility and a $175 million 364-day bi-lateral loan agreement. WPSC 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 following table relates to short-term debt and lines of credit for the years indicated.

(Millions, except for percentages)	2004	2003	2002
As of end of year			
Commercial paper outstanding	$279.7	$ 28.0	$ 16.0
Average discount rate on outstanding commercial paper	2.46%	1.15%	1.35%
Short-term notes payable outstanding	$ 12.7	$ 10.0	$ 13.8
Average interest rate on short-term notes payable	2.52%	1.12%	1.22%
Available (unused) lines of credit	$161.9	$288.9	$264.5
For the year			
Maximum amount of short-term debt	$312.5	$194.2	$133.4
Average amount of short-term debt	$ 75.3	$104.3	$59.7
Average interest rate on short-term debt	1.82%	1.38%	1.73%

The commercial paper has varying maturity dates ranging from January 4, 2005, through January 25, 2005.

NOTE 14—LONG-TERM DEBT

At December 31 *(Millions)*			2004	2003
First mortgage bonds - WPSC				
	Series	Year Due		
	6.90%	2013	$ 22.0	$ 22.0
	7.125%	2023	0.1	50.0
Senior notes - WPSC				
	Series	Year Due		
	6.125%	2011	150.0	150.0
	4.875%	2012	150.0	150.0
	4.80%	2013	125.0	125.0
	6.08%	2028	50.0	50.0
First mortgage bonds - UPPCO				
	Series	Year Due		
	10.0%	2008	–	0.9
	9.32%	2021	15.3	16.2
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			82.3	87.2
Tax exempt bonds			27.0	27.0
Senior secured note			2.7	2.9
Total			874.4	931.2
Unamortized discount and premium on bonds and debt			(2.0)	(2.7)
Total long-term debt			872.4	928.5
Less current portion			(6.7)	(56.6)
Total long-term debt			$865.7	$871.9

On January 19, 2004, WPSC retired $49.9 million of its 7.125% series first mortgage bonds. These bonds had an original maturity date of July 1, 2023.

All of WPSC's debt securities are subject to the terms and conditions of the First Mortgage of WPSC. Under the terms of the mortgage, substantially all property owned by WPSC is pledged as collateral for these outstanding debt securities. All these debt securities require semiannual payments of interest. All principal payments are due on the maturity date of each series. All WPSC senior notes become non-collateralized if WPSC retires all of its outstanding first mortgage bonds.

Under the terms of the First Mortgage of UPPCO, substantially all property owned by UPPCO is pledged as collateral for this outstanding debt series. Interest payments are due semiannually on May 1 and November 1 with a sinking fund payment of $900,000 due each November 1. The final sinking fund payment due November 1, 2021, will completely retire the series.

Borrowings by PDI under term loans and collateralized by nonregulated assets totaled $82.3 million at December 31, 2004. The assets of WPS New England Generation, Inc. and WPS Canada Generation, Inc., subsidiaries of PDI, collateralize $5.4 million and $13.2 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 PDI, is the borrower of the remaining $63.7 million that is collateralized by its plant. Quarterly payments are made in relation to this financing, which,

as the result of an interest rate swap, carries an effective interest rate of 8.1% for the year ended December 31, 2004, 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 PDI, 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, 2004, the interest rate was 1.8%. 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.

Upper Peninsula Building Development Corporation has a senior secured note of $2.7 million as of December 31, 2004, which requires semiannual payments at an interest rate of 9.25%, and matures in 2011. The note is secured by a first mortgage lien on the building they own, which is also leased to UPPCO for use as their corporate headquarters.

At December 31, 2004, 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)*	
2005	$ 6.7
2006	7.7
2007	8.3
2008	9.4
2009	159.9
Later years	682.4
Total payments	$874.4

NOTE 15—ASSET RETIREMENT OBLIGATIONS

Legal retirement obligations, as defined by the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations," identified at WPSC relate primarily to the final decommissioning of Kewaunee. WPSC has a legal obligation to decommission the irradiated portions of Kewaunee in accordance with the Nuclear Regulatory Commission's minimum decommissioning requirements. The liability, calculated under the provisions of SFAS No. 143, is based on several assumptions, including the scope of decommissioning work to be performed, the timing of the future cash flows, and inflation and discount rates. Some of these assumptions differ significantly from the assumptions authorized by the PSCW to calculate the nuclear decommissioning liability for funding purposes. In accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," WPSC established a regulatory liability to record the differences between ongoing expense regulation under SFAS No. 143 and the ratemaking practices for retirement costs authorized by the PSCW. As of December 31, 2004, the net of tax market value of external nuclear decommissioning trusts established for future retirement costs, authorized by the PSCW, was approximately $344.5 million. See Note 6, "Acquisitions and Sales of Assets," for information on the pending sale of Kewaunee.

We also identified other legal retirement obligations related to utility plant assets that are not significant to the financial statements. Upon implementation of SFAS 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 SFAS No. 143 was deferred to a regulatory liability pursuant to SFAS No. 71.

PDI has identified a legal retirement obligation related to the closure of an ash basin located at Sunbury. The adoption of SFAS No. 143 at PDI resulted in a $0.3 million negative after-tax cumulative effect of change in accounting principle in the first quarter of 2003 related to recording a liability for the closure of this ash basin. The asset retirement obligation associated with Sunbury is recorded as a liability held for sale on the consolidated balance sheets. See Note 4, "Assets Held for Sale."

The following table describes all changes to the asset retirement obligation liabilities of WPS Resources.

(Millions)	WPSC	PDI	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 obligations at December 31, 2003	344.0	2.1	346.1
Accretion expense	20.4	0.1	20.5
Asset retirement obligation at December 31, 2004	$364.4	$2.2	$366.6

Pro forma income available for common shareholders and earnings per share have not been presented for the periods ended December 31, 2004, 2003, and 2002 because the pro forma application of SFAS No. 143 to prior periods does not materially differ from the actual amounts reported for those periods in the Consolidated Statements of Income.

NOTE 16—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)	2004	2003
Deferred tax assets:		
Deferred tax credit carry forwards	$ 74.0	$ 52.0
Plant related	59.0	55.8
Employee benefits	31.5	28.7
Deferred income and deductions	17.5	21.1
Other comprehensive income	16.4	13.4
State capital and operating loss carry forwards	11.3	10.9
Risk management activities	10.3	6.9
Regulatory deferrals	1.8	3.4
Other	7.5	(1.2)
Total deferred tax assets	229.3	191.0
Valuation allowance	(1.5)	(3.0)
Net deferred tax assets	$227.8	$188.0
Deferred tax liabilities:		
Plant related	$243.3	$233.3
Risk management activities	18.3	–
Regulatory deferrals	13.2	8.7
Employee benefits	11.0	16.1
Other comprehensive income	5.8	3.4
Deferred income and deductions	3.5	3.3
Other	12.8	3.7
Total deferred tax liabilities	$307.9	$268.5
Consolidated Balance Sheet Presentation:		
Current deferred tax liabilities	$ 14.6	$ 1.7
Long-term deferred tax liabilities	65.5	78.8
Net deferred tax liabilities	$ 80.1	$ 80.5

Deferred tax credit carryforwards include $71.1 million of alternative minimum tax credits related to tax credits available under Section 29 of the Internal Revenue Code. These alternative minimum tax credit carryforwards can be carried forward indefinitely. Carry forward periods for state capital and operating loss carryforwards vary, but in the majority of states in which we do business, the period is 15 years or more. The balance of the carryforward of state net operating losses is $220.0 million for all states. Valuation allowances have been established for certain state operating and capital loss carryforwards due to the uncertainty of the ability to realize the benefit of these losses in the future. The implementation of new tax strategies allowed WPS Resources to reduce its valuation allowance in 2004.

The following table presents a reconciliation of federal income taxes (which are calculated by multiplying the statutory federal income tax rate by book income before federal income tax) to the provision for income taxes reported in the Consolidated Statements of Income.

	2004		2003		2002	
(Millions, except for percentages)	Rate	Amount	Rate	Amount	Rate	Amount
Statutory federal income tax	35.0%	$65.2	35.0%	$50.5	35.0%	$51.5
State income taxes, net	3.4	6.4	5.9	8.5	5.3	7.8
Plant related	0.1	0.1	(0.8)	(1.1)	(1.6)	(2.4)
Benefits and compensation	(2.0)	(3.7)	(1.6)	(2.3)	(1.4)	(2.1)
Investment tax credit	(0.8)	(1.5)	(1.2)	(1.7)	(1.2)	(1.7)
Federal tax credits	(17.6)	(32.8)	(13.1)	(18.9)	(16.4)	(24.1)
Other differences, net	(2.0)	(3.7)	(0.8)	(1.3)	(0.2)	(0.3)
Effective income tax	16.1%	$30.0	23.4%	$33.7	19.5%	$28.7
Current provision						
Federal		$20.1		$18.3		$17.3
State		11.6		14.0		11.1
Foreign		0.4		1.8		(0.4)
Total current provision		32.1		34.1		28.0
Deferred provision (benefit)		1.1		2.8		3.2
Recognition of net operating loss carryforward		(1.7)		(1.5)		(0.8)
Recognition of deferred investment tax credit		(1.5)		(1.7)		(1.7)
Total income tax expense		$30.0		$33.7		$28.7

Foreign income (loss) before taxes was $8.3 million in 2004, $4.3 million in 2003, and $(1.2) million in 2002.

As the related temporary differences reverse, WPSC and UPPCO 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 $11.2 million as of December 31, 2004, and $11.8 million as of December 31, 2003.

NOTE 17—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. The commitments described below are as of December 31, 2004.

ESI has unconditional purchase obligations related to energy supply contracts that total $2.4 billion. Substantially all of these obligations end by 2009, with obligations totaling $2.6 million extending from 2010 through 2012. The majority of the energy supply contracts are to meet ESI's offsetting obligations to deliver energy to its customers.

WPSC has obligations related to nuclear fuel, coal, purchased power, and natural gas. Nuclear fuel contracts total $38.2 million and extend through 2014. Assuming Kewaunee is sold as discussed in Note 6, "Acquisitions and Sales of Assets," these nuclear fuel contracts would be assigned to Dominion. Obligations related to coal supply and transportation extend through 2016 and total $386.2 million. Through 2016, WPSC has obligations totaling $600.6 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 $129.7 million through 2010. WPSC expects to recover these costs in future customer rates. Additionally, WPSC has contracts to sell electricity and natural gas to customers.

PDI has entered into purchase contracts totaling $12.6 million. The majority of these contracts relate to coal purchases for Sunbury and expire in 2005. See Note 4, "Assets Held for Sale," for more information on Sunbury.

UPPCO has made commitments for the purchase of commodities, mainly capacity or energy related to purchased power, which total $5.2 million and extend through 2006.

WPS Resources also has commitments in the form of purchase orders issued to various vendors. At December 31, 2004, these purchase orders totaled $499.6 million and $493.8 million for WPS Resources and WPSC, respectively. The majority of these commitments relate to large construction projects, including construction of the 500-megawatt Weston 4 coal-fired generation facility near Wausau, Wisconsin.

Nuclear Plant Operation

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 WPSC 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 WPSC's 59% ownership in Kewaunee.

Clean Air Regulations

The generation facilities of PDI are located in an ozone transport region. As a result, these generation facilities are subject to additional restrictions on emissions of nitrogen oxide. During 2004, no additional nitrogen oxide emission allowances were purchased and no additional allowance purchases are anticipated for 2005. PDI began 2004 with some sulfur dioxide emission allowances for its generation facilities that are required to participate in the sulfur dioxide emission program. During 2004, additional sulfur dioxide allowances of 15,000 were purchased at market rates. PDI estimates purchasing approximately 10,000 sulfur dioxide allowances in total, at market rates, to meet its 2005 requirements for its generation facilities.

United States Environmental Protection Agency Section 114 Request

In November 1999, the United States Environmental Protection Agency (EPA) announced the commencement of a Clean Air Act enforcement initiative targeting the utility industry. This initiative resulted in the issuance of several notices of violation/findings of violation and the filing of lawsuits against utilities. In these enforcement proceedings, the EPA 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 EPA's pre-construction permit program and without installing appropriate air pollution control equipment. In addition, the EPA 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, WPSC received from the EPA a request for information under Section 114 of the Clean Air Act. The EPA sought information and documents relating to work performed on the coal-fired boilers located at WPSC's Pulliam and Weston electric generating stations. WPSC filed a response with the EPA in early 2001.

On May 22, 2002, WPSC received a follow-up request from the EPA seeking additional information regarding specific boiler-related work performed on Pulliam Units 3, 5, and 7, as well as information on WPSC's life extension program for Pulliam Units 3-8 and Weston Units 1 and 2. WPSC made an initial response to the EPA's follow-up information request on June 12, 2002, and filed a final response on June 27, 2002.

In 2000 and 2002, Wisconsin Power and Light Company received a similar series of EPA 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 WPSC). 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 EPA's review of the information, the EPA may issue "notices of violation" or "findings of violation" asserting that a violation of the Clean Air Act occurred and/or seek additional information from WPSC and/or third parties who have information relating to the boilers or close out the investigation. To date, the EPA has not responded to the filings made by WPSC and Wisconsin Power and Light Company. In addition, under the federal Clean Air Act, citizen groups may pursue a claim. WPSC has received no notice of a claim from a citizen suit.

In response to the EPA Clean Air Act enforcement initiative, several utilities have elected to settle with the EPA, while others are in litigation. In general, those utilities that have settled have entered into consent decrees which require the companies to pay fines and penalties, undertake supplemental environmental projects, and either upgrade or replace pollution controls at existing generating units or shut down existing units and replace these units with new electric generating facilities. Several of the settlements involve multiple facilities. The fines and penalties (including the capital costs of supplemental environmental projects) associated with these settlements range between $7 million and $30 million. Factors typically considered in settlements include, but are not necessarily limited to, the size and number of facilities as well as the duration of alleged violations and the presence or absence of aggravating circumstances. The regulatory interpretations upon which the lawsuits or settlements are based may change based on future court decisions that may be rendered in pending litigations.

If the federal government decided to bring a claim against WPSC and if it were determined by a court that historic projects at WPSC's Pulliam and Weston plants required either a state or federal Clean Air Act permit, WPSC 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 and October 2003, the EPA issued new rules governing the federal new source review program. These rules are currently being challenged in the District of Columbia Circuit Court of Appeals, and a final decision is not anticipated before April of 2005. 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 Wisconsin rules are not anticipated to be finalized before 2006, after the District of Columbia Circuit Court of Appeals' decision is rendered.

Mercury and Interstate Quality Rules

On October 1, 2004, the mercury emission control rule became effective in Wisconsin. The rule requires WPSC to control annual system mercury emissions in phases. The first phase will occur in 2008 and 2009. In this phase, the annual mercury emissions are capped at the average annual system mercury emissions for the period 2002 through 2004. The next phase will run from 2010 through 2014 and requires a 40% reduction from average annual 2002 through 2004 mercury input amounts. After 2015, a 75% reduction is required with a goal of an 80% reduction by 2018. If federal regulations are promulgated, we believe the state of Wisconsin will revise the Wisconsin rule to be consistent with the federal rule. WPSC estimates capital costs of approximately $101 million to achieve the proposed 75% reductions. The capital costs are expected to be recovered in a future rate case.

In December 2003, the EPA proposed mercury "maximum achievable control technology" standards and an alternative mercury "cap and trade" program substantially modeled on the Clear Skies legislation initiative. The EPA also proposed the Clean Air Interstate Rule (formerly known as the Interstate Air Quality Rule), which would reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin, Michigan, Pennsylvania, and New York. 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, existing units burning bituminous coal to achieve an annual average mercury emission rate limit of 2.0 pounds per trillion Btu, and existing units burning coal-refuse to achieve an annual average mercury emission rate limit of 0.38 pounds per trillion Btu on a unit-by-unit or plant-wide basis. New sub-bituminous coal-fired units must achieve an emission rate limit of 0.020 pounds per gigawatt-hour.

If the EPA proposed mercury "maximum achievable control technology" rule is promulgated, WPSC'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%. Weston 4 will install and operate mercury control technology with the aim of achieving a mercury emission rate less than that proposed in the EPA proposed mercury "maximum achievable control technology" rule. As to the mercury cap and trade program, WPSC is studying its long-term compliance strategy to meet the targets set forth in the proposed rule. Based on the current rule proposal and current projections, WPSC anticipates meeting the proposed targets. Mercury control technology is still in development. WPSC is assessing potential mercury control technologies for application to future new coal-fired units. The proposed alternative mercury cap and trade program would require a 30% reduction in national mercury emissions in 2010 and a 70% reduction in national mercury emissions beginning in 2018. WPSC estimates the cost to comply with the proposed alternative mercury cap and trade program is similar to the cost to comply with the Wisconsin rule.

Whichever form of the proposed federal mercury rule is promulgated, PDI's current analysis indicates that additional emission control equipment on the existing units may be required. Excluding Sunbury,

PDI estimates the capital cost for the remaining units to be approximately $1 million to achieve a 70% reduction. If Sunbury is not sold, the mercury control costs would be approximately $33 million in total. See Note 4, "Assets Held for Sale," for more information on Sunbury.

As to the Clean Air Interstate Rule proposal, the proposal allows the affected states (including Wisconsin, Michigan, Pennsylvania, and New York) 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 sulfur dioxide and nitrogen oxide through measures to be determined by the state. The states have not adopted a preference as to which option they would select in the event the rules become final, but the states are investigating a possible cap and trade program. The effect of the rule, if adopted, on WPSC's and PDI's facilities is uncertain.

Currently, WPSC is evaluating a number of options that include using the cap and trade program and/or installing controls. For planning purposes, it is assumed that additional sulfur dioxide and nitrogen oxide 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 WPSC's long-term maintenance plan for its existing units. As such, controls or conversions may need to take place before 2010. On a preliminary basis and assuming controls or conversion are required, WPSC estimates capital costs of $246 million in order to meet an assumed 2010 compliance date. This estimate is based on costs of current control technology and current information regarding the proposed rule. The costs may change based on the requirements of the final rule.

PDI is evaluating the compliance options for the Clean Air Interstate Rule proposal. Additional nitrogen oxide controls on some of PDI's facilities may be necessary. The estimated capital costs for additional nitrogen oxide controls are $2.9 million, excluding Sunbury. Additional sulfur dioxide reductions are unlikely. If the Sunbury sale does not occur, the additional nitrogen oxide control costs are about $41 million in total. Also, PDI will evaluate a number of options using the cap and trade program, fuel switching, and/or installing controls. See Note 4, "Assets Held for Sale," for more information on Sunbury.

Other Environmental Issues

Groundwater testing at a former ash disposal site of UPPCO 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. UPPCO received an order from the MPSC permitting deferral and future recovery of these costs. UPPCO 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 3 years is $1.6 million. UPPCO has recorded $0.3 million of this amount as its share of the liability as of December 31, 2004.

Manufactured Gas Plant Remediation

WPSC 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, Manitowoc, and two Sheboygan sites was substantially complete. Groundwater treatment and monitoring at these sites will continue into the future. Cleanup of the land portion of four sites will be addressed in the future. River sediment remains to be addressed at six sites with sediment contamination. Remedial investigation work is expected to begin on the sediment portion of the Sheboygan site in 2005. Sediment removal work at the Marinette site is scheduled for 2005. Work at the other sites remains to be scheduled.

The WDNR recently issued interim guidance for sediment remediation. Based on WDNR's application of this guidance, WPSC estimated future undiscounted investigation and cleanup costs as of December 31, 2004, to be $66.7 million. WPSC may adjust these estimates in the future contingent upon remedial technology, regulatory requirements, and the assessment of natural resource damages.

WPSC's liability was reviewed in December 2004 against projected cleanup costs. Accordingly, the liability was increased to $66.7 million. WPSC has received $12.7 million to date in insurance recoveries. WPSC expects to recover actual cleanup costs, net of insurance recoveries, in future customer rates. Under current PSCW policies, WPSC will not recover carrying costs associated with the cleanup expenditures.

Stray Voltage Claims

From time to time, WPSC has been sued by dairy farmers who allege that they have suffered loss of milk production and other damages supposedly due to "stray voltage" from the operation of WPSC's electrical system. Past cases have been resolved without any material adverse effect on the financial statements of WPSC. Currently, there are three such cases pending in state court in Wisconsin, one of which is on appeal.

The PSCW has established certain requirements regarding stray voltage for all utilities subject to its jurisdiction. The PSCW has defined what constitutes "stray voltage," established a level of concern at which some utility corrective action is required, and set forth test protocols to be employed in evaluating whether a stray voltage problem exists. Based upon the information available to it to date, WPSC believes that it was in compliance with the PSCW's orders, and that none of the plaintiffs had a stray voltage problem as defined by the PSCW for which WPSC is responsible. Nonetheless, in 2003, the Supreme Court of Wisconsin ruled in the case Hoffmann v. WEPCO that a utility could be liable in tort to a farmer for damage from stray voltage even though the utility had complied with the PSCW's established level of concern.

One of the three remaining cases was appealed to the Wisconsin Court of Appeals. On February 15, 2005, the Court of Appeals affirmed the jury verdict that awarded the plaintiff approximately $0.8 million for economic damages and $1 million for nuisance. The Court of Appeals also remanded the issue of future damages relative to an injunction. WPSC is considering further appeal. The other two pending cases have trial dates in April 2005 and September 2005. Discovery has been completed in both cases. One of the two pending cases was tried to a jury in the fall of 2004. The jury deadlocked 10 – 4 in favor of WPSC, and then, in response to an instruction from the trial judge to try to reach a verdict, crafted a compromise that was invalid under the law, resulting in a mistrial. The expert witnesses retained by WPSC do not believe that there is a scientific basis for concluding that electricity has harmed or damaged the plaintiffs or their cows in either of the two remaining cases. Accordingly, WPSC is vigorously defending and contesting these actions.

WPSC has insurance coverage for these claims, but the policies have customary self-insured retentions per occurrence. Based upon the information known at this time and the availability of insurance, WPSC believes that the total cost to it of resolving the remaining three actions will not be material.

One of the cases awaiting trial includes a claim for common law punitive damages as well as a claim for treble damages under a Wisconsin statute, sec. 196.94. In light of the information it now has, WPSC does not believe there is any basis for the award of punitive or treble damages in this case. However, if a jury awarded such damages, and if the total of defense costs and all damages exceeded the self-insured retention, WPSC believes its insurance policies would cover such a verdict, including any punitive or treble damages.

Flood Damage

On May 14, 2003, a fuse plug at the Silver Lake reservoir owned by UPPCO 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 FERC'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 for the Silver Lake reservoir was designed by an outside engineering firm.

WPS Resources maintains a comprehensive insurance program that includes UPPCO 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. To date no lawsuits have been commenced.

In November 2003, UPPCO received approval from the MPSC and the FERC 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. On October 14, 2004, the MPSC approved final recovery of the $5.2 million of increased 2003 power supply costs related to UPPCO's integrated system. As of December 31, 2004, UPPCO has deferred $2.6 million pretax and expensed $1.5 million pretax of costs for damages resulting from the flood. In addition, UPPCO has recorded an $0.8 million insurance receivable at December 31, 2004. The total insurance payments received to date as of December 31, 2004, were $2.7 million.

In January 2005, UPPCO announced its decision to restore Silver Lake as a reservoir for power generation, pending approval of a design by FERC. Provided that FERC approves a design in the spring of 2005, work is expected to begin in 2005 and be completed in 2006.

Wausau, Wisconsin, to Duluth, Minnesota, Transmission Line

Construction of the 220-mile, 345-kilovolt Wausau, Wisconsin, to Duluth, Minnesota, transmission line began in the first quarter of 2004 in Minnesota.

ATC has assumed primary responsibility for the overall management of the project and will own and operate the completed line. WPSC received approval from the PSCW and the FERC to transfer ownership of the project to ATC. WPSC will continue to manage construction of the project and be responsible for obtaining private property rights in Wisconsin necessary for the construction of the project. Various WDNR permit related decisions are currently the subject of a contested case hearing in Wisconsin. A decision on the contested case is expected in the third quarter of 2005.

In December 2003, the PSCW issued an amended Certificate of Public Convenience and Necessity per ATC's request for relief. This decision was appealed to the Dane County Circuit Court by certain landowners. The court affirmed the PSCW's decision. It is unknown whether the court decision will be appealed.

WPS Resources committed to fund 50% of total project costs incurred up to $198 million. WPS Resources will receive additional equity in ATC in exchange for a portion of the project funding. During the year ended December 31, 2004, WPS Resources invested $15.7 million in ATC, 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, WPSC and ATC 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 ATC 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 equity portion of revised cost estimate. For the period 2005 through 2008, we expect to fund up to approximately $175 million for our portion of the Wausau to Duluth transmission line. Our commitment to fund this transmission line could decrease up to 50% if Minnesota Power exercises its option to fund a portion of the project.

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. 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. Other future tax legislation and Internal Revenue Service review may also affect the value of the tax credits and the value of our share of the facility.

We have recorded the tax benefit of approximately $113.3 million of Section 29 tax credits as reductions of income tax expense from the project's inception in June 1998 through December 31, 2004. As a result of alternative minimum tax rules, approximately $71.1 million of this tax benefit has been carried forward as a deferred tax asset as of December 31, 2004. The tax benefit recorded with respect to WPS Resources' share of tax credits from the facility is based on our expected consolidated tax liability for all open tax years including the current year, and all future years in which we expect to utilize deferred tax credits to offset our future tax liability. Reductions in our expected consolidated tax liability for any of these years could result in disallowance of previously recorded credits, and/or a change in the amount of the tax benefit deferred to future periods. A reduction in our expected consolidated tax liability for the current year may result in a reduction of the level of synthetic fuel production at the facility. A portion of 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. Pre-tax gains approximating $7 million annually are expected to be realized through 2007 from this sell-down.

Dairyland Power Cooperative

Dairyland Power Cooperative has confirmed its intent to purchase an interest in Weston 4 by signing a joint plant agreement in November 2004, subject to a number of conditions. The agreement with Dairyland Power Cooperative is part of our continuing plan to provide least-cost, reliable energy for the increasing electric demand of our customers.

NOTE 18—EMPLOYEE BENEFIT PLANS

WPS Resources has a non-contributory qualified retirement plan covering substantially all employees. During 2004, $1.6 million was contributed to the Pension Plan. No contributions were made in 2003 or 2002. WPS Resources also sponsors several nonqualified retirement plans, which are not funded.

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.

WPSC serves as plan sponsor and administrator for the qualified retirement plan and the postretirement plans. Accordingly, WPSC's financials reflect the assets and liabilities associated with these plans. With the exception of UPPCO's Supplemental Employee Retirement Plan, the assets and liabilities related to the non-qualified pension plans are also recorded on WPSC's financials. The net periodic benefit cost associated with the plans is allocated among 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.

The costs of pension and postretirement benefits are expensed over the period in which the employee renders service. The transition obligation for postretirement benefits of current and future retirees is being recognized over a 20-year period beginning in 1993. WPS Resources uses a December 31 measurement date for the majority of its plans.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") provides a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of certain retiree health care benefit plans. In May 2004, the FASB staff issued FASB Staff Position ("FSP") 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003."

WPS Resources and its actuarial advisors determined that benefits provided by the plan as of the date of enactment were at least actuarially equivalent to Medicare Part D, and, accordingly, WPS Resources will be entitled to the federal subsidy. WPS Resources performed a measurement of the effects of the Act on its accumulated postretirement benefit obligation as of July 1, 2004 (the date FSP 106-2 was adopted). As of July 1, 2004, WPS Resources' accumulated postretirement benefit obligation decreased $40.3 million as a result of the Act. The change in the accumulated postretirement

benefit obligation due to the Act is considered an actuarial gain that will be recognized in future periods and, therefore, had no cumulative effect on WPS Resources' retained earnings as of July 1, 2004. The effect of the subsidy served to reduce the net postretirement benefit cost by $2.6 million for WPS Resources for the year ended December 31, 2004.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets during 2004, 2003, and 2002, as well as a statement of the funded status as of December 31 for each year.

(Millions)	Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002
Reconciliation of benefit obligation (qualified and non-qualified plans)						
Obligation at January 1	$ 637.2	$553.8	$513.1	$ 281.6	$ 234.3	$ 176.2
Service cost	20.5	15.2	12.0	7.5	7.1	5.3
Interest cost	39.8	36.9	34.9	16.9	15.3	12.5
Plan amendments	–	–	–	–	(15.3)	(4.7)
Actuarial (gain) loss - net	62.0	67.0	27.5	(3.4)	49.5	52.5
Benefit payments	(38.8)	(35.7)	(33.7)	(7.9)	(9.3)	(7.5)
Obligation at December 31	$ 720.7	$637.2	$553.8	$ 294.7	$ 281.6	$ 234.3
Reconciliation of fair value of plan assets (qualified plans)						
Fair value of plan assets at January 1	$ 569.9	$511.6	$591.9	$ 149.7	$ 119.7	$ 134.7
Actual return on plan assets	54.5	92.7	(47.8)	12.9	23.7	(14.8)
Employer contributions	1.6	–	–	16.2	15.6	7.3
Benefit payments	(37.1)	(34.4)	(32.5)	(7.9)	(9.3)	(7.5)
Fair value of plan assets at December 31	$ 588.9	$569.9	$511.6	$ 170.9	$ 149.7	$ 119.7
Funded status of plans						
Funded status at December 31	$(131.8)	$ (67.3)	$ (42.2)	$(123.8)	$(131.9)	$(114.6)
Unrecognized transition obligation	0.4	0.6	0.6	3.4	3.8	13.1
Unrecognized prior-service cost	44.8	50.5	56.3	(19.4)	(21.5)	(16.3)
Unrecognized loss	127.0	78.0	58.6	91.1	99.7	66.0
Net asset (liability) recognized	$ 40.4	$ 61.8	$ 73.3	$ (48.7)	$ (49.9)	$ (51.8)

Amounts recognized in the Consolidated Balance Sheets related to the benefit plans consist of:

(Millions)	Pension Benefits		Other Benefits	
	2004	2003	2004	2003
Prepaid benefit cost	$ –	$67.9	$ –	$ –
Accrued benefit cost	(45.9)	(87.8)	(48.7)	(49.9)
Intangible assets	45.0	41.6	–	–
Regulatory asset	6.4	15.2	–	–
Accumulated other comprehensive income (before tax effect of $14.0 million and $10.0 million, respectively)	34.9	24.9	–	–
Net asset (liability) recognized	$40.4	$61.8	$(48.7)	$(49.9)

Included in the above table is an accrued benefit cost of $1.7 million at December 31, 2004, and $1.8 million at December 31, 2003, related to UPPCO's Supplemental Employee Retirement Plan.

The accumulated benefit obligation for all defined benefit pension plans was $634.8 million and $572.4 million at December 31, 2004, and 2003, respectively. Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented in the following table.

(Millions)	December 31,	
	2004	2003
Projected benefit obligation	$720.7	$321.4
Accumulated benefit obligation	634.8	315.1
Fair value of plan assets	588.9	250.2

The following table presents the components of the consolidated net periodic benefit cost (credit) for the plans for 2004, 2003, and 2002:

(Millions)	Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002
Net periodic benefit cost						
Service cost	$20.5	$15.2	$12.0	$ 7.5	$ 7.1	$ 5.3
Interest cost	39.8	36.9	34.9	16.9	15.3	12.5
Expected return on plan assets	(45.9)	(46.7)	(47.7)	(11.6)	(10.6)	(10.2)
Amortization of transition (asset) obligation	0.2	–	(1.8)	0.4	1.0	1.3
Amortization of prior-service cost (credit)	5.7	5.8	5.8	(2.2)	(1.8)	(1.2)
Amortization of net (gain) loss	4.5	0.7	(0.6)	4.1	2.6	(1.2)
Special termination benefits	–	0.8	–	–	–	–
Net periodic benefit cost (credit) before settlement/curtailment	24.8	12.7	2.6	15.1	13.6	6.5
Amortization of settlement gain regulatory liability	–	–	(11.8)	–	–	–
Amortization of curtailment loss regulatory asset	–	–	8.1	–	–	–
Net periodic benefit cost (credit)	$24.8	$12.7	$ (1.1)	$15.1	$13.6	$ 6.5

Assumptions

The weighted average assumptions used at December 31 in the accounting for the plans are as follows:

	Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002
Discount rate for benefit obligations	5.75%	6.25%	6.75%	5.75%	6.25%	6.75%
Discount rate for net periodic benefit cost	6.25%	6.75%	7.25%	6.25%	6.75%	7.25%
Expected return on assets	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Rate of compensation increase	5.50%	5.50%	5.50%	–	–	–

Starting in 2005, WPS Resources plans to change its expected return on plan assets from 8.75% to 8.50%. To develop the 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:

	2004	2003	2002
Assumed medical cost trend rate (under age 65)	10.0%	11.0%	12.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2010	2010	2010
Assumed medical cost trend rate (over age 65)	12.0%	13.0%	14.0%
Ultimate trend rate	6.5%	6.5%	6.5%
Ultimate trend rate reached in	2011	2011	2011
Assumed dental cost trend rate	5.0%	5.0%	6.0%
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
Effects on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 3.5	$ (3.1)
Effect on the health care component of the accumulated postretirement benefit obligation	$42.0	$(34.7)

Plan Assets

Weighted-average asset allocations of the plans at December 31, 2004, and 2003, are as follows:

	Pension Plan Assets at December 31,		Postretirement Plan Assets at December 31,	
	2004	2003	2004	2003
Asset category				
Equity securities	63%	61%	63%	62%
Debt securities	33%	36%	37%	38%
Real estate	4%	3%	0%	0%
Total	100%	100%	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 investment policies for the plan assets that establish target asset allocations for the above listed asset classes as follows: pension plan – equity securities 60%, debt securities 35%, and real estate 5%; postretirement plan – equity securities 65%, debt securities 35%.

Cash Flows

WPS Resources expects to contribute $8.2 million to its pension plans and $20.9 million to its other postretirement benefit plans in 2005.

The following table shows the payments, reflecting expected future service, that WPS Resources expects to make for pension and other postretirement benefits. In addition, the table shows the expected federal subsidies under Medicare Part D, which will partially offset other postretirement benefits, as discussed earlier.

(Millions)	Pension Benefits	Other Benefits	Federal Subsidies
2005	$ 37.5	$10.8	$ –
2006	39.6	11.9	(1.3)
2007	41.8	13.1	(1.5)
2008	44.0	14.1	(1.6)
2009	46.0	15.3	(1.8)
2010–2014	262.3	89.9	(10.9)

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 2.2 million shares of WPS Resources common stock (market value of approximately $109 million) at December 31, 2004. Total costs incurred under these plans were $7.7 million in 2004, $5.7 million in 2003, and $4.8 million in 2002. WPSC's share of the total costs was $6.5 million in 2004, $4.6 million in 2003, and $3.9 million in 2002.

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. Non-employee directors can defer up to 100% of their director fees. There are essentially two separate investment programs available to plan participants. 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 WPSC and, therefore, the liabilities and costs associated with the deferred compensation plans are included on WPSC's financials.

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 $13.0 million at December 31, 2004, and $10.3 million at December 31, 2003.

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 $21.0 million at December 31, 2004, and $18.7 million at December 31, 2003. The costs incurred under Program 2 were $2.1 million in 2004, $2.4 million in 2003, and $1.6 million in 2002.

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 $8.4 million at December 31, 2004, and $6.5 million at December 31, 2003.

NOTE 19—PREFERRED STOCK OF SUBSIDIARY

WPSC has 1,000,000 authorized shares of preferred stock with no mandatory redemption and a $100 par value. Outstanding shares are as follows at December 31:

(Millions, except share amounts)	Series	2004 Shares Outstanding	2004 Carrying Value	2003 Shares Outstanding	2003 Carrying Value
	5.00%	130,799	$13.1	130,853	$13.1
	5.04%	29,920	3.0	29,920	3.0
	5.08%	49,928	5.0	49,928	5.0
	6.76%	150,000	15.0	150,000	15.0
	6.88%	150,000	15.0	150,000	15.0
Total		510,647	$51.1	510,701	$51.1

All shares of preferred stock of all series 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 WPSC. Each series of outstanding preferred stock is redeemable in whole or in part at WPSC's option at any time on 30 days' notice at the respective redemption prices. WPSC may not redeem less than all, nor purchase any, of its preferred stock during the existence of any dividend default.

In the event of WPSC'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 20—COMMON EQUITY

Shares outstanding at December 31	2004	2003
Common stock, $1 par value, 200,000,000 shares authorized	37,500,791	36,830,556
Treasury stock	12,000	15,700
Average cost of treasury shares	$25.19	$25.19
Shares in deferred compensation rabbi trust	229,238	192,880
Average cost of deferred compensation rabbi trust shares	$36.84	$33.72

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, 2004, 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 issuances increased equity $28.3 million, $31.0 million, and $28.3 million in 2004, 2003, and 2002, respectively.

Reconciliation of Common Shares	Common Stock Shares Outstanding
Balance at December 31, 2001	31,053,250
Stock Investment Plan and other stock-based employee benefit plans	544,578
Stock issued from Treasury Stock	241,402
Increase in deferred compensation rabbi trust shares	(30,451)
Balance at December 31, 2002	31,808,779
Common stock offering	4,025,000
Stock Investment Plan and other stock-based employee benefit plans	764,681
Stock issued from Treasury Stock	49,950
Increase in deferred compensation rabbi trust shares	(26,434)
Balance at December 31, 2003	36,621,976
Stock Investment Plan and other stock-based employee benefit plans	670,235
Stock issued from Treasury Stock	3,700
Increase in deferred compensation rabbi trust shares	(36,358)
Balance at December 31, 2004	**37,259,553**

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 of WPS Resources if efforts are made to gain control of our company in a manner that is not in 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.

WPS Resources is a holding company and our ability to pay dividends is largely dependent upon the ability of our subsidiaries to pay dividends to us. The PSCW has by order restricted our principal subsidiary, WPSC, to paying normal dividends on its common stock of no more than 109% of the previous year's common stock dividend. The PSCW also requires WPSC to maintain a capital structure (i.e., the percentages by which each of common stock, preferred stock and debt constitute the total capital invested in a utility), which has a common equity range of 54% to 58%. Each of these limitations may be modified by a future order of the PSCW. Our right to receive dividends on the common stock of WPSC is also subject to the prior rights of WPSC's preferred shareholders and to provisions in WPSC's restated articles of incorporation, which limit the amount of common stock dividends which WPSC may pay if its common stock and common stock surplus accounts constitute less than 25% of its total capitalization. These limitations are not expected to limit any dividend payments in the foreseeable future.

UPPCO's indentures relating to its first mortgage bonds contain certain limitations on the payment of cash dividends on its common stock, which is held solely by WPS Resources. Under the most restrictive of these provisions, approximately $19.6 million of retained earnings were available at December 31, 2004, for the payment of common stock cash dividends by UPPCO.

At December 31, 2004, WPS Resources had $474.4 million of retained earnings available for dividends.

Earnings per share is computed by dividing income available for common shareholders 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 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, restricted shares, 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)*	2004	2003	2002
Income available for common shareholders	$139.7	$94.7	$109.4
Basic weighted average shares	37.4	33.0	31.7
Incremental issuable shares	0.2	0.2	0.3
Diluted weighted average shares	37.6	33.2	32.0
Basic earnings per common share	$3.74	$2.87	$3.45
Diluted earnings per common share	$3.72	$2.85	$3.42

NOTE 21—STOCK-BASED COMPENSATION

WPS Resources has three main stock option plans: the 2001 Omnibus Incentive Compensation Plan ("Omnibus Plan"), the 1999 Stock Option Plan ("Employee Plan"), and the 1999 Non-Employee Directors Stock Option Plan ("Director Plan"). No additional stock options will be issued under the Employee Plan, although the plan will continue to exist for purposes of the existing outstanding options.

In May of 2001, shareholders approved the Omnibus Plan for certain management personnel. The Long-Term Incentive Plan was approved under the 2001 Omnibus Plan. The Long-Term Incentive Plan has two stock-based compensation components: non-qualified stock options and performance shares.

Under the provisions of the Omnibus 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 the company or any of the other four highest compensated officers of the company and its subsidiaries can be granted options for more than 150,000 shares during any calendar year. 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.

A portion of the executive long-term incentive was awarded in the form of performance shares. These shares vest over a three-year performance period and are paid out in shares of WPS Resources common stock. The number of shares paid out is calculated by multiplying a performance percentage by a target number of shares. The performance multiplier is based on the performance of WPS Resources relative to the performance of a specific peer group of companies. The payout may range from 0% to 200% of target. Based upon these criteria, 119,296 shares are included in the denominator of the diluted earnings per share computation at December 31, 2004. In accordance with Accounting Principles Board Opinion No. 25, WPS Resources accrues the plan expense over the three-year period in which the services are performed. Compensation expense recorded was $2.3 million in 2004, $3.3 million in 2003, and $1.8 million in 2002.

Restricted stock shares granted on April 18, 2002, totaled 12,186 shares and had a one-year vesting period. Beginning April 18, 2003, 15% of the shares became unrestricted, with an additional 15% release of restriction at each six-month interval thereafter until fully unrestricted. Restricted shares have a value equal to the fair market value of the shares on the grant date. No compensation expense was recorded for these shares in 2004. In 2003 and 2002, $0.2 million and $0.3 million of compensation expense was recorded, respectively.

Under the provisions of the Director Plan, the number of stock options granted under the plan may not exceed 100,000, and the shares to be delivered will 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.

One-fourth of the stock options granted under the Omnibus Plan and the Employee Plan will become vested and exercisable each year on the anniversary date of the grant. 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.

A summary of the activity of the stock option plans for 2004, is presented below:

Stock Options	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year		
Omnibus plan	993,677	$38.9707
Employee plan	283,621	33.1055
Director plan	15,700	25.4853
Granted during 2004		
Omnibus plan	321,313	48.1100
Exercised during 2004		
Omnibus plan	30,431	35.1724
Employee plan	38,301	30.5332
Director plan	3,700	25.4375
Forfeited during 2004		
Omnibus plan	4,437	41.2294
Outstanding at end of year		
Omnibus plan	1,280,122	41.3472
Employee plan	245,320	33.5071
Director plan	12,000	25.5000
Options exercisable at year-end		
Omnibus plan	459,425	37.3676
Employee plan	245,320	33.5071
Director plan	12,000	25.5000
Weighted-average fair value of options granted during 2004		
Omnibus plan	$4.40	

A summary of the activity of the stock option plans for 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 activity of the stock option plans for 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	

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2004, under the 2001 Omnibus Plan.

Stock Options Outstanding				Stock Options Exercisable	
Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
$34.0900	281,689	7	$34.0900	205,545	$34.0900
34.3800	13,386	6	34.3800	9,493	34.3800
36.3800	500	7	36.3800	250	36.3800
37.9600	325,310	8	37.9600	158,383	37.9600
41.2900	5,000	7	41.2900	2,500	41.2900
38.2500	8,797	8	38.2500	2,200	38.2500
44.7300	324,127	9	44.7300	81,054	44.7300
48.1100	321,313	10	48.1100	–	48.1100
	1,280,122		$41.3472	459,425	$37.3676

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2004, under the 1999 Stock Option Plan.

Stock Options Outstanding				Stock Options Exercisable	
Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
$29.8750	49,500	4	$29.8750	49,500	$29.8750
23.1875	5,500	5	23.1875	5,500	23.1875
34.7500	190,320	6	34.7500	190,320	34.7500
	245,320		$33.5071	245,320	$33.5071

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 2004, under the 1999 Non-Employee Director Stock Option Plan.

Stock Options Outstanding				Stock Options Exercisable	
Exercise Prices	Shares	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
$25.4375	9,000	5	$25.4375	9,000	$25.4375
25.6875	3,000	5	25.6875	3,000	25.6875
	12,000		$25.5000	12,000	$25.5000

NOTE 22—REGULATORY ENVIRONMENT

Wisconsin

On December 19, 2003, the PSCW 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 rates reflect a 12.0% return on equity and allowed average equity of 56% of total capital.

As a result of the Kewaunee unplanned outage, which lasted approximately two weeks during late January and into early February 2004, and other fuel cost and purchased power increases expected in 2004, WPSC received an interim fuel rate order from the PSCW allowing for a $6.0 million (1.2%) increase in rates that went into effect April 2, 2004. In September 2004, the PSCW issued its final order, requiring WPSC to refund $1.8 million of revenues collected under the interim rate order to customers. The refund was returned to customers in October and November 2004. The reduction from the interim rate was necessary due to lower than anticipated fuel and purchased power costs in the third quarter of 2004, which were the result of cooler than normal weather conditions. The final order allowed WPSC recovery of an estimated $3.2 million of its increased fuel and purchased power costs.

On December 21, 2004, the PSCW issued a final written order authorizing a retail electric increase of $60.7 million (8.6%) and a retail natural gas rate increase of $5.6 million (1.1%), effective January 1, 2005. The retail electric rate increase is primarily driven by increased costs related to fuel and purchased power, construction of Weston 4, benefit costs, and Midwest Independent System Operator costs. The natural gas rate increase is primarily related to increases in benefit costs and the cost of distribution system improvements. The 2005 rates reflect an 11.5% return on equity. The PSCW also approved a common equity ratio of 57.35% in the utility's regulatory capital structure.

On November 5, 2004, WPSC filed an application with the PSCW to defer all incremental costs, including carrying costs, resulting from unexpected problems encountered in the refueling outage at Kewaunee. During the refueling outage, an unexpected problem was encountered with equipment used for lifting internal vessel components to perform a required 10-year inspection. These equipment problems caused the outage to be extended by approximately three weeks. On November 11, 2004, the PSCW authorized WPSC to defer the replacement fuel costs related to the extended outage. On November 23, 2004, the PSCW authorized WPSC to defer purchased power costs ($5.4 million) and operating and maintenance expenses ($1.8 million) related to the extended outage, effective from when the problems were discovered, including carrying costs at WPSC's authorized weighted average cost of capital. Kewaunee returned to service on December 4, 2004. On February 18, 2005, WPSC filed for PSCW approval to recover these costs and it is anticipated that these costs will be recovered in 2006, pending final approval by the PSCW.

On November 9, 2004, WPSC filed an application with the PSCW to defer, with carrying costs, the 2005 revenue requirement impacts resulting from the American Jobs Creation Act of 2004 (Jobs Creation Act). The Jobs Creation Act reduces the corporate income tax on certain manufacturing industries. Because the act was not signed into law until October 22, 2004, it was not included in WPSC's 2005 rate proceeding. On December 7, 2004, the PSCW authorized WPSC to defer the 2005 revenue requirement impacts resulting from the Jobs Creation Act including carrying costs at WPSC's authorized weighted average cost of capital.

On February 20, 2005, Kewaunee was temporarily removed from service after a potential design weakness was identified in a backup cooling system. Plant engineering staff identified the concern and the unit was shutdown in accordance with the plant license. A modification is being made to resolve the issue and it is anticipated that the unit will be back in service at 100% power by mid April. WPSC intends to file a request with the PSCW for recovery of incremental costs associated with fuel, purchased power, and operating and maintenance costs. WPSC and Dominion remain committed to the sale of Kewaunee.

Michigan

On March 31, 2004, UPPCO submitted an application to the MPSC to recover $5.2 million of increased 2003 power supply costs relating to UPPCO's integrated system. In addition, UPPCO requested deferral of $1.8 million of power supply costs related to the Dead River flood. On August 31, 2004, the MPSC approved the deferral of the $1.8 million of power supply costs relating to the Dead River flood, and authorized the interim recovery of the $5.2 million pending a final prudence determination. On October 14, 2004, the Commission approved final recovery of the $5.2 million of increased 2003 power supply costs relating to UPPCO's integrated system. These costs will be recovered from customers through December 2005.

On December 8, 2004, UPPCO submitted a request to the MPSC to approve UPPCO's proposed treatment of the net gain proceeds from certain sales of undeveloped and partially developed land located in the Upper Peninsula of Michigan as appropriate for ratemaking purposes. If approved by the MPSC, UPPCO will voluntarily forego retail electric service base rate increases through December 31, 2005; however, UPPCO may file for base rate increases in 2005 to be effective on and after January 1, 2006. UPPCO may also file for MPSC consideration of deferred accounting of any governmental mandates during the moratorium and for any unusual and extraordinary events. At this time, the MPSC has not accepted the proposal, and final approval or denial from the MPSC is still pending.

On February 4, 2005, UPPCO submitted an application to the MPSC for a 7.6% increase in retail electric rates ($5.7 million in revenues). UPPCO also requested interim rate recovery of 6.0% ($4.5 million in revenues) to allow UPPCO to recover costs during the time the MPSC is reviewing the full case. The retail electric rate increase is primarily due to costs associated with improving service quality and reliability, technology upgrades, and managing rising employee and retiree benefit costs.

Federal

On April 30, 2003, WPSC received a draft order from the FERC approving a $4.1 million (21%), interim increase in wholesale electric rates. The new wholesale rates were effective on May 11, 2003, and were subject to refund if the final rate increase was 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 FERC and WPSC reached a tentative settlement regarding the final rate increase. WPSC had no material refunds or other adjustments to revenues recorded under the interim rates based on the terms of the tentative agreement. The final settlement was approved by FERC on November 19, 2004. No material refunds were required as a result of the settlement. This was WPSC's first rate increase for its wholesale electric customers in 17 years.

On February 10, 2005, the FERC issued an order accepting compliance filings implementing the Seams Elimination Charge Adjustment effective December 1, 2004, subject to refund and surcharge, and set the matters raised for evidentiary hearing. On February 28, 2005, Quest Energy, LLC, a wholly owned subsidiary of ESI, filed a motion for partial stay of FERC's February 10, 2005, order imposing a Seams Elimination Charge Adjustment on Quest. The purpose of the Seams Elimination Charge Adjustment is to compensate transmission owners for the revenue they would no longer receive due to the elimination of the Regional Through and Out Rates. Because ESI is a load serving entity, it will be billed for Seams Elimination Charge Adjustment charges based on its power imports during 2002 and 2003.

NOTE 23—VARIABLE INTEREST ENTITIES

The FASB has issued Interpretation No. 46R (as revised), "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. 46R 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 financial support from other parties. The primary beneficiary is the party that absorbs the majority of the expected losses and/or receives the majority of the expected residual returns of the variable interest entity's activities.

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 24, "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.

WPS Resources adopted the provisions of Interpretation No. 46R for variable interest entities not defined as special purpose entities effective March 31, 2004. The required adoption had no impact on our consolidated financial statements, as we did not identify significant variable interests in any unconsolidated variable interest entities where we were determined to be the primary beneficiary. We have identified our equity ownership in a synthetic fuel producing facility as a variable interest in a variable interest entity. Through an affiliate of PDI, WPS Resources owns a partial interest in a synthetic fuel facility located in Kentucky and received 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, 2004, WPS Resources had a 23% ownership interest in the synthetic fuel facility. No other variable interests were identified. WPS Resources' maximum exposure to loss as a result of our involvement with this variable interest entity is limited to our investment in this entity, which was not significant at December 31, 2004. We were not identified as the primary beneficiary of this entity and, therefore, were not required to consolidate the synthetic fuel facility into our financial statements at December 31, 2004. The adoption of Interpretation No. 46R also included an analysis of our power purchase and sale agreements. We do not believe that any of our power purchase or sale agreements constitute significant variable interests that would lead us to consolidate entities not currently consolidated or deconsolidate any entities currently consolidated.

NOTE 24—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 owned 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 corresponded to the terms and distributions on the trust preferred securities.

As discussed in Note 23, "Variable Interest Entities," it was determined that WPSR Capital Trust I qualified 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, it was determined that the preferred security holders held the majority of the residual economic risks associated with WPSR Capital Trust I and, therefore, the Trust was 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.

On January 8, 2004, WPS Resources 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 was dissolved effective January 8, 2004.

NOTE 25—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 WPSC and UPPCO and the regulated natural gas utility operations of WPSC. WPSC's revenues are primarily derived from the service of electric and natural gas retail customers in northeastern and central Wisconsin and an adjacent portion of Upper Michigan. WPSC 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 WPSC's electric and natural gas operations cannot be specifically identified as electric or natural gas and instead are allocated using either actual labor hours, revenues, number of customers, or number of meters. UPPCO derives revenues from the sale of electric energy in the Upper Peninsula of Michigan.

Our other reportable segments include ESI and PDI. ESI 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 ESI has a widening array of products and services, revenues are primarily derived through sales of electricity and natural gas to retail and wholesale customers. ESI's 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. ESI's customers include utilities, municipalities, cooperatives, commercial and industrial consumers, aggregators, and other marketing and retail entities.

PDI competes in the wholesale merchant electric power generation industry, primarily in the Midwest and northeastern United States and adjacent portions of Canada. PDI's core competencies include power plant operation and maintenance, and material condition assessment of assets. In order to enable PDI to focus on its core competencies and improve the efficiency and reliability of its existing fleet of power plants, ESI has assumed much of the market price risk associated with these plants. In 2004, PDI entered into tolling and power purchase agreements with ESI to manage electric production from many of its facilities and to manage natural gas costs for its gas-fired generation facilities. PDI continues to manage costs of fuel for its coal-fired facilities. The agreements allow ESI to operate PDI facilities at its discretion, when market conditions and fuel costs are advantageous. PDI has power purchase agreements in place with third-party customers at facilities not under contract with ESI.

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 WPSC and UPPCO.

The tables below present information for the respective years pertaining to our operations segmented by lines of business.

Segments of Business (Millions) 2004	Regulated Utilities			Nonutility and Nonregulated Operations			Reconciling Eliminations	WPS Resources Consolidated
	Electric Utility [1]	Gas Utility [1]	Total Utility [1]	ESI	PDI	Other		
Income Statement								
External revenues	$ 875.6	$416.4	$1,292.0	$3,553.5	$ 45.1	$ –	$ –	$4,890.6
Internal revenues	21.0	4.5	25.5	2.8	26.3	1.1	(55.7)	–
Depreciation and decommissioning	79.5	16.0	95.5	2.5	8.5	0.5	–	107.0
Miscellaneous income	10.4	0.4	10.8	1.7	(2.0)	40.6	(3.4)	47.7
Interest expense	25.6	7.7	33.3	0.8	2.4	20.8	(3.1)	54.2
Provision for income taxes	39.2	10.2	49.4	20.4	(36.0)	(3.8)	–	30.0
Discontinued operations	–	–	–	0.4	(13.8)	–	–	(13.4)
Income available for common shareholders	68.8	17.3	86.1	36.7	5.0	11.9	–	139.7
Total assets	2,225.2	577.9	2,803.1	1,087.3	380.5	321.5	(146.8)	4,445.6
Cash expenditures for long-lived assets	223.0	62.7	285.7	1.6	2.4	0.3	–	290.0

[1] Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business (Millions) 2003	Regulated Utilities			Nonutility and Nonregulated Operations			Reconciling Eliminations	WPS Resources Consolidated
	Electric Utility [1]	Gas Utility [1]	Total Utility [1]	ESI	PDI	Other		
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
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

[1] Includes only utility operations. Nonutility operations are included in the Other column.

Segments of Business (Millions) 2002	Regulated Utilities			Nonutility and Nonregulated Operations			Reconciling Eliminations	WPS Resources Consolidated
	Electric Utility [1]	Gas Utility [1]	Total Utility [1]	ESI	PDI	Other		
Income Statement								
External revenues	$741.6	$308.7	$1,050.3	$358.8	$ 51.8	$ 0.2	$ –	$1,461.1
Intersegment 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
Cash expenditures for long-lived assets	164.3	34.0	198.3	0.8	8.2	3.0	–	210.3

[1] Includes only utility operations. Nonutility operations are included in the Other column.

Geographic Information (Millions)	2004 Revenues	2004 Long-Lived Assets	2003 Revenues	2003 Long-Lived Assets	2002 Revenues
United States	$3,763.6	$2,823.8	$3,749.6	$2,618.4	$1,407.4
Canada [1]	1,127.0	22.9	571.7	24.1	53.7
Total	$4,890.6	$2,846.7	$4,321.3	$2,642.5	$1,461.1

[1] Revenues and assets of Canadian subsidiaries.

NOTE 26—QUARTERLY FINANCIAL INFORMATION (Unaudited)

(Millions, except for share amounts)	Three Months Ended 2004 March	June	September	December	Total
Operating revenues	$1,373.3	$1,045.9	$1,072.5	$1,398.9	$4,890.6
Operating income	71.0	17.5	49.9	50.9	189.3
Income from continuing operations	46.4	10.7	37.8	61.3	156.2
Income available for common shareholders	42.6	4.6	34.8	57.7	139.7
Average number of shares of common stock (basic)	37.1	37.3	37.4	37.5	37.4
Average number of shares of common stock (diluted)	37.3	37.5	37.6	37.8	37.6
Earnings per common share (basic) [2]					
Income from continuing operations	$1.23	$0.27	$0.99	$1.61	$4.09
Earnings per common share (basic)	1.15	0.12	0.93	1.54	3.74
Earnings per common share (diluted) [2]					
Income from continuing operations	$1.22	$0.26	$0.99	$1.60	$4.07
Earnings per common share (diluted)	1.14	0.12	0.93	1.53	3.72

(Millions, except for share amounts)	Three Months Ended 2003 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	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

[1] Revenue has 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.

What does a retired line electrician do? Dave Wachowiak continues to provide power, by empowering his grandson, Spencer, for his own future, and by joining with other WPS Resources' retirees to stay current on energy issues and lend their support when it's needed.

"My grandpa used to be a lineman, but he is retired. He used to climb poles, or he would use his bucket truck to give **power** to people."

Spencer Shirek, age 9

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, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, 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 15 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."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report (not presented herein) dated March 9, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte + Touche LLP

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 9, 2005

FINANCIAL STATISTICS

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)*	2004	2003	2002	2001	2000
Total revenues *	$4,890.6	$4,321.3	$1,461.1	$1,345.4	$1,094.1
Income from continuing operations	156.2	110.6	118.5	87.6	75.6
Income available for common shareholders	139.7	94.7	109.4	77.6	67.0
Total assets	4,445.6	4,292.3	3,671.2	3,346.5	3,202.7
Preferred stock of subsidiaries	51.1	51.1	51.1	51.1	51.1
Long-term debt and capital lease obligation (excluding current portion)	865.7	871.9	824.4	727.8	660.0
Shares of common stock (less treasury stock and shares in deferred compensation trust)					
Outstanding	37.3	36.6	31.8	31.1	26.4
Average	37.4	33.0	31.7	28.2	26.5
Earnings per common share (basic)					
Income from continuing operations	$4.09	$3.26	$3.64	$3.00	$2.74
Earnings per common share	3.74	2.87	3.45	2.75	2.53
Earnings per common share (diluted)					
Income from continuing operations	4.07	3.24	3.61	2.99	2.74
Earnings per common share	3.72	2.85	3.42	2.74	2.53
Dividend per share of common stock	2.20	2.16	2.12	2.08	2.04
Stock price at year-end	$49.96	$46.23	$38.82	$36.55	$36.8125
Book value per share	$29.30	$27.40	$24.62	$23.02	$20.76
Return on average equity	13.5%	11.5%	14.6%	12.8%	12.3%
Number of common stock shareholders	21,358	22,172	22,768	23,478	24,029
Number of employees	3,048	3,080	2,963	2,856	3,030

* Revenues increased $2,860.2 million in 2003 compared to 2002. Approximately $1,127 million of the increase relates to WPS Energy Services, Inc.'s 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, Inc.'s 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 Corporation and WPS Energy Services, Inc. and electric rate increases at the utilities.

THE board OF DIRECTORS*

Richard A. Bemis
Age 63
Sheboygan Falls, Wisconsin
President and Chief Executive Officer
Bemis Manufacturing Company
(Director since 1983)
Audit Committee (Chair)

Albert J. Budney, Jr.
Age 57
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 49
Chicago, Illinois
Managing Director
William Blair Capital Partners, LLC
(Director since 2003)
Audit Committee
Governance Committee

Robert C. Gallagher
Age 66
Green Bay, Wisconsin
Chairman of the Board
Associated Banc-Corp
(Director since 1992)
Compensation Committee
Financial Committee
Lead Director

Officers**

WPS Resources Corporation

Larry L. Weyers
Chairman, President, and Chief Executive Officer
Age 59/Years of service 19

Thomas P. Meinz
Executive Vice President - Public Affairs
Age 58/Years of service 35

Phillip M. Mikulsky
Executive Vice President - Development
Age 56/Years of service 33

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer
Age 50/Years of service 3

Bernard J. Treml
Senior Vice President - Human Resources
Age 55/Years of service 32

William L. Bourbonnais, Jr.
Vice President - Transmission
Age 59/Years of service 36

Diane L. Ford
Vice President - Controller and Chief Accounting Officer
Age 51/Years of service 29

Richard E. James
Vice President - Corporate Planning
Age 51/Years of service 29

Bradley A. Johnson
Vice President and Treasurer
Age 50/Years of service 25

Barbara A. Nick
Vice President - Corporate Services
Age 46/Years of service 20

Neal A. Siikarla
Vice President
Age 57/Years of service 6

Glen R. Schwalbach
Assistant Vice President - Corporate Planning
Age 59/Years of service 36

Barth J. Wolf
Secretary and Manager - Legal Services
Age 47/Years of service 16

Wisconsin Public Service Corporation

Larry L. Weyers
Chairman and Chief Executive Officer
Age 59/Years of service 19

Lawrence T. Borgard
President and Chief Operating Officer - Energy Delivery
Age 43/Years of service 20

Charles A. Schrock
President and Chief Operating Officer - Generation
Age 51/Years of service 25

Thomas P. Meinz
Executive Vice President - Public Affairs
Age 58/Years of service 35

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer
Age 50/Years of service 3

Bernard J. Treml
Senior Vice President - Human Resources
Age 55/Years of service 32

Diane L. Ford
Vice President - Controller and Chief Accounting Officer
Age 51/Years of service 29

David W. Harpole
Vice President - Energy Supply - Projects
Age 49/Years of service 27

Bradley A. Johnson
Vice President and Treasurer
Age 50/Years of service 25

James F. Schott
Vice President - Regulatory Affairs
Age 47/Years of service 1

Charles A. Cloninger
Assistant Vice President - Operations and Engineering
Age 46/Years of service 23

Terry P. Jensky
Assistant Vice President - Energy Supply - Operations
Age 51/Years of service 27

Barth J. Wolf
Secretary and Manager - Legal Services
Age 47/Years of service 16

Janet K. McKee
Assistant Treasurer
Age 51/Years of service 8

Pamela R. Clausen
Assistant Controller
Age 54/Years of service 17

Kathryn M. Hasselblad-Pascale

Age 56

Green Bay, Wisconsin

Managing Partner
Hasselblad Machine Company, LLP

(Director since 1987)

Compensation Committee (Chair)

James L. Kemerling

Age 65

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 60

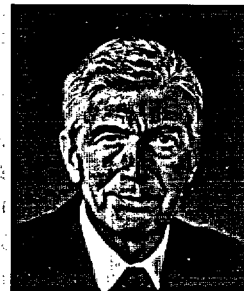
Green Bay, Wisconsin

Chairman of the Board
Schreiber Foods, Inc.

(Director since 2000)

Compensation Committee

Financial Committee



William F. Protz, Jr.

Age 60

Northfield, Illinois

Consultant and Former President and Chief Executive Officer
Santa's Best, LLP

(Director since 2001)

Audit Committee

Governance Committee

Larry L. Weyers

Age 59

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, 2004.*

Mark A. Radtke
President
Age 43/Years of service 21

Daniel J. Verbanac
Chief Operating Officer
Age 41/Years of service 20

Richard J. Bissing
Vice President
Age 44/Years of service 15

Darrell W. Bragg
Vice President
Age 45/Years of service 9

Boris A. Brevnov
Vice President - Business Development and Implementation
Age 36/Years of service 2

Bruce A. Rizor
Vice President - Structured Energy Trading
Age 43/Years of service 5

Ruqaiyah Z. Stanley
Vice President
Age 50/Years of service 6

Mark W. Stiers
Vice President
Age 42/Years of service 2

Barth J. Wolf
Secretary
Age 47/Years of service 16

Bradley A. Johnson
Treasurer
Age 50/Years of service 25

Mark A. Radtke
President
Age 43/Years of service 21

Howard R. Giesler
Assistant Vice President
Age 41/Years of service 18

Barth J. Wolf
Secretary
Age 47/Years of service 16

Bradley A. Johnson
Treasurer
Age 50/Years of service 25

Upper Peninsula Power Company

Thomas P. Meinz
Chairman
Age 58/Years of service 35

Lawrence T. Borgard
Chief Executive Officer
Age 43/Years of service 20

Gary W. Erickson
President
Age 62/Years of service 36

Barth J. Wolf
Secretary
Age 47/Years of service 16

Bradley A. Johnson
Treasurer
Age 50/Years of service 25

*** Title, age, and years of service are as of December 31, 2004. Years of service take into consideration service with WPS Resources Corporation or a system company.*

Shareholder Inquiries

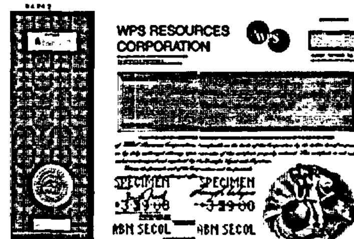
Our transfer agent, American Stock Transfer & Trust Company, can be reached via telephone between the hours of 7:00 a.m. and 6:00 p.m., Central time, Monday through Thursday, or 7:00 a.m. and 4:00 p.m., Central time, Friday, by calling 800-236-1551. You also have direct access to your account 24 hours a day through the Internet at 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, 2004, we had 37,259,553 shares of common stock outstanding, which were owned by 21,358 holders of record.

Year Ended December 31 *(By Quarter)*

		Dividends Per Share	Price Range High	Price Range Low
2004	1st quarter	$ .545	$48.93	$44.99
	2nd quarter	.545	48.70	43.50
	3rd quarter	.555	48.81	44.85
	4th quarter	.555	50.53	45.35
		$2.20		
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
		$2.16		

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.

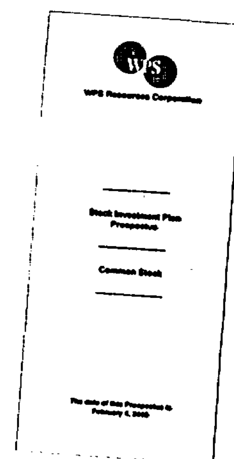
Anticipated record and payment dates for common stock dividends to be paid in 2005 are:

Record Date	Payment Date
February 28	March 19
May 31	June 20
August 31	September 20
November 30	December 20

If you are 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 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 at www.amstock.com, 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 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 to be paid in 2005 are:

Record Date	Payment Date
January 14	February 1
April 15	May 1
July 15	August 1
October 14	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 www.amstock.com.

Availability of Information

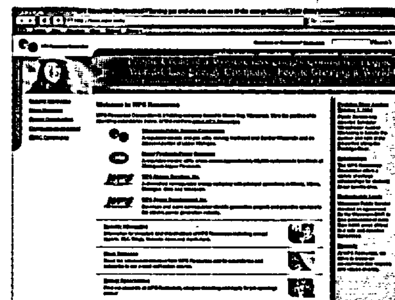
Company financial information is available on our Web site at www.wpsr.com under Investor Information.

You may obtain, without charge, a copy of our 2004 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 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, corporate governance, 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 19, 2005, 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 19, 2005, Annual Shareholders' Meeting were mailed to shareholders of record on April 8, 2005.

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 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, charters for the committees of our Board of Directors, By-Laws, and Articles of Incorporation, is available on our Web site at 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.

Certifications

We have filed as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, the certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. We also submitted to the New York Stock Exchange during 2004 the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

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Green Bay, WI 54301

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Web Site
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Mr. Joseph P. O'Leary
Senior Vice President and
Chief Financial Officer
WPS Resources Corporation
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920-433-1463

Stock Exchange Listing

New York Stock Exchange

Ticker Symbol
WPS

Listing Abbreviation
WPS Res

Transfer Agent and Registrar

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Fax
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For Dividend Reinvestment and Direct Stock Purchase

American Stock Transfer &
Trust Company
Wall Street Station
P. O. Box 922
New York, NY 10269-0560

Telephone
800-236-1551 (toll free)

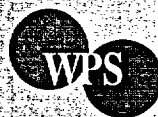
Wisconsin Utility Investors, Inc.
Wisconsin Utility Investors, Inc. ("WUI") is an independent, non-profit organization representing the collective voices of more than 16,000 shareholders in Wisconsin utilities. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, 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.

© 2005 WPS Resources Corporation



WPS Resources Corporation

2004 ANNUAL REPORT, NOTICE OF 2005 ANNUAL MEETING AND PROXY STATEMENT

Financial **discipline**

Strategic **focus**

Successful **execution**

We're on for you.

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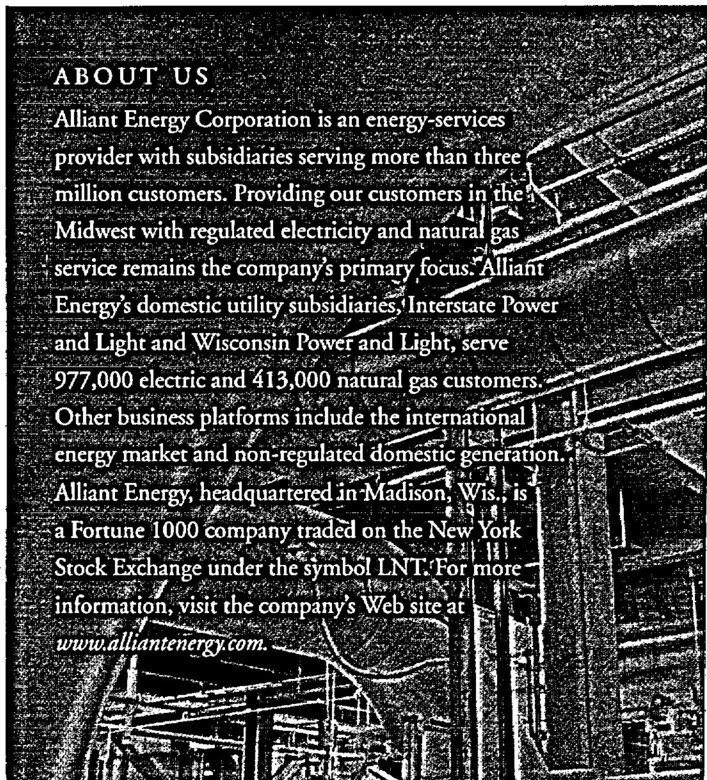
This annual report contains forward-looking statements. These statements should be considered in light of the disclaimer on page 14.

In 2004, financial discipline, strategic focus and successful execution were our main focal points at Alliant Energy. By continuing to improve our financial performance, strengthen our balance sheet and maintain operational excellence, we are working toward enhancing long-term shareowner value and delivering results to all who have a vested interest in our success.

With a corporate reorganization and the development of a focused strategic plan under our belt this past year, we have aligned our structure and our vision with the changing face of the energy industry. We have clear accountability in our ranks to raise our performance standards to new levels. We have clear goals to deliver tangible financial results and enhance our earnings. Amid these changes, one thing remains the same: our commitment to provide the safe, reliable, affordable and environmentally sound utility service our customers expect and deserve.

In the following pages, you will learn more about our strategic plan which is centered on our domestic utility operations and our focused approach to diversified operations. In addition, you will learn about our company's ongoing efforts to streamline our portfolio of businesses, reduce risk, and maintain our investment-grade credit ratings and strong balance sheet. Through financial discipline, strategic focus and successful execution, we will continue to build on our strengths and deliver value to all our stakeholders.



ABOUT US

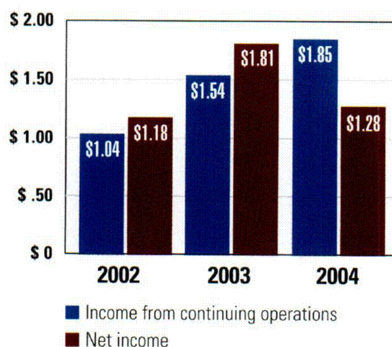
Alliant Energy Corporation is an energy-services provider with subsidiaries serving more than three million customers. Providing our customers in the Midwest with regulated electricity and natural gas service remains the company's primary focus. Alliant Energy's domestic utility subsidiaries, Interstate Power and Light and Wisconsin Power and Light, serve 977,000 electric and 413,000 natural gas customers. Other business platforms include the international energy market and non-regulated domestic generation. 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 the company's Web site at *www.alliantenergy.com.*

(Dollars in millions, except per share data)	**2004**	2003	Change
Operating revenues	**$2,959**	$2,867	3%
Net income:			
Income from continuing operations	**$211**	$156	35%
Income (loss) from discontinued operations	**($65)**	$34	(291%)
Cumulative effect of changes in accounting principles	–	($6)	N/A
Net income	**$146**	$184	(21%)
Diluted earnings per average common share:			
Income from continuing operations	**$1.85**	$1.54	20%
Income (loss) from discontinued operations	**($0.57)**	$0.33	(273%)
Cumulative effect of changes in accounting principles	–	($0.06)	N/A
Net income	**$1.28**	$1.81	(29%)
Domestic utility electric sales to retail customers (thousands of megawatt-hours)	**25,652**	25,573	–
Total domestic utility electric sales (thousands of megawatt-hours)	**30,932**	31,252	(1%)
Domestic utility natural gas sold and transported (thousands of dekatherms)	**103,290**	105,889	(2%)
Construction and acquisition expenditures	**$649**	$837	(22%)
Total assets at year-end	**$8,275**	$7,798	6%
Cash flows from operating activities (continuing operations)	**$502**	$461	9%
Total debt to capitalization ratio	**48%**	48%	–
Common shares outstanding at year-end (in thousands)	**115,742**	110,963	4%
Dividends declared per common share (a)	**$1.0125**	$1.00	1%
Market value per share at year-end	**$28.60**	$24.90	15%
Book value per share at year-end	**$22.13**	$21.37	4%

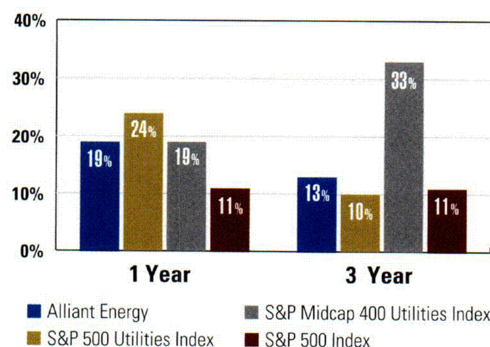
(a) Effective with the dividend declared and paid in the fourth quarter of 2004, Alliant Energy's targeted annualized common stock dividend was increased from $1.00 to $1.05 per share.

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

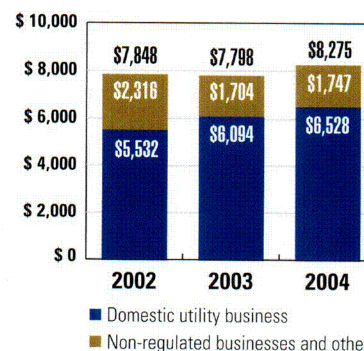


Total shareowner return*
at Dec. 31, 2004



* Dividends plus stock price appreciation

Total assets at year-end
(in millions)



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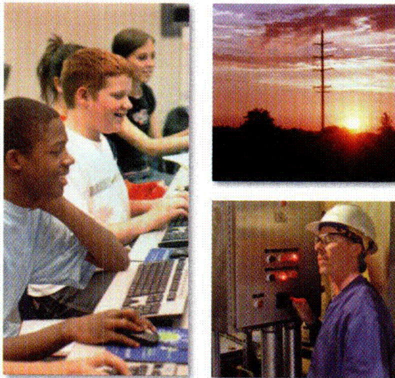
OUR VISION: TO BE THE CUSTOMER'S FIRST CHOICE FOR ENERGY SOLUTIONS

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." In the past year, we have continued to narrow our strategic focus and concentrate on the growth opportunities now available in our domestic utility operations. Our non-regulated business platform is moving forward with significantly reduced debt from key divestitures. We expect to continue to meet customer expectations while enhancing shareowner value yet again in 2005.



OUR VALUES:
ETHICS
SAFETY
ENVIRONMENT
DIVERSITY
EFFICIENCY

DOMESTIC UTILITY BUSINESS

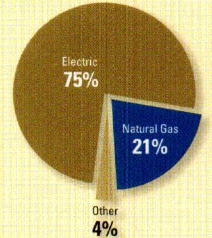
Interstate Power and Light Company and Wisconsin Power and Light Company, our domestic utility subsidiaries, form the core of Alliant Energy. Our domestic utility business is not only our foundation, but as the primary target of our future capital investments, it is also our growth platform.

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 diverse electric generating facilities across the upper Midwest. Together, they have a nameplate generation capacity of approximately 5,765 megawatts (MW).

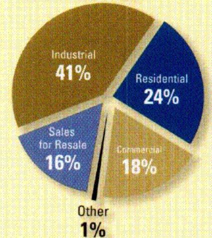
We continue to make significant progress with our domestic utility generation plan, originally announced in 2003, to add about 1,600 MW by 2010.

- In Iowa, the 565-MW Emery Generating Station became operational in May 2004.
- The nearly-completed 300-MW Sheboygan Falls Energy Facility in Wisconsin is expected to be operational in the summer of 2005.
- We are in the process of adding 200 MW of additional wind energy to our energy portfolio by the end of 2005.
- We are currently planning the construction of a 500-MW base-load electric generating plant in partnership with Wisconsin Public Service Corporation of Green Bay, Wis.

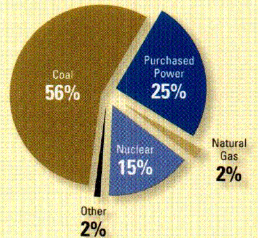
Operating Revenues



Electric Sales Mix



Electric Power Sources



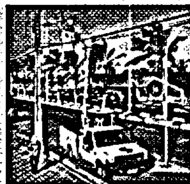
2004 STATISTICS	TOTALS
Maximum peak hour demand (MW)	5,644
Number of electric customers	977,125
Number of natural gas customers (excluding transportation/other)	412,853
Domestic utility electric sales (thousands of MWh)	30,932
Domestic utility natural gas sold and transported (thousands of Dth)	103,290

C06

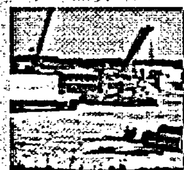
NON-REGULATED BUSINESSES

Alliant Energy Resources, Inc., (Resources) is the parent company of Alliant Energy's non-regulated businesses. Resources intends to concentrate its strategic focus on the profitability and cash flow of its business platforms noted below and will consider additional divestitures if provided the right opportunity to maximize value and/or eliminate unwarranted risk as part of its ongoing efforts to streamline its portfolio of businesses.

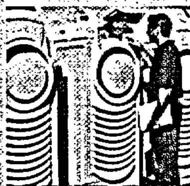
Non-regulated business platforms



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



Non-regulated Generation: This business platform currently supports the development, financing and construction of generation to meet the needs of our domestic utility business. Alliant Energy is proposing that our Non-regulated Generation business own the natural gas-fired generating facility under construction near Sheboygan Falls, Wis., and enter into a long-term agreement with WP&L. WP&L would operate and maintain the facility and have exclusive rights to the generation output.



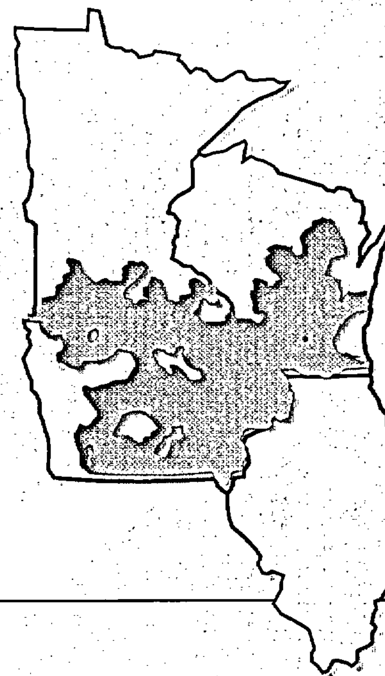
Other Non-regulated Investments: This includes investments in environmental engineering and site remediation, transportation, infrastructure development, synthetic fuel and energy technologies investments, as well as oil and gas gathering pipeline systems and a biomass facility that Alliant Energy plans to divest.

SUPPORT SERVICES

Alliant Energy Corporate Services, Inc., supports 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.

OUR DOMESTIC UTILITY SERVICE TERRITORY

Serving nearly 1.4 million customers in Iowa, Wisconsin, Minnesota and Illinois communities.



Dear Fellow Shareowners,

Erroll B. Davis, Jr., Chairman and Chief Executive Officer and William D. Harvey, President and Chief Operating Officer

We are pleased to provide you with the 2004 Alliant Energy Annual Report. This report provides you with a review of our 2004 results and an update on various strategic initiatives we are undertaking to make your company even stronger in 2005.

An important change made during this past year was the promotion of Bill Harvey to President and Chief Operating Officer. Bill has taken on many of the day-to-day tasks involved with leading and managing Alliant Energy. We are jointly writing this letter to you.

Last year, we said our strategic focus in 2004 would remain on improving financial performance, strengthening our balance sheet and maintaining operational excellence while providing our customers with safe, reliable, affordable and environmentally sound utility service. The Alliant Energy team delivered on each of these objectives. Our focus in 2005 will be on meeting these objectives again, as well as on increasing the returns on invested capital in all of our businesses. And, we will continue to streamline our portfolio of businesses.

In short, the success of our company rests upon financial discipline, strategic focus and successful execution.

Successful execution of our strategic actions is making a difference and enhancing shareowner value. Our management team and employees are focused on maintaining this positive momentum.

Financial Discipline

Our net income and earnings per diluted share for 2004 were $146 million and $1.28, respectively, compared to $184 million and $1.81 in 2003. These results include those of discontinued operations, which are businesses we are selling or have already sold.

We believe our earnings from continuing operations provide the most accurate measure for assessing our capability to generate future earnings and cash flows. To that end, our results from *continuing operations* were up from $156 million and $1.54 per diluted share in 2003 to $211 million or $1.85 per diluted share in 2004. This represents a 20% increase in earnings per diluted share from continuing operations based on 2003 results.

Earnings from our domestic utility operations also increased to $221 million or $1.95 per diluted share in 2004 compared to earnings of $197 million or $1.94 per diluted share in 2003.

Our non-regulated businesses experienced a loss from continuing operations in 2004 of $0.03 per diluted share compared to a loss of $0.29 per diluted share in 2003. While this is certainly a step in the right direction, we will not be satisfied until all of our businesses are profitable and earning an appropriate return on invested capital.

We continued our debt reduction efforts in 2004 as we retired an additional $49 million of long-term debt at our non-regulated businesses, on top of our overall debt reductions of approximately $875 million in 2003. This, combined with other actions, resulted in a decrease of $21 million in interest expense at Alliant Energy's non-regulated businesses in 2004 compared to 2003. As a result, our debt-to-total capitalization ratio of 48% remained strong at the the end of 2004. We retired an additional $100 million of long-term debt at our non-regulated businesses in the first quarter of 2005, helping to maintain our strong liquidity position.

Our Board of Directors approved an increase of 5% in our quarterly common dividend last October, bringing our annualized target dividend rate to $1.05 per share. This welcomed action brings us closer to our longer-term goal of having a dividend payout in the range of 60 to 70% of our utility earnings.

We also made progress in 2004 in restoring our stock value, and produced a total shareowner return (which includes stock price appreciation and dividends) of 19.4%. This compares favorably to a total return of 18.9% for the S&P Midcap 400 Utilities Index and 10.9% for the S&P 500 Index.

Successful execution of our strategic actions is making a difference and enhancing shareowner value. Our management team and employees are focused on maintaining this positive momentum.

Strategic Focus

Our domestic utilities are, of course, the foundation of our business and the key to our future growth and success.

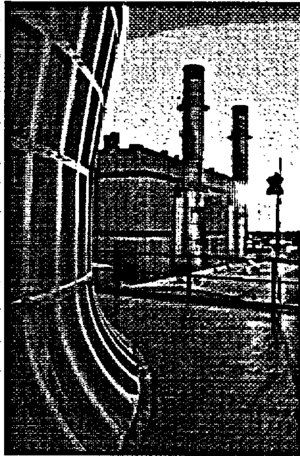
In 2003, we announced plans to add, by 2010, an additional 1,600 MW of generating capacity to our supply portfolio. We made significant progress toward meeting that goal in 2004.

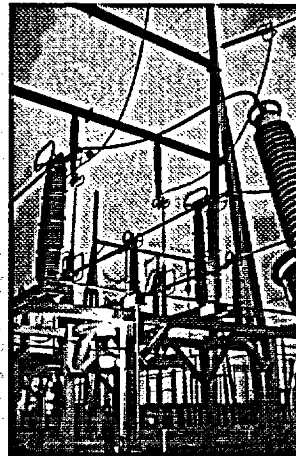
In May 2004, we placed in service our Emery Generating Station near Mason City, Iowa. This combined-cycle, natural gas-fired plant is providing our Interstate Power and Light customers with 565 MW of generation capacity. The facility will earn a 12.23% return on common equity for its 28-year depreciable life.

Construction of the 300-MW simple-cycle, natural gas-fired Sheboygan Falls Energy Facility is underway. The plant is scheduled to go on-line in July 2005. We expect the Public Service Commission of Wisconsin to act on the remaining regulatory approvals in the first half of this year. Our Non-regulated Generation business is constructing and will own the facility. Wisconsin Power and Light is expected to operate and maintain it and will have exclusive rights to the generation output.

We also recently announced plans to add up to 200 MW of additional wind generation. By the end of 2005, Alliant Energy will solidify its position as one of the nation's leaders in wind energy, as we then expect to have more than 6% of the total U.S. wind generation capacity under contract.

Finally, our plan to increase base-load generating capacity in Wisconsin was jumpstarted last spring with an announcement of a joint project with Wisconsin Public Service Corporation. Progress continues toward determining the appropriate site, technology and ownership interests for this planned 500-MW plant.





These projects will accomplish much of our commitment to add 1,600 MW to our generation portfolio and to provide our customers with safe, reliable, affordable and environmentally sound forms of energy. And we expect you, our shareowners, will benefit from the returns earned on these continued investments in our core business operations.

Successful Execution

While our company successfully executed the generation components of our strategic plan in 2004, we also improved our financial performance and strengthened our balance sheet.

We continued efforts to streamline our portfolio of businesses. Building upon the previous divestitures of our Australian, Heartland Properties and SmartEnergy businesses, and the majority of our Whiting Petroleum Corporation Inc. (Whiting) stock in 2003, we divested our non-regulated gas marketing and energy management services businesses in 2004. In addition, in November 2004, we sold our remaining interest in Whiting, which generated pre-tax proceeds of approximately $30 million for Alliant Energy and a gain of $0.08 per share.

Our company successfully executed the generation components of our strategic plan in 2004. We also improved our financial performance and strengthened our balance sheet.

However, our portfolio streamlining efforts are not complete. We are in the process of divesting additional non-regulated businesses including our energy services, oil and gas gathering pipeline systems and our investment in a biomass facility. We are also in the process of divesting our Illinois electric and gas utility properties and the remaining portions of our water utility business.

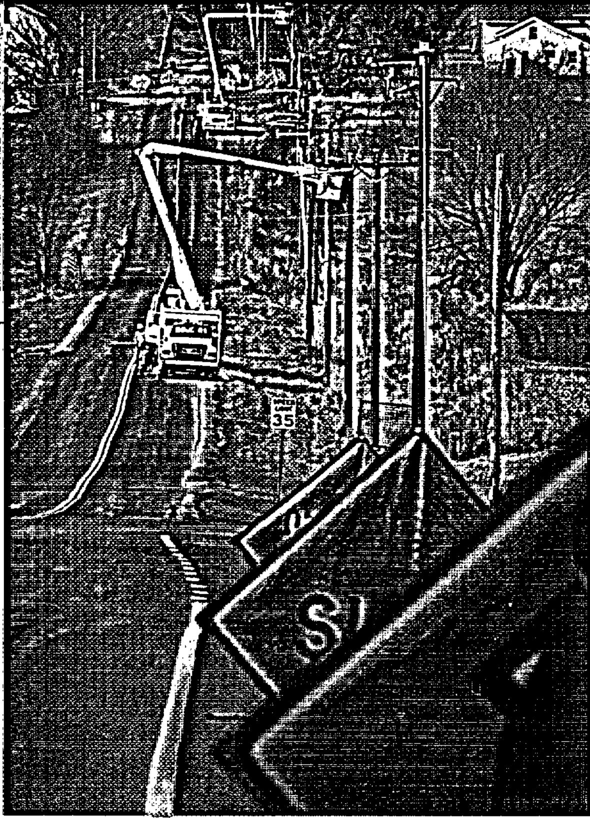
Finally, we continue efforts to sell our interests in the Kewaunee Nuclear Power Plant and the Duane Arnold Energy Center.

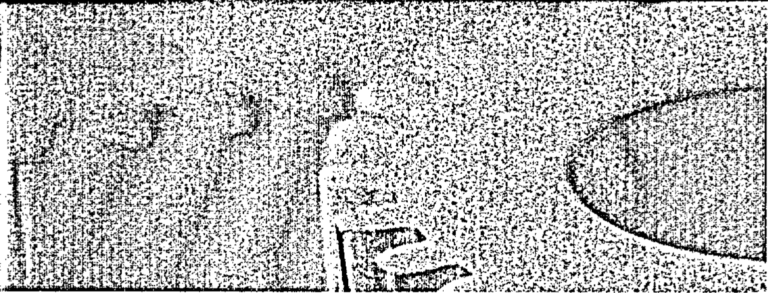
By selling these nuclear plants, we expect to reduce our financial and operational uncertainty while maintaining nuclear energy as a part of our supply portfolio. This will be accomplished by entering into agreements to purchase our share of the generation after the plants are sold.

Moving on to our international operations, we saw improved results from our Brazil and New Zealand investments in 2004. This was basically offset by lower results from our China investments which were hurt by significant increases in coal and related transportation costs and regulatory lag in procuring rate recovery.

Although the results from our Brazil operations improved during the year, we continue to work to improve the operational and financial performance of these investments. We continue discussions with our partners regarding various options to accomplish these goals. And, as we have reported, we have taken measured legal actions in Brazil to protect our minority shareowner rights.

In Mexico, we recently completed the transfer of ownership to Alliant Energy of the Laguna del Mar development, an 870-acre master-planned resort community under construction near Puerto Peñasco (Rocky Point), State of Sonora, Mexico. While we have no desire to be a developer in the long-term, we believe this step will allow us to better protect shareowner value than other options that have been considered.





> To strengthen our commitment to you, we established two long-term corporate goals in 2004 — to provide above-average total shareowner return compared to our peer group and compounded annual earnings per share from continuing operations growth of at least 5%.

Looking Forward

The most important strategic issue we will face in 2005 in our non-regulated portfolio will be defining our intentions for our international businesses and the resort property in Mexico. In all cases, we will focus on selecting the path that maximizes long-term value for our shareowners.

We will also focus on improving the returns on invested capital in our core utility businesses and receiving rate relief both domestically and internationally.

Our efforts to control costs and increase productivity at Alliant Energy have been deep and widespread, and they will continue. Our team understands the nuts and bolts of the utility business and is committed to continuously improving our operational and financial performance across all areas of the company.

In closing, we made considerable progress in 2004. However, we know we have much more to accomplish. We are convinced that our current course of action is the best course. To strengthen our commitment to you, we established two long-term corporate goals in 2004 — to provide above-average total shareowner return compared to our peer group and compounded annual earnings per share from continuing operations growth of at least 5%. We believe these are aggressive, but achievable, goals.

We are grateful for the confidence you have shown in Alliant Energy and we assure you that our management team shares a deep commitment to the success of your company.

On a personal note, we'd like to recognize Jack Evans, who retired after four years of service on the Alliant Energy Board. Jack provided the Board with excellent guidance and served admirably as the Chairperson of the Audit Committee. On behalf of the Alliant Energy Board, its employees and shareowners, we thank Jack for his service.

Our 2005 Annual Meeting of Shareowners will be held at the Cedar Rapids Marriott, 1200 Collins Road N.E., Cedar Rapids, Iowa, on Thursday, May 19, 2005, at 1 p.m. (Central Daylight Time). We encourage you to attend, meet the Alliant Energy management team and Board of Directors, and allow us to answer any questions you may have.

Sincerely,

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

William D. Harvey
President and Chief Operating Officer

Did you know?

In 2004, Alliant Energy's diluted earnings per share from continuing operations increased 20% over 2003 results.

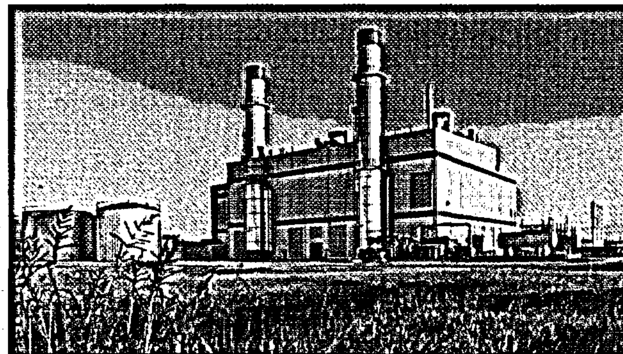
Alliant Energy was able to partially mitigate the impacts of extremely mild weather and higher operating costs through comprehensive cost-cutting and operational efficiency efforts.

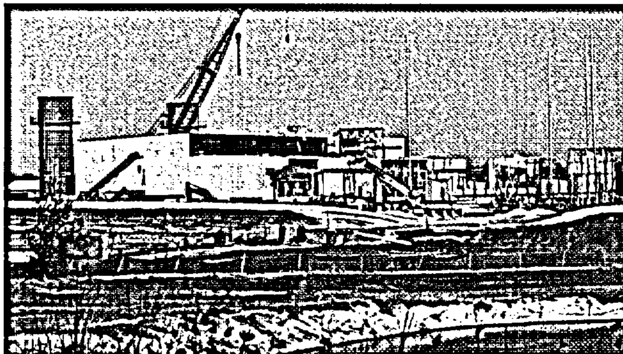
By the end of 2005, Alliant Energy expects to have more than 6% of the total U.S. wind generation capacity under contract.

Alliant Energy currently purchases nearly 350 megawatts (MW) of wind power from over 430 turbines located across Iowa, Minnesota and Wisconsin. The company has also issued bid requests to add an additional 200 MW of wind power in its service territory, which will bring the company's total wind energy portfolio to nearly 550 MW.

The Emery Generating Station, a 565-MW natural gas plant near Mason City, Iowa, became operational in May 2004.

Emery Generating Station is the first new power plant constructed in Interstate Power and Light Company's service territory since 1981.





Alliant Energy plans to add 1,600 MW of capacity to its domestic generation fleet through 2010.

Progress so far includes the 565-MW Emery Generating Station in Iowa, the nearly-completed 300-MW natural-gas fired plant in Sheboygan Falls, Wis., and plans for a 500-MW joint generation plant project with Wisconsin Public Service Corporation. In addition, bid requests for up to 200 MW of wind energy have already been issued.

Alliant Energy's two domestic regulated utilities reliably served nearly 1.4 million customers in 2004.

Our domestic utilities are the foundation of our business. Our customers are at the heart of what we do and we take our commitment to serve them seriously.

Alliant Energy is one of only two U.S. utility companies known to use switchgrass as an alternative fuel source.

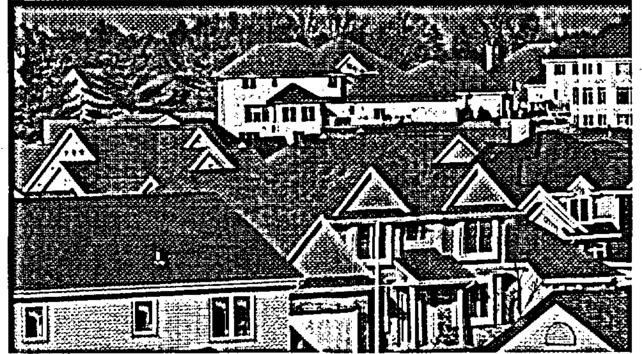
Switchgrass is a renewable, cleaner-burning coal supplement that grows abundantly in southern Iowa. It was successfully tested at the Ottumwa Generating Station in Iowa in 2003. In 2004, Alliant Energy supported lobbying efforts to continue federal funding for this project.

Alliant Energy's Second Nature™ program ranks among the U.S. Department of Energy's top 10 green pricing programs in the nation.

Second Nature provides customers with the option to purchase their electricity through renewable resources such as wind, solar and biomass. During 2004, more than 11,500 Second Nature participants funded the generation of about 33.5 million kilowatt-hours of renewable energy — an increase of 20% over 2003.

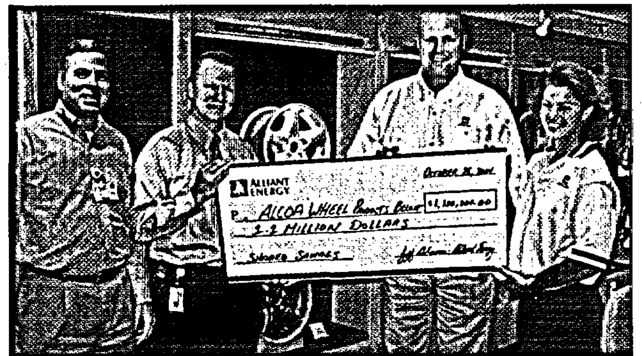
Interstate Power and Light's Performance Edge energy conservation program has reduced energy consumption equivalent to powering 500 average homes monthly.

Performance Edge packages energy savings with equipment improvements to reduce costs for large energy users. Through Performance Edge, carbon dioxide emissions avoided are the equivalent of taking 7,500 cars off the road.



Wisconsin Power and Light's Shared Savings energy conservation program has saved nearly 670 million kilowatt-hours of electricity since 1997—equivalent to the amount of electricity generated from a 250-MW power plant.

Shared Savings provides large energy users with energy expertise and capital needed to make energy-saving improvements. The carbon dioxide emissions avoided under Shared Savings are about the same as 22.5 million standard automobile miles.

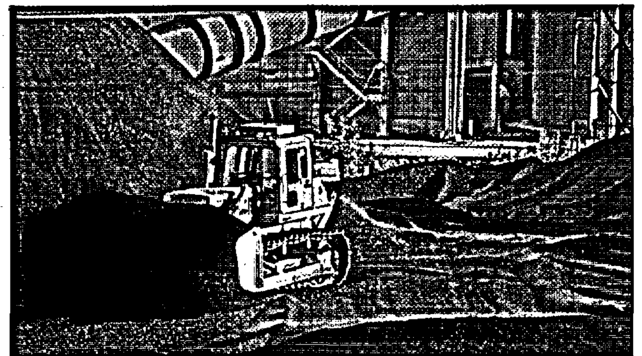


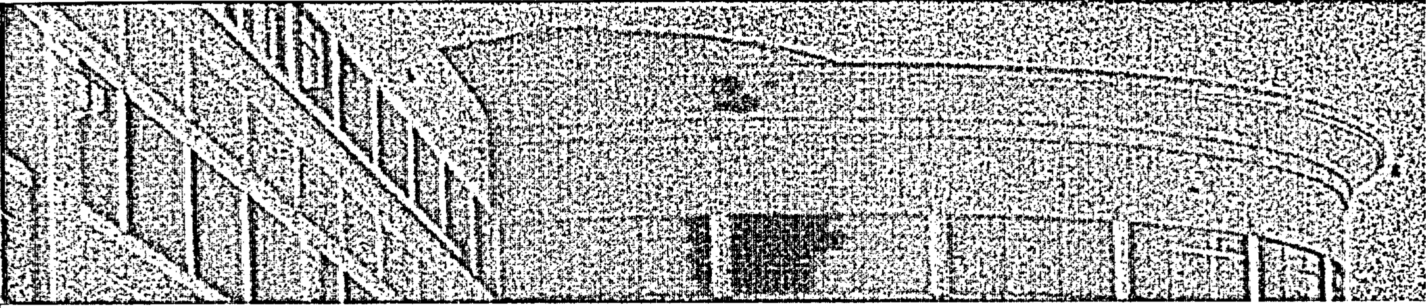
Alliant Energy was named one of the Top 50 Companies for Diversity in 2004 by DiversityInc, a leading source of diversity resources.

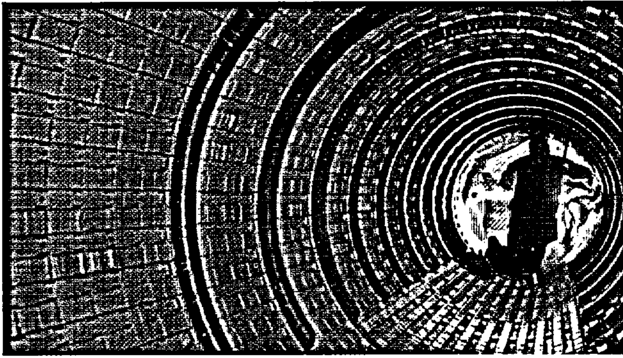
Alliant Energy shares the top 50 distinction with such well-known companies as The Ford Motor Company, The Coca-Cola Company and IBM. Our goal is to break down barriers and create an environment that maximizes the contributions of all employees.

Alliant Energy's Lean Six Sigma program delivered significant cost-savings in 2004 and we expect even greater results in the coming years.

Initiated in 2002, Lean Six Sigma is a management tool designed to improve processes and create efficiencies in an effort to reduce costs. The impact of Lean Six Sigma is evident in numerous cost-reduction projects. For example, a project that reduced coal inventory by approximately $1.6 million at the Prairie Creek Generating Station saves the company $210,000 annually.

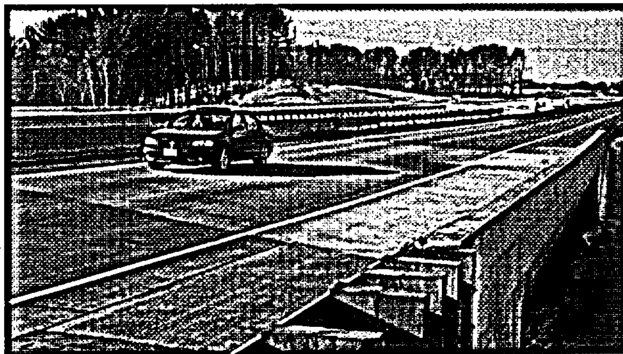






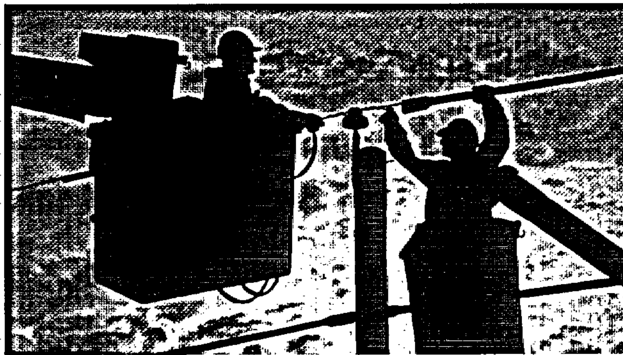
Alliant Energy is taking steps to narrow its strategic focus and reduce its risk profile associated with its domestic utility business.

By working to divest our water utility businesses, our Illinois assets and our interests in the Kewaunee Nuclear Power Plant and the Duane Arnold Energy Center, Alliant Energy is working toward a stronger future with our domestic electric and gas utility business as our core growth platform.



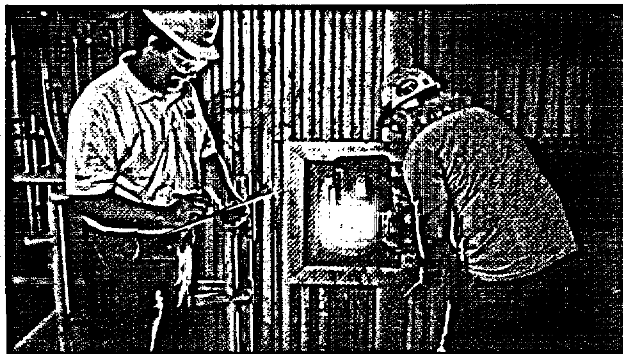
Alliant Energy recycles coal ash.

In 2004, Alliant Energy recycled or beneficially used 600,000 tons of coal combustion products for use in road construction. Alliant Energy's 79% coal ash utilization rate is more than twice the national average. The reuse of coal combustion products saves energy, reduces greenhouse gas emissions and saves landfill space.



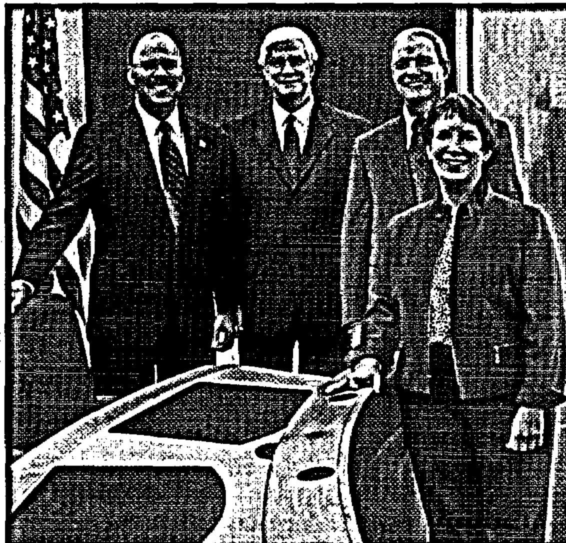
In 2004, a Lean Six Sigma project helped reduce OSHA recordable strain and sprain injuries in the three pilot locations by 58%, compared to 2003.

Strains and sprains, such as rotator cuff injuries, carpal tunnel syndrome and tendonitis, are some of the most common types of injuries at Alliant Energy. The Lean Six Sigma team, which targeted line employees at locations with high injury rates, implemented a comprehensive stretching, strengthening and wellness program that proved successful.



Six Alliant Energy generating facilities have put the SmartBurn™ combustion initiative to the test, resulting in significant reductions in nitrogen oxide emissions.

Through a variety of coal-burning process controls, SmartBurn has demonstrated improved pollution reduction results. SmartBurn technology is commercially marketed to other coal-fired electric power generators by RMT, Inc., an Alliant Energy subsidiary with more than 25 years of experience in environmental consulting.



Senior Management Team

Left to right:

Erroll B. Davis, Jr., 60
Chairman and Chief Executive Officer
Joined the company in 1978.

William D. Harvey, 55
President and Chief Operating Officer
Joined the company in 1986.

Eliot G. Protsch, 51
Senior Executive Vice President and Chief Financial Officer
Joined the company in 1978.

Barbara J. Swan, 53
Executive Vice President and General Counsel and President, Wisconsin Power and Light Company
Joined the company in 1987.

Board of Directors

Erroll B. Davis, Jr.
Chairman of the Board
Director since 1982
Age 60

William D. Harvey
Director since 2005
Age 55

Michael L. Bennett
Director since 2003
Age 51

Katharine C. Lyall
Director since 1986
Age 63

Singleton B. McAllister
Director since 2001
Age 52

Ann K. Newhall
Director since 2003
Age 53

David A. Perdue
Director since 2001
Age 55

Judith D. Pyle
Director since 1992
Age 61

Robert W. Schlutz
Director since 1989
Age 68

Anthony R. Weiler
Director since 1979
Age 68

Ages are as of Dec. 31, 2004. Each election date represents the first year of board affiliation with the company that ultimately became part of the Alliant Energy family. For detailed information on each board member, please see page 88 of the Proxy Statement. Ms. Lyall will retire as a director at the 2005 Annual Meeting.

Alliant Energy Officers

Erroll B. Davis, Jr., 60 [1978]*
Chairman and Chief Executive Officer

William D. Harvey, 55 [1986]*
President and Chief Operating Officer

Eliot G. Protsch, 51 [1978]*
Senior Executive Vice President and Chief Financial Officer

Barbara J. Swan, 53 [1987]*
Executive Vice President and General Counsel

Thomas L. Aller, 55 [1993]*
Senior Vice President-Energy Delivery

Timothy R. Bennington, 60 [1997]
Vice President-Generation

Dundeana K. Doyle, 46 [1984]
Vice President-Strategy and Risk

Robin W. Gates, 52 [1999]
Vice President-Performance Improvement

Vern A. Gebhart, 51 [1975]
Vice President-Customer Service Operations-West

Thomas L. Hanson, 51 [1980]*
Vice President and Treasurer

Peggy Howard Moore, 54 [1987]
Vice President-Customer Service and Operations Support

John E. Kratchmer, 42 [1985]*
Vice President-Controller and Chief Accounting Officer

John O. Larsen, 41 [1988]
Vice President-Technical and Integrated Services

Christopher J. Lindell, 49 [1981]
Vice President-Shared Services

Theresa M. Mulford, 47 [1996]
Vice President-Regulatory Affairs

Barbara A. Siehr, 53 [1976]
Vice President-Customer Service Operations-East

Kim K. Zuhlke, 51 [1978]
Vice President-New Energy Resources

F. J. Buri, 50 [1999]
Corporate Secretary

Patricia L. Reininger, 52 [2000]
Assistant Corporate Secretary

Joan M. Thompson, 47 [1977]
Assistant Controller

Enrique Bacalao, 55 [1998]
Assistant Treasurer

*Executive Officers

Officers elected as of Jan. 26, 2005.
Ages are as of Dec. 31, 2004.

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

Financial **discipline** Strategic **focus** Successful **execution**

ALLIANT ENERGY CORPORATION

2004 Financial Information

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MDA)

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 Corporation's (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 recently enacted federal tax legislation, the ability to obtain adequate and timely rate relief to allow for, among other things, the recovery of operating costs, the earning of reasonable rates of return in current and future proceedings and 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 the supply of purchased electricity and price thereof, including the ability to recover purchased power and fuel costs through domestic and international 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 anticipated sale of Alliant Energy's interests in the Kewaunee Nuclear Power Plant (Kewaunee) and Duane Arnold Energy Center (DAEC); 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; the results from Alliant Energy's International investments; stable foreign exchange rates; 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 its comprehensive cost-cutting and operational efficiency efforts; Alliant Energy's ability to identify and successfully complete potential acquisitions and development projects; Alliant Energy's ability to complete its proposed divestitures of various businesses and investments in a timely fashion and for anticipated proceeds; Alliant Energy's ability to achieve its earnings per average common share (EPS) growth, dividend payout ratio and total shareowner return goals; 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 and 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.

EXECUTIVE SUMMARY

Description of Business - Alliant Energy operates as a registered public utility holding company subject to the limitations imposed by the Public Utility Holding Company Act of 1935 (PUHCA). The first tier subsidiaries of Alliant Energy are Interstate Power and Light Company (IPL), Wisconsin Power and Light Company (WPL), Alliant Energy Resources, Inc. (Resources) and Alliant Energy Corporate Services, Inc. (Corporate Services). IPL is a public utility engaged principally in the generation, transmission, distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in selective markets in Iowa, Minnesota and Illinois. WPL is a public utility engaged principally in the generation, distribution and sale of electric energy; and the purchase, distribution, transportation and sale of natural gas in selective markets in Wisconsin and Illinois. Resources is the parent company for Alliant Energy's non-regulated businesses. Corporate Services provides administrative services to Alliant Energy and its subsidiaries as required under PUHCA.

Alliant Energy manages three primary businesses: 1) domestic utility business (IPL and WPL); 2) non-regulated businesses (Resources and subsidiaries); and 3) other as defined below.

Domestic Utility Business - IPL and WPL own a portfolio of domestic electric generating facilities with a diversified fuel mix including coal, nuclear, natural gas and renewable resources. The output from these generating facilities, supplemented with purchased-power, is used to provide electric service to approximately 1 million electric customers in the upper Midwest. The domestic utility business also procures natural gas from various suppliers to provide service to approximately 400,000 gas customers in the upper Midwest. Alliant Energy's domestic utility business is its core business and primary source of earnings and cash flows. The earnings and cash flows from the domestic utility business are sensitive to various external factors including, but not limited to, the impact of weather on electric and gas sales volumes, the amount and timing of rate relief approved by regulatory authorities and other factors listed in "Forward-Looking Statements."

Non-regulated Businesses - Resources manages a portfolio of wholly-owned subsidiaries and additional investments through distinct platforms: Non-regulated Generation (domestic generation projects); International (foreign energy generation and delivery systems in Brazil, China and New Zealand); and Other Non-regulated Investments (includes investments in environmental engineering and site remediation, transportation, a resort development in Mexico (Laguna del Mar), synthetic fuel and energy technologies investments, as well as the oil and gas pipeline gathering systems and biomass facility that Alliant Energy recently decided to divest).

Other - includes the operations of Corporate Services as well as Alliant Energy (the parent company).

Summary of Historical Results of Operations - Alliant Energy's diluted EPS was as follows:

	2004	2003	2002
Income from continuing operations	**$1.85**	$1.54	$1.04
Income (loss) from discontinued operations	**(0.57)**	0.33	0.14
Cumulative effect of changes in accounting principles	**--**	(0.06)	--
Net income	**$1.28**	$1.81	$1.18

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

	2004	2003	2002
Continuing operations:			
Domestic utility	**$221.4**	$197.2	$165.8
Non-regulated (Resources)	**(3.6)**	(29.4)	(73.8)
Alliant Energy parent and other (primarily taxes, interest and administrative and general)	**(7.0)**	(11.8)	2.1
Income from continuing operations	**210.8**	156.0	94.1
Income (loss) from discontinued operations	**(65.3)**	33.5	12.8
Cumulative effect of changes in accounting principles	**--**	(6.0)	--
Net income	**$145.5**	$183.5	$106.9

In spite of extremely mild weather conditions in 2004, Alliant Energy's earnings from its domestic utility business were higher in 2004 compared to 2003 due to the impact of rate increases, a lower effective income tax rate and weather-normalized sales growth. These items were partially offset by higher other operating expenses, although Alliant Energy was able to mitigate the impact of this to a degree by its comprehensive cost-cutting and operational efficiency efforts. Alliant Energy estimates the extremely mild weather conditions in its domestic utility electric and gas service territories had a negative impact on its 2004 after-tax earnings of $22 to $25 million. The improved results from continuing operations of $26 million from Alliant Energy's non-regulated businesses in 2004 were primarily due to a decrease in interest expense of $21 million in 2004 compared to 2003, a gain realized on the sale of Alliant Energy's remaining interest in Whiting Petroleum Corporation (WPC) in 2004 and lower charges related to early debt reductions.

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 in 2003 was primarily due to improved results from its International businesses and lower non-cash valuation charges, which were partially offset by charges in 2003 related to early debt reductions.

Refer to "Results of Operations" for additional details regarding the various factors impacting earnings during 2004, 2003 and 2002.

STRATEGIC OVERVIEW

Summary - Alliant Energy's strategic plan is based on five primary principles: a regional focus on utility operations; investments in new domestic utility generation; a focused approach to diversified operations; maintaining sustained, long-term strong financial performance with a strong balance sheet and investment grade credit ratings; and maintaining a performance culture focused on accountability and adherence to its corporate values of ethics, safety, diversity, efficiency and attention to the environment. This strategic plan is also concentrated on building and maintaining the generation and infrastructure necessary to provide Alliant Energy's domestic utility customers with safe, reliable and environmentally sound energy service, increasing the returns on invested capital in all of Alliant Energy's businesses and streamlining Alliant Energy's portfolio of businesses. Alliant Energy has also implemented a comprehensive Lean Six Sigma program to assist it in generating cost savings and operational efficiencies in 2005 and beyond. Alliant Energy's domestic utility business is its core business and the sole growth platform within its strategic plan and Alliant Energy expects it to provide the larger share of its long-term earnings growth. It will also be the business that Alliant Energy will invest the majority of its capital in during 2005 and 2006. Refer to "Liquidity and Capital Resources - Cash Flows from (used for) Investing Activities - Construction and Acquisition Expenditures" for additional information. 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 intends to concentrate its strategic focus on the profitability and cash flows of its remaining non-regulated platforms and will consider additional divestitures if provided the right opportunity to maximize value and/or eliminate unwarranted risk.

Alliant Energy's 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. In addition, the Public Service Commission of Wisconsin (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.

Domestic Utility Generation Plan - In 2003, Alliant Energy announced a plan to add an additional 1,600 megawatts (MW) of domestic utility generating capacity to its diversified portfolio by 2010. 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. The plan also reflects continued commitments to Alliant Energy's energy efficiency and environmental protection programs. The following is a summary of the significant progress Alliant Energy has made to-date regarding the execution of this plan:

- Alliant Energy continues to make progress on acquiring regulatory approvals for the 300 MW, simple-cycle, natural gas-fired generating facility under construction near Sheboygan Falls, Wisconsin. Resources' Non-regulated Generation business began construction of the generating facility in 2004 and is expected to complete the facility in time to meet increased summer demand in 2005. Alliant Energy is proposing that Resources' Non-regulated Generation business would own the facility and enter into a long-term agreement with WPL whereby WPL would operate and maintain the facility and have exclusive rights to the generation output. The facility is expected to cost approximately $150 million, of which approximately $120 million had already been expended as of Dec. 31, 2004. The proposed structure is subject to final PSCW approval.
- In October 2004, the federal renewable energy production tax credit was extended for generating facilities that will be placed in service prior to Jan. 1, 2006. As a result, Alliant Energy has moved forward with its plans to add 230 MW of wind generation to its diversified generation portfolio, preferably as purchased-power agreements. IPL and WPL each currently plan to add up to 100 MW of additional wind generation to their renewable resource portfolios by the end of 2005.
- In May 2004, Alliant Energy announced WPL would pursue plans to build a jointly-owned 500 MW base-load electric plant with Wisconsin Public Service Corporation (WPSC) (respective ownership levels have not yet been determined). The planning process will include feasibility and siting studies. Based on the current energy requirement studies of both companies, WPL expects significant increases in electric supply are likely to be needed to offset rising energy demand and expiring purchased-power agreements by 2010.
- IPL's 565 MW, combined-cycle, natural gas-fired Emery Generating Facility (Emery) near Mason City, Iowa was completed on time and on budget and placed in service in May 2004. The rate making principles included a 12.23% return on common equity.

Alliant Energy reviews and updates, as deemed necessary and in accordance with regulatory requirements, its domestic utility generation requirements on a periodic basis.

Asset Divestitures - Alliant Energy is committed to streamlining its portfolio of businesses to those that can provide meaningful earnings and cash flows for shareowners with acceptable risk profiles, as well as those it is prepared to invest the capital needed to reach the scale necessary to generate such earnings and cash flows. Consistent with this strategic focus and following the divestitures of its Australian, affordable housing, SmartEnergy, Inc., the majority of its oil and gas (WPC) and several other modest businesses in 2003, Alliant Energy completed the divestitures of additional businesses in 2004. In addition, Alliant Energy is in the process of divesting additional non-regulated and domestic utility businesses. The proceeds realized from these asset sales are expected to be available for debt reduction and other general corporate purposes. The following is a summary of Alliant Energy's asset divestiture activities in 2004 and to date in 2005.

Non-regulated Businesses - In November 2004, Alliant Energy completed the sale of its remaining interest in WPC, generating pre-tax proceeds of approximately $30 million and a gain of $0.08 per share. In July 2004, Alliant Energy announced its intention to divest its energy services (Cogenex Corporation and affiliates), gas marketing (NG Energy Trading, LLC (NGE)) and energy management services businesses within its former Integrated Services platform. During the second half of 2004, Alliant Energy completed the sale of NGE and the energy management services business and plans to divest its energy services business (net book value of approximately $40 million at Dec. 31, 2004) during the first half of 2005. As of Dec. 31, 2004, these businesses have been reported as assets held for sale and discontinued operations. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for additional information regarding these businesses.

In January 2005, Alliant Energy also announced its intention to divest in 2005 its oil and gas gathering pipeline systems as well as its investment in a biomass facility, two additional businesses within its former Integrated Services platform. The net book value of these two businesses was approximately $25 million at Dec. 31, 2004. Alliant Energy expects these businesses will qualify for reporting as assets held for sale and discontinued operations in 2005. The 2004 earnings from continuing operations included a loss of $0.04 per share from these two businesses.

Alliant Energy is currently evaluating and considering the full range of options available to it as relates to the future of its non-regulated businesses, including International and Laguna del Mar, with a focus on the pursuit of the action that best protects its interests and maximizes the overall value of its investments for Alliant Energy's shareowners.

Domestic Utility Business - Alliant Energy is currently pursuing the sale of its two nuclear generating facilities, WPL's 41% interest in Kewaunee and IPL's 70% interest in DAEC. In pursuing the sale of both of these facilities, Alliant Energy expects to reduce the financial and operational uncertainty associated with nuclear generating facility ownership and operations, yet still retain the benefit of the output from such plants through purchased-power agreements. In November 2004, the PSCW issued a decision rejecting WPL's and WPSC's joint application to sell Kewaunee to Dominion Resources, Inc. (Dominion). WPL and WPSC joined Dominion and applied for a rehearing with the PSCW to continue the pursuit of the sale of the plant. In January 2005, the PSCW accepted the rehearing petition and expects to rule on the sale in the first half of 2005. Also, Alliant Energy announced in December 2004 its intention to sell its ownership interest in DAEC. Alliant Energy currently intends to enter into a definitive sales agreement for DAEC during 2005 and will then seek all appropriate state and federal regulatory approvals. Refer to Notes 17 and 18 of the "Notes to Consolidated Financial Statements" for additional information regarding the proposed sale of these nuclear generating facilities.

In August 2004, Alliant Energy announced its intention to sell its Illinois electric and gas utility properties (net book value of approximately $50 million to $60 million as of Dec. 31, 2004) owned by IPL and WPL. The administrative costs of serving relatively few customers in a jurisdiction that requires the same regulatory and administrative support as a state with a larger number of customers make it difficult for Alliant Energy to offer its services cost-effectively. Alliant Energy currently intends to enter into a sales agreement for the Illinois properties in the first half of 2005 and any such sales agreement would be subject to regulatory approvals.

In January 2005, WPL and the city of Ripon, Wisconsin finalized a purchase and sale agreement for the sale of the water utility serving the Ripon area. Pending approval by the PSCW, the transfer of ownership of the water utility is expected to take place in the first half of 2005. WPL also continues to make progress on the sale of its water utility in South Beloit, Illinois.

Of all these domestic utility business divestitures, only WPL's water utility in Ripon qualified as assets held for sale as of Dec. 31, 2004 and none of them have been reported as discontinued operations.

RATES AND REGULATORY MATTERS

Overview - Alliant Energy has two utility subsidiaries, IPL and WPL. WPL 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 the Federal Energy Regulatory Commission (FERC), which has jurisdiction over wholesale rates and certain natural gas facilities, and state regulation in Iowa, Wisconsin, Minnesota and Illinois for retail utility rates and standards of service. Such regulatory oversight also covers IPL's and WPL's 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. However, the pace of restructuring in Alliant Energy's 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. Alliant Energy cannot predict the timing of a restructured electric industry or the impact on its financial condition or results of operations.

Certain Recent Developments - Details of Alliant Energy's domestic utility rate cases impacting its historical and future results of operations are as follows (dollars in millions; Electric (E); Gas (G); Water (W); To Be Determined (TBD); Not Applicable (N/A); Fuel-related (F-R)):

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
WPL:										
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%	
2004 retail	E/G/W	3/03	87	--	N/A	14	1/04	N/A	12%	
2005/2006 retail	E/G	9/04	63	N/A	N/A	TBD	TBD	7/05	TBD	(2)
2004 retail (F-R)	E	2/04	16	16	3/04	10	10/04	N/A	N/A	(3)
2004 retail (F-R)	E	12/04	9	--	N/A	--	N/A	N/A	N/A	(4)
South Beloit retail - IL	G/W	10/03	1	N/A	N/A	1	10/04	N/A	G-9.87%/ W-9.64%	
Wholesale	E	2/02	6	6	4/02	3	1/03	N/A	N/A	
Wholesale	E	3/03	5	5	7/03	5	2/04	N/A	N/A	
Wholesale	E	8/04	12	12	1/05	TBD	TBD	8/05	N/A	
IPL:										
IA retail	E	3/02	82	15	7/02	26	5/03	N/A	11.15%	
IA retail	G	7/02	20	17	10/02	13	8/03	N/A	11.05%	
IA retail	E	3/04	149	98	6/04	107	2/05	N/A	(a)	
MN retail	E	5/03	5	2	7/03	1	9/04	N/A	11.25%	(3)

(a) Emery - 12.23% and Other - 10.7%

(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) The 2005/2006 retail rate case is based on a test period from July 2005 to June 2006.
(3) Since the final increase was lower than the interim relief granted, a refund to customers was made in 2004.
(4) The PSCW denied WPL's request for a rate increase in this proceeding during an oral hearing held in February 2005. WPL expects to receive the final written order in March 2005 and will consider its alternatives upon a thorough review of such written order.

With the exception of recovering a return on Emery, which was a large component of IPL's 2004 retail Iowa electric rate case, and on other additions to IPL's and WPL's infrastructure, a significant portion of the rate increases included in the previous table reflect the recovery of increased costs incurred by IPL and WPL or costs they expect to incur. In addition to the 2005/2006 retail base rate case, WPL currently plans to file an estimated $25 million to $35 million fuel-related rate case in the first quarter of 2005, with anticipated approval from the PSCW to implement interim rates for the fuel-related increase to be effective approximately three weeks after the filing is made. The major drivers in WPL's base rate and fuel-related rate cases for 2005 are both fixed and variable fuel and purchased power costs. Thus, the potential increase in revenues related to these rate increase requests is not expected to result in a meaningful increase in net income.

WPL's retail electric rates are based on annual forecasted fuel and purchased power costs. Under PSCW rules, WPL can seek rate increases for increases in the cost of electric fuel and purchased power if it experiences an increase in costs that are more than 3% higher than the estimated costs used to establish rates. The PSCW attempts to authorize, after a required hearing, interim fuel-related rate increases within 21 days of notice to customers. Any such change in rates would be effective prospectively and would require a refund with interest at the overall authorized return on common equity if final rates are determined to be lower than interim rates approved. Rate decreases due to decreases in fuel-related costs can be implemented without hearing. The rules also include a process whereby Wisconsin utilities can seek deferral treatment of emergency changes in fuel-related costs between fuel-related or base rate cases. Such deferrals would be subject to review, approval and recovery in future fuel-related or base rate cases.

In 2004, a new law impacting ratemaking was passed in Iowa. The new law allows utilities to place in effect interim rates, subject to refund, without review by the Iowa Utilities Board (IUB) within ten days of filing a general rate increase request. The law also allows the IUB to consider known and measurable changes in costs and revenues occurring within nine months from the end of the historical test year in setting final rates in a rate case. Both of these changes are designed to mitigate regulatory lag in Iowa ratemaking, which uses a historical versus projected test year in setting rates.

In 2002, IPL 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 Alliant Energy'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 IPL's proposed accounting treatment to defer the tax savings as a regulatory liability 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 2005 or 2006. There would be no material negative impact on Alliant Energy's results of operations or financial position should the IRS reject IPL's proposal.

Energy-related legislation is currently pending in the United States (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 **diluted** EPS.

Overview - Refer to "Executive Summary" for an overview of Alliant Energy's 2004, 2003 and 2002 earnings and the various components of Alliant Energy's business.

Domestic Utility Electric Margins - Electric margins, megawatt-hour (MWh) sales and cooling degree day data for Alliant Energy were as follows:

	Revenues and Costs (in millions)					MWhs Sold (in thousands)				
	2004	2003	*	2002	**	**2004**	2003	*	2002	**
Residential	**$716.7**	$684.6	5%	$626.9	9%	**7,354**	7,565	(3%)	7,616	(1%)
Commercial	**437.8**	409.7	7%	376.4	9%	**5,702**	5,663	1%	5,542	2%
Industrial	**609.9**	571.6	7%	526.8	9%	**12,596**	12,345	2%	12,297	--
Total from retail customers	**1,764.4**	1,665.9	6%	1,530.1	9%	**25,652**	25,573	--	25,455	--
Sales for resale	**185.8**	195.8	(5%)	160.3	22%	**5,102**	5,495	(7%)	4,805	14%
Other	**58.8**	55.4	6%	62.1	(11%)	**178**	184	(3%)	197	(7%)
Total revenues/sales	**2,009.0**	1,917.1	5%	1,752.5	9%	**30,932**	31,252	(1%)	30,457	3%
Electric production fuel and purchased-power expense	**747.4**	730.6	2%	651.8	12%					
Margins	**$1,261.6**	$1,186.5	6%	$1,100.7	8%					

* Reflects the % change from 2003 to 2004. ** Reflects the % change from 2002 to 2003.

Cooling degree days*:	Actual 2004	2003	2002	Normal
Cedar Rapids (IPL)	**139**	276	397	379
Madison (WPL)	**138**	224	356	242

* Cooling degree days are calculated using a 70 degree base. Normal degree days are calculated using a fixed 30-year average most recently updated in February 2002.

Electric margins increased $75 million, or 6%, in 2004, primarily due to the impact of various rate increases implemented in 2004 and 2003, which included increased revenues to recover a significant portion of higher utility operating expenses, an approximate 2% increase in weather-normalized sales and lower purchased-power capacity costs at IPL. This sales growth included an increase of 2% in industrial sales, reflecting improving economic conditions in Alliant Energy's domestic utility service territories. These items were partially offset by the impact of extremely mild weather in 2004, $8 million of lower energy conservation revenues and the effect of WPL implementing seasonal rates for the first time in April 2003. Alliant Energy estimates the mild weather conditions had a negative impact of approximately $33 million to $38 million on its electric utility margins in 2004 compared to normal weather. By comparison, Alliant Energy estimates the impact of weather had a negative impact of approximately $9 million to $10 million on its electric utility margins in 2003 compared to normal weather. The reduced energy conservation revenues were largely offset by lower energy conservation expenses.

Electric margins increased $86 million, or 8%, in 2003, 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 WPL implementing seasonal rates in 2003 for the first time, weather-normalized retail sales growth and higher sales to non-retail customers. These items were partially offset by milder weather conditions in 2003 compared to 2002.

In April 2003, WPL 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 yet effective in the first quarter of 2003, the impact of seasonal rates increased the 2003 electric margins by approximately $6 million compared to the 2004 and 2002 electric margins.

Domestic Utility Gas Margins - Gas margins, dekatherm (Dth) sales and heating degree day data for Alliant Energy were as follows:

	Revenues and Costs (in millions)					Dths Sold (in thousands)				
	2004	2003	*	2002	**	**2004**	2003	*	2002	**
Residential	**$315.6**	$310.7	2%	$218.7	42%	**29,338**	31,871	(8%)	30,931	3%
Commercial	**172.3**	162.7	6%	111.3	46%	**19,199**	19,947	(4%)	19,348	3%
Industrial	**38.4**	34.2	12%	25.2	36%	**5,127**	5,093	1%	5,373	(5%)
Transportation/other	**43.5**	59.3	(27%)	38.8	53%	**49,626**	48,978	1%	47,386	3%
Total revenues/sales	**569.8**	566.9	1%	394.0	44%	**103,290**	105,889	(2%)	103,038	3%
Cost of gas sold	**396.9**	396.1	--	249.0	59%					
Margins	**$172.9**	$170.8	1%	$145.0	18%					

* Reflects the % change from 2003 to 2004. ** Reflects the % change from 2002 to 2003.

Heating degree days*:	Actual 2004	2003	2002	Normal
Cedar Rapids (IPL)	**6,463**	6,883	6,577	6,899
Madison (WPL)	**6,831**	7,337	6,929	7,485

* Heating degree days are calculated using a 65 degree base. Normal degree days are calculated using a fixed 30-year average most recently updated in February 2002.

Gas margins increased $2.1 million, or 1%, in 2004, primarily due to improved results of $3.5 million from WPL's performance-based gas commodity cost recovery program (benefits are shared by ratepayers and shareowners), partially offset by lower sales due to milder weather conditions in 2004 compared to 2003. Gas revenues and cost of gas sold were higher in 2003 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 margins. Gas margins increased $26 million, or 18%, in 2003, primarily due to the impact of several rate increases implemented during 2003 and 2002, improved results

of $2.7 million from WPL's performance-based gas commodity cost recovery program, continued modest customer growth and slightly more favorable weather conditions during the heating season in 2003 compared to 2002.

Refer to "Rates and Regulatory Matters" for discussion of various electric and gas rate filings. 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 decreased $14 million in 2004, primarily due to $13 million of lower construction management revenues from Alliant Energy's WindConnect™ program, resulting from uncertainty in 2004 regarding the extension of the federal renewable energy production tax credit. This decrease was largely offset by lower operating expenses related to these activities. In the fourth quarter of 2004, the federal renewable energy production tax credit was extended for generating facilities placed in service prior to Jan. 1, 2006. Other revenues for the domestic utilities increased $19 million in 2003, largely due to increased revenues from WindConnect™, which were largely offset by higher operating expenses related to WindConnect™.

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

	2004	2003	2002
International	**$136**	$117	$100
Environmental engineering and site remediation	**85**	90	76
Non-regulated Generation	**25**	24	9
Transportation	**23**	20	20
Other (includes eliminations)	**20**	28	20
	$289	$279	$225

The increased International revenues in 2004 were primarily due to increased production at Alliant Energy's generating facilities in China resulting from increased electricity and steam demand, the acquisition of an additional generating facility in China in 2003 and tariff increases to recover a portion of higher coal and related transportation costs in China. The increased International revenues in 2003 were primarily due to acquisitions of additional generating facilities in China during 2002 and 2003. The 2003 Environmental revenues were higher than those in 2004 and 2002, primarily due to a large construction management project in 2003. The higher Non-regulated Generation revenues in 2003 were primarily due to the acquisition in the first quarter of 2003 of a 309 MW non-regulated, tolled (through May 2008), natural gas-fired power plant in Neenah, Wisconsin. The higher 2003 Other revenues were primarily due to increased revenues from Alliant Energy's oil and gas gathering pipeline systems (which Alliant Energy is in the process of divesting).

Other Operating Expenses - Other operation and maintenance expenses for the domestic utilities increased $5.4 million in 2004, primarily due to increases in employee and retiree benefits (comprised of compensation, medical and pension costs) and other administrative and general expenses. These items were largely offset by the impact of comprehensive cost-cutting and operational efficiency efforts, lower energy conservation expenses and $9.5 million of lower expenses for WindConnect™. Other operation and maintenance expenses for the domestic utilities increased $79 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, WindConnect™ and nuclear expenses. The increased nuclear expenses in 2003 resulted primarily from a planned refueling outage at Kewaunee in 2003. A similar planned outage occurred in 2004 but there was no refueling outage in 2002. These 2003 items were partially offset by lower fossil generation expenses due to the timing of boiler plant maintenance.

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

	2004	2003	2002
International	**$114**	$90	$77
Environmental engineering and site remediation	**78**	79	68
Non-regulated Generation	**12**	14	16
Transportation	**12**	12	11
Other (includes eliminations)	**39**	47	28
	$255	$242	$200

The variances in 2004 and 2003 were largely driven by the same factors impacting the revenue variances discussed previously. The International increase in 2004 was also due to higher coal and related transportation costs for its generating facilities in China and higher litigation-related expenses incurred defending Alliant Energy's shareholder rights in Brazil. Refer to "Other Matters - Market Risk Sensitive Instruments and Positions - Commodity Price Risk" and "Other Matters - Other Future Considerations - Brazil" for additional discussion of these issues. Charges of $3.5 million and $4.8 million were included in Non-regulated Generation in 2003 and 2002, respectively, for cancelled contracts and generation projects. Asset valuation charges of $2.2 million and $6.4 million are included in Other in 2004 and 2003, respectively, related to a small biomass facility (which Alliant Energy is in the process of divesting).

Depreciation and amortization expense increased $30 million and $24 million in 2004 and 2003, respectively. The 2004 increase was primarily due to utility property additions, including Emery, and the implementation of higher depreciation rates at IPL on Jan. 1, 2004 resulting from an updated depreciation study. The 2003 increase was primarily due to utility property additions, an increase of $11 million in non-regulated depreciation and amortization due largely to acquisitions at the non-regulated businesses and higher contributions of $4.4 million to IPL's nuclear decommissioning trust fund.

Taxes other than income taxes increased $11 million and decreased $14 million in 2004 and 2003, respectively, primarily due to changes in property taxes at IPL 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. The 2004 increase also was due to increased gross receipts taxes at WPL.

Refer to "Rates and Regulatory Matters" for discussion of the interplay between utility operating expenses and utility margins given their impact on Alliant Energy's utility rate activities.

Interest Expense and Other - Interest expense decreased $28 million and increased $25 million in 2004 and 2003, respectively. The 2004 decrease was primarily due to a $21 million decrease in interest expense at Alliant Energy's non-regulated businesses resulting from lower average borrowings as a result of debt retirements during 2003 and 2004 (largely from the use of asset sale proceeds), $5.6 million of credit facility fees incurred during the first half of 2003 and the capitalization of $5.4 million of interest in 2004 related to the generating facility under construction near Sheboygan Falls, Wisconsin. The 2004 decrease was also due to the impact of additional equity issued by Alliant Energy during 2003 and 2004 and various debt refinancings. The 2003 increase was primarily 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. The 2003 increase was partially offset by the impact of lower average borrowings at Resources.

Loss on early extinguishment of debt includes debt repayment premiums and charges for the unamortized debt expenses related to long-term debt retirements. The $8.9 million in 2004 relates to $42 million of senior notes retired by Resources. The $16.9 million in 2003 relates to $72 million of senior notes retired by Resources and $24 million of senior notes retired by the parent company.

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

	2004	2003	2002
American Transmission Company LLC (ATC)	**($19)**	($16)	($14)
Brazil	**(17)**	(9)	23
New Zealand	**(11)**	(8)	(4)
Wisconsin River Power Company (WRPC)	**(6)**	(5)	(3)
Alliant Energy Synfuel LLC ((Synfuel) - excludes tax benefits)	**19**	20	13
Other	**(1)**	(1)	(2)
	($35)	($19)	$13

The higher equity income from ATC in 2004 and 2003 was due to rate increases at ATC. The higher equity income from Alliant Energy's Brazil investments in 2004 was primarily due to the impact of rate increases implemented at the Brazilian operating companies in 2004 and 2003 and a gain of $5.1 million (representing Alliant Energy's allocated portion of the total gain) realized in 2004 from the sale of two hydroelectric plants, partially offset by higher operating and interest expenses at the Brazilian operating companies. The improved results from New Zealand during 2004 were primarily due to higher margins as a result of increased energy prices. The Brazil and New Zealand results do not include Alliant Energy's allocated debt capital and overhead charges.

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 increased earnings from New Zealand during 2003 were primarily due to higher energy prices and gains on asset sales in 2003. In the second quarter of 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.

Allowance for funds used during construction (AFUDC) was significantly higher in 2004 and 2003 compared to 2002, primarily due to the construction of Emery in 2004 and 2003. Preferred dividend requirements of subsidiaries increased $11 million in 2003 due to an increase in the aggregate amount of preferred stock outstanding at IPL and a higher dividend rate. Refer to Note 9 of the "Notes to Consolidated Financial Statements" for discussion of the asset valuation charge recorded by Resources in 2002 related to its McLeodUSA Incorporated (McLeod) available-for-sale securities.

Interest income and other increased $6.9 million and $11 million in 2004 and 2003, respectively. The 2004 increase was due to a pre-tax gain of $14.2 million upon the sale of Alliant Energy's remaining interest in WPC, partially offset by $7.0 million of lower interest income due largely to the impact of ceasing accruing interest income on the loan receivable related to Laguna del Mar effective Jan. 1, 2004. Refer to "Other Matters - Critical Accounting Policies - Asset Valuations - Investments" for additional discussion. The 2003 increase was largely due to the recording of pre-tax asset valuation charges related to Alliant Energy's investments in Energy Technologies ($2.8 million in 2003 and $10 million in 2002), improvements in the non-cash valuation adjustments related to Resources' McLeod trading securities and gains from asset sales realized in 2003. The 2003 items were partially offset by lower interest income from loans to discontinued operations due to asset sales during 2003. Refer to Note 1(p) of the "Notes to Consolidated Financial Statements" for additional information.

Income Taxes - The effective income tax rates for Alliant Energy's continuing operations were 26.7%, 28.5% and 31.8% in 2004, 2003 and 2002, respectively. The lower effective income tax rate for 2004 was primarily due to the impact of legislation passed in Iowa in late 2004 related to additional bonus depreciation tax deductions IPL was allowed to take in 2003 and 2004 under the provisions of the new legislation and differences in property-related temporary differences for which deferred tax expense is not recorded pursuant to Iowa rate making principles. Alliant Energy does not anticipate that the impact of Iowa bonus depreciation tax deductions will have a material effect on 2005 and future years. The increase was partially offset by a $4.4 million tax charge recorded in the fourth quarter of 2004 related to recording U.S. taxes on unremitted 2004 and prior year earnings from its China investments at a rate of 5.25% as a result of Alliant Energy's intent to repatriate these earnings to the U.S. in 2005 under the provisions of the recently enacted American Jobs Creation Act (AJCA) tax legislation. Refer to Note 5 of the "Notes to Consolidated Financial Statements" for additional information regarding the effective income tax rates.

Income (Loss) from Discontinued Operations - Refer to 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 $3.9 million and $2.1 million for the cumulative effect of changes in accounting principles related to the adoption on Jan. 1, 2003 of Statement of Financial Accounting Standards (SFAS) 143, "Accounting for Asset Retirement Obligations," and Emerging Issues Task Force Issue 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities," within WPC and NGE, respectively. Alliant Energy has subsequently divested both of these businesses.

LIQUIDITY AND CAPITAL RESOURCES

Overview - Alliant Energy believes it has a strong liquidity position and expects to maintain this position over its planning period of 2005 to 2009 as a result of its available capacity under its revolving credit facilities and sale of accounts receivable program, stable operating cash flows from its core domestic utility business and its remaining balance of available cash and temporary cash investments. Based on expected operating cash flows and plans to maintain a consolidated debt-to-total capitalization ratio of approximately 50%, Alliant Energy believes it will be able to secure the additional capital required to implement its strategic plan through the 2005 to 2009 planning period. Alliant Energy believes its ability to secure additional capital has been significantly enhanced by its actions during the last several years to strengthen its balance sheet as is evidenced by, among other items, its current debt-to-total capitalization ratio of 48% compared to 61% in early 2003.

Primary Sources and Uses of Cash - Alliant Energy's most significant source of cash is electric and gas sales to its domestic utility customers. Cash from these sales reimburse Alliant Energy for prudently incurred expenses to provide service to its domestic utility customers and provides Alliant Energy a return on the assets that are utilized to provide such services. Utility operating cash flows are expected to substantially cover Alliant Energy's domestic utility maintenance capital expenditures and dividends paid to Alliant Energy's shareowners. The capital requirements needed to retire maturing debt and pay capital expenditures associated with building additional generation at its domestic utilities and capital expenditures at its non-regulated businesses are expected to be financed largely through external financings and proceeds from asset divestitures, supplemented by internally generated funds. In order to maintain its planned consolidated capitalization ratios, Alliant Energy may periodically issue additional equity as well as debt to fund such capital requirements.

Cash and Temporary Cash Investments - As of December 31, 2004, Alliant Energy and its subsidiaries had approximately $263 million of cash and temporary cash investments, of which approximately $74 million consisted of deposits in foreign bank accounts. Alliant Energy plans to repatriate the majority of the cash from its International businesses in 2005 under the provisions of the AJCA passed in 2004.

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

	2004	2003	2002
Cash flows from (used for):			
Operating activities	**$501.6**	$460.7	$541.3
Investing activities	**(639.5)**	(275.7)	(625.6)
Financing activities	**159.7**	(1.9)	77.2

Cash Flows from (used for) Operating Activities -
Historical Changes in Cash Flows from Operating Activities - In 2004, Alliant Energy's cash flows from operating activities increased $41 million primarily due to changes in working capital caused largely by the timing of vendor payments and receivable collections as well as the impact of implementing rate increases at IPL and WPL, partially offset by changes in the levels of accounts receivable sold and higher pension plan contributions. In 2003, Alliant Energy's cash flows from operating activities decreased $81 million primarily due to changes in working capital caused largely by the timing of receivable collections as well as changes in the levels of accounts receivable sold, partially offset by the impact of implementing rate increases at IPL and WPL and lower pension plan contributions.

Sale of Accounts Receivable - Refer to Note 4 of the "Notes to Consolidated Financial Statements" for information on IPL's sale of accounts receivable program. WPL discontinued its sale of accounts receivable program in 2004.

Cash Flows from (used for) Investing Activities -
Historical Changes in Cash Flows used for Investing Activities - In 2004, Alliant Energy's cash flows used for investing activities increased $364 million primarily due to proceeds received from asset sales (primarily WPC and its Australian business) in 2003, partially offset by the 2003 acquisition by Resources of a 309 MW power plant in Neenah, Wisconsin, and lower expenditures associated with the construction of Emery. In 2003, Alliant Energy's cash flows used for investing activities decreased $350 million primarily due to proceeds from asset sales, partially offset by construction expenditures for the Emery plant.

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, but not limited to, 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 currently anticipates construction and acquisition expenditures during 2005 and 2006 as follows (in millions):

	Alliant Energy		IPL		WPL	
	2005	2006	2005	2006	2005	2006
Domestic utility business-related:						
Transmission and distribution (electric and gas)	$275	$265	$155	$140	$120	$125
Generation:						
Existing plants	85	90	55	60	30	30
Sheboygan Falls facility (1)	30	--	N/A	N/A	N/A	N/A
Environmental	30	35	--	5	30	30
Other miscellaneous utility property	90	90	45	50	45	40
Non-regulated (primarily China and synthetic fuel)	115-145	125-145	N/A	N/A	N/A	N/A
	$625-655	$605-625	$255	$255	$225	$225

(1) Non-regulated Generation in support of domestic utility generation plan

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" for a further discussion of Alliant Energy's domestic utility generation plan as well as an update on Alliant Energy's asset divestitures.

<u>Cash Flows from (used for) Financing Activities</u> -

Historical Changes in Cash Flows from (used for) Financing Activities - In 2004, Alliant Energy's cash flows from financing activities increased $162 million primarily due to changes in the amount of debt issued and retired, partially offset by lower proceeds from common and preferred stock issuances compared to 2003. In 2003, Alliant Energy's cash flows from financing activities decreased $79 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.

PUHCA Financing Authorizations - In 2004, Alliant Energy, Resources and IPL received Securities and Exchange Commission (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, 2007. Among other things, the approval authorized Alliant Energy, directly or through financing subsidiaries, to issue common and preferred stock, long-term debt securities and short-term debt securities up to a combined amount of $500 million; to provide guarantees and credit support for obligations of its subsidiaries up to an amount of $3.0 billion; to enter into hedging transactions to manage interest rate costs and risk exposure; and to increase its aggregate investment limit in exempt wholesale generators and foreign utility companies to 100% of consolidated retained earnings. The approval, among other things, also authorized Resources to provide guarantees and credit support for obligations of non-utility subsidiaries up to an amount of $600 million outstanding at any one time and IPL to issue preferred stock, long-term debt securities and short-term debt securities up to a combined amount of $700 million. Issuance of debt securities by WPL is exempt from regulation under provisions of PUHCA.

State Regulatory Agency Financing Authorizations - IPL has authorization for short-term borrowings of $300 million. WPL has authorization for short-term borrowings of $240 million, $185 million for general corporate purposes and an additional $55 million should WPL repurchase its variable rate demand bonds.

Shelf Registrations - In 2004, Alliant Energy, IPL and WPL each filed separate shelf registrations with the SEC. Alliant Energy's shelf registration allows Alliant Energy flexibility to offer from time to time up to an aggregate of $300 million of common stock, stock purchase contracts and stock purchase units. IPL's shelf registration allows IPL flexibility to offer from time to time up to an aggregate of $210 million of preferred stock, senior unsecured debt securities and collateral trust bonds. WPL's shelf registration allows WPL flexibility to offer from time to time up to an aggregate of $150 million of its preferred stock, senior unsecured debt securities and first mortgage bonds. Alliant Energy, IPL and WPL had $208 million, $85 million and $50 million remaining available under their respective shelf registrations as of Dec. 31, 2004.

Common Stock Dividends - In October 2004, Alliant Energy announced an increase in its quarterly common stock dividend from $0.25 per share to $0.2625 per share, which is equivalent to an annual rate of $1.05 per share, beginning with the Nov. 15, 2004 dividend payment. Alliant Energy's general long-term goal is to maintain a dividend payout ratio similar to standard industry averages, which are currently in a range of approximately 60% to 70% of Alliant Energy's utility earnings.

Common Stock Issuances - In 2004, Alliant Energy entered into a sales agreement with Cantor Fitzgerald & Co., under which Alliant Energy may sell from time to time up to 7.5 million shares of its common stock. During 2004, Alliant Energy issued approximately 3.6 million shares of new common stock and received approximately $90 million in net proceeds under this sales agreement. Subject to market conditions and other factors, Alliant Energy is contemplating issuing up to $90 million of total common equity during 2005, including issuances under its Shareowner Direct Plan and 401(k) Savings Plan (Alliant Energy issued approximately $23 million of equity under these two plans in 2004).

Long-term Debt - In February 2005, Resources retired an additional $100 million of its 7.375% senior notes due 2009, incurring a total of approximately $16 million of pre-tax debt repayment premiums and charges for the unamortized debt expenses related to these debt retirements. During 2004, Resources also retired $7 million of its 7.375% senior notes due 2009, $25 million of its 7% senior notes due 2011 and $10 million of its 9.75% senior notes due 2013. Resources incurred a total of approximately $0.05 per share of debt repayment premiums and charges for the unamortized debt expenses related to these debt retirements.

In October 2004, Resources' wholly-owned New Zealand subsidiary issued NZ$100 million of non-recourse redeemable preference shares due 2007, secured by its investment in TrustPower Ltd., to take advantage of the strength of the New Zealand currency. Holders of the redeemable preference shares will receive semi-annual cash dividends of approximately NZ$3.4 million. Given their characteristics, the redeemable preference shares are reported as "Long-term debt, net (excluding current portion)" on the Consolidated Balance Sheet. The majority of the approximately US$68 million of proceeds from this transaction has been repatriated to Resources, with no income tax implications, and has been used for general corporate purposes and to fund further debt reduction at Resources.

In August 2004, WPL issued $100 million of 6.25% senior debentures due 2034 and used the proceeds to repay short-term debt, including $62 million incurred in connection with the repayment at maturity of 7.75% first mortgage bonds in June 2004, and for general corporate purposes. IPL issued $25 million and $100 million of 6.30% senior debentures due 2034 in August 2004 and May 2004, respectively, and used the proceeds to repay short-term debt primarily incurred in the construction of Emery and for general corporate purposes.

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

Short-term Debt - Alliant Energy and its subsidiaries are party to various credit facilities and other borrowing arrangements. In July 2004, Alliant Energy completed the syndication of three revolving credit facilities (facilities) totaling $650 million ($100 million for Alliant Energy at the parent company level, $300 million for IPL and $250 million for WPL), which support commercial paper and are available for direct borrowings. The facility at the parent company is used to fund Resources and Corporate Services as well as its own needs. These facilities are designed to be five-year facilities with the length of the facilities subject to various regulatory approvals given the term is longer than a 364-day facility. Alliant Energy expects to receive the remaining regulatory approvals in 2005. 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, 2004 was as follows (dollars in millions):

	Alliant Energy	Parent Company	IPL	WPL
Commercial paper:				
Amount outstanding	$83	$--	$36	$47
Weighted average maturity	3 days	N/A	3 days	3 days
Discount rates	2.25-2.27%	N/A	2.27%	2.25%
Available capacity	$557	$100	$264	$193*

* WPL's capacity is limited to $240 million due to a PSCW regulatory restriction.

Creditworthiness -

Credit Facilities - Alliant Energy's, IPL's and WPL's credit facility agreements contain various covenants, including the following:

Covenant Description	Covenant Requirement	Status at Dec. 31, 2004
Alliant Energy:		
Consolidated debt-to-capital ratio	Less than 65%	48%
Interest coverage ratio	At least 2.5x	4.2x
IPL debt-to-capital ratio	Less than 58%	46%
WPL debt-to-capital ratio	Less than 58%	34%

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 interest coverage ratio is calculated by adding depreciation and amortization expense to operating income and dividing by interest expense.

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 $50 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 WPL or IPL, nor would a default by either of the utilities create a cross default for the other utility.

Alliant Energy's, IPL's and WPL'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 IPL and WPL, non-recourse project financing, purchase money liens, and liens on the ownership interests in or assets of foreign subsidiaries to secure not more than $300 million aggregate principal amount of foreign debt.

Alliant Energy's, IPL's and WPL's credit facilities contain material adverse change (MAC) clauses. Before each extension of credit (each borrowing under the facilities), unless the borrowing will be used exclusively to repurchase commercial paper issued by or on behalf of the borrower, each borrower must represent and warrant that no MAC has occurred since December 31, 2003. 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 the credit agreement to which it is a party.

Alliant Energy's, IPL's and WPL's credit facilities contain provisions that require, during the term of the facilities, any proceeds from asset sales, with certain exclusions, in excess of 20% of their respective consolidated assets be used to reduce commitments under their respective facilities. Exclusions include, among others, certain sale and lease-back transactions, and any potential sales of Alliant Energy's nuclear, transmission or international assets.

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. Although Alliant Energy believes the actions taken in 2003 and 2004 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 are as follows (long-term debt ratings only apply to senior debt):

		Standard & Poor's Rating Services	Moody's Investors Service (Moody's)
IPL	Secured long-term debt	A-	A3
	Unsecured long-term debt	BBB	Baa1
	Commercial paper	A-2	P-2
	Corporate/issuer	BBB+	Baa1
WPL	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	Baa2 (b)
	Corporate/issuer	BBB+	Not rated
Alliant Energy	Unsecured long-term debt	BBB	Not rated
	Commercial paper	A-2	P-2 (b)
	Corporate/issuer	BBB+	Not rated
All Entities	Outlook	Negative	Stable

(a) Resources' debt is fully and unconditionally guaranteed by Alliant Energy.
(b) Moody's upgraded Resources' unsecured long-term debt and Alliant Energy's commercial paper ratings in February 2005 to Baa2 from Baa3 and to P-2 from P-3, respectively.

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." 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. IPL is a party to an accounts receivable sale agreement that provides that a downgrade below investment-grade associated with its secured debt makes it ineligible to sell receivables under the program. In the event of a downgrade below investment-grade, management believes the credit facilities at Alliant Energy, IPL and WPL would 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 IPL uses proceeds from the sale of the accounts receivable and unbilled revenues to maintain flexibility in its capital structures, take advantage of favorable short-term interest rates and finance a portion of its long-term cash needs. The sale of accounts receivables generates a significant amount of short-term financing for IPL. 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, IPL anticipates it would have enough short-term borrowing capacity to compensate. Refer to "Ratings Triggers" for the impact of certain credit rating downgrades on IPL related to the accounts receivable sales program. Alliant Energy has reviewed these entities during its implementation of revised Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities," (FIN 46R), and determined that consolidation of these entities is not required. Refer to Note 20 of the "Notes to Consolidated Financial Statements" for additional information regarding the implementation of FIN 46R.

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.

Certain Financial Commitments -

Contractual Obligations - Alliant Energy's long-term contractual cash obligations as of Dec. 31, 2004 were as follows (in millions):

	2005	2006	2007	2008	2009	Thereafter	Total
Long-term debt maturities (Note 8(b))	$102	$70	$271	$196	$353	$1,821	$2,813
Interest - long-term debt obligations	174	168	157	145	134	992	1,770
Capital leases (Note 3)	16	45	10	9	3	7	90
Operating leases (Note 3)	101	105	131	76	71	231	715
Purchase obligations (Note 11(b)):							
Purchased-power and fuel commitments	422	187	97	50	39	130	925
Other	13	1	1	1	1	4	21
	$828	$576	$667	$477	$601	$3,185	$6,334

At Dec. 31, 2004, long-term debt and capital lease obligations as noted in the previous table were included on the Consolidated Balance Sheet. Included in long-term debt obligations was variable rate debt of $86 million, which represented 3% of total long-term debt outstanding. The long-term debt amounts exclude reductions related to unamortized debt discounts. Interest on variable rate debt in the previous table was calculated using rates as of Dec. 31, 2004. 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 $1.0 million at Dec. 31, 2004. In connection with its construction and acquisition programs, Alliant Energy also enters into commitments related to such programs on an ongoing basis which are not reflected in the previous table. Refer to "Cash Flows from (used for) Investing Activities - Construction and Acquisition Expenditures" for additional information. In addition, at Dec. 31, 2004, 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 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 IPL and WPL likely would be recovered in rates from its customers. The ability of Alliant Energy's China facilities to recover expenses attributable to compliance with changes in law, such as environmental regulations through tariff adjustments, is dependent upon decisions by regional and local governmental bodies which oversee the tariff adjustments. Most agreements governing the operations of Alliant Energy's China facilities include provisions for recovery of expenses resulting from changes in law. 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 - WPL previously responded confidentially 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. In September 2004, WPL was notified by the EPA that a third party had requested WPL's response materials. After review of such records, WPL determined that the information would no longer be claimed as confidential. There have been instances where citizen groups have pursued claims against utilities for alleged air permitting violations. WPL has not received any such actions to date and is unable to predict further actions, if any, from the information requests from the EPA or third parties.

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 2003, the EPA proposed the Clean Air Interstate Rule that would require emission control upgrades to existing power plants. This rule would reduce the current level of power plant sulfur dioxide emissions approximately 40% by 2010 and 70% by 2015, and nitrogen oxide emission levels 50% by 2010 and 65% by 2015. Additional reduction requirements may also be imposed at the state level for those areas that are in non-attainment with NAAQS. Alliant Energy believes that the required capital investments and/or modifications resulting from these proposed regulations could be significant.

In 2000, the EPA determined that regulation of hazardous air pollutant emissions from coal and oil-fired electric utility steam generating units was necessary. Under an existing settlement agreement, final utility Maximum Achievable Control Technology (MACT) requirements or alternative regulations must be issued by March 15, 2005. Accordingly, the EPA has published proposed rules requiring control of mercury from coal-fired and nickel from oil-fired generating units. The impact of these regulations on IPL's and WPL's generating facilities is subject to the control level mandated in the final rules. The Wisconsin Department of Natural Resources (DNR) also independently developed mercury control rules, which became effective in October 2004 for Wisconsin generating facilities, that cap emissions beginning in 2008, followed by subsequent reductions of 40% by 2010 and 75% by 2015. The Wisconsin mercury rule requirements will be superseded by federal mercury emissions standards when published. WPL has begun fuel sampling and will conduct stack testing in 2005 to support the compliance requirements for Wisconsin mercury rules. Alliant Energy continues to closely monitor the developments at the federal level related to mercury emissions standards and believes that required capital investments and/or modifications resulting from these rules could be significant.

In November 2004, the EPA's final Industrial Boiler MACT rule became effective and compliance with these new emission requirements for hazardous air pollutants is required by 2007. This rule applies to fossil-fueled generating units less than 25 MW. Alliant Energy is evaluating the applicability and compliance impact of these new emission requirements on these generating units and whether the associated compliance costs may be significant.

In 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 nitrogen oxide from coal- and oil-fired boilers. With the exception of one facility discussed below, Alliant Energy's China facilities are either currently in compliance with the first phase of this emission standard that was effective January 2005, or have negotiated variances with the local environmental protection bureaus with jurisdiction to further study and implement control and monitoring technology. Alliant Energy currently estimates its share of the capital investments required to meet this new emission standard through 2010 will be approximately $8 million. These costs are expected to be funded by China operations.

In early 2005, one of Alliant Energy's China facilities received an order from a regulatory agency stating that stricter sulfur emission controls are required. Discussions are still taking place with the regulatory agency and at this time Alliant Energy is not able to predict the final outcome, but believes that this issue should not have a material adverse impact on its financial condition or results of operations.

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 - The EPA regulation under the Clean Water Act referred to as "316(b)" became effective in September 2004. This regulation requires existing large power plants with cooling water intake structures to apply technology to minimize adverse environmental impacts to fish and other aquatic life. IPL and WPL are currently studying such impacts and will have compliance plans in place by the required date of January 2008. IPL and WPL are investigating compliance options and are unable to predict the final outcome, but believe that required capital investments and/or modifications resulting from this regulation could be significant.

WPL is also currently evaluating proposed revisions to the Wisconsin Administrative Code concerning the amount of heat that WPL's generating stations can discharge into Wisconsin waters. At this time, WPL is unable to predict the final outcome, but believes that required capital investments and/or modifications resulting from this regulation could be significant.

In October 2004, FERC issued an order regarding one of WPL's hydroelectric project licenses to require WPL to develop a detailed engineering and biological evaluation of potential fish passage alternatives within one year and to install within three years agency-approved fish-protective devices and fish passages. Accordingly, these provisions are now effective and WPL is in the process of working with the appropriate federal and state agencies to comply with these provisions and research solutions. WPL is currently unable to predict the final outcome, but believes that required capital investments and/or modifications resulting from this issue could be significant.

Land and Solid Waste - In October 2004, IPL received notification from the Iowa DNR regarding groundwater monitoring of four of its ash landfills to ensure groundwater has not been impacted beyond the landfill boundaries. IPL has addressed the Iowa DNR comments for all four facilities and has developed appropriate plans, awaiting the Iowa DNR approval, for implementation beginning in 2005. Monitoring results will be used to determine if further measures are required and IPL is unable to predict the outcome at this time.

In 2003, at the request of the Wisconsin DNR, WPL 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. Removal of ash from half of the remediation area to the landfill was completed in 2004. The remaining targeted ash will be moved to the landfill in 2005 and the landfill will be capped in 2006, with an insignificant total project cost.

Alliant Energy is also monitoring various other 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 primary financial impact would be from a secondary containment requirement for all hazardous materials tanks and for hazardous material unloading areas. Alliant Energy is unable to predict the outcome of these possible regulatory changes at this time, but believes that the required capital investment and/or modifications resulting from these potential regulations could be significant.

Refer to Note 11(e) of the "Notes to Consolidated Financial Statements" and "Construction and Acquisition Expenditures" 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. Refer to Notes 1(l) and 10 of the "Notes to Consolidated Financial Statements" for further discussion of Alliant Energy's derivative financial instruments.

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, IPL's 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 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, IPL's and WPL's consolidated financial structure, if variable interest rates were to average 100 basis points higher (lower) in 2005 than in 2004, expense would increase (decrease) by approximately $4.0 million, $1.9 million and $1.2 million, respectively. These amounts were determined by considering the impact of a hypothetical 100 basis point increase (decrease) in interest rates on Alliant Energy's, IPL's and WPL's consolidated variable-rate debt held, the amount outstanding under IPL's customer accounts receivable sale program and variable-rate lease balances at Dec. 31, 2004.

Commodity Price Risk - Alliant Energy is exposed to the impact of market fluctuations in the commodity price and transportation costs of electric and natural gas products it procures and 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 also 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.

Under PSCW rules, WPL can seek rate increases for increases in the cost of electric fuel and purchased power if it experiences an increase in costs that are more than 3% higher than the estimated costs used to establish rates. Such rules significantly reduce commodity risk for WPL by reducing the regulatory lag related to the timing of changes in rates for increased fuel and purchased energy costs. WPL's retail gas tariffs provide for subsequent adjustments to its natural gas rates for changes in the current monthly natural gas commodity price index. Also, WPL 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 WPL, with the remainder refunded to or recovered from customers. Such rate mechanisms

combined with commodity derivatives discussed above significantly reduce commodity risk associated with WPL's cost of natural gas. IPL's 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 thereby eliminating any price risk for prudently incurred commodity costs. Refer to Note 1(i) of the "Notes to Consolidated Financial Statements" for further discussion.

The generating plants included in Alliant Energy's China portfolio are currently experiencing higher than anticipated coal and related transportation costs due primarily to government reforms and coal allocations, rapid economic expansion in China and infrastructure bottlenecks. Alliant Energy has achieved some success in mitigating, and continues to work to mitigate, the impact of these cost increases through working with local and provincial Chinese authorities to increase the supply of lower-cost coal, gain access to long-term contracts and to enable the recovery of higher costs through tariffs. In addition, Alliant Energy is examining other ways to offset these cost increases within its operations. However, most of these efforts in China require government interaction, which is less formal and predictable than general fuel-related cost recovery processes experienced within the U.S. domestic utility industry. If the price of coal and related transportation costs were to increase (decrease) 10% compared to the average prices experienced in 2004, Alliant Energy's pre-tax income in 2005 would (decrease) increase by approximately $6.5 million.

In addition to applying pressure on the margins currently being realized from Alliant Energy's China operations, these cost pressures could impact the estimated fair value of Alliant Energy's China investments. At Dec. 31, 2004, Alliant Energy had $16 million of investments accounted for under the equity method of accounting and $10 million of goodwill related to its China investments on its Consolidated Balance Sheet. If the fair value of these investments does not exceed their carrying value (including goodwill) in the future, Alliant Energy may be required to record an impairment charge related to these investments and/or goodwill balances. Alliant Energy is currently unable to predict the future of these costs in China or provide assurances that its efforts to mitigate the impact of any cost increases will be successful.

Equity Price Risk - IPL and WPL maintain trust funds to fund the anticipated nuclear decommissioning costs of DAEC and Kewaunee, respectively. At Dec. 31, 2004, these funds were invested primarily in domestic equity and debt instruments and money market funds (WPL only). Fluctuations in equity prices or interest rates do not affect Alliant Energy's consolidated results of operations. In 2004, WPL liquidated all of its qualified decommissioning trust fund assets into money market funds as a result of the proposed Kewaunee sale. Refer to Notes 9 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 Exchange Rate 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, 2004, Alliant Energy had a cumulative foreign currency translation loss, net of tax benefits, of $56 million, which is primarily related to decreases in the value of the Brazil real of $72 million and increases in the value of the New Zealand dollar of $15 million in relation to the U.S. dollar. This loss is recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheet. Based on Alliant Energy's investments at Dec. 31, 2004, 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 $50 million. Alliant Energy's equity income (loss) from its foreign investments is also impacted by fluctuations in currency exchange rates, however such impact is not significant based on the current level of equity earnings. At Dec. 31, 2004, Alliant Energy also had currency exchange risk associated with approximately $37 million of debt outstanding at one of the Brazilian operating companies. Alliant Energy recorded equity income of $1.1 million and $2.4 million in 2004 and 2003, respectively, related to its share of the foreign currency transaction gains on such debt. Based on the loan balance and currency rates at Dec. 31, 2004, a 10% change in the currency rates would result in a $2.8 million pre-tax increase/decrease in net income.

In addition, Alliant Energy has currency exchange risk associated with approximately $32 million of payables at a Canadian subsidiary, which has been reported as assets held for sale and discontinued operations as of Dec. 31, 2004. In 2004 and 2003, Alliant Energy recorded pre-tax income of $1.9 million and $3.2 million, respectively, related to the foreign currency transaction gains on such payables. Based on the payables balance and currency rates at Dec. 31, 2004, a 10% change in the currency rates would result in a $3.2 million pre-tax increase/decrease in net income. In January 2005, Alliant Energy acquired an option to protect $23 million of its exposure against declines in currency rates while still retaining the opportunity to participate in the benefits of increases in currency rates.

Accounting Pronouncements - In December 2004, the FASB issued revised SFAS 123 guidance, "Share-Based Payment," (SFAS 123(R)), which requires companies to recognize compensation expense in an amount equal to the fair value of the share-based payments granted to employees. At the date of adoption, companies must use the modified prospective method which requires recording compensation expense for all awards granted after adoption and for the unvested portion of previously granted awards that remain outstanding. Companies may select the modified prospective or retrospective method for prior reporting periods. Pursuant to Accounting Principles Board Opinion (APB) 25, "Accounting for Stock Issued to Employees," no stock-based compensation cost is currently reflected in net income in the Consolidated Statements of Income, as all options granted under those plans had an exercise price equal to the quoted market price of the underlying common stock on the date of grant. Alliant Energy is required to adopt SFAS 123(R) by July 1, 2005 and does not anticipate the impacts will be material on its results of operations or financial condition given its limited use of stock options historically and its decision to discontinue using them entirely effective Jan. 1, 2005. Refer to Note 1(m) of the "Notes to Consolidated Financial Statements" for additional information regarding historical pro forma impacts of options on net income.

Alliant Energy does not expect the various new accounting pronouncements that were effective in 2004 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 following policies 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). 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 accounting principles generally accepted in the U.S. 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. Alliant Energy assesses the carrying amount and potential impairment of these assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors Alliant Energy considers in determining if an impairment review is necessary include a significant underperformance of the assets relative to historical or projected future operating results, a significant change in Alliant Energy's use of the acquired assets or business strategy related to such assets, and significant negative industry or economic trends. When Alliant Energy determines an impairment review is necessary, a comparison is made between the expected undiscounted future cash flows and the carrying amount of the asset. If the carrying amount of the asset is the larger of the two balances, an impairment loss is recognized equal to the amount the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by the use of quoted market prices, appraisals, or the use of valuation techniques such as expected discounted future cash flows. Alliant Energy must make assumptions regarding these estimated future cash flows and other factors to

determine the fair value of the respective assets. Alliant Energy's assets held for sale are also reviewed for possible impairment each reporting period and impairment charges are recorded if the carrying value of such assets exceeds the estimated fair value less cost to sell.

At Dec. 31, 2004, Resources owned $101 million of generation equipment, consisting of two gas turbines and one steam turbine. Resources is deploying the two gas turbines ($80 million) in the 300 MW, simple-cycle, natural gas-fired generating facility under construction near Sheboygan Falls, Wisconsin and continues to review for potential opportunities to utilize the steam turbine ($21 million). As a result, Alliant Energy has assessed the recoverability of the $101 million equipment cost compared to the future anticipated undiscounted cash flows from the Sheboygan Falls project and its opportunities to deploy the steam turbine. The future anticipated cash flows are a significant estimate. Alliant Energy has no current intentions to sell the steam turbine. If a decision was made to sell such equipment, the recoverability of the equipment cost would be assessed by comparing the future anticipated sales proceeds to the carrying value of the equipment.

Investments - The Consolidated Balance Sheets include investments in several available-for-sale securities accounted for in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" (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. 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 expected future local currency cash flows from these investments and the local currency carrying value of these investments. The expected discounted future cash flows currently exceed the carrying value of these investments. To determine its discount rate, Alliant Energy utilizes a rate of return determined by Brazilian regulators. The future anticipated cash flows and discount rate represent significant estimates. The $326 million carrying value of Alliant Energy's Brazil investments has been reduced by $137 million of pre-tax cumulative foreign currency translation losses. The net of tax balance of $72 million has been recorded in "Accumulated other comprehensive loss" on the Consolidated Balance Sheet at Dec. 31, 2004. 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.

At Dec. 31, 2004, Resources held a secured loan receivable (including accrued interest income) of approximately $82 million from an unrelated Mexican real estate development company. The loan proceeds were used by the development company to construct substantially all the infrastructure for the initial phase of a master-planned resort community known as Laguna del Mar located near Puerto Penasco, State of Sonora, on the Sea of Cortez in Mexico. Recoverability of Resources' investment in this project will primarily be based on proceeds from the sales of real estate lots in the master planned community and therefore is dependent on the successful development of the project and sales of real estate. Effective Jan. 1, 2004, Resources ceased accruing interest income related to this loan pending a resolution of the matter discussed in the following paragraph. As a result, Alliant Energy effectively recorded a valuation allowance of $7 million in 2004 related to this loan. The recoverability of the loan receivable was assessed at Dec. 31, 2004 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 2004 indicated that the fair value of the collateral, which is a significant estimate, approximated the carrying value of the loan and accrued interest.

Alliant Energy has been concerned about the Mexican development company's ability to timely complete all phases of the project, market and sell the real estate, and otherwise meet all of its obligations under the loan documents. As a result, Resources evaluated its alternatives and concluded that a negotiated transfer of ownership and control of the project to Resources was the best course of action in order for Resources to maximize the ultimate recovery of its loan and related interest income. In September 2004, Resources successfully completed negotiations and entered into a stock purchase agreement to acquire ownership of the project and all related assets, subject to the transferors' compliance with certain conditions precedent. The conditions precedent have been satisfied and the transfer of ownership and control of the project was consummated effective February 2005. The cash outlay for concluding the transfer is not material. Resources will continue to evaluate various alternatives related to the continued development of the resort community and/or the potential sale or sales of the assets. Resources intends to pursue the course of action best able to protect its interests and maximize the recovery of its investments.

Effective with the transfer of ownership in the first quarter of 2005, Alliant Energy will remove the loan receivable and record the fair value of the real estate lots and certain utility properties of the master-planned resort community in "Non-regulated and other property, plant and equipment" on its Consolidated Balance Sheet. This property, plant and equipment will be assessed for impairment in the future by comparing its carrying value to the anticipated future undiscounted cash flows generated by the real estate lots and utility assets. If the development of the project and related real estate sales are not ultimately successfully executed, it is possible that Alliant Energy could incur material asset valuation charges in the future. Alliant Energy is unable to predict the ultimate outcome of this matter. Alliant Energy does not expect the impact of this transfer will have a significant impact on its results of operations.

Refer to Note 9 of the "Notes to Consolidated Financial Statements" for further discussion of Alliant Energy's Brazil and Mexico investments.

Goodwill - In accordance with SFAS 142, "Goodwill and Other Intangible Assets," 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, 2004, Alliant Energy had $13 million of net goodwill included on the Consolidated Balance Sheet, primarily related to its China reporting unit. Refer to "Market Risk Sensitive Instruments and Positions - Commodity Price Risk" for further discussion. 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. Alliant Energy tests the sensitivities of these fair value estimates to changes in cash flow assumptions. 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. Refer to Note 16 of the "Notes to Consolidated Financial Statements" for information on goodwill impairment charges recorded in 2004 and 2002. Additionally, Alliant Energy continues to monitor its equity method investments in accordance with APB 18, "The Equity Method of Investments in Common Stock." Refer to Note 14 of the "Notes to Consolidated Financial Statements" for further discussion.

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 Sep. 30, 2004 (Alliant Energy's measurement date), 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 $101 million and $27 million in Alliant Energy's pension and other postretirement benefit obligations and $8.1 million and $3.2 million in expense in 2005, respectively. A 100 basis point change in the rate of return would result in an approximate change of $6.1 million and $0.9 million in pension and other postretirement benefit expense in 2005, 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.

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

Exchangeable Senior Notes - The interest deductions Alliant Energy has taken on it 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 (IRC) and, consequently, has not recorded any tax reserves. The IRS audit team, in conjunction with Alliant Energy, has requested a Technical Advice Memorandum (TAM) from the Chief Counsel's Office of the IRS. Alliant Energy has been verbally notified that the Chief Counsel's Office is anticipating issuing an adverse TAM regarding this issue. Alliant Energy has subsequently provided additional information in support of its position. The final results of the TAM are expected in the first half of 2005. If Alliant Energy receives an adverse TAM related to these interest deductions and the IRS further requires the interest deductions to be capitalized, it could have a material impact on its results of operations if Alliant Energy cannot generate sufficient capital gains in the future to offset potential capital losses that may result because of the capitalized interest. Based on a conservative evaluation of potential capital gains available, it is anticipated that Alliant Energy would be able to generate capital gains to reduce the potential tax liability to a range of $0 to $20 million. Alliant Energy is not able to predict the ultimate outcome of this matter and is currently exploring numerous options that could mitigate a portion or all of the potential adverse impact. As a worst case scenario, including litigation and possible appeals, this issue may remain unresolved for six to eight years. Refer to Note 8(b) of the "Notes to Consolidated Financial Statements" for additional information relating to the exchangeable senior notes.

Brazil - Alliant Energy continues to closely monitor the financial performance of its Brazilian investments. While such performance improved significantly in 2003, it was relatively flat in 2004 compared to 2003. Alliant Energy believes such performance can be improved, particularly in regard to controlling costs and reduction of debt. Alliant Energy has asserted its rights as a minority shareholder in Companhia Força e Luz Cataguazes-Leopoldina, S.A. (Cataguazes) in an attempt to control costs and reduce debt. Alliant Energy filed a request for arbitration with the International Chamber of Commerce's International Court of Arbitration in order to resolve this ongoing dispute with its Brazilian partners. Cataguazes itself is also a party to the arbitration. An arbitral tribunal heard this dispute commencing the week of Feb. 14, 2005, and is to issue a final decision no later than June 30, 2005. If the arbitral tribunal issues a final decision in favor of Alliant Energy, enforcement of that award would have to be sought in the Brazilian courts. Alliant Energy is not able to predict the ultimate outcome of this matter and cannot provide any assurance it would be able to obtain enforcement of any award.

Alliant Energy also filed a request for arbitration with the International Court of Arbitration in order to resolve a separate dispute with its Brazilian partners concerning the completion of the expansion of the Usina Termelétrica de Juiz de Fora S.A. (Juiz de Fora) natural gas-fired generating facility from a simple-cycle to a combined-cycle facility (Alliant Energy holds a direct 50% ownership interest in this facility). To complete earlier plans, the Juiz de Fora facility was scheduled for such 20 MW expansion in early 2006 at an estimated cost of US$26 million. However, initiation of the expansion construction was delayed due to a dispute with Cat-Leo Energia S.A. (Cat-Leo), a company controlled by Cataguazes, which holds the remaining 50% ownership interest, regarding the financing and construction of the expansion. Alliant Energy received a final award from the arbitral tribunal in the first quarter of 2005, which determined that Cat-Leo improperly interfered with plans to complete the combined-cycle expansion and therefore awarded Alliant Energy approximately US$22 million. The award is being challenged by Cat-Leo at the arbitral tribunal and Alliant Energy believes this issue will be resolved in the first half of 2005. If the final award is upheld, enforcement would have to be sought before the appropriate Brazilian court, a process that could require months to conclude. Successful enforcement would enable Alliant Energy to receive the awarded funds in exchange for its direct 50% interest in the Juiz de Fora facility (although Alliant Energy would still have an indirect interest through its minority shareholder ownership in Cataguazes). Alliant Energy cannot provide any assurance it would be able to obtain enforcement of the award. Concurrently, Alliant Energy continues to discuss with its partner the resolution of these matters including, but not limited to, a settlement and/or the possible sale of the facility. The Juiz de Fora combined-cycle construction will likely not be completed as originally anticipated. Accordingly, appropriate steps have been taken to adjust the contractually required future performance obligations of this generation asset. If Alliant Energy remains a partner in the Juiz de Fora facility, Alliant Energy is not required to invest any additional capital in the facility. Alliant Energy's direct equity investment in the Juiz de Fora facility at Dec. 31, 2004 was approximately US$20 million.

Any enforcement action related to these arbitration issues by Alliant Energy against Cat-Leo and/or Cataguazes in which Cat-Leo and/or Cataguazes refuse to comply with a court order could trigger default and/or cross-default provisions of the debt instruments in Brazil held by the operating entities owning the facilities - entities in which Alliant Energy has significant unconsolidated interests - unless the debtor company obtains appropriate waivers or consents from the applicable lenders. If such waivers, consents or similar relief could not be obtained from the lenders and the underlying debt was accelerated, then it would have a material adverse effect on the liquidity and creditworthiness of these debtor entities. Given these complexities, Alliant Energy will evaluate all available alternatives and will pursue the course(s) of action that will best protect its interests and maximize its potential recoveries of its investments in these entities.

Cataguazes and its subsidiaries also have certain debt instruments maturing in 2005. While Alliant Energy expects Cataguazes and its subsidiaries will be able to refinance and/or retire such debt, Alliant Energy cannot provide any assurance that it will be able to do so. If Cataguazes and its subsidiaries are not able to refinance or retire such debt instruments, Alliant Energy could incur material charges related to its investments in Brazil.

Alliant Energy has been and continues to explore with various parties, including its existing Brazilian partners, all of the options available to it concerning its investments in Brazil. Among others, these options include the potential to repair Alliant Energy's relationship with its partners, restructure the relationship or exit this market. Alliant Energy is considering and evaluating the full range of options potentially available, although experience demonstrates that accomplishment of any of the considered options will take time. Consequently, Alliant Energy is unable to provide any assurances that one or more of the options under review will occur, or that implementation of any one or more of the options will not result in Alliant Energy incurring a material charge relating to its investments in Brazil as it cannot currently predict the ultimate outcome of these reviews and discussions. Refer to "Other Matters - Critical Accounting Policies - Asset Valuations - Investments" for a further discussion.

AJCA - In October 2004, the AJCA was passed which includes changes to several provisions of the IRC. In addition to the extension of certain renewable energy production tax credits discussed earlier, the key changes that may impact Alliant Energy include, but are not limited to, a temporary dividends received deduction for foreign earnings repatriated during 2005 and future tax relief for domestic manufacturers (including electric production activities). Alliant Energy plans to repatriate certain foreign earnings in 2005 that were previously expected to be reinvested indefinitely and, as a result, has recorded tax charges of $0.04 per share in the fourth quarter of 2004, at a rate of 5.25%, given Alliant Energy had not previously recorded U.S. tax provisions related to these earnings. Any potential utility business tax benefits realized as a result of this legislation would be subject to all appropriate regulatory reviews.

Synfuel - A continued rise in oil prices from current levels could result in a reduction or elimination of the Section 29 tax credits expected for 2005 to 2007 related to Alliant Energy's synthetic fuel investment. A phase out or elimination of the Section 29 tax credits would have no impact on the tax credits resulting from prior production of synthetic fuel. Alliant Energy continues to closely monitor and assess this issue, including evaluating alternatives to potentially protect the ongoing economic benefits of its synthetic fuel investment, and cannot predict the ultimate outcome.

Domestic Utility Generating Facilities Outages - On Feb. 20, 2005, Kewaunee was removed from service after a potential design weakness was identified in a backup cooling system. Plant engineering staff identified the concern and the unit was shutdown in accordance with the plant license. A modification is being made to resolve the issue and it is anticipated that the unit will be back in service at full power in April 2005. The modification costs associated with resolving this issue and the operation and maintenance costs necessary to restart the unit are not expected to have a material adverse impact on Alliant Energy's financial condition or results of operations. WPL plans to seek recovery of the additional purchased-power costs incurred as a result of this outage through either a request for deferral or in the fuel-related rate case it will be filing in March 2005.

On Feb. 24, 2005, Alliant Energy announced that the Ottumwa Generating Station (OGS) is off-line due to a direct short in a 161-kilovolt step-up transformer. Alliant Energy is currently pursuing all options in order to put OGS back on-line as quickly as possible including replacement of the failed transformer with a new or used transformer, as well as examining options for repair of the failed transformer. Alliant Energy is currently unable to predict how long OGS will be unavailable or the costs to resolve this matter.

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

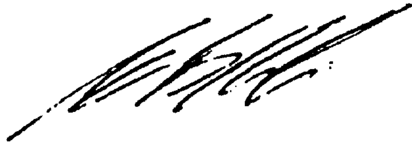
MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Alliant Energy Corporation and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Alliant Energy's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

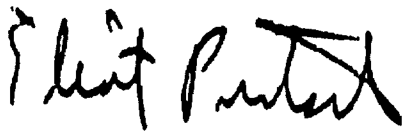
Because of the inherent limitations of internal control over financial reporting, misstatements may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Alliant Energy's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2004 using the criteria set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Alliant Energy's management believes that, as of December 31, 2004, its internal control over financial reporting was effective based on those criteria.

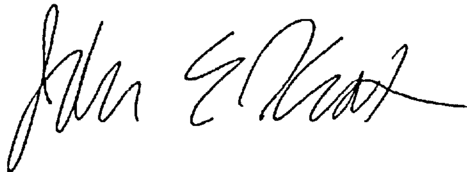
Deloitte & Touche LLP, Alliant Energy's independent registered public accounting firm, has issued an attestation report on management's assessment of its internal control over financial reporting. That attestation report is set forth immediately prior to the report of Deloitte & Touche LLP on the financial statements included herein.



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 2, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*, that Alliant Energy Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated March 2, 2005 expressed an unqualified opinion on those financial statements.

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 2, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, 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, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the consolidated financial statements, on January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
March 2, 2005

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2004	2003	2002
	(dollars in millions, except per share amounts)		
Operating revenues:			
Domestic utility:			
Electric	**$2,009.0**	$1,917.1	$1,752.5
Gas	**569.8**	566.9	394.0
Other	**90.6**	104.2	85.4
Non-regulated	**289.3**	278.6	225.2
	2,958.7	2,866.8	2,457.1
Operating expenses:			
Domestic utility:			
Electric production fuel and purchased power	**747.4**	730.6	651.8
Cost of gas sold	**396.9**	396.1	249.0
Other operation and maintenance	**707.2**	701.8	623.2
Non-regulated operation and maintenance	**254.5**	241.7	200.1
Depreciation and amortization	**332.2**	302.4	278.0
Taxes other than income taxes	**100.7**	89.3	103.5
	2,538.9	2,461.9	2,105.6
Operating income	**419.8**	404.9	351.5
Interest expense and other:			
Interest expense	**179.3**	207.5	182.8
Loss on early extinguishment of debt	**8.9**	16.9	-
Equity (income) loss from unconsolidated investments	**(35.1)**	(18.8)	12.9
Allowance for funds used during construction	**(18.5)**	(20.7)	(7.7)
Preferred dividend requirements of subsidiaries	**18.7**	16.9	6.2
Impairment of available-for-sale securities of McLeodUSA Inc.	**0.6**	-	27.2
Interest income and other	**(28.7)**	(21.8)	(10.8)
	125.2	180.0	210.6
Income from continuing operations before income taxes	**294.6**	224.9	140.9
Income taxes	**83.8**	68.9	46.8
Income from continuing operations	**210.8**	156.0	94.1
Income (loss) from discontinued operations, net of tax	**(65.3)**	33.5	12.8
Income before cumulative effect of changes in accounting principles	**145.5**	189.5	106.9
Cumulative effect of changes in accounting principles, net of tax	**-**	(6.0)	-
Net income	**$145.5**	$183.5	$106.9
Average number of common shares outstanding (basic) (000s)	**113,274**	101,366	90,897
Earnings per average common share (basic):			
Income from continuing operations	**$1.86**	$1.54	$1.04
Income (loss) from discontinued operations	**(0.58)**	0.33	0.14
Cumulative effect of changes in accounting principles	**-**	(0.06)	-
Net income	**$1.28**	$1.81	$1.18
Average number of common shares outstanding (diluted) (000s)	**113,701**	101,544	90,959
Earnings per average common share (diluted):			
Income from continuing operations	**$1.85**	$1.54	$1.04
Income (loss) from discontinued operations	**(0.57)**	0.33	0.14
Cumulative effect of changes in accounting principles	**-**	(0.06)	-
Net income	**$1.28**	$1.81	$1.18
Dividends declared per common share	**$1.0125**	$1.00	$2.00

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

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2004	2003
	(in millions)	
Property, plant and equipment:		
Domestic utility:		
Electric plant in service	**$6,380.3**	$5,707.5
Gas plant in service	**674.4**	646.4
Other plant in service	**534.1**	530.8
Accumulated depreciation	**(3,166.5)**	(2,982.9)
Net plant	**4,422.3**	3,901.8
Construction work in progress:		
Emery generating facility	**-**	304.3
Other	**180.9**	151.8
Other, less accumulated depreciation (accum. depr.) of $3.4 and $3.2	**69.6**	68.6
Total domestic utility	**4,672.8**	4,426.5
Non-regulated and other:		
Non-regulated Generation, less accum. depr. of $17.8 and $12.6	**266.2**	228.8
International, less accum. depr. of $45.4 and $33.7	**193.5**	198.9
Other Non-regulated Investments, less accum. depr. of $49.6 and $43.4	**87.1**	80.9
Alliant Energy Corporate Services, Inc. and other, less accum. depr. of $42.6 and $24.3	**65.0**	68.5
Total non-regulated and other	**611.8**	577.1
	5,284.6	5,003.6
Current assets:		
Cash and temporary cash investments	**262.6**	240.8
Restricted cash	**13.2**	9.8
Accounts receivable:		
Customer, less allowance for doubtful accounts of $3.9 and $4.8	**149.5**	58.9
Unbilled utility revenues	**138.1**	83.4
Other, less allowance for doubtful accounts of $2.3 and $0.8	**69.5**	93.8
Production fuel, at average cost	**59.5**	54.1
Materials and supplies, at average cost	**61.7**	60.5
Gas stored underground, at average cost	**64.9**	49.3
Regulatory assets	**61.8**	61.8
Assets held for sale	**56.7**	193.1
Other	**88.7**	83.0
	1,026.2	988.5
Investments:		
Investments in unconsolidated foreign entities	**540.4**	481.5
Nuclear decommissioning trust funds	**413.2**	381.5
Investment in American Transmission Company LLC and other	**251.3**	258.8
	1,204.9	1,121.8
Other assets:		
Regulatory assets	**426.1**	361.3
Deferred charges and other	**333.4**	322.3
	759.5	683.6
Total assets	**$8,275.2**	$7,797.5

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

CONSOLIDATED BALANCE SHEETS (Continued)

CAPITALIZATION AND LIABILITIES	December 31, 2004	2003
	(in millions, except per share and share amounts)	
Capitalization (Refer to Consolidated Statements of Capitalization):		
Common stock - $0.01 par value - authorized 240,000,000 and 200,000,000 shares; outstanding 115,741,816 and 110,962,910 shares	**$1.2**	$1.1
Additional paid-in capital	**1,762.1**	1,643.6
Retained earnings	**871.9**	840.4
Accumulated other comprehensive loss	**(67.1)**	(106.4)
Shares in deferred compensation trust - 246,572 and 264,673 shares at an average cost of $27.36 and $27.84 per share	**(6.7)**	(7.4)
Total common equity	**2,561.4**	2,371.3
Cumulative preferred stock of subsidiaries, net	**243.8**	243.8
Long-term debt, net (excluding current portion)	**2,299.5**	2,123.3
	5,104.7	4,738.4
Current liabilities:		
Current maturities	**102.3**	69.3
Variable rate demand bonds	**39.1**	55.1
Commercial paper	**83.0**	107.5
Other short-term borrowings	**18.9**	21.5
Accounts payable	**295.8**	296.2
Accrued interest	**45.5**	44.0
Accrued taxes	**103.2**	68.8
Liabilities held for sale	**14.0**	48.3
Other	**176.9**	147.7
	878.7	858.4
Other long-term liabilities and deferred credits:		
Deferred income taxes	**775.5**	702.0
Deferred investment tax credits	**44.0**	49.1
Regulatory liabilities	**647.2**	654.2
Asset retirement obligations	**369.3**	345.7
Pension and other benefit obligations	**185.8**	188.3
Other	**220.4**	209.1
	2,242.2	2,148.4
Minority interest	**49.6**	52.3
Commitments and contingencies (Note 11)		
Total capitalization and liabilities	**$8,275.2**	$7,797.5

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
		(in millions)	
Cash flows from operating activities:			
Net income	**$145.5**	$183.5	$106.9
Adjustments to reconcile net income to net cash flows from operating activities:			
(Income) loss from discontinued operations, net of tax	**65.3**	(33.5)	(12.8)
Depreciation and amortization	**332.2**	302.4	278.0
Other amortizations	**66.2**	73.7	51.6
Deferred tax expense and investment tax credits	**58.6**	58.0	13.4
Equity (income) loss from unconsolidated investments, net	**(35.1)**	(18.8)	12.9
Distributions from equity method investments	**34.4**	24.3	21.7
Gains on dispositions of assets, net	**(19.8)**	(5.6)	(0.2)
Non-cash valuation charges	**3.9**	11.0	50.6
Other	**(1.6)**	2.5	(13.9)
Other changes in assets and liabilities:			
Accounts receivable	**(20.0)**	(60.2)	(7.8)
Sale of utility accounts receivable	**(101.0)**	(26.0)	24.0
Gas stored underground	**(15.6)**	(13.2)	4.5
Accounts payable	**36.2**	(2.2)	14.9
Accrued taxes	**34.4**	(35.1)	18.8
Benefit obligations and other	**(82.0)**	(0.1)	(21.3)
Net cash flows from operating activities	**501.6**	460.7	541.3
Cash flows used for investing activities:			
Construction and acquisition expenditures:			
Domestic utility business	**(538.6)**	(580.8)	(405.8)
Non-regulated businesses	**(95.2)**	(246.8)	(209.9)
Alliant Energy Corporate Services, Inc. and other	**(15.4)**	(9.6)	(32.7)
Nuclear decommissioning trust funds	**(15.0)**	(14.1)	(22.9)
Proceeds from asset sales	**42.4**	522.5	26.0
Other	**(17.7)**	53.1	19.7
Net cash flows used for investing activities	**(639.5)**	(275.7)	(625.6)
Cash flows from (used for) financing activities:			
Common stock dividends	**(114.0)**	(101.3)	(181.0)
Proceeds from issuance of common stock	**115.1**	345.6	56.1
Proceeds from issuance of preferred stock of subsidiary	**-**	38.7	144.6
Redemption of preferred stock of subsidiary	**-**	-	(56.4)
Net change in Alliant Energy Resources, Inc.'s credit facility	**-**	-	(383.6)
Proceeds from issuance of other long-term debt	**297.3**	338.6	300.0
Reductions in other long-term debt	**(111.0)**	(367.8)	(20.8)
Net change in commercial paper and other short-term borrowings	**(27.1)**	(180.2)	200.1
Net change in loans with discontinued operations	**33.7**	(40.1)	42.4
Other	**(34.3)**	(35.4)	(24.2)
Net cash flows from (used for) financing activities	**159.7**	(1.9)	77.2
Net increase (decrease) in cash and temporary cash investments	**21.8**	183.1	(7.1)
Cash and temporary cash investments at beginning of period	**240.8**	57.7	64.8
Cash and temporary cash investments at end of period	**$262.6**	$240.8	$57.7
Supplemental cash flows information:			
Cash paid during the period for:			
Interest, net of capitalized interest	**$179.2**	$198.9	$184.2
Income taxes, net of refunds	**$34.6**	$18.9	$32.4
Noncash investing and financing activities:			
Debt repaid directly by buyer in the sale of Australian business	**$-**	$127.6	$-
Debt assumed by buyer of affordable housing business	**$-**	$88.0	$-
Capital lease obligations incurred	**$17.7**	$14.8	$19.1

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 2004	December 31, 2003
	(in millions)	
Common equity (Refer to Consolidated Balance Sheets)	**$2,561.4**	$2,371.3
Cumulative preferred stock of subsidiaries, net (Note 7(b))	**243.8**	243.8
Long-term debt, net:		
Domestic utility:		
First Mortgage Bonds:		
7.6%, due 2005	**72.0**	72.0
2.5% variable rate at Dec. 31, 2004, due 2005	**16.0**	16.0
8%, due 2007	**25.0**	25.0
2.36% variable rate at Dec. 31, 2004, due 2014	**8.5**	8.5
2.15% to 2.5% variable rates at Dec. 31, 2004, due 2015	**30.6**	30.6
7.75%, retired in 2004	**-**	62.0
	152.1	214.1
Collateral Trust Bonds:		
7.25%, due 2006	**60.0**	60.0
6.875%, due 2007	**55.0**	55.0
6%, due 2008	**50.0**	50.0
5.5% to 7%, due 2023	**69.4**	69.4
	234.4	234.4
Pollution Control Revenue Bonds:		
2.5% to 6.35% fixed/variable rates at Dec. 31, 2004, due 2005 to 2023	**45.9**	45.9
Other long-term debt:		
Debentures, 7%, due 2007	**105.0**	105.0
Debentures, 5.7%, due 2008	**60.0**	60.0
Senior debentures, 6.625%, due 2009	**135.0**	135.0
Debentures, 7.625%, due 2010	**100.0**	100.0
Senior debentures, 6.75%, due 2011	**200.0**	200.0
Senior debentures, 5.875%, due 2018	**100.0**	100.0
Senior debentures, 6.45%, due 2033	**100.0**	100.0
Senior debentures, 6.3%, due 2034	**125.0**	-
Debentures, 6.25%, due 2034	**100.0**	-
	1,457.4	1,294.4
Less:		
Current maturities	**(90.7)**	(62.0)
Variable rate demand bonds	**(39.1)**	(55.1)
Unamortized debt discount, net	**(3.0)**	(3.0)
Total domestic utility, net	**1,324.6**	1,174.3
Non-regulated and other:		
Alliant Energy Neenah, LLC credit facility, 3.5% at Dec. 31, 2004, due 2005 to 2010	**49.5**	55.1
Alliant Energy New Zealand Ltd. non-recourse redeemable preference shares (NZ$100 denomination), 6.765%, due 2007	**71.8**	-
Alliant Energy Corporate Services, Inc. senior notes, 4.55%, due 2008	**75.0**	75.0
Senior notes, 7.375%, due 2009, partially retired in 2004	**204.0**	211.0
Senior notes, 7%, due 2011, partially retired in 2004	**258.0**	282.5
Senior notes, 9.75%, due 2013, partially retired in 2004	**275.0**	285.0
Exchangeable senior notes, 2.5%, due 2030	**402.5**	402.5
Other, 1% to 6.7%, due 2005 to 2033	**19.6**	14.9
	1,355.4	1,326.0
Less:		
Current maturities	**(11.6)**	(7.3)
Unamortized debt discount, net	**(368.9)**	(369.7)
Total non-regulated and other, net	**974.9**	949.0
Total long-term debt, net	**2,299.5**	2,123.3
Total capitalization	**$5,104.7**	$4,738.4

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 millions)		
2002:						
Beginning balance (a)	$0.9	$1,239.8	$832.3	($152.5)	($2.2)	$1,918.3
Net income			106.9			106.9
Unrealized holding losses on securities, net of tax of ($8.5)				(11.1)		(11.1)
Less: reclassification adjustment for losses included in net income, net of tax of ($14.4)				(23.2)		(23.2)
Net unrealized gains on securities				12.1		12.1
Foreign currency translation adjustments, net of tax of ($58.7)				(37.8)		(37.8)
Minimum pension liability adjustments, net of tax of ($18.9)				(27.2)		(27.2)
Unrealized holding losses on derivatives, net of tax of ($2.8)				(2.6)		(2.6)
Less: reclassification adjustment for gains included in net income, net of tax of $1.7				1.9		1.9
Net unrealized losses on qualifying derivatives				(4.5)		(4.5)
Total comprehensive income						49.5
Common stock dividends			(181.0)			(181.0)
Common stock issued and other		54.1			(4.7)	49.4
Ending balance	0.9	1,293.9	758.2	(209.9)	(6.9)	1,836.2
2003:						
Net income			183.5			183.5
Unrealized holding gains on securities, net of tax of $6.5				11.2		11.2
Less: reclassification adjustment for gains included in net income, net of tax of $1.4				2.4		2.4
Net unrealized gains on securities				8.8		8.8
Foreign currency translation adjustments, net of tax of ($6.8)				88.9		88.9
Less: reclassification adjustment for gains included in net income, net of tax of $4.3				5.3		5.3
Net foreign currency translation adjustments				83.6		83.6
Minimum pension liability adjustments, net of tax of $4.3				6.3		6.3
Unrealized holding losses on derivatives, net of tax of ($0.9)				(1.7)		(1.7)
Less: reclassification adjustment for losses included in net income, net of tax of ($3.8)				(6.5)		(6.5)
Net unrealized gains on qualifying derivatives				4.8		4.8
Total comprehensive income						287.0
Common stock dividends			(101.3)			(101.3)
Common stock issued and other	0.2	349.7			(0.5)	349.4
Ending balance	1.1	1,643.6	840.4	(106.4)	(7.4)	2,371.3
2004:						
Net income			**145.5**			**145.5**
Unrealized holding gains on securities, net of tax of $5.8				**9.7**		**9.7**
Less: reclassification adjustment for gains included in net income, net of tax of $6.6				**10.6**		**10.6**
Net unrealized losses on securities				**(0.9)**		**(0.9)**
Foreign currency translation adjustments, net of tax of $5.2				**24.7**		**24.7**
Minimum pension liability adjustments, net of tax of $10.1				**15.6**		**15.6**
Unrealized holding gains on derivatives, net of tax of $0.2				**0.3**		**0.3**
Less: reclassification adjustment for gains included in net income, net of tax of $0.3				**0.4**		**0.4**
Net unrealized losses on qualifying derivatives				**(0.1)**		**(0.1)**
Total comprehensive income						**184.8**
Common stock dividends			**(114.0)**			**(114.0)**
Common stock issued and other	**0.1**	**118.5**			**0.7**	**119.3**
Ending balance	**$1.2**	**$1,762.1**	**$871.9**	**($67.1)**	**($6.7)**	**$2,561.4**

(a) Accumulated other comprehensive loss at January 1, 2002 consisted of ($8.0) of net unrealized losses on securities, ($126.8) of foreign currency translation adjustments, ($16.4) of minimum pension liability adjustments and ($1.3) 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 Corporation (Alliant Energy) and its consolidated subsidiaries. Alliant Energy is an investor-owned public utility holding company, whose primary subsidiaries are Interstate Power and Light Company (IPL), Wisconsin Power and Light Company (WPL), Alliant Energy Resources, Inc. (Resources) and Alliant Energy Corporate Services, Inc. (Corporate Services). IPL and WPL are utility subsidiaries that are engaged principally in the generation, transmission (IPL 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 three primary business platforms: International, Non-regulated Generation and Other Non-regulated Investments. International holds interests in various businesses to develop energy generation, delivery and infrastructure in growing international markets in Brazil, China and New Zealand. Non-regulated Generation supports the development, financing and construction of generation to meet the needs of Alliant Energy's domestic utility business; owns a 309 megawatt (MW), non-regulated, tolled (through May 2008), natural gas-fired power plant in Neenah, Wisconsin; and currently has a 300 MW simple-cycle, natural gas-fired generating facility under construction near Sheboygan Falls, Wisconsin. Other Non-regulated Investments includes investments in environmental engineering and site remediation, transportation, a master-planned resort community (Laguna del Mar), synthetic fuel and energy technologies investments, as well as oil and gas gathering pipeline systems and a biomass facility that Alliant Energy recently decided to divest. Corporate Services is the subsidiary formed to provide administrative services to Alliant Energy and its subsidiaries as required under the Public Utility Holding Company Act of 1935 (PUHCA). Refer to Note 16 for information on various businesses reported as assets held for sale and discontinued operations in the Consolidated Financial Statements.

The consolidated financial statements reflect investments in controlled subsidiaries on a consolidated basis. All significant intercompany balances and transactions, other than certain energy-related transactions affecting IPL and WPL, 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 accounting principles generally accepted in the United States of America (U.S.), which give recognition to the rate making and accounting practices of the Federal Energy Regulatory Commission (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. Most reclassifications relate to the reporting of discontinued operations pursuant to Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment or Disposal of Long-lived Assets" (SFAS 144). The notes herein have been restated to reflect continuing operations for all periods presented.

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 Securities and Exchange Commission (SEC) under PUHCA. The utility subsidiaries are subject to regulation under PUHCA, FERC, their respective state regulatory commissions, the U.S. Environmental Protection Agency, and the Nuclear Regulatory Commission (NRC). Resources is subject to regulation by an autonomous national electric energy agency (Agencia Nacional de Energia Eletrica (ANEEL)) for its Brazil investments, the Chinese government, including local and provincial authorities, for its China investments and the New Zealand Electricity Commission for its New Zealand investments. Alliant Energy and its subsidiaries are also subject to regulation by various other federal, state and local agencies.

(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. At Dec. 31, 2004 and 2003, IPL had $22 million and $24 million and WPL had $11 million and $7 million of regulatory assets that were not earning returns, respectively. At Dec. 31, regulatory assets were comprised of the following items (in millions):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
Tax-related (Note 1(d))	**$251.1**	$209.2	**$230.9**	$185.8	**$20.2**	$23.4
Environmental-related (Note 11(e))	**50.6**	58.6	**37.7**	42.4	**12.9**	16.2
Minimum pension liability (Note 6(a))	**39.4**	--	**--**	--	**39.4**	--
Energy conservation program costs	**36.1**	36.8	**21.8**	13.9	**14.3**	22.9
Asset retirement obligations (Note 19)	**32.9**	28.8	**17.6**	20.5	**15.3**	8.3
Debt redemption costs	**22.8**	24.2	**13.2**	14.2	**9.6**	10.0
Excess allowance for funds used during construction (AFUDC) (Note 1(g))	**11.9**	12.1	**--**	--	**11.9**	12.1
Derivatives (Note 10(a))	**10.6**	4.7	**3.9**	1.1	**6.7**	3.6
Fuel cost recovery (Note 1(i))	**4.6**	15.5	**4.1**	15.3	**0.5**	0.2
Other	**27.9**	33.2	**9.0**	9.7	**18.9**	23.5
	$487.9	$423.1	**$338.2**	$302.9	**$149.7**	$120.2

Alliant Energy believes it is probable that any differences between expenses for legal asset retirement obligations (AROs) calculated under SFAS 143, "Accounting for Asset Retirement Obligations" (SFAS 143), and expenses recovered currently in rates will be recoverable in future rates, and is deferring the difference as a regulatory asset.

At Dec. 31, regulatory liabilities were comprised of the following items (in millions):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
Cost of removal obligations	**$534.7**	$535.8	**$336.7**	$325.9	**$198.0**	$209.9
Tax-related (Note 1(d))	**110.3**	114.0	**93.3**	96.1	**17.0**	17.9
Gas performance incentive (Note 1(i))	**15.1**	10.6	**--**	--	**15.1**	10.6
Other	**14.7**	11.5	**5.9**	8.1	**8.8**	3.4
	$674.8	$671.9	**$435.9**	$430.1	**$238.9**	$241.8

At Dec. 31, 2004 and 2003, current regulatory liabilities of $28 million and $18 million were reported in "Other current liabilities" on the Consolidated Balance Sheets, respectively.

Alliant Energy collects in rates future removal costs for many assets that do not have an associated legal ARO. Alliant Energy records a regulatory liability for the estimated amounts it has collected in rates for these future removal costs less amounts spent on removal activities.

(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 IPL, 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, IPL has recorded deferred tax liabilities and regulatory assets for certain temporary differences, as identified in Note 1(c). In Wisconsin, the Public Service Commission of Wisconsin (PSCW) has allowed rate recovery of deferred taxes on all temporary differences since August 1991. WPL established a regulatory asset associated with those temporary differences occurring prior to August 1991 that will be recovered in future rates through 2007.

In 2002, IPL 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 Alliant Energy's results of operations pending a decision from the Iowa Utilities Board (IUB) on the required rate making treatment of the benefit. In its April 2003 order, the IUB approved IPL's proposed accounting treatment to defer the tax savings as a regulatory liability 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 2005 or 2006. There would be no material negative impact on Alliant Energy's results of operations or financial position should the IRS reject IPL's proposal.

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

Weighted average common shares outstanding:	**2004**	2003	2002
Basic EPS calculation	**113,274**	101,366	90,897
Effect of dilutive securities	**427**	178	62
Diluted EPS calculation	**113,701**	101,544	90,959

In 2004, 2003 and 2002, 3,309,468, 3,799,938 and 3,338,978 options, respectively, to purchase shares of common stock, with weighted average exercise prices of $29.36, $28.68 and $29.67, respectively, were excluded from the calculation of diluted EPS 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, 2004 primarily related to dividend requirements of non-recourse redeemable preference shares issued by Resources' wholly-owned New Zealand subsidiary in 2004 and deposits with trustees. At Dec. 31, 2003, short-term restricted cash primarily related to borrowing requirements for various power plants in China and deposits with trustees. At Dec. 31, 2004 and 2003, Alliant Energy also had $7.3 million and $6.7 million, respectively, of long-term restricted cash primarily related to borrowing requirements for the acquisition and maintenance of Resources' 309 MW power plant in Neenah, Wisconsin.

(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, 2004 and 2003, IPL had $20 million and $21 million, respectively, of acquisition adjustments, net of accumulated amortization, included in utility plant ($4.3 million and $4.6 million, respectively, of such balances are currently being recovered in IPL's rates). 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. The AFUDC recovery rates, computed in accordance with the prescribed regulatory formula, were as follows:

	2004	2003	2002
IPL	**7.3%**	7.9%	6.9%
WPL (PSCW formula - retail jurisdiction)	**15.2%**	14.8%	12.6%
WPL (FERC formula - wholesale jurisdiction)	**12.5%**	9.5%	2.6%

WPL records a regulatory asset for all retail jurisdiction construction projects equal to the difference between the AFUDC calculated in accordance with PSCW guidelines and the AFUDC authorized by FERC and amortizes the regulatory asset at a composite rate and time frame established during each rate case. The amount of AFUDC generated by equity and debt was as follows (in millions):

	Alliant Energy			IPL			WPL		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
Equity	**$13.2**	$13.5	$4.0	**$9.5**	$10.6	$2.5	**$3.7**	$2.9	$1.5
Debt	**5.3**	7.2	3.7	**4.5**	6.1	2.6	**0.8**	1.1	1.1
	$18.5	$20.7	$7.7	**$14.0**	$16.7	$5.1	**$4.5**	$4.0	$2.6

Electric plant in service by functional category as of Dec. 31 was as follows (in millions):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
Generation	**$3,049.6**	$2,596.1	**$2,054.6**	$1,631.5	**$995.0**	$964.6
Distribution	**2,464.2**	2,280.0	**1,395.1**	1,306.5	**1,069.1**	973.5
Transmission	**634.3**	603.2	**634.3**	603.2	**--**	--
Other	**232.2**	228.2	**167.8**	164.3	**64.4**	63.9
	$6,380.3	$5,707.5	**$4,251.8**	$3,705.5	**$2,128.5**	$2,002.0

IPL and WPL 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 depreciable life of the Duane Arnold Energy Center (DAEC), of which IPL is a co-owner, is based on the NRC license end-of-life of 2014. The remaining depreciable life of the Kewaunee Nuclear Power Plant (Kewaunee), of which WPL 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 further in Note 11(f). The average rates of depreciation for electric and gas properties, consistent with current rate making practices, were as follows:

	IPL			WPL		
	2004	2003	2002	**2004**	2003	2002
Electric	**3.5%**	3.3%	3.4%	**3.5%**	3.7%	3.6%
Gas	**2.7%**	2.7%	2.9%	**4.0%**	4.0%	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, plant 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. In 2004, Resources capitalized interest of $5.4 million related to the Sheboygan Falls project.

(h) Operating Revenues - Revenues from IPL and WPL 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. 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 - IPL'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, until they are automatically reflected in future billings to customers. Recovery of capacity related charges associated with IPL's and WPL's purchased-power costs are recovered from electric customers through changes in base rates.

WPL's retail electric rates are based on annual forecasts that include fuel and purchased energy costs. Under PSCW rules, WPL can seek rate increases for increases in the cost of electric fuel and purchased energy if it experiences an increase in costs that are more than 3% higher than the estimated costs used to establish rates and must reduce rates if annual costs are more than 3% lower than the estimated costs used to establish rates. WPL's retail gas tariffs provide for subsequent adjustments to its natural gas rates for changes in the current monthly natural gas commodity price index. Also, WPL 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 WPL, with the remainder refunded to or recovered from customers.

(j) Generating Facility Outages - The IUB allows IPL 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 WPL 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 2002 to 2004 and anticipated refueling outages for 2005 to 2007 are as follows:

	2002	2003	2004	2005	2006	2007
DAEC	None	Spring	None	Spring	None	Spring
Kewaunee	None	Spring	Fall	None	Spring	Fall

(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, as they are generally reported as changes in regulatory assets and liabilities. 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, 2004, 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" (APB 25). No stock-based compensation cost is reflected in net income in Alliant Energy's 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 millions):

	2004	2003	2002
Net income, as reported	**$145.5**	$183.5	$106.9
Less: stock-based compensation expense, net of tax	**1.7**	2.0	2.6
Pro forma net income	**$143.8**	$181.5	$104.3
EPS (basic):			
As reported	**$1.28**	$1.81	$1.18
Pro forma	**$1.27**	$1.79	$1.15
EPS (diluted):			
As reported	**$1.28**	$1.81	$1.18
Pro forma	**$1.26**	$1.79	$1.15

(n) Pension Plan - For the defined benefit pension plan sponsored by Corporate Services, Alliant Energy allocates pension costs and contributions to IPL, WPL, 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. Assets held for sale are reviewed for possible impairment each reporting period and impairment charges are recorded 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 and Other Intangible Assets" (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 fair value of these investments to their carrying values as well as assessing if a decline in fair value is temporary. If an impairment is indicated, a charge is recognized equal to the amount the carrying value exceeds the investment's fair value.

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

	2004	2003	2002
Interest income:			
From loans to discontinued operations	**($8.5)**	($11.7)	($23.0)
From loan to Mexican development company (Note 9)	**--**	(5.6)	(3.8)
Other	**(8.0)**	(6.2)	(7.2)
Valuation charges/(income):			
McLeodUSA Inc. (McLeod) trading securities	**0.7**	(0.6)	5.0
Other unconsolidated investments	**1.1**	2.8	10.3
Gain on sale of Whiting Petroleum Corporation (WPC) stock	**(14.2)**	--	--
Gains on other asset sales, net	**(5.6)**	(5.6)	(0.2)
Currency transaction (gains) losses, net	**(1.4)**	(2.4)	0.7
Minority interest of subsidiaries' net earnings	**4.3**	4.5	4.2
Other	**2.9**	3.0	3.2
	($28.7)	($21.8)	($10.8)

(q) Operating Leases - Alliant Energy has certain purchased-power agreements that are accounted for as operating leases. Costs associated with these agreements are included in "Electric production fuel and purchased power" in the Consolidated Statements of Income based on monthly payments for these agreements. Monthly capacity payments related to one of these agreements is higher during the peak demand period from May 1 through Sep. 30 and lower in all other periods during each calendar year. These seasonal differences in capacity charges are consistent with market pricing and the expected usage of energy from the plant.

(2) DOMESTIC UTILITY RATE MATTERS

In 2005, WPL received approval from the PSCW to refund $12 million in 2005 to its natural gas customers for gains realized from its gas performance incentive program. At Dec. 31, 2004, WPL reserved for all amounts related to these refunds. Refer to Note 1(i) for further discussion of WPL's fuel cost recovery.

(3) LEASES

Operating Leases - In 2004, 2003 and 2002, Alliant Energy's operating lease rental expenses, which included certain purchased-power agreements, were $79 million, $41 million and $38 million, respectively. Contingent rentals from operating leases that were excluded from these amounts were $3.4 million, $4.2 million and $5.2 million for 2004, 2003 and 2002, respectively. At Dec. 31, 2004, Alliant Energy's future minimum operating lease payments, excluding contingent rentals, were as follows (in millions):

	2005	2006	2007	2008	2009	Thereafter	Total
Operating leases:							
Certain purchased-power agreements	$69	$70	$72	$64	$58	$177	$510
Synthetic leases	19	24	50	4	6	15	118
Other	13	11	9	8	7	39	87
Total operating leases	$101	$105	$131	$76	$71	$231	$715

The purchased-power agreements meeting the criteria as operating leases are such that, over the contract term, Alliant Energy has exclusive rights to all or a substantial portion of the output from a specific generating facility. The purchased-power agreements total in the previous table includes $429 million and $56 million related to the Riverside plant tolling agreement and RockGen plant purchased-power agreement, respectively. Refer to Note 20 for additional information concerning the impacts of Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN 46R), on these two agreements.

The synthetic leases in the previous table relate to the financing of the corporate headquarters, corporate aircraft, utility railcars and a utility radio dispatch system. The entities that lease these assets to Alliant Energy do not meet the consolidation requirements per FIN 46R and are not included on the Consolidated Balance Sheets. Alliant Energy has guaranteed the residual value of its synthetic leases which total $70 million in the aggregate. The guarantees extend through the maturity of each respective underlying lease with remaining terms up to 11 years. Residual value guarantee amounts have been included in the previous table.

Capital Leases - IPL 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 2004, 2003 and 2002 were $16 million, $13 million and $15 million, respectively. At Dec. 31, 2004, Alliant Energy's future minimum capital lease payments were as follows (in millions):

	2005	2006	2007	2008	2009	There -after	Total	Less: amount repre- senting interest	Present value of net minimum capital lease payments	Gross assets under lease at 12-31-04
Capital leases:										
Nuclear fuel (IPL)	$14	$16	$10	$8	$2	$2	$52	$4	$48	$93 (a)
Office building (IPL)	1	29	--	--	--	--	30	2	28	16 (b)
Other	1	--	--	1	1	5	8	3	5	5
Total capital leases	$16	$45	$10	$9	$3	$7	$90	$9	$81	$114

(a) At Dec. 31, 2004 and 2003, accumulated amortization was $45 million and $31 million, respectively.
(b) The difference between the gross assets under the lease and the present value of the net minimum capital lease payments primarily relates to cash received by IPL at the inception of the lease. At Dec. 31, 2004 and 2003, accumulated amortization was $1.1 million and $0.8 million.

(4) SALES OF ACCOUNTS RECEIVABLE

Domestic utility customer accounts receivable, including unbilled revenues, arise primarily from electric and natural gas sales. At Dec. 31, 2004 and 2003, IPL and WPL were serving a diversified base of residential, commercial, industrial and wholesale customers and did not have any significant concentrations of credit risk.

IPL participates in a utility customer accounts receivable sale program whereby it may sell up to a maximum amount of $125 million of its 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 IPL. In March 2004, WPL discontinued its participation in the utility customer accounts receivable sale program. WPL had no receivables sold and no short-term debt outstanding at the time it discontinued its participation in the program. Alliant Energy, IPL and WPL accounted 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." The entity that purchases the receivables did not require consolidation per the guidelines of FIN 46R. 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.

At Dec. 31, 2004 and 2003, Alliant Energy had sold $75 million (all at IPL) and $176 million ($126 million at IPL and $50 million at WPL) of domestic utility customer accounts receivable, respectively. In 2004, 2003 and 2002, Alliant Energy received $1.0 billion ($1.0 billion at IPL and $30 million at WPL), $1.8 billion ($1.0 billion at IPL and $0.8 billion at WPL) and $2.3 billion ($1.1 billion at IPL and $1.2 billion at WPL), respectively, in aggregate proceeds from the sale of accounts receivable. IPL and WPL used 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 incurred costs associated with these sales of $1.7 million ($1.5 million at IPL and $0.2 million at WPL), $2.6 million ($1.4 million at IPL and $1.2 million at WPL) and $4.2 million ($2.0 million at IPL and $2.2 million at WPL) in 2004, 2003 and 2002, respectively.

(5) INCOME TAXES

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

	2004	2003	2002
Current tax expense:			
Federal	**$30.6**	$19.3	$26.3
State	**16.8**	12.4	20.6
Nonconventional fuel credits	**(6.9)**	(9.9)	(15.7)
Deferred tax expense (benefit):			
Federal	**71.3**	62.4	19.8
State	**(7.3)**	0.8	(1.2)
Nonconventional fuel credits	**(18.2)**	(13.2)	0.8
Foreign tax expense	**3.4**	5.1	6.0
Research and development tax credits	**(0.7)**	(1.1)	(4.5)
Amortization of investment tax credits	**(5.1)**	(5.1)	(5.2)
Other tax credits	**(0.1)**	(1.8)	(0.1)
	$83.8	$68.9	$46.8

Deferred tax expense (benefit) for 2004 includes $4.4 million of expense resulting from Alliant Energy's plan to repatriate certain foreign earnings in 2005 that were previously expected to be reinvested indefinitely. Alliant Energy had not previously recorded U.S. tax provisions related to these earnings given they were expected to be reinvested indefinitely.

Included in "Cumulative effect of changes in accounting principles, net of tax" in the Consolidated Statements of Income for 2003 were income tax benefits of $3.8 million related to the adoption of Emerging Issues Task Force Issue (EITF) 02-3 "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF Issue 02-3), and SFAS 143 by Alliant Energy on Jan. 1, 2003. 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.

	2004	2003	2002
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefits	**2.2**	3.2	8.2
Effect of rate making on property related differences	**1.1**	4.1	0.1
Research and development tax credits	**(0.2)**	(0.4)	(3.1)
Foreign operations	**(1.2)**	(3.1)	6.0
Adjustment of prior period taxes	**(1.4)**	(0.6)	0.7
Amortization of investment tax credits	**(1.6)**	(2.1)	(3.5)
Nonconventional fuel credits	**(8.0)**	(9.4)	(10.2)
Other items, net	**0.8**	1.8	(1.4)
Overall effective income tax rate	**26.7%**	28.5%	31.8%

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

	2004			2003		
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Net**	Deferred Tax Assets	Deferred Tax Liabilities	Net
Property	**($30.4)**	**$765.3**	**$734.9**	($37.2)	$711.0	$673.8
Exchangeable senior notes	**--**	**189.0**	**189.0**	--	153.7	153.7
Decommissioning	**(39.9)**	**--**	**(39.9)**	(30.1)	--	(30.1)
Mixed service costs	**(30.0)**	**--**	**(30.0)**	(30.8)	--	(30.8)
Federal credit carryforward	**(64.9)**	**--**	**(64.9)**	(49.3)	--	(49.3)
Capital losses	**(50.1)**	**--**	**(50.1)**	(36.3)	--	(36.3)
Net operating losses	**(34.9)**	**--**	**(34.9)**	(25.4)	--	(25.4)
Valuation allowances	**61.7**	**--**	**61.7**	35.8	--	35.8
Other	**(52.1)**	**47.3**	**(4.8)**	--	2.2	2.2
Total	**($240.6)**	**$1,001.6**	**$761.0**	($173.3)	$866.9	$693.6

	2004	2003
Other current assets	**($11.5)**	($8.4)
Deferred charges and other	**(3.0)**	--
Deferred income taxes	**775.5**	702.0
Total deferred tax (assets) and liabilities	**$761.0**	$693.6

At Dec. 31, 2004, Alliant Energy had the following tax carryforwards: alternative minimum tax credits of $47.6 million, capital losses of $97.2 million, net operating losses (primarily state) of $548.4 million, and general business credits of $17.3 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 2005 to 2024 with 87.5% expiring after 2015. The general business credit carryforwards have expiration dates ranging from 2022 to 2024. Due to the uncertainty of the realization of certain tax carryforwards, Alliant Energy has established valuation allowances of $61.7 million and $35.8 million as of Dec. 31, 2004 and 2003, respectively. The increase in valuation allowances was primarily related to management's assessment of Alliant Energy's ability to utilize the capital loss carryforwards prior to their expiration in 2007. At Dec. 31, 2004 and 2003, $24.9 million and $19.6 million, respectively, of these valuation allowances have been recorded to "Accumulated other comprehensive loss" on the Consolidated Balance Sheets and relate to foreign currency translation losses that are subject to capital loss carryover limitations.

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

	2004	2003	2002
U.S. sources	**$248.0**	$174.9	$142.2
Foreign sources	**46.6**	50.0	(1.3)
Income from continuing operations before income taxes	**$294.6**	$224.9	$140.9

(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 defined benefit 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 Sep. 30 were as follows (N/A=Not Applicable):

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	**2004**	2003	2002
Discount rate for benefit obligations	**6%**	6%	6.75%	**6%**	6%	6.75%
Discount rate for net periodic cost	**6%**	6.75%	7.25%	**6%**	6.75%	7.25%
Expected return on plan assets	**9%**	9%	9%	**9%**	9%	9%
Rate of compensation increase	**3.5-4.5%**	3.5-4.5%	3.5-4.5%	**3.5%**	3.5%	3.5%
Medical cost trend on covered charges:						
Initial trend rate	**N/A**	N/A	N/A	**10%**	9.5%	10.8%
Ultimate trend rate	**N/A**	N/A	N/A	**5%**	5%	5%

The expected return on plan assets was determined by analysis of 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 of the assets 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		
	2004	2003	2002	**2004**	2003	2002
Service cost	**$19.3**	$16.1	$13.7	**$10.3**	$7.6	$5.5
Interest cost	**43.7**	43.6	42.1	**14.0**	14.7	12.7
Expected return on plan assets	**(46.8)**	(40.6)	(41.8)	**(6.5)**	(5.4)	(5.5)
Amortization of (*):						
Transition obligation (asset)	**(0.3)**	(0.5)	(2.0)	**2.0**	3.7	3.7
Prior service cost	**3.5**	3.2	3.2	**(1.0)**	(0.3)	(0.3)
Actuarial loss	**7.5**	8.7	2.7	**4.8**	2.6	0.5
	$26.9	$30.5	$17.9	**$23.6**	$22.9	$16.6

* Unrecognized net actuarial losses in excess of 10% of the projected benefit obligation and unrecognized prior service costs are amortized over the average future service lives of the participants. Unrecognized net transition obligations related to other postretirement benefits are amortized over a 20-year period ending 2012.

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 2004, 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	$3.1	($2.7)
Effect on postretirement benefit obligation	$24.1	($21.6)

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	
	2004	2003	**2004**	2003
Change in projected benefit obligation:				
Net projected benefit obligation at beginning of year	**$721.0**	$646.7	**$242.4**	$215.7
Service cost	**19.3**	16.1	**10.3**	7.6
Interest cost	**43.7**	43.6	**14.0**	14.7
Plan participants' contributions	**--**	--	**2.0**	1.9
Plan amendments	**5.7**	1.7	**(2.2)**	(19.1)
Actuarial loss	**36.5**	47.8	**11.2**	34.6
Gross benefits paid	**(37.7)**	(34.9)	**(15.3)**	(13.0)
Net projected benefit obligation at end of year	**788.5**	721.0	**262.4**	242.4
Change in plan assets:				
Fair value of plan assets at beginning of year	**530.6**	466.7	**78.3**	67.3
Actual return on plan assets	**60.8**	86.2	**7.1**	9.9
Employer contributions	**70.2**	12.6	**19.4**	12.2
Plan participants' contributions	**--**	--	**2.0**	1.9
Gross benefits paid	**(37.7)**	(34.9)	**(15.3)**	(13.0)
Fair value of plan assets at end of year	**623.9**	530.6	**91.5**	78.3
Funded status at end of year	**(164.6)**	(190.4)	**(170.9)**	(164.1)
Unrecognized net actuarial loss	**190.2**	175.2	**96.7**	90.9
Unrecognized prior service cost	**24.6**	22.4	**(5.7)**	(4.6)
Unrecognized net transition obligation (asset)	**(0.5)**	(0.8)	**15.9**	17.9
Net amount recognized at end of year	**$49.7**	$6.4	**($64.0)**	($59.9)
Amounts recognized on the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$76.0**	$60.1	**$2.1**	$2.2
Accrued benefit cost	**(26.3)**	(53.7)	**(66.1)**	(62.1)
Additional minimum liability	**(91.8)**	(77.1)	**--**	--
Intangible asset	**15.1**	14.2	**--**	--
Regulatory asset	**39.4**	--	**--**	--
Accumulated other comprehensive loss	**37.3**	62.9	**--**	--
Net amount recognized at measurement date	**49.7**	6.4	**(64.0)**	(59.9)
Contributions paid after 9/30 and prior to 12/31	**0.7**	0.6	**3.9**	6.7
Net amount recognized at 12/31	**$50.4**	$7.0	**($60.1)**	($53.2)

In 2004, the PSCW authorized Wisconsin utilities to record additional minimum pension liability to "Regulatory assets" in lieu of "Accumulated other comprehensive loss" on their Consolidated Balance Sheets. In 2003, a plan amendment was adopted that required certain employees to accrue 10 years of service after age 45 in order to be eligible for postretirement medical benefits. This amendment resulted in a reduction of the other postretirement benefit obligation.

The funded status of the qualified pension plans based on the projected benefit obligation at Sep. 30, 2004 was ($115) 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 Sep. 30 (in millions):

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	**2004**	2003
Accumulated benefit obligation	**$715.4**	$663.2	**$262.4**	$242.4
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	**533.6**	497.5	**260.7**	240.7
Fair value of plan assets	**431.1**	355.6	**88.1**	75.1
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	**788.5**	721.0	**N/A**	N/A
Fair value of plan assets	**623.9**	530.6	**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 Sep. 30, 2004 and 2003, and the pension plan target allocation for 2004 were as follows:

	Pension Plans			Other Postretirement Plans	
	Target Allocation	Percentage of Plan Assets at Sep. 30		Percentage of Plan Assets at Sep. 30	
Asset Category	2004	2004	2003	2004	2003
Equity securities	65-75%	73%	61%	42%	47%
Debt securities	20-35%	27%	33%	33%	41%
Other	0-5%	--	6%	25%	12%
		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, 2004 and 2003. 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 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, options and futures unless specifically approved, margin trading, oil and gas limited partnerships, commodities, short selling and securities of the managers' firms or affiliate firms.

Alliant Energy estimates that funding for the pension and postretirement benefit plans for 2005 will be approximately $3 million and $17 million, respectively.

The expected benefit payments and Medicare subsidies, which reflect expected future service, as appropriate, are as follows:

	2005	2006	2007	2008	2009	2010 - 2014
Pension benefits	$37.3	$38.6	$41.8	$45.5	$47.9	$290.8
Other benefits	17.5	17.1	18.0	19.0	20.1	119.6
Medicare subsidies	--	(1.2)	(1.3)	(1.4)	(1.4)	(7.8)
	$54.8	$54.5	$58.5	$63.1	$66.6	$402.6

In 2004, Alliant Energy adopted FASB Staff Position No. SFAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). The U.S. Department of Health and Human Services recently provided initial guidance regarding actuarial equivalence. Additional guidance and clarifications are expected to be provided in the future. Alliant Energy believes that a substantial portion of its postretirement medical plans will be actuarially equivalent to the Medicare Prescription Drug Plan. Alliant Energy anticipates continuing its current prescription drug coverage for currently covered retirees and therefore should be eligible for the subsidy available from Medicare. The estimated reductions in Alliant Energy's 2004 other postretirement benefits costs and accumulated projected benefit obligation were $3 million and $20 million, respectively.

Alliant Energy has various life insurance policies that cover certain key employees and directors. At Dec. 31, 2004 and 2003, the cash surrender value of these investments was $37 million and $35 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, 2004 and 2003, the fair market value of the trusts totaled $8.0 million and $7.6 million, respectively, the majority of which consisted of Alliant Energy common stock. A significant number of Alliant Energy employees also participate in a defined contribution pension plan (401(k)). Alliant Energy's contributions to the 401(k) plan, which are based on the participants' level of contribution, were $9.3 million, $8.0 million and $9.2 million in 2004, 2003 and 2002, respectively. For the Alliant Energy 401(k) plan, Alliant Energy common stock represented 23.7% and 22.6% of total plan assets at Dec. 31, 2004 and 2003.

(b) Equity Incentive Plans - Alliant Energy has a 2002 Equity Incentive Plan (EIP) that permits the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units to key employees. At Dec. 31, 2004, non-qualified stock options, restricted stock and performance shares were outstanding under the EIP and a predecessor plan under which new awards can no longer be granted. At Dec. 31, 2004, approximately 1.7 million shares were available for issuance under the EIP. 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:

	2004		2003		2002	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**4,216,714**	**$26.74**	3,842,136	$29.48	2,917,229	$30.03
Options granted	**679,566**	**25.81**	957,200	16.82	945,863	27.79
Options exercised	**(174,975)**	**18.48**	--	--	--	--
Options forfeited	**(242,859)**	**28.16**	(582,622)	28.49	(20,956)	29.41
Outstanding at end of year	**4,478,446**	**26.85**	4,216,714	26.74	3,842,136	29.48
Exercisable at end of year	**3,061,419**	**28.72**	2,514,908	29.68	2,242,187	29.93

The weighted-average remaining contractual life of outstanding options at Dec. 31, 2004, 2003 and 2002 was 6 years, 7 years and 7 years, respectively. Additional information as of Dec. 31, 2004 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	737,355	$16.82	8 years	196,882	$16.82
$24.90-$25.93	547,500	25.12	9 years	9,449	24.94
$27.50-$28.65	1,649,670	28.14	6 years	1,385,580	28.21
$29.81-$31.56	1,543,921	30.86	5 years	1,469,508	30.83

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

	2004	2003	2002
Value of options	**$3.74**	$1.94	$9.14
Volatility	**21.6%**	22.8%	40.6%
Risk free interest rate	**3.3%**	3.5%	5.0%
Expected life	**7 years**	7 years	10 years
Expected dividend yield on date of grant	**4.0%**	5.9%	6.0%

At Dec. 31, 2004 and 2003, Alliant Energy had 77,285 and 1,745 shares of restricted stock outstanding, respectively. Any unvested shares of restricted stock become fully vested upon retirement. Participants' unvested restricted stock is forfeited when the participant leaves Alliant Energy. Compensation cost 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 (2,008 of the shares at Dec. 31, 2004 have a two-year restriction period), was $0.6 million, $0 and $0.2 million in 2004, 2003 and 2002, respectively.

Performance share payouts to key employees of Corporate Services and Resources are contingent upon achievement of specified goals over three-year periods, with metrics of total shareowner return relative to an investor-owned utility peer group and/or specified EPS growth, depending on the year of grant. 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 $3.0 million, $4.1 million and ($1.6) million in 2004, 2003 and 2002, respectively.

(7) COMMON AND PREFERRED STOCK

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

	2004	2003	2002
Beginning balance	**110,962,910**	92,304,220	89,682,334
Shares issued:			
Public offering	**3,643,985**	17,250,000	--
Shareowner Direct Plan	**646,366**	970,445	1,877,032
401(k) Savings Plan	**232,427**	438,245	689,336
Equity incentive plans	**256,128**	--	55,518
Ending balance	**115,741,816**	110,962,910	92,304,220

In 2004, Alliant Energy entered into a sales agreement with Cantor Fitzgerald & Co., under which Alliant Energy may sell from time to time up to 7.5 million shares of its common stock. During 2004, Alliant Energy issued 3.6 million shares of new common stock under this sales agreement and received $90 million in net proceeds. The proceeds were used for capital contributions to IPL and other general corporate purposes. 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 WPL of $200 million and IPL of $118 million in support of their respective generation and reliability initiatives. At Dec. 31, 2004, Alliant Energy had a total of 11.7 million shares available for issuance in the aggregate, pursuant to its Shareowner Direct Plan, 401(k) Savings Plan, EIP and Cantor Fitzgerald sales agreement.

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%.

IPL and WPL 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 WPL may not pay annual common stock dividends, including pass-through of subsidiary dividends, in excess of $89 million to Alliant Energy if WPL'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 IPL merger, IPL must inform the IUB if its common equity ratio falls below 42% of total capitalization. As of Dec. 31, 2004, IPL and WPL were in compliance with all such dividend restrictions.

(b) Preferred Stock - The fair 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, 2004 and 2003 was $303 million ($248 million at IPL and $55 million at WPL) and $286 million ($233 million at IPL and $53 million at WPL), 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	Redemption	2004	2003
$25	*	6,000,000	8.375%	On or after March 15, 2013	**$150.0**	$150.0
$25	*	1,600,000	7.10%	On or after Sep. 15, 2008	**40.0**	40.0
$100	**	449,765	4.40% - 6.20%	Any time	**45.0**	45.0
$25	**	599,460	6.50%	Any time	**15.0**	15.0
					250.0	250.0
Less: discount					**(6.2)**	(6.2)
					$243.8	$243.8

* IPL has 16,000,000 authorized shares in total. ** WPL has 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. At Dec. 31, 2004, Alliant Energy's short term borrowing arrangements included three revolving credit facilities (facilities) totaling $650 million ($100 million for Alliant Energy at the parent company level, $300 million for IPL and $250 million for WPL). These facilities are designed to be five-year facilities with the length of the facilities subject to various regulatory approvals given the term is longer than a 364-day facility. Information regarding commercial paper issued under these facilities as well as other short-term debt was as follows (dollars in millions):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
At Dec. 31:						
Commercial paper outstanding	**$83.0**	$107.5	**$36.0**	$107.5	**$47.0**	$--
Average discount rates - commercial paper	**2.3%**	1.2%	**2.3%**	1.2%	**2.3%**	N/A
Other borrowings (primarily at China subsidiaries)	**$18.9**	$21.5	**N/A**	N/A	**N/A**	N/A
Average interest rates - other borrowings	**4.5%**	5.0%	**N/A**	N/A	**N/A**	N/A
For the year ended:						
Average amount of total short-term debt (based on daily outstanding balances)	**$92.4**	$269.8	**$58.8**	$60.8	**$12.8**	$29.8
Average interest rates - total short-term debt	**2.1%**	2.6%	**1.3%**	1.3%	**1.4%**	1.4%

(b) Long-Term Debt - Substantially all of IPL's utility plant is pledged as collateral under one or more of several outstanding indentures. These indentures secure IPL's Collateral Trust and First Mortgage Bonds. WPL's First Mortgage Bonds are secured by substantially all of its utility plant. The non-recourse redeemable preference shares issued by Alliant Energy New Zealand (AENZ), Resources' wholly-owned New Zealand subsidiary, are secured by its investment in TrustPower Ltd. (TrustPower). The borrowings supported by the credit facility of Alliant Energy Neenah, LLC (AEN), Resources' wholly-owned subsidiary, are secured by all of the assets of AEN and Resources' ownership interest in AEN. IPL, WPL and Resources also maintain indentures related to the issuance of unsecured debt securities.

In October 2004, AENZ issued NZ$100 million of non-recourse redeemable preference shares due 2007 to take advantage of the strength of the New Zealand currency. Holders of the redeemable preference shares will receive semi-annual cash dividends of approximately NZ$3.4 million. Given their characteristics, the redeemable preference shares are reported as "Long-term debt, net (excluding current portion)" on the Consolidated Balance Sheet and the accrued dividends are reported as "Interest expense" on the Consolidated Income Statement.

In February 2005, Resources retired $100 million of its 7.375% senior notes maturing in 2009, incurring $16 million of pre-tax debt repayment premiums and charges for the unamortized debt expenses related to this debt retirement. In October 2004, Resources retired $7.0 million of its 7.375% senior notes due 2009; in August 2004, Resources retired $15.0 million of its 7% senior notes due 2011; and in February 2004, Resources retired $10.0 million of its 9.75% senior notes due 2013 and $9.5 million of its 7% senior notes due 2011. Resources incurred $8.9 million of pre-tax debt repayment premiums and charges for the unamortized debt expenses related to these debt retirements in 2004.

In August 2004, WPL issued $100 million of 6.25% senior debentures due 2034 and used the proceeds to repay short-term debt, including $62 million incurred in connection with the repayment at maturity of 7.25% first mortgage bonds in June 2004, and for general corporate purposes. IPL issued $25 million and $100 million of 6.30% senior debentures due 2034 in August 2004 and May 2004, respectively, and used the proceeds to repay short-term debt primarily incurred in the construction of the Emery Generating Facility and for general corporate purposes.

Debt maturities for 2005 to 2009 are $102 million, $70 million, $271 million, $196 million and $353 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 and/or the proceeds from asset divestitures. Alliant Energy has fully and unconditionally guaranteed the payment of principal and interest on various debt securities issued by Resources' parent company. 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.

The carrying value of Alliant Energy's long-term debt (including current maturities and variable rate demand bonds) at Dec. 31, 2004 and 2003 was $2.4 billion and $2.2 billion, respectively. The fair value, based upon the market yield of similar securities and quoted market prices, at Dec. 31, 2004 and 2003 was $3.0 billion and $2.6 billion, respectively. Amortization/(accretion) related to the discount on long-term debt was $1.1 million, ($1.2) million and ($15.2) million in 2004, 2003 and 2002, respectively. Alliant Energy's unamortized debt issuance costs recorded in "Deferred charges and other" on the Consolidated Balance Sheets were $22 million at both Dec. 31, 2004 and 2003.

At Dec. 31, 2004, the carrying amount of the debt component of Resources' exchangeable senior notes was $38 million, consisting of the par value of $403 million, less unamortized debt discount of $365 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. 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, "Accounting for Derivative Instruments and Hedging Activities" (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 and interest expense at an effective rate of 26.8% of the carrying amount of the debt component. For 2004, interest expense on the notes was $10 million. Interest expense in excess of interest payments is recorded as an increase to the carrying amount of the debt component. Higher interest payments for the first three years resulted in a reduction of the carrying amount of the debt component until it reached $38 million in February 2003. Subsequent to February 2003, lower interest payments will result in gradual increases to the carrying amount until it reaches the par value of $403 million in 2030. Interest expense on the debt component of the notes will be $10 million in 2005, 2006 and 2007, but this will increase over the term of the debt instrument culminating with interest expense of approximately $95 million in the 12 months prior to maturity in February 2030.

(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 IPL and WPL 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, "Accounting for Certain Investments in Debt and Equity Securities," (SFAS 115) was as follows (in millions):

	2004		2003	
	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	**$98.9**	**$3.2**	$214.5	$6.4
Equity securities	**143.4**	**39.5**	167.0	38.9
WPC (1)	**N/A**	**N/A**	19.9	2.2
Various other investments (2)	**30.8**	**11.9**	28.6	10.7
Trading securities (McLeod)	**0.7**	**N/A**	1.4	N/A

(1) Alliant Energy realized a pre-tax gain from the sale of its remaining interest in WPC in November 2004 of $14 million (cost of the investment was $16 million and pre-tax proceeds from the sale were $30 million).

(2) Realized pre-tax gains from sales were $3.6 million, $2.3 million and $0 in 2004, 2003 and 2002, respectively (cost of the investments based on specific identification was $1.7 million, $5.3 million and $0 and pre-tax proceeds from the sales were $5.3 million, $7.6 million and $0, respectively).

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 "Interest income and other" line in the Consolidated Statements of Income.

Refer to Notes 7(b), 8(b) and 10(a) for information regarding the fair values of preferred stock, long-term debt and derivatives, respectively.

Nuclear Decommissioning Trust Funds - At Dec. 31, 2004, $26.7 million, $35.7 million and $36.5 million of the debt securities mature in 2005-2009, 2010-2019 and 2020-2040, 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. Net unrealized holding gains were recorded as part of regulatory liabilities or as an offset to regulatory assets related to AROs. The funds realized pre-tax gains (losses) from the sales of securities of $12 million, ($6) million and $10 million in 2004, 2003 and 2002, respectively (cost of the investments based on specific identification was $1.1 billion, $386 million and $111 million and pre-tax proceeds from the sales were $1.1 billion, $380 million and $121 million, respectively). In January 2004, WPL liquidated all of its qualified decommissioning assets into money market funds as a result of the anticipated Kewaunee sale and at Dec. 31, 2004, the value of the qualified decommissioning assets was $171 million.

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 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
2004					
Unconsolidated	**$326**	**$16**	**$116**	**$82**	**$540**
Consolidated	**--**	**176**	**--**	**--**	**176**
Total	**$326**	**$192**	**$116**	**$82**	**$716**
2003					
Unconsolidated	$283	$17	$103	$79	$482
Consolidated	--	178	--	--	178
Total	$283	$195	$103	$79	$660

The increase in Alliant Energy's foreign investments in Brazil and New Zealand from Dec. 31, 2003 to Dec. 31, 2004 is largely due to the impact of changes in currency exchange rates and undistributed earnings.

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, 2004 and 2003, 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 natural-gas fired generating facility.

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 Heat & Power Co., Ltd. and a 30.0% ownership interest in Tongxiang TIES Heat & Power 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, a hydro and wind generation utility company accounted for under the equity method, and a 5.0% ownership interest in Infratil Ltd., an infrastructure development company accounted for under the cost method. Based on the exchange rates and trading prices at Dec. 31, 2004 and 2003, the TrustPower investment market value was $306 million and $157 million and the carrying value was $89 million and $81 million, respectively. The Infratil Ltd. investment is marked-to-market at each balance sheet date in accordance with SFAS 115.

Mexico - Resources' investment in Mexico at Dec. 31, 2004 consisted of a secured loan receivable (including accrued interest income) of $82 million from a Mexican development company to build the utility infrastructure of a master planned resort community. The loan accrues interest at a rate of prime plus 2% (with a minimum of 8.75% and a maximum of 15%) and is secured by a first lien on the land parcels of the master planned community and a pledge on the debtor's stock certificates. Repayment of the loan principal and interest are based on a portion of the proceeds from the sales of real estate lots in the master planned community and therefore is dependent on the successful development of the project and sales of real estate. Effective Jan. 1, 2004, Resources ceased accruing interest income related to this loan pending resolution of certain disputes with the shareowners of the Mexican development company and related parties. As a result, Alliant Energy effectively recorded a valuation allowance of $7 million in 2004 related to this loan. Resources evaluated its alternatives and concluded that a negotiated transfer of ownership and control of the Mexican development company to Resources was the best course of action in order for Resources to maximize the ultimate recovery of its loan and related interest income. This transfer was completed in February 2005 and the cash outlay for concluding the transfer is not material. Effective with the transfer of ownership in the first quarter of 2005, Alliant Energy will remove the loan receivable and record the fair value of the real estate lots and certain utility properties of the master-planned resort community in "Non-regulated and other property, plant and equipment" on its Consolidated Balance Sheet. 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. also operate in Mexico and provide contract services solely to the resort community's utility company.

Unconsolidated Equity Investments - Alliant Energy's unconsolidated investments accounted for under the equity method of accounting are as follows (dollars in millions):

	Current Ownership Interest	Carrying Value at Dec. 31		Equity (Income) / Loss		
		2004	2003	**2004**	2003	2002
Brazil	Various	**$326**	$283	**($17)**	($9)	$23
American Transmission Co. LLC (ATC)	24%	**141**	121	**(19)**	(16)	(14)
TrustPower	24%	**89**	81	**(11)**	(8)	(4)
China	Various	**16**	17	**(1)**	(1)	(2)
Wisconsin River Power Company	50%	**13**	13	**(6)**	(5)	(3)
Kaufman and Broad NexGen LLC (*)	24%	**8**	13	**19**	20	13
Nuclear Management Co., LLC (NMC)	20%	**3**	3	**--**	--	--
Other	Various	**5**	10	**--**	--	--
		$601	$541	**($35)**	($19)	$13

* Investment in a synthetic fuel processing facility. The synthetic fuel project generates equity losses which are more than offset by tax credits and the tax benefit of the losses generated.

Summary financial information from the financial statements of these investments is as follows (in millions):

	2004	2003	2002
Operating revenues	**$1,973.6**	$1,800.1	$1,437.8
Operating income	**297.0**	219.6	159.6
Net income	**46.0**	19.3	36.4
As of Dec. 31:			
Current assets	**483.8**	392.9	
Non-current assets	**2,808.6**	2,486.3	
Current liabilities	**775.6**	451.4	
Non-current liabilities	**1,213.6**	815.4	
Minority interest	**202.9**	172.8	

ATC - Pursuant to various agreements, WPL receives a range of transmission services from ATC. WPL provides operation, maintenance, and construction services to ATC. WPL and ATC also bill each other for use of shared facilities owned by each party. ATC billed WPL $48 million, $41 million and $39 million in 2004, 2003 and 2002, respectively. WPL billed ATC $13 million, $12 million and $18 million in 2004, 2003 and 2002, respectively. At Dec. 31, 2004 and 2003, WPL owed ATC net amounts of $2.9 million and $2.7 million, respectively. ATC also provides operation and maintenance services to IPL and billed IPL $2.8 million, $2.8 million and $0.6 million in 2004, 2003 and 2002, respectively. In addition, in 2004, ATC billed Resources $3.6 million related to the construction of its 300 MW simple-cycle, natural gas-fired generating facility under construction near Sheboygan Falls, Wisconsin.

NMC - Alliant Energy receives services from NMC for the management and operation of DAEC and Kewaunee. NMC billed IPL $57 million, $79 million and $63 million in 2004, 2003 and 2002, respectively, for its allocated portion for DAEC. At Dec. 31, 2004 and 2003, IPL owed NMC $8.8 million and $9.3 million, respectively. NMC billed WPL indirectly through Wisconsin Public Service Corporation (WPSC) $34 million, $33 million and $24 million in 2004, 2003 and 2002, respectively, for its allocated portion for Kewaunee.

Other Investments - In addition to the investments discussed previously in this Note and the cash surrender value of life insurance policies discussed in Note 6(a), Alliant Energy also had $40 million and $36 million of cost method investments at Dec. 31, 2004 and 2003, respectively that were not accounted for in accordance with SFAS 115. The carrying amount of these investments approximates their fair value.

(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 IPL and WPL, changes in the derivatives' fair values are generally recorded as regulatory assets or liabilities. At Dec. 31, current derivative assets were included in "Other current assets," current derivative liabilities were included in "Other current liabilities" and non-current derivative liabilities were included in "Other long-term liabilities and deferred credits" on the Consolidated Balance Sheets as follows (in millions):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
Other current assets	**$5.3**	$4.9	**$0.6**	$3.6	**$4.7**	$1.3
Other current liabilities	**10.6**	4.7	**3.9**	1.1	**6.7**	3.6
Other long-term liabilities and deferred credits	**0.3**	0.1	**--**	--	**--**	--

<u>Cash Flow Hedging Instruments</u> - Alliant Energy has certain derivative instruments designated as cash flow hedging instruments. Treasury rate locks were used by Resources to mitigate risk associated with movements in the 10-year treasury yield prior to the planned issuance of its 7% senior notes. Interest rate swaps were used to mitigate risk associated with changes in interest rates associated with the variable rate long-term debt used to finance Resources' Neenah generating facility.

In 2004 and 2003, no amounts were recognized relating to the amount of hedge ineffectiveness in accordance with SFAS 133. In each of 2004 and 2003, Alliant Energy did not exclude any components of the derivative instruments' gain or loss from the assessment of hedge effectiveness and Alliant Energy reclassified net losses of $0.1 million into earnings as a result of the discontinuance of hedges. Alliant Energy estimates that losses of $0.1 million will be reclassified from accumulated other comprehensive loss into earnings in 2005 as the hedged transactions affect earnings.

<u>Other Derivatives Not Designated in Hedge Relationships</u> - Alliant Energy's derivatives that were not designated in hedge relationships during 2004 and/or 2003 included the embedded derivative component of Resources' exchangeable senior notes and electric, coal and gas contracts.

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 embedded 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."

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

(b) Weather Derivatives - Alliant Energy uses weather derivatives to reduce the impact of weather volatility on its domestic utility natural gas sales volumes. In 2004, 2003 and 2002, Corporate Services, as agent for IPL and WPL, 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 heating degree days specified 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. Information relating to these weather derivatives was as follows (in millions):

	Alliant Energy			IPL			WPL		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
Premiums paid	**$1.9**	$1.5	$1.6	**$0.7**	$0.6	$0.7	**$1.2**	$0.9	$0.9
Premiums amortized to expense	**1.7**	1.6	1.6	**0.7**	0.7	0.7	**1.0**	0.9	0.9
Gains (losses)	**(0.2)**	1.4	1.6	**(0.2)**	0.6	0.7	**--**	0.8	0.9
Amounts received from counterparties	**--**	--	7.0	**--**	--	3.0	**--**	--	4.0

Alliant Energy's ratepayers do not pay any of the premiums nor do they share in the gains/losses realized from the weather hedges.

(c) Energy-trading Contracts - Alliant Energy adopted EITF Issue 02-3 on Jan. 1, 2003 for all of NG Energy Trading, LLC's (NGE's) (classified as a discontinued operation and sold in 2004) trading contracts and storage gas acquired prior to Oct. 25, 2002. 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 in the first quarter of 2003.

(11) COMMITMENTS AND CONTINGENCIES

(a) Construction and Acquisition Expenditures - Alliant Energy has made certain commitments in connection with its 2005 capital expenditures.

(b) Purchase Obligations - Alliant Energy, through its subsidiaries Corporate Services, IPL and WPL, 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 and purchased-power contracts are either fixed price in nature or market-based. The coal commitments are fixed price and the transportation contracts are 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 dekatherms (Dths). At Dec. 31, 2004, Alliant Energy's minimum commitments related to its domestic utility business were as follows (dollars and Dths in millions; megawatt-hours (MWhs) and tons in thousands):

	Purchased-power		Coal		Natural gas	
	Dollars	MWhs	Dollars	Tons	Dollars	Dths
2005	$94.2	1,718	$107.0	11,896	$218.3	26
2006	5.5	--	76.3	8,370	102.3	7
2007	3.3	--	46.6	4,706	44.8	--
2008	3.3	--	25.9	1,986	17.6	--
2009	3.3	--	15.9	467	16.9	--
Thereafter	10.8	--	58.7	83	24.0	--

In addition, Alliant Energy, through its non-regulated business, has entered into coal supply and transportation contracts for some of its generating facilities in China. At Dec. 31, 2004, Alliant Energy's minimum commitments related to these contracts were $2.7 million annually for 2005 through 2009 and $37.0 million for 2010 and thereafter.

Also, at Dec. 31, 2004, Alliant Energy's other purchase obligations, which represent individual commitments incurred during the normal course of business which exceeded $1.0 million at Dec. 31, 2004, were $13 million for 2005, $1 million for each of 2006 to 2009, and $4 million thereafter. 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, 2004 and 2003, Alliant Energy had guarantees outstanding to support unconsolidated affiliate and third-party financing arrangements of $4 million and $5 million, respectively. Such guarantees are not included on the Consolidated Balance Sheets. At Dec. 31, 2004, the maximum remaining term of the guarantees and the underlying debt was 3 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, 2004, the indemnification is limited to $67 million and expires in 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, 2004, the guarantee does not include a maximum limit, but is currently estimated at approximately $5 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, IPL and WPL had recorded the following environmental liabilities at Dec. 31 (in millions; MGP=Manufactured Gas Plants):

	Alliant Energy		IPL		WPL	
	2004	2003	**2004**	2003	**2004**	2003
MGP sites	**$41.8**	$45.5	**$36.6**	$40.1	**$5.2**	$5.4
Other	**4.3**	5.1	**2.1**	3.1	**1.3**	2.0
	$46.1	$50.6	**$38.7**	$43.2	**$6.5**	$7.4

<u>MGP Sites</u> - IPL and WPL 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. IPL and WPL have received letters from state environmental agencies requiring no further action at six sites each. Additionally, IPL has met state environmental agency expectations at five additional sites requiring no further action for soil remediation. IPL and WPL 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.

IPL and WPL record environmental liabilities based upon periodic studies, most recently updated in the third quarter of 2004, 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 Alliant Energy's sites to be $35 million ($30 million for IPL and $5 million for WPL) to $61 million ($54 million for IPL and $7 million for WPL).

Under the current rate making treatment approved by the PSCW, the MGP expenditures of WPL, net of any insurance proceeds, are deferred and collected from gas customers over a five-year period after new rates are implemented. The Minnesota Public Utilities Commission (MPUC) also allows the deferral of MGP-related costs applicable to the Minnesota sites and IPL has been successful in obtaining approval to recover such costs in rates in Minnesota. The IUB has permitted utilities to recover prudently incurred costs by allowing a representative level of MGP costs in rate cases. Regulatory assets have been recorded by IPL and WPL, which reflect the probable future rate recovery, where applicable. Considering the current rate treatment, and assuming no material change therein, IPL and WPL 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 IPL's and WPL's insurance carriers regarding reimbursement for their MGP-related costs.

(f) Decommissioning of DAEC and Kewaunee - Decommissioning expense is included in "Depreciation and amortization" in the Consolidated Statements of Income and the cumulative amount is included in "Regulatory liabilities" or, for AROs, is netted in "Regulatory assets" on the Consolidated Balance Sheets. The PSCW and the FERC, in orders effective Jan. 1, 2002 and Jan. 1, 2005, respectively, eliminated WPL's recovery from customers for the cost to decommission Kewaunee, due to the current funded status and the proposed sale of Kewaunee. Additional information relating to the decommissioning of DAEC and Kewaunee is as follows (dollars in millions):

	DAEC	Kewaunee
Alliant Energy's share of estimated decommissioning cost	$440.0	$243.2
Year dollars in	2004	2004
Method to develop estimate	Site-specific study	Site-specific study
Assumptions relating to current rate recovery amounts (1):		
Annual inflation rate	2.90%	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	6.63%	6.12%
Non-qualified	4.76%	5.14%
Current annual rate recovery:		
Iowa	$13.0	N/A
Minnesota	$0.8	N/A
External trust fund balance at Dec. 31, 2004	$170.0	$243.2
Internal reserve at Dec. 31, 2004	$21.7	$--
After-tax earnings on external trust funds in 2004	$3.8	$14.8

(1) Information for DAEC and Kewaunee is related to their most recent IUB order and FERC order (prior to the elimination of cost recovery for Kewaunee), respectively.

The current rate recovery amounts for DAEC approved by the IUB only include an inflation estimate for three years. IPL is funding all rate recoveries for decommissioning into external trust funds and funding on a tax-qualified basis to the extent possible. The earnings for IPL and WPL 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. The difference in the funded status of the DAEC and Kewaunee trust funds are related to different rate recovery methodologies employed in Iowa and Wisconsin. Refer to Notes 17 and 18 for information regarding the proposed sales of WPL's interest in Kewaunee and IPL's interest in DAEC, respectively, and Note 19 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.

(h) Nuclear Liability/Insurance - Liability for nuclear accidents is governed by the Price-Anderson Act of 1988 as amended, which sets a statutory limit of $10.8 billion for liability to the public for a single nuclear power plant incident and requires nuclear power plant operators to provide financial protection for this amount. Financial protection for a nuclear incident is provided through a combination of liability insurance ($300 million) and industry-wide retrospective payment plans ($10.5 billion). Under the industry-wide plan, the owners of each operating licensed nuclear reactor in the U.S. are subject to an assessment in the event of a nuclear incident at any nuclear plant in the U.S. Based on their ownership in DAEC and Kewaunee, IPL and WPL could be assessed a maximum of $70 million and $41 million per nuclear incident, respectively, if losses related to the incident exceeded $300 million.

(12) JOINTLY-OWNED ELECTRIC UTILITY PLANT
Under joint ownership agreements with other Iowa and Wisconsin utilities, IPL and WPL have undivided ownership interests in jointly-owned electric generating stations. IPL 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 IPL's and WPL's ownership interest in these facilities at Dec. 31, 2004 was as follows (dollars in millions):

	Fuel Type	Ownership Interest %	Plant in Service	Accumulated Provision for Depreciation	Construction Work In Progress
IPL					
DAEC	Nuclear	70.0	$579.6	$358.1	$10.8
Ottumwa	Coal	48.0	199.0	109.7	0.2
Neal Unit 4	Coal	25.7	92.0	60.9	1.0
Neal Unit 3	Coal	28.0	66.5	38.1	3.5
Louisa Unit 1	Coal	4.0	25.4	17.9	0.6
			962.5	584.7	16.1
WPL					
Edgewater Unit 5	Coal	75.0	238.3	127.7	1.3
Columbia Energy Center	Coal	46.2	195.5	121.0	9.6
Kewaunee	Nuclear	41.0	204.4	145.7	12.5
Edgewater Unit 4	Coal	68.2	71.1	41.9	0.9
			709.3	436.3	24.3
			$1,671.8	$1,021.0	$40.4

Refer to Notes 17 and 18 for information regarding the proposed sales of WPL's and IPL's interests in Kewaunee and DAEC, respectively.

(13) SEGMENTS OF BUSINESS
Alliant Energy's principal businesses are:

- **Domestic utility business** - includes IPL and WPL, serving customers in Iowa, Wisconsin, Minnesota and Illinois, and Alliant Energy's investments in NMC. The domestic utility business is broken down into three segments: a) electric operations, including the impacts of NMC; 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 and its subsidiaries, and is broken down into two segments: a) International (Int'l) and b) other, which includes the operations of the Non-regulated Generation and Other Non-regulated Investments business platforms described in Note 1(a); the operations of Resources (the non-regulated parent 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. 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	Other	Total	Other	Consolidated
2004									
Operating revenues	**$2,009.0**	**$569.8**	**$90.6**	**$2,669.4**	**$135.8**	**$159.3**	**$295.1**	**($5.8)**	**$2,958.7**
Depreciation and amortization	**266.9**	**26.4**	**6.1**	**299.4**	**14.8**	**17.9**	**32.7**	**0.1**	**332.2**
Operating income (loss)	**392.3**	**35.2**	**(3.4)**	**424.1**	**6.8**	**(6.2)**	**0.6**	**(4.9)**	**419.8**
Interest expense, net of AFUDC				**82.9**	**49.9**	**27.4**	**77.3**	**0.6**	**160.8**
Loss on early extinguishment of debt				**--**	**--**	**8.9**	**8.9**	**--**	**8.9**
Equity (income) loss from unconsolidated investments				**(24.8)**	**(29.3)**	**19.1**	**(10.2)**	**(0.1)**	**(35.1)**
Preferred dividends				**18.7**	**--**	**--**	**--**	**--**	**18.7**
Impairment of available-for-sale securities of McLeod				**--**	**--**	**0.6**	**0.6**	**--**	**0.6**
Interest income and other				**(2.4)**	**3.6**	**(29.1)**	**(25.5)**	**(0.8)**	**(28.7)**
Income tax expense (benefit)				**128.3**	**(14.6)**	**(32.3)**	**(46.9)**	**2.4**	**83.8**
Income (loss) from continuing operations				**221.4**	**(2.8)**	**(0.8)**	**(3.6)**	**(7.0)**	**210.8**
Income (loss) from discontinued operations, net of tax				**--**	**0.6**	**(65.9)**	**(65.3)**	**--**	**(65.3)**
Net income (loss)				**221.4**	**(2.2)**	**(66.7)**	**(68.9)**	**(7.0)**	**145.5**
Total assets	**5,420.7**	**737.1**	**370.7**	**6,528.5**	**826.3**	**704.8**	**1,531.1**	**215.6**	**8,275.2**
Investments in equity method subsidiaries	**157.8**	**--**	**--**	**157.8**	**430.0**	**12.8**	**442.8**	**--**	**600.6**
Construction and acquisition expenditures	**493.8**	**41.4**	**3.4**	**538.6**	**16.1**	**79.1**	**95.2**	**15.4**	**649.2**

	Domestic Utility Business				Non-regulated Businesses				Alliant Energy
	Electric	Gas	Other	Total	Int'l	Other	Total	Other	Consolidated
2003									
Operating revenues	$1,917.1	$566.9	$104.2	$2,588.2	$117.5	$167.0	$284.5	($5.9)	$2,866.8
Depreciation and amortization	238.8	25.7	3.8	268.3	15.1	18.9	34.0	0.1	302.4
Operating income (loss)	363.6	42.4	2.5	408.5	11.6	(13.9)	(2.3)	(1.3)	404.9
Interest expense, net of AFUDC				82.6	52.1	46.6	98.7	5.5	186.8
Loss on early extinguishment of debt				--	--	15.2	15.2	1.7	16.9
Equity (income) loss from unconsolidated investments				(20.9)	(18.1)	20.2	2.1	--	(18.8)
Preferred dividends				16.9	--	--	--	--	16.9
Interest income and other				(3.5)	(2.3)	(16.9)	(19.2)	0.9	(21.8)
Income tax expense (benefit)				136.2	(16.7)	(53.0)	(69.7)	2.4	68.9
Income (loss) from continuing operations				197.2	(3.4)	(26.0)	(29.4)	(11.8)	156.0
Income (loss) from discontinued operations, net of tax				--	44.7	(11.2)	33.5	--	33.5
Cumulative effect of changes in accounting principles, net of tax				--	--	(6.0)	(6.0)	--	(6.0)
Net income (loss)				197.2	41.3	(43.2)	(1.9)	(11.8)	183.5
Total assets	5,027.3	673.2	393.4	6,093.9	751.6	841.6	1,593.2	110.4	7,797.5
Investments in equity method subsidiaries	137.0	--	--	137.0	380.1	23.7	403.8	--	540.8
Construction and acquisition expenditures	649.5	37.2	3.0	689.7	24.3	222.5	246.8	(99.3)	837.2

	Domestic Utility Business				Non-regulated Businesses				Alliant Energy
	Electric	Gas	Other	Total	Int'l	Other	Total	Other	Consolidated
2002									
Operating revenues	$1,752.5	$394.0	$85.4	$2,231.9	$99.7	$132.2	$231.9	($6.7)	$2,457.1
Depreciation and amortization	225.0	26.1	3.8	254.9	11.2	11.9	23.1	--	278.0
Operating income (loss)	320.1	26.2	9.0	355.3	11.3	(14.6)	(3.3)	(0.5)	351.5
Interest expense, net of AFUDC				96.2	39.0	37.6	76.6	2.3	175.1
Equity (income) loss from unconsolidated investments				(17.6)	17.1	13.4	30.5	--	12.9
Preferred dividends				6.2	--	--	--	--	6.2
Impairment of available-for-sale securities of McLeod				--	--	27.2	27.2	--	27.2
Interest income and other				(2.4)	4.9	(12.7)	(7.8)	(0.6)	(10.8)
Income tax expense (benefit)				107.1	(12.1)	(43.9)	(56.0)	(4.3)	46.8
Income (loss) from continuing operations				165.8	(37.6)	(36.2)	(73.8)	2.1	94.1
Income from discontinued operations, net of tax				--	10.5	2.3	12.8	--	12.8
Net income (loss)				165.8	(27.1)	(33.9)	(61.0)	2.1	106.9
Total assets	4,502.8	645.5	383.9	5,532.2	955.1	1,308.1	2,263.2	52.8	7,848.2
Investments in equity method subsidiaries	125.4	--	--	125.4	297.1	27.4	324.5	--	449.9
Construction and acquisition expenditures	372.4	28.6	4.8	405.8	65.5	144.4	209.9	32.7	648.4

Products and Services - In 2004, Alliant Energy's domestic utility electric and gas revenues represented 68% and 19% of consolidated operating revenues, respectively. No other products or services represented more than 10% of Alliant Energy's consolidated operating revenues in 2004.

Geographic Information - Substantially all of the operating revenues within the International segment in the previous tables and the foreign long-lived assets in the following table are related to Alliant Energy's China operations.

Non-regulated and Other - Long-Lived Assets

Year	Domestic	Foreign	Total
		(in millions)	
2004	**$418.3**	**$193.5**	**$611.8**
2003	377.9	199.2	577.1
2002	347.3	171.2	518.5

Refer to Note 9 for a breakdown of Alliant Energy's international investments by country.

(14) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill - At Dec. 31, 2004 and 2003, Alliant Energy had $13 million ($10 million in the International segment and $3 million in the other non-regulated business segment) of goodwill included in "Deferred charges and other" on the Consolidated Balance Sheets. In accordance with SFAS 142, this goodwill is not amortized but is required to be evaluated for impairment at least annually and more frequently if indicators of impairment exist. At Dec. 31, 2004 and 2003, Alliant Energy also had $19 million and $17 million, respectively, of goodwill related to equity method investments in the International segment included in "Investments in unconsolidated foreign entities" on the Consolidated Balance Sheets. The increase in this goodwill reflects the impact of changes in foreign currency exchange rates. Alliant Energy monitors the goodwill and other intangible assets associated with its equity method investments in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock." Refer to Note 16 for information on goodwill impairment charges recorded in 2004 and 2002.

Other Intangible Assets - Certain information regarding other intangible assets with definite lives that are included on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	2004	2003
Consolidated investments (primarily land use rights in China):		
Gross carrying amount	**$23.4**	$26.2
Accumulated amortization	**(11.3)**	(9.9)
Net amount recorded in "Deferred charges and other"	**$12.1**	$16.3
Equity method investments:		
Net amount recorded in "Investments in unconsolidated foreign entities"	**$30.1**	$26.4
Net amount recorded in "Investment in ATC and other"	**14.8**	19.8

In 2004, 2003 and 2002, Alliant Energy recorded amortization expense related to these other intangible assets of $7.4 million, $7.0 million, and $5.6 million, respectively. At Dec. 31, 2004, Alliant Energy's estimated amortization expense for these other intangible assets for 2005 to 2009 was $7.1 million, $7.2 million, $7.1 million, $2.1 million, and $2.1 million, respectively.

(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. The amounts for the first, second and third quarters of 2004 and 2003 have been adjusted from the amounts reflected in the 2004 quarterly reports on Form 10-Q as filed for the respective periods to reflect certain non-regulated businesses as discontinued operations. Refer to Note 16 for additional information.

	2004				2003			
	March 31	**June 30**	**Sep. 30**	**Dec. 31**	March 31	June 30	Sep. 30	Dec. 31
	(in millions, except per share data)							
Operating revenues	**$810.3**	**$633.5**	**$730.3**	**$784.6**	$790.2	$611.6	$743.2	$721.8
Operating income	**77.3**	**84.5**	**165.9**	**92.1**	71.0	61.6	164.7	107.6
Income from continuing operations	**36.3**	**33.1**	**88.0**	**53.4**	12.5	12.6	85.0	45.9
Income (loss) from discontinued operations, net of tax	**(2.2)**	**(46.2)**	**(6.2)**	**(10.7)**	(7.0)	19.6	18.2	2.7
Cumulative effect of changes in accounting principles, net of tax	**--**	**--**	**--**	**--**	(6.0)	--	--	--
Net income (loss)	**34.1**	**(13.1)**	**81.8**	**42.7**	(0.5)	32.2	103.2	48.6
EPS:								
Income from continuing operations	**0.33**	**0.29**	**0.77**	**0.46**	0.14	0.14	0.77	0.41
Income (loss) from discontinued operations	**(0.02)**	**(0.41)**	**(0.06)**	**(0.09)**	(0.08)	0.21	0.17	0.03
Cumulative effect of changes in accounting principles	**--**	**--**	**--**	**--**	(0.07)	--	--	--
Net income (loss)	**0.31**	**(0.12)**	**0.71**	**0.37**	(0.01)	0.35	0.94	0.44

(16) DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Alliant Energy has completed the disposal, or is currently pursuing the disposal, of numerous non-regulated and domestic utility businesses and other assets in order to strengthen its financial profile and narrow its strategic focus. At Dec. 31, 2004 (or at previous dates for those businesses already disposed), the following businesses qualified as assets held for sale as defined by SFAS 144:

Business	Disposal Date	Segment
Non-regulated businesses:		
Australian	Second quarter of 2003	Non-regulated - International
Affordable housing	Third quarter of 2003	Non-regulated - Other
SmartEnergy, Inc.	Third quarter of 2003	Non-regulated - Other
Initial public offering (IPO) of approximately 95% of WPC	Fourth quarter of 2003	Non-regulated - Other
Gas marketing (NGE)	Third quarter of 2004	Non-regulated - Other
Energy management services (EMS)	Fourth quarter of 2004	Non-regulated - Other
Energy services (Cogenex Corp. and affiliates)	Anticipated in 2005	Non-regulated - Other
Domestic utility business:		
WPL's water utility in Ripon, Wisconsin	Anticipated in 2005	Domestic utility - Other

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 (DD&A). The assets and liabilities of the businesses listed previously have been classified as held for sale on the Consolidated Balance Sheets at Dec. 31, 2004 and 2003. The operating results of the non-regulated businesses listed previously have been separately classified and reported as discontinued operations in the Consolidated Statements of Income. The operating results of WPL's water utility did not qualify for reporting as discontinued operations at Dec. 31, 2004.

Prior to the IPO of WPC in 2003, 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 was included in income in the 2003 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. At the IPO closing date, Resources recorded a receivable from WPC based on the estimated present value of the payments expected from WPC. At Dec. 31, 2004 and 2003, the carrying value of this receivable was $36 million and $32 million, respectively, recorded 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 millions):

	2004	2003	2002
Operating revenues (a)	**$141.8**	$449.1	$260.5
Operating expenses (a)	**197.3**	355.7	230.4
Interest expense	**8.5**	26.8	49.6
(Gain) loss on disposal of assets held for sale, net (b)	**(0.3)**	18.9	--
Valuation charge - energy services business (c)	**39.2**	--	--
SFAS 133 income - Australian business (d)	**--**	(14.7)	(16.1)
Interest income and other	**(5.1)**	(8.6)	(4.9)
Income (loss) before income taxes	**(97.8)**	71.0	1.5
Income tax expense (benefit) (e)	**(32.5)**	37.5	(11.3)
Income (loss) from discontinued operations, net of tax	**($65.3)**	$33.5	$12.8

(a) Operating margins were higher in 2003 compared to 2004 and 2002 primarily due to goodwill impairment charges in 2004 and 2002, Alliant Energy ceasing DD&A of assets held for sale related to the WPC and Australian businesses in 2003 and the impact of businesses sold in 2003. In 2004, Alliant Energy recorded SFAS 142 pre-tax non-cash goodwill impairment charges of $43 million related to its energy services and EMS businesses, primarily due to less favorable market conditions. In 2002, Alliant Energy recorded a SFAS 142 pre-tax non-cash goodwill impairment charge related to its SmartEnergy, Inc. business of $6.9 million primarily due to less favorable market conditions. The fair value of these businesses was estimated using a combination of the expected discounted future cash flows and market value indicators.

(b) Alliant Energy recorded the following pre-tax (gains) and losses in 2003 related to the sale of various non-regulated businesses: Australian business - ($72.1) million; Affordable housing business - $60.7 million; WPC - $16.7 million; and SmartEnergy, Inc. business - $13.6 million. Ceasing DD&A of WPC's assets resulted in a higher carrying value of WPC's assets and had a direct impact on the amount of loss on the sale.

(c) In 2004, Alliant Energy recorded pre-tax valuation adjustments of $39 million, primarily due to less favorable market conditions related to its energy services business. The fair value of the energy services business was estimated using input from financial advisors and bids received in connection with the sale.

(d) 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 reflects the change in the fair value of these electric derivative contracts.

(e) "Income tax expense (benefit)" in the previous table includes $2.6 million and $10.1 million of affordable housing tax credits earned by Alliant Energy's affordable housing business during 2003 and 2002, 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 held for sale on the Consolidated Balance Sheets at Dec. 31 was as follows (in millions):

	2004	2003
Assets held for sale:		
Property, plant and equipment, net	**$12.1**	$15.2
Current assets	**17.8**	87.6
Investments	**1.8**	1.7
Other assets	**25.0**	88.6
Total assets held for sale	**$56.7**	$193.1
Liabilities held for sale:		
Current liabilities	**$8.9**	$44.1
Other long-term liabilities and deferred credits	**5.1**	4.2
Total liabilities held for sale	**14.0**	48.3
Net assets held for sale	**$42.7**	$144.8

A summary of the components of cash flows for discontinued operations was as follows (in millions):

	2004	2003	2002
Net cash flows from operating activities	**$36.5**	$25.7	$87.1
Net cash flows from (used for) investing activities	**0.5**	(32.7)	(222.7)
Net cash flows from (used for) financing activities	**(36.6)**	(12.7)	148.0
Net increase (decrease) in cash and temporary cash investments	**0.4**	(19.7)	12.4
Cash and temporary cash investments at beginning of period	**1.5**	21.2	8.8
Cash and temporary cash investments at end of period	**$1.9**	$1.5	$21.2
Supplemental cash flows information:			
Cash paid (refunded) during the period for:			
Interest	**$--**	$19.2	$14.7
Income taxes, net of refunds	**($5.0)**	($36.0)	($10.7)

Alliant Energy has also announced its intention to sell the following additional domestic utility assets and non-regulated businesses in order to further narrow its strategic focus. However, these assets did not qualify as assets held for sale or discontinued operations at Dec. 31, 2004:

- IPL's 70% interest in DAEC, a 583 MW nuclear generating facility near Palo, Iowa (Note 18);
- WPL's 41% interest in Kewaunee, a 574 MW nuclear generating facility near Kewaunee, Wisconsin (Note 17);
- The Illinois utility properties of IPL and South Beloit Water, Gas and Electric Company, a subsidiary of WPL;
- Resources' remaining oil and gas gathering pipeline systems in Texas; and
- Resources' biomass facility in Cedar Rapids, Iowa.

(17) PROPOSED SALE OF WPL'S INTEREST IN KEWAUNEE

WPL has signed a definitive agreement to sell its 41% ownership interest in Kewaunee to a subsidiary of Dominion Resources, Inc. (Dominion). Approval has already been obtained from the Federal Trade Commission, NRC, IUB, Illinois Commerce Commission and MPUC, and certain approvals have been obtained from FERC. In November 2004, the PSCW issued a decision rejecting WPL's and WPSC's joint application to sell Kewaunee to Dominion. WPL and WPSC joined Dominion and filed a petition for a rehearing with the PSCW in December 2004. In the rehearing petition, new information was submitted that addressed the PSCW's concerns and the petition was accepted in January 2005 on an expedited schedule. WPL anticipates that the PSCW will issue a decision on the sale in March 2005.

Assuming the sale closes, WPL anticipates it will receive approximately $90 million in cash and retain ownership of the trust assets contained in one of the two decommissioning funds it established to cover the eventual decommissioning of Kewaunee. The fund that WPL will retain had an after-tax value of $72 million as of Dec. 31, 2004. Dominion will assume responsibility for the eventual decommissioning of Kewaunee and will receive WPL's qualified decommissioning trust assets, which had an after-tax value of $171 million as of Dec. 31, 2004. The cash proceeds, after certain transaction costs, from the sale are expected to slightly exceed WPL's carrying value of the assets being sold. WPL 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, WPL does not expect this transaction will have a significant impact on its operating results. As of Dec. 31, 2004, WPL's share of the carrying value of the assets and liabilities included within the sale agreement was as follows (in millions):

Assets:		Liabilities:	
Investments	$171	AROs	$200
Property, plant and equipment, net *	88	Regulatory liabilities	(7)
Other	18		$193
	$277		

* Includes nuclear fuel, net of amortization

At the closing of the sale, WPL 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 Kewaunee's current operating license will expire. In April 2004, WPL entered into an exclusivity agreement with Dominion. Under this agreement, if Dominion decides to extend the operating license of Kewaunee, Dominion must negotiate only with WPL and WPSC for new purchased-power agreements for their respective share of the plant output that would extend beyond Kewaunee's current operating license termination date. The exclusivity period will start on the closing date of the sale and will extend through Dec. 21, 2011.

(18) PROPOSED SALE OF IPL'S INTEREST IN DAEC

In December 2004, IPL announced its intent to sell its 70% ownership interest in DAEC. Subsequently, IPL and the co-owners of DAEC have agreed to participate together in a competitive auction process to sell 100% of the ownership interests. Each co-owner's commitment to divest its ownership interest is contingent upon the approval of, and negotiation with, a prospective owner. The co-owners plan to enter into a definitive sales agreement in 2005 and then seek to obtain appropriate state and federal regulatory approvals. Refer to Notes 3, 9, 11(f), 12 and 19 for information regarding IPL's nuclear fuel capital lease; nuclear decommissioning trust fund investments; decommissioning costs; property, plant and equipment; and AROs, respectively, related to DAEC.

(19) ASSET RETIREMENT OBLIGATIONS (AROs)

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 the removal, closure or dismantlement of several other 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. Refer to Notes 17 and 18 for information regarding the proposed sale of WPL's interest in Kewaunee and IPL's interest in DAEC, respectively. A reconciliation of the changes in the AROs is depicted below (in millions):

	IPL	WPL	Total
Balance at Jan. 1, 2004	$158.3	$187.4	$345.7
Accretion expense	10.1	13.5	23.6
Balance at Dec. 31, 2004	$168.4	$200.9	$369.3

Upon adoption of SFAS 143 on Jan. 1, 2003, IPL and WPL recorded AROs of $179.6 million and $175.0 million, respectively. 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 2003, Alliant Energy completed an IPO of WPC).

(20) VARIABLE INTEREST ENTITIES

In December 2003, the FASB issued FIN 46R which addresses consolidation by business enterprises of variable interest entities. FIN 46R 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 46R for those entities considered to be special-purpose entities as of Dec. 31, 2003, and for all other entities subject to FIN 46R as of March 31, 2004. The entities that Alliant Energy consolidated as a result of this guidance did not have a material impact on its financial condition or results of operations.

After making an ongoing exhaustive effort, Alliant Energy concluded that it was unable to obtain the information necessary from the counterparties for the Riverside plant tolling agreement and RockGen plant purchased-power agreement to determine whether the counterparties are variable interest entities and if Alliant Energy is the primary beneficiary. These agreements are currently accounted for as operating leases. The counterparties sell some or all of their generating capacity to WPL, and can sell their energy output to both WPL and IPL. In 2004, WPL and IPL incurred costs (excluding fuel costs) related to the Riverside contract of $38 million and $1 million, respectively. In each of 2004 and 2003, WPL incurred costs related to the RockGen contract of approximately $33 million. Alliant Energy's maximum exposure to loss from these contracts is undeterminable due to the inability to obtain the necessary information to complete such evaluation.

SELECTED FINANCIAL AND OPERATING STATISTICS

FINANCIAL INFORMATION	2004 (1)	2003 (1)	2002 (1)	2001	2000 (2)
	(dollars in millions, except per share data)				
Income Statement Data:					
Operating revenues	**$2,958.7**	$2,866.8	$2,457.1	$2,591.0	$2,268.4
Income from continuing operations	**210.8**	156.0	94.1	132.7	330.9
Income (loss) from discontinued operations, net of tax	**(65.3)**	33.5	12.8	52.6	51.1
Income before cumulative effect of changes in accounting principles	**145.5**	189.5	106.9	185.3	382.0
Cumulative effect of changes in accounting principles, net of tax	--	(6.0)	--	(12.9)	16.7
Net income	**145.5**	183.5	106.9	172.4	398.7
Common Stock Data:					
Earnings per average common share (basic):					
Income from continuing operations	**$1.86**	$1.54	$1.04	$1.65	$4.19
Income (loss) from discontinued operations	**($0.58)**	$0.33	$0.14	$0.65	$0.65
Cumulative effect of changes in accounting principles	**$--**	($0.06)	$--	($0.16)	$0.21
Net income	**$1.28**	$1.81	$1.18	$2.14	$5.05
Earnings per average common share (diluted):					
Income from continuing operations	**$1.85**	$1.54	$1.04	$1.65	$4.18
Income (loss) from discontinued operations	**($0.57)**	$0.33	$0.14	$0.65	$0.64
Cumulative effect of changes in accounting principles	**$--**	($0.06)	$--	($0.16)	$0.21
Net income	**$1.28**	$1.81	$1.18	$2.14	$5.03
Common shares outstanding at year-end (000s)	**115,742**	110,963	92,304	89,682	79,010
Dividends declared per common share	**$1.0125**	$1.00	$2.00	$2.00	$2.00
Market value per share at year-end	**$28.60**	$24.90	$16.55	$30.36	$31.88
Book value per share at year-end (3)	**$22.13**	$21.37	$19.89	$21.39	$25.79
Other Selected Financial Data:					
Cash flows from operating activities (continuing operations)	**$501.6**	$460.7	$541.3	$457.1	$393.6
Construction and acquisition expenditures	**$649.2**	$837.2	$648.4	$692.5	$831.7
Total assets at year-end (3)	**$8,275.2**	$7,797.5	$7,848.2	$7,007.5	$7,436.7
Long-term obligations, net	**$2,518.0**	$2,321.6	$2,784.2	$2,586.0	$2,128.5
Times interest earned before income taxes (4)	**2.75X**	2.17X	1.80X	2.06X	4.35X
Capitalization ratios:					
Common equity (3)	**48%**	47%	36%	41%	44%
Preferred stock	**4%**	5%	4%	2%	2%
Long- and short-term debt	**48%**	48%	60%	57%	54%
Total	**100%**	100%	100%	100%	100%

(1) Refer to "Results of Operations" in MDA for a discussion of the 2004, 2003 and 2002 results of operations.

(2) Includes $204.0 million ($2.58 per diluted share) of non-cash net income related to Alliant Energy's adoption of Statement of Financial Accounting Standards 133, "Accounting for Derivative Instruments and Hedging Activities," and $15.6 million ($0.20 per diluted share) of net income from gains on sales of McLeodUSA Incorporated (McLeod) stock.

(3) 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, 2000, the carrying amount reflected an unrealized gain of approximately $543 million with a net of tax increase to common equity of $317 million. The unrealized gain (loss) was not significant during all other periods reported.

(4) 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)

	2004	2003	2002	2001	2000
Operating Revenues (in millions):					
Residential	**$716.7**	$684.6	$626.9	$599.1	$567.3
Commercial	**437.8**	409.7	376.4	373.1	349.0
Industrial	**609.9**	571.6	526.8	543.5	501.2
Total from retail customers	**1,764.4**	1,665.9	1,530.1	1,515.7	1,417.5
Sales for resale	**185.8**	195.8	160.3	184.5	173.1
Other	**58.8**	55.4	62.1	56.4	57.4
Total	**$2,009.0**	$1,917.1	$1,752.5	$1,756.6	$1,648.0
Electric Sales (000s MWh):					
Residential	**7,354**	7,565	7,616	7,344	7,161
Commercial	**5,702**	5,663	5,542	5,464	5,364
Industrial	**12,596**	12,345	12,297	12,469	13,092
Total from retail customers	**25,652**	25,573	25,455	25,277	25,617
Sales for resale	**5,102**	5,495	4,805	4,936	4,906
Other	**178**	184	197	168	174
Total	**30,932**	31,252	30,457	30,381	30,697
Customers (End of Period):					
Residential	**839,745**	830,559	822,229	807,754	799,603
Commercial	**131,152**	129,130	128,212	125,539	123,833
Industrial	**2,916**	2,902	2,905	2,826	2,773
Other	**3,312**	3,362	3,344	3,324	3,316
Total	**977,125**	965,953	956,690	939,443	929,525
Other Selected Electric Data:					
Maximum peak hour demand (MW)	**5,644**	5,887	5,729	5,677	5,397
Cooling degree days*:					
Cedar Rapids (IPL) (normal - 379)	**139**	276	397	347	244
Madison (WPL) (normal - 242)	**138**	224	356	305	170
Sources of electric energy (000s MWh):					
Coal	**18,472**	18,451	17,674	18,190	18,669
Purchased power	**8,289**	9,155	8,596	8,727	8,058
Nuclear	**5,018**	4,498	5,012	4,116	4,675
Gas	**792**	631	675	472	470
Other	**262**	240	379	452	427
Total	**32,833**	32,975	32,336	31,957	32,299
Revenue per kilowatt-hour (KWh) from retail customers (cents)	**6.88**	6.51	6.01	6.00	5.53

* Cooling degree days are calculated using a 70 degree base. Normal degree days are calculated using a fixed 30-year average most recently updated in February 2002.

GAS OPERATING INFORMATION (DOMESTIC UTILITY ONLY)

	2004	2003	2002	2001	2000
Operating Revenues (in millions):					
Residential	**$315.6**	$310.7	$218.7	$270.2	$245.7
Commercial	**172.3**	162.7	111.3	141.1	127.1
Industrial	**38.4**	34.2	25.2	31.3	27.8
Transportation/other	**43.5**	59.3	38.8	45.3	14.3
Total	**$569.8**	$566.9	$394.0	$487.9	$414.9
Gas Sales (000s Dths):					
Residential	**29,338**	31,871	30,931	29,580	32,026
Commercial	**19,199**	19,947	19,348	18,055	19,696
Industrial	**5,127**	5,093	5,373	5,344	5,350
Transportation/other	**49,626**	48,978	47,386	48,539	43,931
Total	**103,290**	105,889	103,038	101,518	101,003
Customers at End of Period (Excluding Transportation/Other):					
Residential	**366,493**	361,835	358,384	353,430	351,990
Commercial	**45,630**	45,826	45,793	45,480	44,654
Industrial	**730**	766	799	951	953
Total	**412,853**	408,427	404,976	399,861	397,597
Other Selected Gas Data:					
Heating degree days*:					
Cedar Rapids (IPL) (normal - 6,899)	**6,463**	6,883	6,577	6,535	6,753
Madison (WPL) (normal - 7,485)	**6,831**	7,337	6,929	6,675	7,038
Revenue per Dth sold (excluding transportation/other)	**$9.81**	$8.92	$6.38	$8.35	$7.02
Purchased gas costs per Dth sold (excluding transportation/other)	**$6.98**	$6.11	$4.02	$6.31	$4.88

* Heating degree days are calculated using a 65 degree base. Normal degree days are calculated using a fixed 30-year average most recently updated in February 2002.

Financial **discipline** Strategic **focus** Successful **execution**

ALLIANT ENERGY CORPORATION

Notice of 2005 Annual Meeting and Proxy Statement

Your vote is important!

ALLIANT ENERGY CORPORATION

ANNUAL MEETING OF SHAREOWNERS

DATE:	**Thursday, May 19, 2005**
TIME:	**1:00 p.m. (Central Daylight Time)**
LOCATION:	**Cedar Rapids Marriott 1200 Collins Road N.E. Cedar Rapids, Iowa 52402**

SHAREOWNER INFORMATION

LOCAL (Madison, Wis., area)	**(608) 458-3110**
TOLL-FREE	**(800) 356-5343**

Alliant Energy Corporation
4902 North Biltmore Lane
P. O. Box 2568
Madison, WI 53701-2568
Phone: 608.458.3110

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

Dear Alliant Energy Corporation Shareowner:

On Thursday, May 19, 2005, Alliant Energy Corporation (the "Company") will hold its 2005 Annual Meeting of Shareowners at the Cedar Rapids Marriott, 1200 Collins Road N.E., Cedar Rapids, Iowa. The meeting will begin at 1:00 p.m. (Central Daylight Time).

Only shareowners of record at the close of business on March 30, 2005 may vote at this meeting. All shareowners are requested to be present at the meeting in person or by proxy so that a quorum may be ensured. At the meeting, the Company's shareowners will:

1. Elect three directors for terms expiring at the 2008 Annual Meeting of Shareowners; and

2. Attend to any other business properly presented at the meeting.

The Board of Directors of the Company presently knows of no other business to come before the meeting.

If your shares are registered directly with the Company's Shareowner Services Department, then you may vote those shares by telephone or Internet. Instructions for voting by these convenient methods are shown on the enclosed proxy card. If you prefer, you may sign and date the enclosed proxy card and return it in the postage-paid envelope.

A copy of the Company's 2004 Annual Report precedes this Notice of Annual Meeting and Proxy Statement.

By Order of the Board of Directors,

F. J. Buri
Corporate Secretary

Dated, mailed and made available on the
Internet on or about April 7, 2005.

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QUESTIONS AND ANSWERS

1. **Q: Why am I receiving these materials?**
   A: The Board of Directors of Alliant Energy Corporation (the "Company") is providing these proxy materials to you in connection with the Company's Annual Meeting of Shareowners (the "Annual Meeting"), which will take place on Thursday, May 19, 2005. As a shareowner, you are invited to attend the Annual Meeting and are entitled to and requested to vote on the proposals described in this proxy statement.

2. **Q: What is Alliant Energy Corporation?**
   A: The Company is a public utility holding company whose primary first tier subsidiaries are Interstate Power and Light Company ("IP&L"), Wisconsin Power and Light Company ("WP&L"), Alliant Energy Resources, Inc. ("Resources") and Alliant Energy Corporate Services, Inc. ("Corporate Services").

3. **Q: Who is entitled to vote at the Annual Meeting?**
   A: Only shareowners of record at the close of business on March 30, 2005 are entitled to vote at the Annual Meeting. As of the record date, 116,196,818 shares of the Company's common stock were issued and outstanding. Each shareowner is entitled to one vote for each share of the Company's common stock held on the record date.

4. **Q: What may I vote on at the Annual Meeting?**
   A: You may vote on the election of three nominees to serve on the Company's Board of Directors for terms expiring at the 2008 Annual Meeting.

5. **Q: How does the Board of Directors recommend I vote?**
   A: The Board of Directors recommends that you vote your shares FOR each of the listed director nominees.

6. **Q: How can I vote my shares?**
   A: You may vote either in person at the Annual Meeting or by appointing a proxy. If your shares are registered directly with the Company's Shareowner Services Department, then you have three options to appoint a proxy:

   - By telephone;
   - By Internet; or
   - By mailing the proxy card.

   Please refer to the instructions included on your proxy card to vote by proxy. If you hold your shares through a bank, broker or other record holder, then you may vote by the methods your bank or broker make available, in which case the bank or broker will include instructions with this proxy statement. If you vote by the Internet, then you should understand that there might be costs associated with electronic access that you must bear, such as usage charges from Internet access providers and telephone companies. Appointing a proxy will not affect your right to vote your shares if you attend the Annual Meeting and desire to vote in person.

7. **Q: How are votes counted?**
   A: In the election of directors, you may vote FOR all of the director nominees or you may WITHHOLD your vote with respect to one or more nominees. If you return your signed proxy card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR all listed director nominees.

8. **Q: Can I change my vote?**
   A: You have the right to revoke your proxy at any time before the Annual Meeting by:

   - Providing written notice to the Corporate Secretary of the Company and voting in person at the Annual Meeting; or
   - Appointing a new proxy prior to the start of the Annual Meeting.

   Attendance at the Annual Meeting will not cause your previously appointed proxy to be revoked unless you specifically so request in writing.

9. **Q: What shares are included on the proxy card(s)?**
   A: Your proxy card(s) covers all of your shares of the Company's common stock, including any shares held in your account under the Company's Shareowner Direct Plan. For present or past employees of IP&L, your proxy includes any shares held in your account under the IES Employee Stock Ownership Plan.

10. **Q: How is the Company's common stock held for employees in the Alliant Energy Corporation 401(k) Savings Plan voted?**
    A: For shares held in the 401(k) Savings Plan, you will receive a separate form of proxy from the trustee of the Plan.

11. **Q: What does it mean if I get more than one proxy card?**
    A: If your shares are registered differently and are in more than one account, then you will receive more than one proxy card. Be sure to vote all of your accounts to ensure that all of your shares are voted. The Company encourages you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting the Company's Shareowner Services Department at the shareowner information numbers shown at the front of this proxy statement.

12. **Q: Who may attend the Annual Meeting?**
    A: All shareowners who owned shares of the Company's common stock on March 30, 2005 may attend the Annual Meeting. You will be asked to indicate whether you plan to attend the Annual Meeting when voting by telephone or Internet, or you may indicate your intention to attend the Annual Meeting on the enclosed proxy card.

13. **Q: How will voting on any other business be conducted?**
    A: The Board of Directors of the Company does not know of any business to be considered at the Annual Meeting other than the election of directors. If any other business is properly presented at the Annual Meeting, your proxy gives Erroll B. Davis, Jr., the Company's Chairman and Chief Executive Officer, and F. J. Buri, the Company's Corporate Secretary, authority to vote on such matters at their discretion.

14. **Q: Where and when will I be able to find the results of the voting?**
    A: The results of the voting will be announced at the Annual Meeting. You may also call the Company's Shareowner Services Department at the shareowner information numbers shown at the front of this proxy statement for the results. The Company will also publish the final results in its Quarterly Report on Form 10-Q for the second quarter of 2005 to be filed with the Securities and Exchange Commission ("SEC").

15. **Q: Are the Company's 2004 Annual Report and these proxy materials available on the Internet?**
    A: Yes. You can access the Company's Web site at **www.alliantenergy.com** to view the 2004 Annual Report and these proxy materials.

16. **Q: How can I access future proxy materials and annual reports on the Internet?**
    A: The Company is offering you the opportunity to consent to access its future notices of shareowner meetings, proxy materials and annual reports electronically through the Company's Web site.

    If you are a shareowner of record, you can consent to access these materials electronically to allow the Company to save the cost of producing and mailing these materials by marking the appropriate box on your proxy card or by following the instructions provided if you vote over the Internet or by telephone. If you consent to access these materials over the Internet, then you will receive a proxy card in the mail next year with instructions containing the Internet address to access those materials. However, you will not receive those proxy materials and the annual report by mail. Your consent will remain in effect unless it is revoked by calling or writing the Company's Shareowner Services Department, as the case may be, at the shareowner information numbers shown at the front of this proxy statement or at the address of the Company shown on the first page of this proxy statement.

    If you hold your stock through a bank, broker or other holder of record, please refer to the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet.

    If you consent to electronic access, then you will be responsible for your usual Internet-related charges (e.g., on-line fees and telephone charges) in connection with electronic viewing and printing of proxy materials and annual reports. The Company will continue to distribute printed materials to shareowners who do not consent to access these materials electronically.

17. **Q: When are shareowner proposals for the 2006 Annual Meeting due?**
    A: All shareowner proposals to be considered for inclusion in the Company's proxy statement for the 2006 Annual Meeting, pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ("Rule 14a-8"), must be received at the principal office of the Company by Dec. 8, 2005.

In addition, any shareowner who intends to present a proposal at the 2006 Annual Meeting must comply with the requirements set forth in the Company's Bylaws. The Company's Bylaws state, among other things, that to bring business before an annual meeting, a shareowner must give written notice that complies with the Bylaws to the Corporate Secretary of the Company not later than 45 days in advance of the first annual anniversary of the date the Company first mailed its proxy statement to shareowners for the prior year's annual meeting. Accordingly, the Company must receive notice of a shareowner's proposal submitted other than pursuant to Rule 14a-8 no later than Feb. 21, 2006. If the notice is received after Feb. 21, 2006, then the notice will be considered untimely and the Company is not required to present such proposal at the 2006 Annual Meeting. If the Board of Directors chooses to present a proposal submitted other than pursuant to Rule 14a-8 at the 2006 Annual Meeting, then the persons named in the proxies solicited by the Board for the 2006 Annual Meeting may exercise discretionary voting power with respect to such proposal.

18. **Q: Who are the independent auditors of the Company and how are they appointed?**
    A: Deloitte & Touche LLP audited the financial statements of the Company for the year ended Dec. 31, 2004. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they so desire and to be available to respond to appropriate questions. The Audit Committee of the Board of Directors expects to appoint the independent auditors for 2005 later in the year.

19. **Q: Who will bear the cost of soliciting proxies for the Annual Meeting and how will these proxies be solicited?**
    A: The Company will pay the cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by the Company's officers and employees who will not receive any additional compensation for these solicitation activities. The Company will pay banks, brokers, nominees and other fiduciaries reasonable charges and expenses incurred in forwarding the proxy materials to their principals. The Company has retained Georgeson Shareholder Communications Inc. to aid in the solicitation at an estimated cost of $6,500 plus reimbursable out-of-pocket expenses.

20. **Q: If more than one shareowner lives in my household, how can I obtain an extra copy of the Company's 2004 Annual Report and proxy statement?**
    A: Pursuant to the rules of the SEC, services that deliver the Company's communications to shareowners that hold their stock through a bank, broker or other holder of record may deliver to multiple shareowners sharing the same address a single copy of the Company's 2004 Annual Report and proxy statement. Upon written or oral request, the Company will mail a copy of the 2004 Annual Report and proxy statement to any shareowner at a shared address to which a single copy of the document was previously delivered. You may notify the Company of your request by calling or writing the Company's Shareowner Services Department, as the case may be, at the shareowner information numbers shown at the front of this proxy statement or at the address of the Company shown on the Notice of Annual Meeting.

ELECTION OF DIRECTORS

At the Annual Meeting, three directors will be elected for terms expiring in 2008. The nominees for election as recommended by the Nominating and Governance Committee and selected by the Board of Directors are: William D. Harvey, Singleton B. McAllister and Anthony R. Weiler. Each of the nominees is currently serving as a director of the Company. Each person elected as a director will serve until the Annual Meeting of Shareowners of the Company in 2008, or until his or her successor has been duly elected and qualified.

Directors will be elected by a plurality of the votes cast at the meeting (assuming a quorum is present). Consequently, any shares not voted at the meeting will have no effect on the election of directors. The proxies solicited may be voted for a substitute nominee or nominees if any of the nominees are unable to serve, or for good reason will not serve, a contingency not now anticipated.

Brief biographies of the director nominees and continuing directors follow. These biographies include their ages (as of Dec. 31, 2004), an account of their business experience and the names of publicly held and certain other corporations of which they are also directors. Except as otherwise indicated, each nominee and continuing director has been engaged in his or her present occupation for at least the past five years.

NOMINEES

WILLIAM D. HARVEY — Director since 2005
Age 55 — Nominated term expires in 2008

Mr. Harvey has served as President and Chief Operating Officer of the Company and Chief Operating Officer of IP&L, WP&L and Resources since January 2004, and President of Resources since January 2005. He previously served as Executive Vice President – Generation for the Company, IP&L and Resources and President of WP&L from 1998 to January 2004. He also previously served at WP&L as Senior Vice President from 1993 to 1998, Vice President and General Counsel from 1990 to 1993 and Vice President and Associate General Counsel from 1986 to 1990. He was recommended as a nominee by the Nominating and Governance Committee and appointed as a Director of the Company, IP&L, WP&L and Resources in January 2005 in connection with the Company's succession plan.

SINGLETON B. MCALLISTER — Director since 2001
Age 52 — Nominated term expires in 2008

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 was previously 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. She serves on the Board of Directors of United Rentals, Inc. Ms. McAllister has served as a Director of IP&L (or predecessor companies), WP&L and Resources since 2001. Ms. McAllister is Chairperson of the Compensation and Personnel Committee.

ANTHONY R. WEILER — Director since 1998
Age 68 — Nominated term expires in 2008

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 Resources since 1998. Mr. Weiler is Chairperson of the Nominating and Governance Committee and the Lead Independent Director.

The Board of Directors unanimously recommends a vote FOR all nominees for election as directors.

CONTINUING DIRECTORS

ERROLL B. DAVIS, JR. Director since 1982
Age 60 Term expires in 2006

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 Resources 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.; Union Pacific Corporation; Electric Power Research Institute; the Edison Electric Institute; and the U. S. Olympic Committee. Mr. Davis has served as a Director of WP&L since 1984, of Resources since 1988 and of IP&L (or predecessor companies) since 1998.

MICHAEL L. BENNETT Director since 2003
Age 51 Term expires in 2007

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 Resources since 2003. Mr. Bennett is Chairperson of the Audit Committee.

ANN K. NEWHALL Director since 2003
Age 53 Term expires in 2006

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 Resources since 2003.

DAVID A. PERDUE Director since 2001
Age 55 Term expires in 2007

Mr. Perdue is Chairman of the Board and Chief Executive Officer of Dollar General Corporation, a sales organization headquartered in Goodlettsville, Tenn. He was named 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. Pillowtex filed for bankruptcy in July 2003 after emerging from a previous bankruptcy in May 2002. 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 Resources since 2001.

JUDITH D. PYLE Director since 1992
Age 61 Term expires in 2007

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 Chair 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 a Director of Uniek, Inc. Ms. Pyle has served as a Director of WP&L since 1994, of Resources since 1992 and of IP&L (or predecessor companies) since 1998.

ROBERT W. SCHLUTZ Director since 1998
Age 68 Term expires in 2006

Mr. Schlutz is President of Schlutz Enterprises, Inc., 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 Resources since 1998. Mr. Schlutz is Chairperson of the Environmental, Nuclear, Health and Safety Committee.

MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors has standing Audit; Compensation and Personnel; Nominating and Governance; Environmental, Nuclear, Health and Safety; and Capital Approval Committees. The Board of Directors has adopted formal written charters for each of the Audit, Compensation and Personnel, and Nominating and Governance Committees, which are available, free of charge, on the Company's Web site at **www.alliantenergy.com/investors** under the "Corporate Governance" caption or in print to any shareowner who requests them from the Company's Corporate Secretary. The following is a description of each of these committees:

Audit Committee
The Audit Committee held seven meetings in 2004. The Committee currently consists of M. L. Bennett (Chair), S. B. McAllister, A. K. Newhall and D. A. Perdue. Each of the members of the Committee is independent as defined by the New York Stock Exchange ("NYSE") listing standards and SEC rules. The Board of Directors has determined that Mr. Bennett and one additional Audit Committee member qualify as "audit committee financial experts" as defined by SEC rules. The Audit Committee is responsible for assisting Board oversight of: (1) the integrity of the Company's financial statements; (2) the Company's compliance with legal and regulatory requirements; (3) the independent auditors' qualifications and independence; and (4) the performance of the Company's internal audit function and independent auditors. The Audit Committee is also directly responsible for the appointment, retention, termination, compensation and oversight of the Company's independent auditors.

Compensation and Personnel Committee
The Compensation and Personnel Committee held four meetings in 2004. The Committee currently consists of S. B. McAllister (Chair), M. L. Bennett, D. A. Perdue and J. D. Pyle. Each of the members of the Committee is independent as defined by the NYSE listing standards. This Committee reviews and approves corporate goals and objectives relevant to Chief Executive Officer ("CEO") compensation, evaluates the CEO's performance and determines and approves as a committee, or together with the other independent directors, the CEO's compensation level based on the evaluation of the CEO's performance. In addition, the Committee has responsibilities with respect to the Company's executive compensation and incentive programs and management development programs.

Nominating and Governance Committee
The Nominating and Governance Committee held three meetings in 2004. The Committee currently consists of A. R. Weiler (Chair), K. C. Lyall, A. K. Newhall and R. W. Schlutz. Each of the members of the Committee is independent as defined by the NYSE listing standards. This Committee's responsibilities are to: (1) identify individuals qualified to become Board members, consistent with the criteria approved by the Board, and to recommend nominees for directorships to be filled by the Board or shareowners; (2) identify and recommend Board members qualified to serve on Board committees; (3) develop and recommend to the Board a set of corporate governance principles; (4) oversee the evaluation of the Board and the Company's management; and (5) advise the Board with respect to other matters relating to corporate governance of the Company.

In making recommendations to the Company's Board of Directors of nominees to serve as directors, the Nominating and Governance Committee will examine each director nominee on a case-by-case basis regardless of who recommended the nominee and take into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. However, the Committee believes that, to be recommended as a director nominee, each candidate must:

- display the highest personal and professional ethics, integrity and values.
- have the ability to exercise sound business judgment.
- be highly accomplished in his or her respective field, with superior credentials and recognition and broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.
- have relevant expertise and experience, and be able to offer advice and guidance to the CEO based on that expertise and experience.
- be independent of any particular constituency, be able to represent all shareowners of the Company and be committed to enhancing long-term shareowner value.

- have sufficient time available to devote to activities of the Board of Directors and to enhance his or her knowledge of the Company's business.

The Committee also believes the following qualities or skills are necessary for one or more directors to possess:

- At least one director should have the requisite experience and expertise to be designated as an "audit committee financial expert" as defined by the applicable rules of the SEC.

- Directors generally should be active or former senior executive officers of public companies or leaders of major and/or complex organizations, including commercial, governmental, educational and other non-profit institutions.

- Directors should be selected so that the Board of Directors is a diverse body, with diversity reflecting age, gender, race and political experience.

The Nominating and Governance Committee will consider nominees recommended by shareowners in accordance with the Company's Nominating and Governance Committee Charter and the Corporate Governance Principles.

The Company and the Committee maintain a file of recommended potential director nominees which is reviewed at the time a search for a new director needs to be performed. To assist the Committee in its identification of qualified director candidates, the Committee may engage an outside search firm.

Any shareowner wishing to make a recommendation should write to the Corporate Secretary of the Company and include appropriate biographical information concerning each proposed nominee. The Corporate Secretary will forward all recommendations to the Committee. The Company's Bylaws also set forth certain requirements for shareowners wishing to nominate director candidates directly for consideration by shareowners. These provisions require such nominations to be made pursuant to timely notice (as specified in the Bylaws) in writing to the Corporate Secretary of the Company.

Environmental, Nuclear, Health and Safety Committee
The Environmental, Nuclear, Health and Safety Committee held two meetings in 2004. The Committee currently consists of R. W. Schlutz (Chair), K. C. Lyall, J. D. Pyle and A. R. Weiler. The Committee's responsibilities are to review environmental policy and planning issues of interest to the Company, including matters involving the Company before environmental regulatory agencies and compliance with air, water and waste regulations. In addition, the Committee reviews policies and operating issues related to the Company's nuclear generating station investments, including planning and funding for decommissioning of the plants. The Committee also reviews health and safety-related policies, activities and operational issues as they affect employees, customers and the general public.

Capital Approval Committee
The Capital Approval Committee held no meetings in 2004. The Committee currently consists of M. L. Bennett, D. A. Perdue and A. R. Weiler. Mr. Davis is the Chair and a non-voting member of this Committee. The purpose of this Committee is to evaluate certain investment proposals where (1) an iterative bidding process is required, and/or (2) the required timelines for such a proposal would not permit the proposal to be brought before a regular meeting of the Board of Directors and/or a special meeting of the full Board of Directors is not practical or merited.

The Board of Directors held nine meetings during 2004. Each director attended at least 75% of the aggregate number of meetings of the Board and Board committees on which he or she served.

The Board and each Board committee conduct performance evaluations annually to determine their effectiveness and suggest improvements for consideration and implementation. In addition, the Compensation and Personnel Committee evaluates Mr. Davis' performance as CEO on an annual basis.

Board members are expected to attend the Company's Annual Meeting. All Board members were present for the Company's 2004 Annual Meeting.

CORPORATE GOVERNANCE

Corporate Governance Principles
The Board of Directors has adopted Corporate Governance Principles that, in conjunction with the Board committee charters, establish processes and procedures to help ensure effective and responsive governance by the Board. The Corporate Governance Principles are available, free of charge, on the Company's Web site at **www.alliantenergy.com/investors** under the "Corporate Governance" caption or in print to any shareowner who requests them from the Company's Corporate Secretary.

The Board of Directors has adopted certain categorical standards of independence to assist it in making determinations of director independence under the NYSE listing standards. Under these categorical standards, the following relationships that currently exist or that have existed, including during the preceding three years, will *not* be considered to be material relationships that would impair a director's independence:

- A family member of the director is or was an employee (other than an executive officer) of the Company.
- A director, or a family member of the director, receives or received less than $100,000 during any twelve-month period in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service with the Company).
- A director, or a family member of the director, is a former partner or employee of the Company's internal or external auditor but did not personally work on the Company's audit within the last three years; or a family member of a director is employed by an internal or external auditor of the Company but does not participate in such auditor's audit, assurance or tax compliance practice.
- A director, or a family member of the director, is or was employed other than as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee.
- A director is or was an executive officer, employee or director of, or has or had any other relationship (including through a family member) with, another company, that makes payments (other than contributions to tax exempt organizations) to, or receives payments from, the Company for property or services in an amount which, in any of the last three fiscal years, does not exceed the greater of $1 million or 2% of such other company's consolidated gross revenues.
- A director is or was an executive officer, employee or director of, or has or had any other relationship (including through a family member) with, a tax exempt organization to which the Company's discretionary charitable contributions in any single fiscal year do not exceed the greater of $1 million or 2% of such organization's consolidated gross revenues.

In addition, any relationship that a director (or an "immediate family member" of the director) previously had that constituted an automatic bar to independence under NYSE listing standards will not be considered to be a material relationship that would impair a director's independence three years after the end of such relationship in accordance with NYSE listing standards.

Based on these standards, the Board of Directors has affirmatively determined by resolution that each of the Company's directors (other than Mr. Davis, the Company's Chairman and CEO, and Mr. Harvey, the Company's President and COO) has no material relationship with the Company and, therefore, is independent in accordance with the NYSE listing standards. The Board of Directors will regularly review the continuing independence of the directors.

The Corporate Governance Principles provide that at least 75% of the members of the Board of Directors must be independent directors under the NYSE listing standards. The Audit, Compensation and Personnel, and Nominating and Governance Committees must consist of all independent directors.

Lead Independent Director; Executive Sessions
The Corporate Governance Principles provide that the chairperson of the Nominating and Governance Committee shall be the designated "Lead Independent Director" and will preside as the chair at meetings or executive sessions of the

independent directors. As the Chairperson of the Nominating and Governance Committee, Mr. Weiler is currently designated as the Lead Independent Director. At every regular in-person meeting of the Board of Directors, the independent directors meet in executive session with no member of Company management present.

Communication with Directors
Shareowners and other interested parties may communicate with the full Board, non-management directors as a group or individual directors, including the Lead Independent Director, by providing such communication in writing to the Company's Corporate Secretary, who will post such communications directly to the Company's Board of Directors' Web site.

Ethical and Legal Compliance Policy
The Company has adopted a Code of Ethics that applies to all employees, including its CEO, COO, Chief Financial Officer and Chief Accounting Officer, as well as its Board of Directors. The Company makes its Code of Ethics available, free of charge, on the Company's Web site at **www.alliantenergy.com/investors** under the "Corporate Governance" caption or in print to any shareowner who requests it from the Company's Corporate Secretary. The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, the Code of Ethics by posting such information on its Web site address stated above under the "Corporate Governance" caption.

COMPENSATION OF DIRECTORS

No retainer fees are paid to Mr. Davis or Mr. Harvey for their service on the Company's Board of Directors. In 2004, all other directors (the "non-employee directors"), each of whom served on the Boards of the Company, IP&L, WP&L and Resources, received an annual retainer for service on all four Boards consisting of $70,000 in cash. Also, in 2004, the Chairperson of the Audit Committee received an additional $7,500 cash retainer and the Chairpersons of the Compensation and Personnel, Nominating and Governance, and Environmental, Nuclear, Health, and Safety Committees received an additional $5,000 cash retainer. Travel expenses incurred by the Directors are paid for each meeting attended.

In 2005, the non-employee directors will each receive a cash retainer of $85,000. In 2005, the Chairperson of the Audit Committee will receive an additional $10,000 cash retainer; the Chairpersons of the Compensation and Personnel, Nominating and Governance, and Environmental, Nuclear, Health, and Safety Committees will each receive an additional $5,000 cash retainer; other members of the Audit Committee will each receive an additional $3,500 cash retainer; and the Lead Independent Director will receive an additional $15,000 cash retainer.

Each Director is encouraged to voluntarily elect to use not less than 50% of his or her cash retainer to purchase shares of the Company's common stock pursuant to the Company's Shareowner Direct Plan or to defer such amount through the Company stock account in the Director's Deferred Compensation Plan.

Director's Deferred Compensation Plan
Under the Director's Deferred Compensation Plan, directors may elect to defer all or part of their retainer fee. Amounts deposited to a Deferred Compensation Interest Account receive an annual return based on the A-Utility Bond Rate with a minimum return no less than the prime interest rate published in *The Wall Street Journal,* provided that the return may not be greater than 12% or less than 6%. Amounts deposited to a Company Stock Account are treated as though invested in the common stock of the Company and will be credited with dividends, which will be treated as if reinvested. The director may elect that the Deferred Compensation Account be paid in a lump sum or in annual installments for up to 10 years beginning in the year of or one, two or three tax years after retirement or resignation from the Board.

Director's Charitable Award Program
The Company maintains a Director's Charitable Award Program for certain members of its Board of Directors beginning after three years of service. The participants in this Program currently are E. B. Davis, K. C. Lyall, D. A. Perdue, J. D. Pyle and A. R. Weiler. S. B. McAllister has enrolled in the Program and is expected to become a participant. The purpose of the Program is to recognize the interest of the Company and its directors in supporting worthy institutions. Under the Program, when a director dies, the Company will donate a total of $500,000 to one qualified charitable organization or divide that amount among a maximum of five qualified charitable organizations selected by the individual director. The individual director derives no financial benefit from the Program. All deductions for charitable contributions are taken by the Company, and the donations are funded by the Company through life insurance policies on the directors. Over the life of the Program, all costs of donations and premiums on the life insurance policies, including a return of the Company's cost of funds, will be recovered through life insurance proceeds on the directors. The Program, over its life, will not result in any material cost to the Company. The Board has terminated this Program for all new directors who join the Board after Jan. 1, 2005.

Director's Life Insurance Program

The Company maintains a split-dollar Director's Life Insurance Program for non-employee directors. The participants in this Program currently include K. C. Lyle, J. D. Pyle and A. R. Weiler. The Program provides a maximum death benefit of $500,000 to each eligible director. Under the split-dollar arrangement, directors are provided a death benefit only and do not have any interest in the cash value of the policies. The Program is structured to pay a portion of the total death benefit to the Company to reimburse the Company for all costs of the Program, including a return on its funds. The Program, over its life, will not result in any material cost to the Company. The imputed income allocations reported for each director in 2004 under this Program were as follows: K. C. Lyall — $528, J. D. Pyle — $29, and A. R. Weiler — $50. In November of 2003, the Board of Directors terminated this insurance benefit for any director not already having the required vesting period of three years of service and for all new directors.

OWNERSHIP OF VOTING SECURITIES

Listed in the following table are the number of shares of the Company's common stock beneficially owned by (1) the executive officers listed in the Summary Compensation Table, (2) all director nominees and directors of the Company and (3) all director nominees, directors and executive officers as a group as of Feb. 28, 2005. The directors and executive officers of the Company as a group owned 1.5% of the outstanding shares of common stock on that date. No individual director or officer owned more than 1% of the outstanding shares of common stock on that date.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED[1]
Executive Officers[2]	
James E. Hoffman	122,798[3][4]
Eliot G. Protsch	210,089[3]
Barbara J. Swan	149,575[3]
Director Nominees	
William D. Harvey	218,536[3]
Singleton B. McAllister	5,054[3]
Anthony R. Weiler	17,888[3]
Directors	
Michael L. Bennett	3,482[3]
Erroll B. Davis, Jr.	799,433[3]
Katharine C. Lyall	16,567[5]
Ann K. Newhall	7,408[3]
David A. Perdue	7,518[3]
Judith D. Pyle	14,111
Robert W. Schlutz	21,271[3]
All Executive Officers and Directors as a Group 16 people, including those listed above	1,796,038[3]

(1) Total shares of Company common stock outstanding as of Feb. 28, 2005, were 116,183,026.

(2) Stock ownership of Mr. Davis is shown with the directors and stock ownership for Mr. Harvey is shown with the director nominees.

(3) Included in the beneficially owned shares shown are indirect ownership interests with shared voting and investment powers: Mr. Davis — 9,435, Mr. Harvey — 2,826, Mr. Weiler — 1,389 and Mr. Protsch — 845; shares of common stock held in deferred compensation plans: Mr. Bennett — 3,082, Mr. Davis — 50,744, Mr. Harvey — 29,011, Ms. McAllister — 2,104, Ms. Newhall — 6,110, Mr. Perdue — 7,518, Mr. Schlutz — 9,797, Mr. Weiler — 6,707, Mr. Hoffman — 17,138, Mr. Protsch — 35,235 and Ms. Swan — 21,526 (all executive officers and directors as a group — 200,180); and stock options exercisable on or within 60 days of Feb. 28, 2005: Mr. Davis — 667,566, Mr. Harvey — 149,977, Mr. Hoffman — 98,324, Mr. Protsch — 139,157 and Ms. Swan — 110,644 (all executive officers and directors as a group — 1,338,999).

(4) Mr. Hoffman resigned from the Company effective Feb. 4, 2005.

(5) Ms. Lyall will retire as a director at the 2005 Annual Meeting.

The following table sets forth information, as of Dec. 31, 2004 regarding beneficial ownership by the only persons known to the Company to own more than 5% of the Company's common stock. The beneficial ownership set forth below has been reported on Schedule 13G filings with the SEC by the beneficial owners.

Amount and Nature of Beneficial Ownership

	Voting Power		Investment Power			
Name and Address of Beneficial Owner	Sole	Shared	Sole	Shared	Aggregate	Percent of Class
Franklin Resources, Inc. (and certain affiliates) One Franklin Parkway San Mateo, CA 94403	6,411,600	0	6,411,600	0	6,411,600	5.6%
Hotchkis & Wiley Capital Management, LLC (and certain affiliates) 725 South Figueroa Street 39th Floor Los Angeles, CA 90017-5439	5,382,800	0	6,566,600	0	6,566,600	5.7 %

COMPENSATION OF EXECUTIVE OFFICERS

The following Summary Compensation Table sets forth the total compensation paid by the Company and its subsidiaries to the Chief Executive Officer and certain other executive officers of the Company for all services rendered during 2004, 2003 and 2002.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
					Awards [2]		Payouts	
Name and Principal Position	Year	Base Salary	Bonus	Other Annual Compensation[1]	Restricted Stock Awards [3]	Securities Underlying Options (Shares)	LTIP Payouts	All Other Compensation[4]
Erroll B. Davis, Jr.	2004	$749,019	$375,197	$74,987	$300,453	234,732	$0	$138,719
Chairman and	2003	685,000	0	14,949	0	151,687	0	45,253
Chief Executive Officer	2002	685,000	0	17,582	0	151,687	0	45,485
William D. Harvey	2004	459,442	206,805	6,246	100,143	73,454	0	48,896
President and	2003	290,000	0	5,954	0	26,642	0	15,562
Chief Operating Officer	2002	282,500	0	7,707	0	26,642	0	17,599
Eliot G. Protsch	2004	364,539	142,167	6,014	149,981	40,996	0	43,611
Senior Executive Vice President	2003	290,000	0	4,825	0	26,642	0	15,605
and Chief Financial Officer	2002	282,500	0	6,131	0	26,642	0	16,318
Barbara J. Swan	2004	298,674	110,791	5,255	100,143	32,026	0	18,843
Executive Vice President	2003	265,000	0	0	0	24,705	0	14,536
and General Counsel	2002	260,000	0	6,716	0	24,705	0	16,356
James E. Hoffman [5]	2004	301,269	91,954	9,101	100,143	32,130	0	20,444
Executive Vice President	2003	290,000	0	9,133	0	26,642	0	16,497
	2002	282,500	0	11,510	0	26,642	0	16,970

(1) Other Annual Compensation consists of income tax gross-ups for split-dollar life insurance and, for Mr. Davis only, air travel. Certain personal benefits provided by the Company to the executive officers named in the Summary Compensation Table above are not included in the Table. The aggregate amount of such personal benefits for each such executive officer in each year reflected in the Table did not exceed the lesser of $50,000 or 10% of the sum of such executive officer's base salary and bonus in each respective year.

(2) Awards made in 2004 were in addition to performance share awards as described in the table entitled "Long-Term Incentive Awards in 2004."

(3) The amounts in the Summary Compensation Table above for restricted stock in 2004 represent the market value based on the closing price of the Company's common stock on the date of the grants. The restricted stock awards are subject to (i) two year cliff vesting in the case of 2,008 shares for Mr. Protsch, and (ii) the remaining awards are subject to three year cliff vesting. Pursuant to his Severance Agreement and Release, Mr. Hoffman's shares of restricted stock were vested in full on Feb. 4, 2005. See "Certain Agreements." As of Dec. 31, 2004, the total number of shares of restricted common stock (and their market value based on the closing price of the Company's common stock on that date) held by each executive officer listed in the Summary Compensation Table above were as follows: Mr. Davis, 11,605 shares ($331,903); Mr. Harvey, 3,868 shares ($110,625); Mr. Protsch, 5,876 shares ($168,054); Ms. Swan, 3,868 shares ($110,625); and Mr. Hoffman, 3,868 shares ($110,625).

(4) The table below shows the components of the compensation reflected under this column for 2004:

	Erroll B. Davis, Jr.	William D. Harvey	Eliot G. Protsch	Barbara J. Swan	James E. Hoffman
A.	$22,672	$6,580	$8,140	$6,272	$1,963
B.	95,649	35,096	28,058	7,500	13,398
C.	8,470	3,244	1,373	1,095	1,107
D.	11,928	3,976	6,040	3,976	3,976
Total	$138,719	$48,896	$43,611	$18,843	$20,444

A. Matching contributions to 401(k) Savings Plan and Deferred Compensation Plan
B. Split dollar life insurance premiums
C. Life insurance coverage in excess of $50,000
D. Dividends earned in 2004 on restricted stock

(5) Mr. Hoffman resigned as Executive Vice President of the Company effective Feb. 4, 2005. In connection with his resignation, Mr. Hoffman entered into a Severance Agreement and Release with the Company. See "Certain Agreements."

STOCK OPTIONS

The following table sets forth certain information concerning stock options granted during 2004 to the executives named below:

STOCK OPTION GRANTS IN 2004

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)	
Name	Grant Date (1)	Number of Securities Underlying Options Granted (2)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	5%	10%
Erroll B. Davis, Jr.	01/02/04	146,917	21.6%	$24.90	01/02/14	$2,300,720	$5,829,667
	01/02/04	74,413	11.0%	31.54	01/02/14	671,205	2,458,606
	02/09/04	13,402	2.0%	25.93	01/02/14	215,638	544,925
William D. Harvey	01/02/04	50,938	7.5%	24.90	01/02/14	797,689	2,021,220
	02/09/04	22,516	3.3%	25.93	01/02/14	362,282	915,501
Eliot G. Protsch	01/02/04	31,099	4.6%	24.90	01/02/14	487,010	1,234,008
	02/09/04	9,897	1.5%	25.93	01/02/14	159,243	402,412
Barbara J. Swan	01/02/04	28,418	4.2%	24.90	01/02/14	445,026	1,127,626
	02/09/04	3,608	0.5%	25.93	01/02/14	58,053	146,701
James E. Hoffman (4)	01/02/04	31,099	4.6%	24.90	01/02/14	487,010	1,234,008
	02/09/04	1,031	0.2%	25.93	01/02/14	16,589	41,920

(1) The three separate grants are as follows: (a) All of the named executives received options on Jan. 2, 2004 as part of the Company's annual long-term incentive (LTI) grant; (b) On Jan. 2, 2001, Mr. Davis was granted options that inadvertently exceeded the individual limit for option grants under the applicable plan by 74,413 shares. These options had an exercise price of $31.54, the fair market value of the Company's common stock at the time of grant. The Company determined that the options in excess of the individual limit were not valid, so on Jan. 2, 2004, to make him whole, the Compensation Committee granted Mr. Davis 74,413 options from the current plan, at the same exercise price of $31.54; and (c) Supplemental grants of options were made on Feb. 9, 2004, to all named executives to adjust target values for the 2004 LTI awards to account for new salaries, target incentive changes and/or promotions.

(2) Consists of non-qualified stock options to purchase shares of Company common stock. Options vest as outlined below. Upon a "change in control" of the Company or upon retirement, disability or death of the option holder, the options will become immediately exercisable.

Jan. 2, 2004 grant for all named executives	- 1/3rd vests 1/2/05, 1/3rd vests 1/1/06, 1/3rd vests 1/1/07
Jan. 2, 2004 replacement grant for Mr. Davis	- 100% vests 1/2/05 (same vesting date used for prior grant)
Feb. 9, 2004 grant for all named executives	- 1/3rd vests 2/9/05, 1/3rd vests 1/1/06, 1/3rd vests 1/1/07

(3) The hypothetical potential appreciation shown for the named executives is required by rules of the SEC. The amounts shown do not represent the historical or expected future performance of the Company's common stock. Rather, in order for the named executives to realize the potential values set forth in the 5% and 10% columns in the table above, the price per share of the Company's common stock would be as follows for each of the grants, all as of the expiration date of the options.

	5%	10%
Jan. 2, 2004 grant for all named executives	$40.56	$64.58
Jan. 2, 2004 replacement grant for Mr. Davis	40.56	64.58
Feb. 9, 2004 grant for all named executives	42.02	66.59

(4) Pursuant to the terms of his stock option award agreements, Mr. Hoffman forfeited all unvested stock options as of Feb. 4, 2005.

The following table provides information for the executives named below regarding options exercised in 2004 and the number and value of exercisable and unexercisable options.

AGGREGATE OPTION EXERCISES IN 2004 AND OPTION VALUES AT DEC. 31, 2004

Name	Shares Acquired on Exercise	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Year End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Erroll B. Davis, Jr.	--	$ --	451,687	386,419	$699,194	$1,811,580
William D. Harvey	--	--	112,430	100,096	126,724	465,010
Eliot G. Protsch	--	--	112,430	67,638	126,724	357,913
Barbara J. Swan	8,235	72,221	86,398	56,731	18,100	315,467
James E. Hoffman(2)	7,528	62,106	90,452	58,772	30,456	334,237

(1) Based on the closing per share price of Company common stock on Dec. 31, 2004 of $28.60.

(2) Pursuant to the terms of his stock option award agreements, Mr. Hoffman forfeited all unvested stock options as of Feb. 4, 2005.

LONG-TERM INCENTIVE AWARDS

The following table provides information concerning long-term incentive awards made to the executives named below in 2004.

LONG-TERM INCENTIVE AWARDS IN 2004

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold (#)	Target (#)	Maximum (#)
Erroll B. Davis, Jr.	36,020	1/1/2007	18,010	36,020	72,040
William D. Harvey	16,486	1/1/2007	8,243	16,486	32,972
Eliot G. Protsch	9,208	1/1/2007	4,604	9,208	18,416
Barbara J. Swan	7,194	1/1/2007	3,597	7,194	14,388
James E. Hoffman (2)	7,218	N/A	N/A	N/A	N/A

(1) Consists of performance shares awarded as part of the Company's annual LTI grant. The payout from the performance shares is based on the Company's three-year Total Shareowner Return ("TSR") relative to an investor-owned utility peer group during the three-year performance cycle ending Dec. 31, 2006. Payouts are subject to modification pursuant to a performance multiplier that ranges from 0 to 2.00, and will be made in shares of Company common stock or a combination of common stock and cash.

(2) Pursuant to his Severance Agreement and Release, Mr. Hoffman forfeited all outstanding performance shares as of Feb. 4, 2005.

CERTAIN AGREEMENTS

Mr. Davis currently has an employment agreement with the Company, pursuant to which he will serve as the Chairman of the Company until the expiration of the term of the agreement on the date of the Company's 2006 Annual Meeting, but no later than May 30, 2006. In addition, he will serve as the Chief Executive Officer of the Company during the term of the agreement unless otherwise determined by the Board of Directors. Mr. Davis will also serve as the Chief Executive Officer of each subsidiary of the Company as long as he holds the same position for the Company. Pursuant to the employment agreement, Mr. Davis will be paid an annual base salary of not less than $750,000. Mr. Davis also will have the opportunity to earn short-term and long-term incentive compensation (including stock options, restricted stock and other long-term incentive compensation) at least equal to other executive officers and receive supplemental retirement benefits (including continued participation in the Alliant Energy Corporation Executive Tenure Compensation Plan) and life insurance providing a death benefit of three times his annual salary. For purposes of the Company's Supplemental Executive Retirement Plan described in detail under "Retirement and Employee Benefit Plans," (i) Mr. Davis will be deemed to have been paid an annual bonus for 2003 of $595,539 (the amount that he would have received had he been eligible for such a bonus for such year); (ii) if Mr. Davis ceases to be the Chief Executive Officer while remaining the Chairman in 2005 and if the annual bonus for 2005 payable in 2006 is less than the target award for Mr. Davis for 2005, Mr. Davis will be deemed to have earned the target award; (iii) a special calculation will apply to protect the dollar amount that Mr. Davis could have been paid on May 1, 2003 if he had retired on April 30, 2003; and (iv) upon termination of employment, Mr. Davis generally will be deemed to be a retiree not subject to the early commencement reduction factors that would otherwise apply. For purposes of the Company's Executive Tenure Compensation Plan, the Board of Directors has determined to treat Mr. Davis as an eligible retiree at his future termination of employment, regardless of the circumstances other than death. If, prior to the end of the term of the agreement, the employment of Mr. Davis is terminated by the Company without cause (as defined in the employment agreement), or if Mr. Davis terminates his employment for good reason (as defined in the employment agreement), or if the employment of Mr. Davis is terminated as a result of the mutual agreement of Mr. Davis and the Board of Directors, the Company or its affiliates will continue to provide the compensation and benefits called for by the employment agreement through the later of the end of the term of the agreement or one year after such termination of employment (with incentive compensation based on the maximum potential awards and with any stock compensation paid in cash), and all unvested stock compensation will vest immediately. If Mr. Davis dies or terminates his employment without

good reason prior to the end of the term of the agreement, the Company or its affiliates will pay to Mr. Davis or his beneficiaries or estate all compensation earned through the date of death or such termination (including previously deferred compensation and pro rata incentive compensation based upon the maximum potential awards). If Mr. Davis' employment is terminated by reason of his disability, he will be entitled to such benefits as may be provided by the Company's current disability program. If Mr. Davis is terminated for cause, the Company or its affiliates will pay his base salary through the date of termination plus any previously deferred compensation. In any such case, Mr. Davis shall also be eligible for the benefits he has accrued under the applicable retirement plans, including the benefits under the Supplemental Executive Retirement Plan and the Executive Tenure Compensation Plan. Under the employment agreement, if any payments thereunder constitute an excess parachute payment under the United States Internal Revenue Code ("Code"), then the Company will pay to Mr. Davis the amount necessary to offset the excise tax and any applicable taxes on this additional payment.

The Company currently has in effect key executive employment and severance agreements (the "KEESAs") with its executive officers and certain key employees of the Company (including Messrs. Davis, Harvey and Protsch and Ms. Swan). The KEESAs provide that each executive officer who is a party thereto is entitled to benefits if, within a period of up to three years (depending on which executive is involved) after a change in control of the Company (as defined in the KEESAs) (the "Employment Period"), the officer's employment is ended through (a) termination by the Company, other than by reason of death or disability or for cause (as defined in the KEESAs); or (b) termination by the officer due to a breach of the agreement by the Company or a significant change in the officer's responsibilities; or (c) in the case of Mr. Davis' agreement, termination by Mr. Davis following the first anniversary of the change of control. The benefits provided are (a) a cash termination payment of up to three times (depending on which executive is involved) the sum of the officer's annual salary and his or her average annual bonus during the three years before the termination; and (b) continuation for up to the end of the Employment Period of equivalent hospital, medical, dental, accident and life insurance coverage as in effect at the time of termination. Each KEESA for executive officers below the level of Executive Vice President provides that if any portion of the benefits under the KEESA or under any other agreement for the officer would constitute an excess parachute payment for purposes of the Code, benefits will be reduced so that the officer will be entitled to receive $1 less than the maximum amount which he or she could receive without becoming subject to the 20% excise tax imposed by the Code on certain excess parachute payments, or which the Company may pay without loss of deduction under the Code. The KEESAs for the Chief Executive Officer, President, Senior Executive Vice President and the Executive Vice Presidents (including Messrs. Davis, Harvey and Protsch and Ms. Swan) provide that if any payments thereunder or otherwise constitute an excess parachute payment, the Company will pay to the appropriate officer the amount necessary to offset the excise tax and any additional taxes on this additional payment. Mr. Davis' employment agreement as described above limits benefits paid thereunder to the extent that duplicate payments would be provided to him under his KEESA.

On Feb. 4, 2005, Corporate Services entered into a Severance Agreement and Release (the "Agreement") with James E. Hoffman, the Company's Executive Vice President-Business Development. Mr. Hoffman resigned from his position effective Feb. 4, 2005. Pursuant to the Agreement, the Company agreed to make a cash payment of $680,000 to Mr. Hoffman and provide Mr. Hoffman with up to $25,000 for outplacement services or tuition reimbursement. In addition, the Agreement provided that the restrictions would lapse on 3,868 unvested shares of restricted stock previously awarded to Mr. Hoffman. Under the Agreement, Mr. Hoffman ceased to be eligible to participate under any of the Company's stock option, bonus, equity, incentive compensation, retirement, pension and other compensation or benefit plans upon his termination of employment, and ceased to be eligible to participate under any of the Company's medical, dental and life insurance plans on Feb. 28, 2005, except that he is eligible for COBRA continuation for his medical and dental plans. If Mr. Hoffman elects COBRA continuation, the Company will pay for this coverage for up to 18 months. Mr. Hoffman retained his vested rights under qualified retirement plans and under a deferred compensation plan for key employees of the Company. Under the Agreement, Mr. Hoffman agreed to a two-year covenant not to compete with the Company and to keep information regarding the Company confidential. Pursuant to the Agreement, Mr. Hoffman provided the Company and all of its subsidiaries and affiliates a general liability release.

RETIREMENT AND EMPLOYEE BENEFIT PLANS

Alliant Energy Cash Balance Pension Plan

Salaried employees (including officers) of the Company are eligible to participate in the Alliant Energy Cash Balance Pension Plan (the "Pension Plan") maintained by Corporate Services. The Pension Plan bases a participant's defined benefit pension on the value of a hypothetical account balance. For individuals participating in the Pension Plan as of Aug. 1, 1998, a starting account balance was created equal to the present value of the benefit accrued as of Dec. 31, 1997, under the applicable prior benefit formula. In addition, such individuals received a special one-time transition credit amount equal to a

specified percentage varying with age multiplied by credited service and pay. For 1998 and thereafter, a participant receives annual credits to the account equal to 5% of base pay (including certain incentive payments, pre-tax deferrals and other items), plus an interest credit on all prior accruals equal to 4%, plus a potential share of the gain on the investment return on assets in the trust investment for the year.

The life annuity payable under the Pension Plan is determined by converting the hypothetical account balance credits into annuity form. Individuals who were participants in the Pension Plan on Aug. 1, 1998, are in no event to receive any less than what would have been provided under the prior formula that was applicable to them, had it continued, if they terminate on or before Aug. 1, 2008, and do not elect to commence benefits before the age of 55.

All of the individuals listed in the Summary Compensation Table participate in the Pension Plan and are "grandfathered" under the applicable prior plan benefit formula. Because their estimated benefits under the applicable prior plan benefit formula are expected to be higher than under the Pension Plan formula, utilizing current assumptions, their benefits would currently be determined by the applicable prior plan benefit formula. The following tables illustrate the estimated annual benefits payable upon retirement at age 65 under the applicable prior plan formula based on average annual compensation and years of service. To the extent benefits under the Pension Plan are limited by tax law, any excess will be paid under the Unfunded Excess Plan described below.

WP&L Plan A Prior Formula. One of the applicable prior plan formulas provided retirement income based on years of credited service and final average compensation for the 36 highest consecutive months, with a reduction for Social Security offset. The individuals listed in the Summary Compensation Table covered by this formula are Messrs. Davis, Harvey and Protsch and Ms. Swan. The benefits would be as follows:

WP&L Plan A Prior Plan Formula Table

Average Annual Compensation	Annual Benefit After Specified Years in Plan			
	15	20	25	30+
$ 200,000	$ 55,000	$ 73,333	$ 91,667	$110,000
300,000	82,500	110,000	137,500	165,000
400,000	110,000	146,667	183,333	220,000
500,000	137,500	183,333	229,167	275,000
600,000	165,000	220,000	275,000	330,000
700,000	192,500	256,667	320,833	385,000
800,000	220,000	293,333	366,667	440,000
900,000	247,500	330,000	412,500	495,000
1,000,000	275,000	366,667	458,333	550,000
1,100,000	302,500	403,333	504,167	605,000

For purposes of the Pension Plan, compensation means payment for services rendered, including vacation and sick pay, and is substantially equivalent to the salary amounts reported in the Summary Compensation Table. Pension Plan benefits depend upon length of Pension Plan service (up to a maximum of 30 years), age at retirement and amount of compensation (determined in accordance with the Pension Plan) and are reduced by up to 50% of Social Security benefits. The estimated benefits in the table above do not reflect the Social Security offset. The estimated benefits are computed on a straight-life annuity basis. Benefits will be adjusted if the employee receives one of the optional forms of payment. Credited years of service under the Pension Plan for covered persons named in the Summary Compensation Table are as follows: Erroll B. Davis, Jr., 25 years; William D. Harvey, 17 years; Eliot G. Protsch, 25 years; and Barbara J. Swan, 16 years.

IES Industries Pension Plan Prior Formula. The only individual listed in the Summary Compensation Table covered by the other applicable prior plan formula was Mr. Hoffman who resigned from the Company effective Feb. 4, 2005. Pursuant to his Severance Agreement and Release, Mr. Hoffman retained his vested benefit under the Pension Plan, which had a lump sum value of $155,000 as of Jan. 1, 2005.

Unfunded Excess Plan

Corporate Services maintains an Unfunded Excess Plan that provides funds for payment of retirement benefits above the limitations on payments from qualified pension plans in those cases where an employee's retirement benefits exceed the qualified plan limits. The Unfunded Excess Plan provides an amount equal to the difference between the actual pension benefit payable under the Pension Plan and what such pension benefit would be if calculated without regard to any limitation imposed

by the Code on pension benefits or covered compensation. Pursuant to his Severance Agreement and Release, Mr. Hoffman retained his vested benefit under the Unfunded Excess Plan, which had a lump sum value of $113,000 as of Jan. 1, 2005.

Unfunded Executive Tenure Compensation Plan

Corporate Services maintains an Unfunded Executive Tenure Compensation Plan to provide incentive for selected key executives to remain in the service of the Company by providing additional compensation that is payable only if the executive remains with the Company until retirement (or other termination if approved by the Board of Directors). Any participant in the Plan must be approved by the Board of Directors. Mr. Davis was the only active participant in the Plan as of Dec. 31, 2004. The Plan provides for monthly payments to a participant after retirement (at or after age 65, or with Board approval, prior to age 65) for 120 months. The payments will be equal to 25% of the participant's highest average salary for any consecutive 36-month period. If a participant dies prior to retirement or before 120 payments have been made, the participant's beneficiary will receive monthly payments equal to 50% of such amount for 120 months in the case of death before retirement or, if the participant dies after retirement, 50% of such amount for the balance of the 120 months. Annual benefits of $187,500 would be payable to Mr. Davis upon retirement, assuming he continues in service with Corporate Services until retirement at the same salary as was in effect on Dec. 31, 2004.

Supplemental Executive Retirement Plan

The Company maintains an unfunded Supplemental Executive Retirement Plan ("SERP") to provide incentive for key executives to remain in the service of the Company by providing additional compensation that is payable only if the executive remains with the Company until retirement, disability or death. While the SERP provides different levels of benefits depending on the executive covered, this summary reflects the terms applicable to all of the individuals listed in the Summary Compensation Table. Participants in the SERP must be approved by the Compensation and Personnel Committee of the Board. The SERP provides for payments of 60% of the participant's average annual earnings (base salary and bonus) for the highest paid three years out of the last 10 years of the participant's employment reduced by the sum of benefits payable to the officer from the officer's defined benefit plan and the Unfunded Excess Plan. The normal retirement date under the SERP is age 62 with at least 10 years of service and early retirement is at age 55 with at least 10 years of service. If a participant retires prior to age 62, the 60% payment under the SERP is reduced by 3% per year for each year the participant's retirement date precedes his/her normal retirement date. The actuarial reduction factor will be waived for participants who have attained age 55 and have a minimum of 10 years of service in a senior executive position with the Company after April 21, 1998. At the timely election of the participant, benefits under the SERP will be made in a lump sum, in installments over a period of up to 10 years, or for the lifetime of the participant. If the lifetime benefit is selected and the participant dies prior to receiving 12 years of payments, payments continue to any surviving spouse or dependent children of a deceased participant who dies while still employed by the Company, payable for a maximum of 12 years. A post-retirement death benefit of one times the participant's final average earnings at the time of retirement will be paid to the designated beneficiary. Messrs. Davis, Harvey and Protsch and Ms. Swan are participants in the SERP. Mr. Hoffman had not vested in the SERP at the time of his resignation. The following table shows the amount of retirement payments under the SERP, assuming a minimum of 10 years of service at retirement age and payment in the annuity form.

Supplemental Executive Retirement Plan Table

Average Annual Compensation	Annual Benefit After Specified Years in Plan	
	<10 Years	>10 Years*
$ 200,000	0	$120,000
300,000	0	180,000
400,000	0	240,000
500,000	0	300,000
600,000	0	360,000
700,000	0	420,000
800,000	0	480,000
900,000	0	540,000
1,000,000	0	600,000
1,100,000	0	660,000

*Reduced by the sum of the benefit payable from the applicable defined benefit pension plan and the Unfunded Excess Plan.

Key Employee Deferred Compensation Plan
The Company maintains a Key Employee Deferred Compensation Plan under which participants may defer up to 100% of base salary and incentive compensation. Participants who have made the maximum allowed contribution to the Company-sponsored 401(k) Savings Plan may receive an additional credit to the Deferred Compensation Plan. The credit will be equal to 50% of the lesser of (a) the amount contributed to the 401(k) Savings Plan plus the amount deferred under this Plan; or (b) 6% of base salary, reduced by the amount of any matching contributions in the 401(k) Savings Plan. The employee may elect to have his or her deferrals credited to an Interest Account or a Company Stock Account. Deferrals and matching contributions to the Interest Account receive an annual return based on the A-Utility Bond Rate with a minimum return no less than the prime interest rate published in *The Wall Street Journal*, provided that the return may not be greater than 12% or less than 6%. Deferrals and matching contributions credited to the Company Stock Account are treated as though invested in the common stock of the Company and will be credited with dividends, which will be treated as if reinvested. The shares of common stock identified as obligations under the Plan are held in a rabbi trust. Payments from the Plan may be made in a lump sum or in annual installments for up to 10 years at the election of the participant. Participants are selected by the Chief Executive Officer of Corporate Services. Messrs. Davis, Harvey and Protsch and Ms. Swan are participants in the Plan.

REPORT OF THE COMPENSATION AND PERSONNEL COMMITTEE ON EXECUTIVE COMPENSATION

To Our Shareowners:
The Compensation and Personnel Committee (the "Committee") of the Board of Directors of the Company is currently composed of four independent directors. The Committee assesses the effectiveness and competitiveness of, approves the design of, and administers executive compensation programs within a consistent total compensation framework for the Company. The Committee also reviews and approves all salary arrangements and other remuneration for executive officers, evaluates executive officer performance, and considers related matters. It also makes recommendations to the Nominating and Governance Committee regarding Director compensation. To support it in carrying out its mission, the Committee engages an independent consultant (which is retained by the Committee rather than Company executives).

The Committee Charter was amended in January 2004 to enhance corporate governance through the adoption of recommended and required modifications detailing the role and functions of the Committee in compliance with the NYSE listing standards.

The Committee is committed to implementing an overall compensation program for executive officers that furthers the Company's mission. Therefore, the Committee adheres to the following compensation policies, which are intended to facilitate the achievement of the Company's business strategies:

- Executive management compensation (and particularly, long-term incentive compensation) should be closely and strongly aligned with the long-term interests of the Company's shareowners and customers.

- Total compensation should enhance the Company's ability to attract, retain and encourage the development of exceptionally knowledgeable and experienced executive officers, upon whom, in large part, the successful operation and management of the Company depends.

- Base salary levels should be targeted at a competitive market range of base salaries paid to executive officers of comparable companies. Specifically, the Company targets the median (50th percentile) of base salaries paid by companies of similar revenue base within the utility and general industries.

- Incentive compensation programs should strengthen the relationship between pay and performance by emphasizing variable at-risk compensation that is consistent with meeting predetermined Company, subsidiary, business unit and individual performance goals. In addition, the Committee targets incentive levels at the median (50th percentile) of incentive compensation paid by companies of similar revenue base within the utility and general industries.

Components of Compensation
The major elements of the Company's executive compensation program are base salary, short-term (annual) incentives, long-term (equity) incentives and other benefits. These elements are addressed separately in this report. In setting the level for each major component of compensation, the Committee considers all elements of an executive officer's total compensation package, including employee benefit and perquisite programs. The Committee's goal is to provide an overall compensation

package for each executive officer that is competitive to the packages offered to similarly situated executive officers at companies of similar size within the industry.

For 2004, the Committee determined that total executive compensation at target levels is in line with competitive compensation of comparative companies.

To ensure the Committee has adequate time to consider executive officers' total compensation for the coming year, Committee members are provided detailed compensation information in advance of the second to last Committee meeting of the previous year, which is then presented and analyzed at that Committee meeting. Committee members then have time between meetings to raise questions and ask for additional information. The Committee then makes final decisions regarding compensation at the last Committee meeting of the previous year.

Base Salaries

The Committee annually reviews each executive officer's base salary. Base salaries are targeted at a competitive market range (i.e., at the median level) when comparing both utility and non-utility (general industry) data from similarly-sized companies, with utility-specific positions based exclusively on energy industry data. The industry peer group the Committee used for assessing compensation is the S&P Midcap 400 Utilities Index. The Committee annually adjusts base salaries to recognize changes in the market, Company performance, varying levels of responsibility, and executive officers' prior experience and breadth of knowledge. Increases to base salaries are driven primarily by market adjustments for a particular salary level, which generally limits across-the-board increases, though the Committee also considers individual performance factors in setting base salaries. The Committee reviews executive salaries for market comparability using utility and general industry data contained in published compensation surveys.

Based on this data and consultation with the independent executive compensation consultant, the Committee approved base salary increases for executive officers in 2004.

Short-Term Incentives

The Company's short-term (annual) incentive program promotes the Committee's pay-for-performance philosophy by providing executive officers with direct financial incentives in the form of annual cash bonuses tied to the achievement of Company, subsidiary and business unit performance goals. Annual bonus opportunities allow the Committee to communicate specific goals that are of primary importance during the coming year and motivate executive officers to achieve these goals. On an annual basis, the Committee reviews and approves the program's performance goals, the relative weight assigned to each goal and the targeted and maximum award levels. A description of the short-term incentive program available during 2004 to executive officers follows.

Alliant Energy Corporation Management Incentive Compensation Plan – In 2004, the Alliant Energy Corporation Management Incentive Compensation Plan (the "MICP") covered executive officers and was based on achieving annual targets for Company and business unit performance. Corporate performance was gauged on earnings per share from continuing operations, total cash flow from continuing operations, Lean Six Sigma savings, environmental, health and safety assessment closure rates, and diversity initiatives. Business unit performance was gauged on those goals and other operational measures specific to the business unit. Target and maximum bonus awards under the MICP in 2004 were set at the median of the utility and general industry market levels. The Committee considered these targets to be achievable, but substantially challenging. The level of performance achieved in each category determines actual payment of bonuses as a percentage of annual salary. Weighting factors are applied to the percentage achievement under each category to determine overall performance. If a pre-determined earnings per share from continuing operations target is not met, there is no bonus payment associated with the MICP. If the threshold performance for any other performance target is not reached, there is no bonus payment associated with that particular category. Once the designated maximum performance is reached, there is no additional payment for performance above the maximum level. The actual percentage of salary paid as a bonus, within the allowable range, is equal to the weighted average percent achievement for all the performance categories. MICP targets range from 80% of base salary for Mr. Davis, to 30-65% of base salary for other executive officers, with a maximum possible payout for all of two times their target percentage.

After assessing corporate and business unit performance against established goals, the Committee determined that the executive officers were eligible to receive MICP awards for 2004 plan year performance.

Long-Term Incentives

The Committee strongly believes compensation for executive officers should include long-term, at-risk pay to strengthen the alignment of the interests of the shareowners and management. In this regard, the Company maintains plans that permit grants of stock options, restricted stock and performance units/shares with respect to the Company's common stock. The Committee believes that the incentive plans balance the Company's annual compensation programs by emphasizing compensation based on the long-term, successful performance of the Company from the perspective of the Company's shareowners.

In determining actual award levels under the Alliant Energy Corporation Long-Term Incentive Program, the Committee sought to provide competitive total compensation opportunities to executive officers while also taking performance factors into account. As such, award levels for 2004 were based on a competitive analysis of similarly sized utility and general industry companies that took into consideration the market level of long-term incentives, the competitiveness of the total compensation package and Company performance. Award levels were targeted to the median of the range of such awards paid by comparable companies. A description of the long-term incentive programs available to executive officers during 2004 follows.

Alliant Energy Corporation Long-Term Incentive Program – The Alliant Energy Corporation Long-Term Incentive Program covered all executive officers and consisted of the following components in 2004: non-qualified stock options and performance shares. Select executive officers were also awarded grants of restricted stock for retention purposes.

Non-qualified stock options provide a reward that is directly tied to the benefit shareowners receive from increases in the price of the Company's common stock. Payout of performance shares granted in 2002 is based on the Company's three-year total shareowner return ("TSR") relative to an investor-owned utility peer group, and on the Company's three-year annualized earnings per share growth. Payout of performance shares granted in 2003 and 2004 is based solely on the Company's three-year TSR relative to the peer group. Thus, the Committee believes the two components of the Long-Term Incentive Program (i.e., stock options and performance shares) provide incentives for management to produce superior shareowner returns on both an absolute and relative basis. During 2004, the Committee made grants of stock options and performance shares to various executive officers, including Messrs. Davis, Harvey, Hoffman and Protsch and Ms. Swan. All option grants had a per share exercise price equal to the fair market value of a share of Company common stock on the day following the date the grants were approved. Options vest on a one-third basis at the beginning of each calendar year after grant and have a 10-year term from the date of the grant. The performance share grants, with final awards that range from zero to 200% of target, were based on performance against the criteria described above.

Due to the Company's three-year annualized earnings per share growth and TSR goals not being achieved, there was no performance share payout for the 2002 grant which had a three-year cycle ending in December 2004.

In addition to stock options and performance shares, executive officers, including Mr. Davis, received grants of restricted stock in 2004. The restricted stock vests 100% two or three years after the date of grant, as the case may be (with immediate vesting in case of death, disability or retirement). These grants of restricted stock were made for the purpose of recognizing and retaining these key individuals.

Following an extensive review of the Company's long-term incentive programs, the Committee determined that, commencing in 2005, performance-contingent restricted stock would replace stock options as a component of an executive officer's long-term incentive grant. Thus, performance shares and performance-contingent restricted stock will comprise the total target award for 2005.

Other Benefits

Basic benefit programs that are made available to all other salaried employees are also made available to executive officers, including the Company's 401(k) Savings Plan and the Cash Balance Pension Plan. In addition, executive officers are eligible to participate in the Company's Excess Plan, Supplemental Executive Retirement Plan and Key Employee Deferred Compensation Plan – all as described in the Retirement and Benefit Plans section of this proxy statement. Executive officers are also eligible for a separate Executive Health Care Plan (medical and dental) and flexible perquisites.

Certain executive officers receive individually owned life insurance policies. Premiums paid by the Company for this insurance were taxed as bonuses to the individual officers beginning in 2004.

Compensation of the Chairman and Chief Executive Officer

When determining the compensation package of the Chairman and CEO, the Committee follows the same general policies that guide compensation decisions for other executive officers. Thus, the Committee based Mr. Davis' award levels on an

analysis of similarly sized utility and general industry companies that took into consideration the competitiveness of the total compensation package, as well as Company performance.

As was the case for other executive officers, Mr. Davis received a base salary increase in 2004 to $750,000 from his previous level of $685,000, which had been in effect for both 2002 and 2003. The Committee approved the salary increase based on its evaluation of Mr. Davis' performance and on a review of competitive data.

For 2004, Mr. Davis' short-term incentive payout was based solely on the Company's performance on the corporate goals described above. The Committee approved a final 2004 incentive payout for Mr. Davis of $375,197 based on achievement of these pre-established goals.

For 2004, Mr. Davis' target long-term incentive percentage was 200% of base salary, with the total award comprising performance shares and stock options. In addition to these grants, the Committee also approved a grant of restricted stock for recognition and retention purposes. All of Mr. Davis' 2004 awards under the long-term incentive program are shown in the tables under "Stock Option Grants in 2004" and "Long-Term Incentive Awards in 2004."

Share Ownership Guidelines

The Company has established share ownership guidelines for executive officers as a way to better align the financial interests of its officers with those of its shareowners. Under these guidelines, the requisite ownership numbers are 85,000 shares for the Chief Executive Officer, 36,000 shares for Executive Vice Presidents and 12,000 shares for Vice Presidents. These executive officers are expected to make continuing progress toward compliance with these guidelines. Individuals at the participating levels are asked to achieve the recommended ownership multiple within a 5-year period from the effective date of becoming an officer. The Chief Executive Officer retains the right to grant special dispensation for hardship, promotions or new hires.

Policy with Respect to the $1 Million Deduction Limit

Section 162(m) of the Code generally limits the corporate deduction for compensation paid to executive officers named in the proxy statement to $1 million, unless such compensation is based upon performance objectives meeting certain regulatory criteria or is otherwise excluded from the limitation. Based on the Committee's commitment to link compensation with performance as described in this report, the Committee intends to qualify future compensation paid to the Company's executive officers for deductibility by the Company under Section 162(m) except in limited appropriate circumstances. All taxable income for 2004 of the executive officers of the Company qualified under Section 162(m) as deductible by the Company.

Conclusion

The Committee believes the existing executive compensation policies and programs provide an appropriate level of competitive compensation for the Company's executive officers. In addition, the Committee believes that the long- and short-term performance incentives effectively align the interests of executive officers and shareowners toward a successful future for the Company.

COMPENSATION AND PERSONNEL COMMITTEE

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

REPORT OF THE AUDIT COMMITTEE

To Our Shareowners:
The Audit Committee of the Board of Directors of the Company is composed of four directors, each of whom is independent under the NYSE listing standards and SEC rules. The Committee operates under a written charter adopted by the Board of Directors.

The Company's management is responsible for the Company's internal controls and the financial reporting process, including the system of internal controls. The independent auditors are responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with accounting principles generally accepted in the United States of America. The Committee has reviewed and discussed the audited consolidated financial statements with management and the independent auditors. The Committee has discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees).

The Company's independent auditors have provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed with the independent auditors their independence.

The Committee has adopted a policy that requires advance approval of all audit, audit-related, tax and other permitted services performed by the independent auditor. The policy provides for pre-approval by the Committee of specifically defined audit and non-audit services after the Committee is provided with the appropriate level of details regarding the specific services to be provided. The policy does not permit delegation of the Committee's authority to management. In the event the need for specific services arises between Committee meetings, the Committee has delegated to the Chairperson of the Committee authority to approve permitted services provided that the Chairperson reports any decisions to the Committee at its next scheduled meeting.

The principal accounting fees that were billed to the Company by its independent auditors for work performed on behalf of the Company and its subsidiaries for 2003 and 2004 were as follows:

	2003	2004
Audit Fees [1]	$ 2,293,000	$ 2,974,000
Audit-Related Fees	332,000	1,349,000
Tax Fees	435,000	606,000
All Other Fees	54,000	59,000

[1]The Audit Fees for 2004 included additional fees required by Section 404 of the Sarbanes-Oxley Act related to the Company's internal controls for financial reporting that were not required in 2003.

Audit-Related Fees consisted of the fees billed for employee benefits plan audits and attest services not required by statute or regulations for both 2003 and 2004, due diligence and related matters and Sarbanes-Oxley Section 404 planning for 2004.

Tax Fees consisted of the fees billed for professional services rendered for tax compliance, tax advice and tax planning, including all services performed by the professional staff in the independent auditors' tax division, except those rendered in connection with the audit.

All Other Fees consisted of license fees for tax and accounting research software products.

The Audit Committee does not consider the provision of non-audit services by the independent auditors described above to be incompatible with maintaining auditor independence.

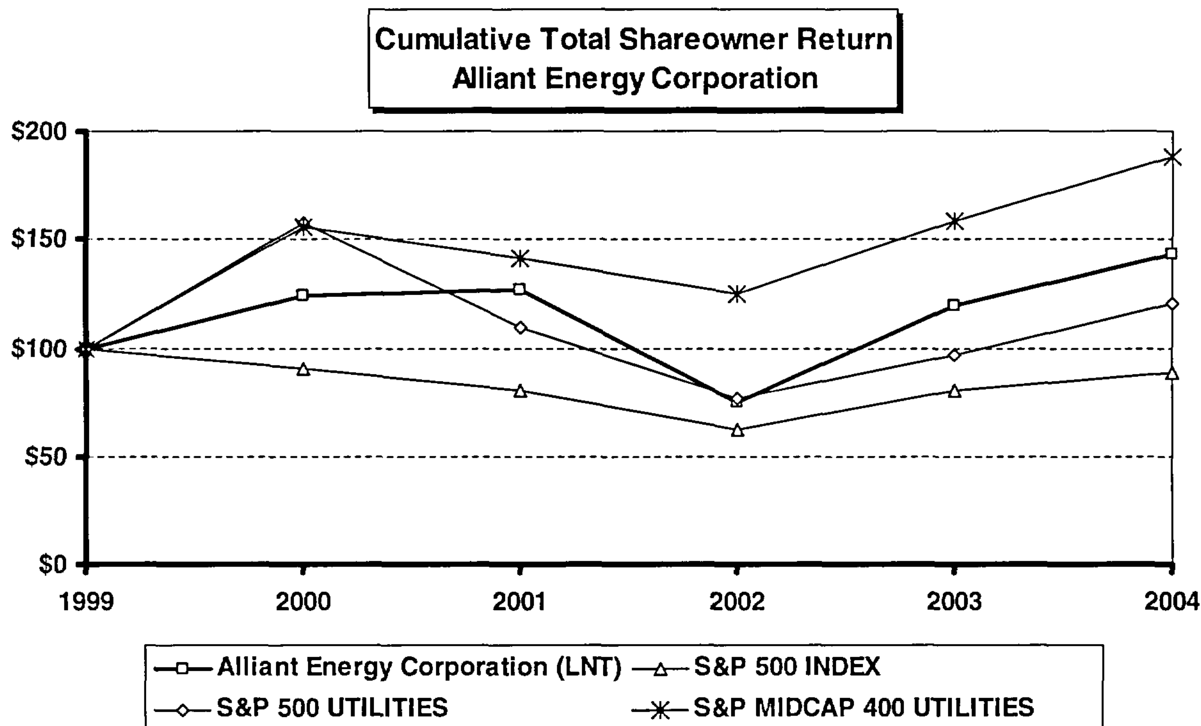
The Committee discussed with the Company's internal and independent auditors the overall scopes and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, the evaluation of the Company's internal controls and overall quality of the Company's financial reporting.

Based on the Committee's reviews and discussions with management, the internal auditors and the independent auditors referred to above, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended Dec. 31, 2004 for filing with the SEC.

AUDIT COMMITTEE
Michael L. Bennett (Chairperson)
Singleton B. McAllister
Ann K. Newhall
David A. Perdue

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

The SEC rules require that the Company show a graphical comparison of the total return on its common stock for the last five fiscal years with the total returns of a broad market index and a more narrowly focused industry or group index. (Total return is defined as the return on common stock including dividends and stock price appreciation, assuming reinvestment of dividends.) The Company has selected the Standard & Poor's (S&P) 500 Index for the broad market index and the S&P Midcap 400 Utilities Index and the S&P 500 Utilities Index as industry indices. The Company has added the S&P Midcap 400 Utilities Index to the graphical comparison because it has determined that the S&P Midcap 400 Utilities Index provides a useful index for stock comparison purposes and for executive compensation benchmarking. The following chart compares the total return of an investment of $100 in Company common stock on Dec. 31, 1999, with like returns for the S&P 500, S&P 500 Utilities and the S&P 400 Midcap Utilities indices.



	Dec. 31,					
	1999	2000	2001	2002	2003	2004
Alliant Energy Corporation (LNT)	$100.00	$124.11	$126.32	$ 75.40	$119.50	$142.73
S&P 500 INDEX	$100.00	$ 90.90	$ 80.09	$ 62.39	$ 80.29	$ 89.03
S&P 500 UTILITIES	$100.00	$157.19	$109.34	$ 76.55	$ 96.65	$120.11
S&P MIDCAP 400 UTILITIES	$100.00	$155.98	$141.43	$125.34	$158.27	$188.09

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and certain officers to file reports of ownership and changes in ownership of the Company's common stock and subsidiary preferred stock with the SEC and the NYSE. As a matter of practice, the Company's Shareowner Services Department assists the Company's reporting persons in preparing initial reports of ownership and reports of changes in ownership and files those reports on their behalf. The Company is required to disclose in this proxy statement the failure of reporting persons to file these reports when due. Based on the written representations of the reporting persons and on copies of the reports filed with the SEC, the Company believes that all reporting persons of the Company satisfied these filing requirements.

By Order of the Board of Directors,

F. J. Buri
Corporate Secretary

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 Stock Exchange		
— 8.375% Preferred		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.

2005 Record and Dividend Payment Dates

Anticipated record and payment dates are as follows:

Common Stock	
Record dates	Payment dates
Jan. 31	Feb. 15
Apr. 29	May 14
July 29	Aug. 15
Oct. 31	Nov. 15

Common Stock Quarterly Price Ranges and Dividends

	2004			2003		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$ 26.50	$ 24.54	$ .25	$ 18.30	$ 14.98	$.25
Second	26.55	23.50	.25	20.60	16.03	.25
Third	27.40	24.34	.25	22.70	18.69	.25
Fourth	28.80	24.90	.2625	25.09	21.94	.25
Year	**28.80**	**23.50**	**1.0125**	**25.09**	**14.98**	**1.00**

Alliant Energy Corporation 2004 year-end common stock price: $28.60

Alliant Energy Corporation had 50,026 shareowners of record as of Dec. 31, 2004. 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 at **www.alliantenergy.com/investors**.

Annual Meeting

The 2005 Annual Meeting of Shareowners will be held at the Cedar Rapids Marriott, 1200 Collins Road N.E., Cedar Rapids, Iowa, on Thursday, May 19, 2005, 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, 2004, as filed with the Securities and Exchange Commission (SEC). All reports filed with the SEC also are available through our Web site at www.alliantenergy.com/investors.

Analyst Inquiries

Inquiries from the financial community may be directed to:

Becky Johnson
Manager-Investor Relations
P.O. Box 77007
Madison, WI 53707-1007
Phone: (608) 458-3267
Fax: (608) 458-4824
E-mail: **beckyjohnson@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: (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 Shareowner Inquiries section.

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** and click on Shareowner Connection online account access. 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 (refer to Shareowner Connection section).

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 into 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 directly.

Certifications

The company has filed as exhibits to its Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2004, the certifications of its Chairman and Chief Executive Officer and Senior Executive Vice President and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. The company submitted to the New York Stock Exchange during 2004 the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

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
Internet at *www.alliantenergy.com*

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

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